

## Frontier Developments plc

### Interim Results

#### Frontier adds a fourth title to its portfolio with the successful launch of *Planet Zoo*

Frontier Developments plc (AIM: FDEV, “Frontier”, the “Company”), a leading developer and publisher of video games based in Cambridge, UK has published its interim results for the 6 months to 30 November 2019.

#### Financial Summary

	H1 FY20 (6 months to 30 November 2019)	H2 FY19 (6 months to 31 May 2019)	H1 FY19 (6 months to 30 November 2018)	FY19 (12 months to 31 May 2019)
Revenue	<b>£32.0m</b>	£25.0m	£64.7m	£89.7m
Operating Profit	<b>£4.5m</b>	£2.2m	£17.2m	£19.4m
Operating Margin %	<b>14%</b>	9%	27%	22%
EBITDA*	<b>£10.9m</b>	£6.8m	£22.2m	£29.0m
EPS (basic)	<b>9.4p</b>	5.2p	40.2p	45.4p
Operating Cash Flow**	<b>£1.9m</b>	(£2.0m)	£17.4m	£15.4m
Net Cash Balance	<b>£28.9m</b>	£35.3m	£39.5m	£35.3m

\*Earnings before interest, tax, depreciation and amortisation

\*\* Operating profit excluding non-cash items, less investments in franchises and other intangible assets

#### Operational & Strategic Highlights

- Frontier has now achieved four out of four successful game launches, with *Elite Dangerous* (December 2014), *Planet Coaster* (November 2016), *Jurassic World Evolution* (June 2018) and now *Planet Zoo* (November 2019) since IPO in 2013. All four titles continue to perform well, supported by Frontier’s strategy of evolving gameplay, free and paid content, price promotions and active community management.
- *Planet Zoo* was released as planned on PC on 5 November 2019 following a highly successful pre-launch marketing strategy. The base game and the deluxe product achieved the global number one and number two bestseller spots on Steam both prior to, and after, release. To date *Planet Zoo* has sold the most units on PC of any of Frontier’s games during an equivalent time period, crossing 500,000 units in early December.
- *Jurassic World Evolution* (June 2018) continues to grow in terms of gameplay, content, audience and financial performance. Two more major expansion packs have been released since the start of the financial year; *Claire’s Sanctuary* (June 2019) and *Return to Jurassic Park* (December 2019). Eight PDLC products are now currently available to enhance the base game. *Jurassic World Evolution* was featured in Microsoft Xbox’s Games with Gold offering over the Christmas period, which has helped to continue to expand the audience for *Jurassic World Evolution* alongside successful price promotion activity.
- *Planet Coaster* continues to perform well, with eleven PDLC products currently available, including the *Ghostbusters* pack which launched in June 2019. In November 2019 Frontier revealed that *Planet Coaster*, the ultimate coaster park simulation game, will come to the PlayStation 4 and Xbox One consoles in Summer 2020 following great success on PC since launch in November 2016.
- *Elite Dangerous*, which launched in December 2014, continues to expand and develop. Frontier is developing a major new paid-for release for the iconic space simulation which will dramatically expand gameplay and mark the beginning of a new era for *Elite Dangerous*. Targeted for launch at the end of 2020, this major new release on multiple platforms will fall into financial year 2021 (the 12 months ending 31 May 2021).
- Having grown headcount to over 500, Frontier has successfully scaled to its target of one major release per year – in fact two major new releases from internal development teams are currently planned for financial

year 2022 (the 12 months ending 31 May 2022). One of those releases will benefit from a major global IP licence, as announced in March 2019, and will be released on multiple platforms.

- In June 2019 Frontier revealed its Frontier Publishing initiative, which is expanding the Company's game portfolio through external development partnerships that use Frontier's proven publishing expertise to supplement its own internal development roadmap. Three partnerships have been signed to date, including the agreement announced with Haemimont Games in June 2019. The Company is engaged in discussions with a number of carefully-selected potential development partners with games at various stages of development. The Board continues to expect that the Frontier Publishing business will become a material contributor to the group in years to come, as more partnerships are agreed.

## Financial Highlights

- Revenue in H1 FY20 was £32.0 million with all four titles performing well. This compared to £25.0 million for H2 FY19 and £64.7 million for H1 FY19. H1 FY20 revenue included just 26 days of sales of *Planet Zoo*, which launched exclusively on PC. Revenue in the comparative period of H1 FY19 of £64.7 million included almost six months of sales of the multi-platform *Jurassic World Evolution*, which benefited from a major IP licence including a simultaneous movie launch in June 2018
- Gross profit margin of 67% in H1 FY20 versus 61% in H1 and H2 FY19. The increase compared to FY19 reflects the higher proportion of sales from own-IP games, particularly the launch of *Planet Zoo*
- Operating profit of £4.5 million in H1 FY20, representing a solid operating margin performance of 14% compared to £2.2 million (9% margin) in H2 FY19 and £17.2 million (27% margin) in H1 FY19
- Operating cash flow (operating profit excluding non-cash items, less investments in franchises and other intangible assets) was an inflow of £1.9m in the period (H2 FY19: outflow of £2.0 million, H1 FY19: inflow of £17.4 million)
- Cash balances reduced by £6.4 million during the six month period to £28.9 million as at 30 November 2019 (31 May 2019: £35.3 million) due to the timing of cash flows: receipts from the launch sales of *Planet Zoo* in November 2019 were received, as expected, in December 2019

## Current Trading and Outlook

Frontier's four titles all continue to perform well, each supported by Frontier's strategy of evolving gameplay, free and paid content, price promotions and active community management. All four games will deliver material revenue contributions in FY20 (the 12 months to 31 May 2020), from both base game sales and paid-downloadable content.

Since the majority of Frontier's revenues are recorded and received in US Dollars, the appreciation of Sterling during Q4 2019 has had a negative impact on revenue earned over the important November/December holiday period, which also included the launches of *Planet Zoo* (November) and the *Return to Jurassic Park* pack (December). However, the strong performance of all four titles has largely offset this foreign currency headwind, and Frontier continues to expect that total revenue in FY20 will fall within the previously stated range of £65-73 million.

Based on financial performance to date and projections to 31 May 2020, Frontier is on-track to deliver IFRS reported operating profit for FY20 in-line with expectations.

**David Braben**, Chief Executive, said:

*"Planet Zoo's successful launch and subsequent performance is testament to the superb efforts of our growing team. We now have four successful games in the market each with a clear roadmap of additional content in line with our proven strategy."*

*We have started calendar 2020 in a great position. We're bringing Planet Coaster to console players and significantly expanding the Elite galaxy this year, and developing two major games for release in the same financial year (FY22) for the first time as a self-publisher.*

*I am also very pleased with the progress with Frontier Publishing, both in growing our internal team, and with the exciting external relationships we are building, helping others make their great games. We have now signed three excellent developers already, and are close to signing more. Working together, we expect to start earning revenue in the next financial year."*

This announcement contains inside information as defined in Article 7 of the Market Abuse Regulation (EU) 596/2014. The person responsible for making this announcement on behalf of the Company is Alex Bevis.

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**About Frontier Developments plc**

Frontier is a leading independent creator of self-published videogame franchises founded in 1994 by David Braben, co-author of the iconic Elite game. Based in Cambridge, Frontier uses its proprietary 'COBRA' game development technology to create innovative games, currently focusing on videogame consoles and personal computers.

Frontier's LEI number: 213800B9LGPWUAZ9GX18.

[www.frontier.co.uk](http://www.frontier.co.uk)

## Financial Review

### TRADING

Total revenue in H1 FY20 was £32.0 million, which compared to £25.0 million for H2 FY19 (the six months ended 31 May 2019) and £64.7 million for H1 FY19 (the six months ended 30 November 2018).

All four titles contributed materially to revenue in the period. Frontier's strategy of launching and then supporting games to achieve multi-year earnings continues to deliver, with over half of the total revenue in the period being generated by *Elite Dangerous*, *Planet Coaster* and *Jurassic World Evolution*. H1 FY20 revenue included just 26 days of sales (plus pre-order sales recognised at game release) of *Planet Zoo*, which launched exclusively on PC on 5 November 2019. In comparison, revenue in H1 FY19 (the six months ended 30 November 2018) of £64.7 million included almost a full six months of sales of the multi-platform *Jurassic World Evolution*, which also benefited from a major IP licence with a simultaneous movie launch in June 2018.

Revenue in the period from all four titles derived from sales of the base game for each plus paid downloadable content (PDLC). Frontier's PDLc revenue models continue to develop, and we have employed various strategies for each game.

For *Elite Dangerous*, a major paid-for series of expansions called *Horizons* was launched in 2015. Four years later, the overall *Horizons* attach rate to lifetime unit sales of the base game is around 50%, demonstrating the strong ongoing engagement by the *Elite Dangerous* community to additional content. Frontier is developing a major new paid-for release for the iconic space simulation which will dramatically expand gameplay and mark the beginning of a new era for *Elite Dangerous*. Targeted for launch at the end of 2020, this major new release on multiple platforms will fall into financial year 2021 (the 12 months ending 31 May 2021). In addition to major expansion packs, *Elite Dangerous* has a strong back catalogue and future roadmap of in-game personalisation items. This rich customisation model has been further enhanced by the launch of an in-game virtual currency called ARX in September 2019, which has smoothed the purchasing process for players whilst also rewarding regular engagement with the game. ARX can be purchased in packs ranging from £2.99 to £44.99 and then spent in-game on a wide range of items.

For *Planet Coaster* and *Jurassic World Evolution*, Frontier has regularly provided add-on packs of content and gameplay to enhance and expand players' experiences. *Planet Coaster* now boasts eleven such packs in total, with the *Ghostbusters* pack the most recent, launching in June 2019. There are now eight packs available for *Jurassic World Evolution*, including the most recent, the *Return to Jurassic Park* pack, which released in December 2019, falling into the second half of the current financial year.

*Planet Zoo* launched with a base game product, a deluxe game product, and a deluxe PDLc pack which allows purchasers of the base game product to upgrade if they so wish. The second PDLc pack for *Planet Zoo*, the *Arctic* pack which includes four iconic animals along with many hours of additional gameplay, launched successfully on 17 December (in the second half of the current financial year), 44 days after the launch of *Planet Zoo* and just before the important Christmas price promotion period.

### PROFITABILITY

Gross profit of £21.4 million was recorded in the period (H1 FY19: £39.3 million, H2 FY19: £15.4 million) with gross margin at 67% (H1 FY19: 61%, H2 FY19: 61%). The six percentage point increase in gross margin in H1 FY20 versus the comparative periods reflected an increased proportion of revenue from own-IP sales (*Planet Zoo*, *Planet Coaster* and *Elite Dangerous*) versus licenced-IP sales (*Jurassic World Evolution*), following the launch of *Planet Zoo* in the

current period compared with the launch of *Jurassic World Evolution* in FY19, and a reduction in commission on the Steam PC platform for revenues over US \$10m since October 2018 on a per-title basis.

Gross research and development expenses in the period increased to £12.4 million, growing from £10.4 million in H2 FY19 and £9.9 million in H1 FY19. The increase resulted from a continued growth in headcount to support Frontier's development plans, an increase in outsourced activity and the first investments in partner developments under the Frontier Publishing initiative.

Capitalisation of development costs on franchise assets and other intangibles accounted for £9.8 million in the six months to 30 November 2019 (H1 FY19: £5.1 million, H2 FY19: £8.3m). The percentage of gross research and development costs which were capitalised was 79% in the period, which was similar to the 80% recorded for H2 FY19, and in line with Frontier's normal expectations of capitalising between 70-90% of gross development spending. The comparative figure for H1 FY19 was much lower at 52%, which mainly resulted from a large number of staff working on free updates for both *Elite Dangerous* and *Jurassic World Evolution* in that period. Whilst costs for those activities were not capitalised during the period as they were developments of existing released products rather than new products, Frontier believes that investment in free updates is an important part of its overall strategy in supporting and nurturing games after launch to maximise their potential.

R&D amortisation charges related to previously capitalised development costs grew to £4.9 million (H1 FY19: £4.0 million, H2 FY19: £4.0 million) following the launch of PDLC products for all titles during the six month period, together with the release of *Planet Zoo* in the final month of the period, in November 2019.

Net research and development expenses recorded in the income statement in the period were £7.5 million (H1 FY19: £8.8 million, H2 FY19: £6.1 million), being gross spend of £12.4 million, less capitalised costs of £9.8 million, plus amortisation charges of £4.9 million.

Sales and marketing expenses in the period were £3.9 million (H1 FY19: £5.5 million, H2 FY19: £2.3 million). The comparative period for the six months to 30 November 2018 (H1 FY19) included a significant marketing campaign to support the launch of *Jurassic World Evolution* in June 2018 on multiple platforms and alongside the movie release of *Jurassic World: Fallen Kingdom*.

Administrative expenses in H1 FY20 were £5.4 million (H1 FY19: £7.7 million, H2 FY19 £4.8 million). Since the Company's annual bonus scheme is based on operating profit, a relatively high bonus was accrued in H1 FY19 from the very strong financial performance recorded in that period, driven by the launch of *Jurassic World Evolution*.

Frontier adopted IFRS 16 effective 1 June 2019, which is the international financial reporting standard for lease accounting. IFRS 16 requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Frontier has identified that its one and only lease impacted by this new accounting standard is the lease for its office building on the Science Park in Cambridge, which Frontier occupied in April 2018. A right-of-use asset valued at £24.4 million was therefore recorded as at 1 June 2019, with a corresponding lease liability of £24.4 million. Before the adoption of IFRS 16 all costs associated with the lease would have been charged to administrative costs. During the six month period to 30 November 2019 (H1 FY20), a total of £1.2 million was charged to the income statement in relation to the lease, being £0.8 million within administrative costs and £0.4 million within interest charges.

Operating profit of £4.5 million was recorded in the period (H1 FY19: £17.2 million, H2 FY19: £2.2 million) representing an operating margin of 14% (H1 FY19: 27%, H2 FY19: 9%). EBITDA (earnings before interest, tax, depreciation and amortisation) in the period was £10.9 million (H1 FY19: £22.2 million, H2 FY19: £6.8 million).

Total corporation tax charges in the income statement for the period totalled £0.6 million (H1 FY19: charge of £1.9 million, H2 FY19: charge of £2.2 million). In accordance with IAS 34, the tax charge recorded in the period is consistent with the expected effective tax rate for the full financial year of 15%, which has been applied to the £4.3 million of pre-tax profits recorded for H1 FY20. The Group expects to provide additional details on its tax status in the FY20 financial statements.

Profit after tax in the period was £3.6 million (H1 FY19: £15.4 million, H2 FY19: £2.0 million). Basic earnings per share was 9.4 pence (H1 FY19: 40.2 pence, H2 FY19: 5.2 pence).

#### *BALANCE SHEET AND CASH FLOW*

The Company continues to benefit from a strong balance sheet, with cash balances of £28.9 million at 30 November 2019 (31 May 2019: £35.3 million). The majority of the substantial cash receipts from the successful launch of *Planet Zoo* on 5 November 2019 were received from digital distribution partners in December 2019, creating a large receivables balance of £13.9 million as at 30 November 2019 (31 May 2019: £5.2 million; 30 November 2018: £6.5 million).

Following the adoption of IFRS 16 (Lease Accounting) effective for Frontier from 1 June 2019, the Company is reporting a significant growth in both assets and liabilities in the period versus the position as at 31 May 2019, which resulted from the addition of both a right-of-use asset and a lease liability balance for the Company's lease over its headquarters office building in Cambridge.

Total assets increased by £30.7 million from 31 May 2019 to 30 November 2019, with £23.5 million of this increase related to IFRS 16. Intangible assets increased by £5.0 million during the period, which reflected a continued investment in franchise assets above the current level of amortisation charges for previously capitalised and released game assets. Trade and other receivables increased by £8.7 million in the period following the release of *Planet Zoo* in November 2019.

IFRS 16 was also the principle reason for the substantial growth in total liabilities in the period. Total liabilities increased by £24.2 million from 31 May 2019 to 30 November 2019, and the total lease liability as at 30 November 2019 was also £24.2 million.

#### *IFRS 16 ADJUSTMENT TO RETAINED EARNINGS*

As well as creating additional assets and liabilities in the Statement of Financial Position, and changing the way that lease costs are charged to the Income Statement, the adoption of IFRS 16 also generated an adjustment to the retained earning reserve of £1.3 million in H1 FY20. This adjustment related to the rent free incentive period on Frontier's building lease. Previously the benefit of the rent free period was spread over the minimum lease period, which at the inception of the lease was a period of over 15 years. For the adoption of IFRS 16 on 1 June 2019 lease costs were calculated based on the remaining future cash out flows, which therefore did not include the benefit of the rent free period which had expired prior to 1 June 2019. The result of this was an acceleration of the remaining unaccounted value of the rent free period as at 1 June 2019, with this credit of £1.3 million being recorded only in the Statement of Changes in Equity, and not in the Income Statement. This is a one-off credit adjustment to reserves and further adjustments are not expected.

## CONSOLIDATED INCOME STATEMENT

		6 months to 30 November 2019 £'000	6 months to 30 November 2018 £'000	12 months to 31 May 2019 £'000
	Notes			
<b>Revenue</b>	6	31,967	64,656	89,669
Cost of sales		(10,595)	(25,387)	(35,021)
<b>Gross profit</b>		<b>21,372</b>	<b>39,269</b>	<b>54,648</b>
Research and development expenses		(7,528)	(8,786)	(14,891)
Sales and marketing expenses		(3,945)	(5,523)	(7,852)
Administrative expenses		(5,448)	(7,749)	(12,536)
<b>Operating profit</b>		<b>4,451</b>	<b>17,211</b>	<b>19,369</b>
Net interest (charge) / income		(195)	107	289
<b>Profit before tax</b>		<b>4,256</b>	<b>17,318</b>	<b>19,658</b>
Income tax		(639)	(1,880)	(2,248)
<b>Profit for the period attributable to shareholders</b>		<b>3,617</b>	<b>15,438</b>	<b>17,410</b>
<b>Earnings per share</b>				
Basic earnings per share	7	9.4	40.2	45.4
Diluted earnings per share	7	9.0	38.1	43.2

*All the activities of the Group are classified as continuing.*

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	6 months to 30 November 2019 £'000	6 months to 30 November 2018 £'000	12 months to 31 May 2019 £'000
Profit for the period	3,617	15,438	17,410
Other comprehensive income:			
Exchange differences on translation of foreign operations	(1)	(3)	(4)
<b>Total comprehensive income for the period attributable to the equity holders of the parent</b>	<b>3,616</b>	<b>15,435</b>	<b>17,406</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 NOVEMBER 2019**  
**(REGISTERED COMPANY NO: 02892559)**

		<b>30 November 2019</b>	30 November 2018	31 May 2019
	Notes	<b>£'000</b>	£'000	£'000
<b>Non-current assets</b>				
Intangible assets	8	41,439	30,875	36,450
Property, plant and equipment	9	6,161	5,761	6,352
ROU asset		23,544	-	-
Deferred tax asset		605	754	605
		<b>71,749</b>	<b>37,390</b>	<b>43,407</b>
<b>Current assets</b>				
Trade and other receivables		13,909	6,520	5,178
Other short-term assets		153	537	141
Cash and cash equivalents		28,948	39,457	35,332
		<b>43,010</b>	<b>46,514</b>	<b>40,651</b>
<b>Total assets</b>		<b>114,759</b>	<b>83,904</b>	<b>84,058</b>
<b>Current liabilities</b>				
Trade and other payables		(8,415)	(10,891)	(9,026)
ROU liability		(1,337)	-	-
Deferred income		(1,033)	(2,807)	(1,036)
Current tax liabilities		(1,605)	(869)	(966)
Provisions		-	(7)	-
		<b>(12,390)</b>	<b>(14,574)</b>	<b>(11,028)</b>
<b>Net current assets</b>		<b>30,620</b>	<b>31,940</b>	<b>29,623</b>
<b>Non-current liabilities</b>				
Provisions		(19)	-	(13)
ROU liability		(22,867)	-	-
Deferred income		(463)	(696)	(465)
Other liabilities		(939)	-	(939)
		<b>(24,288)</b>	<b>(696)</b>	<b>(1,417)</b>
<b>Total liabilities</b>		<b>(36,678)</b>	<b>(15,270)</b>	<b>(12,445)</b>
<b>Net assets</b>		<b>78,081</b>	<b>68,634</b>	<b>71,613</b>
<b>Equity</b>				
Share capital	10	195	194	194
Share premium account		34,589	34,389	34,390
Equity reserve		(2,023)	(3,590)	(3,073)
Foreign exchange reserve		(17)	(15)	(16)
Retained earnings		45,337	37,656	40,118
<b>Total equity</b>		<b>78,081</b>	<b>68,634</b>	<b>71,613</b>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital £'000	Share premium account £'000	Equity reserve £'000	Foreign exchange reserve £'000	Retained earnings £'000	Total equity £'000
<b>At 1 June 2018</b>	193	34,132	780	(12)	20,195	55,288
Profit for the period	-	-	-	-	15,438	15,438
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	-	(3)	-	(3)
<b>Total comprehensive income for the period</b>	-	-	-	(3)	15,438	15,435
Issue of share capital net of expenses	1	257	-	-	-	258
Share-based payment charges	-	-	706	-	-	706
Share-based payment transfer relating to option lapses	-	-	(168)	-	168	-
EBT net cash outflow from issues and/or purchases of shares	-	-	(5,000)	-	-	(5,000)
EBT net cash inflow from option exercises	-	-	92	-	-	92
Tax credits on share options taken directly to reserves					1,855	1,855
<b>At 30 November 2018</b>	194	34,389	(3,590)	(15)	37,656	68,634
Profit for the period	-	-	-	-	1,972	1,972
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	-	(1)	-	(1)
<b>Total comprehensive income for the period</b>	-	-	-	(1)	1,972	1,971
Issue of share capital net of expenses	-	1	-	-	-	1
Share-based payment charges	-	-	858	-	-	858
Share-based payment transfer relating to option lapses	-	-	(367)	-	367	-
EBT share outflows from option exercises	-	-	26	-	-	26
Tax credits on share options taken directly to reserves	-	-	-	-	1,978	1,978
Reversal of H1 tax credits on share options taken to reserves following H2 adjustment					(1,855)	(1,855)
<b>At 31 May 2019</b>	194	34,390	(3,073)	(16)	40,118	71,613
Profit for the period	-	-	-	-	3,617	3,617
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	-	(1)	-	(1)
<b>Total comprehensive income for the period</b>	-	-	-	(1)	3,617	3,616
Issue of share capital net of expenses	1	199	-	-	-	200
Share-based payment charges	-	-	852	-	-	852
Share-based payment transfer relating to option lapses	-	-	(289)	-	289	-
EBT net cash inflow from option exercises	-	-	487	-	-	487
Amount taken to retained earnings when undertaking the modified approach of IFRS16	-	-	-	-	1,313	1,313
<b>At 30 November 2019</b>	195	34,589	(2,023)	(17)	45,337	78,081

## CONSOLIDATED STATEMENT OF CASHFLOWS

	6 months to 30 November 2019 £'000	6 months to 30 November 2018 £'000	12 months to 31 May 2019 £'000
<b>Cash generated from operations</b>	3,107	26,231	32,312
Taxes received/(paid)	-	79	480
<b>Cashflow from operating activities</b>	3,107	26,310	32,792
<b>Investing activities</b>			
Purchase of property, plant and equipment	(346)	(1,181)	(2,269)
Expenditure on intangible assets	(10,064)	(5,253)	(14,981)
Interest received	195	107	289
<b>Cashflow from investing activities</b>	(10,215)	(6,327)	(16,961)
<b>Financing activities</b>			
Proceeds from issue of share capital	200	258	259
Employee Benefit Trust net investment	487	(4,908)	(4,882)
<b>Cashflow from financing activities</b>	687	(4,650)	(4,623)
Net change in cash and cash equivalents from continuing operations	(6,421)	15,333	11,208
Cash and cash equivalents at beginning of period	35,332	24,124	24,124
Exchange differences on cash and cash equivalents	37	-	-
<b>Cash and cash equivalents at end of period</b>	28,948	39,457	35,332

The accompanying notes form part of this financial information.

### Reconciliation of operating profit to cash generated from operations

	6 months to 30 November 2019 £'000	6 months to 30 November 2018 £'000	12 months to 31 May 2019 £'000
<b>Operating profit</b>	4,451	17,211	19,369
Depreciation and amortisation	6,425	4,950	9,600
<b>EBITDA</b>	10,876	22,161	28,969
Movement in unrealised exchange (gains)/losses on forward contracts	(76)	(312)	(340)
Share-based payment expenses	852	706	1,564
<b>Operating cashflow before movements in working capital</b>	11,652	22,555	30,193
Net changes in working capital:			
Change in trade and other receivables	(8,730)	213	1,542
Change in trade and other payables	178	3,467	575
Change in provisions	7	(4)	2
<b>Cash generated from operations</b>	3,107	26,231	32,312

## **NOTES TO THE FINANCIAL INFORMATION**

### **1. CORPORATE INFORMATION**

Frontier Developments plc 'the Group' develops and publishes video games for the interactive entertainment sector.

The Company is a public limited company and is incorporated and domiciled in the United Kingdom.

The address of its registered office is 26 Science Park, Milton Road, Cambridge CB4 0FP.

The Group's operations are based in the UK and its North American subsidiary located in the US, Frontier Developments Inc.

The condensed, consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 May 2019 were approved by the Board of Directors on 4 September 2019 and delivered to the Registrar of Companies. The Auditors Report was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

### **2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE**

#### ***Basis of preparation***

The consolidated interim financial statements should be read in conjunction with the financial statements for the year ended 31 May 2019.

The financial information of Frontier Developments plc has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34).

The financial information has been prepared under the historical cost convention except for financial instruments held at fair value. The financial information is presented in Sterling, the presentation and functional currency for the Group and Company. All values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

#### ***Going concern basis***

The Group's forecasts and projections, taking account of current cash resources and reasonably possible changes in trading performance, support the conclusion that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of approval of these financial statements. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

### **3. ACCOUNTING POLICIES**

The consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 May 2019, with the exception of IFRS 16 Leases.

## **Changes in accounting policies – IFRS 16**

The Group has applied IFRS 16 Leases in the current year, being the year ended 31 May 2019. The initial date of application is 1 June 2019.

IFRS 16 represents a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model, and as such, requires a lessee to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less.

A lessee recognises a right-of-use asset in the statement of financial position to represent the right to use the underlying asset with a lease liability also recognised to represent the obligation to make lease payments.

Currently the Group has just one material lease that falls within the scope of IFRS 16, being a property lease for its Cambridge Science Park building. The Group does not have any leases whereby they act as the lessor.

The details of the accounting policy are set out below and also includes a description of the impact of adoption of this new lease within the financial statements.

### **Accounting policy for IFRS 16 Leases**

At the point of inception of a contract the Group will assess if the contract is for, or contains, a lease. For all contracts that the Group is lessee for, a right-of-use asset is recognised alongside a corresponding lease liability. The Group utilises the short-term lease assets (for leases of 12 months or less) and the low value assets exemptions. The Group does not hold any contracts whereby it is the lessor.

The lease liability is initially measured as the present value of all future lease payments that are due, but not paid, at the commencement date. The discount factor used for the calculation of the present value is the Group's incremental borrowing rate.

Lease payments are defined as the following elements:

- Fixed payments (including in-substance fixed payments), less any lease incentives
- Variable lease payments that depend on an index or rate
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is then re-measured using the effective interest method. This method increases the lease liability to reflect the interest on the liability and is reduced by the lease payment actually made to result in the carrying amount.

The right-of-use asset is initially measured at cost.

The cost of the asset is defined as the following elements:

- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date, less any lease incentives
- Any initial direct costs incurred by the lessee; and
- An estimate of the costs to be incurred by the lessee in dismantling and removing the underlying asset

The asset is subsequently measured at cost less accumulated depreciation and any applicable impairment loss.

The depreciation period is the shorter of the lease term or the useful life of the underlying asset. The depreciation period starts at the commencement date of the lease.

The right-of-use asset is presented within the same category as that which the underlying asset would be presented if the asset were owned and not leased. The Group recognise the asset within Property, Plant and Equipment.

### Transition

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information, in respect of those leases the Group previously treated as operating leases. The Group has measured the right-of-use asset as if the IFRS 16 was applied at the lease commencement and has discounted the value using the incremental borrowing rate at the date of adoption.

The incremental rate of borrowing for the Group has been set at 3%.

### Practical expedients

The Group has made use of the practical expedient specified within IFRS 16 not to reassess all contracts already in place to determine whether a contract is or contains a lease. Therefore the definition of a lease under IAS 17 will continue to apply to those leases entered into before 1 January 2019.

### Impacts on lessee accounting

Applying IFRS 16 changes the way the Group accounts for leases in the following areas:

Under IFRS 16, all leases (except those covered by an exemption) are recognised as a right-of-use asset and a lease liability in the consolidated statement of financial position.

Rent free periods are recognised as part of the initial measurement of the right-of-use asset, whereas previously they would have been recognised as a reduction in rental expenses in the income statement.

Right-of-use assets will be subject to the impairment tests in accordance with IAS 36 Impairment of Assets.

The income statement costs are now recorded as depreciation within Administrative Expenses as depreciation of the right-of-use assets and within Net Interest as the interest on the lease liabilities. This replaces an expense for rent on a straight line basis which would have been recorded in Administrative Expenses.

The debit / (credit) effect of the adoption of IFRS 16 as at 1 June 2019 was as follows:

	£'000
<b>Assets</b>	
Right-of-use asset	24,356
<b>Total assets</b>	<b>24,356</b>
<b>Liabilities</b>	
Lease liability	(24,356)
Trade and other payables	1,313
<b>Total liabilities</b>	<b>(23,043)</b>
<b>Total adjustments on equity:</b>	
Retained earnings	(1,313)
	<b>(1,313)</b>

#### **4. ACCOUNTING ESTIMATES AND KEY JUDGEMENTS**

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurements of assets, liabilities, income and expenses. The actual results may differ from these estimates.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual financial statements for the year ended 31 May 2019.

#### **5. SIGNIFICANT EVENTS AND TRANSACTIONS**

There were no significant events or transactions in the interim period (1 June 2019 to 30 November 2019) which were not included within the interim financial statements. There have been no significant events or transactions during the period from the end of the interim period to the day preceding the date of this report (1 December 2019 to 4 February 2020).

#### **6. SEGMENT INFORMATION**

The Group identifies operating segments based on internal management reporting that is regularly reviewed by the chief operating decision maker and reported to the Board. The chief operating decision maker is the Chief Executive Officer.

Management information is reported as one operating segment, being revenue from self-published franchises and other revenue streams such as royalties and licensing.

The Group does not provide any information on the geographical location of sales as the majority of revenue is through 3rd party distribution platforms which are responsible for the sales data of consumers.

All of the Group's non-current assets are held within the UK.

All material revenue is categorised as either self-publishing revenue or other revenue.

	6 months to 30 November 2019 £'000	6 months to 30 November 2018 £'000	12 months to 31 May 2019 £'000
Self-publishing revenue	31,826	64,512	89,476
Other revenue	141	144	193
	31,967	64,656	89,669

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profits attributable to the shareholders of Frontier Developments plc divided by the weighted average number of shares in issue during the period, adjusted for shares held within the Employee Benefit Trust.

	6 months to 30 November 2019	6 months to 30 November 2018	12 months to 31 May 2019
Profit attributable to shareholders (£'000)	3,617	15,438	17,410
Weighted average number of shares	38,357,558	38,436,040	38,337,119
Basic earnings per share (pence)	9.4	40.2	45.4

The calculation of the diluted earnings per share is based on the profits attributable to the shareholders of Frontier Developments plc divided by the weighted average number of shares in issue during the period as adjusted for shares held within the Employee Benefit Trust and the dilutive effect of share options.

	6 months to 30 November 2019	6 months to 30 November 2018	12 months to 31 May 2019
Profit attributable to shareholders (£'000)	3,617	15,438	17,410
Diluted weighted average number of shares	40,280,029	40,486,893	40,254,488
Diluted earnings per share (pence)	9.0	38.1	43.2

The reconciliation of average number of Ordinary Shares used for basic and diluted earnings per share is as follows:

	6 months to 30 November 2019	6 months to 30 November 2018	12 months to 31 May 2019
Weighted average number of shares	38,357,558	38,436,040	38,337,119
Dilutive effect of share options	1,922,471	2,050,853	1,917,369
Diluted average number of shares	40,280,029	40,486,893	40,254,488

## 8. INTANGIBLE ASSETS

Intangible assets comprise capitalised development tools and self-published software from internal development activities and acquired software licences.

	Development tools and licences £'000	Self-published software and licences £'000	Third party software £'000	Total £'000
<b>Cost</b>				
At 31 May 2018	5,467	44,154	428	50,049
Additions	649	4,467	137	5,253
At 30 November 2018	6,116	48,621	565	55,302
Additions	646	9,051	31	9,728
At 31 May 2019	6,762	57,672	596	65,030
Additions	904	8,861	299	10,064
At 30 November 2019	7,666	66,533	895	75,094
<b>Amortisation</b>				
At 31 May 2018	4,428	15,130	305	19,863
Amortisation charges	182	4,312	70	4,564
At 30 November 2018	4,610	19,442	375	24,427
Amortisation charges	183	3,862	108	4,153
At 31 May 2019	4,793	23,304	483	28,580
Amortisation charges	398	4,533	144	5,075
At 30 November 2019	5,191	27,837	627	33,655
Net book value at 30 November 2019	2,475	38,696	268	41,439
Net book value at 31 May 2019	1,969	34,368	113	36,450
Net book value at 30 November 2018	1,506	29,179	190	30,875
Net book value at 31 May 2018	1,039	29,024	123	30,186



## 9. TANGIBLE ASSETS

	Fixtures and Fittings £'000	Computer Equipment £'000	Leasehold Improvements £'000	Total £'000
<b>Cost</b>				
At 31 May 2018	574	1,522	3,971	6,067
Additions	10	266	905	1,181
At 30 November 2018	584	1,788	4,876	7,248
Additions	266	350	472	1,088
At 31 May 2019	850	2,138	5,348	8,336
Additions	6	330	10	346
At 30 November 2019	856	2,468	5,358	8,682
<b>Depreciation</b>				
At 31 May 2018	125	914	62	1,101
Charge for the period	1	147	238	386
At 30 November 2018	126	1,061	300	1,487
Charge for the period	120	331	46	497
At 31 May 2019	246	1,392	346	1,984
Charge for the period	75	295	167	537
At 30 November 2019	321	1,687	513	2,521
Net book value at 30 November 2019	535	781	4,845	6,161
Net book value at 31 May 2019	604	746	5,002	6,352
Net book value at 30 November 2018	458	727	4,576	5,761
Net book value at 31 May 2018	449	608	3,909	4,966

## 10. SHARE CAPITAL

	Number	Nominal Value £
At 1 June 2018	38,602,298	193,012
Shares issued on option exercises and warrants	138,070	690
At 30 November 2018	38,740,368	193,702
Shares issued on option exercises and warrants	700	3
At 31 May 2019	38,741,068	193,705
Shares issued on option exercises and warrants	170,742	854
At 30 November 2019	38,911,810	194,559