

Digital Bros

 digital entertainment

PRESS RELEASE

The Board of Directors of Digital Bros Group approves the First Quarter Report at 30 September 2019 (first three months of financial year 2019 – 2020)

DIGITAL BROS GROUP:

FIRST QUARTER RESULTS:

- REVENUE AT EURO 38.5 MILLION (+121%)
- EBIT AT EURO 3.2 MILLION
- NET PROFIT AT EURO 2.9 MILLION
- NET DEBT DECREASE TO EURO 11.9 MILLION

PC VERSION OF THE VIDEOGAME DEATH STRANDING ANNOUNCED

- ✓ *Significant revenue growth in the first quarter and improvement of all financial metrics resulting from the performance of new videogames Control and Bloodstained*
- ✓ *Consolidated gross revenues of €38.5 million more than doubled compared to €17.4 million on September 30th, 2018, +121% YoY*
- ✓ *EBITDA of €5.3 million more than four times compared to €1.2 million on September 30th, 2018*
- ✓ *EBIT of €3.2 million compared to negative €0.6 million at 30 September 2018*
- ✓ *Profit before tax of €3.9 million compared to loss before tax of €0.7 million on September 30th, 2018*
- ✓ *Net profit of €2.9 million compared to net loss of €0.6 million on September 30th, 2018*
- ✓ *Financial net debt reduced in the quarter by €4.3 million Euro despite the application of IFRS 16 (with an effect of €6.1 million on net debt)*
- ✓ *Publishing contract for the PC version of the videogame Death Stranding announced. The videogame will be released in Summer 2020 with expected lifetime revenues in excess of €50 million*

RESULTS FOR THE FIRST QUARTER OF FINANCIAL YEAR 2019–2020 (AT 30.09.19)				
<i>Euro thousand</i>	30.09.19	30.09.18	Change	Change %
Gross revenue	38,529	17,427	21,102	121%
Gross operating margin (EBITDA)	5,337	1,236	4,101	n.m.
Operating margin (EBIT)	3,192	(616)	3,808	n.m.
Profit/(loss) before tax	3,899	(663)	4,562	n.m.
Net profit/(loss)	2,876	(606)	3,482	n.m.

Note: "n.m." in this and the tables which follow stands for "not meaningful"

Milan, 13 November 2019 - The **Board of Directors of Digital Bros Group (DIB:MI)**, which is listed on the STAR segment of Borsa Italiana and which operates in the digital entertainment sector, **today approved the Interim Report for the period ended 30 September 2019** (first quarter of the fiscal year from July 1st, 2019 to June 30th, 2020).

Digital Bros Group's key consolidated results for the first quarter of financial year 2019-2020, together with prior period comparatives, are as follows:

- **Gross consolidated revenue** of €38.5 million, increased compared to €17.4 million on September 30th, 2018.
- **EBITDA** of €5.3 million, increased compared to €1.2 million on September 30th, 2018.
- **EBIT** of €3.2 million compared to negative €0.6 million on September 30th, 2018.
- **Profit before tax** of €3.9 million compared to loss before tax of €0.7 million on September 30th, 2018.
- **Net profit** of €2.9 million significantly increased compared to net loss €0.6 million on September 30th, 2018.

RESULTS BY OPERATING SEGMENTS

In line with the Group's strategic plan, the videogame Control was launched on all platforms during the quarter. The release of Control is the second big launch of a four-videogames release plan. This plan started during the last quarter of the past fiscal year with the launch of Bloodstained. Indivisible followed in the second quarter and Journey to the Savage Planet will be released in the third quarter of the current fiscal year. The release plan fueled a significant increase of consolidated gross revenue and of all financial metrics.

Consolidated gross revenue increased by 121% in the quarter. A breakdown by operating segment for the period ended 30 September 2019 compared to the period ended 30 September 2018 is provided below:

Euro thousand	Gross revenue				Net revenue			
	2019	2018	Change		2019	2018	Change	
Premium Games	32,613	11,343	21,270	n.m.	30,926	10,844	20,082	n.m.
Italian Distribution	4,125	4,390	(265)	-6.0%	3,702	3,886	(184)	-4.7%
Free to Play	1,673	1,638	35	2.1%	1,673	1,638	35	2.1%
Other Projects	118	56	62	n.m.	118	56	62	n.m.
Total gross revenues	38,529	17,427	21,102	121%	36,419	16,424	19,995	122%

The **Premium Games** operating segment gross revenue significantly increased to €32.6 million compared to €11.3 million in the first quarter of the last fiscal year as a result of sales of Control, released on August 27th, 2019, and Bloodstained, launched in June 2019. Revenue from Control amounted to €17.7 million in the period while Bloodstained sales amounted to €5.5 million.

The **Italian Distribution** operating segment revenues decreased by €265 thousand, down by 6% compared to the same period of previous year due to a significant reduction in collectible cards distribution (down by €573 thousand) while retail videogames sales increased by 4.5%.

The **Free to Play** operating segment revenue showed a 2.1% increase, due to the positive performance of the videogame Gems of War, now in its fifth year.

Digital Bros Group's revenues and earnings by operating segments for the period are as follows:

Euro thousand	Premium Games	Italian Distribution	Free to Play	Other Projects	Holding	Total
Gross revenue	32,613	4,125	1,673	118	0	38,529
EBITDA	6,295	61	428	(21)	(1,426)	5,337
EBIT	5,063	19	(230)	(45)	(1,615)	3,192

Operating costs increased by €3.5 million due to higher marketing and advertising costs for new videogames launches.

Non-monetary costs increased by €293 thousand mainly due to an asset impairment charge for €346 thousand referring to development contract write-off of the videogame Chef Emma.

Net financial income amounted to €707 thousand, compared to a net financial loss of €47 thousand registered in the same period of previous fiscal year due to greater exchange rate gains and increased financial income from the capital gain realized after the disposal of the stake in Delta Dna Ltd.

The **profit before tax** for the period ended 30 September 2019 amounted to €3.9 million, up by €4.6 million compared to the loss before tax of €663 thousand at September 30th, 2018.

Net profit for the period amounted to €2.9 million compared to net loss of €606 thousand for the period ended 30 September 2018.

Basic profit per share and **diluted profit per share** were €0.20 compared to the net loss per share of €0.04 for the first quarter of last fiscal year.

NET FINANCIAL DEBT

Financial net debt, as expected, decreased by €4.4 million compared to June 30th, 2019 and amounted to €11.9 million despite the application of the new IFRS 16 which resulted in a €6.1 million increase. **The financial net debt reduction net of the IFRS 16 effect was €10.4 million in the quarter.**

TREASURY SHARES

Pursuant to Art. 2428 paragraph 2.3 of the Italian Civil Code, it is hereby disclosed that at 30th September 2019 Digital Bros S.p.A. did not hold any treasury shares, as no transactions have been performed in the period.

SIGNIFICANT EVENTS DURING THE PERIOD

There were no significant events during the period.

SUBSEQUENT EVENTS

On October 28th, 2019, Digital Bros Group announced the contract between its subsidiary 505 Games S.p.A. and the studio Kojima Productions for the worldwide publishing rights of the PC version of the videogame Death Stranding. The Group expects to generate lifetime revenue in excess of €50 million from the PC version of the videogame.

BUSINESS OUTLOOK

The new phase of development started in the last fiscal year with the launch of Bloodstained together with the Switch version of the video game Terraria continued in the first quarter of the current fiscal year with the launch of the console and PC versions of the video game Control in August. The console and PC versions of the video game Indivisible and the video game Bloodstained in the Far East markets followed in October 2019. Journey to the Savage Planet will be released in console and PC versions in January 2020, and finally, during the last quarter of the current fiscal year, the new version of the Free to Play video game Hawken will be launched together with a mobile version of Assetto Corsa.

Following the launch of a new video game and depending on its success, a DLC (additional downloadable content) strategy will be finalized. DLCs are distributed on digital marketplaces both paid and for free and the next fiscal year will start to benefit significantly of such a revenue stream.

According to this scenario, the Group forecasts a strong growth in revenues for the current fiscal year together with a significant improvement of all financial metrics. Revenues will also benefit of a better predictability as some of the revenue components, such as the PC version of Journey to the Savage Planet and the mobile version of Assetto Corsa, as well as the sublicensing contracts in the Far East, are already contractually determined while others, such as DLCs, can be statistically estimated more easily.

Net financial debt is expected to continue to decrease during the fiscal year.

ART. 154-BIS OF THE CONSOLIDATED FINANCE ACT

As required by paragraph 2, Art. 154-bis of the Consolidated Finance Act, Digital Bros Group's financial reporting manager, Stefano Salbe, declares that the information contained in this press release corresponds to the Group's underlying documents, books and accounting records.

This press release is available on the websites www.digitalbros.com and www.1info.it

DIGITAL BROS GROUP

Listed on the Star segment of Borsa Italiana, Digital Bros Group is a global company that has been operating since 1989 as a developer, publisher and distributor of game entertainment content – video games - in a global market through various channels: retail and digital – web, social, mobile. Digital Bros Group is active around the world through its own direct operations in Italy, the United States, the UK, France, Spain, Germany, China and Hong Kong, with approximately 200 employees. The Group's head office is located in Milan, from where all activities are coordinated. Digital Bros operates in three markets, namely, development, publishing and distribution, under its own brands 505 Games and Halifax.

For further information:

Digital Bros S.p.A.

Stefano Salbe

CFO

Tel. + 39 02 413031

ir@digitalbros.com

FINANCIAL STATEMENTS

DIGITAL BROS GROUP

Consolidated statement of financial position at 30 September 2019

	Euro Thousand	30 September 2019	30 September 2018	Change	
	Non-current assets				
1	Property, plant and equipment	9,786	3,584	6,202	n.m.
2	Investment property	0	0	0	0.0%
3	Intangible assets	19,265	18,341	924	5.0%
4	Equity investments	1,522	1,706	(184)	-10.8%
5	Non-current receivables and other assets	9,816	9,322	494	5.3%
6	Deferred tax assets	2,159	2,745	(586)	-21.3%
	Total non-current assets	42,548	35,698	6,850	19.2%
	Non-current liabilities				
7	Employee benefits	(576)	(573)	(3)	0.5%
8	Non-current provisions	(81)	(81)	0	0.0%
9	Other non-current payables and liabilities	(964)	(923)	(41)	4.5%
	Total non-current liabilities	(1,621)	(1,577)	(44)	2.8%
	Net working capital				
10	Inventories	16,923	13,909	3,014	21.7%
11	Trade receivables	59,362	55,070	4,292	7.8%
12	Tax credits	6,181	6,076	105	1.7%
13	Other current assets	2,147	1,668	479	28.7%
14	Trade payables	(39,302)	(24,631)	(14,671)	59.6%
15	Taxes payable	(1,611)	(1,138)	(473)	41.6%
16	Current provisions	(856)	(856)	0	0.0%
17	Other current liabilities	(4,430)	(3,761)	(669)	17.8%
	Total net working capital	38,414	46,337	(7,923)	-17.1%
	Capital and reserves				
18	Share capital	(5,704)	(5,704)	0	0.0%
19	Reserves	(21,613)	(21,223)	(390)	1.8%
20	Treasury shares	0	0	0	0.0%
21	Retained earnings (accumulated losses)	(40,174)	(37,298)	(2,876)	7.7%
	Total equity	(67,491)	(64,225)	(3,266)	5.1%
	Total net assets	11,850	16,233	(4,383)	-27.0%
22	Cash and cash equivalents	10,320	4,767	5,553	n.m.
23	Short-term payables to banks	(17,933)	(20,795)	2,862	-13.8%
24	Other current financial assets and liabilities	1,312	2,155	(843)	-39.1%
	Current net cash/debt	(6,301)	(13,873)	7,572	-54.6%
25	Non-current financial assets	1,942	1,942	0	0.0%
26	Non-current bank debt	(2,240)	(4,293)	2,053	-47.8%
27	Other non-current financial liabilities	(5,251)	(9)	(5,242)	n.m.
	Non-current net financial assets/(debt)	(5,549)	(2,360)	(3,189)	n.m.
	Total net cash/debt	(11,850)	(16,233)	4,383	-27.0%

DIGITAL BROS GROUP
Consolidated Income Statement at 30 September 2019

	Euro thousand	30 September 2019		30 September 2018		Change	
1	Gross revenue	38,529	105.8%	17,427	106.1%	21,102	121%
2	Revenue adjustments	(2,110)	-5.8%	(1,003)	-6.1%	(1,107)	n.m.
3	Net revenue	36,419	100.0%	16,424	100.0%	19,995	122%
4	Purchase of products for resale	(9,538)	-26.2%	(4,841)	-29.5%	(4,697)	97.0%
5	Purchase of services for resale	(2,106)	-5.8%	(1,506)	-9.2%	(600)	39.8%
6	Royalties	(12,591)	-34.6%	(2,998)	-18.3%	(9,593)	n.m.
7	Changes in inventories of finished products	3,014	8.3%	571	3.5%	2,444	n.m.
8	Total cost of sales	(21,221)	-58.3%	(8,774)	-53.4%	(12,447)	n.m.
9	Gross profit (3+8)	15,198	41.7%	7,650	46.6%	7,548	n.m.
10	Other income	589	1.6%	563	3.4%	26	4.6%
11	Costs for services	(5,255)	-14.4%	(1,958)	-11.9%	(3,297)	n.m.
12	Rent and Leasing	(72)	-0.2%	(354)	-2.2%	282	-79.6%
13	Payroll costs	(4,795)	-13.2%	(4,400)	-26.8%	(395)	9.0%
14	Other operating costs	(328)	-0.9%	(265)	-1.6%	(63)	23.7%
15	Total operating costs	(10,450)	-28.7%	(6,977)	-42.5%	(3,473)	49.8%
16	Gross operating margin (EBITDA) (9+10+15)	5,337	14.7%	1,236	7.5%	4,101	n.m.
17	Depreciation and amortisation	(1,799)	-4.9%	(1,852)	-11.3%	53	-2.8%
18	Provisions	0	0.0%	0	0.0%	0	n.m.
19	Asset impairment charge	(346)	-1.0%	0	0.0%	(346)	n.m.
20	Impairment reversal	0	0.0%	0	0.0%	0	0.0%
21	Total depreciation, amortization and impairment	(2,145)	-5.9%	(1,852)	-11.3%	(293)	15.9%
22	Operating margin (EBIT) (16+21)	3,192	8.8%	(616)	-3.8%	3,808	n.m.
23	Interest and finance income	1,202	3.3%	161	1.0%	1,041	n.m.
24	Interest expense and finance costs	(495)	-1.4%	(208)	-1.3%	(287)	n.m.
25	Net interest income/(expense)	707	1.9%	(47)	-0.3%	754	n.m.
26	Profit/ (loss) before tax (22+25)	3,899	10.7%	(663)	-4.0%	4,562	n.m.
27	Current tax	(338)	-0.9%	65	0.4%	(403)	n.m.
28	Deferred tax	(685)	-1.9%	(8)	-0.1%	(676)	n.m.
29	Total taxes	(1,023)	-2.8%	57	0.3%	(1,080)	n.m.
30	Net profit/loss	2,876	7.9%	(606)	-3.7%	3,482	n.m.
	Earnings per share						
33	Total basic earnings per share (in Euro)	0.20		(0.04)		0.24	n.m.
34	Diluted earnings per share (in Euro)	0.20		(0.04)		0.24	n.m.

SEGMENT REPORTING

Consolidated Income Statement per Operating Segment at 30 September 2019

	Euro Thousand	Premium Games	Italian Distribution	Free to Play	Other projects	Holding	Total
1	Gross revenue	32,613	4,125	1,673	118	0	38,529
2	Revenue adjustments	(1,687)	(423)	0	0	0	(2,110)
3	Net revenue	30,926	3,702	1,673	118	0	36,419
4	Purchase of products for resale	(6,596)	(2,942)	0	0	0	(9,538)
5	Purchase of services for resale	(1,486)	(62)	(555)	(3)	0	(2,106)
6	Royalties	(12,557)	0	(29)	(5)	0	(12,591)
7	Changes in inventories of finished products	2,759	255	0	0	0	3,014
8	Total cost of sales	(17,880)	(2,749)	(584)	(8)	0	(21,221)
9	Gross profit (3+8)	13,046	953	1,089	110	0	15,198
10	Other income	46	8	516	0	19	589
11	Cost of services	(4,232)	(507)	(88)	(51)	(377)	(5,255)
12	Rent and leasing	(15)	(7)	(6)	(1)	(43)	(72)
13	Payroll costs	(2,422)	(329)	(1,062)	(72)	(910)	(4,795)
14	Other operating costs	(128)	(57)	(21)	(7)	(115)	(328)
15	Total operating costs	(6,797)	(900)	(1,177)	(131)	(1,445)	(10,450)
16	Gross operating margin (EBITDA) (9+10+15)	6,295	61	428	(21)	(1,426)	5,337
17	Depreciation and amortisation	(1,232)	(42)	(312)	(24)	(189)	(1,799)
18	Provisions	0	0	0	0	0	0
19	Asset impairment charge	0	0	(346)	0	0	(346)
20	Impairment reversal	0	0	0	0	0	0
21	Total depreciation, amortization and impairment	(1,232)	(42)	(658)	(24)	(189)	(2,145)
22	Operating margin (EBIT) (16+21)	5,063	19	(230)	(45)	(1,615)	3,192