

GROWING OUR PORTFOLIO



“ I would like to thank everyone at Frontier and all our players around the world. ”

In January 2019 Frontier will celebrate its 25th anniversary since I founded the company in January 1994. Both the industry and our Company have undergone significant change throughout that time, and I am personally very proud of all of our achievements. I am particularly pleased with the success of our transition to self-publishing over the last five years. The rise of digital distribution was the catalyst for our change, and our extensive experience in the games industry gave us the confidence to make the switch. I believe our decision has been proved correct by the ongoing performance of our first two franchises, *Elite Dangerous* and *Planet Coaster*, and the successful launch of *Jurassic World Evolution*. I would like to thank everyone at Frontier for their continued contribution and hard work and thank our players around the world who continue to make all this possible.

THE GAMES MARKET

We operate in an exciting and growing industry that continues to see rapid change. The games market is already the premier form of entertainment worldwide, worth over \$100 billion per year within the wider \$300 billion entertainment industry. That is larger than each of the film, TV or music industries. The games sector is growing fast too, increasing at around 10% last year, whilst some other entertainment sectors, such as TV, have experienced declines. The lines between entertainment sectors continue to blur, as audiences crave greater levels of interactivity within their entertainment experiences; more than just shouting at their TVs! These are exciting times and Frontier is well placed to both drive and support future changes in the wider entertainment industry, including the potential addition of whole new forms of entertainment.

The games market is typically seen as three different sectors: PC, console and mobile/tablet. The characteristics of each sector are quite different. Our development focus is currently on PC and console titles, as the audiences on these platforms highly value games exhibiting Frontier's key development strengths such as compelling gameplay and high production quality. In contrast the mobile sector is overcrowded, with a very low barrier to entry, so success is both much less predictable and much less influenced by

quality. 'Discoverability' (the ability to find a title) is also better on PC and console, with excellent support from reviewers, 'youtubers' and social media.

The whole market is moving rapidly towards digital download as the primary delivery model. Mobile and PC are now almost 100% digital, and the console audience is quickly adopting digital downloads too, as market focus moves to the new generation of hardware and older business models are replaced.

There are already some very large and well-established companies in the games market, with a number of companies supporting \$1 billion+ valuations. Two of the largest publishers and developers, EA and Activision Blizzard, both based in the US, have a combined value of around \$100 billion. However, our industry has always thrived on disruption, in terms of individual games, game genres, charging models, technology and routes to market, and it has been interesting to observe the impact of some of those disrupting factors in the last 12 months. Our chosen model – supporting our games and their communities with regular updates, essentially 'games as a service' – is working very well, producing three out of three successful franchises so far, but we will continue to monitor and consider different options as the industry continues to evolve.

STRATEGY

We believe that publishing our own franchises is the best way to maximise the benefit of our core skills, our assets and our COBRA technology platform. The Company's focus is on developing top-quality self-published PC and console titles for digital distribution. Generally the audiences on these platforms value the types of high-quality games that Frontier is able to deliver.

We will also continue to follow our repeatable model, to create further franchises in popular game genres where we can use our key expertise and knowledge and/or IP to deliver highly differentiated, best-in-class player experiences, and further build our revenue pipeline over the long term.

Our strategic objective is to create long-term sustainable growth through success by publishing a growing number of franchises. Our strategic focus is on two key areas:

- developing our business to achieve repeatable success; and
- creating and managing franchises.

Frontier is scaling up to build a broad portfolio of franchises, each different to the last, and each with the capability to offer sustained revenue streams as already seen with *Elite Dangerous* and *Planet Coaster*. Releases of new franchises can be expected to drive steps up in the Group's financial performance. Because of the small number of franchises and relatively infrequent major releases Frontier is currently able to make, revenue is sensitive to the specific schedule of such releases and may therefore exhibit 'stepped' behaviour across financial years, as those new franchises are released. In the future, as we successfully scale the number and frequency of franchise releases, annual revenue growth should accelerate and our dependency on each major release should decrease.

We aim to accelerate our output to achieve one major launch every 12 months or so, but this will not require us to increase our workforce linearly because supporting existing franchises typically requires less resource than creating new ones.

Current trading and outlook

The launch of *Jurassic World Evolution*, in June 2018 has led a record trading performance during the period from the year end (31 May 2018). Digital sales of *Jurassic World Evolution* have been substantial across all three platforms, (PC, PlayStation 4 and Xbox One) and physical disc sales on PlayStation 4 and Xbox One have also been significant. On 19 July 2018 Frontier announced that cumulative sales on all formats had passed 1 million units, just 5 weeks after the digital launch on 12 June 2018.

We are pleased with the positive early sales and player feedback for *Jurassic World Evolution*. This initial success further demonstrates our ability to add new franchises to our portfolio and emphasises our capability to both develop and publish top tier IP, reinforcing our appeal as a partner to IP holders. The timing of our launch to

coincide with the film release of *Jurassic World: Fallen Kingdom* confirms our ability to ship a new game on a hard deadline simultaneously across three high-end gaming platforms (PC, PlayStation 4 and Xbox One).

Our first two franchises, *Elite Dangerous* and *Planet Coaster*, both supported by our strategy of ongoing development, continue to perform well, delivering a sustained revenue contribution during the period from 31 May 2018.

Although it is still early in terms of both Frontier's financial year and the life-cycle of *Jurassic World Evolution*, the Board is comfortable with the current range of analyst revenue projections of £75 million to £88 million for FY19 (the year ending 31 May 2019), a substantial increase over the £34 million achieved in FY18.

Overall we will continue to focus on opportunities which leverage our existing expertise, intellectual property, publishing presence, relationships and financial position. As stated in the Group's previous Annual Reports and other communications, in addition to the current core model of using internal resources supplemented by outsourced services, the Group will continue to explore other opportunities to accelerate its scale-up.

External partnerships are an important element within our plans and such opportunities are likely to include third party publishing (controlling the promotion and distribution of other developers' games), commissioning (outsourcing the majority of development of Frontier games to other developers), and enhancing the Group's franchise portfolio or capabilities via acquisitions.

I look forward to working with Frontier's fantastic team and our partners to build on our early self-publishing success and establish a new long-term, self-published track record of quality, innovation and delivery as we scale-up to continue our multi-franchise success story.

David Braben, Chief Executive, said:

"*Jurassic World Evolution* has achieved our biggest launch to date, and we are now very well positioned with three successful revenue generating franchises. We will continue to support and enhance all three of our existing franchises (*Elite Dangerous*, *Planet Coaster* and *Jurassic World Evolution*), and we'll be making a number of exciting announcements about each franchise in due course. Franchise four, which is based on our own un-announced IP, is now in full development and targeted for release in FY20, and two more new franchises are in earlier stages of development."