

SIGNIFICANT STEP UP IN FINANCIAL PERFORMANCE



ALEX BEVIS
CFO AND COMPANY
SECRETARY

**“REVENUE GREW 75%
AND OPERATING PROFIT
INCREASED 550%”**

OVERVIEW

The Company achieved a significant step-up in financial performance in the year ended 31 May 2017, as the transition from a work-for-hire business model to multi-franchise self-publishing was completed through the launch of *Planet Coaster* in November 2016. The addition of this second franchise helped boost annual revenue by over 75% to £37.4 million and operating profit grew by 550% to £7.8 million. Cash flow was also strong, with an increase of £4.0 million in the year to £12.6 million. Cash balances were further boosted by the £17.7 million strategic investment in July 2017; cash balances at 31 August 2017 stood at £27.5 million.

TRADING

Total annual revenue grew 75% to £37.4 million (FY16: £21.4 million) as the launch of the *Planet Coaster* franchise in November 2016 drove a step-up in annual sales. The *Elite Dangerous* franchise continued to perform strongly in the year, supported by on-going developments to further improve quality, add new features and support the unique evolving player-driven story.

Self-publishing revenue accounted for 97% of sales (FY16: 99%) with the balance being related to our legacy work-for-hire business. This legacy revenue included COBRA licensing, as a publisher partner took up two options in FY17 under previous work-for-hire contracts

to license COBRA to facilitate ports of existing games to new platforms. Licensing our COBRA technology to new customers is not a current focus and remains a future strategic opportunity that we will continue to evaluate.

Gross profit grew to £27.4 million in the year (FY16: £16.3 million) with gross margin at 73% (FY16: 76%). The largest element of cost of sales is the margin payable to our digital distribution partners.

Gross research and development expenses in the period were £12.7 million (FY16: £12.6 million) with the majority of spend being internal staff costs. Capitalisation of development costs on franchise assets and other intangibles accounted for £9.6 million in FY17 (FY16: £8.9 million). Amortisation charges grew to £4.5 million (FY16: £3.3 million) following the launch of *Planet Coaster* in November 2016.

Net research and development expenses recorded in the income statement in the year were therefore £7.6 million (FY16: £7.0 million), being gross spend, less capitalised costs, plus amortisation charges.

Sales, marketing and administrative expenses grew £3.9 million to £11.9 million (FY16: £8.0 million). The increase was due to a combination of factors; investments in staff, facilities and marketing, higher bonus

charges and forward contract related foreign exchange losses.

The growth in revenue in the period resulted in a significant increase in profits. Operating profit grew by 550% to £7.8 million (FY16: £1.2 million) representing an operating margin of 21% (FY16: 6%) and EBITDA (earnings before interest, tax, depreciation and amortisation) increased to £12.7 million (FY16: £4.9 million).

Corporation tax charges in the period were minimal overall at £0.1 million (FY16: a credit of £0.2 million) despite the growth in profits. This was due to a combination of brought forward tax losses and Video Games Tax Relief.

Profit after tax increased to £7.7 million (FY16: £1.4 million) and basic earnings per share increased by a similar proportion (FY17: 22.7 pence, FY16: 4.2 pence).

BALANCE SHEET AND CASH FLOW

The Company continued to run a robust balance sheet during the financial year, and this was further boosted by the strategic investment completed in July 2017.

Non-current intangible and tangible assets increased by £5.6 million to £22.6 million at 31 May 2017 (FY16: £17.0 million) as investments in franchise assets and other intangibles exceeded amortisation charges.

FINANCIAL KPIs

The balance of trade and other receivables was £2.9 million at the end of the period (FY16: £2.4 million), lower than the trade and other payables balance which totalled £4.9 million (FY16: £3.1 million). The increase in payables was in part due to a higher bonus provision following the strong growth in financial performance.

Total deferred income reduced to £1.4 million at the period end (FY16: £2.2 million) as a result of the launch of *Planet Coaster*, as pre-sales in the previous financial year had been deferred.

Cash balances increased £4.0 million during the year to £12.6 million (FY16: £8.6 million). Operating cash flow (operating profit excluding non-cash items, less investments in franchises and other intangible assets) accounted for £3.4 million of the increase. (FY16: an operating cash outflow of £2.7 million).

Following the £17.7 million strategic investment by Tencent the Company's cash balance was £27.5 million on 31 August 2017. In addition the Company has a £4 million overdraft facility with Barclays. Frontier's scale-up plans, which include significant investments in people and facilities, are fully supported by existing financial resources.

SHARE ISSUES

Employees exercised options over 359,150 Ordinary Shares during the 12 months to the end of May 2017. 241,150 of these Ordinary Shares were transferred under arrangements with the Employee Benefit Trust with the remaining 118,000 Ordinary Shares being newly issued shares.

In July 2017 the company completed a strategic investment with Tencent Holdings Limited. Tencent acquired 3,386,252 newly issued Ordinary Shares at 523.2 pence per share generating proceeds of £17,716,870.

ALEX BEVIS

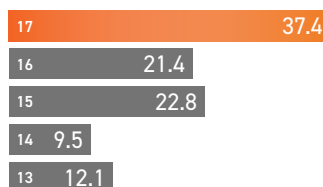
DIRECTOR AND COMPANY SECRETARY

7 September 2017

Revenue (£m)

£37.4m

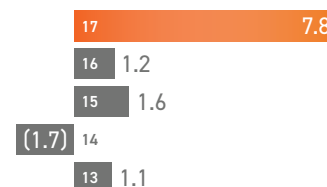
+75%



Operating profit (£m)

£7.8m

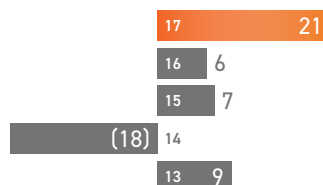
+550%



Operating margin (%)

21%

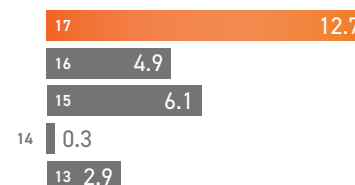
+15%



EBITDA* (£m)

£12.7m

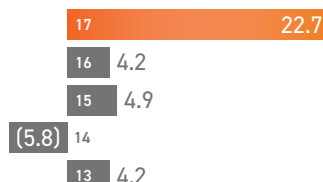
+159%



EPS (basic) (p)

22.7p

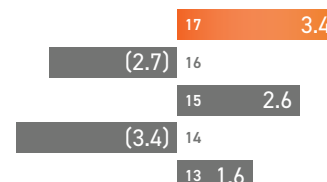
+440%



Operating cash flow (£m)

£3.4m

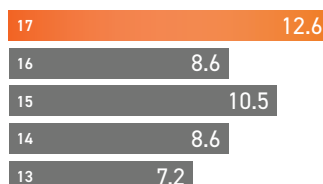
+610%



Net cash balance (£m)

£12.6m

+47%



* Earnings before interest, tax, depreciation and amortisation