

Keywords Studios

M&A activity

Rounding-off the year with an M&A flurry

Adding to Keywords' US\$50m acquisition of High Voltage Software earlier in the week, it has announced a further two smaller acquisitions: Indigo Pearl, a UK PR agency specialising in the video games sector, and Jinglebell, a Milan-based studio that provides audio recording, music production and sound design for video games and advertising. Keywords is to pay up to £2m for Indigo Pearl, 1.1x FY20e revenues and 7.1x FY20e adjusted EBITDA, and up to €1.8m for Jinglebell, equating to 0.9x FY20e revenues and c 18x FY20e EBITDA. This takes Keywords' tally to seven M&A deals this year, with six in H220. With substantial net cash and €100m of undrawn facilities, we see no reason for the company's deal making to slow in FY21.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS* (p)	P/E (x)	Yield (%)
12/18	250.8	37.9	45.5	1.61	63.8	0.06
12/19	326.5	40.9	48.8	0.58	59.5	0.02
12/20e	367.0	52.0	58.0	0.00	50.1	N/A
12/21e	454.3	66.8	70.6	1.91	41.2	0.07

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Indigo Pearl will receive up to £2m, £1.1m in cash plus £0.5m in shares upfront, plus a further £0.4m deferred cash consideration payable after three years. Indigo Pearl expects FY20 revenues of £1.8m and adjusted EBITDA of £0.28m, meaning the acquisition price equates to 1.1x FY20e revenues and 7.1x FY20e adjusted EBITDA.

Jinglebell will receive up to €1.8m, €1.5m in cash upfront, plus a further €0.3m in shares after 12 months. It expects to generate revenue of €2.1m and EBITDA of €0.1m, with the acquisition price equating to 0.9x FY20e revenues and c 18x FY20e EBITDA.

Indigo Pearl is a full-service PR agency specialising in the video games sector. Based in London, its 10-person team covers traditional as well as social media and influencer-driven campaigns. Clients include Epic Games, Google Stadia, Devolver Digital, Sony PlayStation, Ubisoft Entertainment and Niantic.

Based in Milan, Jinglebell provides audio recording, music production and sound design for video games and advertising. Its 18-person team delivers audio files for clients including Activision, Electronic Arts, Sega, Square Enix, as well as major companies such as Barilla, L'Oréal, Vodafone and Nestlé.

Software & comp services

17 December 2020

Price **2,640p**
Market cap **£1.96bn**

€1.11/£

Net cash (€m) at 30 June 2020 (excluding lease liabilities) 101

Shares in issue 74.06m

Free float 90%

Code KWS

Primary exchange AIM

Secondary exchange N/A

Share price performance



Business description

Keywords Studios is the largest and most diverse supplier of outsourced services to the games industry. Through regular acquisitions, the company is building its scale, geographic footprint and delivery capability. Its ambition is to become the 'go-to' supplier across the industry.

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