

A SOLID SET OF RESULTS



“ Elite Dangerous and Planet Coaster continue to deliver.”

OVERVIEW
The ongoing performance of *Elite Dangerous* and *Planet Coaster* delivered a solid set of financial results for the 12 months ending 31 May 2018 ('FY18'), following the significant step-up in financial performance achieved in the prior period ('FY17') which resulted from the launch of *Planet Coaster* in November 2016. The Group generated operating profits of £2.8 million (FY17: £7.8 million) despite increased investments in development and marketing, particularly for *Jurassic World Evolution*. Cash balances were boosted in the period by the £17.7 million strategic investment by Tencent in July 2017; cash balances at 31 May 2018 were £24.1 million.

TRADING
Total annual revenue was £34.2 million in the period (FY17: £37.4 million) with both *Elite Dangerous* and *Planet Coaster* continuing to deliver sustained revenue from both sales of the game and PDLC. The ongoing performance of both titles reflects Frontier's approach to sustaining and nurturing existing franchises. It is worth noting that *Elite Dangerous* achieved its highest annual revenues to date in FY18 following a successful launch on PlayStation 4 in June 2017.

Self-publishing revenue accounted for 95% of sales (FY17: 97%) with the balance being related to our legacy work-for-hire business.

This legacy revenue included income from a royalty dispute which was settled in the period.

Gross profit was £24.1 million in the year (FY17: £27.4 million) with gross margin at 70.5% (FY17: 73.2%). The largest element of cost of sales is the margin payable to our digital distribution partners. The reduced margin in FY18 largely resulted from the launch of *Elite Dangerous* on PlayStation 4 and the release of lower margin physical disc sales of *Elite Dangerous* on Xbox One and PlayStation 4.

Gross research and development expenses in the period were £15.9 million (FY17: £12.7 million). The majority of spend related to internal staff costs, and the increase in the year largely reflects headcount increases. However, outsourcing is becoming a more significant cost element and accounts for some of the increase in total gross spend in the period. Capitalisation of development costs on franchise assets and other intangibles accounted for £13.4 million in the period (FY17: £9.6 million), with development costs of *Jurassic World Evolution* being the largest element. Amortisation charges grew to £6.0 million for the period (FY17: £4.5 million) reflecting a full year of amortisation charges for *Planet Coaster*. Net research and development expenses recorded in the income statement in the year were therefore £8.5 million (FY17: £7.6 million), being gross spend, less capitalised costs, plus amortisation charges.

Sales, marketing and administrative expenses grew to £12.8 million (FY17: £11.9 million). Increases in marketing and facilities costs were partially offset by lower foreign exchange charges and a lower level of profit related bonus accrual. The increased investment in marketing supported the ongoing success of existing franchises as well as the launch of *Jurassic World Evolution* in June 2018, with some of the E3 event related marketing costs falling in June 2018 (and therefore the FY19 income statement).

As anticipated, the lower level of annual sales, lower gross profit margin and higher level of operating costs resulted in a reduction in operating profit in the period to £2.8 million (FY17: £7.8 million). EBITDA (earnings before interest, tax, depreciation and amortisation) reduced to £9.4 million (FY17: £12.7 million).

A corporation tax credit of £0.7 million was recorded in the year (FY17: a charge of £0.1 million). The credit resulted from the release of a prior year accrual following completion of the FY17 tax return. The Group benefits from Video Games Tax Relief and has accrued tax losses estimated to be in excess of £10 million as at 31 May 2018.

Profit after tax for FY18 was £3.6 million (FY17: £7.7 million) and basic earnings per share was 9.6p (FY17: 22.7p).

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

Tangible assets increased to £5.0 million (FY17: £0.7 million) as a result of the fit-out of the new leased office facility, which the Company occupied in April 2018.

Intangible assets increased by £7.3 million to £29.2 million at 31 May 2018 (FY17: £21.9 million) as investments in franchise assets, particularly *Jurassic World Evolution*, and other intangibles exceeded amortisation charges.

Trade and other receivables was £6.7 million at the end of the period (FY17: £2.9 million) with the increase largely due to pre-order sales for *Jurassic World Evolution*. Total deferred income showed a similar change for the same reason, with an increase to £4.3 million (FY17: £1.4 million).

Trade and other payables totalled £5.9 million (FY17: £4.9 million) with the increase reflecting accrued distribution costs on *Jurassic World Evolution* pre-order sales, partly offset by a lower level of profit related bonus accrual.

Cash balances increased £11.5 million during the year to £24.1 million (FY17: £12.6 million), as a result of the Tencent strategic investment of £17.7 million. Operating cash flow (operating profit excluding non-cash items, less investments in franchises and other intangible assets) was an outflow of £2.8 million in the period (FY17: an operating cash inflow of £3.4 million), with the change reflecting lower sales and higher levels of investment.

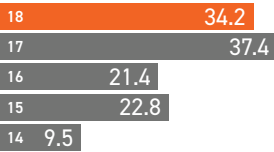
SHARE ISSUES
Employees exercised options over 1,051,117 Ordinary Shares during the 12 months to the end of May 2018. Of this total, 985,517 were newly issued shares with the remaining 65,600 resulting from transfers under arrangements with the Employee Benefit Trust.

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

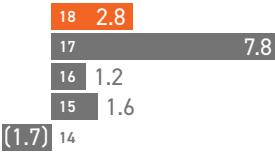
ALEX BEVIS
CFO & COMPANY SECRETARY
5 September 2018

Financial KPIs

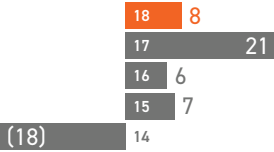
Total revenue (£m)
£34.2m



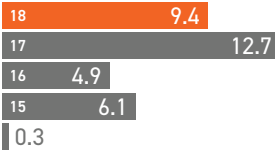
Operating profit (£m)
£2.8m



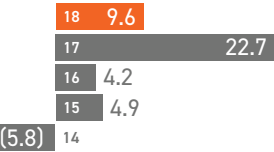
Operating margin (%)
8%



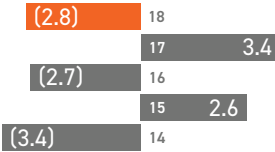
EBITDA* (£m)
£9.4m



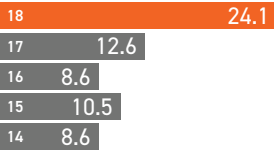
EPS (basic) (p)
9.6p



Operating cash flow** (£m)
£(2.8)m



Net cash balance (£m)
£24.1m



* Earnings before interest, tax, depreciation and amortisation
** Operating profit excluding non-cash items, less investments in franchises and other intangible assets