



FRONTIER  
SMART TECHNOLOGIES



Annual General Meeting

14 May 2019

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- Introduction
- Digital Radio
- Smart Audio / IoT
- Summary

# Trading update

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## Key issues

- In short term, three factors affecting Group's trading performance
    - increase in competitive pressures in Digital Radio
    - continued weak sales of Group's legacy Smart Audio hardware
    - ramp-up timing of new Smart Audio/IoT licensing business
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## Financial impact

- For FY 2019, the Board now expects
  - revenues of ~US\$36.6 million
  - Adjusted EBITDA<sup>1</sup> loss no worse than \$0.9 million
  - FY Trading EBITDA<sup>2</sup> loss no worse than US\$1.5 million
- Stronger performance in H2
  - H1 2019: Trading EBITDA loss of c. US\$2.2 million
  - H2 2019: a return to EBITDA profitability, as in FY 2018
- At 30 April 2019, gross cash was US\$2.6 million (net debt of US\$3.9 million)

*1) Adjusted EBITDA means earnings before interest, tax, depreciation & amortisation; and before restructuring, other non-recurring costs & certain non-cash items*

*2) Trading EBITDA means Adjusted EBITDA less R&D costs (of US\$0.6m) which have been capitalised in compliance with IAS38*

# Frontier: focused on two business lines

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## Digital Radio

### *Product focus*

- Chips and modules for
  - DAB radios
  - Smart radios<sup>1</sup>

### *Strategic objectives*

- Standard DAB: maximise cashflows
- Smart radio: create / promote concept of “smart radio” globally

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## Smart Audio / IoT

- Smart audio hardware – legacy business
- Software licensing (audio & non-audio) – new business

- Hardware: control R&D expenditure / leverage ecosystem relationships
- Software licensing: establish team to exploit Group’s software and cloud assets

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# Digital Radio – current position

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## Strategy

- To maximise cashflow in Digital Radio, the business has focused on
    - optimising its structure and products for the mainstream DAB market
    - creating and promoting the concept of “Smart Radio” through its new Venice X product
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## Current trading

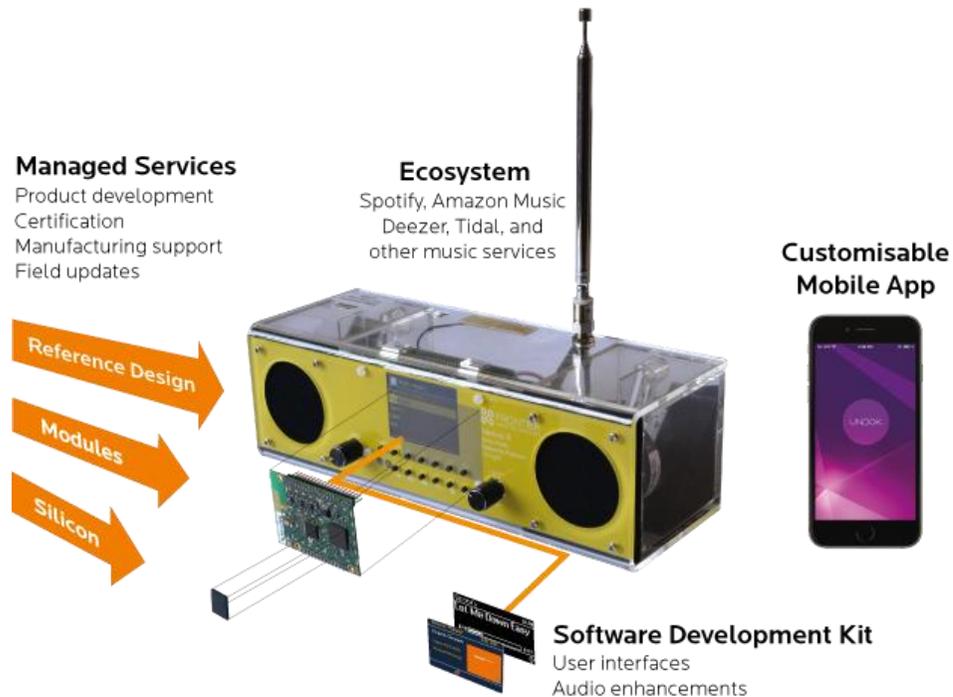
- Forward bookings in Q2-2019 have been below plan. As a result, the Board expects Digital Radio FY-2019 revenues to be c. US\$33.1 million (~8% lower than market expectations)
  - Competition in the sector has intensified in recent months, with new entrants using lower prices as a tool to target the entry level price point segment
  - Frontier successful in retaining Tier 1 global and regional brands but has lost some entry-level business
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## Response

- The Group has introduced its own more aggressive pricing
  - should protect volumes but likely to deliver full-year revenues and margins below market expectations
  - gross margins stabilising at about 40% this year and next

# Smart Radio – new product launch

## Chorus 4 and Venice X



- Smart Radio (DAB, FM and IP) - fastest growing segment of Digital Radio market
- Frontier's new solution, Venice X, enters mass production in Q2 2019
  - cost-optimised module
  - based on Chorus 4, world's first integrated chip for consumer smart radio
- Over 30 design wins secured so far

*Radio via DAB, FM and internet; podcasts and online music services including Spotify and Amazon Music*

# Digital Radio – market developments

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Germany: market up 17% in first two months of year



UK: Government has announced review into future of radio



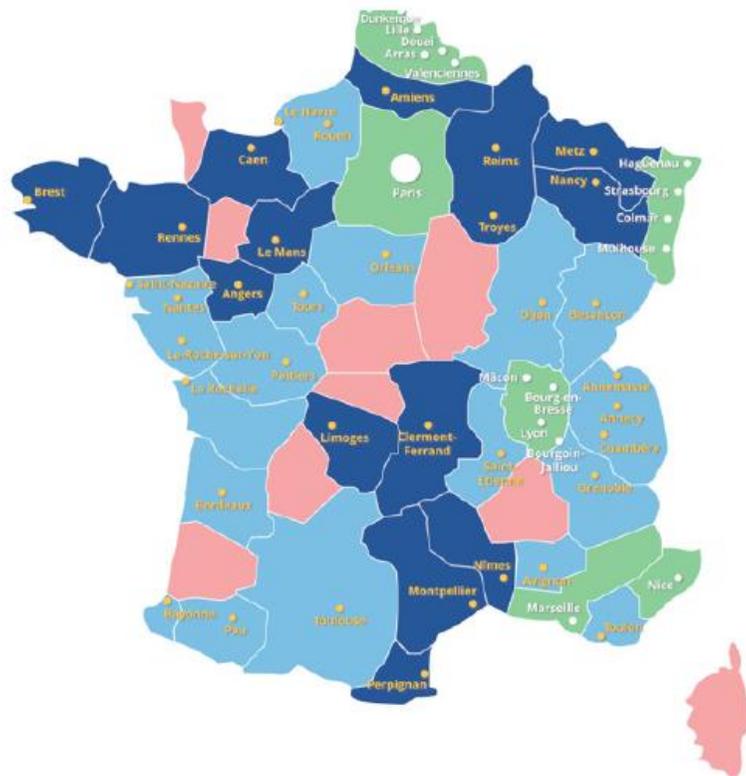
Italy: from 1 Jan 2020, receivers must be digital



Switzerland: announcement about DSO timetable end of August

# France: major new opportunity

## DAB+ coverage



- Areas with services on air
- Services on air 2019 / 20
- Services on air 2020 / 21
- Services on air 2021 / 22

### National / metropolitan

- National services launching in first half of 2020
  - all major commercial broadcasters
  - Radio France

### Receiver regulation

- From Jan 2020, all new consumer receivers legally required to have DAB+

# France: 24 national stations – all major broadcasters participating

Launch H1 2020

## Radio France



## Lagardere



## Le Groupe M6



## Next Radio / Altice



## NRJ

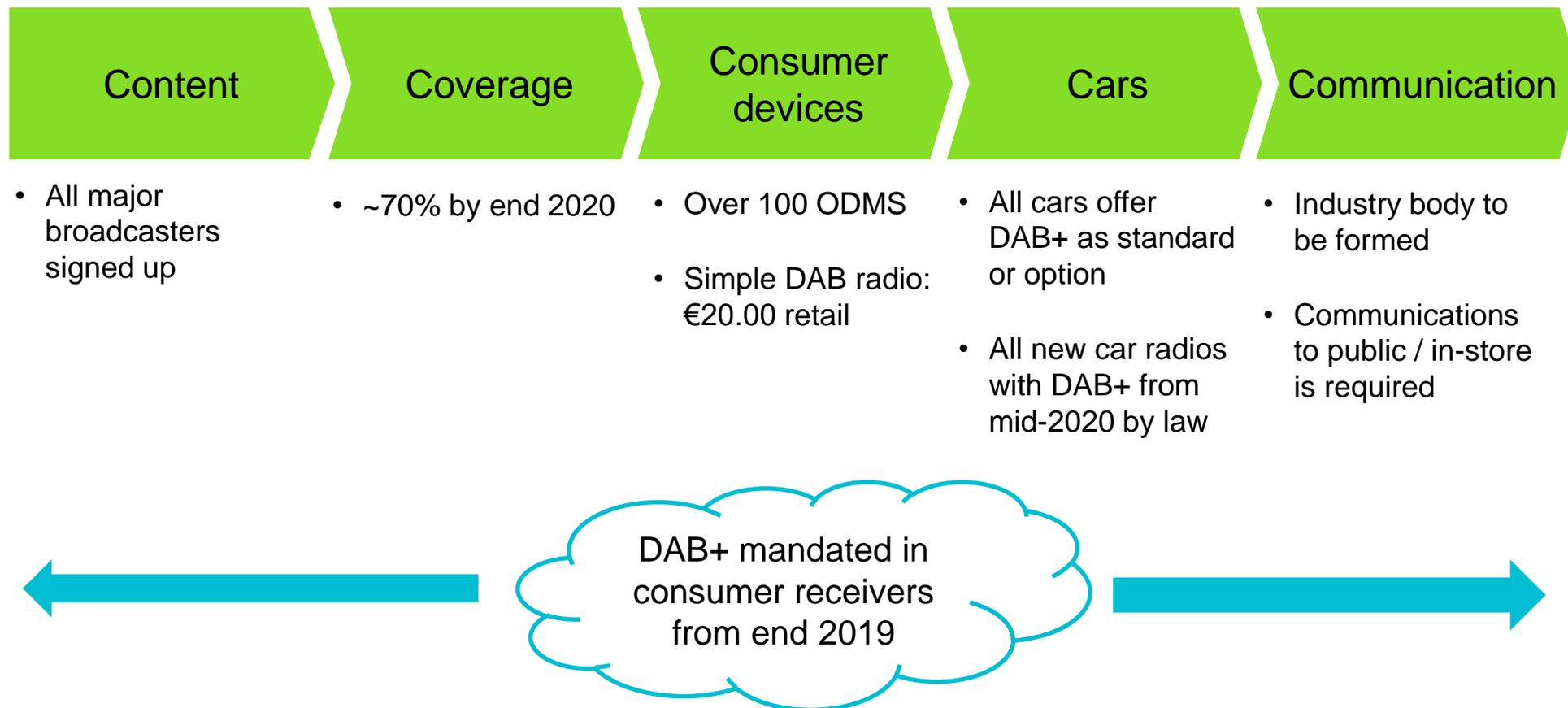


## Other



\* Air Zen yet to launch

# France market development: “the five Cs”



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# Smart Audio / IoT – current position

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## Strategy

- The strategic focus of the Smart IoT business has been to:
    - control R&D expenditure and leverage ecosystem relationships in its **legacy hardware-based Smart Audio** business
    - establish a **new Licensing business**, which exploits the Group's multi-ecosystem software and cloud assets, to address the opportunities in Smart IoT/Audio
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## Revenues

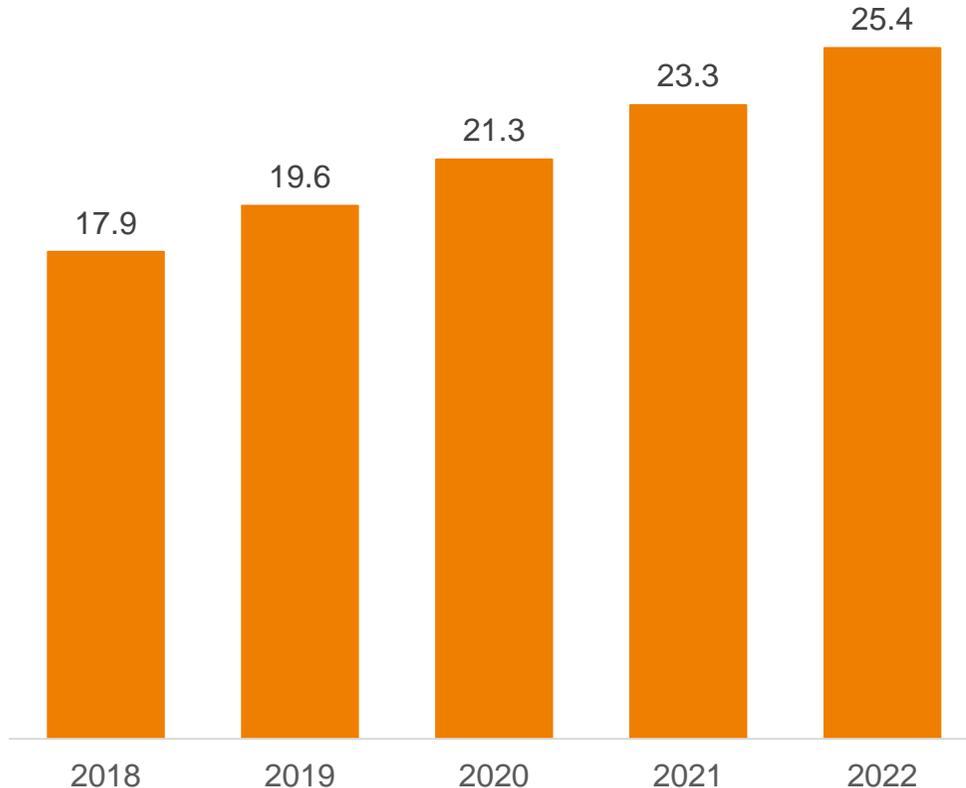
- The Board now expects FY-2019 sales of c. US\$3.4 million – 37% lower than market expectations of US\$5.4 million
  - Revenues from legacy Smart Audio hardware continue to disappoint - due to ongoing aggressive pricing of first party smart speakers
  - First material revenues for licensing expected in 2020
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## Software licensing

- New team established to address opportunities for voice-enabled IoT devices
- Strategic relationship with NXP Semiconductors

# Licensing opportunity in soundbars

## Soundbar unit sales (m)



## Market

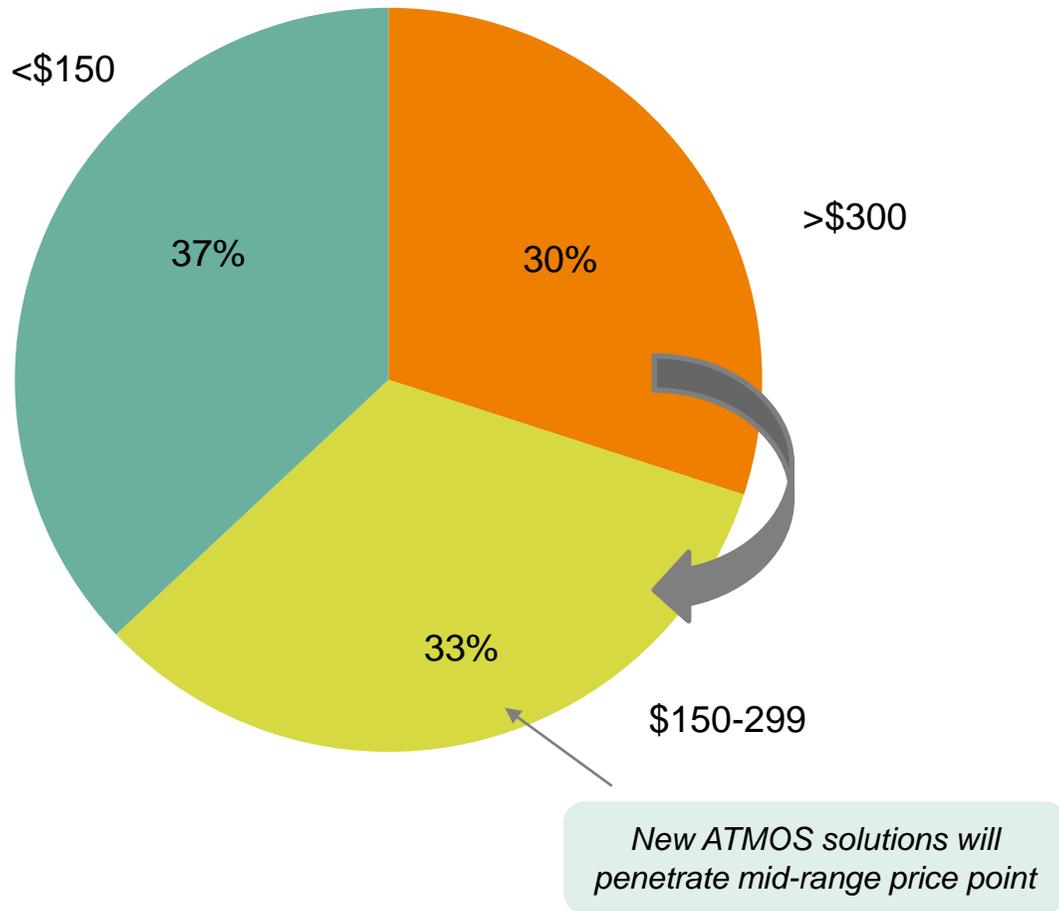
- Soundbars: established sector forecast to grow at 9% CAGR (2018-22)
- Currently, 5% of new soundbars (1m units) have Dolby ATMOS – predominantly >\$300
- By 2022, 25% of soundbars (6m units) expected to have ATMOS – driven by lower technology prices

## NXP and Frontier

- NXP has new silicon which enables significantly lower cost deployment of ATMOS in soundbars
- Frontier positioned as NXP's primary software partner for outsourced engineering solution

# ATMOS expanding into new lower price segments

## Soundbar retail price points, by volume



- Currently, ATMOS only available in premium (>\$300) segment
- With new silicon from NXP (and others), ATMOS will be affordable in mid-market segment from late 2019

# Next step will be to expand from soundbars into non-audio

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## Soundbars

- Initial focus is to exploit our SmartSDK in emerging marketing for ATMOS soundbars
  - leverages investment FST has made in Smart Audio (SmartSDK and cloud)
  - partnership with NXP
  - customer engagements underway



## Non-audio Smart IoT

- We have started business development in non-audio smart IoT
- First design win secured: Kohler smart mirror
- Engagements with brands in several sectors, including coffee makers, smoke detectors, consumer appliances and smart thermostats

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# Summary

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## Strategic objectives

- Maximise Digital Radio cashflows – expand Smart Radio category
  - Control Smart Audio R&D expenditure
  - Develop Smart IoT software licensing business
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## Current trading

- Full year revenue expected to be US\$36.3m; Trading EBITDA loss no worse than US\$1.5m
    - increased competition in Digital Radio – we are responding with targeted pricing reductions and new Smart Radio solution
    - weak sales in legacy Smart Audio hardware – we are limiting investment
    - Smart IoT software licensing still in start-up phase
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## Prospects

- Digital Radio still strongly cash positive
  - positive outlook for international DAB+ markets
  - new Smart Radio solution gaining good customer interest
- Smart IoT offers good prospects in soundbars – aim to use this as platform for expansion into new verticals

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# Thank you

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