

# 2017 Second Quarter Financial Report

The Funcom® Group  
Funcom N.V. and subsidiaries

## 1 Financial highlights

- Revenues in 2Q17 amount to USD 3,072 thousand, up 79% from 2Q16. Conan Exiles was the main contributor despite a quarter without launch activity for this game. The relaunch of Secret World Legends on 26 June was successful. With only 5 days counting towards 2Q17 and as such, the sales of Secret World Legends was as expected low in the months prior to relaunch, the relaunch had little effect on this quarter. The other games had a small increase in revenues from previous quarter driven by continued additional revenue from Anarchy Online due to the Steam launch in February. Long term they are expected to stay on a declining trend.
- After the very successful launch of Conan Exiles in 1Q17 focus has been on fixing bugs and investing to improve, expanded and prepare the game for Xbox One Game Preview, “The Frozen North” expansion update, as well as the longer term work towards full launch including PS4.
- 2Q17 was the second consecutive profitable quarter for Funcom. 1H17 is the most profitable half-year period ever in Funcom’s history.
- Earnings before Interest, Tax, Depreciation and Amortization (EBITDA) for 2Q17 amount to USD 917 thousand compared to USD -412 thousand in 2Q16. The EBITDA margin was 29.9% in 2Q17 vs 61.4% in 1Q17. The margin reduction is primarily due to lower revenues, while less launch related cost in 2Q17 reduced the decline. The EBITDA of 1H17 was USD 7,624 thousand, the strongest ever in Funcom history, and compared to USD -149 thousand in 1H16.
- The total equity increased from USD 2,389 thousand at the end of 2Q16 to USD 14,123 thousand at the end of 2Q17, reflecting profits and conversion of debt in the period.
- The cash position increased from USD 5,100 thousand at the end of 2Q16 to USD 7,818 thousand at the end of 2Q17. The cash flow during 2Q17 was negative due to continuous investments in Conan Exiles and a working capital change of USD -2,169 thousand. The change in working capital was primarily due to payments of royalties on revenue received in 1Q17, payment of rent deposit for new Oslo office and increasing trade payables.
- The debt was almost halved due to the conversion of USD 3.5 million (plus accrued interest) of the convertible bond into equity in April 2017. The face value of the convertible bond was reduced from USD 6,899 thousand to USD 3,399 thousand.

## 2 Other Financials

### 2.1 Convertible Bond:

- The convertible bond is the only outstanding interest bearing debt of Funcom
- Outstanding principal: 3,399,194 bonds with a face value of USD 1 each, with a carrying amount of USD 3,347 thousand as of 30 June 2017
  - Maturity date: 31 December 2018
  - Conversion price: USD 0.1036 per share
  - Interest rate: 3.5% per annum; due at maturity
  - The convertible bond was almost halved during 2Q17, due to a conversion on 11 April 2017, where USD 3,500 thousand (plus accrued interest) was converted into 34,675,480 new shares in Funcom N.V. at a price of USD 0.1036 per share.

### 2.2 Deferred Tax Assets:

- USD 1,069 thousand is presented as deferred tax assets in the balance sheet, in line with IAS 12.35 and consistent with Funcom accounting policy.
  - The tax asset is based on cumulated tax losses in the Norwegian subsidiary from prior years. Expected 2017 profit based on Q1 and Q2 results and outlook is expected to be sufficient to recover the accumulated tax loss. The loss will be utilized against the taxable profit.
  - Tax charge for the year will be calculated for the 4Q17 report.
  - The group has further unrecognized tax losses, primarily USD 11,843 thousand related to Funcom N.V (at year end 2016). These are generated from holding and financing activities and may only be offset against future profits from similar activities.

## 3 Game highlights

### 3.1 Secret World Legends:

- The Secret World was successfully relaunched as Secret World Legends, having exceeded internal expectations
- Initial launch through our own channels on 26 June 2017, with launch on Steam on 31 July 2017
- Good coverage from press and reception from players has helped spreading the word to new and old players alike
- Transylvania and Tokyo were the first of the planned updates to be released since launch, increasing the amount of content and expanding the storyline
- It was revealed that Johnny Depp's Infinitum Nihil and G4C Innovation's Gudrun Giddings have partnered to produce a TV series based on the Secret World universe

### 3.2 Conan Exiles:

- The game was released on Xbox One Game Preview on 16 August 2017 as planned, together with The Frozen North free expansion update on both Xbox and PC
- The new area and features of the game were positively received by the press and gamers, having generated a solid amount of attention

- On Xbox, the game quickly reached the top spots of the paid charts after launch. While the gameplay is bigger and better than ever, despite being in Game Preview the technical quality of the release was not as good as our players deserve. Action is taken to improve quality now and in future launches
  - The technical problems have had an impact on the store rating and sales of the game. The team is focused on addressing these issues as quickly as possible.
- On 21 August 2017 Funcom signed a co-publishing partnership with Koch media to publish and distribute the physical retail version of Conan Exiles for the full launch of the game on PC, Xbox One and Playstation 4 in Q1 2018

### 3.3 Future internal games:

- Two new projects are in early concept stages and will enter pre-production at the earliest during the second half of 2017:
  - In Funcom Oslo:
    - New game concept using the “Conan the Barbarian” IP
    - Pre-production pushed to early 2018 due to focus on Conan Exiles
  - In Funcom North Carolina:
    - New project is in early concepting stage with full production to be dependent on the performance of Secret World Legends

### 3.4 Other:

- Bearded Dragons Cooperation
  - The cooperation announced on 23 June 2017 regarding development support and publishing of a new game is underway
  - The game is in the “tactical turn-based strategy” genre, to be released in 2018 for PC, with console launch to be evaluated later
  - More information to be revealed when PR and Marketing activities are initiated in late 2017
  - This activity is part of Funcom's strategy of releasing multiple game titles per year, providing significant activities more often and building a larger portfolio of products

**NOTE: For more information about the games please see the 2Q17 Funcom presentation**

### 4 Risk factors:

- For information regarding risk factors for the Company and its games, please refer to note 27 in the 2016 Annual Report.
- For evaluations of the risks related to Funcom games, Funcom encourages investors to seek information about the industry in general and Funcom in specific from analyst reports, industry reports, game reviews, etc.
- Several different financial scenarios should be evaluated when analyzing the potential of any existing or future games. The financial performance of new games and refined business models is uncertain.

## 5 Outlook:

- The medium and long term financial performance of the Company looks positive. The outlook is influenced by a number of factors, especially the performance of Conan Exiles on PC, Xbox and PS4, the performance of the Free to Play model of Secret World Legends and the continued revenues of the older MMO games.
- Several planned future launch activities have the potential to boost Funcom. revenues over the next 12 months. Conan Exiles launch on PS4, the launch of complete versions for PC and Xbox One and sale campaigns will be important, along with the launch of the Bearded Dragons partnership game.
- Following a successful relaunch of Secret World Legends the continued revenues from this game are expected to be significant.
- The other games are expected to decline over the long term due to the ageing of the games, despite the potential of small positive growth in periods.
- Based on the already generated revenue and run rate revenue of Conan Exiles and Secret World Legends, cost projections, and the financial instruments at the disposal of Funcom, including but not restricted to financing and equity issues, Funcom has the ability to fund its operations for at least the next twelve months after the end of 2Q17.

**Badhoevedorp, The Netherlands, 31 August 2017**

**The Management Board of Funcom N.V.**

- This report is also available at <http://www.newsweb.no>  
Investors are encouraged to seek information regarding the Company and the industry.
  - This report contains forward-looking statements. These statements are based on current estimates and projections of Funcom's management and currently available information. They are not guarantees of future performance, involve certain risks and uncertainties that are difficult to predict and are based upon assumptions as to future events that may not prove to be accurate. Many factors could cause the actual results, performance or achievements of Funcom to be materially different from those that may be expressed or implied by such statements. Such factors include inter alia those discussed in the Funcom's Annual Report 2016 note 27.
  - For more information about Funcom, its games and its organization, please see [www.funcom.com](http://www.funcom.com)
- \* "Funcom", "*The Secret World*", "*Anarchy Online*", "*The Park*" and "*Dreamworld Technology*" are registered trademarks of Funcom Oslo AS.

**FUNCOM N.V. - SECOND QUARTER FINANCIALS OF 2017**  
PRELIMINARY, NOT AUDITED, FIGURES

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT***(Figures in TUSD)*

	Second Quarter		Accumulated		Full Year
	2017	2016	2017	2016	2016
Revenue	3 072	1 718	13 992	3 766	7 322
Operating expenses	-2 154	-2 131	-6 368	-3 915	-7 091
<b>Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)</b>	<b>917</b>	<b>-412</b>	<b>7 624</b>	<b>-149</b>	<b>231</b>
Depreciation, amortization and impairment charges	-763	24	-1 495	-900	-1 811
Total operating expenses	-2 918	-2 107	-7 864	-4 815	-8 902
<b>Operating result ("EBIT") from continuing operations</b>	<b>154</b>	<b>-389</b>	<b>6 129</b>	<b>-1 049</b>	<b>-1 580</b>
Net financial items	45	-634	199	-735	-1 181
<b>Profit (loss) before income taxes from continuing operations</b>	<b>199</b>	<b>-1 022</b>	<b>6 328</b>	<b>-1 783</b>	<b>-2 761</b>
Income taxes		1		1	1 066
<b>Profit (loss) for the period</b>	<b>199</b>	<b>-1 022</b>	<b>6 328</b>	<b>-1 783</b>	<b>-1 695</b>
Attributable to shareholders of Funcom N.V.	199	-1 022	6 328	-1 783	-1 695
Earnings per share basic (USD)	0,00	-0,01	0,02	-0,02	-0,01
Earnings per share fully diluted (USD)	0,00	-0,01	0,02	-0,02	-0,01

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Profit (loss) for the period	199	-1 022	6 328	-1 783	-1 695
Foreign exchange translation difference	38	-431	-97	-151	-357
<b>Total comprehensive income for the period</b>	<b>236</b>	<b>-1 452</b>	<b>6 231</b>	<b>-1 933</b>	<b>-2 052</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION***(Figures in TUSD)***ASSETS**Non-current assets

	30 June 2017	2016	31 Dec. 2016
Intangible assets	7 702	5 324	6 617
Tangible fixed assets	2	63	4
Long term receivables	493	65	19
Deferred tax assets	1 069		1 069
<b>Total non-current assets</b>	<b>9 266</b>	<b>5 453</b>	<b>7 709</b>

Current assets

Trade receivables	1 419	896	628
Prepayments and other receivables	489	221	466
Cash and cash equivalents	7 818	5 100	3 709
<b>Total current assets</b>	<b>9 726</b>	<b>6 217</b>	<b>4 803</b>

**Total assets**

18 992 11 669 12 512

**EQUITY AND LIABILITIES**Equity

Share capital	13 481	11 058	11 808
Reserves	167 478	164 583	165 128
Retained earnings	-166 836	-173 251	-173 163
<b>Total equity</b>	<b>14 123</b>	<b>2 389</b>	<b>3 773</b>

Liabilities

Deferred tax liabilities		1	1
Long-term liabilities	3 513	290	7 019
Deferred income	598	771	605
Short-term loans and borrowings	48	6 200	48
Other short term liabilities	710	2 018	1 065
<b>Total liabilities</b>	<b>4 868</b>	<b>9 280</b>	<b>8 739</b>

**Total equity and liabilities**

18 992 11 669 12 512

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS***(Figures in TUSD)*

	Second Quarter		Period ended 30 June		Full Year
	2017	2016	2017	2016	2016
Cash flow from operating activities					
Profit (loss) before income tax	199	-1 022	6 328	-1 783	-2 761
Adjustments for:					
Depreciation, amortization and impairment	763	-24	1 495	900	1 811
Share-based payments	97	23	197	111	146
Share of result from equity-accounted entities					
Effect of exchange rate fluctuations				-186	
Changes in working capital	-2 169	-176	-1 558	1 019	2 125
<b>Net cash from operating activities</b>	<b>-1 111</b>	<b>-1 200</b>	<b>6 463</b>	<b>61</b>	<b>1 320</b>
Cash flow from investing activities					
Purchase of equipment and investment in intangible assets	-1 355	-426	-2 569	-1 784	-4 304
Investment in/loan to (from) equity-accounted entities					
<b>Net cash from investing activities</b>	<b>-1 355</b>	<b>-426</b>	<b>-2 569</b>	<b>-1 784</b>	<b>-4 304</b>
Cash flow from financing activities					
Net proceeds from issue of share capital	19	6 168	331	6 168	7 122
Proceeds / repayments from (of) borrowings and leases					
<b>Net cash from financing activities</b>	<b>19</b>	<b>6 168</b>	<b>330</b>	<b>6 168</b>	<b>7 122</b>
Change in cash and cash equivalents	-2 446	4 542	4 224	4 445	4 138
Cash and cash equivalents, beginning of period	10 286	1 015	3 710	616	616
<b>Cash and cash equivalents, end of period before exchange</b>	<b>7 840</b>	<b>5 557</b>	<b>7 934</b>	<b>5 061</b>	<b>4 755</b>
Effect of exchange rate fluctuations	-22	-457	-116	38	-1 045
<b>Cash and cash equivalents, end of period after exchange effect</b>	<b>7 818</b>	<b>5 100</b>	<b>7 818</b>	<b>5 100</b>	<b>3 710</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***(Figures in TUSD)*

	30 June 2017	2016	Full Year 2016
<b>Opening balance</b>	<b>3 773</b>	<b>-9 561</b>	<b>-9 561</b>
Total comprehensive income for the period	6 231	-1 933	-2 052
Equity issues	3 767	13 222	14 609
Granting of warrants			
Exercise of warrants	156	157	157
Equity portion of the new convertible loan		394	394
Equity portion of the additional convertible bond			82
Share-based payments	197	111	146
<b>Closing balance</b>	<b>14 123</b>	<b>2 389</b>	<b>3 773</b>

## NOTES TO THE INTERIM REPORT

### 1 Corporate information

Funcom N.V. is a limited company registered in The Netherlands, and the shares are publicly traded on the Oslo Stock exchange under the ticker "FUNCOM". The principal activity of the Company is to develop, market and carry on business in computer games in the broadest sense. The unaudited interim condensed consolidated financial statements for the Company for the six months ended 30 June 2017 were approved for issue by the Supervisory Board on 31 August 2017.

### 2 Basis for preparation and selected significant accounting policies

The financial result of the Company in 1H17 reports a large increase in revenue compared to 1H16 due to the launch of *Conan Exiles* on 31 January. There were no pervasive or material changes in 2Q17 that could negatively affect the management's assumptions behind the forecasted financial performance of the Company. The funding of the operations for a period of at least one year after the date of this quarterly report is realistic and achievable. Therefore, management is of the opinion that the going concern assumption is justified and consequently the unaudited interim condensed consolidated financial statements of the Company for the six months ended 30 June 2017 have been prepared on a going concern basis. Notwithstanding the above, the actual performance of the Company may deviate significantly from the projections.

The unaudited interim condensed consolidated financial statements of the Company for the six months ended 30 June 2017 have been prepared in accordance with IAS 34. The latter means that these interim financial statements do not include all information and disclosures required in annual financial statements but only selected significant information. The principles applied are consistent with those used in the 2016 Annual Report.

As of 1 January 2017, the Group has adopted the mandatory revised standards, amendments to existing standards and interpretations as adopted by the EU, applicable for this quarter. Their adoption has not had any significant impact on the amounts reported in this interim report but may affect the accounting for future transactions or arrangements. Management has not yet completed the evaluation of the impact on the financial statements of standards issued, but with an adoption date on 1 January 2018 or later.

All amounts are in USD thousand unless stated otherwise. There may be some minor rounding differences or the total may deviate from the total of the individual amounts. This is due to the rounding to whole thousands of individual amounts.

#### 2.1 Basis of consolidation

The Company's Interim consolidated financial statements comprise of Funcom N.V. and companies in which Funcom N.V. has a controlling interest.

## 2.2 Intangible assets

Intangible assets are recognized in the balance sheet if it can be confirmed that there are probable future economic benefits that can be attributed to the assets that are owned by the Company, and the assets' cost price can be reliably estimated. Intangible assets are initially recognized at their cost price and subsequently measured using the cost method (i.e. historical cost less accumulated amortization and accumulated impairment losses). A review to assess whether there are indicators of impairment is undertaken at the end of each reporting period. In addition, intangible assets not yet available for use are tested for impairment annually.

## 2.3 Equity

Transaction costs relating to equity transactions are recognized directly in equity after deducting tax.

## 2.4 Deferred revenues

Per copy sales of new games, whether delivered via packaged goods (boxes) or via the Internet (game download), as well as sales through third-party distribution platforms, are recognized in the Statement of Comprehensive Income on a straight-line basis over the estimated customer life, normally 1 – 2 months. Revenues from sales of in-game items / micro-transactions and points are recognized at the time of sale.

Revenues from the sales of game software, whether delivered via packaged goods (boxes) or via the Internet (game download) are recognized on a straight-line basis over the estimated customer life. The company enters into multiple-element revenue arrangements where it provides combinations of game software and subscription or subscription and in-game items. The Company accounts for revenues from each item separately following the revenue recognition policies above. Up-front payments for subscriptions and other up-front revenues are recognized in the statement of financial position as a liability.

Revenues from subscriptions are recognized over the subscription period that is from the date of subscription purchase until subscription end, normally 1 – 12 months.

## **3 Operating revenues**

The revenues mainly consist of sales of game software, subscriptions, in-game items and royalties. Due to lack of visibility same month accruals have not been made for Steam revenues, and correspondingly USD 765 thousand March revenue was booked in Q2. Improved forecast and accrual methods have been implemented, now enabling same month Steam revenue accrual.

## **4 Operating expenses**

Personnel cost, marketing, office rent and games operating cost are main elements of the operating expenses.

## **5 Depreciation, amortization and impairment charges**

The Company amortizes investment in the development of technology and game assets on a systematic basis over their useful life, which normally does not exceed five years. The company applies the diminishing balance amortization method that reflects the pattern of consumption of the future economic benefits. If that pattern cannot be determined reliably, the company uses the straight-line method.

## 6 Net financial items

Net financial items mainly consist of interest earned, exchange rate differences, and interest incurred on loans.

## 7 Taxes

According to IAS 12 when an entity has a history of recent losses, the entity recognizes a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilized by the entity.

After the successful launches of *Conan Exiles* in 2017, profitable Q1 and Q2 results and positive outlook, 2017 profit is expected to be sufficient to recover the accumulated tax loss in Funcom Oslo AS. Since the criteria under IAS 12.35 has been met, the Company has recognized as of 31 December 2016 the accumulated tax loss of Funcom Oslo AS as deferred tax assets. The exact tax result for 2017 will be determined at year-end when preparing the financial results for 4Q17.

## 8 Long term receivables

Long term receivables mainly consists of deposits for real estate leases.

## 9 Liabilities

Long-term liabilities consist of a USD 3,347 thousand convertible bond, USD 50 thousand rental deposits for the sublet of office space, and USD 116 thousand rental incentives.

The convertible bond matures on 31 December 2018, with an interest rate of 3.5%, and a conversion price of USD 0.10 per share. In April 2017 USD 3,500 thousand (plus accrued interest) was converted into new shares. As of 30 June 2017, the remaining bonds have a carrying amount of USD 3,347 thousand and an actual balance due of USD 3,399 thousand. The convertible bond is the only outstanding interest-bearing debt.

Short-term loans and borrowings consist of USD 48 thousand rental incentives.

## 10 Cash flows

A significant part of Funcom's cash and cash equivalents are denominated in Norwegian kroner, in United States Dollar and in Euro. The Company's NOK, USD and EUR cash holdings are a natural hedge against the expectedly large proportion of future operating expenses arising in NOK, USD and EUR.



An adjustment was recorded on the statement of cash flows as of 31 March 2017 by increasing Changes in working capital with an amount of USD 1,336 thousand, and by decreasing the Effect of exchange rate fluctuations with the same amount. This adjustment has no impact on any of the other statements. The above statement of cash flows are reported inclusive of the above mentioned adjustment.

## 11 Average number of shares

	Second quarter		Six months	
	2017	2016	2017	2016
Average number of shares (1'000)	287,197	139,594	270,292	115,901

## 12 Other comprehensive income

In accordance with IAS 21, the Company reported in 2Q17 under the 'Other comprehensive income' a foreign exchange gain amounting to USD 38 thousand mainly related to the reconciliation of intercompany balances in foreign currencies and to the translation of foreign operations into the reporting currency.

## 13 Equity

The equity of the Company increased from USD 10,179 thousand at the end of 1Q17 to USD 14,123 thousand at the end of 2Q17.

## 14 Segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The reportable operating segments of the group are defined as:

- Online games – such as *Conan Exiles*, *Anarchy Online*, *Secret World Legends* and *Age of Conan*
- Offline games – such as *The Park*, *Hide and Shriek*, *Dreamfall* and *The Longest Journey*

	Revenue from external customers January - June		Segment profit (loss) *) January - June	
	2017	2016	2017	2016
Online games	13,469	3,183	11,178	1,226
Offline games	278	320	276	266
Other activities	246	263	12	-27
Total	13,992	3,766	11,466	1,465
General and administrative expenses			-3,443	-1,614
Depreciation, amortization and impairment charges			-1,495	-900
Net financial items			-199	-735
<b>Profit (loss) before tax (from continuing operations)</b>			<b>6,328</b>	<b>-1,785</b>

	Revenue from external customers April-June		Segment profit (loss) *) April-June	
	2017	2016	2017	2016
Online games	2,847	1,379	1,984	468
Offline games	102	193	101	143
Other activities	123	146	5	-19
Total	3,072	1,718	2,090	592
General and administrative expenses			-1,083	-1,005
Depreciation, amortization and impairment charges			-763	24
Net financial items			-45	-633
<b>Profit (loss) before tax (from continuing operations)</b>			<b>198</b>	<b>-1,022</b>

\*) Segment profit (loss) is measured as revenue earned less personnel costs and other operating costs. General and administrative costs, depreciation, amortization, impairment charges, financial items and income tax are not allocated to the segments.

\*) In 2016, other activities referred to Funcom Games Canada subleasing activities. Since January 2017, Funcom NV has taken over the subleasing activities. Segment profit (loss) is measured as revenue earned less original rental expenses.

	Online games	Offline games
Segment assets as at 30 June 2016	4,896	
Segment assets as at 30 June 2017	7,379	

Segment assets only include the book value of the games. No other assets are allocated to the segments.

## 15 Subsequent events

Conan Exiles was released on Xbox One Game Preview on 16 August 2017 as planned, together with The Frozen North free expansion update on both Xbox and PC. On 21 August 2017 Funcom signed a co-publishing partnership with Koch media to publish and distribute the physical retail version of Conan Exiles for the full launch of the game on PC, Xbox One and Playstation 4 in Q1 2018. For both events see Funcom Q217 report and presentation for more information.

## Directors' responsibility statement

The members of the Management Board, as required by section 5:25d, paragraph 2, under c of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*), confirms that to the best of their knowledge:

The Consolidated Interim Financial Statements for the six months ended 30 June 2017 give a true and fair view of the assets, liabilities, financial position and profit or loss of Funcom N.V. and its consolidated companies, and

The Interim Directors' Report gives a true and fair view of:

- the development and performance of the business during the first six months of the financial year of Funcom N.V. and its consolidated companies and the consequences thereof on the unaudited interim condensed consolidated financial statements for the Company for the half year ended 30 June 2017;
- the relevant share transactions with related parties during the first six months of the financial year;
- the expected development and performance of the business, provided that the interests of Funcom N.V. and its consolidated companies are not harmed by disclosure, with particular attention for the investments, and the circumstances of which the development of revenues and profitability are dependent;
- the relevant risks and uncertainties for the remaining six months of the financial year.

Badhoevedorp, The Netherlands  
31 August 2017

The Management Board of Funcom N.V.

Rui Casais (Management Board member and CEO)  
Christian Olsthoorn (Management Board member)

# 2Q 2017 PRESENTATION



**FUNCOM**

31 AUGUST 2017



2Q 2017 PRESENTATION

## DISCLAIMER – FORWARD LOOKING STATEMENTS

This presentation contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking. You should not place undue reliance on these forward-looking statements for many reasons.

These forward-looking statements reflect current views with respect to future events and are by their nature subject to significant risk and uncertainties because they relate to events and depend on circumstances that will occur in future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot assure you that our future results, level of activity or performance will meet these expectations. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. Unless we are required by law to update these statements, we will not necessarily update any of these statements after the date of this presentation, either to conform them to actual results or to changes in our expectations.



2Q 2017 PRESENTATION

## HIGHLIGHTS

- The profitable 2Q 2017 together with the very strong results of 1Q 2017 led to **1H 2017 being the most profitable half-year** period in the company's history
- During 2Q 2017 the company's debt was nearly halved and equity has been increased by nearly 40%
- Secret World Legends was launched at the end of 2Q 2017 and exceeded internal expectations
- Conan Exiles had no significant activity in 2Q but was released on Xbox One Game Preview together with The Frozen North update on 16 August 2017 as planned
- A partnership with Bearded Dragons was announced for a new game to be released in 2018
- A new corporate identity with a new logo, website and look was revealed today, as part of the "Funcom 2.0" repositioning of the Company



2Q 2017 PRESENTATION

## BUT THERE IS ROOM FOR IMPROVEMENT

- We fully acknowledge that our recent releases, especially Conan Exiles on Xbox One Game Preview, have not been up to the standards our players and fans deserve
- We are transitioning out of a challenging period with limited capacity and are staffing up and improving our processes
- We *will* do better.
- Routines, habits and methodologies aren't easy to change overnight, so please bear with us a bit longer, help us on this journey and we'll make sure future releases will be up to the standard you deserve, starting with the full release of Conan Exiles



NEW LOOK





2Q 2017 PRESENTATION

## NEW LOOK

- Funcom today unveiled its new company logo, along with a new website and a new visual brand identity
- The change is the first in 12 years, and reflects the journey the company has made in the past few years and the new identity we have created
- Funcom is a very different company than before; we're leaner, more agile, our ambitions have changed and so have we – we're hungry and determined
- **The flag stands for tradition:** our identity and our history. It is set ablaze, fueled by the passion for what we do. It is also weathered and torn; the result of battles fought and survived.
- **The face represents who we are today:** ambitious and determined, ready to fight for our creative vision, always moving forward – with fervor and a touch of battle-frenzy.



# FUNCOM



# 2Q 2017 FINANCIALS



2Q 2017 PRESENTATION

## KEY FINANCIALS

TUSD	2Q 17	2Q 16	1H 17	1H 16
Revenue	3 072	1 718	13 992	3 766
EBITDA	917	-412	7 624	-149
EBIT	154	-389	6 129	-1 049
EAT	199	-1 022	6 328	-1 783
Cash	7 818	5 100	7 818	5 100
Equity	14 123	2 389	14 123	2 389
Debt <sup>1</sup>	3 399	6 899	3 399	6 899

### NOTES

- 2Q 17 revenues up 79% vs 2Q 16
- EBITDA +917 TUSD
- Two consecutive profitable quarters, most profitable half-year period ever
- Strong financial position, increased cash and equity, reduced debt

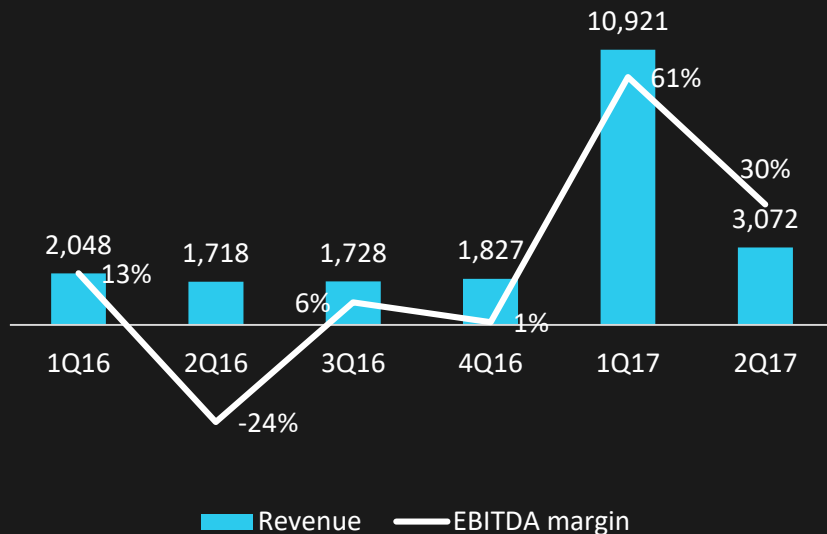
1) Interest bearing debt, face value of



2 Q 2017 PRESENTATION

## REVENUE AND EBITDA MARGIN DEVELOPMENT

Revenue (TUSD) and EBITDA margin (%)



## NOTES

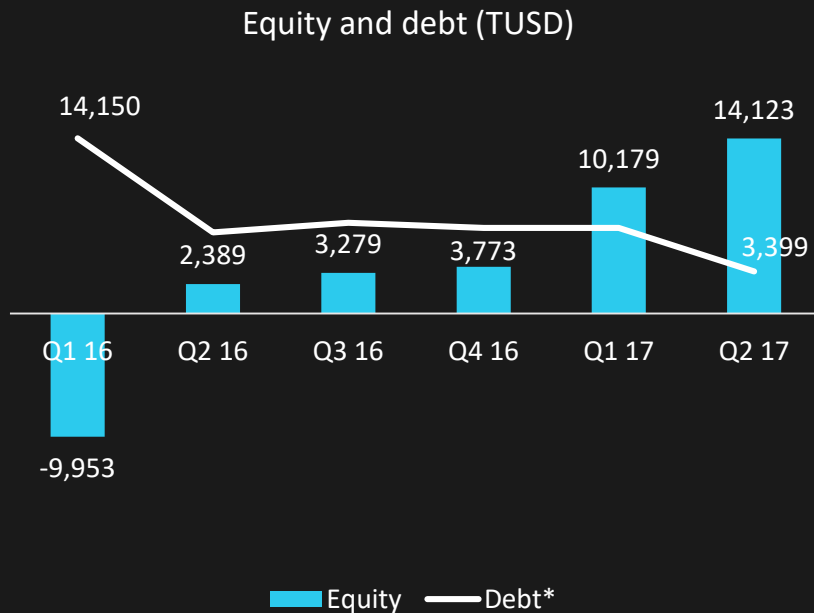
- Conan Exiles focused on investments in future launches in 2Q
- Secret World Legends launch successful, but low 2Q impact<sup>1</sup>
- The other games grew slightly during 2Q17
- High margins in 2017 illustrate scalability and high profit potential with increasing revenue

1) Secret World Legends relaunched 26 June, with five days counting towards 2Q (Funcom channels only, Steam launch was in Q3, 31 July), lower Secret World revenue in months before launch. Conan Exiles Xbox One Game Preview launched in Q3 on 16 August



2 Q 2017 PRESENTATION

## EQUITY AND DEBT DEVELOPMENT



## NOTES

- Financial position significantly strengthened
- Equity increased due to profits and reduced debt
- Debt almost halved in 2Q17 by conversion of USD 3.5 million (plus accrued interest) of the convertible bond

\*) Face value of interest bearing debt



2 Q 2017

## FINANCIAL SUMMARY

- 1H17 is the most profitable half year in Funcom's history
- 30% EBITDA margin in 2Q17, a quarter with low launch impact
- The equity has increased for five consecutive quarters due to profits and reduction of debt
- Funcom debt was almost halved during 2Q17



# SECRET WORLD LEGENDS



2Q 2017 PRESENTATION

## SECRET WORLD LEGENDS RELEASE

- The Secret World was successfully relaunched as Secret World Legends, having exceeded internal expectations
- Initial launch through our own channels on 26 June 2017, with launch on Steam on 31 July 2017
- Good coverage from press and reception from players has helped spreading the word to new and old players alike
- Tokyo was the first of the planned updates to be released since launch, increasing the amount of content and expanding the storyline
- It was revealed that Johnny Depp's Infinitum Nihil and G4C Innovation's Gudrun Giddings have partnered to produce a TV series based on the Secret World universe
  - This activity is part of the Company's long term plan to develop and grow its IP portfolio and is not expected to contribute directly to the company's financials for the next couple of years.



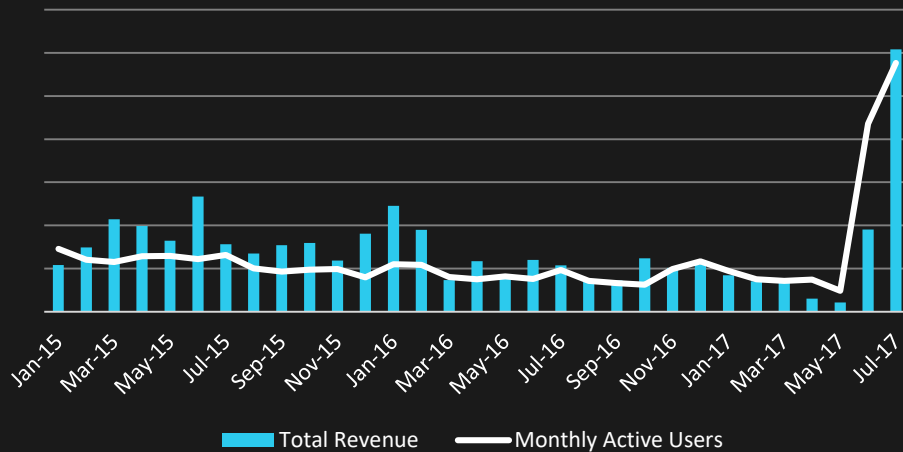




2Q 2017 PRESENTATION

## SECRET WORLD LEGENDS – ACTIVITY LEVELS

Revenue and User activity since 2015



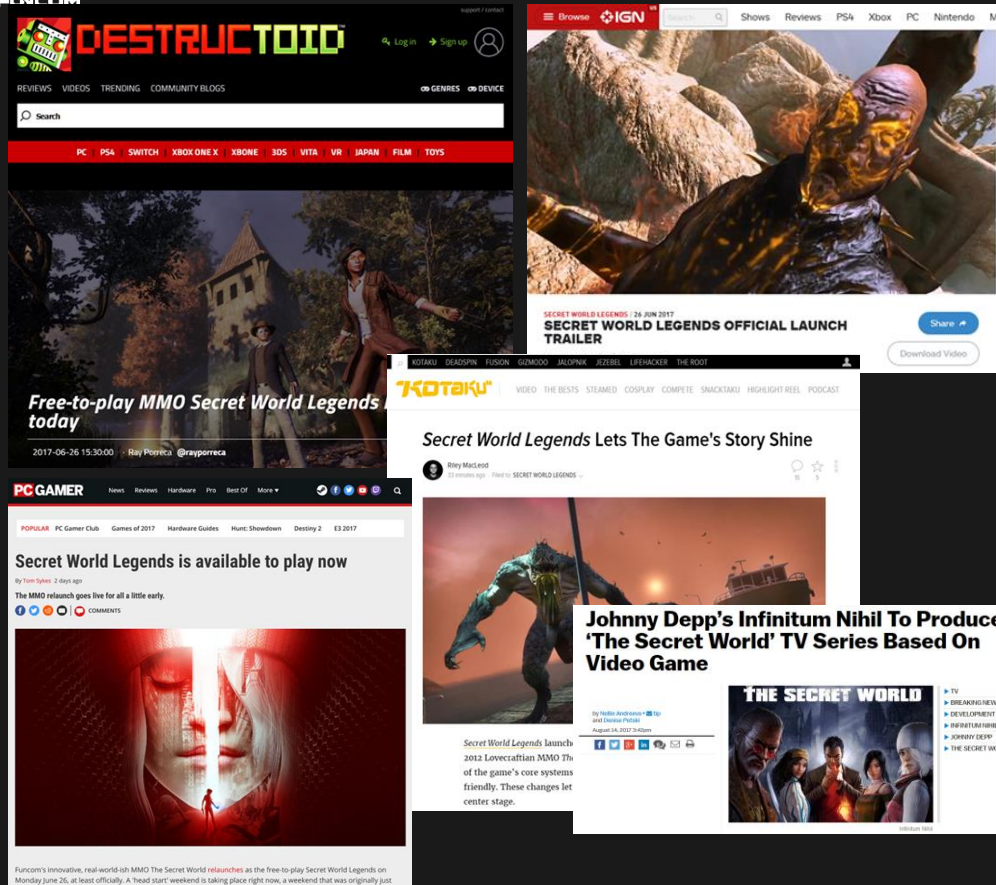
### NOTES

- Monthly revenue in June and July is the highest since 2013
- This is expected to drop to a new baseline level after the initial launch.



2Q 2017 PRESENTATION

## SECRET WORLD LEGENDS – PR/MARKETING UPDATE



- Leading up to the official launch on June 26th, Funcom executed a series of publicity initiatives using videos, news announcements, pre-launch access and more which generated significant coverage in the press including **Kotaku**, **PC Gamer**, **MMORPG.com**, **Destructoid** and more
- An ARG was executed aimed at engaging previous and then current players of The Secret World, and players from 139 countries spent more than 25,000 hours participating in the pre-launch event
- Funcom is currently experimenting with various marketing budgets, formats, and creatives to find the best possible avenue for user acquisition – as this is perfected the company aims to increase the spend to generate more users
- In August it was announced that Johnny Depps production company will be producing a TV series based on the Secret World universe, and the announcement generated large amounts of attention in both gaming and mainstream media



2Q 2017 PRESENTATION

## SECRET WORLD LEGENDS – FUTURE UPDATES

A comprehensive list of updates is planned for and publicly available on the game's website:

<https://secretworldlegends.com/update-roadmap/>

Some highlights:

- Throughout the remainder of 2017
  - Lair Bosses and New York Raid
  - Tokyo Part 2 and 3
  - Halloween and Winter Events
- Late 2017 – Early 2018
  - Dark Agarthia
  - Agent System: Get yourself a team of rookie agents and send them on adventures of their own.
  - Continuation to the main story: A whole new chapter for Secret World with brand new content

In addition the team will continue to monitor and improve the core KPIs of the game





# CONAN EXILES



2Q 2017 PRESENTATION

## DEVELOPMENT UPDATE

- Between Early Access launch and The Frozen North:
  - New dungeon - The Dregs
  - Siege weapon - The trebuchet
  - Traps, emotes and new placeables - Trap gameplay, 50 new placeables and 50 new emotes
  - Avatar defense - Defensive domes for defending from Avatar attacks
  - Orbs - Grenade gameplay
  - Climbing - Freeform climbing gameplay
- With The Frozen North
  - A new land – landmass increased by 70%, including two new dungeons
  - New buildings and resources – Several new resources and many craftable and buildable objects
  - Weather and temperature – Additional survival gameplay
  - New enemies – Frost giants, wolves, and more
  - Brewing and cooking – New types of harvesting and crafting gameplay





2 Q 2017 PRESENTATION

## FROZEN NORTH AND XBOX ONE GAME PREVIEW

- The game was released on Xbox One Game Preview on 16 August 2017 as planned, together with The Frozen North free expansion update on both Xbox and PC
- The new area and features of the game were positively received by the press and gamers, having generated a solid amount of attention
- On Xbox, the game has been on the top spots of the paid charts since launch
- While the gameplay is bigger and better than ever, the technical quality of the release was not good enough
  - The technical problems have had an impact on the store rating and sales of the game. The team is focused on addressing these issues as quickly as possible.

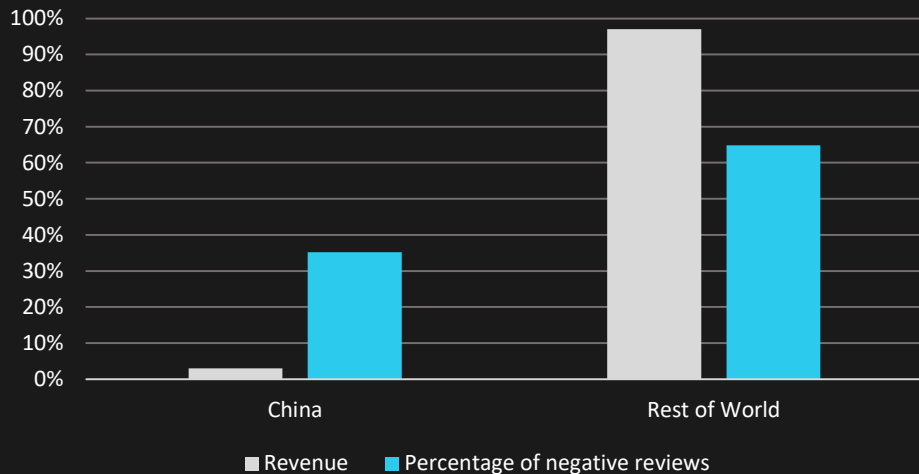




2Q 2017 PRESENTATION

## GLOBAL AUDIENCE, REGIONAL CHALLENGES

Last 30 days revenue and negative reviews



### NOTES

- Global audience brings challenges on a regional level
  - The game is localized in 11 languages, but community management is done in English and German only
- We are in dialogue with potential local partners in Asia to help us identify issues and create a dialogue with the playerbase





2Q 2017 PRESENTATION

# CONAN EXILES- PR/MARKETING UPDATE



## Top paid games

Top paid Games Xbox

All categories

Viewing 1-40 of 997 results.



Sonic Mania  
★★★★★  
\$19.99



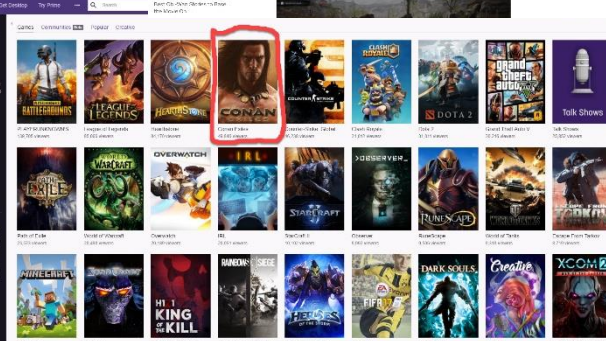
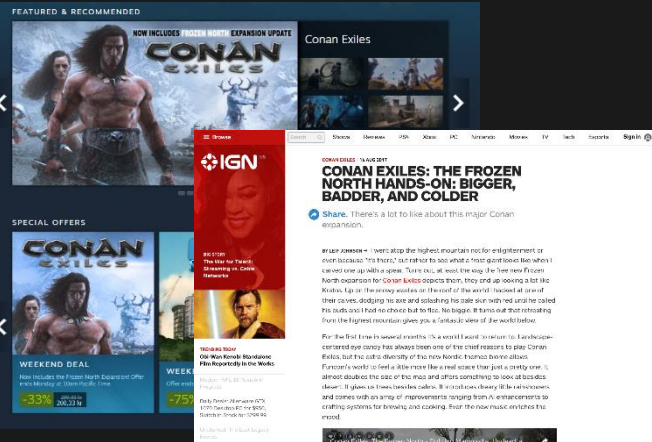
Conan Exiles  
(Game Preview)  
★★★★★  
\$34.99\*



Grand Theft



FOR



- Funcom executed a sponsored streamer/YouTuber campaign which saw Conan Exiles go to 4th place on Twitch and garnered millions of video views
- Funcom worked closely with Microsoft who supported the launch in their channels, including Major Nelson, social media, YouTube, and significant featuring on the Xbox store front page
- Release of news announcements, trailers, and preview code generated substantial coverage in the press, including pickup from major players like IGN, PC Gamer, GameSpot, and others
- The game rose to 1st place on Xbox «Top Paid Games» in several territories, including US and the UK. On Steam the game reached 7th place on the Global Best Seller List.
- Funcom will be executing further PR and marketing activities in the months ahead, but is only doing very limited marketing spends during Early Access





2Q 2017 PRESENTATION

## CONAN EXILES – THE ROAD TO FULL LAUNCH

- Quality is the main focus for full launch in Q1 2018
- The map will be expanded further, and include the last parts needed to complete the storyline.
- Additional end-game features will be added
- Price of the game in full launch will increase from the current Early Access / Game Preview price
- Significant marketing and PR activities will be undertaken for full launch, both in retail and online, to maximize the revenue impact of the release



2Q 2017 PRESENTATION

## CONAN EXILES – KOCH MEDIA PARTNERSHIP

- On 21 August 2017 a co-publishing partnership with Koch Media for Conan Exiles was announced
- This partnership will encompass the publishing and distribution of the physical retail version of Conan Exiles for the game's full launch in Q1 2018
- This will see Conan Exiles game boxes in all significant retailers of Western Europe and North America
  - Other regions to be considered on a case by case basis
- Physical retail market has potential to be significant due to the strength of the IP and the broad appeal of the game



OTHER





2Q 2017 PRESENTATION

## FUTURE INTERNAL GAMES

- Two new projects are in early concept stages and will enter pre-production at the earliest during the second half of 2017:
  - In Funcom Oslo:
    - New game concept using the “Conan the Barbarian” IP
    - Pre-production pushed to early 2018 due to focus on Conan Exiles
  - In Funcom North Carolina:
    - New project is in early concepting stage with full production to be dependent on the performance of Secret World Legends and on the recruitment of additional staff for the project



2 Q 2017 PRESENTATION

## BEARDED DRAGONS COOPERATION

- Cooperation announced on 23 June 2017 regarding development support and publishing of a new game is underway
- The game is in the “tactical turn-based strategy” genre, to be released in 2018 for PC, with console launch to be evaluated later
- More information to be revealed when PR and Marketing activities are initiated in late 2017
- This activity is part of Funcom's strategy of releasing multiple game titles per year, providing significant activities more often and building a larger portfolio of products.

QUESTIONS?



**FUNCOM**