A RECORD YEAR FROM A GREAT PORTFOLIO

ALEX BEVIS CFO AND COMPANY SECRETARY

"We look to the future with confidence."

OVERVIEW

Our existing portfolio of games, supported by new content and new platforms for those games through our nurturing post-release model, delivered record financial results in FY21 with revenue of £90.7 million (FY20: £76.1 million) and operating profit of £19.9 million (FY20: £16.6 million). The fact that we delivered record numbers without releasing a major new game demonstrates the success of our "Launch and Nurture" model. As ever our financial performance reflects the hard work of our talented people who continue to support our global game communities. We look to the future with confidence based on our growing team, our great portfolio, our exciting roadmap and our strong financials.

TRADING

All four of our genre-leading game franchises benefitted from new content and/or new platforms during FY21. Our strategy of supporting and nurturing our titles post-release continues to pay dividends, with all of our titles providing material financial contributions in FY21 through both base game sales and PDLC. We supported our growing *Planet Zoo* player community, our most recent game which released in November 2019, with three PDLC packs in FY21. We now have seven packs in total as at 8 September 2021. Alongside free content, PDLC packs help to keep the game fresh for existing players while helping to entice new players to join the *Planet Zoo* community, resulting in additional revenue from the newly released PDLC as well as existing PDLC and the base game. *Planet Coaster* and *Jurassic World Evolution* revenues benefitted from new platforms, while sales on their existing platforms continue to perform strongly. *Planet Coaster*, which launched on PC in November 2016, came to console in November 2020 with *Planet Coaster: Console Edition* for Xbox Series X|S, Xbox One, PlayStation 4 and PlayStation 5. *Jurassic World Evolution*, which released in June 2018 on PC, Xbox One and PlayStation 4, further expanded its audience through the launch of *Jurassic World Evolution: Complete Edition* on Nintendo Switch in November 2020. *Elite Dangerous* benefitted from both new channels and new content in the period. In November 2020 *Elite Dangerous* released on the Epic Games Store, including participation in Epic's Free Games Week at launch which significantly increased the player base while generating additional revenue. In May 2021 we released our most ambitious expansion to date for *Elite Dangerous*, *Elite Dangerous: Odyssey*, which generated launch revenues on PC in that month. The overall reception to this major content update has been disappointing, but we are confident that as we improve and enhance the *Odyssey* experience we will see more and more Commanders engaging with the expansion.

Alongside our internally developed portfolio, Frontier Foundry, our games label for third-party publishing, delivered its first revenues in FY21 through the release of *Struggling* and *RollerCoaster Tycoon® 3: Complete Edition*, with each title launching on PC and Nintendo Switch. Frontier Foundry is set to grow significantly in FY22 with the release of at least three new titles.

The performance of our four game franchises together with Frontier Foundry generated total revenue in FY21 of £90.7 million (FY20: £76.1 million). Delivering a record sales performance without a major new game launch shows the strength of our strategy to support our games post-launch. Our primary sales strategy is through digital distribution, working with key partners like Steam, Epic, Humble and Genba on PC and with console owners: Microsoft for Xbox, Sony for PlayStation and more recently Nintendo for Switch. Digital sales represented 96% of revenue in FY21, with only 4% from sales of physical discs (FY20: 3%), despite the release of physical discs for *Planet Coaster* on its release on Xbox and PlayStation in November 2020.

Gross profit was £63.1 million in the year (FY20: £51.6 million) with gross margin at 70% (FY20: 68%). Our gross margin percentage tends to vary across different periods based on four main factors: the split of own-IP versus licensed IP game revenue (since licensing IP attracts royalty costs), variations in commission rates on digital stores (for example Steam versus Epic), revenue from subscription models such as Microsoft's Game Pass, and the proportion of revenue derived from the sale of physical discs. Our gross margin percentage in FY21 increased by 2% versus FY20 mainly through a higher proportion of sales from own-IP games together with higher subscription model revenue from Microsoft and Epic.

Gross research and development (R&D) expenses in the period grew by 42% to £34.9 million (FY20: £24.6 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; investment in our portfolio through greater outsourcing activity which allows our internal teams to focus on the most value-adding development work; and investment in Frontier Foundry development partner projects.

Capitalisation of costs for game development related intangible assets, together with continued investment in our leading game technology, accounted for £27.8 million in the period (FY20: £19.8 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 FY21 represented 80% of gross R&D expenditure which is consistent with prior periods (FY20: 80%).

Amortisation charges for game development and game technology related intangibles grew to £14.9 million for the period (FY20: £11.2 million). The increase released a full year of amortisation for *Planet Zoo*, which released half way through FY20, together with amortisation charges for releases during FY21; *Planet Zoo* PDLC packs; new platform launches for *Planet Coaster* and *Jurassic World Evolution*; and *Elite Dangerous: Odyssey*.

Net research and development expenses recorded in the income statement, being gross spend, less capitalised costs, plus amortisation charges, increased to £22.0 million in FY21 (FY20: £16.0 million) with the majority of the rise related to amortisation charges.

Sales, marketing and administrative expenses totalled £21.2 million in FY21 (FY20: £18.9 million) as a result of greater investment in marketing to support our portfolio combined with the slightly higher administration costs.

Overall net operating expenditure in FY21 grew to £43.2 million (FY20: £34.9 million) with higher costs across all three areas: R&D, Sales & Marketing, and Administration.

Operating profit grew by 20% to £19.9 million in FY21 (FY20: £16.6 million) which is a Company record. Operating margin of 22% was achieved in FY21, which is consistent with the performance in both FY20 and FY19.

EBITDA (earnings before interest, tax, depreciation and amortisation) increased to £38.1 million (FY20: £31.5 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'.

Frontier benefits from enhanced corporate tax deductions on certain expenditures under the Video Games Tax Relief (VGTR) scheme and under the R&D Tax Credits scheme, both of which help to reduce taxable profits. Frontier also benefitted 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 £2.4 million in the income statement in FY21 (FY20: corporation tax charge of £0.3 million).

TRADING CONTINUED

During FY21, Frontier elected into HMRC's Patent Box Regime and made a patent box claim on patent-related profits from FY19 onwards. The patent box claim had little impact on the FY21 income statement tax credit, however, as the benefits were realised through a substantial increase in the tax losses carried forward to future periods. The effect of the patent box claim will therefore be realised through cash tax benefits in the future.

Profit after tax for FY21 grew by 36% to £21.6 million (FY20: £15.9 million) and basic earnings per share increased 34% to 55.4p (FY20: 41.3p).

BALANCE SHEET AND CASHFLOW

We continue to benefit from a strong balance sheet, with £42.4 million of cash at 31 May 2021 (31 May 2020: £45.8 million). The total net cash outflow during the year of £3.3 million (FY20: net cash inflow of £10.4 million) included £10 million of investment in Frontier shares purchased by our Employee Benefit Trust, and therefore net cash would have grown by £6.7 million in FY21 excluding those shares purchases. Operating cashflow, which is effectively a measure of 'cash profit' being EBITDA excluding non-cash items less investments in game developments and Frontier's game technology related intangible assets, was £12.2 million in FY21 (FY20: £13.6 million).

Intangible assets includes game technology, internal game developments, Frontier Foundry game developments, third-party software and IP licences. Total intangible assets increased by £18.6 million to £71.3 million at 31 May 2021 (31 May 2020: £52.7 million). The majority of the growth related to investments in our own internally developed titles, including new content and platform releases for our existing portfolio, together with investments in Frontier Foundry partner developments.

Tangible assets relate mainly to IT equipment and the fit-out of the leased office facility, which the Company occupied in April 2018. The net balance at 31 May 2021 was £6.1 million (31 May 2020: £5.9 million).

Following the adoption of IFRS 16 "Leases" effective for Frontier from 1 June 2019, the Company's balance sheet at 31 May 2021 includes a right-of-use asset valued at £21.1 million (FY20: £22.7 million) for the Company's lease over its headquarters office building in Cambridge. A similar figure (the difference related to timing of actual rental payments) of £22.2 million at 31 May 2021 (31 May 2020: £23.5 million), is recorded on the balance sheet as a lease liability, split between current and non-current liabilities.

Trade and other receivables totalled £13.7 million at the end of the period (31 May 2020: £12.3 million) with the majority of the balance related to gross revenue due from digital distribution partners.

Trade and other payables totalled £14.8 million (31 May 2020: £13.7 million) being mostly made up of distribution platform commissions due on the sales transactions not yet settled, and bonus costs and other staff related accruals.

Within non-current liabilities (amounts due after 12 months) a balance of £9.2 million is held at 31 May 2021 (31 May 2020: £8.2 million) which includes IP licence costs for the minimum guaranteed royalties payable on the licences signed with Formula 1® and Games Workshop in FY20.

The current tax asset balance as at 31 May 2021 of £6.5 million (31 May 2020: £2.4 million) relates to the tax returns, including VGTR claims, for FY19 and FY20, and for the draft tax return for FY21. In June 2021 £4.0 million was received from HMRC related to the FY19 and FY20 tax returns.

Deferred tax assets and liabilities have been recorded as at 31 May 2021 for the estimated values of temporary differences, and the potential value of tax deductions relating to future share option exercises. The net balance for deferred tax assets less deferred tax liabilities recorded as at 31 May 2021 totalled £0.4 million (31 May 2020: £2.1 million). Due to the expected continued benefit from enhanced tax deduction schemes in future periods and the streaming of profits and losses in different trades, a deferred tax asset for carried forward tax losses has not been recognised as at 31 May 2021 as it is uncertain when they will be utilised. The same situation applied at 31 May 2020. The estimated tax value of losses carried forward at 31 May 2021 is £10.0 million (31 May 2020: £3.8 million).

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CFO AND COMPANY SECRETARY
8 September 2021