



PLANNING FOR FUTURE SUCCESS



OVERVIEW

FY23 revenue of £104.6 million (FY22: £114.0 million) was delivered through a solid performance from the existing portfolio of games (released prior to 1 June 2022), which accounted for 72% of revenue during the financial year, together with contributions from games released during the period. *Jurassic World Evolution 2*, which released in November 2021 through collaboration with Universal Products & Experiences, was the strongest performer in the portfolio, with revenue in its first 18 months exceeding the performance of the first *Jurassic World Evolution* game during its first 18 months. *F1® Manager 2022* was the leading revenue generator amongst new games, selling over 800,000 units in its first nine months following its release in late August 2022 up to the end of the financial year on 31 May 2023.

Adjusted EBITDA*, a measure of cash profitability, was a loss of £4.6 million in FY23 (FY22: profit of £6.7 million), which reflects the decrease in revenue, an increase in costs, and continued investment in future games as Frontier gears up to deliver two new game releases per financial year from FY24 onwards.

Operating profit as reported under IFRS was adversely impacted by non-cash intangible asset impairment and accelerated amortisation charges totalling £28.7 million in the year arising from two events: the underperformance and subsequent closure of Foundry, and a prudent re-assessment of the future financial performance of the *F1® Manager* franchise following a lower than expected initial sales contribution from *F1® Manager 2023* which released in July 2023, after the end of the financial year.

These non-cash intangible asset impairment and accelerated amortisation charges led to an operating profit before those adjustments of £2.1 million becoming a reported operating loss of £26.6 million. The non-cash intangible asset impairment and accelerated amortisation charges had no impact on cashflow, cash balances or Adjusted EBITDA.

In November 2022 Frontier added a new development team with the acquisition of experienced game development studio Complex Games Inc. (Complex), following the successful collaboration between Complex and Frontier on the development and publication of turn-based strategy game *Warhammer 40,000: Chaos Gate – Daemonhunters*. Integration activities and growth plans for Complex are on track, and the acquisition delivered modest accretive financial benefits in FY23, as expected.

Frontier continues to be well capitalised, with total cash balances on 31 May 2023 of £28.3 million (31 May 2022: £38.7 million) and £24.8 million on 31 August 2023. The reduction in cash during FY23 reflected a greater investment in significant game developments for release in future years, £10.9 million for the acquisition of Complex, and the £3.0 million purchase of shares by the Employee Benefit Trust undertaken in May 2023 to satisfy future share option exercises by employees. Cash would have grown in FY23 if the acquisition and share purchases are disregarded.

We're confident that our renewed and proven strategy of selecting, developing, launching, and nurturing genre-leading games will get us back on track in terms of our financial performance.

OUR EXISTING GAME PORTFOLIO

Our portfolio of titles which released before FY23 – *Elite Dangerous*, *Planet Coaster*, *Planet Zoo*, *Jurassic World Evolution*, *Jurassic World Evolution 2* and *Warhammer 40,000: Chaos Gate – Daemonhunters* – continues to reach new audiences, and each delivered material revenues in FY23. *Jurassic World Evolution 2* and *Planet Zoo* performed especially well, each supported by four new PDLC packs releasing in FY23, alongside free content. In FY24 new PDLC packs and free content for both *Jurassic World Evolution 2* and *Planet Zoo* have already been released, with more planned during this financial year.

Jurassic World Evolution 2 was the strongest performer in the portfolio, with revenue in its first 18 months exceeding the performance of Frontier's all-time leading revenue generator, the first *Jurassic World Evolution* game, during its first 18 months.

F1® MANAGER

FY23 benefited from the release of another new Frontier game in late August 2022, *F1® Manager 2022*, the first annual title in a major new sports franchise for Frontier. By 31 May 2023 *F1® Manager 2022* had achieved over 800,000 units sold across all platforms and formats, with strong engagement at release. This level of sales was a solid performance for the first game in the series but was below Frontier's original expectations.

Our second title in the series, *F1® Manager 2023*, released after the end of the financial year in July 2023. Sales during the pre-order phase for *F1® Manager 2023* were below the level achieved by *F1® Manager 2022*, and although the sales performance post-launch has been more encouraging, the current

revenue projections for *F1® Manager 2023* in FY24 are now below the level achieved by *F1® Manager 2022* in FY23. The Company will continue to build on the more positive recent sales trends, including through support of the title through the remainder of the 2023 *F1®* season. We are currently developing our plans for *F1® Manager* in 2024.

As part of the annual audit process for FY23 we reviewed the carrying values of our intangible assets across the portfolio, with a particular focus on the *F1® Manager* series due to the performance of both *F1® Manager 2022* and *F1® Manager 2023*. Following a prudent re-assessment of the overall future performance of the *F1® Manager* franchise a non-cash impairment charge of £15.0 million was recorded in the FY23 financial statements against the intangible assets relating to the franchise.

FOUNDRY

Foundry is Frontier's game label for publishing games developed by external partners.

Financial performance across the Foundry game portfolio has been disappointing and, overall, the business has not delivered Frontier's expectations of a positive return on investment within the first year of each title.

As a result of this financial underperformance, and an increased level of competition amongst third-party publishers, in June 2023 Frontier announced the decision to cease all activity relating to acquiring new third-party titles and instead re-focus on internal titles.

This decision has enabled an increased level of operational focus to be applied to Frontier's own internally developed portfolio of titles, which has delivered a strong return on investment. Foundry games which have already been released will continue to be supported, including those in active post-release development.

* Adjusted EBITDA is earnings before interest, tax, depreciation, and amortisation charges related to game developments and Frontier's game technology, less investments in game developments and Frontier's game technology, and excluding impairment charges, share-based payment charges and other non-cash items.



OVERVIEW CONTINUED

FOUNDRY CONTINUED

The disappointing financial performance of games published under the Foundry games label resulted in non-cash intangible asset impairment and accelerated amortisation charges totalling £13.7 million being recorded in FY23, with £10.6 million being accelerated amortisation charges reflecting the relatively steep decline of Foundry game sales post-release compared with the more sustained trends for Frontier developed games, together with Foundry game asset impairments totalling £3.1 million.

COMPLEX GAMES

In November 2022 Frontier added a new development team with the acquisition of experienced game development studio Complex Games, following the successful collaboration between Complex and Frontier on the development and publication of turn-based strategy game *Warhammer 40,000: Chaos Gate – Daemonhunters*, which is the biggest selling game published under the Foundry games label.

Founded in 2001 by Noah Decter-Jackson and Adrian Cheater, Complex has over 21 years of experience in a wide variety of game genres and platforms. The studio is based in Winnipeg, in the Canadian Province of Manitoba, and at acquisition Complex employed 18 talented people, primarily developers. As at 31 August 2023 the team had grown to 25.

The acquisition, which is Frontier's first, supports Frontier's strategic objectives through the creation of a core development footprint for Frontier in Canada, a region with an extensive and growing talent pool for video game development. Frontier intends to grow the development team in Winnipeg to support future growth.

Having worked closely during the development and launch of *Warhammer 40,000: Chaos Gate – Daemonhunters*, the acquisition had been de-risked through a deep mutual understanding and alignment of the culture, ability and ambition of the two companies, and the closer collaboration achieved by the acquisition has enabled Complex and Frontier to more effectively nurture *Warhammer 40,000: Chaos Gate – Daemonhunters*.

In the medium to long term, the growing development team in Winnipeg will add to Frontier's game portfolio through the application of Frontier's Select, Develop,

Launch, & Nurture strategy, which will support Frontier's continued delivery of sustainable and profitable growth.

Frontier acquired 100% of the shares in Complex for an upfront cash consideration of CAD\$13.3 million (£8.4 million). Conditional deferred cash consideration of up to CAD\$5.2 million (£3.3 million) will be payable subject to Complex meeting certain operational milestones during the period to 31 December 2023. In addition, the four employee shareholders - the two founders and the two studio principals - will participate in a five-year profit-share cash earn-out scheme, which aligns with Frontier's strategy to Select, Develop, Launch, & Nurture new games developed by the Winnipeg studio.

The total maximum upfront and deferred consideration of up to CAD\$18.4 million (£11.7 million) will be funded from Frontier's existing cash resources. The additional profit-share earn-out of up to CAD\$11.8 million (£7.5 million) payable annually over five years to the four employee shareholders will be funded from future cash profits generated from games developed by the Winnipeg studio.

Net identifiable assets and liabilities on acquisition totalled net assets of £1.2 million and fair value adjustments in respect of assets identified through the purchase price allocation (PPA) process totalled £2.9 million. This resulted in a goodwill balance of £7.7 million being recognised on the consolidated statement of financial position on acquisition. Further information is included in note 9 of the financial statements.

Integration activities and growth plans for Complex are on track, and the acquisition delivered modest accretive financial benefits in FY23, as expected.

Following Foundry activity ceasing, the operations of Complex, including *Warhammer 40,000: Chaos Gate – Daemonhunters* and future games developed, will be reclassified into our portfolio of internally developed titles.

FINANCIAL PERFORMANCE

FY23 revenue of £104.6 million fell short of our record revenue of £114.0 million in FY22 following the underperformance of *F1® Manager 2022* against original expectations, the general sales underperformance across the portfolio during the Christmas holiday period and disappointing sales

for Foundry games. As a result of this, gross profit decreased to £67.3 million (FY22: £73.6 million) with a gross profit margin of 64% (FY22: 65%). The small reduction in our gross profit margin percentage in FY23 versus FY22 was mainly due to subscription deals, which do not attract commission payable, representing a higher proportion of revenue in FY22 than in FY23.

Gross research and development (R&D) expenses in the period grew by 11% to £52.9 million (FY22: £47.5 million). The substantial year-on-year growth reflected our continued investment to support our growth strategy through three main areas: investment in our team including significant headcount growth; the staff costs in respect to Complex Games from November 2022; and investment in Foundry development partner projects.

Development costs for supporting Foundry games in FY23 were £9.6 million, representing 18% of total gross R&D investment. Following the decision to cease activities for any new games for Foundry, there will be a significant reduction in this spend in FY24, although post-release development funding and support are being provided in FY24 for *Stranded: Alien Dawn* and *The Great War: Western Front*.

Capitalisation of costs for game development related intangible assets, together with continued investment in our leading game technology, accounted for £37.6 million in the year (FY22: £35.2 million). Costs related to the development of new chargeable Frontier or Foundry content, or the development of technology to support new content, 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 FY23 represented 71% of gross R&D expenditure which was similar to FY22 (74%).

Amortisation and impairment charges for intangible assets related to game developments and Frontier's game technology grew to £52.6 million in total for the year (FY22: £33.9 million) including the additional one-off non-cash Foundry intangible asset impairment and accelerated amortisation charges of £13.7 million and the *F1® Manager* non-cash impairment charge of £15.0 million. In the prior year, FY22, a one-off, non-cash impairment charge of £7.4 million was recorded for *Elite Dangerous: Odyssey*.

For FY24 the Company has reviewed and updated its approach to intangible asset identification and amortisation following the incremental accounting charges suffered in FY22 and FY23. As a result of this review, intangible assets related to games and PDLC which release after 1 June 2023 will be amortised more rapidly in the first 12 months following their release, through the adoption of a steeper amortisation charge profile than the previous default method of straight-line amortisation. This updated approach will not impact Adjusted EBITDA, which is a measure of cash profit, but it may have a short-term adverse impact on reported operating profit in FY24 as we transition from the previous amortisation profile to the updated model. Updated amortisation profiles were applied in FY23 to Foundry games which released in the period and to the *F1® Manager* game franchise.

Net research and development expenses recorded in the consolidated income statement, being gross spend, less capitalised costs, plus amortisation and impairment charges, increased to £67.9 million in FY23 (FY22: £46.2 million). The substantial rise reflected a combination of our increased investment in newly released and future content, together with the large one-off, non-cash Foundry and *F1® Manager* intangible asset impairment and accelerated amortisation charges.

Sales, marketing, and administrative expenses remained largely the same at £26.1 million in FY23 (FY22: £25.9 million) as a result of sustained investment in marketing to support the launch of *F1® Manager 2022*, our major new game release in the year, new Foundry titles, and our existing game portfolio, including new PDLC releases and price promotion events, as well as slightly higher administration costs due to the continued growth of the business.

Overall, net operating expenditure in FY23 grew to £93.9 million (FY22: £72.1 million), mainly as a result of higher net research and development expenses, along with the additional non-cash intangible asset impairment and accelerated amortisation charges of £28.7 million which were due to the financial performance of Foundry and the *F1® Manager* series. After taking account of those charges, this resulted in an operating loss as reported under IFRS of £26.6 million (FY22: profit of £1.5 million).



We're confident that a renewed focus on our proven strategy will deliver for all of our stakeholders."

FINANCIAL PERFORMANCE CONTINUED

Adjusted EBITDA*, a measure of cash profitability whereby game development costs are expensed as they are incurred, was in line with the expectations set in January 2023, being a loss of £4.6 million (FY22: profit of £6.7 million). The year-on-year reduction reflected the decrease in revenue, an increase in costs, and continued investment in future games as Frontier gears up to deliver two new game releases per financial year from FY24 onwards.

On corporation tax, Frontier continues to benefit strongly from HMRC incentive schemes, specifically Video Games Tax Relief (VGTR), R&D tax credits and Patent Box. Frontier receives enhanced corporate tax deductions on certain expenditures under the VGTR and R&D tax credit schemes, both of which help to reduce taxable profits.

Frontier elected into HMRC's Patent Box regime in FY21, making claims for patent-related profits from FY19 onwards. Patent Box has delivered benefits from FY21 onwards, including in the form of enhancements to the value of tax losses carried forward to future periods. The full effect of the benefits of the Patent Box claim will therefore be realised through cash tax benefits in the future.

Frontier also benefited during the period from tax deductions related to employee share option gains. The combination of the enhanced tax deductions on expenditures and share option tax deductions in the period, together with tax adjustments for prior periods, generated a corporation tax credit of £5.6 million in the consolidated income statement in FY23 (FY22: £8.7 million).

Loss after tax for FY23 was £20.9 million (FY22: profit of £9.6 million) and the basic loss per share was 53.6p (FY22: earnings per share of 24.6p).

BALANCE SHEET AND CASHFLOW

We are well capitalised, with £28.3 million of cash at 31 May 2023 (31 May 2022: £38.7 million) and £24.8 million at 31 August 2023. The £10.4 million reduction in cash during FY23 reflected a greater investment in significant game developments for release in future years, working capital movements, £10.9 million for the acquisition of Complex, and the £3.0 million purchase of shares by the Employee Benefit Trust undertaken

in May 2023. Cash would have grown in FY23 if the acquisition and share purchases are disregarded.

Goodwill relates wholly to the acquisition of Complex Games in November 2022, with a balance of £7.2 million at 31 May 2023 following a £0.5 million exchange rate movement in the period (31 May 2022: £nil).

Our other intangible asset values include game technology, internal game developments, Foundry game developments, third-party software, and IP licences. Total other intangible assets decreased during the year to £57.0 million at 31 May 2023 (31 May 2022: £70.8 million) as a result of the Foundry and *F1® Manager* impairment and accelerated amortisation charges. Our investments in the year related to our own internally developed titles, including new content for our existing portfolio, our technology, and support for our Foundry partner developments. Those investments in new content and technology were more than offset by amortisation and impairment charges which included the one-off £28.7 million adjustment for Foundry and *F1® Manager* 2023.

Property, plant and equipment relate mainly to IT equipment and the fit-out of the leased studio facility, which the Group has occupied from April 2018. The net balance at 31 May 2023 was £5.7 million (31 May 2022: £6.6 million).

Following the adoption of IFRS 16 "Leases" effective for Frontier from 1 June 2019, the consolidated statement of financial position at 31 May 2023 includes a right-of-use asset valued at £17.9 million (31 May 2022: £19.5 million) for the Group's lease over its headquarters studio building in Cambridge. A similar figure (the difference related to timing of actual rental payments) of £19.3 million at 31 May 2023 (31 May 2022: £20.7 million) is recorded on the consolidated statement of financial position as a lease liability, split between current and non-current liabilities.

Trade and other receivables due within one year totalled £15.6 million at 31 May 2023 (31 May 2022: £24.7 million) with the majority of the balance related to gross revenue due from digital distribution partners. The year-on-year decrease primarily relates to higher revenue in the final months of FY22 versus FY23, which included *Jurassic World Evolution 2* entering Microsoft's Game Pass subscription service in May 2022.

Trade and other payables due within one year totalled £16.5 million at 31 May 2023 (31 May 2022: £21.8 million), being mostly made up of distribution platform commissions, IP licence royalties and developer royalties due on the sales transactions not yet settled, and other staff-related accruals. The decrease in liabilities largely relates to the year-end revenue variances mentioned above and the absence of a bonus provision being included at 31 May 2023 due to the minimum bonus performance payout not being achieved.

Within non-current liabilities (amounts due after 12 months) a balance of £4.2 million is held at 31 May 2023 (31 May 2022: £6.1 million) which includes IP licence costs for the minimum guaranteed royalties payable on the licences with Formula 1® and Games Workshop.

The current tax asset balance at 31 May 2023 of £9.4 million (31 May 2022: £7.9 million) relates to the filed tax returns, including VGTR claims, for FY22, and the draft tax returns for FY23. In June 2023, £3.9 million was received from HMRC related to the FY22 tax returns.

The net balance for deferred tax assets less deferred tax liabilities recorded at 31 May 2023 was a liability £0.4 million (31 May 2022: £1.3 million asset). Deferred tax assets and liabilities have been recorded at 31 May 2023 for the estimated values of temporary differences, the potential value of tax deductions relating to future share option exercises, and a portion of carried forward tax losses in the Group.

The Group's tax arrangements concerning income streams under VGTR and Patent Box enhancements can be complex, and at 31 May 2023 there was insufficient certainty concerning the utilisation of other tax losses to create any other deferred tax assets related to accumulated losses. The Group's total unrecognised tax losses as at 31 May 2023 were £80.2 million (31 May 2022: £50.2 million).

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