THIS ANNOUNCEMENT CONTAINS INFORMATION WHICH, PRIOR TO ITS DISCLOSURE, WAS INSIDE INFORMATION FOR THE PURPOSES OF THE MARKET ABUSE REGULATION.

For immediate release **9 May 2019**

Frontier Smart Technologies Group Ltd

('Frontier' or the 'Group')

Trading Update

Frontier (AIM: FST) announces a trading update and revised outlook for the current financial year ending 31 December 2019 ('FY-2019').

As set out in the Group's previous announcements, Frontier's priorities have been to:

- maximise Digital Radio cashflows
- control R&D expenditure and leverage ecosystem relationships in Smart Audio
- establish a new Licensing business, which exploits the Group's multi-ecosystem software and cloud assets, to address the opportunities in Smart Audio and Smart IoT

This plan remains in place, providing focus to the Group's long-term strategy. However, a review of current trading and market conditions has identified three factors which are expected to have an adverse impact on the Group's trading performance in the current financial year:

- an increase in competitive pressures in Digital Radio;
- continued weak sales of the Group's legacy Smart Audio hardware products; and
- the ramp-up timing of the new Smart Audio/IoT licensing business.

As a result, the Board now expects to report for the full year:

- sales of approximately US$36.6 million;
- an Adjusted EBITDA[1] loss of no worse than US$0.9 million; and
- a Trading EBITDA[2] loss of no worse than US$1.5 million.

Due to the seasonality of the Group's business, the Board anticipates an H1 2019 Trading EBITDA loss of US$2.2 million followed by a return to EBITDA profitability in the second half, as was the case in the last financial year.

Digital Radio

To maximise cashflow, the Digital Radio business has focused on:

1. optimising its structure and products for the mainstream DAB market
2. creating and promoting the concept of "Smart Radio" offering DAB, global internet radio and music streaming, through its new Venice X product

Underlying trends in Digital Radio are encouraging. The key German market continues to grow (up 17% in the first two months of the year) and the French market is expected to develop strongly over the next two years, with new legislation requiring new radio receivers sold in France to have DAB+ and the launch of national DAB+ services in 2020.

While market dynamics support further growth opportunities, 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 has been successful in retaining Tier 1 global and regional brands, but has lost some forecast entry-level business. As a result, forward bookings in Q2-2019 have been below plan and the Board now expects Digital Radio FY-2019 revenues to be c. US$33.1 million (approximately 8% lower than market expectations).

To counter this competitive threat, the Group has introduced its own more aggressive pricing, and while full-year revenues and gross margins are likely to come in below market expectations, this should help to protect volumes. Gross margins are expected to remain stable at about 40% this year and next.

As communicated previously, Frontier is introducing a new solution, Venice X, for smart radios (devices which combine both DAB+ and internet connectivity). This solution is sold at a higher price point than standard DAB and offers superior per unit margins. Venice X is expected to enter mass production in Q2-2019. First material revenues should be seen in H2-2019 and thereafter the Board expects "smart radio" to play an increasingly important part in the Group's product mix, offering growth opportunities and improved margins.

Smart IoT

The strategic focus of the Smart IoT business has been to:

1. establish a new Licensing business, which exploits the Group's multi-ecosystem software and cloud assets, to address the opportunities in Business-to-Business (B2B) Smart IoT/Audio

2. control R&D expenditure and leverage ecosystem relationships in its legacy hardware-based Smart Audio business.

Revenues from the Group's legacy Smart Audio hardware business continue to disappoint due to ongoing aggressive pricing of first-party smart speakers, which has constrained the market for products from third-party brands. As a result, the Board now expects FY-2019 sales for Smart IoT of c. US$3.4 million – 37% lower than market expectations of US$5.4 million.

For the new software licensing business, the Group has established a team to address new opportunities for voice-enabled devices. In support of this initiative, Frontier has entered a strategic relationship with NXP Semiconductors.

The initial focus of this programme is on software licensing for soundbars incorporating Dolby's ATMOS technology – a sector expected to see healthy growth in the next three years. Leveraging the NXP relationship, the Group has developed an attractive pipeline of potential customers and has started work on its first design win. The Board expects the first material revenues for software licensing in 2020.

The longer-term focus for licensing is to broaden beyond Smart Audio. The intention is to use the Group's presence in soundbars as a platform for developing positions in other Smart IoT verticals, such as hospitality and appliances – sectors which are already being investigated.

Cash position and mitigation plans

As at 30 April 2019, the Group's gross cash position was US$2.6 million (net debt of US$3.9 million). Frontier is reviewing its plans for mitigation and the Board is confident that the business will return to Trading EBITDA profitability in the second half of 2019 and for the full year 2020.

Anthony Sethill, CEO, Frontier Smart Technologies said:

"The short-term trading outlook for the Group is challenging.

In Digital Radio, increased competition has had a negative impact on profitability, but the fundamentals of the business line remain solid. In the medium-term, market volumes are forecast to grow, driven by increasing sales in Germany and the emergence of new markets such as France and Belgium.

The Group also has a clear technology advantage through its cost-optimised silicon, so is well placed to retain market share – albeit with slightly lower margins. Significantly our Venice-X based Smart Radio initiative has been well-received by customers and is expected to have a positive impact on the business when products using Venice X are launched later this year.

"In Smart IoT, sales of our legacy Smart Audio hardware continue to disappoint – due to the aggressive pricing of first party products. As a result, Smart Audio revenues in 2019 are likely to be significantly lower than in 2018.

"In contrast, prospects for our new Smart IoT software licensing business are more promising. Leveraging its relationship with NXP, the Group is developing a healthy pipeline of potential design wins. This should deliver material growth in licensing revenues in 2020 – initially in ATMOS soundbars and then in other Smart IoT verticals.

"We remain committed to the Group's core strategic objectives of maximising Digital Radio cashflows, controlling Smart Audio R&D expenditure and developing our Smart IoT software licensing business. In light of the current trading conditions, we will continue to monitor our progress closely to ensure that the Group's cash position remains secure."

[1] *Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, and before restructuring, other non-recurring costs and certain non-cash items.*

[2] *Trading EBITDA means Adjusted EBITDA less R&D costs which have been capitalised in compliance with IAS38*

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About Frontier Smart Technologies Group Limited

Frontier Smart Technologies is a pioneer in technologies for Digital Radio and Smart IoT devices. The Group's customers include many leading consumer audio brands: Bose, Denon, harman/kardon, JBL, Onkyo, Panasonic, Sony, Yamaha, Altec Lansing, Blaupunkt, Grundig, Hama, Klipsch, Marshall, Pioneer, Pure, Roberts, TechniSat, Teufel and many more. Established in 2001, the Group is headquartered in London, with engineering, sales and operations teams in Cambridge, Timisoara (Romania), Hong Kong and Shenzhen. For more information, see frontiersmart.com.

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.