



## Press release May 11<sup>th</sup> 2017

### Starbreeze AB (publ) Q1 report January 2017 – March 31 2017

The first quarterly report in Swedish is available at [www.starbreeze.com/investor-relations/](http://www.starbreeze.com/investor-relations/). The English version of the report will be available within a week. Financial statements in English are available at the end of this document.

#### FIRST QUARTER (JANUARY-MARCH 2017)

- Net revenue amounted to SEK 57,3 million (SEK 40,8 million), representing a growth of 40.4 %.
- During the quarter, PAYDAY 2 represented SEK 23,7 million (SEK 39,6 million) of net revenue. Dead by Daylight represented SEK 20,9 million (SEK 0,0 million).
- Operating income before depreciation and amortization, EBITDA, amounted to SEK -35,3 million (SEK -4,3 million), implying a margin of -33,1 percent.
- Earnings per share before dilution were SEK -0.18 (SEK -0.06) and earnings per share after dilution were SEK -0.18 (SEK -0.06).
- As of March 31, cash and cash equivalents totaled SEK 516,9 million (SEK 416,5 million).

## THE FUTURE OF ENTERTAINMENT

#### CEO BO ANDERSSON KLINT GIVES HIS COMMENT

Due to seasonality, revenues for the first quarter of the calendar year is usually lower than the following quarters, which also hold true this year, as there are fewer sales activities for both PC and console platforms. Nevertheless, net revenue rose by over 40% compared with the first quarter 2016, driven by continued good momentum for Starbreeze Publishing and Dead by Daylight.

This year, PAYDAY 2 had its big spring campaign on Steam, "Spring Break" in Q2, instead of in Q1 as in previous years. Despite this, sales of the quarter held up well, mainly because we as the sole IP owner, enjoy 100% of revenues. The shift in timing for "Spring Break" also gave us a solid start of the second quarter with April sales of SEK 11.6 million (SEK 2.0 million) directly related to PAYDAY 2.

We are almost done building the three parallel teams that will create more PAYDAY content and get OVERKILL's The Walking Dead and Crossfire ready for our fans. We have also formed an advanced tech team that both performs R&D for StarVR and supports game development.

The marketing team has been expanded to meet the needs we have for the increasing number of both own games and publishing activities. With all this in place, we expect a slower increase in the number of employees and related costs from the third quarter.

A significant cost item in our income statement is outsourcing of more volume-related game production tasks. When we get approval from the Indian Investment Authority, we'll close the acquisition of Dhruva Interactive and expect to lower our costs for these tasks.

The second quarter usually holds most of our marketing costs, mainly due to our participation at the trade show E3 in Los Angeles. This year, our marketing costs will instead peak in the first quarter as we shifted from E3 to activities that we believe give "more bang for the buck".

The quarter has also been charged with non-recurring costs relating to the ongoing listing on Nasdaq Stockholm.

Our joint venture with Acer, StarVR Corporation, carries all marketing and sales costs of StarVR, but as long as Starbreeze maintains the IP rights, we carry R&D related costs. In the first quarter, these amounted to 9.4% of total operating expenses. At the same time, we have no manufacturing costs as these are carried by Acer.

The seasonality impact on our top-line combined with the ramp up of key production and marketing teams, resulted in an EBITDA of SEK -35.3 million (SEK -4.2 million), costs in line with planned budget. Our plan is, and will always be, long-term and optimized to create great years, not single quarterly profits.

It is worth mentioning that depreciation got a temporary uptick as we took the bulk of the investment in John Wick: Chronicles upfront. A treatment driven by IFRS accounting rules.

Cash flow from operations was slightly negative by SEK -4.8 million (SEK 4.0 million) and net cash flow from investments was SEK -146.5 million (SEK -54.2 million). The latter higher amount was due, inter alia, to a larger lump sum payment to StarVR Corporation, in accordance with the financing milestone plan totaling USD 12.5 million as previously announced. We are now halfway through this financing plan. The first quarter also included the first and thus large milestone payments for major publishing projects such as Psychonauts 2.

We exit the quarter with a stable cash at hand of SEK 516.9 million (SEK 416.5 million) and yet again, let me repeat that this significant cash balance will be used for selected key investments, which we over time foresee will generate great returns.

## **NEW LAUNCH WINDOW FOR OTWD**

Together with the development team of OVERKILL's The Walking Dead, we have decided to extend the production schedule so that the title can reach its full potential and to drive our original vision one step further. It's a brand new co-op game we are developing with new characters and storylines. The game will have great re-playability with many unique dynamic levels. In order to reach our vision, we are developing completely new technologies that we need to refine to get where we want. We are completely intent on succeeding, but it will take a little longer than we estimated when we started the project. We and Skybound Entertainment are fully dedicated to releasing an unforgettable experience for fans worldwide and then continuing to support it with high quality content in coming years.

## **STARSTREAM AND STARBREEZE PRODUCT PORTFOLIO**

This year we have chosen not to participate at E3. Instead we are wholeheartedly committed to establishing our own online information platform: Starstream, which was broadcast on May 10th, 2017.

During Starstream, we showcased large portions of our portfolio, released titles and projects under development, and also give the Starbreeze brand more dedicated focus. We gave a first glimpse into the production of OVERKILL's The Walking Dead as well as a taste of where we want to take Crossfire co-op.

For OVERKILL's The Walking Dead, we have more than 80 developers dedicated to the project and we talked about the foundation and game concept. In true co-op spirit the game encourages players to complete missions with varying degrees of difficulty. With focus on characters and technological advances that enable deeper re-playability than we have had in previous products, we aim to deliver a game that satisfies both the franchise's fans and hard core gamers.

Our next game release in Starbreeze publishing, RAID: World War II, also premiered the RAID groups new taskmaster; through the character "Control", the eminent John Cleese will guide the players through their adventures. We also showed the Indie Publishing's premiere title Antisphere and opened for pre-orders on the digital platform Steam. PAYDAY players who pre-order the game will get six brand new masks as an added bonus.

In the System Shock 3 segment, our latest publishing project, Warren Spector presented for the first time conceptual images for the game and shared his vision. In a panel, together with industry veteran Tim Shafer, Warren discussed the industry in general and how it has evolved over the decades.

For our blockbuster product PAYDAY, we showed a first trailer for our upcoming mobile game PAYDAY: CrimeWar. We also announced the market's largest VR game with PAYDAY 2 VR. Here we presented something groundbreaking where players for the first time can play co-op on the same mission regardless if they play via Steam on PC or through a compatible VR headset on the same platform.

PAYDAY 2 is still our biggest source of revenue and we have proven the business model for almost four years. Since the game has repaid its investment several times, we have decided to continue to update the game for another year, completely free for players. We enable this by releasing a new version of PAYDAY 2, The Ultimate Edition, where we bundle all DLCs and put the price to 45 USD. Our previous total price for the base game with all paid updates had a total price over 200 USD. That way, we offer players all of PAYDAY 2 at an attractive price and with an unbeatable amount of content. In addition, we make PAYDAY VR a component of PAYDAY 2: Ultimate Edition to further enhance its appeal and yet again renew and expand PAYDAY.

Storm has long been an IP we have kept behind locked doors, but that we now presented a vision for. As a hub for our VR ecosystem, we showed a preview of Storm as co-operative PC game and competitive e-sport experience in virtual reality. Our investments in various technologies all build towards this vision.

Let's keep building this!

###

*This information is information that Starbreeze AB is obliged to make public pursuant to the Securities Markets Act. The information was submitted for publication at 8:30am CEST on May 11 2017.*

**For further information, please contact:**

Maeva Sponbergs, Investor Relations, Starbreeze AB.

Tel: +46(0)8-209 208, email: [ir@starbreeze.com](mailto:ir@starbreeze.com)

### **About Starbreeze**

Starbreeze is an independent creator, publisher and distributor of high quality entertainment products. With studios in Stockholm, Paris, Los Angeles, Barcelona and Brussels, the company creates games and other virtual reality entertainment products, based on proprietary design and licensed content. Starbreeze most recent games include PAYDAY 2®, John Wick VR shooter and upcoming survival co-op FPS OVERKILL's The Walking Dead. Under its publishing initiative, Starbreeze has together with Canadian studio Behaviour Digital successfully launched horror thriller Dead by Daylight.

Starbreeze has set out to develop truly immersive virtual reality experiences, by integrating software and hardware in its StarVR® head mounted display, which is produced together with Acer, displaying a unique field of view and a mission to bring top-end VR to large audiences. Together with IMAX, Starbreeze aspires to dominate the location based VR market with the IMAX VR centers. The first IMAX VR center opened in Los Angeles in January 2017.

Headquartered in Stockholm, Sweden, Starbreeze's shares are listed on Nasdaq Stockholm First North Premier under the tickers STAR A and STAR B with the ISIN-codes SE0007158928 (A share) and SE0005992831 (B share). Remium Nordic is the company's Certified Adviser. For more information, please visit <http://www.starbreeze.com>, <http://www.starvr.com>, <http://www.overkillsoftware.com>

## CONSOLIDATED INCOME STATEMENT

KSEK	2017	2016	2016
	Q1	Q1	JAN - DEC
Net revenue	57,270	40,802	345,463
Capitalized development work	49,632	29,293	154,450
Other operating revenue	-	-	23,132
<b>Total</b>	<b>106,902</b>	<b>70,095</b>	<b>523,045</b>
Other external expenses	-86,175	-44,429	-292,106
Employee expenses	-52,482	-26,356	-148,517
Amortization of intangible assets	-13,160	-4,185	-20,600
Depreciation of property, plant and equipment	-2,307	-1,066	-4,166
Other operating expenses	-3,577	-3,558	-1,202
<b>Operating income</b>	<b>-50,799</b>	<b>-9,499</b>	<b>56,454</b>
Financial income	74	10	17,511
Financial expenses	-5,325	-5,465	-18,196
<b>Income before tax</b>	<b>-56,255</b>	<b>-14,954</b>	<b>55,900</b>
Income tax	5,627	181	1,191
<b>Net income for the period</b>	<b>-50,628</b>	<b>-14,773</b>	<b>57,091</b>
<b>Other comprehensive income</b>			
Other comprehensive income that may be reclassified to net income			
Exchange differences	-4,186	-651	-4,375
<b>Total comprehensive income for the period</b>	<b>-54,814</b>	<b>-15,424</b>	<b>52,716</b>

As there are no non-controlling interests in the Group, the entire net income and comprehensive income for the period refer to the parent company's shareholders.

Earnings per share attributable to the parent company's shareholders during the period (expressed in SEK):

- before dilution	-0.18	-0.06	0.22
- after dilution	-0.18	-0.06	0.22

## CONSOLIDATED BALANCE SHEET

KSEK	NOTE	2017/03/31	2016/03/31	2016/12/31
<b>ASSETS</b>				
<i>Intangible assets</i>				
Goodwill		402,774	73,109	404,530
Other intangible fixed assets		588,183	194,477	594,728
Capitalized expenditure for games and technology development		382,450	149,716	303,763
<i>Financial assets</i>				
Financial assets		80,184	16,001	31,971
Investments in joint ventures		8,433		8,638
Deferred tax assets		63,231	6,351	30,712
<i>Tangible assets</i>				
Computers and other equipment		35,123	17,276	23,458
<b>Total non-current assets</b>		<b>1,560,378</b>	<b>456,930</b>	<b>1,397,800</b>
<i>Current assets</i>				
Inventories		2	2	2
Trade receivables and other receivables		25,840	33,004	25,576
Prepaid expenses and accrued income		38,128	21,911	56,183
Cash and cash equivalents		516,900	416,466	669,380
<b>Total current assets</b>		<b>580,870</b>	<b>471,383</b>	<b>751,141</b>
<b>TOTAL ASSETS</b>		<b>2,141,248</b>	<b>928,313</b>	<b>2,148,941</b>
<b>EQUITY AND LIABILITIES</b>				
<i>Equity attributable to parent company shareholders</i>				
Share capital		5,538	4,863	5,538
Other contributed capital		1,175,873	422,412	1,175,563
Reserves		-514	7,395	3,671
Retained earnings including net income for the period		133,905	113,587	185,451
<b>Total equity</b>		<b>1,314,802</b>	<b>548,257</b>	<b>1,370,223</b>
<i>Non-current liabilities</i>				
Non-current liabilities, additional consideration		306,237	8,284	307,099
Deferred tax liability		144,941		119,134
Other non-current liabilities		270,105	261,458	265,535
<b>Total non-current liabilities</b>		<b>721,283</b>	<b>269,742</b>	<b>691,768</b>
<i>Current liabilities</i>				
Trade payables and other liabilities		65,785	42,166	41,990
Accrued expenses and deferred income		39,378	68,148	44,960
<b>Total current liabilities</b>		<b>105,163</b>	<b>110,314</b>	<b>86,950</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>2,141,248</b>	<b>928,313</b>	<b>2,148,941</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

KSEK	Share capital	Other contributed capital	Reserves	Retained earnings	Sum of equity
Balance at 1 January 2017	5,538	1,175,563	3,671	185,451	1,370,223
Net income for the period	-	-	-	-50,628	-50,628
<b>Other comprehensive income for the period</b>					
Exchange differences	-	-	-4,185	-	-4,185
<b>Total comprehensive income</b>	<b>5,538</b>	<b>1,175,563</b>	<b>-514</b>	<b>134,823</b>	<b>1,315,410</b>
<b>Transactions with shareholders:</b>					
Vested employee stock options	-	310	-	-	310
Issue cost recognized in equity	-	-	-	-1,177	-1,177
Deferred tax effect on issue cost recognized in equity	-	-	-	259	259
<b>Total contribution from and value transfers to shareholders, recognized directly in equity</b>		<b>310</b>	<b>-</b>	<b>-918</b>	<b>-608</b>
<b>Closing balance at March 31, 2017</b>	<b>5,538</b>	<b>1,175,873</b>	<b>-514</b>	<b>133,905</b>	<b>1,314,802</b>

Balance at 1 January 2016	4,607	257,352	8,046	128,360	398,365
Net income for the period	-	-	-	-14,776	-14,776
<b>Other comprehensive income for the period</b>					
Exchange differences	-	-	-651	-	-651
<b>Total comprehensive income</b>	<b>4,607</b>	<b>257,352</b>	<b>7,395</b>	<b>113,584</b>	<b>382,938</b>
<b>Transactions with shareholders:</b>					
New issue through exercise of stock options	64	33,746	-	-	33,810
Shareholders' contributions received	-	1,992	-	-	1,992
Vested employee stock options	-	483	-	-	483
New issue	192	128,839	-	-	129,031
<b>Total contribution from and value transfers to shareholders, recognized directly in equity</b>	<b>256</b>	<b>165,060</b>			<b>165,316</b>
<b>Closing balance at March 31, 2016</b>	<b>4,863</b>	<b>422,412</b>	<b>7,395</b>	<b>113,584</b>	<b>548,254</b>

CHANGE IN NUMBER OF OUTSTANDING SHARES	Q1	JAN - DEC
Number of shares at the start of the period	276,879,720	230,361,091
Non-cash issue		1,138,385
Subscription of shares through exercise of options	49,992	6,560,898
New issue		38,819,346
<b>Number of shares at the end of the period</b>	<b>276,929,712</b>	<b>276,879,720</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

KSEK	NOTE	2017	2016	2016
		Q1	Q1	JAN - DEC
Operating activities				
Cash flow from operations	3	-3,246	9,642	8,868
Interest paid		-2,153	-409	-2,682
Interest received		1,975	9	5,410
Income taxes paid		-1,361	-5,200	3,695
<b>Cash flow from operating activities</b>		<b>-4,785</b>	<b>4,042</b>	<b>15,291</b>
Investing activities				
Purchase of property, plant and equipment		-14,133	-1,561	-9,449
Investments in subsidiaries		-	-	-60,412
Purchase of intangible assets		-	-	-15,354
Investment in other financial assets		-48,213	-378	-9,668
Investment in capitalized expenditure for games development		-84,209	-52,246	-194,871
<b>Cash flow from investing activities</b>		<b>-146,555</b>	<b>-54,185</b>	<b>-289,754</b>
Financing activities				
New issue		-	162,841	554,906
Payments for stock options		-	1,992.00	14,128.00
Increase in non-current liabilities		-	220,052.00	284,945.00
<b>Cash flow from financing activities</b>			<b>384,885</b>	<b>853,463</b>
<b>Cash flow for the period</b>		<b>-151,340</b>	<b>334,742</b>	<b>579,000</b>
Cash and cash equivalents at the beginning of the period		669,380	85,354	85,354
Exchange difference in cash and cash equivalents		-1,140	-3,650	5,026
<b>Cash and cash equivalents at the end of the period</b>		<b>516,900</b>	<b>416,446</b>	<b>669,380</b>

## KEY RATIOS, GROUP

	2017	2016	2016
	Q1	Q1	JAN - DEC
Net revenue, KSEK	57,270	40,802	345,463
EBITDA, KSEK	-35,332	-4,248	81,220
EBIT, KSEK	-50,799	-9,499	56,454
Income before tax, KSEK	-56,255	-14,954	55,900
Income after tax, KSEK	-50,628	-14,773	57,091
EBITDA margin, %	-33.1	-6.1	15.5
EBIT margin, %	-47.5	-13.6	10.8
Profit margin, %	-52.6	-21.3	10.7
Equity/asset ratio, %	61.4	59.1	63.8
Closing price of A share for the period, SEK	15.30	15.40	19.20
Closing price of B share for the period, SEK	15.30	15.30	19.30
Earnings per share before dilution, SEK	-0.18	-0.06	0.22
Earnings per share after dilution, SEK	-0.18	-0.06	0.22
Number of shares at end of period before dilution	276,929,712	243,133,362	276,879,720
Number of shares at end of period after dilution,	304,402,443	245,849,583	304,352,451
Average number of shares before dilution	276,929,712	239,502,766	255,276,469
Average number of shares after dilution	278,796,145	242,218,987	257,234,798
The average number of employees	220	114	151
The number of employees at the end of the period	239	121	212

## **KEY RATIOS, GROUP**

### **EBITDA**

Earnings before interest, taxes, depreciation and amortization.

### **EBIT**

Earnings before interest and taxes.

### **EBITDA margin (from Q1 2016 calculated as a percentage of total revenue)**

Earnings before interest, taxes, depreciation and amortization as percentage of total revenue.

### **EBIT margin (from Q1 2016 calculated as a percentage of total revenue)**

Earnings before interest and taxes as percentage of total revenue.

### **Profit margin (from Q1 2016 calculated as a percentage of total revenue)**

Profit as percentage of total revenue.

### **Equity/assets ratio**

Equity as a percentage of total capital.

### **Earnings per share**

Income after tax divided by the average number of shares during the period.

### **Equity**

Reported equity including 78 percent of untaxed reserves.

## **DEFINITIONS**

### **Location-based entertainment (LBE)**

Location-based entertainment (LBE), is various forms of entertainment linked to specific places. LBE is often used as a broad expression for entertainment such as theme parks, movie theaters, bowling alleys, arcades or where visitors go to play computer games and so on. IMAX VR center is a typical example of LBE.

## PARENT COMPANY INCOME STATEMENT

KSEK	2017	2016	2016
	Q1	Q1	JAN - DEC
Net revenue	11,144	16,319	100,686
Other operating revenue	-	-	
<b>Total revenue</b>	<b>11,144</b>	<b>16,319</b>	<b>100,686</b>
Other external expenses	-18,778	-21,978	-86,811
Employee benefit expenses	-12,451	-5,959	-19,921
Depreciation of property, plant and equipment	-181	-166	-432
Other operating expenses	-228	-2,238	-2,342
<b>Operating income</b>	<b>-20,494</b>	<b>-14,022</b>	<b>-8,820</b>
Other financial income	327	809	2,041
Financial expenses	-5,303	-5,408	-432
<b>Income after financial items</b>	<b>-25,470</b>	<b>-18,621</b>	<b>-7,211</b>
Appropriations		13,713	51,887
<b>Income before tax</b>	<b>-25,470</b>	<b>-4,908</b>	<b>44,676</b>
Income tax	5,145	1,100	5,258
<b>Net income for the period</b>	<b>-20,325</b>	<b>-3,808</b>	<b>49,934</b>

For the parent company, net income for the period corresponds to total comprehensive income.

## PARENT COMPANY BALANCE SHEET

KSEK	2017/03/31	2016/03/31	2016/12/31
<b>ASSETS</b>			
<i>Fixes assets</i>			
Computers and other equipment	1,087	1,671	1,265
Participations in group companies	768,995	152,122	690,126
Deferred tax assets	10,397	6,352	5,252
Participations in associated companies	46,500	-	8,507
<b>Total non-current assets</b>	<b>826,979</b>	<b>160,145</b>	<b>705,150</b>
<i>Current assets</i>			
Receivables from Group companies	730,093	267,300	761,308
Other receivables	539	4,959	549
Prepaid expenses and accrued income	1,829	1,251	1,295
Cash and cash equivalents	418,121	346,869	540,118
Total current assets	1,150,582	625,247	1,303,270
<b>TOTAL ASSETS</b>	<b>1,977,561</b>	<b>785,392</b>	<b>2,008,420</b>
<b>EQUITY AND LIABILITIES</b>			
<i>Equity</i>			
Share capital	5,538	4,863	5,538
Fair value reserve	329	-332	2,054
Share premium reserve	1,129,776	376,315	1,129,465
Retained earnings	83,757	76,945	76,945
Net income for the period	-20,325	-3,808	7,991
<b>Total equity</b>	<b>1,199,075</b>	<b>453,983</b>	<b>1,221,993</b>
<i>Untaxed reserves</i>			
Accumulated excess depreciation	16	16	16
<b>Total untaxed reserves</b>	<b>16</b>	<b>16</b>	<b>16</b>
<i>Non-current liabilities</i>			
Other non-current liabilities	570,014	227,158	565,179
<b>Total non-current liabilities</b>	<b>570,014</b>	<b>227,158</b>	<b>565,179</b>
<i>Current liabilities</i>			
Trade payables	975	1,782	3,391
Liabilities to Group companies	187,985	49,211	195,499
Other liabilities	2,830	1,421	6,664
Accrued expenses and deferred income	16,666	51,821	15,678
<b>Total current liabilities</b>	<b>208,456</b>	<b>104,235</b>	<b>221,232</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,977,561</b>	<b>785,392</b>	<b>2,008,420</b>

# NOTES

## NOTE 1: PLEDGED ASSETS

### CONSOLIDATED PLEDGED ASSETS AND LIABILITIES

During 2014/2015, the company entered into an agreement with a distribution partner where the distributor has the opportunity to obtain a bonus if certain sales targets are achieved. The company made the assessment last year that it was unlikely that these targets would be met, and therefore the commitment of SEK 33.4 million had been entered as a contingent liability and not as a liability in the balance sheet. The agreement has now been renegotiated, which means that the contingent liability no longer remains.

KSEK	2017/03/31	2016/03/31	2016/12/31
Pledged assets	5,348	4,499	5,387
Contingent liabilities	-	32,589	-

## NOTE 2: FINANCIAL INSTRUMENTS

### FINANCIAL INSTRUMENTS VALUED AT FAIR VALUE

TSEK	3/31/2017	12/31/2016	Level
Assets classified as available for sale			
Financial assets, shares in Cmune	11,502	11,502	2
Financial assets at fair value through profit or loss			
Investments in konvertible loans	30,707	14,183	2
Financial debts			
Additional consideration	306,237	307,099	3
Konvertible loans	20,000	16,857	2

Information on fair value and fair value hierarchy, is available in the statutory accounts for 2016

## NOTE 3: CASHFLOW FROM OPERATIONS

### CASH FLOW FROM OPERATIONS

TSEK	2017 Q1	2016 Q1	2016 JAN-DEC
Operating income	-50,799	-9,499	55,900
Adjustments for items with no cash flow effect:			
-Amortization of intangible assets	13,160	4,185	20,600
-Depreciation of tangible assets	2,307	1,066	4,166
-Financial net	0	0	554
-Unrealized exchange rate differences	1,360	890	19,332
Increase (-) decrease (+) of current receivables	6,931	10,678	-49,337
Increase (+) decrease (-) of current liabilities	23,795	2,322	-42,347
Cash flow from operations	-3,246	9,642	8,868