

# **2016 Half year results**

**Anthony Sethill, CEO**

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*27 September 2016*

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# Highlights (H1 2016)

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## Healthcare disposal

- Healthcare division sold in July 2016
    - consideration of £1.3m plus ten-year royalty agreement
    - associated losses eliminated
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## Continuing operations

- Continuing operations moving towards break-even
    - revenues from continuing operations flat at £13.7m (H1 2015: £13.8m)
    - R&D expenditure on continuing operations reduced to £2.8m (H1 2015: £4.7m)
    - EBITDA loss improved to £35k (H1 2015: loss of £2.2m)
  - Expected to be EBITDA positive in H2 2016
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## Cash position

- Cash attributable to continuing business at 30 June 2016: £3.8m (31 December 2015: £7.7m)
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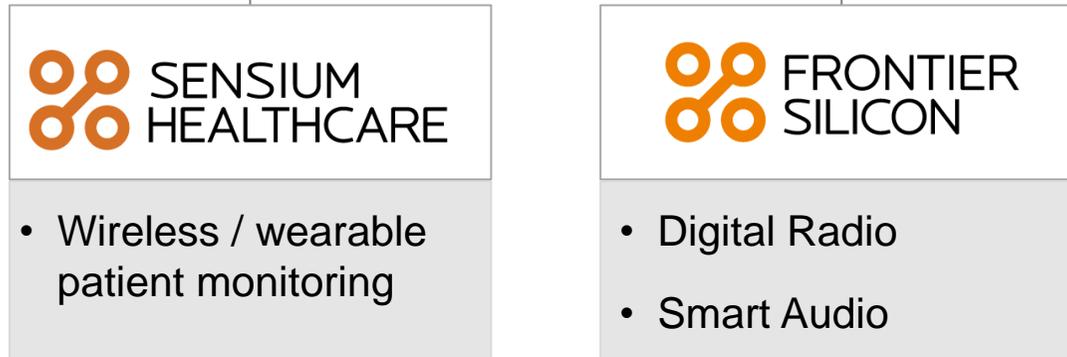
## Corporate repositioning

- Proposed name change to Frontier Smart Technologies Group Limited (AIM: FST)
- Proposed 40 for 1 share consolidation

# Healthcare sold – associated losses eliminated



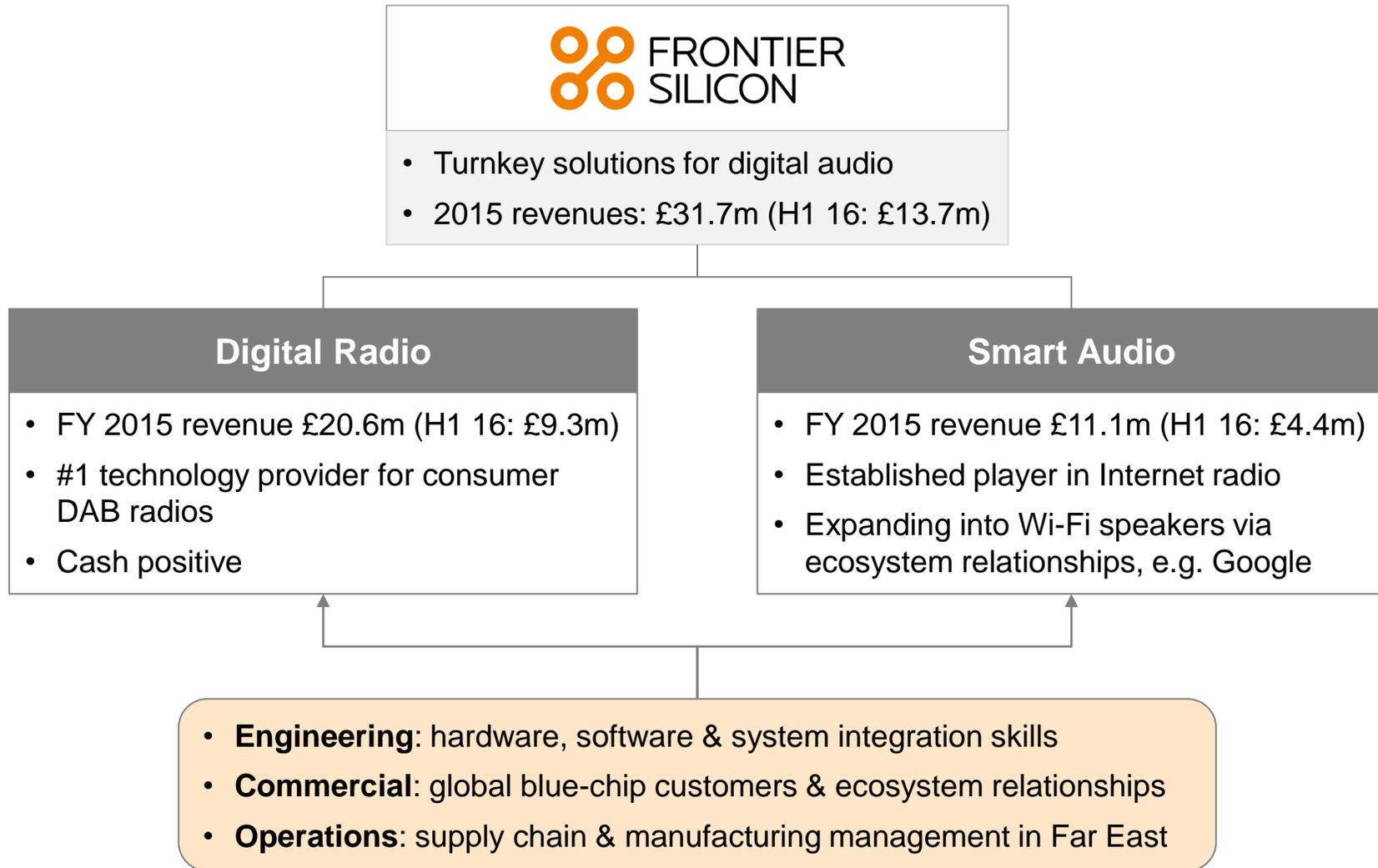
*Disposal*



- Healthcare sold in July (post-strategic review) to The Surgical Company<sup>1</sup>
- Removes associated losses of c.£650k per month
- Consideration £1.3m plus
  - ten year royalties (3% of net revenues for five years, 2% for following five years)
  - 19% of net proceeds if business sold in next four years

(1) Sensium's European distributor

# Group now focused on Digital Audio



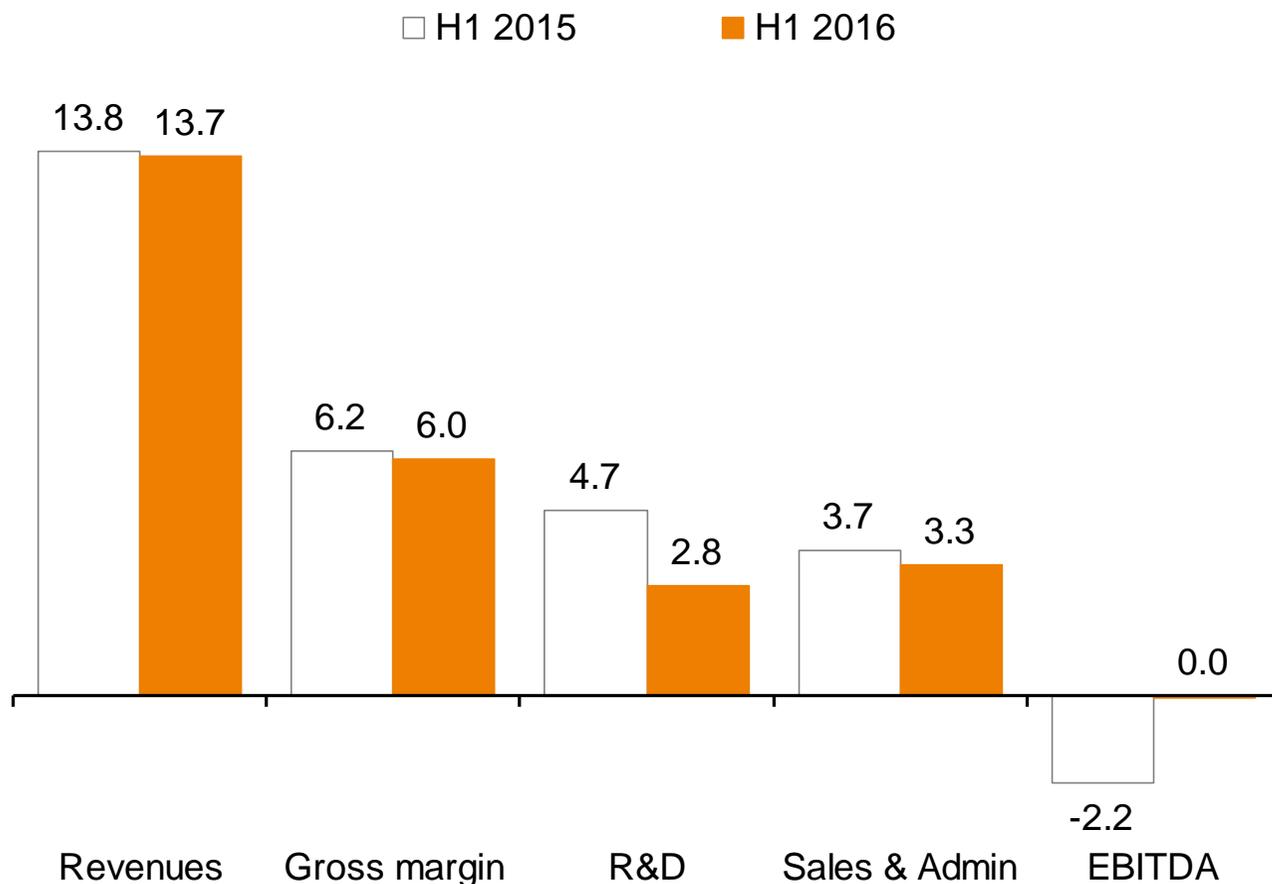
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# H1 revenues flat, EBITDA improved due to lower R&D

Group financial results for continuing businesses, £ millions



- Revenues flat
  - 7% gain in Digital Radio
  - 14% fall in Smart Audio<sup>1</sup>
- Fall in R&D - from 34% to 20% of revenues
  - due to end of silicon development in H1 2015
- EBITDA improved to -£35k
  - expected to be EBITDA positive in H2 2016

(1) Due mainly to one-off project revenues of £0.5m in H1 2015

# H1 2016 Income statement

	2016 £m	Restated 2015 £m
<b>Revenue</b>	13.7	13.8
Cost of sales	(7.7)	(7.6)
Gross margin	<u>6.0</u>	<u>6.2</u>
Research & development costs	(2.8)	(4.7)
Sales & administrative costs	(3.3)	(3.7)
<b>EBITDA</b>	<b>0.0</b>	<b>(2.2)</b>
Depreciation and amortisation	(1.4)	(1.4)
Other non trading costs	1.0	(3.4)
Loss for the period from continuing operations	<u>(0.5)</u>	<u>(7.0)</u>
Loss for the period from discontinued operations	<u>(14.2)</u>	<u>(3.3)</u>
Loss for the period	<u>(14.7)</u>	<u>(10.3)</u>
Unit volumes shipped (m)	<b>2.3</b>	<b>2.1</b>

- Sterling denominated revenues broadly flat but as recorded in underlying dollars revenue is down by 6.2% (H1 2016 \$19.7m v H1 2015 \$21.0m)
- Units up 9.5%
- Gross margin down 3%
- R&D costs down 40% (on completion of Kino 4 and cessation of silicon development for Smart Audio)
- Sales and administrative costs down by 11%, due to cost control measures
- Other non-trading costs relate to forex, share based payments and R&D tax credits. 2015 included an impairment against Danube assets.

# Balance sheet

£m	30-Jun-16	30-Jun-15	31-Dec-15
<b>Non-current assets</b>			
Goodwill	8.5	19.1	19.1
Other intangible assets	9.7	14.3	11.5
Property, plant and equipment	0.5	0.7	0.7
	<b>18.7</b>	<b>34.1</b>	<b>31.3</b>
<b>Current assets</b>			
Inventory	3.1	3.0	2.8
Tax receivable	1.0		1.3
Trade and other receivables	7.3	4.8	6.3
Cash and cash equivalents	3.4	5.5	7.7
	<b>14.8</b>	<b>13.3</b>	<b>18.1</b>
Assets included in disposal group classified as held for sale	<b>3.6</b>		
<b>Total assets</b>	<b>37.1</b>	<b>47.4</b>	<b>49.4</b>
<b>Current liabilities</b>			
Trade and other Payables	10.0	9.0	11.2
Liabilities included in disposal group classified as held for sale	3.6		
<b>Other liabilities &gt;1 year</b>	3.5		3.7
<b>Total liabilities</b>	<b>17.1</b>	<b>9.0</b>	<b>14.9</b>
<b>Equity</b>			
Share capital	4.3	4.3	4.3
Share premium	115.3	115.3	115.3
Share based payment reserve	4.9	4.0	4.5
Foreign exchange reserve	(0.1)	(0.1)	(0.0)
Retained earnings	(104.4)	(85.1)	(89.6)
<b>Total equity and liabilities</b>	<b>37.1</b>	<b>47.4</b>	<b>49.4</b>

- Cash assets of Group at end of June: £3.8m (includes the cash of the discontinued business)

# Share consolidation

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- The Board believes a Share Consolidation will
  - result in a more appropriate number of shares in issue for a company of Toumaz's size; and
  - make the New Ordinary Shares more attractive to investors going forward
- As at 30 June 2016, the Company had 1,709,830,865 existing ordinary shares in issue
  - low denomination shares mean that small price movements result in high volatility
  - high denomination shares reduce volatility - to the benefit of shareholders
- Directors are proposing that every 40 existing shares be consolidated into one new ordinary share of c.£1.20 each (“the Share Consolidation”)
- Following the Share Consolidation, shareholders will still hold virtually the same proportion of the Company's ordinary share capital as before
  - where fractions of a share are leftover, these will be aggregated by Peel Hunt and sold for the Company's benefit

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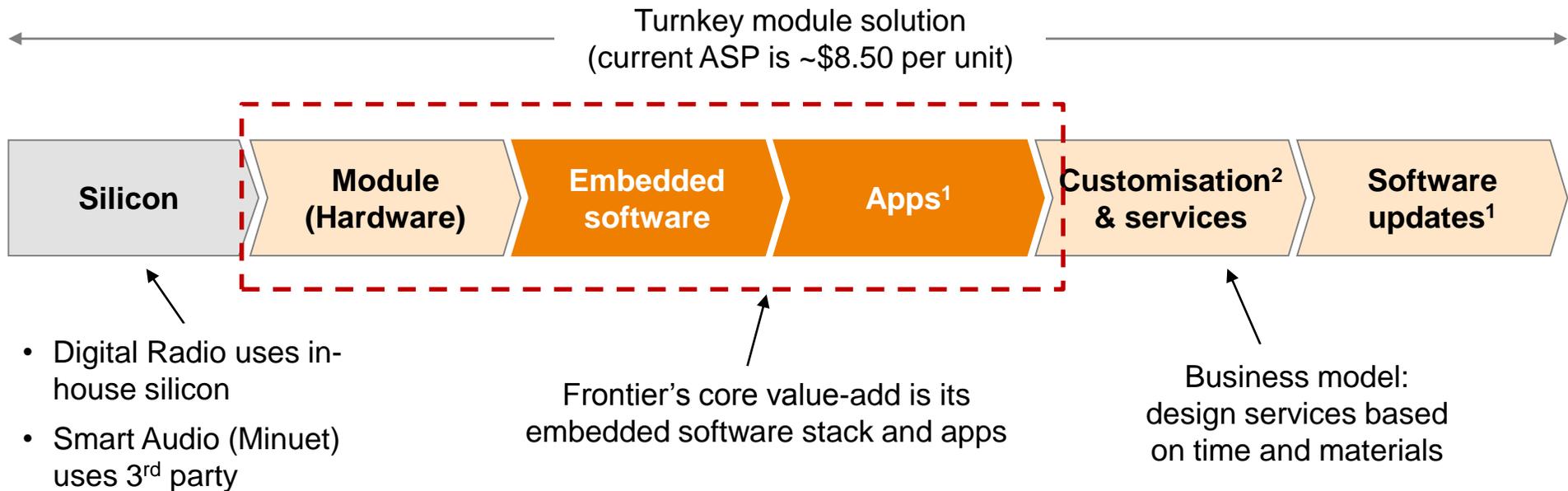
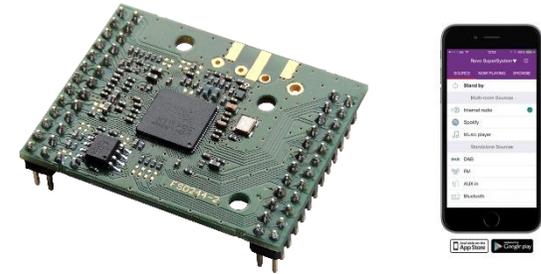
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# Frontier proposition and business model

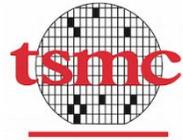
## Frontier activities across value chain



(1) Smart audio only (2) "Non-recurring engineering" (NRE) – currently accounts for <5% of revenues

# Partners and customers (examples)

## Technology



## Ecosystem players



## Content services



## Customers



# New Group name - proposal

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- Propose to change Group name to Frontier Smart Technologies Group (AIM: FST)
  - reflects Group focus and activities
- Group focus is on Digital Audio (Digital Radio and Smart Audio)
  - Frontier name has significant brand equity with customers / partners (14 years' trading)
  - potential to expand from Smart Audio to Smart Home
- Activities
  - software, module hardware and systems integration
  - no new silicon developments planned
- General Meeting set for 1<sup>st</sup> November 2016 to approve

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# Market leader in Digital Radio

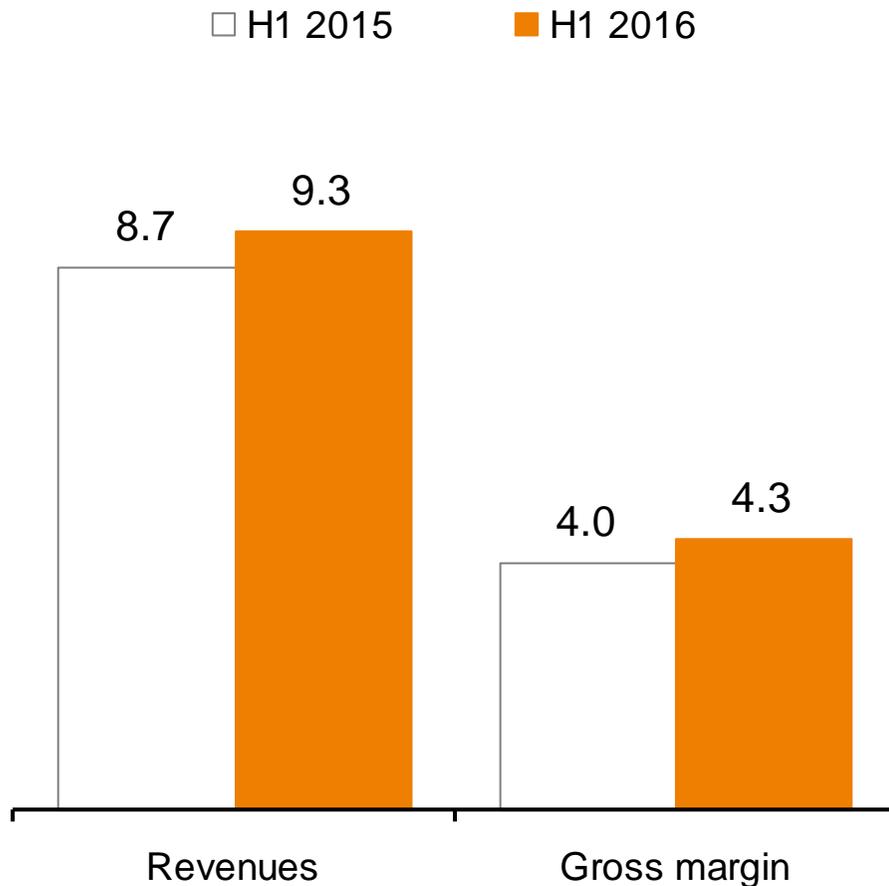


- Frontier is world's #1 solution provider for consumer DAB radios<sup>1</sup>
  - blue chip customers and retail own brand
  - 80% market share
- Competitive position maintained by technology and delivery leadership
  - 4th generation silicon: class leading functionality / lowest power consumption
  - consistent provider of best customer support and most reliable solutions
  - tight management of Far East manufacturing and operations

(1) DAB / DAB+ domestic and automotive aftermarket only - Frontier does not provide solutions for line fit automotive

# H1 revenues - up 7% year on year

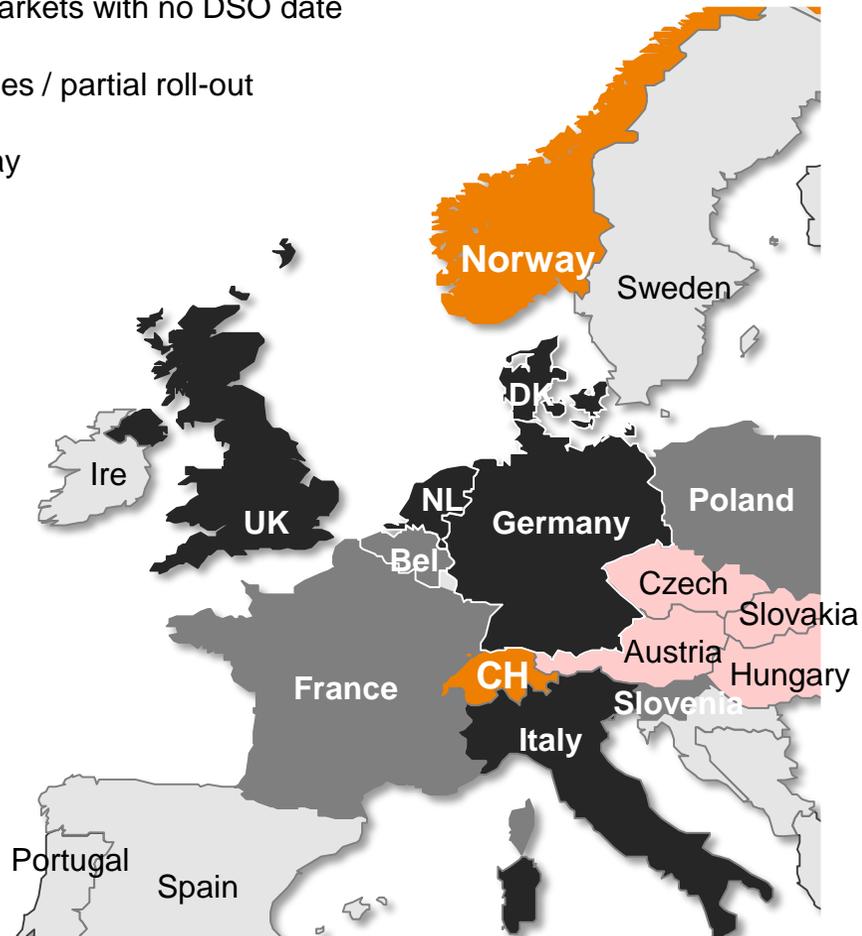
## Digital Radio H1 financial results, £ millions



- Revenues up 7% and margins up 8%
  - volumes up 11% to 2.0m (H1 2015: 1.8m)
  - ASPs down 5% to £4.52 (H1 2015: £4.77)
- Gross margin percentages stable as customers adopt new Kino 4 solutions
- Key driver of growth: development of DAB markets in continental Europe
- H2 expected to see slower growth; full year revenues / gross margin likely to be broadly flat year on year

# Future prospects based on volume growth

- Established markets with Digital Switchover (DSO) date
- Established markets with no DSO date
- Recent launches / partial roll-out
- Trials underway



- Global market H1 volumes up 11%
- First Digital Switchovers (DSO):
  - Norway (2017)
  - Switzerland (2020-24)
- German / NL market volumes growing strongly: H1 up 30%
- France, Belgium and Slovenia are next emerging markets
- UK likely to achieve criteria (in 2017) which could trigger a DSO decision – but Government policy not yet clear

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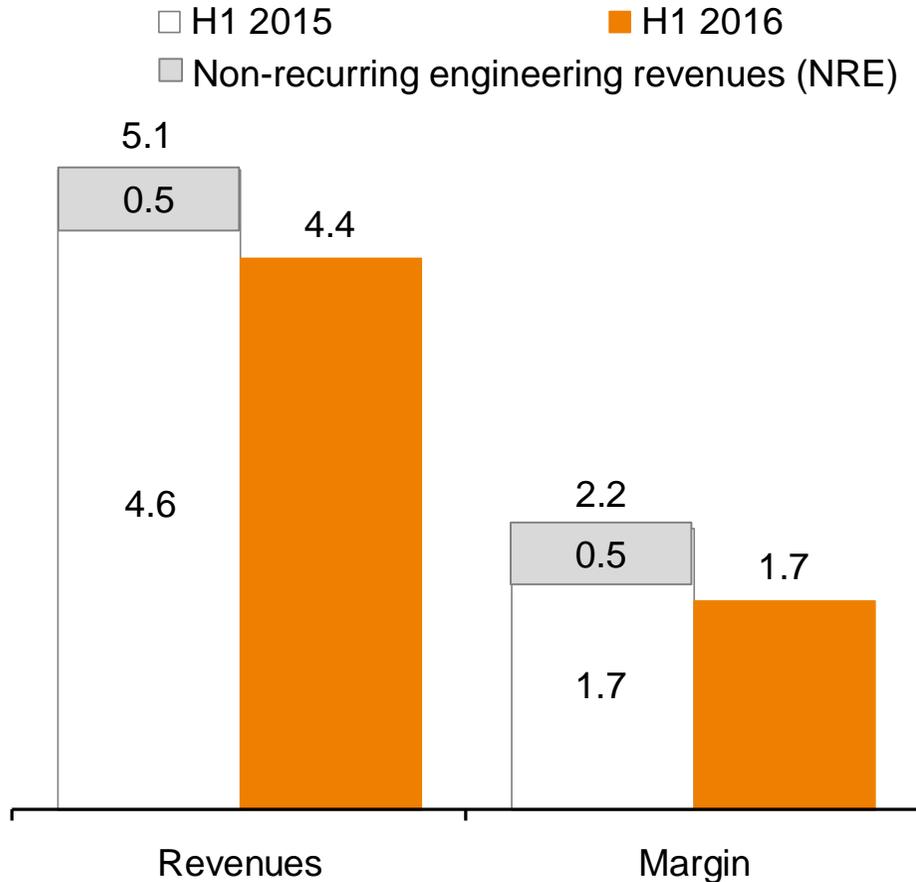
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# H1 revenues - down 14% due to Google design services in 2015

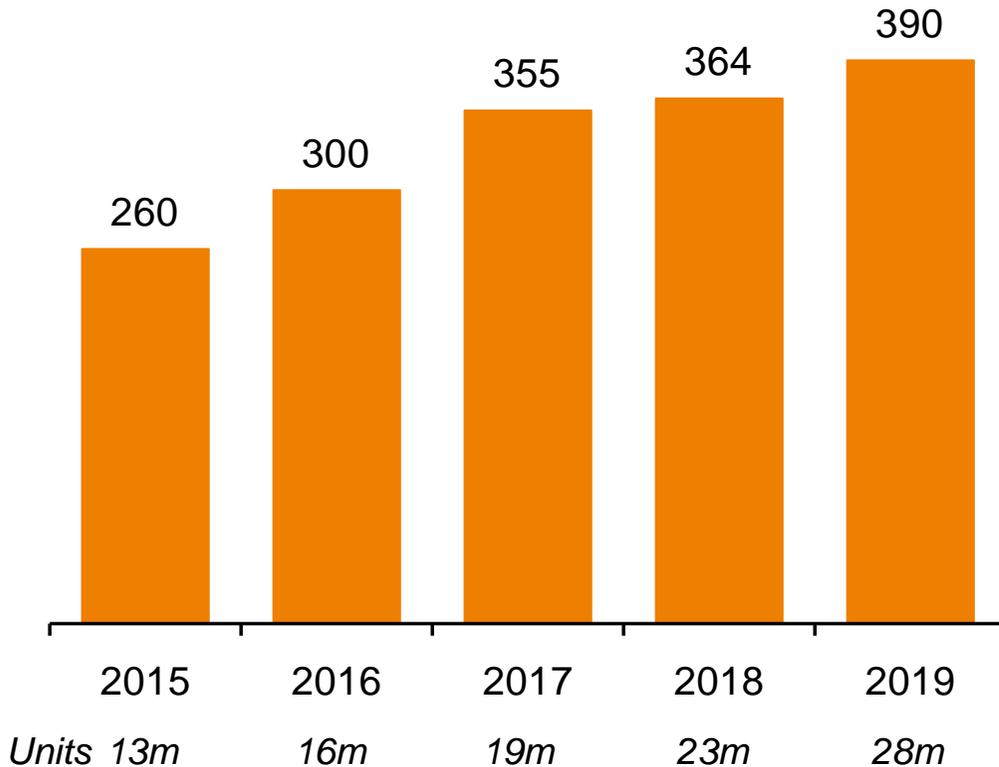
## Connected Audio H1 financial results, £ millions



- 14% decline in H1 revenue mainly due to non-recurring engineering revenues (NRE) of £0.5m in H1 15
- Excluding NRE, revenues down 4%, due to customers awaiting next generation solution (Minuet for Google Cast)
  - volumes down 7% to 330k (350k)
  - ASPs up 3% to £13.31 (£12.94)
- FY 2016 Smart Audio revenues (including NRE) expected to show single figure growth
  - with stronger H2 performance following first shipments of Minuet

# Smart Audio (Wi-Fi) growth opportunity

Smart Audio solutions: total addressable market, \$m<sup>1</sup>



- In 2015, 87% of home audio shipments<sup>2</sup> were wireless – by 2017, 98%
  - market predominantly Bluetooth due to its simplicity and cost advantages
- Wi-Fi volumes forecast to double in four years, driven by
  - superior functionality (e.g. multi-room, voice recognition)
  - falling prices
  - promotion by ecosystem players, e.g. Google
  - launch of new models by leading consumer audio brands

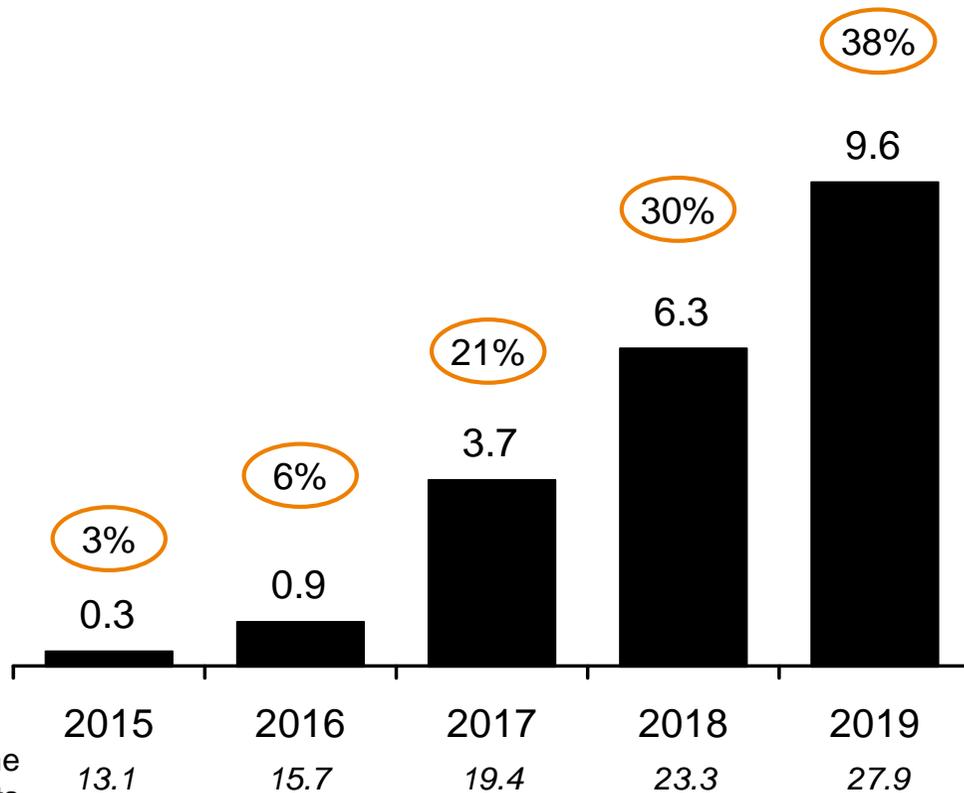
(1) TAM estimates based on Futuresource volumes (May 2016) and Frontier Silicon ASPs

(2) Speakers, soundbars, AVRs, Hi-Fi systems

# Google Cast expected to be major player in Smart Audio

## Worldwide Google Cast audio devices, m

○ Share of Smart Home Audio shipments



- Cast currently in multi-room speakers and premium soundbars
- Drivers of growth
  - integration of multiple content services
  - adoption by leading brands
  - marketing support from Google / brand recognition of Google Cast
  - Google Voice (from 2017)
- In short term, major opportunity is in North America; in medium term, Western Europe expected to follow

Source: Futuresource (May 2016)

# Frontier has launched Smart Audio solution with Google Cast



## Venice 6.5 (existing solution)

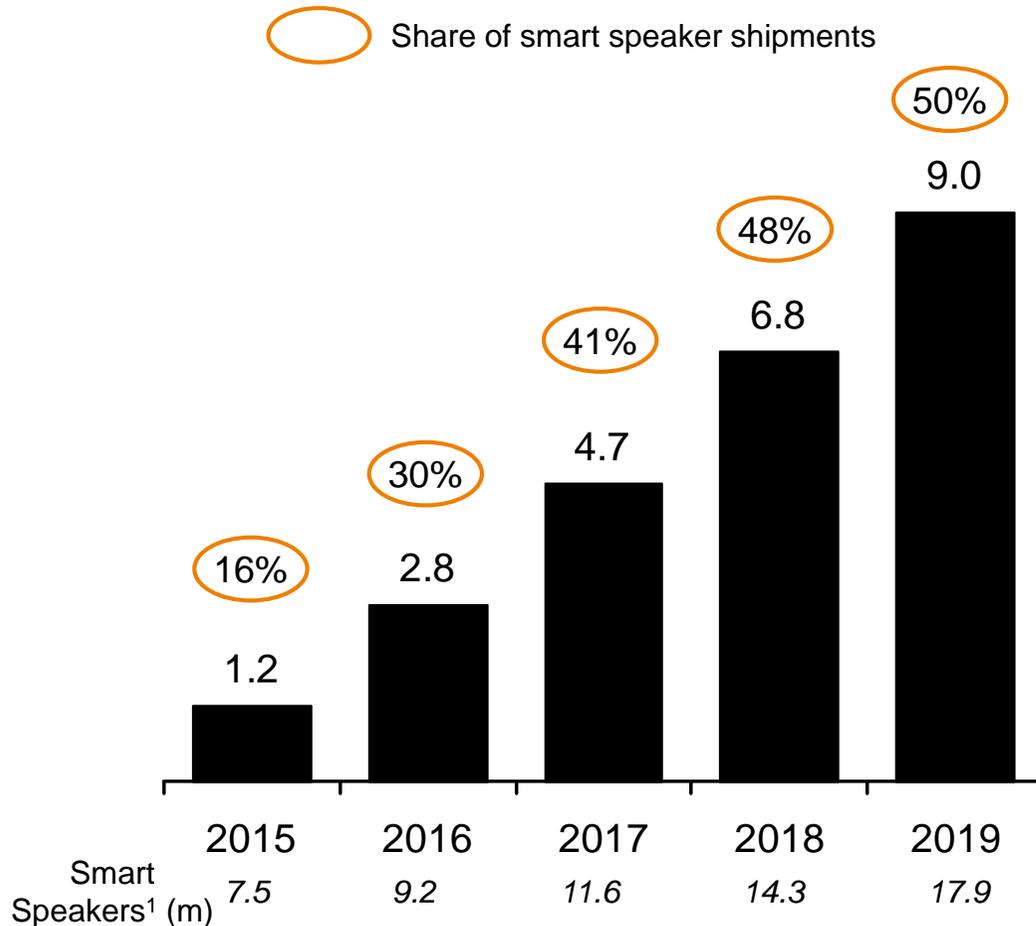
- Cost-optimised solution for Internet radio and wireless speakers (first shipped in 2013)
- Originally designed for Internet Radios
  - based on Frontier Chorus 3 silicon
- Broadened scope with addition of
  - Spotify Connect (2014)
  - Deezer and Napster (2016)
- In 2015, sold 0.8m units

## Minuet (new solution)

- New Google Cast-enabled solution
  - Frontier: one of a small number of players working with Google on Cast
  - based on Marvell silicon
- Now ready for mass production (Sept 2016)
- First design win announced Sept 2016
  - with Harman, the world's largest speaker company (JBL Playlist)

# Voice expected to be important driver of Smart Audio

## Worldwide voice enabled smart speakers, m



- In 2015, Amazon launched Echo voice speaker
  - sold 1.1m units in 2015
  - forecast to achieve ~3m units in 2016
- Drivers of growth: proposition, effective distribution, ecosystem of smart devices
- Amazon working with 3<sup>rd</sup> party CE brands and technology vendors on new Echo-enabled devices
- Frontier assessing how to incorporate voice functionality into next generation solutions
- Other ecosystem players, e.g. Google, to follow

Source: Futuresource (May / Sept 2016) (1) Previous charts refer to Smart Audio devices - Smart Speakers are a subset

# Smart audio – summary and opportunity for Frontier

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## Market opportunity

- To date, Wi-Fi Smart Audio has been niche
  - Sonos<sup>1</sup> (3.3m units in 2015) clear market leader
  - others gaining share, e.g. Bose, Sony, LG, Philips, Denon and Harman
- Introduction of Google Cast for Audio and voice assistants expected to provide impetus – but potential not yet realised
- In short term (to end 2017), opportunity likely to be in US; if successful, expect Western Europe to follow

- Opportunity for Frontier is with those brands seeking outsourced solutions
  - not Tier 1 brands who use 3<sup>rd</sup> party silicon and own in-house engineering
- Competition from four other credible solution providers
- Frontier has greatest scale and reach

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# 2016 Outlook

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## Full year revenues

- 2016 full year revenues expected to show single figure growth on 2015
    - Digital Radio revenues broadly flat
    - Smart Audio revenues to grow by single figure %, with stronger H2 performance following release of Minuet (Google Cast solution)
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## Exchange rate impact

- At global level, Group revenues (in Sterling) have benefited from drop in Sterling / Dollar exchange rate
  - Partially offset by Dollar denominated cost of sales and non-Sterling denominated overheads
  - Increase in import prices expected to have negative impact on UK volumes in 2017 (currently ~30% of Group sales)
- 

## Geographic shift

- Historically, end-users for Frontier-based products (DAB and Internet radios) have been mainly European-based
  - With launch of Minuet, North America expected to become more important for the Group
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## Full year profits

- Expect to be EBITDA positive in H2 2016 and close to break-even (on a continuing basis) for FY 2016

# Conclusions

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## Focus and cash

- Disposal of Healthcare allows Group to focus on Digital Audio
  - Healthcare losses eliminated
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## Market position

- Digital radio market leadership / stable cashflows
  - Well positioned to address emerging opportunities in Smart Audio
    - engineering skills
    - customer relationships (including new design wins)
    - working closely with ecosystem partners
- 

## Priorities

- Key focus now
  - maintain market share in DAB radio
  - deliver on potential in Smart Audio

# Thank You

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