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For immediate release

23 May 2018

Frontier Smart Technologies Group Ltd

(‘Frontier’ or the ‘Group’)

Trading Update

Frontier (AIM: FST), a pioneer in technologies for Digital Radio and Smart Audio devices, announces a trading update for the period from 1 January 2018 to 30 April 2018 (the ‘period’) and the outlook for the current financial year ending 31 December 2018 (‘FY-2018’).

Challenging trading conditions in Q2-2018 are likely to have an adverse impact on the Group’s FY-2018 trading performance. Consequently, the Board is revising its guidance for FY-2018. The Board now expects full year sales of approximately US\$47.7 million (£34.9 million) and EBITDA¹ of c. US\$1.0 million (£0.8 million).

Given the usual seasonality of the business, the Group expects to report an EBITDA loss in H1-2018 of approximately US\$2.1 million (£1.5 million), followed by a stronger performance in H2-2018 when EBITDA is expected to be approximately US\$3.1 million (£2.3 million).

The Group has two lines of business, Digital Radio (which is long established and profitable) and Smart Audio (which operates in a nascent market that has good medium-term growth prospects). The reduced expectations for FY-2018 are due to the following:

Digital Radio

- Frontier’s sales in FY-2017 were boosted by strong demand from Norway driven by the country’s FM switch-off. However, at year-end our customers held sizable excess stock due to Norwegian retail sales in the final quarter of 2017 being significantly lower than anticipated.
 - Retail sales volumes in Norway in the first nine months of 2017 were up 162 per cent year on year, but in Q4-2017 were only up 16 per cent (source: GfK February 2018).
- These excess stock levels have adversely impacted Frontier’s order book for Q2-2018. This is a short-term situation. Major retailers and brands in Norway are now reporting that their inventory levels are reducing and, as a result, Frontier’s orders are starting to return to more typical volumes.
- The Board expects Frontier’s Digital Radio revenues to normalise in H2-2018 and return to growth in 2019 driven by the continued development of DAB markets in Germany, France, Italy and Benelux, and the forthcoming FM switch-off in Switzerland (due to commence in 2020).

Smart Audio

- The Smart Audio market is being driven by the desire of major US technology companies to establish their voice assistant and AI platforms in consumer homes. Each of these companies is using a combination of their own first-party devices and products from third-party brands to drive consumer adoption.

- Frontier's focus is on providing third-party brands with solutions incorporating these platforms. Frontier is the only system integrator working with all three of the major US ecosystem players in the Smart Audio sector.
- Currently, the major technology companies are engaged in an aggressive battle for market position. Their strategic promotional approaches have limited the ability of third-party brands to gain significant market traction this year. This has had a negative impact on Frontier's addressable market and the Board therefore expects growth in the Group's Smart Audio revenues in FY-2018 to be slower than previously anticipated.
- The prospects for FY-2019 and beyond are more promising. As the Smart Audio sector expands and matures, the Board believes that third-party brands will achieve significant volume growth, especially in the medium / higher price point categories, where consumers are looking for greater product differentiation.
- Frontier is well placed to address this opportunity.
 - As the only system integrator currently working with all three ecosystem players, the Group is developing a multi-ecosystem platform which will allow Smart Audio products to be controlled by any first-party voice assistant. This product is due for release in H2-2018 and the first design wins have already been secured.
 - The Group is also introducing a software licensing business model (to complement its existing turnkey solutions). Software licensing is of particular interest to Tier One brands and larger ODMs, who value the greater control and flexibility that this provides them in their product development.

Foreign Exchange

- Frontier has adopted the US Dollar as both its functional and reporting currency from 1 January 2018. The strengthening of Sterling against the US Dollar² in 2018 is expected to adversely impact FY-2018 EBITDA by US\$0.5 million. This impact has been included in the new market guidance provided by the Board.

In order to address these market conditions and the delays in the emergence of the third party Smart Audio segment, the Board is taking immediate steps to implement targeted R&D cost reductions.

With the core Smart Audio platform largely complete, the Group has decided to scale-down its R&D investment and will focus on several smaller-scale developments in the coming year. A cost reduction plan is being implemented that will reduce R&D spend in FY-2018 by US\$2.2 million (£1.7 million). This represents 20.8 per cent of this year's R&D budget and aligns Frontier's costs with anticipated trading. Costs have also been reduced in other parts of the Group that will result in further savings of US\$1.2 million (£0.9 million) in FY-2018.

New revolving credit facility

Frontier's business trading is seasonal with the majority of sales being recorded in the second half in a normal year. To help smooth out the Group's working capital requirements, specifically in 2018 where component shortages have caused Frontier to hold inventory in excess of its normal requirements, the Group has this month successfully entered into a new loan facility with Clydesdale Bank. The existing three-year term loan which was due to expire in September 2018 has been rolled into a larger, £5.0 million revolving credit facility over three years. This provides incremental headroom of US\$3.1 million (£2.3 million). Net debt is expected to be c. US\$2.1 million (£1.6 million) at the half year.

Anthony Sethill, CEO, Frontier Smart Technologies commented:

“Trading in Q2-2018 has been difficult and the outlook for Smart Audio in 2018 is weaker than previously expected. As a result, the Group is unlikely to achieve market expectations for the full year and we are therefore implementing a cost-reduction programme.

I am however encouraged by the initial order book for Digital Radio products in Q3-2018 and expect trading for this business line to return to normal levels in H2-2018. In Smart Audio, the growth in volumes for third-party products has been delayed until 2019, when we anticipate that the key ecosystem players will enhance their promotion of third-party products.

In addition, I am confident the deployment of our multi-ecosystem platform and the introduction of our new licensing model will enhance Frontier’s share of this market. The Group remains well positioned in its core markets and growth prospects for the medium-term remain positive.”

¹ EBITDA is earnings before interest, tax, depreciation, amortisation, and certain non-cash items.

² Budget rate of 1.32 versus current rate of 1.36 and average for the year to date of 1.395

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Forward-looking statements

The information in this release is based on management information. This announcement includes statements that are forward looking in nature. Forward looking statements involve known and unknown risks, assumptions, uncertainties and other factors which may cause the actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. Except as required by the AIM Rules and applicable law, the Group undertakes no obligation to update, revise or change any forward-looking statements to reflect events or developments occurring after the date of this announcement.

Notes to Editors

The Frontier Smart Technologies Group is a pioneer in technologies for digital audio devices. Customers include many leading consumer audio brands: Bose, Denon, Grundig, harman/kardon, Hama, JBL, Marshall, Onkyo, Panasonic, Philips, Pioneer, Pure, Roberts, Sony, TechniSat, UrbanEars, Yamaha, and many more. Established in 2001, the Group is headquartered in London, with engineering, sales, marketing and operations teams in Cambridge, Timisoara (Romania), Hong Kong, and Shenzhen. For more information, see: www.frontiersmart.com