ANOTHER STRONG SET OF RESULTS

We start FY21 in excellent financial shape.

ALEX BEVIS
CFO AND COMPANY SECRETARY

OVERVIEW

The combination of the ongoing financial performance of our first three titles, together with the successful launch of *Planet Zoo* in the year, yielded a strong set of financial results in FY20. In terms of both revenue and profit FY20 was Frontier's second biggest ever year in our 26-year history, following the record set of results posted in FY19 through the launch of *Jurassic World Evolution* in June 2018. We start FY21 in excellent financial shape, with a strong portfolio of four existing games, an exciting roadmap to support those four games and develop new titles, the anticipated financial contribution from our Frontier Foundry games label, and our strongest ever cash position – £45.8 million as at 31 May 2020.

TRADING

Planet Zoo was our biggest revenue contributor in the period, generating a positive reception during the pre-order and at launch in November 2019. As planned, *Planet Zoo* has gone on to continue to deliver strong sales after its initial launch spike, quickly becoming the clear number one immersive and high-quality zoo simulation experience. Our usual strategy of creating and supporting a large and active game community, supported by both free and paid content, continues to generate sales to both existing players and new players. It's encouraging to see *Planet Zoo* become our biggest selling title to date on PC during an equivalent time period.

That strategy of supporting and nurturing both our game, and the community of players of our game, has been learned and refined through our experiences on our first three titles, *Elite Dangerous*, *Planet Coaster* and *Jurassic World Evolution*. That strategy continues to pay dividends across all three of those games, with each title providing material financial contributions in FY20 through both base game sales and PDLC.

The performance of all four games generated total revenue in FY20 of £76.1 million (FY19: £89.7 million), with almost 60% coming from our first three titles. The record performance in FY19 reflected a full 12 months of sales of *Jurassic World Evolution* which launched alongside the film *Jurassic World: Fallen Kingdom* in June 2018 on PC, PlayStation 4 and Xbox One.

In comparison, FY20's big release, *Planet Zoo*, was a PC-only launch which released almost halfway through FY20.

Our primary sales strategy is through digital distribution, working with key partners like Steam and Humble on PC and with console owners: Microsoft for Xbox, Sony for PlayStation and more recently Nintendo for Switch. We also added digital PC platform aggregator Genba as a partner during the period. Digital sales represented 97% of revenue in FY20, with only 3% from sales of physical discs (FY19: 15%).

The higher proportion of physical in FY19 related to disc sales of *Jurassic World Evolution* on PlayStation 4 and Xbox One, which accounted for around one-third of the base game unit sales of *Jurassic World Evolution* on console during that financial year.

Gross profit was £51.6 million in the year (FY19: £54.6 million) with gross margin at 68% (FY19: 61%). The 7% increase in gross margin percentage was due to three factors: a higher proportion of own-IP revenue rather than licenced-IP revenue (with associated royalty costs), with own-IP *Planet Zoo* the big release in FY20, compared to licenced-IP *Jurassic World Evolution* launching in FY19; a lower proportion of physical disc sales which typically achieve lower profit margins; and the tiered commission structure established by Steam in October 2018.

Gross research and development (R&D) expenses in the period grew by 20% to £24.6 million (FY19: £20.5 million). The continued growth reflects further investment to support Frontier's franchise portfolio strategy, through increases in internal staff combined with greater levels of outsourced activity. As at 31 May 2020, Frontier had grown its total headcount to 520 staff compared to 466 at 31 May 2019 and 377 at 31 May 2018. An element of the increase in gross R&D expenditure also related to investments in externally developed games through the Company's Frontier Foundry games label for third-party publishing, which kicked off at the start of FY20 with the Haemimont Games deal announced in June 2019.

TRADING CONTINUED

Capitalisation of costs for game development related intangible assets, together with continued investment in our leading game technology, accounted for £19.8 million in the period (FY19: £13.4 million). Costs related to new chargeable products, or the development of technology to support new chargeable products, are typically capitalised, subject to the usual criteria set out under accounting standard IAS 38. Development costs associated with the development or support of existing products are generally expensed as incurred. Costs capitalised in FY20 represented 80% of gross R&D expenditure compared with 66% in FY19 and 85% in FY18. The lower capitalisation percentage rate in FY19 reflected a greater allocation of development time spent on free content during that period, particularly related to the launch of the *Beyond* series of free updates for *Elite Dangerous*. The capitalisation rates in FY20 and FY18 are more typical of the Company's usual approach to the mix of development effort between free and paid content. Frontier believes that investment in free updates is an important part of its strategy in supporting and nurturing games after launch.

Amortisation charges for game development and game technology related intangibles grew to £11.2 million for the period (FY19: £7.8 million). The increase reflected the 48-month amortisation of the development cost of *Planet Zoo*, starting at launch in November 2019, together with amortisation charges for paid content delivering during the year for all four games, including the substantial PDLC launched in December 2019 for *Jurassic World Evolution*, the *Jurassic World Evolution: Return to Jurassic Park* pack, which is Frontier's biggest selling PDLC pack to date.

Net research and development expenses recorded in the income statement in the period were £16.0 million (FY19: £14.9 million), being gross spend, less capitalised costs, plus amortisation charges.

Sales, marketing and administrative expenses totalled £18.9 million in FY20 (FY19: £20.4 million). The reduction mainly related to marketing spend, which had been higher in FY19 to support the launch of *Jurassic World Evolution* alongside the film *Jurassic World: Fallen Kingdom* in June 2018.

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 from 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 FY20, a total of £2.3 million was charged to the income statement in relation to the lease, being £1.6 million within administrative costs and £0.7 million within interest charges.

Overall net operating expenditure in FY20 of £34.9 million was similar to the total spend in FY19 (£35.3 million), with higher R&D costs being offset by a lower level of marketing spend.

Operating profit of £16.6 million was recorded in the year (FY19: £19.4 million) representing an operating margin of 22% which is consistent with FY19.

EBITDA (earnings before interest, tax, depreciation and amortisation) increased to £31.5 million (FY19: £29.0 million). However, the Company does not consider this to be a particularly useful 'cash profit' measure of performance since it adds back amortisation charges relating to game developments and game technology but without also adjusting for (i.e. deducting) the costs capitalised in the period related to those intangible assets, producing a one-sided measure. The operating cashflow measure, described in the later cash section, is a more appropriate measure of 'cash profit'.

A corporation tax charge of £0.3 million was recorded in the income statement for FY20 (FY19: a restated charge of £1.7 million as per note 2). Frontier benefits from enhanced tax deductions from Video Games Tax Credits (VGTR) and R&D Tax Credits, both of which help to reduce taxable profits. The Company also benefits from tax deductions relating to employee share option exercises, although a large element of these deductions are credited directly to reserves rather than being recorded in the income statement.

Profit after tax for FY20 was £15.9 million (FY19: £18.0 million) and basic earnings per share was 41.3p (FY19: 46.9p).

BALANCE SHEET AND CASHFLOW

Frontier ended FY20 with its strongest cash position to date, with £45.8 million in total (31 May 2019: £35.3 million). Total net cash inflow during the year of £10.4 million (FY19: £11.2 million) reflected the continued strong financial performance of the portfolio of four existing titles, supporting further investments in those four games, in addition to investments in new internally developed games and third-party developed games too. Operating cashflow, which is effectively a measure of 'cash profit' being EBITDA excluding non-cash items less investments in game developments and game technology related intangible assets, was £13.6 million in FY20 (FY19: £16.8 million).

Intangible assets increased by £16.2 million to £52.7 million at 31 May 2020 (31 May 2019: £36.5 million) across four asset categories: game technology, game developments, third-party software and IP licences. Game technology and developments account for the majority of the asset value at £42.9 million at 31 May 2020 (31 May 2019: £34.3 million). The growth in value in FY20 reflected investments in assets exceeding amortisation charges as Frontier continues to grow its portfolio of games. IP licences grew to £9.5 million at 31 May 2020 (31 May 2019: £2.0 million) as a result of the deals signed with Formula 1® in March 2020 and Games Workshop in April 2020.

Tangible assets relate mainly to the fit-out of the leased office facility, which the Company occupied in April 2018. The net balance at 31 May 2020 was £5.9 million (31 May 2019: £6.4 million).

Following the adoption of IFRS 16 "Leases" effective for Frontier from 1 June 2019, the Company's balance sheet at 31 May 2020 includes a right-of-use asset valued at £22.7 million for the Company's lease over its headquarters office building in Cambridge. A similar figure, being £23.5 million in total, is recorded as a lease liability for the lease as at 31 May 2020, split between current and non-current liabilities.

Trade and other receivables totalled £12.3 million at the end of the period (FY19: £5.2 million). The higher balance was due to the strong sales of all four of Frontier games running up to the end of the financial year, with demand for Frontier's immersive and creative games benefitting from a boost during Covid-19 lockdowns around the world in March, April and May, as well as planned price promotions.

Within current liabilities (amounts due within 12 months), trade and other payables totalled £13.7 million (FY19: £9.0 million) with the largest factor being distribution platform commissions due on the strong sales during the final months of FY20. Within non-current liabilities (amounts due after 12 months), the increase in other liabilities from £0.9 million to £8.2 million related to the IP licences signed with Formula 1® and Games Workshop during the period.

Deferred tax assets and deferred tax liabilities have been recorded as at 31 May 2020 for the estimated values of temporary and permanent timing differences, and the potential value of tax deductions relating to future share option exercises. The net position as at 31 May 2020 is a net deferred tax asset of £2.1 million (31 May 2019 restated: asset of £3.2 million).

The current tax asset balance as at 31 May 2020 of £2.4 million relates to VGTR claims for FY19 (31 May 2019: a net current tax liability of £0.8 million).

IFRS 16 ADJUSTMENT TO RETAINED EARNINGS

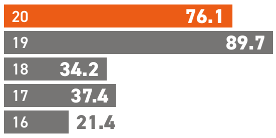
As well as creating additional assets and liabilities in the statement of financial position, and changing the way that lease costs are charged to the income statement, the adoption of IFRS 16 also generated an adjustment to the retained earning reserve of £1.3 million in FY20. This adjustment related 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 outflows, 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.

ALEX BEVIS
CFO AND COMPANY SECRETARY
9 September 2020

KEY PERFORMANCE INDICATORS

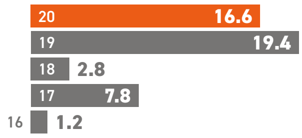
Revenue (£m)

£76.1m



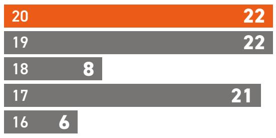
Operating profit (£m)

£16.6m



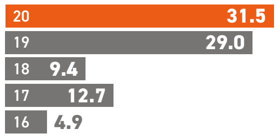
Operating margin (%)

22%



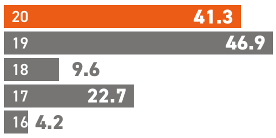
EBITDA* (£m)

£31.5m



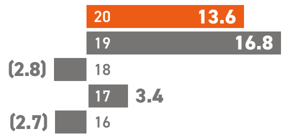
EPS** (basic) (p)

41.3p



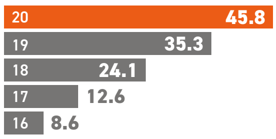
Operating cashflow*** (£m)

£13.6m



Net cash balance (£m)

£45.8m



* Earnings before interest, tax, depreciation and amortisation.

** FY19 restated for deferred tax adjustment as per note 2.

*** EBITDA excluding non-cash items less investments in game developments and game technology.