

A RECORD SET OF RESULTS



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The launch of *Jurassic World Evolution* in June 2018, combined with the ongoing performance of all three titles, *Jurassic World Evolution*, *Planet Coaster* and *Elite Dangerous*, propelled the Company to a record financial performance for the year ended 31 May 2019. Revenue increased by over 160% to £89.7 million (FY18: £34.2 million) and operating profit grew by nearly 600% to £19.4 million (FY18: £2.8 million). Cash balances increased by £11.2 million during the year to £35.3 million (FY18: £24.1 million) reflecting the strong trading performance.

TRADING

Jurassic World Evolution accounted for a large proportion of the total annual revenue of £89.7 million in the period (FY18: £34.2 million) through its strong launch in the first month of the financial year on PC, PlayStation 4 and Xbox One. *Elite Dangerous* and *Planet Coaster* continue to deliver sustained revenue from both sales of the base game and PDLC, and sales of *Jurassic World Evolution* in the second half of the financial year, i.e. beyond its initial launch period, were encouraging in terms of both base game sales and PDLC. The ongoing performance of all three titles reflects Frontier's approach to supporting and nurturing each of its franchises.

Self-publishing revenue accounted for 99.8% of sales in the year (FY18: 95%) with the majority being digital sales. Physical sales represented around 15% of total company revenue in FY19 (FY18: 7%) with disc sales of *Jurassic World Evolution* on PlayStation 4 and Xbox One accounting for around one-third of the base game unit sales of *Jurassic World Evolution* on console during the period.

Gross profit was £54.6 million in the year (FY18: £24.1 million) with gross margin at 61% (FY18: 70.5%). The significant growth in gross profit resulted from the increase in revenue achieved from the launch of *Jurassic World Evolution*. The reduction in gross margin percentage to 61% reflects the royalties payable to Universal Games and Digital Platforms on sales of *Jurassic World Evolution* and physical disc sales of *Jurassic World Evolution* which are lower margin than digital sales.

Gross research and development expenses in the period grew by 33% to £21.2 million (FY18: £15.9 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 2019, Frontier had grown its total headcount to 466 staff compared to 377 at 31 May 2018.

Capitalisation of development costs on franchise assets and other game related intangibles accounted for £14.8 million in the period (FY18: £13.4 million). As a consequence

the percentage of gross research and development costs which were capitalised reduced to 70% compared to 85% for the last financial year. This reduction resulted mainly from the interaction of two factors. Firstly, the Company refined the application of its capitalisation accounting policy with effect from 1 June 2018, such that only development activity associated with new chargeable products would be capitalised (subject to the usual criteria set out under accounting standard IAS 38). Secondly, during the first six months of the financial year a substantial number of Frontier's development team were engaged on the *Beyond* series of free updates for *Elite Dangerous* (which concluded in December 2018) and a number of free updates for *Jurassic World Evolution* and *Planet Coaster*. 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 strategy in supporting and nurturing games after launch. A higher percentage of costs were capitalised in the second half of the financial year and to date in the current financial year as a greater proportion of staff have been working on development activity associated with new chargeable products, including paid downloadable content (PDL) for existing game franchises.

Amortisation charges for franchise assets and other game related intangibles grew to £8.5 million for the period (FY18: £6.1 million) following the launch of *Jurassic World Evolution* in June 2018.

Net research and development expenses recorded in the income statement in the period were £14.9 million (FY18: £8.5 million), being gross spend, less capitalised costs, plus amortisation charges. The increase is therefore due to the combination of factors described above (a higher level of gross spend, a lower proportion of those costs being capitalised and an increase in amortisation charges).

Sales, marketing and administrative expenses grew to £20.4 million (FY18: £12.8 million). This substantial increase resulted mainly from three factors: i) higher marketing costs to support the launch of *Jurassic World Evolution* in June 2018; ii) higher bonus costs, as the bonus scheme is based on profit, which was significant in the period; and iii) higher facilities costs following the move into new premises in April 2018.

Operating profit of £19.4 million was recorded in the year (FY18: £2.8 million) representing an operating margin of 22% (FY18: 8%). The substantial increase in both profit and profit margin reflected the strong sales performance in the period. EBITDA (earnings before interest, tax, depreciation and amortisation) also increased substantially to £29.0 million (FY18: £9.4 million).

Total corporation tax charges in the income statement for the period totalled £2.2 million (FY18: a credit of £0.7 million), which would imply an effective tax rate of 11% on the £19.7 million of pre-tax profits recorded. However, the Company estimates that the taxable profits generated in the period were actually almost completely offset by brought forward tax losses combined with tax deductions related to staff share option gains recorded up to 31 May 2019. The reason that a tax charge of £2.2 million was recorded in the income statement is largely due to a £2.0 million tax accounting charge adjustment related to staff share options. In accordance with accounting

standard IAS 12, the benefit of tax deductible share option gains in excess of the cumulative IFRS 2 accounting charges related to those gains must be credited directly to reserves rather than being taken through the income statement, which generated this £2.0 million credit directly to reserves instead of to the income statement. The Group has recognised a deferred tax asset of £0.6 million as at 31 May 2019 which mainly relates to carried forward tax losses, and the Group has also recorded a current tax liability as at 31 May 2019 of £1.0 million based on a provisional estimate of corporation tax due for FY19.

Profit after tax for FY19 was £17.4 million (FY18: £3.6 million) and basic earnings per share was 45.4p (FY18: 9.6p).

BALANCE SHEET AND CASHFLOW

The Company runs a robust balance sheet, and this was further boosted by the record financial performance achieved in the year with operating cashflow (operating profit excluding non-cash items, less investments in franchises and other game related intangible assets) of £15.4 million (FY18: an outflow of £2.8 million), resulting in a cash position at 31 May 2019 of £35.3 million (31 May 2018: £24.1 million).

Tangible assets increased to £6.4 million (FY18: £5.0 million) mainly as a result of the second phase of the fit-out of the new leased office facility, which the Company occupied in April 2018.

Intangible assets increased by £6.3 million to £36.5 million at 31 May 2019 (FY18: £30.2 million) as investments in game franchise assets, particularly *Jurassic World Evolution*, exceeded amortisation charges related to those assets.

Trade and other receivables totalled £5.2 million at the end of the period (FY18: £6.7 million). The higher balance at 31 May 2018 mainly resulted from pre-order sales of *Jurassic World Evolution*,

and this was the principle reason for a high level of deferred income at the end of the prior period, with a deferred income balance of £1.5 million at 31 May 2019 compared to £4.3 million at 31 May 2018.

Trade and other payables totalled £10.0 million (FY18: £6.9 million) with the largest factor for the increase being the profit related bonus accrual. The Company ran a two-year bonus plan for all staff for the combined period of FY18 and FY19, and most of the bonus charge was accrued in FY19 since that financial year generated the majority of operating profit (FY19: £19.4 million, FY18: £2.8 million).

Cash balances increased £11.2 million during the year to £35.3 million (FY18: £24.1 million) with operating cashflow (operating profit excluding non-cash items, less investments in franchises and other game related intangible assets) providing an inflow of £15.4 million in the period (FY18: an operating cash outflow of £2.8 million). In September 2018 the Frontier Developments plc Employee Benefit Trust (the "EBT") used £5.0 million of Company cash to acquire 466,173 Ordinary Shares of 0.5p each in the Company ("Ordinary Shares") at an average price of £10.70 per Ordinary Share. These Ordinary Shares are held in the EBT and are intended to be used to satisfy the exercise of share options by employees. The EBT is a discretionary trust for the benefit of the Company's employees, including the Directors of the Company.

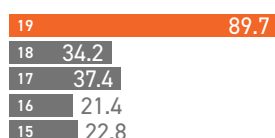
As at 31 May 2019 there were 38,741,068 Ordinary Shares in issue including 502,668 Ordinary Shares in total held by the EBT.

ALEX BEVIS
CFO AND COMPANY SECRETARY
4 September 2019

Key performance indicators

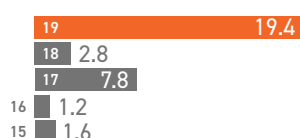
Revenue (£m)

£89.7m



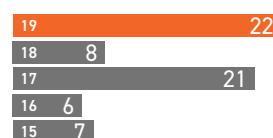
Operating profit (£m)

£19.4m



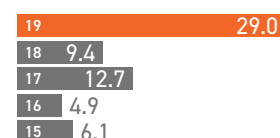
Operating margin (%)

22%



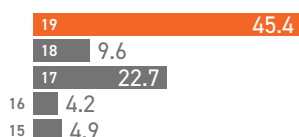
EBITDA* (£m)

£29.0m



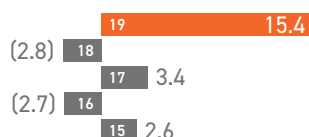
EPS (basic) (p)

45.4p



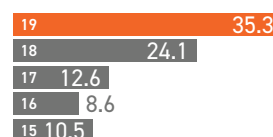
Operating cashflow** (£m)

£15.4m



Net cash balance (£m)

£35.3m



* Earnings before interest, tax, depreciation and amortisation.

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