SP Angel Technology

Winking Studios Ltd

Initiation of Coverage

8 October 2024

Source: Winking Studios

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Table of Contents

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

SPANGEL INITIATION OF COVERAGE

Non-Independent Research
MiFID II Exempt

8th October 2024

** SP Angel acts as Broker to Winking Studios Ltd and this research note should be viewed as a Marketing Communication.*

Stock Data

Ticker	Catalist: WKS
Share Price:	S$0.30
Market Cap:	US$89m

Source: Singapore Stock Exchange (as at 7th October 2024)

Company Description

Outsourced service provider to the video games industry supplying art and game development services.

Contacts

Technology Research
Simon Strong
Simon.strong@spangel.co.uk
+44 20 3470 0531

Sales
Rob Rees
+44 20 3470 0535
Abigail Wayne
+44 20 3470 0534
Richard Parlons
+44 20 3470 0472
Grant Barker
+44 20 3470 0471

Winking Studios Ltd (Catalist:WKS)*

Dual Listing and AIM IPO

Winking Studios is the fourth largest art outsourcing company globally. As a service partner, Winking offers investors exposure to a recovering video games market with outsourcing services expected to grow even faster but with lower attached risk. Currently listed on the Catalist board of the Singapore Exchange, Winking intends to dual list in London on AIM. Its majority shareholder, Acer, will be participating in the IPO.

Key Highlights:

- **No product risk.** Winking is an outsourced service provider to game developers behind many large franchise, multi-year video games and has serviced 13 'AAA' titles to date. As a service partner, Winking does not shoulder the risk and reward of direct product ownership.
- **Scale delivery.** Winking has over 800 employees based in Asia and services major blue-chip customers such as Electronic Arts, Ubisoft and Tencent. The Asian market is now over 50% of the global video games market. These customers contributed to Winking growing revenues 20% organically in FY23A to $29.3m.
- **Taking market share.** Winking offers its clients a competitive offshore resource base in Asia which served to deliver 10% constant currency growth in H1A. Key competitor Keywords Studios delivered only 1% organic growth at its Create division in the same timeframe indicating that Winking may be taking market share.
- **Repeat model.** Product longevity in the mobile, online gaming market is high with some titles being serviced by Winking for over ten years. Winking has over 100 titles in 'Follow-up' status and repeat revenues from these titles accounted for 40% of Group revenues last year.
- **Outsourcing market growth.** Cost and other pressures will lead the market for outsourced services to the video game sector growing at a forecast rate of low double digits, faster than the 8% on average forecast for the video games market itself. Additionally, we see a recovery in activity in the game development industry as work commences now on content for 10G consoles which are expected to be released from 2026 onwards.
- **AI product.** The use of artificial intelligence (AI) based productivity tools are beginning to impact the industry. Winking is leading technological developments in language models for animation work and has created an in-house animation product, GenMotion.AI, which is currently in beta testing.
- **Acer Inc.** The multinational electronics manufacturer, Acer Inc, is a 62.6% shareholder in Winking. Acer is seeking to expand its interests in higher margin services and content markets. Winking is a key investment vehicle for it to achieve its strategic aims. Acer will be assisting Winking in its strategy of consolidating a fragmented market and expanding its interests in Europe and the US. Two small acquisitions have been made to date. Acer led a Placing on SGX raising S$27m (gross) for the company in July and will be participating in the London IPO.
- **8% organic growth.** Indicative orders from its customers provides Winking with good revenue visibility which amounts to $21.8m through to FY25E. We are forecasting an 8% underlying growth rate in our FY24E revenue forecast of $32.9m over which Winking has 87% visibility. With Adjusted EBIT margins of c9.0%, the business is solidly cash generative. The Winking Board will consider paying a modest dividend going forward.

Year-end Dec, US$	2022A	2023A	2024E	2025E	2026E
Revenue (m)	24.5	29.3	32.9	35.4	38.2
Adj. EBITDA (m)	2.5	5.2	5.0	5.2	5.8
Pre-tax Profit (m)	0.8	1.4	0.7	3.4	3.9
Net Cash/(Debt) (m)	6.1	16.4	43.1	46.2	49.2
Basic EPS (c)	0.5	0.7	0.2	0.8	0.9
DPS (c)	0.0	0.4	0.0	0.1	0.1

Source: SP Angel forecasts

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Investment Thesis

Dual listing on AIM

Winking Studios is seeking to list on the AIM market in London to support its expansion plans in Western markets. In H1A, only 15% of revenues were generated from the US and European markets. Winking's customers are leading the company to establish a European hub in London to increase service levels. Additionally, Winking will consider inorganic growth opportunities in Western markets to accelerate this expansion. In this research note we model a £10m gross raise of new equity to finance these expansion plans.

Outsourced service provider

Winking Studios provides art outsourcing and game development services to a blue-chip customer base of international game developers. Outsourced service provision is growing as a share of the overall game development market and Winking's focus on the online mobile market and strong exposure to the largest part of the market globally has enabled it to generate 26% compound organic growth over the three years to 2023A.

Backed by Acer Group

Acer Group recently increased its equity interest in Winking to 62.6% of the issued share capital. Winking is an integral part of its strategy to expand into higher margin content and services in developed markets. Winking has co-development agreements with Acer to develop AI generated 3D animation software with Winking retaining the rights within gaming and anime markets. Winking is also working with Acer to convert historic titles for playback on the True Game platform, a goggle-free experience of films and animation in three dimensions on Acer's SpatialLabs screens. Acer will be participating in the IPO on AIM.

Early in AI

Winking has developed an in-house language model around a high quality motion data set. It has created a customisable AI product, GenMotion.AI, which will allow customers to quickly and efficiently prototype various movements in the context of character gameplay. Winking is a market leader in these new generative tools and the product is scheduled for imminent release. The commercial opportunity more than offsets the 6-8% of revenues which we estimate will be at risk from automation.

Growth strategy

Winking is operating in a growth market as game developers embrace the quality and flexibility that outsourcing delivers. This service provision is enabling Winking to grow revenues 8% organically in our forecasts over the next three years. Additionally, we see inorganic growth opportunities in new and existing markets supplementing this growth opportunity.

Fragmented market

Winking seeks to consolidate a fragmented market. The proceeds from the S$27.0m Placing in July on SGX-ST will be allocated to potential acquisitions in the art outsourcing market in Asia. The net proceeds from the AIM listing in London will fund the acquisition of small studios in either Europe, or Asia if they have a high proportion of business from Western customers. The proceeds will also support increased sales and marketing

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

activity in Europe/North America and enhance the operational capabilities of the Group's AI tools. Two acquisitions have been made post Winking's IPO in November 2023, On Point Creative and Pixelline Productions, both of which completed in Q2A and contributed only minimally to H1A revenues in which Winking delivered 10% constant currency revenue growth.

Firepower

The combined net proceeds from the July Placing on SGX-ST and London AIM IPO will provide significant funds to execute its growth strategy. We estimate net cash balances will exceed $40m by the end of FY24E.

Accretive acquisitions

Winking will target acquisitions that are cash generative and accretive to earnings. In this note we make an estimate of how the Group's cash resources could be deployed. For example, we estimate that $15m could be deployed to acquire a 400 billable headcount business which would generate $1.6m of incremental EBIT. This would lead to a 62% gross upgrade to our Group FY25E EBIT forecast at a valuation of 10x NOPAT assuming a 10% tax rate. Our forecasts do not factor in future acquisitions however. We detail other possible metrics in this document.

Premium business model

Against a UK peer group, we see Winking's current rating of 1.4x FY25E EV/Sales in line with its peer but offering a higher growth and more defensive business model. In our view, this business model should support a premium rating relative to the game development sector. Furthermore, we believe the successful deployment of funds post IPO will be the start of a material uplift in value for shareholders.

Table 1: Winking financial data and valuation metrics

Y/E Dec, US$ (m)	2022A	2023A	2024E	2025E	2026E
Group revenue	**24.5**	**29.3**	**32.9**	**35.4**	**38.2**
Adj. EBITDA	2.5	5.2	5.0	5.2	5.8
Adj. EBIT	**1.1**	**3.4**	**3.1**	**3.2**	**3.6**
NOPAT	1.0	3.1	2.8	2.8	3.2
PBT	0.8	1.4	0.7	3.4	3.9
Basic EPS (c)	**0.5**	**0.7**	**0.2**	**0.8**	**0.9**
Adjusted EPS (c)	**0.4**	**1.3**	**0.9**	**1.0**	**1.1**
DPS (c)	0.0	0.4	0.0	0.1	0.1
EV/sales (x)	2.1	1.7	1.6	1.4	1.3
EV//adj. EBITDA	20.3	9.8	10.2	9.8	8.8
EV//adj. EBIT	47.9	14.9	16.6	16.2	14.2
EV/NOPAT (x)	**53.2**	**16.5**	**18.5**	**18.0**	**15.8**
Basic P/e (x)	49.2	31.6	118.0	30.6	26.8
Adjusted P/e (x)	53.0	18.2	25.0	24.3	21.3
Yield (%)	0.0	1.6	0.0	0.3	0.4
Free cash flow ($m)	-0.6	1.8	0.2	3.2	3.3
Free cash flow pre-issuance costs ($m)	**-0.4**	**3.8**	**2.4**	**3.2**	**3.3**
Free cash flow margin (%)	**-1.5**	**13.0**	**7.4**	**9.0**	**8.7**
Adjusted free cash flow yield (%)	**-0.4**	**4.0**	**2.6**	**3.4**	**3.5**

Source: Company, SP Angel forecasts

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Winking Studios Ltd - dual listing

Dual listing

#4 globally in art outsourcing

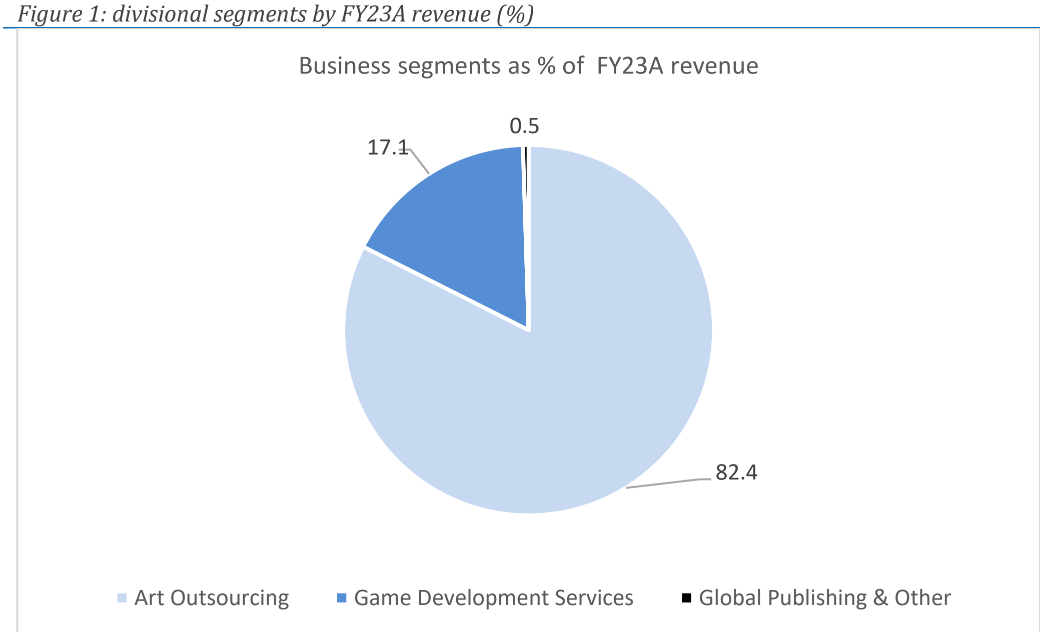
Winking Studios Ltd ("Winking") is the fourth largest service provider of art outsourcing globally*. Its outsourced art and games development services are sold to a worldwide blue-chip customer base. Winking is currently listed on the Catalist board of the Singapore Exchange (Securities Trading Limited), Catalist: WKS. Winking is seeking a dual listing on London's AIM to help execute its growth strategy and expansion into European markets. Winking is 62.6% owned by the multinational electronics manufacturer Acer Group (TWSE: 2523, mkt cap $3.9bn) primarily through its subsidiary Acer Gaming Inc. Headquartered in Singapore, and with a trading history of over 20 years, Winking Studios is led by founder CEO Johnny Jan.

**Source: China Insights Consultancy*

Group activities

Winking Studios supplies its services to the global video games industry via three business segments: Art Outsourcing, Game Development Services and Publishing. Art Outsourcing is the most significant service line at 82% of FY23A revenues:

Figure 1: divisional segments by FY23A revenue (%)



Source: Company

20+ year trading history

Established in the early 2000s, Winking has a long trading history supplying outsourcing services to a broad range of global video game development companies. The company has art studios across Asia and has business development teams in Europe and the US.

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Blue chip customer base

Winking services 22 out of the top 25 game developers globally. 90% of the client base can be regarded as blue-chip and are commercially engaged under Framework Agreements. Smaller game developers are engaged on an ad hoc contractual basis.

Figure 2: selection of blue chip customers

Source: Company

Corporate history

Long history as a service provider

Originally founded as a game developer, Winking received venture capital backing in 2006 to 2016 from amongst others Intel Capital, HSBC, Daiwa SMBC, UMC Capital, Translink Capital, Cathay Venture, Taishin Venture Capital to pursue service opportunities in the wider market in that period. A material contract from THQ in the US underpinned the shift to a services model at that time. By 2017, the company had around 300 employees and over 80% of revenues were being generated from its service provider activities including from Tencent Holdings (SEHK: 700, mkt cap. US$440bn) with which it has a long-standing relationship. Subsequent investment from Cathay Venture saw the business expand and secure Gamania Digital Entertainment (TPEX: 6180, mkt cap. US$400m) as a long-standing client in its Game Development Services. An approach from Acer Group allowed the venture capital investors to exit in a secondary buy-out in 2022 which valued the business at that point at $40m.

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Acer Group strategy

Acer Group's stated strategy is to expand beyond its core PC and laptop hardware market into higher margin services and content provision activities globally. Its majority owned Acer Gaming Inc. subsidiary (TPEX: 6908, mkt cap. US$98m) is the primary vehicle through which it is executing this strategy. Winking is an integral part of Acer's long term strategy but Acer has no input into day-to-day operations and is an arms-length, strategic investor in the business. Acer participated in Winking's IPO on SGX in November 2023 when it raised S$8.0m (gross) at S$0.20 which saw its shareholding increase to c51%. Acer intends to supply long-term investment and support to Winking to help develop its services franchise, including inorganic expansion. There are co-development agreements between Winking and Acer in AI and other product areas.

July 2024 Placing

Acer Group again participated in a Placing in July 2024 on SGX-ST when Winking raised S$27m (gross) at S$0.25 which saw Acer further increase its interest in Winking to 62.6%. The gross proceeds were equivalent in USD value to $20.0m at the prevailing conversion rate.

Global video games industry

Larger than the film industry

In 2023, the global video games industry was materially bigger in value terms at $184bn (source: NewZoo) than the film and entertainment industry ($100bn, source: GrandView Research). The Asia-Pacific (APAC) region accounts for over 50% of the video gaming industry with around 1.5bn active gamers, with growth driven by the adoption of low-cost smart phones, high speed network connectivity and favourable demographics.

Market growth

Favourable long term trends

Bain's Gamer Survey for 2024 valued the global video gaming market at $196bn in 2023, excluding the hardware segment. This market is also significantly larger than Bain's estimates of the global markets for streaming video ($114bn), streaming music ($38bn) and global box office receipts ($34bn). Notable positive demographic trends identified in the video games industry include:

- 52% of people surveyed play video games on a regular basis;
- Almost 80% of 2-18 year olds are gamers;
- Young gamers spend 30% of their entertainment time gaming; and
- Gaming is used to socialise, shop and watch video and is a preferred environment to the physical world.

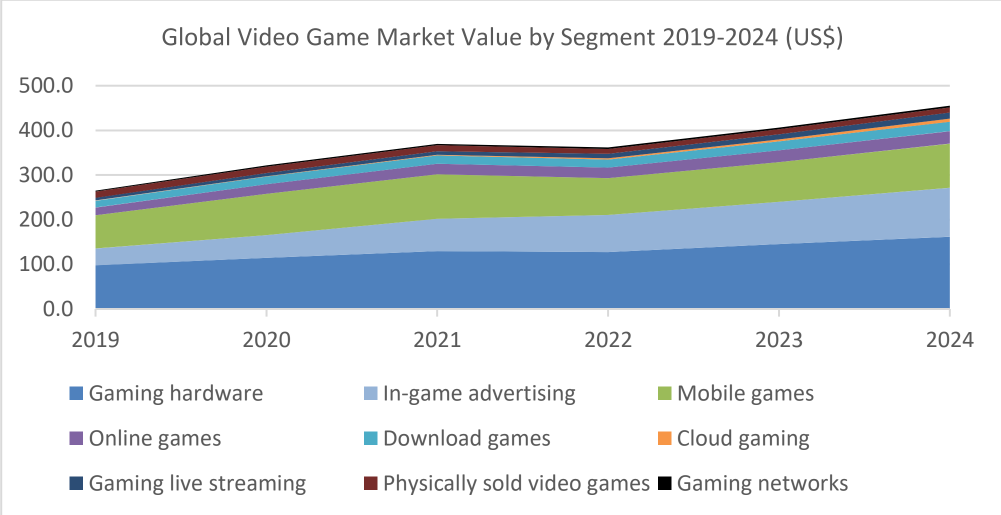
Other demographic changes we can identify include gaming no longer only being a form of youth entertainment with people continuing to play games much later in life. Equally, the industry is no longer dominated only by male players, with women now accounting for over 40% of all gamers.

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

11% compound market growth since 2019

Estimates of the global video gaming market value are subject to definitional differences but when the hardware segment is included in the market, Statista estimates that the market was worth approximately $406bn in 2023. Looking at estimates of market size including an estimate for 2024, the compound growth rate of the overall market amounts to 11.4% between 2019 and this year. The only segment in decline was physically sold video games with a compound decline in market size of 4.4%.

Figure 3: Global market for video games

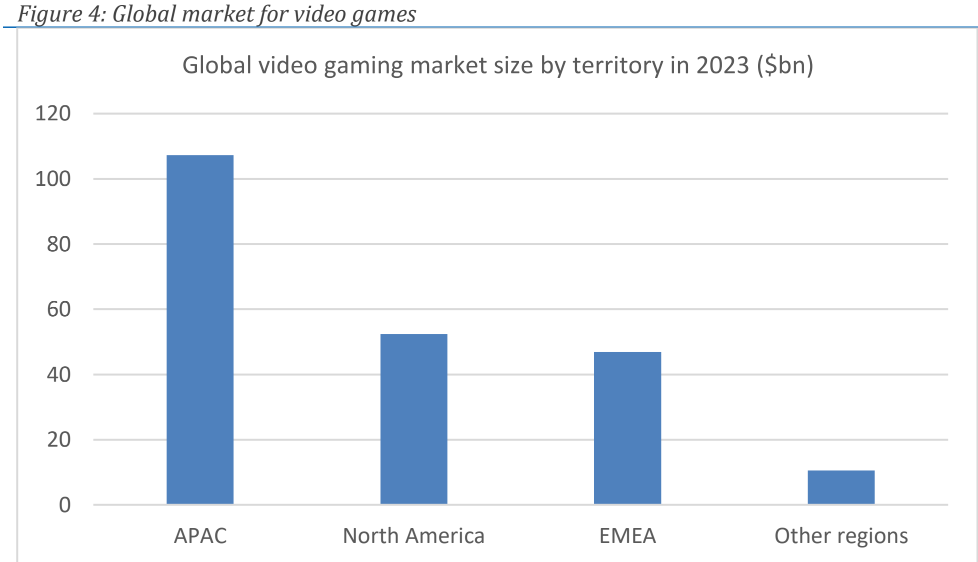


Source: China Insights Consultancy

Asia is the largest territory for video gaming

Estimates for how large the market is by territory vary by market research provider but there is consensus that the Asia-Pacific (APAC) region is the largest part of the market. Fortune Business Insights estimated that APAC represented 53% market share in 2021. China Insights Consultancy estimates that in 2023 it was 49% of the global market:

Figure 4: Global market for video games



Source: China Insights Consultancy

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

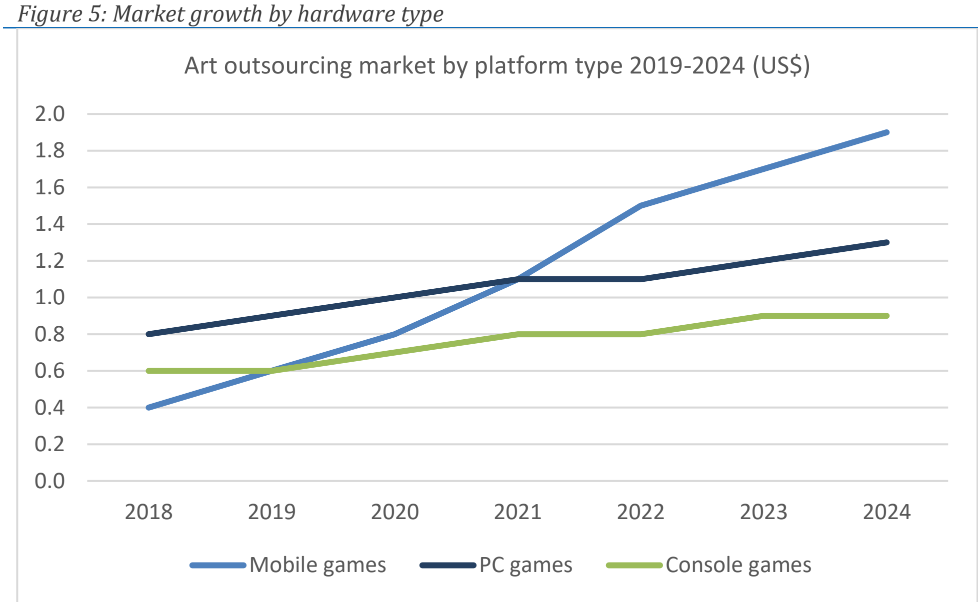
Online mobile gaming is the dominant market

Online mobile gaming has taken the largest part of the video games industry, especially in the APAC region. It has increased in popularity due to its accessibility and the release of high quality titles. PC and console gaming has reduced in relative popularity due to the generally static requirements of the necessary hardware (excepting handheld consoles). Asia now accounts for over 60% of the market in mobile gaming, higher than all other regions put together (source: Globaldata.com).

Mobile gaming is strongest growth market of the art outsourcing market

It is mobile gaming that has exhibited the fastest growing platform type for art outsourcing over the last few years. China Insights Consultancy (CIC) estimates that between 2019 and 2024 the mobile segment of the art outsourcing market will have grown over 33% compound, contrasting with both PC and console based gaming growing only by 8% compound over this period.

Figure 5: Market growth by hardware type



Source: China Insights Consultancy

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Key trends in video games production

AAA title development

The cost of producing best selling ('blockbuster') video games, often referred to as 'AAA' titles, continues to escalate. Contemporary production techniques include cinematic computer generated image (CGI) production, filmesque presentation, orchestral music and dynamic camerawork. Such is the complexity of AAA title creation now that development staff for an open world game can number in excess of 500 people. The UK Competition and Market Authority in 2023 estimated that AAA games purported for release in 2024 and 2025 each received an average development budget of $200m, a material increase from an average range of $50-150m in 2018. Winking has provided its services to customers on 13 AAA titles to date including but not limited to:

- Call of Duty (Activision)
- Assassin's Creed Valhalla (Ubisoft)
- Genshin Impact (miHoYo)
- FIFA Online 4 (EA)
- 2XKO (Riot)

There is an identifiable trend of sequel releases of large franchise games costing multiples of the original development cost. A good example of this is Call of Duty which originally cost $15m to develop. The third release in the franchise cost in excess of $300m by its launch in 2023.

Trail income

The phrase 'AAA' can also imply titles which carry additional methods of generating revenue from incremental, in-game purchases, which we term trail income. This enhancement of the video games industry business model provides for longer engagement with players, versus more conventional console games, and significant income from subscriptions and online passes. Five of the 13 AAA titles on which Winking provided its services continue to be serviced in Follow Up status including:

- Destiny 2 (Bungie) since 2019
- New World (Amazon) since 2020
- FIFA Online 4 (EA) since 2020
- Skull & Bones (Ubisoft) since 2020
- 2XKO (Riot) since 2021

Total cost growth

We can identify several factors which have led to the growth in title development highlighted above: Specifically:

- **Graphical realism** – there is a race in game development to produce environments which feel increasingly real and expansive. As this realism increase, so too does the cost of development teams and associated supporting infrastructure;
- **Release cycles** – in order to stay competitive, release cycles have shortened in order to continue engagement with players;
- **Licensing costs** – major titles often incorporate film or other themes with associated licensing costs which increase the cost of development;
- **Wage costs** – game developers are in high demand. Senior game producers, software engineers and product managers command salaries in the range of $150-250k per annum on the west coast of the US; and

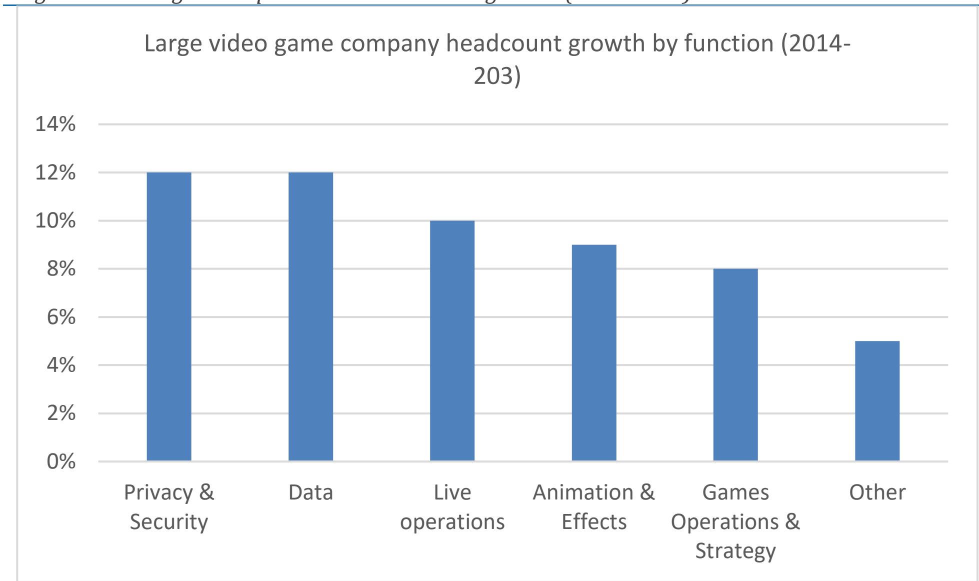
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

- **Marketing costs** – the competitive nature of the market means that major titles require broad marketing and advertising campaigns which can often exceed the production budget.

Relative cost pressures

A contributing factor to the total cost growth seen in title development over recent years is the growth in relative headcount at game development companies outside of the core skillsets needed to produce video games. Growth in Privacy & Security and Data related headcount has outstripped that of Animation and Games Operations headcount growth over the last ten years:

Figure 6: Video game departmental headcount growth (2014-2023)



Source: Bain

Increasing proclivity to outsource

The complexity of new title development carries significant cost in terms of graphic design, 3D modelling, animation, sound engineering and artificial intelligence (AI) programming. The size of a development team now needed to bring titles to market has been largely responsible for the escalating cost bases of video games developers. Development teams in the video games industry present an inherently fixed cost base structure akin to the cost structure of any software company. In an environment where game development revenue can be unpredictable and volatile, a sub-optimal relationship between costs and revenue can arise. The use of third-party service providers therefore enables game development companies to:

- **Focus on core competencies** – by using third party resource, game developers can focus on their core skills of gameplay and story development;
- **Access cost efficiencies** – by using specialised external skills, a game developer can forgo the costs associated with hiring full time staff and having to invest in the infrastructure and systems necessary to support non-core activities;
- **Be flexible** – game developers and make use of the speed and flexibility of external resource to quickly scale up (or down) projects and benefit from rapid turnaround times;
- **Benefit from localisation and innovation** – global companies may not have the necessary knowledge to efficiently service new or localised territories and the cultural divergences that this brings; and
- **Shorten time to market** – can be accelerated by using external resource.

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

The areas of work most commonly outsourced to external providers by games developers are:

- Art and asset creation;
- Sound design;
- Programming;
- Quality assurance testing;
- Full cycle development.

Competitive pressures and the growth in development costs has meant that outsourcing is now regarded as a strategic component of successful game development.

Our direct market research with games developers regarding Winking's services specifically highlights the following reasons to procure outsourcing services from the company:

- Quality and depth of style;
- Service availability at scale including specialised skill areas such as live content management;
- Cost advantage;
- Security;
- Keep internal headcount down;
- Ability to process change requests rapidly;
- Programming ability on game play exceeds expectations;
- Flexible capacity availability at the right point in the development cycle; and
- Provision of local market knowledge including legal and cultural considerations.

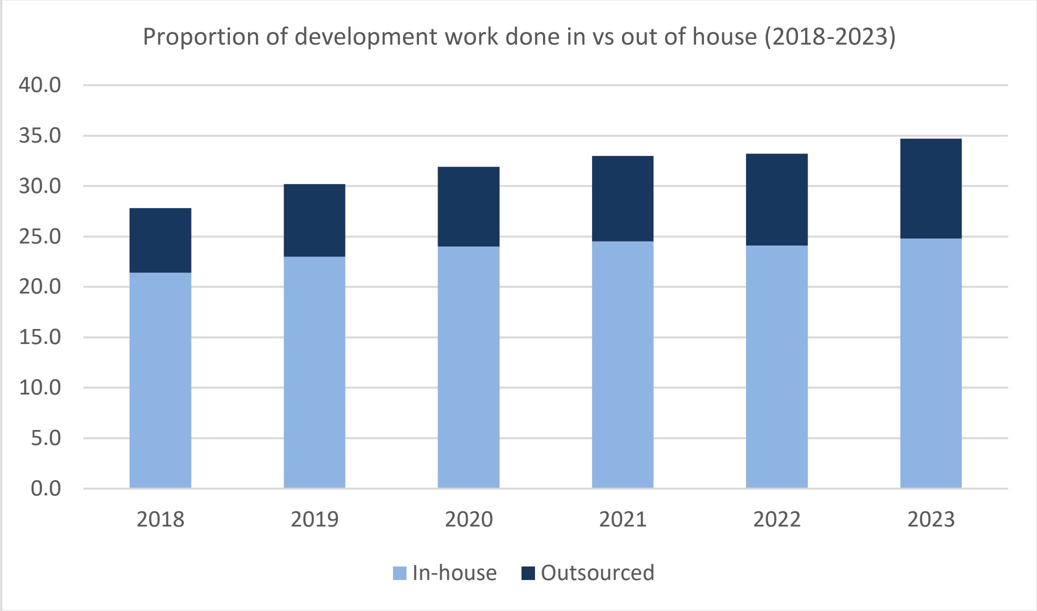
Customer feedback strongly indicates that in order of priority in selecting an outsourced partner, quality is paramount, ahead of service and then price. There is also now a dependency on outsourced partners with games developers tacitly noting that their own growth would be encumbered without the use of outsourced service providers.

Less than half of the development market is outsourced

The proportion of content generation work outsourced to third parties remains a minor part of overall title developments. Keywords Studios estimates that around one-third of the content generation market is currently outsourced. China Insights Consultancy also estimates that 29% of the game development market was outsourced in 2023 and that this has slowly grown over the last five years:

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Figure 7: Proportion of work done in vs out of house (2018-2023)



Source: China Insights Consultancy

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Art Outsourcing Group

83% FY23A revenues

The art outsourcing Group (AOG) represents the bulk of the Group's activities at 82% of FY23A revenues. The division has seen significant organic growth over the period 2020-2023A, with revenues growing at a compound rate of 25%:

Table 2: Art Outsourcing Group revenue and gross profit (2020-2023A)

Dec, US$ k	FY20A	FY21A	FY22A	FY23A
Revenue	12,251	20,394	22,021	24,124
Gross profit	4,222	6,193	5,635	6,882
Gross margin (%)	34.5	30.4	25.6	28.5

Source: Company Accounts

Art outsourcing defined

We define Art Outsourcing as the external provision of artists or studios to create visual assets for video games. The work involved includes the generation of:

- Concept art,
- Character designs,
- 2D and 3D models,
- Animation works, and
- Special effects.

Customers utilise these services from Winking Studios because the generation of intangible art assets internally can be costly and inflexible. The commercial goal of a game development company is to attract and retain consumers with high quality graphics and gameplay. The competitive nature of the market means that there has been an increasing focus on the quality of graphics as a key differentiator. The rising quality standard for art and animation has resulted in many different styles being used in the production process with fluctuating consumer demand for different styles and genres. There are different approaches to rendering images including techniques such as physical based rendering which require the use of sophisticated software packages such as MotionBuilder or Maya to produce artistic designs.

Production cycle

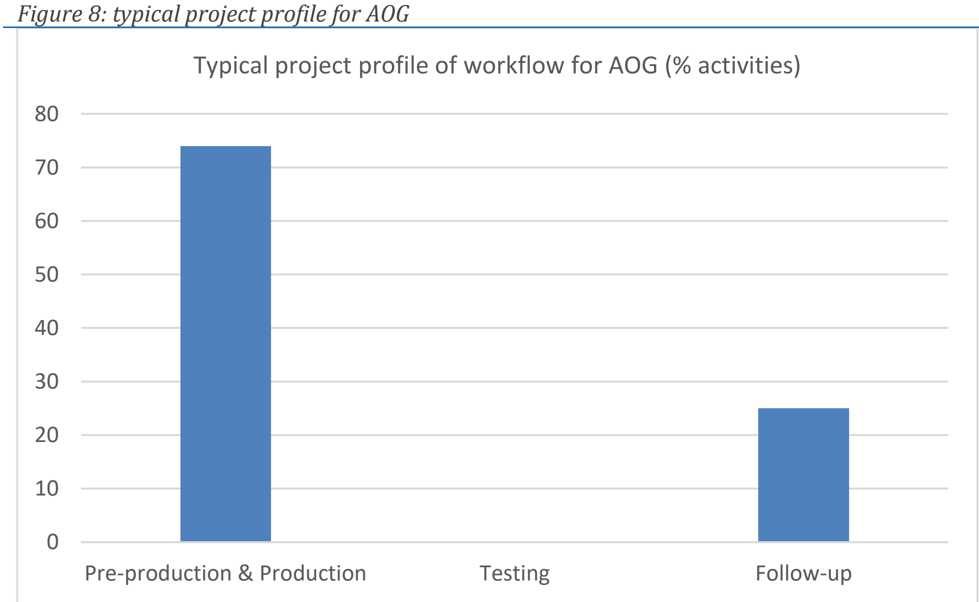
The production of 3D game art is a complex process with skill involved in producing concept art, user interface design, modelling (environment, prop, character), texturing, animation and integration. Art outsourcing providers can be called upon to deliver some

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

or take a creative lead in developing all of these components. There is an organised production process for games development consisting of five phases:

- **Pre-production** – this phase involves producing concept images, early-stage modelling, prototyping and specification analysis;
- **Production** – core creative animation, modelling and effects services supplied. Capacity is planned several months in advance;
- **Product Release** – Winking does not play a major role in product release phase but can occasionally supply high quality modelling;
- **Testing** – software testing services are provided by third parties and not undertaken by Winking; and
- **Follow-up** – work involved in updating or creating new characters and props for existing published titles.

Figure 8: typical project profile for AOG



Source: Company

Engagement model

Art outsourcing projects are commissioned by clients on a conventional work-for-hire basis and 90% of the art assets Winking supplies are governed by Framework Agreements. Typically used with large customers, Framework Agreements state the terms of business (obligations, and payment terms and may include price for some customers although this may be traded for more man days). Underlying purchase orders are typically very small in value relative to divisional revenues and high in frequency. The timeframe for work orders varies but the majority of purchase orders are for 12-13 man days but some 3D work may take longer at up to 90 days. All contractual engagements are administered mostly through the Group's legal department.

Day-to-day activities

Nanjing, China is the centre for Winking's AOG because of its rich cultural history and convenient location between the major cities of Beijing, Shanghai and Chengdu. A large proportion of the Group's employees are based at the Nanjing studios and many of these employees are graduates in art from the local universities (approx. 40%). New staff are trained in-house for 3-6 months on the use of external animation and modelling software

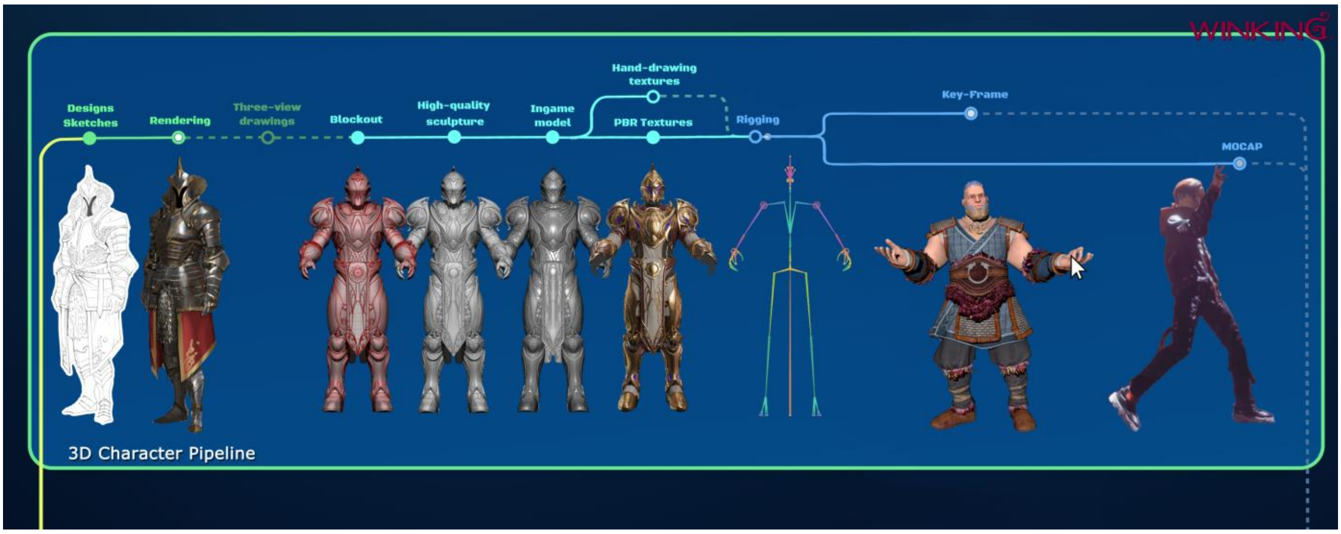
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

(principally Autodesk's MotionBuilder and Maya). The core skills developed include the production of concept art and the development of digital art assets.

Workflow

For illustrative purposes, a simple workflow involves the receipt from a customer of a partly constructed or barebones 2D image to which an AOG staff member adds or refines digital detail. This service can scale up in complexity to include full 3D modelling and animation using hand/key or motion capture techniques. Digital files are then returned to the customer for review either on a daily or weekly basis. In large projects, Winking may work alongside partners whose skills sets in areas such as CGI would be complementary.

Figure 9: AOG concept art production



Source: Company

Competitive cost base

Employees in Nanjing typically work an eight to eleven-hour day, are entitled to 5-15 days of annual leave per annum based on their years of service with the Group and have local incentive packages to optimise performance. The cost of employment in Nanjing is notably lower than that of major Tier 1 cities in China. Employee churn is in line with industry averages with the employee turnover rate in Nanjing fluctuating around 20% between 2020-24. Wage inflation for mid-level and senior staff has been running at 5-7% over the last few years but the addition of lower cost junior staff with expansion has managed to keep the average cost of delivery relatively stable. Nevertheless, Asia remains a compelling resource centre relative to the developed markets of US and Europe from a pricing perspective. Within Asia, corporate entities typically carry a large proportion of central overheads and once these costs are allocated across operating entities, the average cost of employment can be considerably higher. This provides an additional driver to outsource production.

International standards of security

Security is a primary concern for customers. Piracy, leaked information and cyber attacks are all material risks to game developers and their outsourced service providers. Selecting an outsourcing provider requires risk audits to ensure conformance to comparable levels of in-house security. The protection of customer IP is taken very seriously. Winking's operations conform to the British Standards Institute certification for ISO 27001 which

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

provides a framework for organisations to implement and maintain necessary standards to manage data risk. Work for certain customers is often undertaken in segregated and secure areas with access control, 24/7 CCTV monitoring, disabled mobile devices and alarmed PC chasses with watermarking systems. Often there is dedicated access to a customer's proprietary development platform and secure, encrypted networks are used to share and log file movements.

Status

Winking has 'critical' status (akin to a preferred supplier status) as an outsourcing partner with many of its customers including Ubisoft and MiHoYo. During the period from 2020 to the first half of 2024, the revenue man-days for AAA projects of the total art outsourcing revenue man-days average is 6.4%.

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Game Development Services division

17% of FY23A revenues

Winking's Game Development Services (GDS) division produces video games for customers which either outsource the entire process or do not have the skills internally to produce gaming product. The division has seen rapid organic expansion over the period 2020-2023A, with revenues growing at a compound rate of 43%:

Table 3: Game Development Services revenue and gross profit (2020-2023A)

Dec, US$ k	FY20A	FY21A	FY22A	FY23A
Revenue	1,706	2,895	2,227	4,996
Gross profit	1,003	1,102	271	2,049
Gross margin (%)	58.8	38.1	12.2	41.0

Source: Company Accounts

Service array

We define the services provided to game development customers as:

- Concept generation,
- Design,
- Development,
- Test,
- Release.

These services include generating the idea for a game (concept), game mechanics, player engagement and level design through to post release support. The production of a game would include the generation of art and character content and Winking will provide these services mostly, but not exclusively, via its AOG.

Technical capability

Game development is a multidisciplinary and highly integrated process. Unlike art outsourcing, it requires engagement with a wide range of specialised fields, such as programming, mathematics, and psychology. The diverse professional backgrounds of the GDS team members reflect this complexity. Experts from various domains contribute their knowledge to different stages of game development. We typically categorize the expertise required for game development into three main areas:

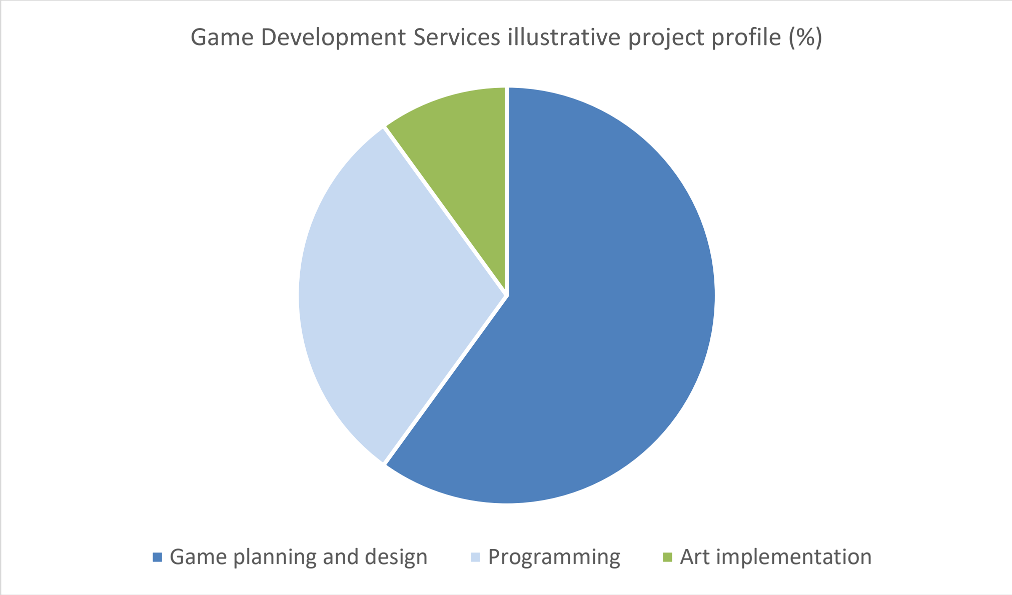
- Game planning and design,
- Programming,
- Art implementation.

Developers are generally familiar with scripting in the two development engines dominant in the industry, Unity and Unreal Engine. 95% of game development work for customers

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

done to date has been mobile/online. Art services can be a major proportion of overall game development work, as illustrated below:

Figure 10: Game Development Services typical project profile



Source: Company

Larger customer budgets

Customer budgets for producing a whole game can be as high as $200m or more. The addressable part of this total budget for Winking's GDS division might typically be in the region of $5-10m. The economic motivation to outsource a project to GDS is similar to that of AOG, and as noted GDS uses AOG's in-house services to fulfil most of its art service obligations to customers.

Broader customer base

The customers in GDS' addressable market includes games development companies who wish to outsource some of their workflow but also customers who have no skillset or resource in-house to develop games. These latter customers might own specific intellectual property (IP) in the form of characters or movie rights and look to capitalise on success from other forms of entertainment with a video game around a specific asset. We estimate that approximately 50% of GDS' customer base are IP rights owners.

Similar engagement model

The GDS division is run on a similar 'work-for-hire' business model as AOG. Projects are larger in scale and 50-70 staff can be assigned to a single piece of work. Demonstration products are built for customers and, once sanctioned, ongoing development is monitored by the number of hours worked. Invoicing can be milestone based but similarly to AOG, GDS does not shoulder the risk and reward of product ownership and therefore there is no product risk. Occasionally, some retainer income is paid but this is not currently material.

Bigger wallet share

Winking can capture a much greater share of game development budgets with its GDS division. Average day rates are higher for GDS and we estimate they can be up to $300-

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

500, partly reflecting the technical skill in delivering this work and also exposure to the US market. Customers of the AOG division often become customers of the GDS division, for example Tencent is a long standing customer of Winking's AOG division since 2008 and became a GDS customer in 2023. Gamania Digital Entertainment is another significant client for GDS.

Publishing

1% of revenues

Winking provides publishing and other services to very small game development studios which don't have sufficient scale to interact directly with the big publishing platforms such as Playstation. Winking charges a percentage of revenues to intermediate publishing of titles and undertaking due diligence on developers. In certain situations where players encounter issues with the game, the game platforms or end users may approach the Group directly. In this case, the Group notifies the third party game developers of such issues for further handling

Recent trading in the video games market

Covid period bubble 2020-21

The Covid-19 and lock-down period saw a dramatic increase in demand for home entertainment globally including video games. Title creation accelerated during this time and the industry invested heavily in new content. This investment greatly benefitted Winking helping it to deliver a 60%+ organic increase in AOG revenues in FY21A.

Publishing restrictions in China

The Chinese government temporarily limited the amount of titles published domestically in the period July 2021 to April 2022 so parents could limit the amount of time teenagers could spend playing games. Measures taken by the Chinese government affected orders from certain clients, with cancelled orders exceeding $1.0m. Winking quickly adapted to the change in market conditions and reallocated resource capacity to other markets, such as Japan and South Korea. This reallocation process took two months and despite budgeting for a 20% increase in activity from those accounts, enabled Winking to grow Group revenues 3% YoY and still generate positive earnings.

Inevitable post Covid-19 slow-down 2023-24

This intense period of investment by the industry between 2020-21 inevitably led to a slowdown in activity in subsequent years. 2022 onwards saw a sharp deflating of the equity prices of games developers and publishers post the heights of the lock-down period and saw market conditions normalise. 2023-24 has been characterised by a sharp focus on costs and headcount reductions across the video game industry.

As Western developers laid off staff and reined in budgets in 2023, this continued to result in project cancellations having a negative impact on Winking's revenues which we estimate to have been worth $0.5-1.0m in lost business. The experience in re-allocating from the 2022 period has enabled Winking to develop the ability to quickly re-deploy much of this resource into other markets, principally into servicing the Japanese market. This redeployment ability results in a capability to absorb cyclical changes in demand and continue delivering growth in the business. Notably, Winking delivered 10% organic growth in the six month trading period to June, discussed below, contrasting with Keywords Studios recent H1A results showing organic growth of only 1% at its Create division. This relative outperformance infers an ability by Winking to take market share in difficult market conditions.

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

2025/6 console releases

The cyclical deficit of investment we have seen in 2022-24 could soon reverse as the next generation of consoles are released. The Playstation 5 and Microsoft's Series X/Series S ninth generation consoles were released around 2020. There is speculation about the release of the tenth generation of consoles starting with the Nintendo Surge due in late 2026 with other console vendors following thereafter. If these potential release dates are accurate, the delivery schedule for content to be delivered with these hardware variants should be commencing shortly.

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

AI in games development

A long history

Artificial intelligence ('AI') tooling, or Generative AI ('Gen AI'), has been utilised in games development for decades, and arguably since 1952 when it appeared in the game of mathematical strategy 'Nim'. The application of AI in the field of games has sought to improve user experience rather than be used in more abstract pursuits such as machine learning and so game AI should be considered more as an automation tool than anything broader in this field. The visual representation and characteristics of non-player characters (NPCs) and game environments represent the most common uses of AI in game development and is very distinct from the work Winking undertakes..

Efficiency tools in content generation

Procedural content generation (PCG) is method of creating data algorithmically rather than manually. Typically, PCG uses human generated content combined with computer algorithms and pseudo-randomness to produce content in a game. Textures and meshes are typical forms of PCG content along with sound effects. The technique of producing content with PCG is long established over many decades and works to extend the visual or audio experiences in video games. Modern variants of PCG include the replication of different types of (for example) unique weapons or fractal effects, and advanced AI software packages such as MASSIVE (Multiple Agent Simulation System in Virtual Environment) are used to produce large scale, crowd-related effects. The automatic generation of games levels, and environments has been a long-standing productivity tool for the industry. PCG however is often used sparingly in high budget productions so that a more natural feel can be created by other, more manual means. Recent research into the use of large language models (LLMs) in game level development by New York University in 2023 has concluded that the size of data sets and the cost of training the models in even basic game environments currently outweigh the benefits of LLM trained level design. AI tools can also be used to analyse current gaming trends and player feedback to provide design recommendations when considering how to take a product forward. This is particularly pertinent at the prototyping stage of game development. Furthermore, Ai can be used to analyse player behaviour and preferences. This information can be cycled back to create personalised game experiences to increase player engagement and retention.

Other applications

Game AI is also applied in other areas:

- **Gameplay** – AI tools can make gameplay more engaging by creating lifelike behaviours and interactions between objects, or dynamically adjusting game difficulty levels based on skill.
- **Voice generation** - can replace the need to source actors for non-playing and main character roles.
- **Development optimisation** – AI tools are used extensively in testing and debugging, optimising resource allocation to improve gameplay as well as rapid prototyping of new game mechanics.
- **Player analytics** – analysing player performance and engagement patterns allows for insights in customer usage for commercial purposes.

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

We're already there

Andreessen Horowitz's A16Z revealed in a survey that 87% of video game studios were already using AI and that 99% were planning to do so in the future. 64% of the studios surveyed are planning on creating in-house models similar to Blizzard's patented Diffusion tool, based on Stable Diffusion's text-to-image technology, which rapidly generates art assets. Diffusion can transform low fidelity texture inputs into high fidelity assets for AAA games and can streamline tasks by generating hundreds or thousands of variations of an image. The majority use case for these technologies is in prototyping. The timeline for producing early stage or concept art can be made materially shorter using generative technologies. This then leaves an artist with considerably more resource to curate a selection of images and use these as a base for creating and refining assets within the context of the game. This increase in productivity leaves studios with the choice of reducing the number of artists required on a project or using the freed up resource to create better assets.

Not necessarily what people want

The production of Cyan Worlds, released in 2023, made use of AI assisted content. This included the generation of journals, logs, stories, songs and in-game wallpaper. Feedback from players was invariably negative, stating the world-building came across as bland. It has been reported that some players felt betrayed that people weren't doing 100% of the development. Studios may push for efficiency but if it comes at the expense of the game popularity and user experience then the use of AI can be counter-productive.

AI in art and animation

Prohibited

Developer feedback tells us that successful game development is defined by unique gaming experiences. 90% of Winking's customer contracts and customer notifications explicitly state that the company is prohibited from using generative AI technologies in its work. The principal reason for this is not only that customers seek originality as a way of creating a differentiated product but also concerns about copyright. Generative tools can only return approximations to what is sought with a database that is either public, and can't provide a differentiated product, or carry potential copyright liabilities if infringed.

What's the risk?

Generative AI has the capacity to change some parts of this market. There are numerous text-to-image products in the market today including Meta's Make-A-Video and Runway's Gen-2. Google is developing Lumiere and Open AI has previewed its forthcoming text-to-video generation tool, Sora. Sora is an adaptation of Google's text-to-image AI model, DALL-E 3. Sora can generate videos of up to one minute long and is currently being adversarial tested by red teams to understand its vulnerabilities.

Cost concerns

The ability to manipulate data is based on a tokenisation system whereby text or images are broken into parts (tokens) and sequences of tokens are converted back into images, in the case of image generators like DALL-E. The learning process can involve the use of billions or even trillions of parameters and the cost involved in training AI tools can be hugely expensive. For example, the cost of training Open AI's GPT-4 which has over a trillion parameters was over $100m.

Public data sets

Generative AI tools need huge quantities of data to become adequately trained and this brings with it ethical and cost implications. The necessary reliance on public datasets where data volumes are highest can bring with it biased returns or objectionable content. In the case of Sora, which has made use of both public and copyrighted videos, it has not been disclosed (yet) the number of sources or exact nature of the videos in its training.

Causality

What AI tools cannot understand is causality, the process by which one event leads to another event. When constructing a game, strategy, dialogue, and animation all need to be placed in context and interact at a holistic, systemic level. Generative AI does not have the capability to interact in this way.

AI usefulness

What generative AI can produce is a statistical approximation of a request to an existing database. While limited in scope, this does have usefulness in video game development. The beginning of a project, or part project, often commences with the process of creating a sketch of a two dimensional character or object. This early development, or concept, stage is a small but important part of the development process. This sketch is then modelled and animated to put it into the context of the game. The use of an AI tool to interrogate a database and generatively create an outline of an image can be enhanced by the productivity of artists and animators and allow them to focus more on creative tasks.

Commercially available AI models

There are commercially available datasets of 3D models such as Objaverse or Kaedim. Objaverse for example has over 10 million 3D objects available. 10 million publicly available items, however, is not a meaningfully large figure in the context of the history of game development. Neither can these components interact with each other which may be necessary in a gaming environment. The cost of developing a materially larger database could itself become prohibitive because of the attached computing and energy input costs as the Open AI developers discovered.

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Figure 11: Typical 3D publicly available model of a tank

Source: Kaedim

A good starting point

Some of these on demand models could be used for concept purposes and upscaled to meet the quality standards of a major games developer. The production of concept art is a small proportion of the work requirements carried out by Winking, which we estimate to be around 3% of total activities. The use of external models, if permitted by clients, could be productivity enhancing but could also see its concept activities fade to zero over the next 2-3 years. It is a function of Winking's understanding of the usefulness of AI tools that it has developed its own product, GenMotion.AI.

Figure 12: Winking AOG produced tank

Source: Company

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Introducing GenMotion.AI

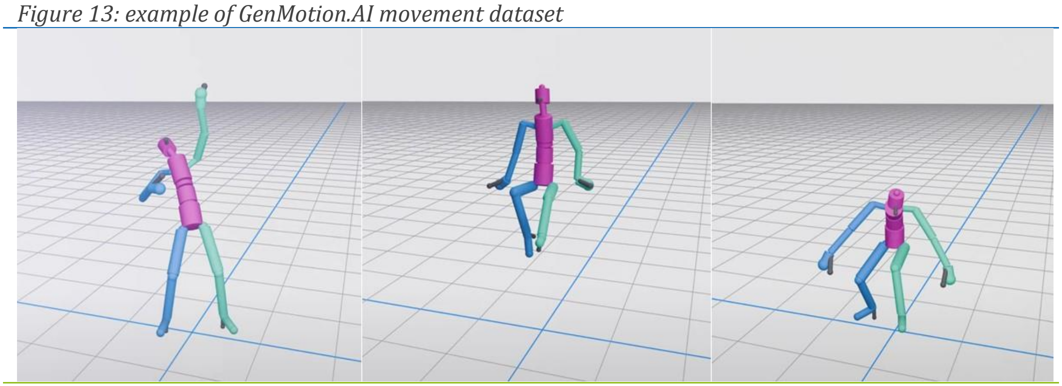
Proprietary text-to-image tool

The development period taken to produce concept art, the beginning of the creative process, can be shortened using generative tools but only by making reference to an existing dataset. Winking has developed an in-house AI tool, GenMotion.AI, which is currently in beta testing. GenMotion.AI is targeted at professional animators and game producers who need to generate 3D game animations using text descriptions.

Motion dataset

Winking has created a high quality training dataset of human poses motion-captured in various movement styles. Many thousands of motions have been captured and processed to create a customisable product which will allow customers to quickly and efficiently prototype various movements in the context of character gameplay. GenMotion.AI will be sold as a software-as-a-service (SaaS) product with launch targeted in Q1 2025 with Winking retaining the rights to the generated data. We note that Kaedim pricing starts at $400 pcm per developer.

Figure 13: example of GenMotion.AI movement dataset



Source: Company

Quantifying the risk

We estimate that the following revenue streams at Winking could theoretically be at risk of replacement by AI tools or cannibalisation by GenMotion.AI

- 2D concept art: 3% of revenues
- 3D animation: 3-5% of revenues

Fading modelling revenues

The use of GenMotion.AI by external animators may reduce demand for some of the simple animation services that Winking supplies to its customers. We estimate that a rapid uptake of a tool such as GenMotion.AI could begin to reduce demand for around 3-5% of its animation services given another three years of training dataset development. We estimate that there could be 50,000 animators employed globally. The associated income from the uptake of GenMotion.AI by 1,500 of these animators could more than offset the loss of revenue with SaaS income (say at $100 pcm). We estimate that there could be

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

another 50,000 animators employed in the advertising and related markets which could double the addressable market in terms of headcount beyond the core video gaming market.

Internal use too

Winking estimates that the use of GenMotion.AI could yield a 30% improvement in animator efficiency. This is as true for internal animator use as it is for external customers. If approved by clients and utilised in this way, internal staff at Winking could use their freed up time to improve quality on the rest of a project and increase competitive advantage.

Expensed development

Development expenditure is being incurred on internal projects, specifically in relationship to a number of AI projects being co-developed with Acer which we detail later. This expenditure was fully expensed in the income statement.

Acer relationship

Acer SpatialLabs

Acer launched a stereoscopic 3D screen called SpatialLabs in 2022. These screens are installed on Acer's high-end gaming laptops and monitors. The SpatialLabs screen provides for a goggle-free experience of films and animation in three dimensions. Acer has also developed an application, SpatialLabs TrueGame, which enables the display of certain videos and content in three dimensions. Winking is working with Acer to convert historic titles for playback on the True Game platform.

Offsetting income

Winking has co-development agreements with Acer to develop AI generated 3D animation software. Acer provides research and development funding and Winking provides manpower and infrastructure. The intellectual property developed (IP) is co-owned with Winking owning the rights to any products generated with applications within the gaming and anime market and Acer owning the rights to all other application areas. In FY24E, Winking is co-developing a project with Acer with a value of approximately $0.8m. This related party work is accounted for as other operating income and therefore is not recognised as customer revenue. Additionally, Winking supplies some art and game development services which is accounted for a revenue from customers. This is not expected to be material however with an expected value of <$200k.

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Strategy

Beyond Asia

Winking's strategy to expand the business extends into establishing larger operations in Asia and beyond. Winking is meeting growing demand by recruiting new staff but is nevertheless operating close to its available capacity. Customer demand is rising and forward indicators of new business suggest that the group can enhance its ability to service larger customers, and therefore improve its prospects, by also considering how best to expand by considering he following opportunities, below.

Europe & US

The company has many clients either headquartered or with a physical presence in the US or Europe (see Figure 2). There are good reasons for Winking to physically closer to its clients for the following reasons.

- Turnaround times – closer proximity can enable faster turnaround times on project work and this is something highlighted in our market research as being of high importance to clients. Closer studios to a client can potentially lock in greater amounts of business on existing projects;
- New business – a number of games developers not currently serviced by Winking have been targeted as future opportunities. A physical presence in a local territory can help open up new business with greater ability to conduct face-t-face sales;
- Margin efficiency - some smaller studios may not have the scale or structure to offer a component of offshore work to their services. Winking could enhance the competitiveness of some studios by offering its services through these studios.

This latter point is a driver for M&A. In a scenario where a studio has good customer relationships but has an onshore only delivery model it could benefit from aligning its services with Winking. This would allow an acquired entity to finesse its pricing or offer higher quality work for the same budget.

M&A strategy

Winking's services to date have focussed on online games with less than 30% of its business derived from Western countries and Japan. To enable Winking to become a global leader in art outsourcing, the Group intends to acquire complementary operations which strengthen its production capabilities, diversify its customer base and improve its margin profile as follows:

- Seek to acquire companies in Asia involved in art outsourcing to increase its capacity particularly with a focus on target companies which have relationships with customers in Western markets and Japan. Acquisitions could include companies which bring complementary exposure to the console gaming market.
- Seek acquisitions in the game development services market which will in turn drive further growth in art outsourcing.
- Seek acquisitions in Western markets will be considered. Studio sizes may be smaller than those in Asia but would benefit from Winking's low cost offshore model.

Additionally, acquisitions which bring new skills to the business such as computer generated imagery (CGI) will be considered. Target companies will be considered for acquisition if they are profitable, self-sustaining and have a three year trading history. It is likely that two or three acquisitions could be made in our forecast period. Acer Group has undertaken to assist Winking with any due diligence requirements. It is intended that

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

these acquisitions will be earnings enhancing within the first full year post completion and funded predominantly from cash.

Integration model

Winking intends to follow a light integration strategy post IPO and has integrated the two acquisitions to date on to Group reporting structures within four weeks. Acquired businesses will be left to operate at arm's length and retain local management. Business development operations will be folded into the Group's centralised function. This model facilitates a relatively low risk approach to M&A and also enable the Group to fulfil its strategic ambitions.

Two acquisitions to date in Q2

Two acquisitions have been made post Winking's IPO in November 2023, On Point Creative and Pixelline Productions, both of which completed in the first half of fiscal 2024 and contributed only minimally to revenues in H1A:

- **On Point Creative (OPC)** – based in Taiwan, Winking acquired 100% of OPC for $1.87m and completed the transaction in Q2 2024. OPC brings a range of art production services to Winking including design and animation together with new skills in advertising promotion. OPC brings new clients to the enlarged Group, including Take-Two, and establishes closer partnerships with Activision Blizzard and Capcom by cooperating with different studios in these two groups. The intention is to build up its 3D production capacity to meet ongoing and identified expansion in demand.
- **Pixelline Productions (PP)** – based in Malaysia, Winking acquired the business of Pixelline Production in Q2 2024 for an aggregate purchase consideration of up to $1.0m including a one-time payment of $0.5m. The remaining purchase consideration of up to $0.5m will be paid in various tranches by Winking to the vendor shareholders, contingent upon achieving certain financial targets for the financial years ending 31 December 2024, 31 December 2025, and 31 December 2026. PP is an art and animation outsourcing company and works with clients such as Ubisoft.

Competition

Fragmented market

The art and games development outsourcing market remains very fragmented. China Insights Consultancy states that the top 10 players account for only 7.1% of total market share with Winking being #4 in the market. By publicly available headcount figures, we can identify the largest players as follows:

- Keywords,
- Virtuos,
- Original Force,
- Sheer Tianyi Technology
- Pole To Win.

Keywords Studios #1 (12,340 employees)

London listed Keywords Studios (KWS, mkt cap £1.9bn) is recognised as the largest provider of outsourcing services to the video games industry globally. Founded in 1998, Keywords generated revenue of €780m in FY23A (+13% YoY), with organic growth

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

amounting to +5.6% YoY, making it three times the size of the next largest competitor. Keywords has successfully executed an organic growth strategy, with revenues growing organically by 15% compound over the last ten years and has complemented this with a large number of acquisitions. Keywords stock increased by over 17x during September 2014-2024. On 3rd July Keywords announced a £24.30 recommended cash offer from Swedish private equity firm EQT Group valuing the business at £2.1bn on a fully diluted basis. This transaction values the business on 2.6x EV/sales and 17x EV/adj. EBIT on FY24E forecasts.

Keywords divisional structure

Keywords reports its services under three business segments, Create, Globalize and Engage which undertake the following summarised activities:

- Create – game and art outsourcing services (43% FY23A revenues)
- Globalize – testing and localisation services (36% FY23A revenues)
- Engage – marketing services (21% FY23A revenues)

Its Create division has 4,500 staff across 18 countries and is its highest margin segment. Last year its Create division delivered organic revenue growth of 17.3% YoY to €336m and adjusted EBITDA margins last year of 28%.

Keywords acquisition history

The core Keywords business dating back to 2013 was as a localisation service provider, i.e. service provision for the adaptation of content for local markets. Testing has undergone many structural changes over this time and to some extent is becoming an automated process and commoditised. Its Globalize division reported an organic contraction in revenues of 4.3%. Keywords M&A strategy has been to dilute its exposure to testing markets by acquiring in its Create and Engage divisions, a strategy it is likely to continue under its prospective new ownership if the acquisition completes. Localization is now much reduced as a percentage of group activities at 36% of sales in FY23A.

New segmentation

Prior to 2022, Keywords segmented its revenues by 8 different service lines. Art Creation represented its art outsourcing business, and Game Development its game development services. These two divisions went on to make up the Create division with combined revenues of €188m in 2021 (€49.3m and €138.9m respectively). Several acquisitions have been announced in these service areas:

- June 2022: acquisition of Forgotten Empires for $32.5m (game development services);
- September 2022: acquisition of Smoking Gun Interactive Inc for a maximum consideration of CAD$40.0m (game development services);
- May 2023: acquisition of Hardsuit Labs Inc for a maximum consideration of $15m ((game development services);
- December 2023: acquisition of The Multiplayer Group Ltd for £76.5m (game development services).

As game developers, none of these acquisitions were explicitly stated to be in the art outsourcing market although some of their activities may extend to art production. A recent industry report by CIC on the art outsourcing market states that Keywords

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

generated revenues of $71m in that service line in 2023. This would infer 14% compound growth in revenues over the two years to 2023 in Keywords' art outsourcing business.

Interim results to June

The Keywords interim results to 30th June reference the slowing content creation trends that have been dampening industry trends post Covid. Some project cancellations and deferrals were noted together with weakness seen from the content production issues arising in Hollywood over the last twelve months. These market conditions produced an organic contraction in Keywords' revenues in H1A of 1.9% YoY, contrasting with the 9% organic growth delivered in FY23A. The Create division delivered organic revenue growth of 1.1% and adjusted EBITDA margins fell 330bp to 22.7% reflecting some large project cancellations in the game development market. Keywords' adjusted operating margins amounted to 13% (-240bp) in the first half but the second half of the year is expected to be sequentially better for both organic revenue growth and margins.

Virtuos #2 (3,800 employees)

Founded in 2004, privately held Virtuos is headquartered in Singapore with studios across Asia, Europe and North America. It specialises in providing external game development and art production services for AAA consoles, PC and Mobile titles. Its clients include 18 of the top 20 digital entertainment publishers.

Original Force #3 (2.200 employees)

Founded in 1999, privately held Original Force specialises in 3S art production for video games and computer generated animations for the game and movie/TV markets. It has a global client base including Microsoft, Activision, Sony, Disney, Rockstar Games and Tencent. is headquartered in Nanjing, China.

Sheer Tianyi Technology #4 (1,200 employees)

Founded in 2005, privately held Sheer is based in West China. Sheer counts Netease and Tencent among its clients as well as Blizzard, Ubisoft and Activision. Sheer states that it is a top 3 game content outsourcing company in China.

Pole To Win #5 (3,200 employees)

Pole To Win was founded in 1994 and later brought under the umbrella of Poletowin Holdings, Inc. which is listed on the 1st Section of Tokyo Stock Exchange (3657). Poletowin Holdings offers Internet-related debug and verification services. The Company operates through two segments. The Testing and Verification & Evaluation segment is engaged in the detection of software bugs through the provision of debug services for home-use software, social applications, mobile contents, contents for smart phones and PCS. The Internet Supporting segment is engaged in the detection of illegal and harmful information. In addition, the Company is also engaged in the publishing and media businesses.

Other market participants

We are aware of other market participants such as, and in no particular order: Kevuru Games (US), ZVKY (India), Room 8 Studio (Cyprus), Starloop Studios (Spain), N-iX Game & VR Studio (Ukraine), Melior Games (Ukraine), Stepico Games (Ukraine), Whimsy Games

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

(UK), Pixune Studios (Poland), Juego Studios (US), Game Shastra (India), Bon Art Studio (Bulgaria), Nuare (Canada), Pingle Studio (US/Ukraine).

Sumo Digital

A notable transaction in the UK sector was the acquisition of then UK listed company Sumo Digital by Tencent. Sumo supplied end-to-end development and publishing solutions to the video games industry. Tencent had owned 8.75% of the equity since 2019 but in 2022 acquired the rest of the outstanding share capital in Sumo for £900m.

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Board of Directors and Key Management

Table 4: Board of Directors

Name	Position	Experience
Johnny Jan	Founder & Chief Executive Officer	Johnny Jan founded the company and was appointed to the Board in 2005. Johnny is also a director of all the subsidiaries of the Group. He has over 25 years of experience in the game art outsourcing and game development industries. He oversees the business development activities and operations of the Group and leads its overall strategic direction. He founded WindThunder Era Corporation and subsequently founded the Group's game art outsourcing and game development studios before its incorporation as Winking Studios. He is also a director of the Taiwan Game Industry Promotion Alliance.
Lim Heng Choon	Non-Executive Chairman	Lim Heng Choon was appointed to the Board in 2023. He is currently the Chief Financial Officer and executive director of Centific Global Solutions, Inc as well as the founder and managing director of Hyperion Connect, a boutique consulting firm that focuses on corporate advisory projects. He was previously a Senior Consultant at Boston Consulting Group and served as Acting Chief Financial Officer at Hisoft Technology International. He has experience in management consulting, sales, corporate advisory, and finance functions such as fund raising and audit.
Oliver Yen	Group Chief Financial Officer	Mr. Oliver Yen joined the Group in 2014 and has more than 20 years of experience within the game development and game publishing industry. Mr. Yen has been responsible for all finance related areas of our Group since joining the Group, overseeing its treasury function, audit and taxation matters. From 2000 to 2013, he was the Vice General Manager of the General Management Office in Softstar Entertainment Inc., a Taiwanese listed game development and game publishing company. Subsequently, he joined Wenetgroup Ltd. as its Senior Financial Controller from February 2014 to April 2014. Mr. Yen currently serves as independent non-executive director for two listed company in Taiwan, Otsuka Information Technology Corp. and IPatec Precision Industry Co., Ltd.. Mr. Yen graduated from the Tunghai University School of Management with a Bachelor's degree in Business Administration.
Kao Shu-Kuo	Non-Executive Director	Kao Shu-Kuo was appointed to the Board in 2023. He is the current Chairman of the Board of Directors in Acer Gaming where he started his career in 1995. In Acer Gaming, he was responsible for its IT product business as a general manager, before he took on the role of Chief Operating Officer in 2018. He graduated from the Ching Hsing College of Law and Business – Institute of Corporate Management with a Master's Degree in 1993.
Chang Yi-Hao	Independent Non-Executive Director	Chang Yi-Hao was appointed to the board in 2021. He was previously Chief Operating Officer of X-Legend Entertainment, a company engaged in game licensing and publishing. He oversaw cross-border licensing and publishing of games from Korean developers to the Taiwan market. He also established an international operations team to manage and license games across Japan, China, the US, Europe, Thailand and Malaysia. He was also previously the President of Kunlun Gaming, a global gaming distribution company. He liaised with major platforms such as Apple Store, Google Play and Facebook, and secured licensing for internationally renowned games for distribution in the Chinese market. Yang Wu Te Independent Non-Executive Director He also founded Howard Marketing Co, an Internet marketing and media agency.
Yang Wu Te	Independent Non-Executive Director	Yang Wu Te was appointed to the Board in 2023. He is well-versed in finance and banking functions, having previously held manegement roles in top foreign banks. He was previously in Deutsche Bank, JPMorgan Chase & Co, Taishin International Bank and Merrill Lynch International Bank. From 2013 to 2020, he was an Executive Director and Relationship Manager of the Private Banking arm of Bank Julius Baer & Co.
Tina Li	General Manager of Art Outsourcing Segment	Tina Li joined the group in 2003 and previously held the roles of art designer and General Manager before helming her current position. She is responsible for overseeing the expansion and growth of the group's business. She has over 20 years of experience in art design, having worked previously as a graphic designer and art designer before joining the group. She has a Master's Degree in Software Engineering from Shanghai Fudan University in 2011.
Daniel Widdicombe	Proposed Independent Non-Executive Director	Daniel is currently Chief Financial Officer for AIM listed US video game developer Devolver Digital Inc. Previously, Mr. Widdicombe was Head of Investment Banking at China Construction Bank in London, the CFO at both Chinadotcom Ltd. (NASDAQ) and I-Quest Corporation Ltd. and a Managing Director at Bear Stearns. His experience also includes acting as Independent Non-Executive Board Director at AVIC-CCBI Aviation Industry Investment Fund Management GP Ltd. and Corgi International Ltd. (NASDAQ) as well as Non-Executive Director at Middle Earth Advertising Ltd. Mr. Widdicombe holds a First Class MA Honours degree in Mandarin Chinese from the University of Edinburgh.

Source: Company

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Historical financial information

Systems and controls

Winking has implemented a packaged accounting system with some custom features to serve as a reporting platform at Group level. Group accounts are prepared under International Financial Reporting Standards (IFRS). Management accounts are produced 3-5 days after month end utilisation and projects are reviewed on a weekly basis.

Winking typically has 100+ projects live at any one point in time but individual projects will consist of multiple underlying purchase orders so that in any one year the number of purchase orders received and invoices issued may number several thousand. This produces a very fragmented revenue profile which greatly reduces the company's exposure to any lumpy order flow.

Revenue recognition

Winking recognises service revenue over time by referencing the price specified in contracts and the progress made in completing its performance obligations. Group income is derived from a function of day rates and staff utilisation and these items together will produce a strong positive trend with reported Group revenue. Purchasing orders typically stated at a number of days or small number of weeks and with milestones few, revenue recognition is reasonably smooth.

Contract assets

There is often an approval process with large clients after work has been submitted and before an invoice is raised. This feedback and acceptance period can take 2-4 weeks typically before invoice is issued. Revenues are recognised at the stage of submission but until the invoice is issued they are carried on the balance sheet as contract assets.

Working capital cycle

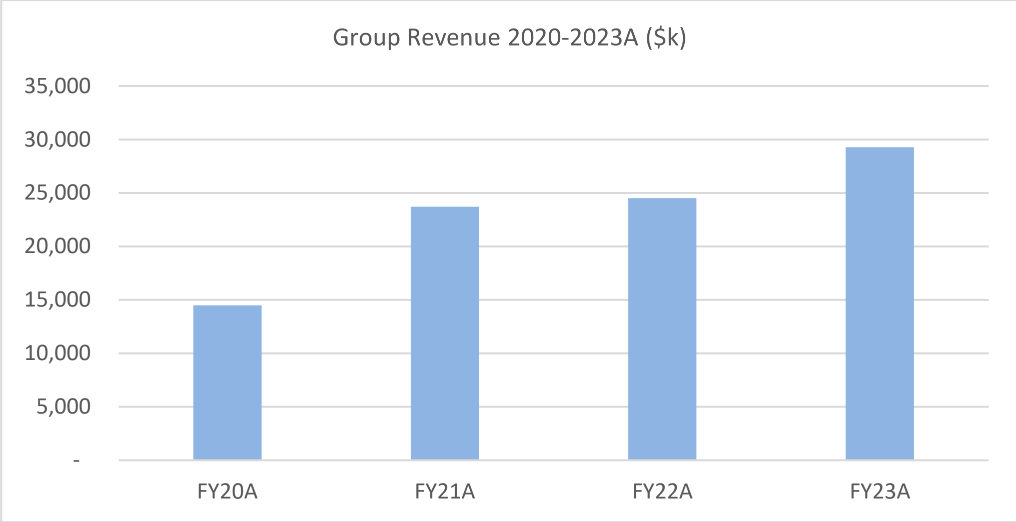
Post issue of an invoice, debtor days average around 45 but the conversion history of contract assets into receivables elongates this working capital cycle by 1-3 months. The company has an excellent record of converting contract assets into receivables with conversion rates very close to 100%.

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Organic growth record

Winking has grown its revenues at a compound rate of 26% between 2020-2023A. There have been no acquisitions over this period meaning this reported growth is wholly organic.

Figure 14: Group revenues 2020-23A ($k)



Source: Company accounts

Repeat revenue

The strategy of providing services to an expanding online mobile gaming industry has led to the creation of a repeat revenue stream for Winking. Winking first started working on Dungeon & Fighter, a title created by Nexon, in 2008. Since this time there have been numerous iterations with the latest version being released in 2022. Work on the art and animation for this game has provided an income streams over many years in what is termed 'Follow-up' status. The growth in the number of game titles with 'Follow-up' status has increased at a compound growth rate of 22 over the years 2020 to 2023. This has generated a growing source of repeat business which formed 40% of revenues in FY23A. This figure rose further in the six months to June 2024. In H1A, the amount of revenue from Follow-up projects amounted to $6.7m, or 44% of Group sales.

Table 5: Follow-Up projects

Follow-Up projects	2020A	2021A	2022A	2023A
No. of titles in Follow-Up status	91	112	156	166
Revenue from Follow-Up status projects ($k)	3,779	5,317	8,798	11,739
as % Group sales	**26.1**	**22.4**	**35.9**	**40.1**

Source: Company

Cost base analysis

As a service provider, personnel costs are the Group's single largest expense. Total employee costs represented almost two thirds of total costs in FY23A and 60% as a proportion of sales. These costs are allocated to Cost of Sales or Operating Expenses, largely depending on whether headcount is billable or not. Underlying wage inflation at Group level has been running at c5% per annum. Where Winking has expanded the Group's headcount, the impact of hiring staff at junior level has helped ameliorate some of the impact of wage inflation on financial performance.

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Table 6: Employee costs (2020-2023A)

Dec ($k)	FY20A	FY21A	FY22A	FY23A
Wages & salaries	6,910	11,103	13,240	14,631
Employers contribution to pension schemes	394	1,522	2,396	2,601
Other personnel expenses	217	343	419	460
Total employee costs	7,521	12,968	16,055	17,692
as% sales	**52**	**55**	**66**	**60**
as % total costs	60	63	68	63
Average cost per employee	**18.9**	**22.1**	**22.9**	**24.7**

Source: Company Accounts

Adjusted EBIT calculation

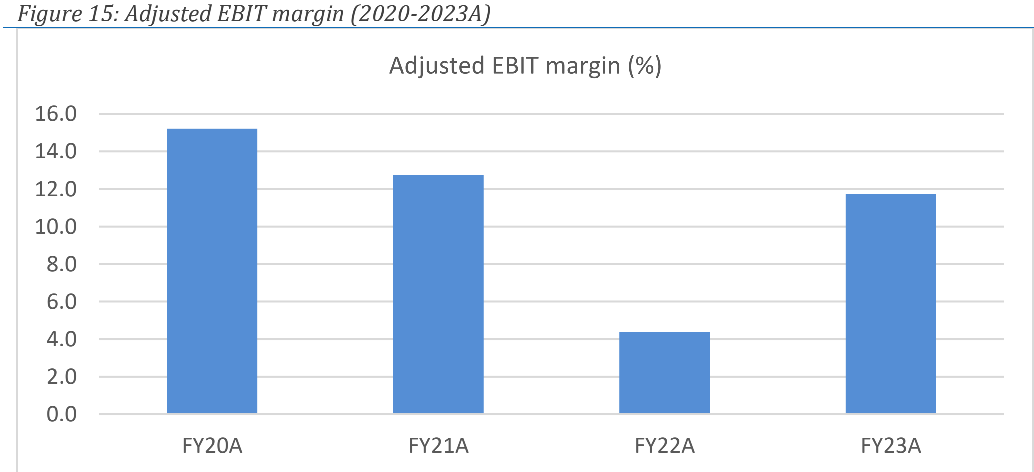
Current IFRS accounting standards relating to the capitalisation and depreciation of right-to-use assets crystallise a material depreciation charge in Winking's Income Statement. Our fair assessment is that the depreciation of any asset such as a property lease that would otherwise have been treated as an operating cost under prior standards should be treated as a regular cost of doing business. For this reason, we prefer an adjusted EBIT calculation as a proxy for source of funds rather than adjusted EBITDA. Recognising however, that some companies do add-back depreciation when adjusting for technical non-cash charges, we present both calculations, below. We would adjust for share based payments but none were charged in the years under analysis. We also note that issuance costs have been taken above the operating line in the accounts.

Table 7: Adjusted earnings (2020-2023A)

Adjusted earnings ($m)	FY20A	FY21A	FY22A	FY23A
EBIT	2.20	3.02	0.83	1.44
IPO expenses	0.00	0.00	0.24	1.99
Share based payments	0.00	0.00	0.00	0.00
Adjusted EBIT	**2.20**	**3.02**	**1.07**	**3.44**
Adjusted EBIT margin (%)	**15.2**	**12.7**	**4.4**	**11.7**
Adjusted EBITDA	2.90	3.98	2.52	5.23
Adjusted EBITDA margin (%)	20.0	16.8	10.3	17.9

Source: Company Accounts

Figure 15: Adjusted EBIT margin (2020-2023A)



Source: Company Accounts

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Tax

The standard rates of tax in the jurisdictions in which Winking operates are as follows:

- Singapore: 17%
- Taiwan: 20%
- China: 25%

There are exemptions, rebates and favourable charging rates across these jurisdictions according to size and business sector which brings the actual tax charge down to c10% on a blended basis. Reported tax charges may be lower in future but we are conservatively using 10% as the headline rate in our forecasts. Within a four year timeframe however, it is likely that an average tax rate could revert to c20%.

FX management

Winking invoices in multiple currencies including USD, RMB, JPY, KRW and TWD. With a substantial portion of headcount based in Nanjing overseas currencies are frequently hedged to RMB rates. Other than RMB hedging, there is no other active FX management strategies employed by the Group which means that some natural FX translation risk may arise from normal trading activities. Cash balances are held in USD and SGD in Singapore except for sufficient RMB balances to cover two months working capital requirement in local RMB (around $7m).

Working capital cycle and capital investment

Staff represent the largest single part of the cost base. Debtor days average 45 so there is a natural negative working capital cycle within the business. The capitalisation of contract assets on the balance sheet adds a further drag on the working capital cycle. The average net working capital outflow, however, has been less than $0.3m over the last four years, or <1% of average sales. We note that the company has a near 100% track record of converting contract assets into trade receivables and cash.

Table 8: Working capital movement (2020-2023A)

Working capital Y/E Dec ($m)	2020A	2021A	2022A	2023A
Contract assets	-0.56	-0.61	-0.58	-0.55
Receivables	-1.30	-0.60	-0.45	-0.35
Contract liabilities	-0.20	0.00	0.14	-0.09
Payables	0.98	1.33	0.57	0.98
Net working capital movement	**-1.09**	**0.12**	**-0.31**	**-0.01**

Source: Company Accounts

The only material tangible assets within the business is the high performance computing hardware used by the animators and game developers. There is a natural two year hardware refresh requirement together with associated software which will see investment in PPE and software licences fluctuate between $0.5-1.0m per annum.

Banking facilities

Winking will consider using banking finance for strategic M&A purposes so the average cost of capital can be optimised but the potential use of any such facility is expected to be limited.

Dividend

A S$0.005 special dividend was declared for the year to 2023. The Winking Board will consider paying a regular, progressive dividend going forward. We are assuming a notional payout ratio of 10% of net income in our forecasts

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Seasonality

Much of Asia is quiet during Chinese New Year, falling in calendar Q1. Equally, Western markets are quiet mid-December for Christmas. Quarters two and three are regular quarters meaning on a net basis that there is little seasonality between H1 and H2 except for any sequential growth pattern. Cash flow in the first half of the year may be lower than the second because of the payment of performance bonuses accrued in the prior year.

Customer concentration

Winking services some major global customers. Consequently, revenues are moderately concentrated towards a small number of customers. Winking's top ten largest customers generated 63% of revenues in FY23A, having been higher in prior years. Equally, the natural growth in the business has seen the number of $1m+ accounts serviced by Winking increase from 3 in FY20A to 8 last year.

Table 9: Customer concentration (2020-2023A)

Dec	FY20A	FY21A	FY22A	FY23A
Top Ten customers as % of total sales	67	71	59	63
Largest customer as % sales	22	19	11	13
Number of $1m+ accounts	3	6	6	8

Source: Company

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

H1A results

Summary results

Winking delivered a very strong performance in contrast to a significantly more mixed performance from other industry players. Winking delivered revenues in H1A of $15.2m, up 10.5% YoY on a constant currency basis (+7% reported). The Art Outsourcing segment grew 6.6% YoY and Game Development Services grew 8.1% YoY, both on a reported basis. Given the modest acquisition values for On Point Creative and Pixelline Productions, which both completed in Q2A, we estimate that these businesses may have contributed no more than c$0.2m to Group revenues and therefore are not material in the context of the financial performance in H1A.

Table 10: Interim financial performance (2023-2024A)

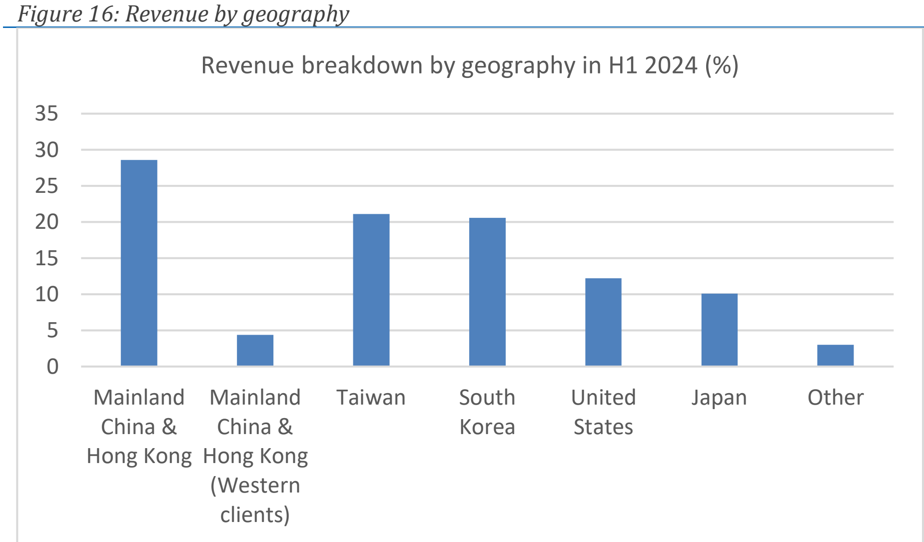
Summary interim performance ($m)	H1A 2023	H1A 2024	% change YoY
Group revenue	**14.2**	**15.2**	**7.1**
Gross profit	4.4	4.2	-2.8
Gross margin (%)	30.7	27.9	-280bp
PBT	1.3	1.0	-23.7
Net cash	8.5	11.6	36.2
Net cash including bonds	**8.5**	**13.1**	**53.4**

Source: Company

Mainland China <30% Group revenues

Strong marketing support was provided to the business development team focusing on Japanese customers in H1A. Japan based customers are a strategically important addressable market for Winking with many large-scale game developers located in that territory. Distribution & marketing expenses doubled to $1.0m to help support entry into this market. The rise in marketing activity has generated a fast pay-back with revenues from Japan constituting 10% of Group income in H1A, up from 3.5% in the prior half year. Revenues in Japan tripled to $1.5m and growth in other territories led revenues from Mainland China and Hong Kong to fall to 33% of total income. Of the 33% derived from Mainland China and Hong Kong, 4.4 percentage points was generated from subsidiaries of European and American customers and overseas subsidiaries of Chinese companies.

Figure 16: Revenue by geography



Source: Company

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Acquired entities impacted gross margins

Gross margins of 27.9% were 280bp softer which is attributable to the impact of the two acquisitions, On Point and Pixelline in Q2. Utilisation had been identified as being temporarily below target due to the ramp up in activity of large contracts the execution of which is now bringing gross margins back to normalised levels.

Increased sales & marketing activity

If we adjust EBIT for listing expenses and other one-off costs, we can see that underlying EBIT margins fell to 8.5% in H1A 2024 from 13.3% in the prior year. If we added back the $0.5m increase in marketing expenses charged in the first half, adjusted EBIT would have been $1.8m, equating to an adjusted EBIT margin of 11.7%. Therefore, we can attribute the fall in H1A adjusted EBIT margin to the increase in marketing expenditure.

Table 11: Interim financial performance (2022-2024A)

Adjusted EBIT ($k)	H1A 2023	H1A 2024
EBIT	**1,363**	**1,046**
SGX IPO expenses	520	0
LSE Dual Listing expenses	0	14
SBPs	0	176
Acquisition integration costs	0	8
Private placement expenses	0	43
Adjusted EBIT	**1,883**	**1,287**
Adj. EBIT margin (%)	**13.3**	**8.5**

Source: Company Accounts

Strong net cash position

Despite a net working capital outflow in H1A of $1.2m free cash flow remained positive at $0.1m. Net cash ended the half year at $11.6m but including a bond investment on the balance sheet of $1.4m, net cash and cash equivalents amounted to $13.0m. There is no debt in the balance sheet.

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Forecasts

Good visibility

Video game market growth

There are many estimates of market growth for the global video games markets and its various underlying segments. These consistently point to ongoing growth in the industry as urbanisation, online adoption rates, demographic factors and other changes continue to favourably affect the industry. Seven market research bodies are forecasting an average 8% growth over the stated forecast periods below:

Table 12: Video game market growth estimates

Global video game market growth (CAGR %)	Growth %	Forecast period
Grand View Research	13%	2023-30
Precedence Research	11%	2023-30
China Insights Consultancy	10%	2023-28
Statista	9%	2024-27
Fortune Business Insights	6%	2022-29
Bain	6%	2024-28
PWC	5%	2023-28
NewZoo	4%	2024-27
Average	***8%***	

Source: Market research providers as stated

Game outsourcing services growth

Five external research bodies estimate the outsourced segment of the market growing at 11% compound on average. This is meaningfully faster than the average expected growth in the global video games market from our table of 8%.

Table 13: Video game outsourcing services market growth estimates

Global game outsourcing services market growth estimates (CAGR %)	Growth %	Forecast period
CIC: Global game art outsourcing market	14%	2023-28
USD Analytics: Game Art Outsourcing Market	13%	2023-30
Infinity Business Insights: Game development outsourcing services market	13%	2023-30
B2B Research: Game Development Outsourcing Services market	10%	2024-31
IDG Consulting: externalised services for video game content market	9%	2023-28
Valuates: Game outsourcing services market	8%	2024-30
Simple average	***11%***	

Source: Company

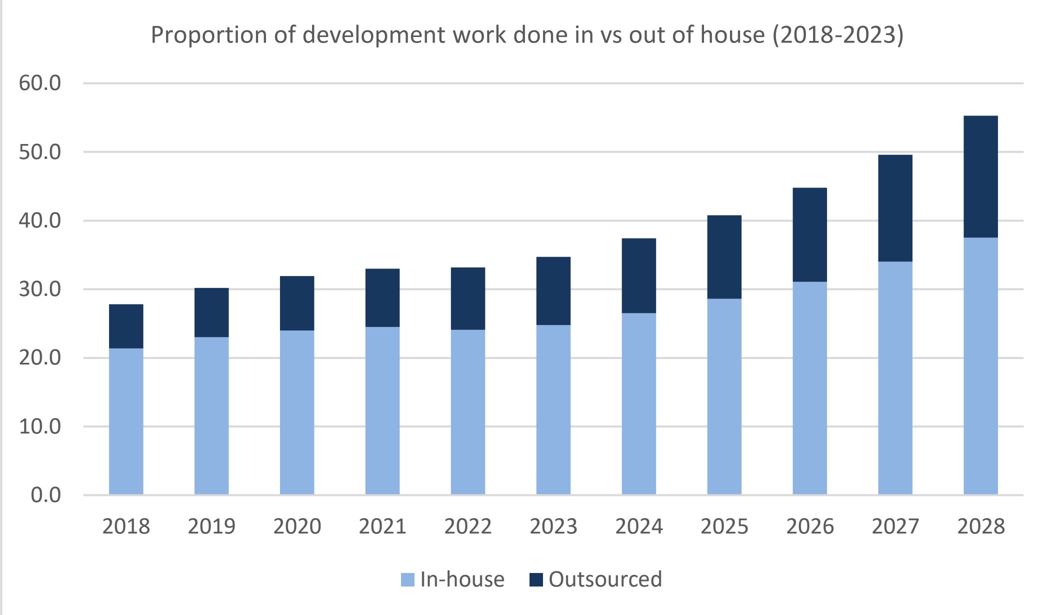
Outsourced market set to grow at 14% compound

The proportion of game development expenditure performed by external providers has been rising over time. Market research body China Insights Consultancy (CIC) has estimated that by 2023 outsourced services made up over 28% of the total expenditure on game development globally. Keywords corroborates this figure and has stated that 34% of the content creation market was outsourced in 2023, equivalent to a total addressable market of $13bn. Furthermore, this market data from CIC infers a 9% compound growth rate in the outsourced market for global game development between

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

2018-2023 and projects that this will prospectively accelerate to a 14% compound growth rate between 2023-2028.

Figure 17: Outsourced market value



Source: China Insights Consultancy

Indicative bookings

Winking's customers often share their long term development plans with Winking. This enables Winking's business development teams to have good insight into their customer's strategies consistent with the 3-5 year timeframe many titles may take to successfully come to market. Game developers commit considerable investment when developing a game ahead of any revenue return and so they demand resource certainty from their external providers. This in turn allows service providers to efficiently plan capacity with customers, forward booking resource several quarters in advance so that they can supply resource at scale to cover their future development plans. These indicative forward bookings extend out to 2025 and Winking has stated the value of these bookings over this timeframe at $21.8m as at 13.8.24.

Table 14: Revenue cover from indicative bookings

Indicative booking statistics ($k)	13.8.24
Pre-booked revenue visibility - H2 2024E	10,094
Pre-booked revenue visibility - 2025E	11,681
Total pre-booked revenue	**21,774**

Source: Company

Revenue forecast

Market data shows forward growth in the video market of 8% and average growth expected in the game development outsourcing market of 11%. Notably, Winking delivered 10% organic growth on a constant currency basis in H1A 2024. We arrive at our revenue forecast by building a billable headcount, day rate and utilisation model giving consideration to the two acquisitions made in 2024 and the acquired headcount.

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Divisional model – AOG

We believe achieved day rates have been stable over the last two years and we project no increase in our underlying forecasts. Utilisation has been high at c90% reflecting market conditions where demand has been outstripping supply. We forecast utilisation to normalise going forward.

Table 15: AOG model

Utilisation model - Art Outsourcing Group	2022A	2023A	2024E	2025E	2026E
Billable headcount (av)	555	590	703	780	840
Headcount increase YoY (%)	-	*6%*	*22%*	*11%*	*8%*
Days	250	250	250	250	250
Income ($m)	**22.0**	**24.1**	**27.3**	**29.5**	**31.8**
Average revenue per billable headcount ($k)	39.7	40.8	38.9	37.8	37.8

Source: Company, SP Angel forecasts

Divisional model – GDS

Day rates are higher at GDS because of the more technical skillset and have trended upwards partly reflecting increase services to Western customers. Effective utilisation has been running at high levels, often in excess of 100%, because of the divisions ability to deliver project work well within budgeted timeframes which allows for a positive reallocation of resource into other workstreams. Higher day rates assist returns on average revenue per head to levels almost double that of AOG.

Table 16: GDS model

Utilisation model - Game Development Services	2022A	2023A	2024E	2025E	2026E
Billable headcount (av)	72	69	75	80	85
Headcount increase YoY (%)	-	*-4%*	*9%*	*7%*	*6%*
Days	250	250	250	250	255
Income ($m)	**2.2**	**5.0**	**5.4**	**5.8**	**6.2**
Average revenue per billable headcount ($k)	30.5	73.3	72.3	71.9	73.3

Source: Company, SP Angel forecasts

Group model - income statement

We factor in an estimate of the contributions from the two acquisitions made in Q2A into our FY24E forecast of $1.3m. The model implies an underlying organic growth rate of 8% in our forecast for FY24E and conservatively faded this thereafter. Our forecasts assume no contribution from the release of GenMotion.AI.

Table 17: Group Revenue model

Y/E Dec, US$ (m) Divisional Revenue	2022A	2023A	2024E	2025E	2026E
Art Outsourcing	22.02	24.12	27.34	29.52	31.79
% revenue	89.9	82.4	83.0	83.3	83.3
Game Development Services	2.23	5.00	5.42	5.75	6.23
% revenue	9.1	17.1	16.5	16.2	16.3
Global Publishing & Other	0.25	0.16	0.16	0.16	0.16
% revenue	1.0	0.5	0.5	0.5	0.4
Total revenue	**24.50**	**29.28**	**32.93**	**35.43**	**38.18**

Source: Company, SP Angel forecasts

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Bookings cover 87% of forecast revenues in FY24E

The forward indicated bookings of $10.1m for H2E date from 13.8.24 through to 31.12.24. This excludes revenue generated form the period in H2E through to 13.8.24 which is roughly six weeks of trading. If we take a run rate weekly revenue projection from H1A, add the revenue visibility in H2E to the revenues achieved in H1A we can see the company has 87% cover over our FY24E revenue forecast of $32.9m:

Table 18: Revenue visibility

FY24E revenue visibility, Dec	$m
Revenue H1A	15.2
Run rate revenue 1.7.24 to 12.8.24	3.5
Pre-booked revenue visibility - H2 2024E	10.1
Total revenue visibility	28.8
% FY24E revenue forecast	**87.6**

Source: Company, SP Angel forecasts

Gross margin range 30-32%

We see normalised gross margins for Winking in a range of 30-32% and we see some recovery in H2E from the 28% generated in H1A which were below this range because of the effect of the acquired businesses in Q2A 2024. We see EBIT margins of 7.5% in our forecast periods of2025-2026E:

Table 19: Group earnings model

Y/E Dec, US$ (m) Earnings model	2022A	2023A	2024E	2025E	2026E
Consolidated Revenue	**24.50**	**29.28**	**32.93**	**35.43**	**38.18**
Growth yoy	*3%*	*20%*	*12%*	*8%*	*8%*
Cost of sales	-18.05	-19.95	-23.05	-24.62	-26.35
Gross profit	6.45	9.33	9.88	10.81	11.84
Gross margin (%)	26.32	31.88	30.00	30.50	31.00
EBITDA	**2.28**	**3.24**	**2.67**	**4.70**	**5.34**
EBITDA margin (%)	**9.3**	**11.1**	**8.1**	**13.3**	**14.0**
Depreciation of right-to-use assets	-1.39	-1.72	-1.89	-1.96	-2.17
Amortisation of acquired intangibles	-0.07	-0.07	-0.07	-0.08	-0.08
Exceptional items	0.00	0.00	0.00	0.00	0.00
EBIT	**0.83**	**1.44**	**0.71**	**2.67**	**3.10**
EBIT margin (%)	**3.4**	**4.9**	**2.1**	**7.5**	**8.1**

Source: Company, SP Angel forecasts

Cash flow positive

With little capital investment required to maintain the business, the outsourcing service model is inherently cash generative. With issuance and acquisition costs taken above the operating line, we add these back to look at cash flow from trading activities at the operating and free cash flow (FCF) lines below. Winking has generated positive free cash flow in each of the last four years with the exception of 2022 which was very modestly FCF negative (< $0.4m). We attribute this to the publishing restrictions in China, now lifted, and its operational gearing effect on margins. Our FY24E FCF forecast is down YoY because of the working capital outflow in H1A but we expect the working capital position to show sequential improvement in H2E as the contract assets and receivables are collected.

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

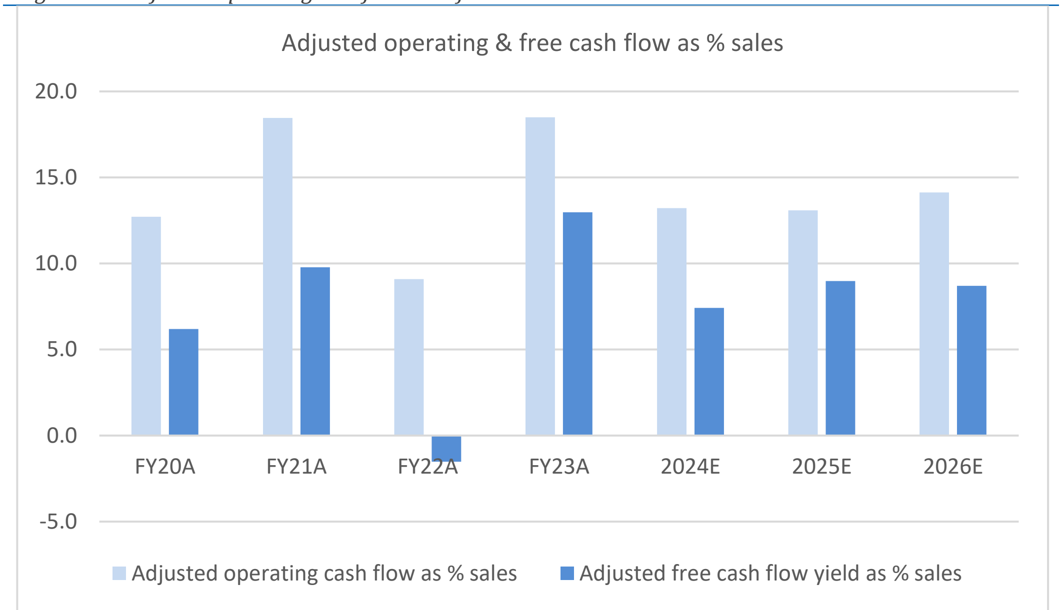
Table 20: Group cash flow (2020-26E)

Dec, $m	FY20A	FY21A	FY22A	FY23A	2024E	2025E	2026E
Adjusted operating cash flow	1.84	4.37	2.23	5.41	4.35	4.64	5.40
Adjusted free cash flow	0.90	2.32	-0.37	3.80	2.44	3.18	3.32

Source: Company Accounts, SP Angel forecasts

Our forecast indicates sustainable adjusted free cash flow as a percentage of sales at around 8.0-9.0% going forward.

Figure 18: Adjusted operating and free cash flow



Source: Company Accounts, SP Angel forecasts

Deployment of existing cash funds

Acquisition pipeline

Winking raised S$27m (gross) in a Placing in July on SGX-ST for the purposes of executing its M&A strategy. This money has been earmarked for potential acquisitions in the art outsourcing market in Asia which, if completed, will materially expand its capacity and enable it to continue meeting client demands.

Use of AIM IPO proceeds

Expansion in European and US markets

We outline and model in this note an equity raise of £10m (gross) in the IPO on AIM. The use of proceeds from this round of financing on AIM will be earmarked for the following purposes:

- M&A: Winking will apply these funds towards acquiring studios in either Europe, or Asia if they have a high proportion of business from western customers. Strategic alliances and joint ventures may also be considered (£7.9m);
- Sales & marketing: Winking will extend its marketing in North America and European markets including the establishment of a UK hub (£0.4m);
- AI: enhance the development and operational capabilities of the Group's AI tools (£0.4m).

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

The company has already established business development teams in the US and Europe. We would expect a regional hub in the UK to take form over the next 12-24 months.

Potential impact

Acquisitions are highly likely to be private companies, and we can make assumptions around what impact this might have on earnings. We can model this potential impact starting with the following calculations:

- average revenue per head,
- average EBIT margin and contribution per head,
- average enterprise value per head,
- assuming a private company valuation discount.

Uplift to earnings

We can make assumptions about the size of business that could be acquired and apply a valuation discount of 40% to model the potential impact of a theoretical acquisition of a private company to Group earnings. This table shows us that $15m could be deployed to acquire a 400 billable headcount business which would generate $1.6m of incremental EBIT, leading to a 62% gross upgrade to our Group FY25E EBIT forecast at a valuation of 10x NOPAT assuming a 10% tax rate.

Table 21: M&A metrics

Headcount analysis	$
WKS FY24E revenues (m)	32.93
WKS av. chargeable headcount	800
Av. Revenue per head (k)	41.2
Av. EBIT margin	10%
Av. EBIT contribution per head	4.1
Av. EV per headcount ($k)	6.2
Assume private company discount valuation of	-40%

Source: Company accounts, SP Angel forecasts

Table 22: Earnings changes from M&A

Billable headcount addition by acquisition	100	200	300	400	500
Increase in capacity	12.5%	25.0%	37.5%	50.0%	62.5%
Potential increment to revenues ($m)	4.12	8.23	12.35	16.46	20.58
Potential increment to EBIT ($m)	0.41	0.82	1.23	1.65	2.06
Potential acquisition price ($m)	3.7	7.4	11.1	14.8	18.5
Implied NOPAT acquisition multiple (x)	10.0	10.0	10.0	10.0	10.0
Revised FY25E EBIT forecast (gross)	3.08	3.49	3.90	4.31	4.72
Uplift to FY25E EBIT forecast (gross)	15%	31%	46%	62%	77%

Source: SP Angel forecasts

Cash balances impact earnings

The S$27m of gross proceeds from July's Placing and forecast net inflow of c£9m from the IPO on AIM will be used to significantly expand the Group. Until the time acquisitions are announced, the cash in the balance sheet will generate significant interest income relative to income from operations. In FY25E & FY26E we are forecasting interest income of over c$0.9m in both years with this income being equivalent to one third of our EBIT forecast of $2.7m next year. Until deployed, this could be regarded as an inefficient use of capital. There is also significant EPS dilution from the increase in ordinary share capital too. So, in

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

order to evaluate earnings per share from trading operations we generate an adjusted EPS figure calculating Net Operating Profit After Tax (NOPAT) i.e. excluding interest income. This adjusted earnings model assumes a 10% underlying tax rate and uses a fully diluted number of shares pre both Placings (i.e. 2024 closing number of shares of 278m ordinary shares plus 20.81m shares currently in the employee performance plan):

Table 23: Adjusted earnings model

Adjusted profit Y/E Dec, US$ (m)	2022A	2023A	2024E	2025E	2026E
EBIT	0.83	1.44	0.38	2.67	3.10
Issuance & other items	0.24	1.99	2.20	0.00	0.00
Share based compensation	0.00	0.00	0.50	0.50	0.50
Adjusted operating profit	**1.07**	**3.44**	**3.08**	**3.17**	**3.60**
Adjusted operating profit (margin)	**4.4**	**11.7**	**9.3**	**8.9**	**9.4**
Tax normalised charge (at 10%)	-0.11	-0.34	-0.31	-0.32	-0.36
NOPAT	**0.96**	**3.09**	**2.77**	**2.85**	**3.24**
margin (%)	3.9	10.6	8.4	8.0	8.5
Adjusted number of fully diluted shares	221.1	243.4	299.5	299.5	299.5
Adjusted fully diluted EPS c	**0.44**	**1.27**	**0.92**	**0.95**	**1.08**
Basic EPS c	**0.47**	**0.73**	**0.20**	**0.75**	**0.86**

Source: Company, SP Angel forecasts

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Risks

AI

Greater use of procedurally generated content in the game development industry can reasonably be expected but its use is more often than not curtailed by the need to create a competitive product. In our view, we see music and audio effects as particularly susceptible to automated content generation (such as the use of MetaComposure application) in areas where they are not the main focus of user attention. Notwithstanding this, we view AI as a huge productivity tool but one that will fall short of the ability to create original content, and one that complements and not replaces human creativity. If concept stage project work is reduced through the use of AI tools, we see maximum exposure of 6-7% of Winking's revenues at risk. Equally, we have nothing in our forecasts for the positive impact that GenMotion.AI could have if it sees good traction in the marketplace. We believe that using an underlying revenue growth assumption going forward of 8%, below the level at which the art and game outsourcing market is expected to expand (11%), adequately factors in this risk.

Economic sensitivity

Some current macroeconomic data points indicate a slow down in activity in developed markets and there is concern that this could presage some form of economic contraction. Recessionary environments could impact Winking's customers income streams and therefore Winking, but we are of the view that demand for video games is relatively inelastic given their low absolute price points and tendency for in-home entertainment to increase during difficult economic periods.

Political risk

There is political risk attached to Taiwan and its relationship with the People's Republic of China. This risk could manifest itself in a number of ways. For instance, in a worst case scenario, data transfer and could face restrictions between both jurisdictions. In this hypothetical situation, Winking has contingency planned to route data traffic via other countries including through its Singapore headquarters. Satellite infrastructure could be used as an alternative way of transmitting client work. Similarly, any increase in political tension could see Western clients diminish their economic ties with China. The 4.4% of revenues generated in China from Western clients in H1A could reduce or create the necessity to transfer this work to other operating territories outside of China.

Lockdowns

The return of a pandemic similar to Covid-19 could interrupt Winking's business but the trading conditions observed in 2020-21 suggest that this might pose an asymmetrically positive risk to Winking's income streams.

Erosion of cost advantage

Winking can currently deliver a significant cost advantage to its clients which we estimate could be 70% or more versus the cost of in-house animators and developers. If wage inflation at Winking's operations exceeds that of its customers, then Winking's cost advantage could be eroded.

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Valuation

The video games sector in listed form is heavily weighted to the games developers themselves, both in the UK and overseas, rather than art and game service providers. We compile two valuation sheets of these listed companies, one for the UK and one for overseas stocks listed in developed markets such as Europe, US or Japan. These stocks include the following:

UK listed stocks (ticker, market capitalisation)

- **Devolver Digital, Inc** (DEVO, mkt cap £154m) – develops games for release on PC and mobile. It has many awards in the indie space and is the highest rated indie publisher of scale on Metacritic,
- **Frontier Developments** (FDEV, mkt cap £96m) – develops and publishes video games using its cross-platform technology, Cobra,
- **Keywords Studios** (KWS, mkt cap £1.9bn) – provides art outsourcing testing and marketing services to the global video games industry,
- **Team 17 Group** (TM17, mkt cap £309m) – publishes independent video games for digital and physical markets and also publishes third party games,
- **tinyBuild Inc** (TBLD, mkt cap £17m) – develops and publishes video games worldwide across multiple platforms.

Overseas listed stocks (ticker, market capitalisation)

- **Capcom Co, Ltd** (9697, mkt cap $5.8bn) – Japanese developer of video and arcade games,
- **CD Projekt SA** (CDR, mkt cap $4.4bn) – Polish developer of video games,
- **CI Games SA** (CIG, mkt cap $72mm) – Polish developer of video games,
- **Digital Bris Spa** (DIB, mkt cap $155m) – Italian developer of video games,
- **Electronic Arts Inc** (EA, mkt cap $39.0bn) – US developer of video games,
- **Playtika Holding Corp** (PLTK, mkt cap $2.8bn) – Israeli developer of video games,
- **Roblox Corp** (RBLX, mkt cap $27.4bn) – US developer of an online entertainment platform,
- **Square Enix Holdings Co Ltd** (9684, mkt cap $4.4bn) – Japanese content and service provider,
- **Take-Two Interactive Software Inc** (TTWO, mkt cap $26.6bn) – US developer, publisher and marketing service provider of interactive entertainment solutions,
- **Ubisoft Entertainment SA** (UBI, mkt cap $1.7bn) – French developer of video games,
- **Unity Software Inc** (U, mkt cap $7.9bn) – development platform provider for video games developers.

There are no market forecasts for art outsourcing peer Play To Win.

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Table 24: UK comparable stock valuations

Company	Mkt cap USD m	EV USD m	EV/sales 2025E (x)	EV/sales 2026E (x)	EV/EBITDA 2025E (x)	EV/EBITDA 2026E (x)	P/E 2025E (x)	P/E 2026E (x)
Keywords Studios plc	2,511	2,553	2.37	2.20	11.71	10.71	21.39	20.11
Team17 Group PLC	477	413	1.90	1.84	7.39	6.82	10.96	10.24
tinyBuild, Inc.	21	18	0.38	0.35	13.19	5.01	N/A	N/M
Devolver Digital, Inc.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Frontier Developments Plc	125	109	0.86	0.80	2.52	N/A	71.70	N/A
Peer Median	**301**	**261**	**1.38**	**1.32**	**9.55**	**6.82**	**21.39**	**15.18**

Source: S&P

Table 25: Overseas comparable stock valuations

Company	Mkt cap USD m	EV USD m	EV/sales 2025E (x)	EV/sales 2026E (x)	EV/EBITDA 2025E (x)	EV/EBITDA 2026E (x)	P/E 2025E (x)	P/E 2026E (x)
Ubisoft Entertainment SA	1,484	2,772	0.98	0.94	1.98	1.82	5.21	4.57
Electronic Arts Inc.	38,672	37,047	4.56	4.35	12.49	11.82	17.02	15.24
Take-Two Interactive Software ...	26,784	29,003	3.63	3.53	15.27	13.36	71.19	36.31
CD Projekt S.A.	4,495	4,371	24.19	10.87	61.52	25.94	110.14	77.79
CI Games S.A.	77	77	1.80	0.76	3.35	1.48	9.53	2.57
Capcom Co., Ltd.	6,005	5,091	4.04	3.89	9.17	8.44	24.76	22.60
Roblox Corporation	26,417	25,227	5.07	4.35	29.05	21.82	N/M	N/M
Playtika Holding Corp.	2,943	4,481	1.72	1.67	5.74	5.58	10.79	10.19
Digital Bros S.p.A.	135	174	1.02	N/A	2.74	N/A	5.61	N/A
Square Enix Holdings Ltd.	4,724	3,293	1.47	1.42	8.89	8.41	20.81	19.84
Unity Software, Inc.	8,965	9,774	5.39	4.82	26.42	21.13	33.22	27.69
Peer Median	**4,724**	**4,481**	**3.63**	**3.71**	**9.17**	**10.13**	**18.92**	**19.84**

Source: S&P, as at 30.9.24

Premium for liquidity

The two peer groups are trading on FY25E EV/sales multiples of 1.3x and 3.6x for the UK and overseas stocks respectively. With the median market cap £0.3bn and £4.7bn for these groups respectively there is a clear correlation between market capitalisation and valuation which we attribute to a premium for liquidity.

Winking valuation

The table below illustrates the valuation of the stock across multiple metrics. The capital increases in FY24E weigh heavily on price/earnings calculations, so our preferred valuation approach is to adjust for the Group's significant cash balances in an enterprise valuation.

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Table 26: Winking valuation

Y/E Dec, US$ (m)	2022A	2023A	2024E	2025E	2026E
EV/sales (x)	2.1	1.7	1.6	1.4	1.3
EV/adj. EBITDA	20.3	9.8	10.2	9.8	8.8
EV/adj. EBIT	47.9	14.9	16.6	16.2	14.2
EV/NOPAT (x)	53.2	16.5	18.5	18.0	15.8
Basic P/e (x)	49.2	31.6	118.0	30.6	26.8
Adjusted P/e (x)	53.0	18.2	25.0	24.3	21.3
Yield (%)	0.0	1.6	0.0	0.3	0.4
Free cash flow margin (%)	-0.6	1.8	0.2	3.2	3.3
Adjusted free cash flow yield (%)	-0.4	3.8	2.4	3.2	3.3

Source: S&P, as at 30.9.24

Relative valuation

On a FY25E basis, Winking is trading on an EV/sales rating of 1.4x, in line with the UK peer group median, and a fractional discount to this group's median EV/EBITDA valuation of 9.3x. The latter valuation is broadly in line with the overseas group's FY25E rating of 9.2x.

As a service provider to the peer group game development companies, we see Winking offering investors:

- greater growth prospects as the market for outsourcing services to the video games market grows faster than the video games market itself;
- reduced risk as it does not shoulder the risk and reward of product ownership.

On this basis we believe the stock can warrant a premium valuation to the peer group.

Current valuation – reverse DCF analysis

In order to sense check the current valuation of the stock we can use a reverse DCF model to see what assumptions are implicit in arriving at a valuation of the stock at today's market valuation. The significant net cash balance inevitably raises an average weighted cost of capital (WACC) calculation. To arrive at a S$ price of 30c the current valuation factors in:

- a WACC of 14.4%,
- medium term revenue growth of 10%, faded at 3% per annum,
- EBIT margins of 10%,
- working capital and capex outflows consistent with current modelling,

The deployment of funds towards M&A activity is likely to materially change a DCF valuation, not least because there will be an earnings uplift coupled with a material decline in WACC as cash will no longer weigh on the Group's cost of capital.

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Investment summary

Strategy to increase exposure to developed markets

Resource constrained

Winking has demonstrated strong organic growth over years reviewed in this document and faces market conditions where demand is outstripping supply. As a consequence, the Group is resource constrained and its clients are leading the business to look to new and existing territories for capacity.

Excellent platform for growth

We are forecasting an 8% growth rate going forward. This is conservatively below the average market research houses are forecasting for the art outsourcing industry of 11%. Winking's positioning in the higher growth mobile gaming, and exposure to the Asian market which is forecast to deliver premium levels of growth, could make our assumption even more conservative.

Only 15% of revenues are from US and Europe

Despite Winking servicing many Western clients, only 15% of Group revenues were generated from the US or Europe in H1A. There are strong commercial reasons to grow the Group's revenue base outside Asia including the ability to service Western clients more rapidly and offer a blended on/offshore servicing model.

European strategy backed by a large enterprise

The IPO on Aim will serve to facilitate the expansion into European markets and the US. This will include organic and selective inorganic expansion. Winking's expansion is an important part of Acer Group's expansion into the services and content markets and it Acer will continue to back this long-term strategy.

Accretive acquisitions

The successful deployment of funds should be earnings accretive for the company, with the contribution from acquired earnings more than offsetting the decline in interest income. The deployment of funds will also serve to reduce the Group's weighted average cost of capital and improve its present value in t our DCF valuation.

Solid organic growth story

We see strong underlying performance from organic growth driving an expanding free cash flow stream. With the likely successful deployment of funds we see an ability for management to quickly scale and drive value for shareholders.

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Financial statements

Table 27: Divisional revenues

Y/E Dec, US$ (m) Divisional Revenue	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Art Outsourcing	12.25	20.39	22.02	24.12	27.34	29.52	31.79
% revenue	84.6	86.1	89.9	82.4	83.0	83.3	83.3
Game Development Services	1.71	2.90	2.23	5.00	5.42	5.75	6.23
% revenue	11.8	12.2	9.1	17.1	16.5	16.2	16.3
Global Publishing & Other	0.53	0.40	0.25	0.16	0.16	0.16	0.16
% revenue	3.7	1.7	1.0	0.5	0.5	0.5	0.4
Total revenue	**14.49**	**23.69**	**24.50**	**29.28**	**32.93**	**35.43**	**38.18**

Source: Company Accounts, SP Angel forecasts

Table 28: Income statements

Y/E Dec, US$ (m)	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Consolidated Revenue	**14.49**	**23.69**	**24.50**	**29.28**	**32.93**	**35.43**	**38.18**
Growth yoy	-	*64%*	*3%*	*20%*	*12%*	*8%*	*8%*
Cost of sales	-8.89	-15.96	-18.05	-19.95	-23.05	-24.62	-26.35
Gross profit	5.59	7.73	6.45	9.33	9.88	10.81	11.84
Gross margin (%)	38.6	32.6	26.3	31.9	30.0	30.5	31.0
Distribution & marketing costs	-0.55	-0.82	-1.01	-1.55	-2.01	-2.21	-2.44
Administrative expenses	-2.33	-2.76	-2.91	-2.58	-3.23	-3.39	-3.56
Share based payment charges	0.00	0.00	0.00	0.00	-0.50	-0.50	-0.50
Other income, gains & losses	0.18	-0.18	-0.01	0.03	0.40	0.00	0.00
IPO/placing/acquisition expenses	0.00	0.00	-0.24	-1.99	-2.20	0.00	0.00
EBITDA	**2.90**	**3.98**	**2.28**	**3.24**	**2.34**	**4.70**	**5.34**
EBITDA margin (%)	**20.0**	**16.8**	**9.3**	**11.1**	**7.1**	**13.3**	**14.0**
Depreciation of right-to-use assets	-0.54	-0.85	-1.39	-1.72	-1.89	-1.96	-2.17
Amortisation of acquired intangibles	-0.16	-0.11	-0.07	-0.07	-0.07	-0.08	-0.08
Exceptional items	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBIT	**2.20**	**3.02**	**0.83**	**1.44**	**0.38**	**2.67**	**3.10**
EBIT margin (%)	**15.2**	**12.7**	**3.4**	**4.9**	**1.1**	**7.5**	**8.1**
Net interest	-0.01	-0.02	-0.05	-0.02	0.37	0.76	0.81
Profit before tax	**2.19**	**3.00**	**0.78**	**1.42**	**0.74**	**3.42**	**3.90**
Tax charge	-0.01	0.15	0.26	0.36	-0.07	-0.34	-0.39
Profit after tax	2.18	3.15	1.04	1.78	0.67	3.08	3.51
Basic EPS (c)	**1.22**	**1.43**	**0.47**	**0.73**	**0.20**	**0.75**	**0.86**
Interim dividend (c)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Final dividend (c)	0.00	0.00	0.00	0.38	0.00	0.08	0.09
Total dividend (c)	**0.00**	**0.00**	**0.00**	**0.38**	**0.00**	**0.08**	**0.09**
Average shares in issue (m)	178.33	221.07	221.07	243.38	342.80	410.55	410.55
Fully diluted shares (m)	178.33	221.07	221.07	243.38	363.61	431.36	431.36

Source: Company Accounts, SP Angel forecasts. N.B. FY23A dividend was declared as S$0.005, and is stated above at equivalent USD value.

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Table 29: Cash flow statements

Y/E Dec, US$ (m)	2020A	2021A	2022A	2023A	2024E	2025E	2026E
EBIT	**2.20**	**3.02**	**0.83**	**1.44**	**0.38**	**2.67**	**3.10**
Depreciation of PPE	0.16	0.25	0.42	0.61	0.65	0.63	0.73
Depreciation of right-to-use assets	0.38	0.60	0.97	1.11	1.24	1.33	1.44
Amortisation of intangible assets	0.16	0.11	0.07	0.07	0.07	0.08	0.08
Working capital	-1.09	0.12	-0.31	-0.01	-0.49	-0.57	-0.45
Share based payments	0.00	0.00	0.00	0.00	0.50	0.50	0.50
Other including exceptional costs	0.03	0.28	0.02	0.19	-0.20	0.00	0.00
Operating Cash Flow	**1.84**	**4.37**	**1.99**	**3.42**	**2.15**	**4.64**	**5.40**
Net Interest	-0.01	-0.02	0.01	0.07	0.37	0.76	0.81
Tax	-0.02	-0.04	-0.02	-0.02	-0.07	-0.34	-0.39
Cash flow pre-capex and investment	**1.81**	**4.32**	**1.98**	**3.47**	**2.44**	**5.05**	**5.81**
Net investment in PPE	-0.40	-0.91	-1.59	-0.52	-1.00	-0.57	-1.10
Investment in intangible assets	-0.21	-0.35	-0.09	-0.04	-0.05	-0.05	-0.05
Change in refundable deposits	0.08	-0.11	-0.07	0.01	0.00	0.00	0.00
Acquisitions/disposals	-4.73	0.04	0.00	0.00	-3.00	0.00	0.00
Proceeds from share issuance	5.18	0.00	0.00	8.61	31.98	0.00	0.00
Principal & interest paid on lease liabilities	-0.38	-0.63	-0.85	-1.12	-1.15	-1.25	-1.34
Purchase of bonds	0.00	0.00	0.00	0.00	-1.47	0.00	0.00
Dividends	0.00	0.00	0.00	0.00	-1.06	-0.07	-0.31
Net Cash Flow	**1.35**	**2.35**	**-0.62**	**10.42**	**26.69**	**3.12**	**3.01**
FX	0.30	0.15	-0.60	-0.06	0.00	0.00	0.00
Closing Net Cash/(Debt)	**4.78**	**7.28**	**6.06**	**16.42**	**43.11**	**46.23**	**49.24**

Source: Company Accounts, SP Angel forecasts

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Table 30: Balance sheets

Y/E Dec, US$ (m)	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Fixed Assets							
PPE	0.77	1.35	2.31	2.26	2.61	2.54	2.91
Right-of-use intangible assets	0.50	2.22	2.80	2.55	2.75	2.97	3.19
Goodwill & other intangible assets	0.12	0.25	0.24	0.20	0.18	0.15	0.12
Deferred tax and other long term assets	0.48	1.16	1.39	1.73	3.20	3.20	3.20
Total Fixed Assets	**1.86**	**4.97**	**6.75**	**6.74**	**5.99**	**5.90**	**6.24**
Current assets							
Cash at bank	4.78	7.28	6.06	16.42	43.11	46.23	49.24
Trade receivables	3.01	3.61	3.70	3.88	4.33	4.63	4.97
Contract assets	1.98	2.64	2.98	3.47	3.87	4.32	4.63
Total Current Assets	**9.76**	**13.53**	**12.74**	**23.77**	**51.31**	**55.18**	**58.85**
Current liabilities							
Trade payables	2.93	4.33	4.50	5.40	5.09	4.95	4.80
Contract liabilities	0.00	0.00	0.14	0.04	0.05	0.05	0.05
Current income tax & lease liabilities	0.38	0.85	0.92	0.99	0.99	0.99	0.99
Total Current Liabilities	**3.31**	**5.18**	**5.56**	**6.44**	**6.14**	**5.99**	**5.84**
Net Current assets	**6.46**	**8.36**	**7.18**	**17.33**	**45.17**	**49.19**	**53.01**
Long term liabilities							
Lease liabilities	0.19	1.34	1.90	1.69	1.69	1.69	1.69
Deferred tax liabilities	0.54	0.99	0.89	0.93	0.93	0.93	0.93
Total Long Term Liabilities	**0.73**	**2.33**	**2.79**	**2.62**	**2.62**	**2.62**	**2.62**
Net Assets	**7.59**	**11.00**	**11.13**	**21.45**	**48.54**	**52.47**	**56.63**

Source: Company Accounts, SP Angel forecasts

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

Research Note – Disclaimer

THIS DOCUMENT HAS BEEN PRODUCED BY S.P. ANGEL CORPORATE FINANCE LLP ("**SP ANGEL**"). SP ANGEL IS ADVISING WINKING STUDIOS LIMITED (THE "**COMPANY**") IN CONNECTION WITH THE PROPOSED ADMISSION OF THE COMPANY'S ENTIRE ISSUED AND TO BE ISSUED SHARE CAPITAL TO THE AIM MARKET OF THE LONDON STOCK EXCHANGE PLC. THE COMPANY'S ISSUED SHARE CAPITAL IS ALREADY LISTED AND QUOTED ON THE CATALIST MARKET OF THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED. THIS DOCUMENT HAS NOT BEEN PREPARED IN ACCORDANCE WITH THE LEGAL REQUIREMENTS DESIGNED TO PROMOTE THE INDEPENDENCE OR OBJECTIVITY OF INVESTMENT RESEARCH AND IS A MARKETING COMMUNICATION FOR THE PURPOSES OF THE UK MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE AND FCA'S RULES.

SP ANGEL CONSIDERS THIS NOTE TO BE AN ACCEPTABLE MINOR NON-MONETARY BENEFIT (AS DEFINED BY THE FCA) WHICH MAY BE RECEIVED WITHOUT CHARGE.

ALL OF THE RECOMMENDATIONS AND VIEWS ABOUT THE SECURITIES AND COMPANIES IN THIS REPORT ACCURATELY REFLECT THE VIEWS OF SP ANGEL AND THE RESEARCH ANALYST NAMED ON THE COVER OF THIS REPORT. NO PART OF THE RESEARCH ANALYST'S COMPENSATION WAS, IS, OR WILL BE DIRECTLY OR INDIRECTLY RELATED TO THE SPECIFIC RECOMMENDATIONS OR VIEWS EXPRESSED BY THE RESEARCH ANALYST IN THIS RESEARCH REPORT.

THIS REPORT HAS BEEN PRODUCED INDEPENDENTLY OF THE COMPANY AND THE FORECASTS, OPINIONS AND EXPECTATIONS CONTAINED HEREIN ARE ENTIRELY THOSE OF THE RESEARCH ANALYST. SP ANGEL MAY IN THE FUTURE PARTICIPATE IN A PLACING OF THE COMPANY'S SECURITIES. SP ANGEL AND/OR ITS OFFICERS, DIRECTORS AND EMPLOYEES MAY TAKE POSITIONS IN THE FUTURE IN SECURITIES MENTIONED IN THIS DOCUMENT (OR IN ANY RELATED INVESTMENT) AND MAY FROM TIME TO TIME DISPOSE OF ANY SUCH SECURITIES.

THIS DOCUMENT IS FOR DISTRIBUTION IN OR FROM THE UK ONLY TO PERSONS WHO (A) ARE "QUALIFIED INVESTORS" WITHIN THE MEANING OF ARTICLE 2 OF THE UK PROSPECTUS REGULATION (REGULATION (EU) NO 2017/1129, WHICH IS PART OF UK LAW BY VIRTUE OF THE EUROPEAN (WITHDRAWAL) ACT 2018; AND (B) AUTHORISED OR EXEMPTED WITHIN THE MEANING OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 OR ANY ORDER MADE THEREUNDER OR TO THOSE PERSONS FALLING WITHIN THE FOLLOWING ARTICLES OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 ("FINANCIAL PROMOTION ORDER") AS AMENDED: INVESTMENT PROFESSIONALS AS DEFINED IN ARTICLE 19(5), HIGH NET WORTH COMPANIES AS DEFINED IN ARTICLE 49(2) AND CERTIFIED SOPHISTICATED INVESTORS AS DEFINED IN ARTICLE 50(1) AND (C) ARE PROFESSIONAL CLIENTS OF SP ANGEL UNDER COBS 3 OF THE CONDUCT OF BUSINESS SOURCEBOOK OF THE UK FINANCIAL CONDUCT AUTHORITY. IN ORDER TO QUALIFY AS A CERTIFIED SOPHISTICATED INVESTOR YOU MUST HAVE A CURRENT CERTIFICATE SIGNED BY A PERSON AUTHORISED BY THE FINANCIAL CONDUCT AUTHORITY TO THE EFFECT THAT YOU ARE SUFFICIENTLY KNOWLEDGEABLE TO UNDERSTAND THE RISKS ASSOCIATED WITH THIS PARTICULAR TYPE OF INVESTMENT AND YOU MUST HAVE SIGNED WITHIN THE LAST 12 MONTHS A STATEMENT IN THE TERMS SET OUT IN ARTICLE 50(1)(B) OF THE FINANCIAL PROMOTION ORDER. PERSONS WHO DO NOT FALL WITHIN ANY OF THESE DEFINITIONS SHOULD NOT RELY ON THIS DOCUMENT NOR TAKE ANY ACTION UPON IT, BUT SHOULD RETURN IT IMMEDIATELY TO SP ANGEL.

THE DOCUMENT HAS BEEN PRODUCED INDEPENDENTLY OF THE COMPANY. THE INFORMATION AND OPINIONS ESTIMATES AND PROJECTIONS IN THIS DOCUMENT ARE ENTIRELY THOSE OF THE RESEARCH ANALYST AS PART OF THEIR INTERNAL RESEARCH ACTIVITY AND NOT AS A MANAGER OR UNDERWRITER OF THE ADMISSION OR AS AN AGENT OF THE COMPANY OR ANY OTHER PERSON. THE RESEARCH ANALYST HAS NO AUTHORITY WHATSOEVER TO MAKE ANY REPRESENTATION OR WARRANTY ON BEHALF OF THE COMPANY IN CONNECTION WITH THE PROPOSED ADMISSION OR OTHERWISE.

WHILST THE INFORMATION IN THIS DOCUMENT AND THE OPINIONS, ESTIMATES AND PROJECTIONS ARE BASED ON SOURCES BELIEVED TO BE RELIABLE, SP ANGEL HAS NOT INDEPENDENTLY VERIFIED THE CONTENTS OF THESE DOCUMENTS. ACCORDINGLY, NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE AS TO AND NO RELIANCE SHOULD BE PLACED ON THE FAIRNESS, ACCURACY, COMPLETENESS OR CORRECTNESS OF THE INFORMATION, OPINIONS, ESTIMATES AND PROJECTIONS CONTAINED IN THIS DOCUMENT, AND NONE OF SP ANGEL, THE COMPANY OR ANY OF THEIR RESPECTIVE DIRECTORS, MEMBERS, OFFICERS OR EMPLOYEES ACCEPTS ANY LIABILITY WHATSOEVER (IN NEGLIGENCE OR OTHERWISE) FOR ANY LOSS HOWSOEVER ARISING FROM ANY USE OF THIS DOCUMENT OR ITS CONTENTS OR OTHERWISE ARISING IN CONNECTION WITH THIS DOCUMENT (EXCEPT IN RESPECT OF WILFUL DEFAULT).

THIS DOCUMENT DOES NOT CONSTITUTE OR FORM PART OF ANY OFFER FOR SALE OR SUBSCRIPTION OF OR SOLICITATION OF ANY OFFER TO BUY OR SUBSCRIBE FOR ANY SECURITIES NOR SHALL IT OR ANY PART OF IT FORM THE BASIS OF OR BE RELIED ON IN CONNECTION WITH ANY CONTRACT OR COMMITMENT WHATSOEVER. ANY OFFER SHALL BE MADE BY AN ADMISSION DOCUMENT TO BE PUBLISHED BY THE COMPANY IN DUE COURSE. ANY APPLICATION FOR SHARES IN THE COMPANY SHOULD BE MADE SOLELY ON THE BASIS OF THE INFORMATION TO BE CONTAINED IN THE ADMISSION DOCUMENT.

THE INVESTMENT DISCUSSED IN THIS NOTE MAY NOT BE SUITABLE FOR ALL INVESTORS AND THE NOTE DOES NOT TAKE INTO ACCOUNT THE INVESTMENT OBJECTIVES AND POLICIES, FINANCIAL POSITION OR PORTFOLIO COMPOSITION OF ANY RECIPIENT. THIS DOCUMENT IS NOT INTENDED TO BE, AND SHOULD NOT BE CONSTRUED AS, ANY ADVICE ON THE MERITS OF, OR ANY RECOMMENDATION TO ANY RECIPIENT OR READER OF THIS DOCUMENT IN RELATION TO, THE ACQUISITION OF SHARES IN THE COMPANY OR THE PROPOSED ADMISSION AND OFFER. RECIPIENTS AND READERS OF THIS DOCUMENT SHOULD SEEK THEIR OWN INDEPENDENT LEGAL, INVESTMENT AND TAX ADVICE AS THEY SEE FIT.

THE INFORMATION CONTAINED IN THIS DOCUMENT IS SUPPLIED AS A GUIDE ONLY AND PROSPECTIVE INVESTORS MUST MAKE THEIR OWN INVESTIGATIONS AND SATISFY THEMSELVES AS TO THE CONDITION OF THE COMPANY AND THE ACCURACY AND COMPLETENESS OF THE STATEMENTS CONTAINED IN THIS DOCUMENT.

CERTAIN STATEMENTS CONTAINED IN THIS DOCUMENT ARE OR MAY CONSTITUTE "FORWARD LOOKING STATEMENTS". SUCH FORWARD LOOKING STATEMENTS INVOLVE RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom

SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.

ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENT OF THE COMPANY, OR INDUSTRY RESULTS, TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS. SUCH RISKS, UNCERTAINTIES AND OTHER FACTORS INCLUDE, AMONG OTHERS, CHANGES IN THE CREDIT MARKETS, INTEREST RATES, EXCHANGE RATES, TAXATION REGIMES, LEGISLATIVE AND REGULATORY AND GENERAL ECONOMIC AND BUSINESS CONDITIONS. SUCH FORWARD-LOOKING STATEMENTS ARE BASED ON NUMEROUS ASSUMPTIONS REGARDING THE COMPANY'S PRESENT AND FUTURE BUSINESS STRATEGIES AND THE ENVIRONMENT IN WHICH THE COMPANY WILL OPERATE IN THE FUTURE. ANY FORWARD-LOOKING STATEMENTS SPEAK ONLY AS AT THE DATE OF THIS DOCUMENT.

SP ANGEL EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING TO DISSEMINATE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING OR OTHER STATEMENTS OR INFORMATION CONTAINED IN THIS DOCUMENT TO REFLECT ANY CHANGE IN THE COMPANY'S EXPECTATIONS WITH REGARD TO THESE OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENTS ARE BASED. AS A RESULT OF THESE FACTORS, THE EVENTS DESCRIBED IN THE FORWARD-LOOKING STATEMENTS IN THIS DOCUMENT MAY NOT OCCUR EITHER PARTIALLY OR AT ALL.

THIS DOCUMENT IS CONFIDENTIAL AND IS BEING SUPPLIED TO YOU SOLELY FOR YOUR INFORMATION AND MAY NOT BE REPRODUCED, FURTHER DISTRIBUTED TO ANY OTHER PERSON OR PUBLISHED, IN WHOLE OR IN PART, FOR ANY PURPOSE. PUBLICATION OF THIS NOTE DOES NOT IMPLY FUTURE PRODUCTION OF NOTES COVERING THE SAME ISSUER OR SUBJECT MATTER. NEITHER THIS DOCUMENT NOR ANY COPY OF IT MAY BE TAKEN OR TRANSMITTED INTO THE UNITED STATES OF AMERICA, OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, IN THE UNITED STATES OF AMERICA OR TO ANY U.S. PERSON AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT OF 1933. ANY FAILURE TO COMPLY WITH THIS RESTRICTION MAY CONSTITUTE A VIOLATION OF UNITED STATES SECURITIES LAWS. NEITHER THIS DOCUMENT NOR ANY COPY OF IT MAY BE TAKEN OR TRANSMITTED INTO CANADA OR DISTRIBUTED IN CANADA OR TO ANY INDIVIDUAL OUTSIDE CANADA WHO IS A RESIDENT OF CANADA, EXCEPT IN COMPLIANCE WITH APPLICABLE CANADIAN SECURITIES LAWS.

NEITHER THIS DOCUMENT NOR ANY COPY OF IT MAY BE TAKEN OR TRANSMITTED INTO OR DISTRIBUTED IN AUSTRALIA OR TO ANY RESIDENT THEREOF FOR THE PURPOSE OF SOLICITATION OR SUBSCRIPTION OR OFFER FOR SALE OF ANY SECURITIES OR IN THE CONTEXT WHERE THE DISTRIBUTION HEREOF MAY BE CONSTRUED AS SUCH SOLICITATION OR OFFER. ANY FAILURE TO COMPLY WITH THIS RESTRICTION MAY CONSTITUTE A VIOLATION OF AUSTRALIAN SECURITIES LAWS.

NEITHER THIS DOCUMENT NOR ANY COPY OF IT MAY BE TAKEN OR TRANSMITTED INTO OR DISTRIBUTED IN JAPAN OR TO ANY RESIDENT THEREOF FOR THE PURPOSE OF SOLICITATION OR SUBSCRIPTION OR OFFER FOR SALE OF ANY SECURITIES OR IN THE CONTEXT WHERE THE DISTRIBUTION HEREOF MAY BE CONSTRUED AS SUCH SOLICITATION OR OFFER. ANY FAILURE TO COMPLY WITH THIS RESTRICTION MAY CONSTITUTE A VIOLATION OF JAPANESE SECURITIES LAWS.

NEITHER THIS DOCUMENT NOR ANY COPY OF IT MAY BE TAKEN OR TRANSMITTED INTO OR DISTRIBUTED IN SINGAPORE OR TO ANY RESIDENT THEREOF FOR THE PURPOSE OF SOLICITATION OR SUBSCRIPTION OR OFFER FOR SALE OF ANY SECURITIES OR IN THE CONTEXT WHERE THE DISTRIBUTION HEREOF MAY BE CONSTRUED AS SUCH SOLICITATION OR OFFER. ANY FAILURE TO COMPLY WITH THIS RESTRICTION MAY CONSTITUTE A VIOLATION OF SINGAPOREAN SECURITIES LAWS.

NEITHER THIS DOCUMENT NOR ANY COPY OF IT MAY BE TAKEN OR TRANSMITTED INTO OR DISTRIBUTED IN THE REPUBLIC OF SOUTH AFRICA OR TO ANY RESIDENT THEREOF FOR THE PURPOSE OF SOLICITATION OR SUBSCRIPTION OR OFFER FOR SALE OF ANY SECURITIES OR IN THE CONTEXT WHERE THE DISTRIBUTION HEREOF MAY BE CONSTRUED AS SUCH SOLICITATION OR OFFER. ANY FAILURE TO COMPLY WITH THIS RESTRICTION MAY CONSTITUTE A VIOLATION OF SECURITIES LAWS OF THE REPUBLIC OF SOUTH AFRICA.

S.P. ANGEL CORPORATE FINANCE LLP IS REGISTERED IN ENGLAND AND WALES WITH COMPANY NUMBER OC317049 AND REGISTERED OFFICE ADDRESS OF PRINCE FREDERICK HOUSE, 35-39 MADDOX STREET, LONDON W1S 2PP. S.P. ANGEL CORPORATE FINANCE LLP IS AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY WHOSE ADDRESS IS 12 ENDEAVOUR SQUARE, LONDON E20 1JN.

SP Angel | Prince Frederick House | 35-39 Maddox Street | London | W1S 2PP | United Kingdom
SP Angel Corporate Finance LLP is authorised and regulated by the Financial Conduct Authority. Registered in England No. OC317049. Registered Office: Prince Frederick House, 35-39 Maddox Street, London W1S 2PP.