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Starbreeze AB (publ) Q1 report January 1st 2016 – March 31st 2016

The full Q1 report is available at www.starbreeze.com/investor-relations/. Financial statements in English is available at the end of the document.

CHANGED FISCAL YEAR

Note that in accordance with the decision taken on the Annual General Meeting in November 2015, this is the first quarterly report after changing the company's fiscal year to calendar year. The comparative period Q1 2015 corresponds to January-March 2015, previously named Q3 2014/2015.

The next report to be issued will thus be Q2 2016 and will be released on August 25 2016.

FIRST QUARTER (JANUARY – MARCH 2016)

- Net sales amounted to SEK 40.8 million, (SEK 47.7 million), a decrease of -14.5%. Total revenue amounted to SEK 70.1 million (SEK 61.5 million), an increase of 14% year on year.
- Operating income before depreciation, EBITDA, amounted to SEK -4.2 million (SEK 14.0 million), implying a negative margin of -6.1 percent.
- Pretax income amounted to SEK -15.0 million (SEK 10.8 million).
- Net income amounted to SEK -14.8 million (8.1 million), impacted by foreign exchange losses of -3.6 million (6.2 million foreign exchange gain) and by a revaluation of the convertible loan of -5.0 MSEK (0.0 MSEK).
- Earnings per share before dilution were SEK -0.06 (SEK 0.04) and earnings per share after dilution were SEK -0.06 (SEK 0.04).
- Cash flow from operating activities amounted to SEK 9.6 million (SEK -12.6 million).

- As of March 31 2016, the cash balance amounted to SEK 416.5 million (SEK 165.4 million).
- During the quarter, PAYDAY 2 net sales amounted to SEK 39.6 million (SEK 42.2 million).
- In January Starbreeze signed an agreement with the Korean gaming company Smilegate. Smilegate invests 344 MSEK in Starbreeze who undertakes to develop a game based on Smilegate's Crossfire franchise and adapt it for the Western markets. Smilegate also becomes Starbreeze's distribution partner for PAYDAY 2 and OVERKILL's The Walking Dead on the Asian markets.
- On the VRLA event in January the StarCade project was announced. It was communicated that Starbreeze will open an arcade-like VR center in Los Angeles later in the year.
- In February an extraordinary general meeting was held. At the meeting the proposed targeted share issue for Smilegate Holdings Inc. was approved. The meeting also decided to expand the Board by one member and to appoint Joon Ho Sung, CIO at Smilegate, for the vacant seat.
- In February Dead by Daylight website was launched with an initial journal from the developers. Visit the website at – www.deadbydaylight.com.
- Starbreeze signed its fourth publishing agreement in March. The agreement was signed with the US-based game studio FreeForm Labs Inc and implies that Starbreeze invests 750 000 USD in the upcoming virtual reality game ElemenTerra.
- In March PAYDAY 2 was launched on Steam's operating system SteamOS. The SteamOS-compatible version of the game supports SteamCloud and Steam Controller.
- During the quarter two major updates were released to PAYDAY 2 in collaboration with external partners. With our friends at Coffee Stain Studios, PAYDAY 2 was combined with Goat Simulator in our so far funniest collaboration. In cooperation with STX Entertainment, Starbreeze released a couple of updates in connection with the release of their movie "Hardcore Henry". The updates included, amongst other things, the character Jimmy and two Hardcore heists.

AFTER THE PERIOD

- In April, Starbreeze share of the revenue for PAYDAY 2 sales via the PC platform Steam amounted to SEK 2.0 million.
- In April Starbreeze, together with the Canadian studio Behaviour, announced that the highly anticipated asymmetrical horror game Dead by Daylight will be released on June 14th and that pre-orders will be available on Steam from the day of the announcement. The game will be sold in two versions, a standard version for \$19.99/€19.99 and a deluxe version for \$29.99/€29.99.
- In May, at the film festival in Cannes, Starbreeze announced its first internally produced cinematic Virtual Reality experience titled "Cockatoo Spritz" directed by Stephane Barbato. Cockatoo Spritz dives into the film world and presents the new medium from a cinematic

perspective. It is a VR experience designed to inspire creative filmmakers to create VR content.

- In connection with the Cannes Film Festival Starbreeze and Acer signed a letter of intent to form a joint venture for the StarVR Virtual Reality (VR) Head-Mounted Display (HMD). The two companies aim to cooperate on the design, manufacturing, promotion, marketing and sales of the StarVR HMD to the professional- and location-based entertainment market.

CEO BO ANDERSSON KLINT GIVES HIS COMMENT

INVESTING IN OUR FUTURE

With a running start of 2016 we have now closed the first quarter of a year that will truly put Starbreeze on the map as a key player on the market for digital entertainment.

First of all, we have Acer as our VR partner. This is an incredible collaboration that empowers StarVR and Starbreeze leading position as a developer and publisher in the VR eco system. We invested both time and resources this quarter to get here.

These aggressive investments in a brilliant future has made Starbreeze a red first quarter as costs have risen. This as we gear up to build the next generation of a digital studio with multiple IP's and products for years to come. The continued sales of PAYDAY 2 still prove our ability to monetize IP years after release.

Net sales amount to 40.8 MSEK which is 15 per cent below the corresponding quarter 2015 which was the quarter we sold 'Brothers – A Tale of two Sons' and held PAYDAY 2 campaigns such as Hypetrain. In addition, the dollar rate has been favorable for us for a long period but this quarter there is an adverse FX effect due to the weakening Dollar vs. the Swedish Krona effecting the growth rate negatively.

Considering the one-off items, we can again conclude that the underlying financial strength of PAYDAY 2 is keeping its momentum without material disruption which creates a great fundament for Starbreeze aggressive plan for future growth.

Talking about aggressive growth, after several quarters of reduced spend Starbreeze has during the quarter accelerated its activities within our three core areas; game development, publishing and StarVR. As a result, operating expenses have increased by 12.8 MSEK compared to the previous quarter and we anticipate this higher level to maintain the following quarters. We are confident that the accelerated investments will create great value.

EBITDA for the quarter is negative with -4.2 MSEK. This is according to plan and we know that future launches will drive our topline and profitability.

Our cash balance when exiting the quarter amounts to all-time-high 416.5 MSEK with a positive contribution from operations.

Together with Canadian studio Behaviour Digital Inc, we will release the highly anticipated asymmetrical horror game Dead by Daylight on Steam June 14. Apart from the whole team looking forward to scare gamers by enticing the to hunt for survivors, it will add another revenue stream for us, built on the same principles that we applied on PAYDAY 2.

The quarter also saw a 750,000 USD funding of US based studio Freeform Labs and the upcoming VR game ElemenTerra, a social world-building puzzle game in a cosmic cataclysmic setting. Starbreeze will receive 50% of royalties and own 50% of the IP.

BUILDING THE NEXT GENERATION DIGITAL STUDIO

2016 is an exciting year in which we execute further on our plans, making sure we release more products that generate revenue so we can further expand our offering to partners and customers alike.

Our Smilegate collaboration is in full swing with their 344 MSEK investment, and the two companies have been working hard on our Crossfire design and our PAYDAY 2 Asia project. We are really excited to have such an efficient partner and are actively recruiting more competent developers to Stockholm for the future full production team of Crossfire.

Geminose has been silently built into a nice game and has progressed well. We are now discussing our toy manufacturing approach with potential partners which has taken longer than anticipated when we last communicated around the title. We are still balancing our release between digital and retail depending on our future partners. Once a partner is locked down, Starbreeze will start showing the game to the public to maximize the marketing impact.

For John Wick: The Impossible Task we're making sure the product's release window is aligned with Lionsgate and the uptake of the movie John Wick 2 somewhere later this year. It's a great game already shown to the public and we are looking for a release between the online distribution and in our location based StarCade that is optimal.

IMMERSING OURSELVES INTO VR

A lot has happened with StarVR since the launch at the Electronic Entertainment Expo (E3) in June 2015, less than a year ago. In the past few days, we have presented a major collaboration with a top-tier player. Let me recap and bring you up to speed with our plans.

StarVR kicked-off with the acquisition of French company InfiniteEye, that brought the StarVR HMD technology and an outstanding and agile engineering team into Starbreeze. We knew and had been talking with the team for some time and saw great potential and synergies in bringing them in-house. The unique technology with a 210-degree HMD field of view is unrivalled, positioning the StarVR at the very top end of the VR initiatives now entering the market.

After the launch at E3, we brought StarVR on the road entertaining thousands of consumers across the USA with OVERKILL's the Walking Dead VR Experience. With the initiative we confirmed the great potential of monetizeable location-based VR. In January 2016, we unveiled the location based StarCade initiative, introducing VR centers where customers are invited to immerse themselves into premium VR experiences.

Last week we premiered our first cinematic VR experience "Cockatoo Spritz" at the Cannes film festival. Directed by Stephane Barbato, the film aims at creatively pushing the movie industry into the VR space, leveraging the artistic heritage of French film making. Our feedback so far has been excellent. We've amazed, entertained and spread our VR message as well as built a foundation of connections in the movie industry to ensure a healthy ecosystem for VR in the near future.

KEY FIGURES, GROUP

	2016	2015	2015
	Q1	Q1	JAN - DEC
Net revenue, KSEK	40 802	47 730	218 432
EBITDA, KSEK	-4 248	13 950	49 460
EBIT, KSEK	-9 499	10 768	42 878
Pretax income, KSEK	-14 954	10 805	43 135
Net income, KSEK	-14 773	8 061	39 405
EBITDA margin, %	-6,1	10,1	16,5
EBIT margin, %	-13,6	17,5	14,3
Net profit margin, %	-21,3	17,6	14,4
Solidity, %	59,1	67,0	70,1
Cash flow per share, SEK *	0,02	-0,06	0,21
Equity per share before dilution, SEK *	2,29	1,13	2,06
Equity per share after dilution, SEK *	2,26	1,11	2,02
A-share closing price for the period, SEK *	15,40	-	15,60
B-share closing price for the period, SEK *	15,30	10,40	15,70
Earnings per share before dilution, SEK *	-0,06	0,04	0,20
Earnings per share after dilution, SEK *	-0,06	0,04	0,20
Number of shares at end of period before dilution	243 133 362	144 985 325	230 361 091
Number of shares at end of period after dilution	245 849 583	149 231 489	234 449 769
Options outstanding **	8 698 549	9 108 911	10 811 420
Average number of shares before dilution	239 502 766	144 985 325	193 534 509
Average number of shares after dilution	242 218 987	149 231 489	197 623 187
Average number of employees	114	57	82
Number of employees at end of the period	121	63	109

* Key figures and share price is calculated based on the number of shares after the issue in June 2015.

** For 6 948 549 options two options give the right to subscribe for three shares.

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.

Net profit margin (from Q1 2016 calculated as a percentage of total revenue)

Net profit as percentage of total revenue.

Solidity

Equity as percentage of total capital.

Cash flow per share

Cash flow from operating activities divided by the average number of shares during the period.

Equity per share

Equity divided by the number of shares at year end.

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.

Capital employed

Total assets less non-interest-bearing liabilities.

CONSOLIDATED INCOME STATEMENT

	2016	2015	2015
KSEK	Q1	Q1	JAN - DEC
Net revenue	40 802	47 730	218 432
Capitalized development	29 293	7 553	78 383
Other revenue	-	6 187	2 757
Sum of revenues	70 095	61 470	299 572
Other external expenses	-44 429	-32 137	-155 155
Employee expenses	-26 356	-15 383	-93 627
Depreciation of intangible fixed assets	-4 185	-2 952	-3 957
Depreciation of tangible fixed assets	-1 066	-230	-2 625
Other expenses	-3 558	-	-1 330
EBIT	-9 499	10 768	42 878
Financial income	10	129	550
Financial expenses	-5 465	-92	-293
Pretax income	-14 954	10 805	43 135
Tax	181	-2 744	-3 730
Net income	-14 773	8 061	39 405
Other comprehensive income that may be transferred to the period's net income			
FX differences	-651	5 250	3 400
Total comprehensive result	-15 424	13 311	42 805

When the group has no non-controlling interest the entire net income and comprehensive income for the period is the parent company's results.

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

- before dilution	-0,06	0,04	0,20
- after dilution	-0,06	0,04	0,20

CONSOLIDATED BALANCE SHEET

KSEK	NOTE	2016-03-31	2015-03-31	2015-12-31
ASSETS				
Goodwill		73 109	21 590	74 314
Other intangible fixed assets		194 477	97 984	200 202
Capitalized expenditure for game and technology d		149 716	7 553	114 913
Fixed financial assets		16 001	2 020	15 623
Deferred tax assets		6 351	-	5 252
Computers and other equipment		17 276	4 551	16 773
Sum of fixed assets		456 930	133 698	427 077
Inventory		2	-	2
Account receivable		33 004	18 781	33 000
Prepaid expenses and accrued income		21 911	49 211	22 697
Cash and cash equivalents		416 466	165 393	85 354
Sum of current assets		471 383	233 385	141 053
SUM OF ASSETS		928 313	367 083	568 130
EQUITY AND LIABILITIES				
Share capital		4 863	2 900	4 607
Other contributed capital		422 412	136 064	257 352
Reserves		7 395	9 897	8 046
Retained earnings including the period's net income		113 587	97 015	128 360
Sum of equity		548 257	245 876	398 365
Provision		8 284	8 459	8 227
Other long-term liabilities		261 458	36 145	42 356
Sum of long-term liabilities		269 742	44 604	50 583
Accounts payable and other liabilities		42 166	44 167	53 923
Accrued expenses and deferred income		68 148	32 436	65 259
Sum of short-term liabilities		110 314	76 603	119 182
SUM OF EQUITY AND LIABILITIES		928 313	367 083	568 130

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

KSEK	Share capital	Other contributed capital	Reserves	Retained earnings	Sum of equity
Balance at 1 January 2016	4 607	257 352	8 046	128 360	398 365
Net income of the period	-	-	-	-14 773	-14 773
Other comprehensive income					
FX differences	-	-	-651	-	-651
Total comprehensive income	4 607	257 352	7 395	113 587	382 941
Share issue through exercise of stock options	64	33 746	-	-	33 810
Shareholder's contributions	-	1 992	-	-	1 992
Earned employee stock options	-	483	-	-	483
Share issue	-	128 839	-	-	128 839
Non-cash issue	192	-	-	-	192
Total contributions by- and distributions to shareholders, recognized directly in equity	256	165 060	-	-	165 316
Closing balance as of 31 March 2016	4 863	422 412	7 395	113 587	548 257
Balance at 1 July 2015	4 350	135 561	7 125	106 555	253 591
Net income of the period	-	-	-	21 805	21 805
Other comprehensive income					
FX differences	-	-	921	-	921
Total comprehensive income	4 350	135 561	8 046	128 360	276 317
Share issue through exercise of stock options	85	10 494	-	-	10 579
Earned employee stock options	-	1 184	-	-	1 184
Non-cash issue	172	110 113	-	-	110 285
Total contributions by- and distributions to shareholders, recognized directly in equity	257	121 791	-	-	122 048
Closing balance as of 31 December 2016	4 607	257 352	8 046	128 360	398 365
			2016	2015	2015
CHANGE IN NUMBER OF SHARES			Q1	Q1	JAN - DEC
Number of shares at beginning of the period			230 361 091	144 985 325	144 985 325
Non-cash issue			-	-	8 595 000
Subscription for shares through exercise of stock option			3 152 240	-	4 288 104
Bonus issue			-	-	72 492 662
Share issue			9 620 031	-	-
Number of shares at end of the period			243 133 362	144 985 325	230 361 091

CONSOLIDATED CASH FLOW ANALYSIS

KSEK	2016	2015	2015
	Q1	Q1	JAN - DEC
Operating activities			
Cash flow from operations	9 642	-12 567	43 881
Interest paid	-409	-2	-131
Interest received	9	33	125
Taxes paid	-5 200	-427	-4 435
Cash flow from operating activities	4 042	-12 963	39 440
Investing activities			
Acquisitions of tangible fixed assets	-1 561	-3 384	-17 375
Investments in subsidiaries	-	-	-21 547
Acquisitions of intangible fixed assets	-	-	-525
Investment in other fixed financial assets	-378	-90	-13 506
Investment in capitalized development costs	-52 246	-7 553	-95 451
Cash flow from investing activities	-54 185	-11 027	-148 404
Financing activities			
Share issue	162 841	-	10 579
Payments for stock options	1 992	-	-
Decrease in long-term liabilities	220 052	-	-
Cash flow from financing activities	384 885		10 579
The period's cash flow	334 742	-23 990	-98 385
Cash and cash equivalents at beginning of period	85 354	184 414	184 414
FX differences in cash and cash equivalents	-3 650	4 969	-675
Cash and cash equivalents at end of period	416 446	165 393	85 354

PARENT COMPANY INCOME STATEMENT

KSEK	2016	2015	2015
	Q1	Q1	JAN - DEC
Net revenue	16 319	23 035	100 686
Other revenue	-	1 213	
Sum of revenues	16 319	24 248	100 686
Other external expenses	-21 978	-17 781	-86 811
Employee expenses	-5 959	-3 456	-19 921
Depreciation of tangible fixed assets	-166	-92	-432
Other expenses	-2 238	-	-2 342
EBIT	-14 022	2 919	-8 820
Profit from holdings in group companies			51 903
Other financial income	809	85	2 041
Financial expenses	-5 408	-	-432
Income after financial items	-18 621	3 004	44 692
Appropriations	13 713	-1 683	-16
Pretax income	-4 908	1 321	44 676
Tax	1 100	6	5 258
Net income	-3 808	1 327	49 934

For the parent company the net income for the period complies with total comprehensive income.

PARENT COMPANY BALANCE SHEET

KSEK	2016-03-31	2015-03-31	2015-12-31
ASSETS			
Computers and other equipment	1 671	1 102	1 479
Holdings in Group companies	152 122	86 923	151 588
Deferred tax assets	6 352	-	5 252
Sum of fixed assets	160 145	88 025	158 319
Accounts receivable	4 868	103	5 429
Receivables from Group companies	267 300	34 359	211 376
Other receivables	4 959	12 155	2 248
Prepaid expenses and accrued income	1 251	960	659
Cash and cash equivalents	346 869	8 781	20 281
Sum of current assets	625 247	56 358	239 993
SUM OF ASSETS	785 392	144 383	398 312
EQUITY AND LIABILITIES			
Share capital	4 863	2 900	4 607
Unrestricted equity			
Fair value reserve	-332	-	-637
Share premium reserve	376 315	89 968	211 255
Retained earnings	76 945	26 875	26 950
Net income	-3 808	1 462	49 995
Sum of equity	453 983	121 205	292 170
Accumulated excess depreciation	16	-	16
Untaxed reserves	16	-	16
Other long-term liabilities	227 158	7 007	7 049
Sum of long-term liabilities	227 158	7 007	7 049
Accounts payable	1 782	543	2 519
Liabilities to Group companies	49 211	3 974	38 865
Other liabilities	1 421	2 102	6 995
Accrued expenses and deferred income	51 821	9 552	50 698
Sum of short-term liabilities	104 235	16 171	99 077
SUM OF EQUITY AND LIABILITIES	785 392	144 383	398 312

CONSOLIDATED PLEDGED ASSETS AND LIABILITIES

KSEK	2016-03-31	2015-03-31	2015-12-31
Pledged assets	4 499	2 020	4 121
Contingent liabilities	32 589	-	33 410

To date, we've had an awesome start for StarVR, but nothing compared to what's to come. We've been working with a clear roadmap for our VR strategy from day one, and are now about to realize one of the first major collaborations we set out to achieve in our collaboration with Acer.

Our joint-venture with Acer, allows us to shift gears also on the hardware side. Acer is an excellent, experienced and prominent hardware partner that will accelerate us in realizing and producing a high-definition, high-fidelity VR headset. Acer is devoting R&D resources across multiple aspects of the VR ecosystem for a coherent and high-quality experience, just last month announcing powerful desktops and notebooks fully-ready for StarVR.

As always this time of year, a lot of our operations is focused on delivering for E3, which this year will be a four title activation. We're showing our own PAYDAY 2 as usual, but additionally preview an alpha of PAYDAY 2 Mobile. We'll also be showing the next version of StarVR, and Johan Wick: The Impossible Task. Additionally, publishing titles RAID: World War II will be shown as well as Dead by Daylight, the later to be launched to the market the first day of E3.

Let's do this!

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For more information, please contact:

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About Starbreeze

Starbreeze is an independent creator, publisher and distributor of high quality entertainment products. With studios in Stockholm, Paris and Los Angeles, the company creates games by own design and through licensed content, aiming to create franchises that prosper as games and elsewhere. We live and die by gameplay.

Starbreeze's most recent games include PAYDAY 2, the adrenaline fueled bank robbing co-op game and in production is the upcoming survival co-op FPS OVERKILL's The Walking Dead, which is based on the hit comic series.

Starbreeze is pioneering digital self-publishing, inviting developers to leverage its self-publishing knowhow on Steam, having one of the largest communities on the digital distribution platform.

Next, Starbreeze is set to develop truly immersive virtual reality experiences, integrating software and hardware in the Project StarVR and the StarVR head mounted display.

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>.