

EMBRACER+ GROUP

19/20

INTERIM REPORT 2

JULY – SEPTEMBER 2019
EMBRACER GROUP AB (PUBL)
REG NO. 556582-6558

OPERATIONAL EBIT INCREASED 133% TO SEK 241 MILLION

SECOND QUARTER, JULY–SEPTEMBER 2019 (COMPARED TO JULY–SEPTEMBER 2018)

- > Net sales were SEK 1,259.7 million (1,272.7). Net sales of the Games business area increased 117% to SEK 816.0 million (376.0), whereas the Partner Publishing/Film business area decreased 51% to SEK 443.6 million (896.6) due to the absence of larger releases to match those in the same period last year. Last year's Partner Publishing revenues included two titles that account for more than the difference to this year's revenue.
- > EBITDA increased 95% to SEK 418.1 million (214.8), corresponding to an EBITDA margin of 33%.
- > Operational EBIT rose 133% to SEK 240.7 million (103.4) corresponding to an Operational EBIT margin of 19%.
- > The increase in EBITDA and Operational EBIT is mainly attributed to the sales growth in the Games business area.
- > Cash flow from operating activities amounted to SEK 284.8 million (–740.1).
- > Earnings per share was SEK 0.21 (0.25).
- > Adjusted earnings per share was SEK 0.65 (0.28).

Key performance indicators, Group	Jul–Sep 2019	Jul–Sep 2018	Apr–Sep 2019	Apr–Sep 2018	Jan 2018–Mar 2019
Net sales, SEK m	1,259.7	1,272.7	2,401.8	2,110.1	5,754.1
EBITDA, SEK m	418.1	214.8	807.6	421.7	1,592.6
Operational EBIT, SEK m	240.7	103.4	444.8	173.1	897.1
EBIT, SEK m	76.4	90.8	157.7	143.3	574.6
Profit after tax, SEK m	64.6	65.0	117.4	98.5	396.8
Cash flow from operating activities, SEK m	284.8	–740.1	723.1	–575.6	1,356.4
Sales growth, %	–1	1,403	14	2,281	1,034
EBITDA margin, %	33	17	34	20	28
Operational EBIT margin, %	19	8	19	8	16

In this report, all figures in brackets refer to the corresponding period of the previous year, unless otherwise stated.



CEO COMMENTS**OPERATIONAL EBIT INCREASED 133%
TO SEK 241 MILLION**

The Group had another stable quarter with growing profitability. Consolidated net sales were SEK 1,259.7 million (1,272.7). Our Games business area, which is comprised of Deep Silver, THQ Nordic and Coffee Stain, grew revenue by 117%, generating net sales of SEK 816.1 million (376.1) in the quarter, representing 65% of our total net sales. Key drivers for this top line performance in the quarter were the successful release of *Wreckfest* as well as strong catalog sales. Sales in the Partner Publishing/Film business area decreased 51% to SEK 443.6 million (896.6) due to the absence of larger releases in the quarter as compared to last year. Last year's Partner Publishing revenues included two titles that account for more than the difference to this year's revenue.

EBITDA grew 95% to SEK 418.1 million (214.8), corresponding to an EBITDA margin of 33% (17). Operational EBIT grew 133% to SEK 241 million, raising the Operational EBIT margin to 19% (8). The improved profitability was due to strong Gross Margins, which increased to 50% (30) due to the sales mix shift to the Games business area, further boosted by the year over year growth in digital sales. All three operating groups contributed to the Group's Operational EBIT in the quarter.

Cash flow from operating activities was SEK 284.8 million (-740.1); and we had close to SEK 2.9 billion in cash and cash equivalents at the end of the quarter. Net cash was SEK 1.1 billion.

During the quarter we signed additional deals relating to our upcoming game titles on digital subscription and streaming services on various platforms. Revenue recognition will begin when the games are released. These deals will enable a wider group of consumers to play our products, while also providing us with more predictable revenues when releasing our new titles.

ACQUISITIONS

In August, I was excited to welcome five acquisitions to the group: Milestone, Gunfire Games, Goodbye Kansas Game Invest, Game Outlet Europe and KSM. Gunfire's *Remnant: From the Ashes*, published by Perfect World was released shortly after we closed the acquisition. This game, which is an internally developed and owned IP, has exceeded our expectations at the time of the acquisition and contributed to the Group's performance in the quarter through royalties.

Goodbye Kansas Game Invest has made two investments since the quarter ended. The company, which focuses on early stage investments, invested for a 45% stake in the Norwegian fishing-simulator developer, Misc Games, based in Stavanger. In addition, Goodbye Kansas Game Invest also founded a wholly owned new studio with a senior game development team departing from a large AAA developer. Details of this team and their project will be announced in due course.

We continue to execute our strategy and currently have a number of ongoing discussions with companies to join our Group, including a few sizable businesses that could form a new operating group. However, we do not depend on acquisitions to grow our business. Our acquisition strategy is to add publishers, studios and IP's to accelerate our growth and achieve further diversification, provided we find the right companies that share our values and ambitions, and of course that the terms are reasonable. We acquire businesses to make them more valuable by enabling them to achieve their best work through developing more and better games, growing faster, becoming more profitable and generating more cash flow.

LOOKING AHEAD

I'm excited about the way we are positioned for the future. We have a strong pipeline of 86 titles in development across the Group, of which 49 are yet to be announced. I would like to emphasize the importance that quality comes first. Across all our development projects

I'm sending the message that we need to take time to build outstanding experiences for our fans. This will not only create more happy gamers but also create a higher return on investment that in turn will enable us to build even better games. The downside of the principle "quality comes first" is investors becoming impatient if some games will launch later than they had expected. The upside for long term investors is that the return will become even greater when the games are released.

We will continue to grow our business for the long term. Our objective is to use our cash flow from operations to fund additional internal and external game development projects, in order to propel future profitable growth in the years ahead. For trailing twelve month periods from Q2 18/19 to Q2 19/20 the ratio of gross profit the Games business area to amortization Games has averaged 3.5x. For the same time period the ratio of net sales Games to amortization Games has averaged 5.0x. Across the Group's publishing entities we evaluate over a thousand external projects each year, but only some meet our quality requirements. During the quarter we released games with a total development cost of SEK 101 million (50), and now have SEK 393 million (175) finished games on our balance sheet. We depreciated SEK 144 million (80) during the quarter. Investments in game development were SEK 343 million (234) in the quarter and now we have close to SEK 1.6 billion in ongoing game development on our balance sheet.

Looking into the quarter ending in December we are all enthusiastic about both *Shenmue III* and *Darksiders Genesis*, being published by Deep Silver and THQ Nordic, respectively.

Looking ahead to the next financial year ending March 2021 we expect at least two AAA titles. But it's not only about AAA, during the next financial year we expect several amazing products such as *Desperados 3*, *Destroy All Humans*, *Spongebob Squarepants Battle for Bikini Bottom - Rehydrated*, *Wasteland 3*, *Iron Harvest* amongst many many others. The highly anticipated *Biomutant* is in the final stages of polishing at our studio Experiment 101. I expect the release date to be announced as soon as they are confident about achieving their high ambition.

The Partner Publishing/Film business area will have a December quarter without any significant AAA releases. We expect this to change during the first half of calendar 2020 driven by a few significant AAA releases we expect to be released during that period. We have made a thorough analysis of the physical market for the coming 3-4 years. While the market share for physical is declining due to the growth of digital, we anticipate the dollar value of physical sales to remain fairly stable for at least the coming 3-4 years, fueled by the launch of the next generation of consoles.

We continue to build the parent company in order to improve our capabilities. The board has decided to evaluate a potential future transition to the reporting standard IFRS. I'm also happy to see that our ongoing work within sustainability is progressing well. Since the last report we have added new positions and we are looking to open a sub-office in Stockholm in early 2020. But our HQ will of course, remain in Karlstad.

To conclude, I would like to send my thanks to all of our customers, colleagues and business partners for contributing to the prosperity and success of our growing family. We now have close to 3,000 people that make it all happen every day. I'm looking forward to our most exciting years ever ahead of us. I hope to see you soon.

All the best from Värmland.

November 14, 2019, Karlstad, Sweden

Lars Wingefors,
Founder & CEO



FINANCIAL PERFORMANCE

All comments refer to the quarter unless otherwise stated. Trends in the year-to-date period have the same explanations, unless specific comments are made for the half-year period.

CONSOLIDATED NET SALES

Consolidated net sales by business area, SEK m	Jul-Sep 2019	Jul-Sep 2018	Change	Apr-Sep 2019	Apr-Sep 2018	Change
Games - THQ Nordic	329.6	124.4	+165%	514.7	269.7	+91%
Games - Deep Silver	441.7	251.8	+75%	815.1	590.0	+38%
Games - Coffee Stain	44.7	-	-	127.5	-	-
Games Subtotal	816.1	376.1	+117%	1,457.5	859.7	+70%
Partner Publishing/Film	443.6	896.6	-51%	944.3	1,250.4	-24%
Consolidated Net Sales	1,259.7	1,272.7	-1%	2,401.8	2,110.1	+14%

Consolidated net sales were slightly lower in the quarter due to a decrease within the Partner Publishing/Film business area, whereas net sales grew in the Games business area. The solid performance of the Games business area was fueled by new releases, solid back catalog sales and further benefited by contributions from acquired entities. Net sales of the Partner Publishing/Film business area decreased in the period, mainly due to fewer large releases in the second quarter. Last year's Partner Publishing revenues included two titles that account for more than the difference to this year's revenue.

Consolidated net sales for the first six months grew by 14%, mainly driven by the solid year-over-year growth from THQ Nordic and Deep Silver, as well as the addition of Coffee Stain.

CONSOLIDATED EXPENSES

Operating expenses, SEK m	Jul-Sep 2019	Jul-Sep 2018	Apr-Sep 2019	Apr-Sep 2018
Goods for resale	-635.1	-895.2	-1,163.1	-1,361.2
Other external expenses	-191.8	-158.2	-369.3	-278.3
Personnel expenses	-258.2	-170.8	-481.4	-337.9
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	-341.7	-124.0	-649.9	-278.4
Total operating expenses	-1,426.8	-1,348.2	-2,663.7	-2,255.8

Consolidated expenses increased due to acquisitions and growth within the Games business area. Goods for resale decreased, mainly due to a favorable shift in sales-mix from Partner Publishing/Film towards the Games business area; and within Games, an increased share of both digital sales 74% (52) and owned titles 78% (50). Goods for resale includes cost of replication, license fees and royalties.

The year-over-year increase in other external expenses and personnel expenses is primarily explained by increased investments in the Group's gaming portfolio of SEK 84.9 million. The net increase excluding capitalized game development amounts to SEK 36.2 million and is mainly driven by increased overhead to accompany the growing games portfolio as well as increased general & administration expenses to further strengthen the Group's corporate capabilities.



Depreciation and amortization, SEK m	Jul-Sep 2019	Jul-Sep 2018	Apr-Sep 2019	Apr-Sep 2018
Intangible assets				
Game development	-143.7	-80.2	-306.1	-188.7
Other intangible assets (Film etc.)	-26.5	-26.7	-43.0	-50.8
Sub-total	-170.2	-106.9	-349.1	-239.5
<i>Acquisition-related depreciation</i>				
IP-rights	-100.5	-8.5	-169.6	-15.0
Surplus value Partner Publishing/Film	-12.0	-1.9	-20.2	-11.4
Goodwill	-51.7	-2.2	-97.2	-3.4
Sub-total	-164.3	-12.6	-287.0	-29.8
Total intangible assets	-334.5	-119.5	-636.1	-269.3
Tangible assets	-7.4	-4.5	-13.8	-9.1
Total depreciation and amortization	-341.7	-124.0	-649.9	-278.4

Definitions

Game development; Amortization of finished game development projects - degressive amortization over two years; 1/3 amortization during months 1 to 3 following release, 1/3 amortization in months 4 to 12 following release and the remaining 1/3 in months 13 to 24 following release.

Other intangible assets (Film etc); Most of other intangible assets (Film etc) relates to the Group's film business and are amortized based on actual sales in relation to expected sales of the relevant title.

IP-rights; Amortization of IP rights related to Games - straight-line amortization over five years.

Surplus value Film & Partner publishing; Amortization of surplus values related to Partner Publishing/Film - straight-line amortization over five years.

Goodwill; Amortization of Goodwill - straight-line amortization over five years.

The increased depreciation and amortization of games is mainly driven by new releases. The increase in acquisition related depreciation is driven by acquisitions made. The finalization of the PPA for Koch Media in January-March 2019 explains the high increase compared to last year.

CONSOLIDATED EARNINGS

The increase of the Group's EBITDA, from SEK 214.8 million to SEK 418.1 million, and Operational EBIT, from SEK 103.4 million to SEK 240.7 million, for the quarter was driven by an improved gross margin, mainly explained by the favorable shift in sales-mix from Partner Publishing/Film to Games; and within Games, from physical to digital sales and from publishing to owned titles. EBIT decreased, from SEK 90.8 million to SEK 76.4 million, in the quarter, mainly related to higher expenses for acquisition-related depreciation and amortization, SEK -164.3 million (-12.6).

CONSOLIDATED CASH FLOW AND FINANCIAL POSITION

Cash flow from operating activities before changes in working capital for the quarter was SEK 364.7 million (224.3) and was reduced with cash tax of SEK -53.4 million in the quarter. The improvement is mainly due to increased earnings from operations. Cash taxes for the first six months amounted to SEK -125.0 million. Change in working capital amounts to SEK -79.9 million (-964.4) and is mainly related to increased trade receivables due to a larger portion of sales at the end of the quarter. Cash flow from operating activities after change of working capital for the period was SEK 284.8 million (-740.1).

There was no effect of forfeiting in the quarter since utilization was zero on June 30 and September 30. Last year the level of forfeiting was reduced, with approximately SEK 189 million in the quarter. Adjusting for the effects of forfeiting, change in working capital amounts to SEK -79.9 million (-775.4). The difference versus last year is mainly explained



by a higher level of working capital going into the quarter compared to last year, lower sales in Partner Publishing/Film and a higher degree of digital sales within Games.

Cash flow from investing activities was SEK –1,203.3 million (–284.0), where SEK –802.7 million relates to acquired companies. The Group's investments in intangible fixed assets amounted to SEK –391.9 million (–273.3), mainly related to capitalized expenditure for ongoing game development of SEK –343.0 million and film rights SEK –41.5 million. Investments in property, plant and equipment amounted to SEK –8.6 million (–3.4).

Cash flow from financing activities amounted to SEK 619.6 million (856.7) and is mainly related to increased utilization of credit facilities at Koch Media.

Cash and cash equivalents at the end of the period were SEK 2,867.9 million compared to SEK 3,159.0 million as of June 30, 2019. The Group also had unutilized credit facilities of SEK 698.8 million compared to SEK 1,511.9 million as of June 30, 2019. The Group's total available cash and unutilized credit facilities were SEK 3,566.7 million at the end of the quarter compared to SEK 4,670.9 million as of June 30, 2019. As per September 30, 2019 the Net Cash of the Group amounted to SEK 1,099.5 million compared to SEK 2,048.9 million as per June 30, 2019.

INTANGIBLE ASSETS

The Group had intangible assets of SEK 5,521.6 million compared to SEK 3,818.6 million at the end of the previous quarter, June 30, 2019, distributed as follows:

Intangible assets – Specification	Sep 30, 2019	Jun 30, 2019
Finished completed games	392.9	427.0
Ongoing game development projects	1,582.4	1,280.4
Other intangible assets (film etc.)	283.0	163.1
Intangible assets	2,258.3	1,870.5
IP-rights	2,071.8	1,000.2
Surplus value Partner Publishing/Film	208.3	161.4
Goodwill	983.2	786.5
Acquisition related intangible assets	3,263.3	1,948.1
Total	5,521.6	3,818.6



ACQUISITIONS

Milestone

The Group's wholly owned subsidiary Koch Media GmbH acquired Milan-based Milestone s.r.l., a leading racing games developer and publisher behind successful game series such as *MotoGP*, *MXGP*, *RIDE* and *Monster Energy Supercross*. The upfront purchase price is equivalent to EUR 44.9 million on a cash and debt free basis, plus additional earn-out considerations subject to fulfilment of agreed future profitability target. Milestone is estimated to have net revenues in the range of EUR 27.5-32.25 million, EBITDA of EUR 15.5-18.0 million and Operating EBIT of EUR 10.75-12.5 million in its next financial year ending June 2020.

Goodbye Kansas Game Invest

The parent company acquired Goodbye Kansas Game Invest AB through its wholly owned subsidiary THQ Nordic Lager 1 AB. The purchase price of SEK 42.4 million on a cash and debt free basis is notably below the capital invested by Goodbye Kansas Game Invest AB in the portfolio companies. Through the acquisition the Group strengthens its platform for minority investments in promising development studios.

Gunfire Games

The Group's wholly owned subsidiary THQ Nordic GmbH acquired Gunfire Games, LLC in Austin, Texas. Gunfire Games is the developer behind the critically acclaimed game series *Darksiders*®, *Chronos*® and *From Other Suns*® and is a long-term developing partner of THQ Nordic. The acquisition includes the development studio with a team of 63 creative and technical game developers and all IP rights. The purchase price was not disclosed but the Group expects to recoup its investment within 3-4 years as current development projects are released.

Others

As stated in the previous report, Game Outlet Europe AB, an independent niche distributor of reprinted physical videogames, gaming hardware and retro-gaming hardware was acquired. KSM GmbH was also acquired in the quarter. It is one of the leading anime film providers in Germany.

PRELIMINARY PURCHASE PRICE ALLOCATION (PPA)

Preliminary PPAs have been made for the acquisitions of Milestone, Gunfire Games, Game Outlet Europe, Goodbye Kansas Game Invest and KSM. The preliminary PPA considers the total estimated consideration for the purchased shares, such as cash or shares at closing as well as any conditional purchase price in cash or shares. The total consideration is compared with the fair value of net assets in the acquired company. If the total consideration is higher than the fair value of net assets, a surplus value will be recognized.

The total surplus value for the acquisitions completed during the quarter amounts to SEK 1,330 million and has preliminarily been allocated to goodwill and IP-rights.

OPERATIONAL OVERVIEW BY BUSINESS AREA

BUSINESS AREA: GAMES – THQ NORDIC

THQ Nordic released the following new products in the quarter ended September 2019:

Title	Publishing Label	IP Owner	Platforms	Channels
<i>Red Faction Guerilla Re-mars-tered</i>	THQ Nordic	Own	Switch	On- and Offline
<i>Darksiders 3 - Keepers of the Void DLC</i>	THQ Nordic	Own	PC, PS4, Xbox One	Online
<i>MX vs ATV All Out - 2019 AMA Pro Motocross Championship DLC</i>	THQ Nordic	Own/ License	PC, PS4, Xbox One	Online
<i>Monster Jam - Fire & Ice Truck Bundle DLC</i>	THQ Nordic	License	PC, PS4, Xbox One	Online
<i>Wreckfest</i>	THQ Nordic	Own	PS4, Xbox One	On- and Offline
<i>Wreckfest - Deluxe Edition</i>	THQ Nordic	Own	PS4, Xbox One	On- and Offline
<i>Rebel Cops</i>	THQ Nordic	Own	PC, MAC, Linux, PS4, Xbox One, Switch	Online
<i>Darksiders Deathinitive Edition</i>	THQ Nordic	Own	Switch	On- and Offline
<i>Lock's Quest</i>	HandyGames	Own	Android, iOS	Online
<i>This is the Police 2</i>	HandyGames	Own	Android, iOS	Online
<i>Battle Chasers: Nightwar</i>	HandyGames	External	Android, iOS	Online
<i>Chessfinity</i>	HandyGames	External	Android, iOS	Online

Net sales of the Games business area - THQ Nordic increased 165% to SEK 329.6 million.

The key revenue drivers were the successful launch of *Wreckfest* for consoles, the Switch releases of both *Red Faction Guerilla Re-mars-tered* and *Darksiders Deathinitive Edition* and strong catalog sales during the quarter. A number of DLC's will be launched for *Wreckfest* before the end of the financial year.

Gunfire's *Remnant: From the Ashes*, published by Perfect World was released shortly after the acquisition of Gunfire. This game, which is an internally developed and owned IP, has exceeded management's expectations at the time of the acquisition and contributed to the Group's performance in the quarter through royalties.

THQ Nordic's publishing subsidiary HandyGames continues to perform well. Still small, but with growing revenue. During the quarter their premium priced iOS/Android-release of *Battle Chasers: Nightwar* exceeded management expectations.

The THQ Nordic IP portfolio was strengthened in the quarter by the acquisition of *Knights of Honor II* and *Worldshift* as well as the Gunfire IPs *Chronos®*, *From Other Suns®* and *Remnant: From the Ashes*. In the period a deal was completed with respect to an unutilized mid-sized game title, where THQ Nordic ceded the IP rights, but retained the Publishing rights for the existing SKUs.

After the end of the quarter, THQ Nordic Japan KK was established in Tokyo. The objective is to drive distribution, PR and marketing of THQ Nordic's and HandyGames' portfolio of games in the Japanese market.

BUSINESS AREA: GAMES – COFFEE STAIN

Net sales of the Games business area - Coffee Stain were SEK 44.7 million (no comparison to the previous year is available as the studio was acquired after the corresponding quarter). *Satisfactory*, *Goat Simulator* and *Deep Rock Galactic* remained the main revenue drivers during the quarter. *Satisfactory* had no major promotions on Epic Game Store during the quarter, but going forward sales are expected to get new support by future content updates as well as new promotions. Looking ahead Coffee Stain expects to release a notable amount of new releases during the next financial year, ending March 2021. After the quarter end Coffee Stain made a small minority investment in a UK-based studio.



BUSINESS AREA: GAMES – DEEP SILVER

Deep Silver released the following new products in the quarter ended September 2019:

Title	Publishing Label	IP Owner	Platforms	Channels
<i>MXGP2019</i>	Milestone	Exclusive license	PS4, Xbox One, PC	On- and Offline
<i>Redeemer Enhanced Edition</i>	Ravenscourt	External	PC, PS4, Xbox One, Switch	On- and Offline
<i>The Bard's Tale IV Director's Cut</i>	Deep Silver	External	PS4, Xbox One	Offline
<i>Dead by Daylight</i>	Deep Silver	External	Switch	Offline
<i>Hunt: Showdown</i>	Deep Silver	External	PC	Offline

Net sales of the Games business area - Deep Silver increased 75% to SEK 441.7 million.

The addition of Milestone contributed to growth in net sales with approximately SEK 42.4 million, where the release of *MXGP2019* at the end of August was the main driver.

Besides *MXGP2019*, there was no other major new release in the quarter, from Deep Silver. The growth was mainly driven by back catalog sales, with continuing sales of the Metro franchise being the largest contributor. *Kingdom Come Deliverance*, *Pathfinder Kingmaker* and *Outward*, were also key drivers in the quarter. Finally, *Dead Island* and *Saints Row* continued to sell well, demonstrating the importance these key IPs have to the on-going success of the back catalog line up.

Looking ahead at the next quarter the most notable release will be *Shenmue III*. Other upcoming launches include the release of *Let's Sing*, with the first Deep Silver release of the franchise in the USA, *Let's Sing Country*.

BUSINESS AREA: PARTNER PUBLISHING/FILM

Net sales in the Partner Publishing/Film business area were down 51% to SEK 443.6 million in the quarter, due to the absence of larger releases in the quarter compared to last year. In comparison, last year's revenues in the period included two titles that account for more than the difference to this year's revenue.

Codemaster's *F1 2019* continued to be a notable revenue driver in the quarter. Other notable releases were *Monster Hunter World Iceborn* (Capcom), *Catherine Full Body* (Atlus), *Ghostbusters the Video Game Remastered* (Saber Interactive) and *Greedfall* (Focus Home Interactive).

Looking ahead, the Partner Publishing/Film business area will have a December quarter without any notable AAA-releases. We expect this to change during the first half of calendar 2020 driven by a few significant AAA-releases expected during that period. Building on the success of other retro games consoles, the December quarter will see the release of the Sega Mega Drive Mini.

Notable releases in the upcoming quarter ending December, include:

- > *SEGA Mega Drive Mini* from Sega/Atlus
- > *GRID* from Codemasters
- > *Terminator: Resistance* from Reef Entertainment
- > *Football Manager 2020* from SEGA
- > *Life is Strange 2* from Square Enix
- > *Sniper Ghost Warriors Contracts* from CI Games
- > *Super Monkey Ball Banana Blitz HD* from Atlus
- > *Cities: Skylines - Parklife Edition* from Paradox

The addition of Game Outlet Europe contributed to growth in net sales with approximately SEK 14 million. They are currently releasing a range of retro hardware and accessories such as Retro-Bit SEGA Mega Drive controller and 8Bitdo retro controllers.

The film business had stable physical and positive digital sales. Notable digital sales were added via Amazon Prime. A number of smaller titles were launched in Germany and Italy.



ONGOING DEVELOPMENT AND UPCOMING RELEASES

The Company invested SEK 343.0 million in its growing development pipeline that will be driving growth and profitability in the coming years. By the end of the quarter, THQ Nordic, Deep Silver and Coffee Stain had 86 games in development, of which 49 titles are currently unannounced.

In total, the Group had 2,272 game developers by the end of the quarter (1,162 internal and 1,110 external).

Announced releases in the Games business area as of November 14, 2019

Title	Publishing Label	IP Owner	Platforms	Channels
<i>A Rat's Quest</i>	HandyGames	External	PS4, Xbox One, PC, Switch	Online
<i>El Hijo</i>	HandyGames	External	PC, PS4, Xbox One, Switch	Online
<i>One Hand Clapping</i>	HandyGames	External	PS4, Xbox One, PC, Switch	Online
<i>Spitlings</i>	HandyGames	External	PC, PS4, Xbox One, Switch	Online
<i>Through the Darkest of Times</i>	HandyGames	External	PC, MAC	On- and Offline
<i>Townsmen VR</i>	HandyGames	Own	PC, PS4	Online
<i>Endling – Extinction is Forever</i>	HandyGames	External	PC, PS4, Xbox One, Switch	On- and Offline
<i>Aquanox Deep Descent</i>	THQ Nordic	Own	PC, PS4, Xbox One	On- and Offline
<i>Biomutant</i>	THQ Nordic	Own	PC, PS4, Xbox One	On- and Offline
<i>Darksiders – Genesis</i>	THQ Nordic	Own	PS4, Xbox One, PC, Switch, Stadia	On- and Offline
<i>Desperados 3</i>	THQ Nordic	Own	PC, PS4, Xbox One	On- and Offline
<i>Destroy all Humans! – Remake</i>	THQ Nordic	Own	PC, PS4, Xbox One	On- and Offline
<i>Pillars of Eternity II – Deadfire</i>	THQ Nordic	External	PS4, Xbox One, Switch	Offline
<i>Scarf</i>	THQ Nordic	External	PC	Online
<i>Spongebob – Battle for Bikini Bottom Rehydrated</i>	THQ Nordic	License	PS4, Xbox One, PC, Switch	On- and Offline
<i>The Guild 3</i>	THQ Nordic	Own	PC	On- and Offline
<i>Comanche</i>	THQ Nordic	Own	PC	Online
<i>Knights of Honor II: Sovereign</i>	THQ Nordic	Own	PC	On- and Offline
<i>DCL – The Game</i>	THQ Nordic	External	PC, PS4, Xbox One	On- and Offline
<i>Dead Island 2</i>	Deep Silver	Own	PC, PS4, Xbox One	On- and Offline
<i>Iron Harvest</i>	Deep Silver	External	PC, PS4, Xbox One	On- and Offline
<i>Metro Exodus – The Two Colonels (DLC)</i>	Deep Silver	Exclusive license	PC, PS4, Xbox One	On- and Offline
<i>Metro Exodus – Sam's Story (DLC)</i>	Deep Silver	Exclusive license	PC, PS4, Xbox One	On- and Offline
<i>Pathfinder: Kingmaker</i>	Deep Silver	External	PS4, Xbox One, Switch	On- and Offline
<i>Shenmue III</i>	Deep Silver	External	PC, PS4	On- and Offline
<i>Wasteland 3</i>	Deep Silver	External	PC, PS4, Xbox One	On- and Offline
<i>Monster Energy Supercross 3</i>	Milestone	External	PC, PS4, Xbox One	On- and Offline
<i>9 Monkeys of Shaolin</i>	Ravenscourt	External	PC, PS4, Xbox One, Switch	On- and Offline
<i>Ash of Gods: Redemption</i>	Ravenscourt	External	PC, PS4, Xbox One, Switch	On- and Offline
<i>Cooking Mama Cookstar</i>	Ravenscourt	External	PS4, Switch	Offline
<i>Deep Rock Galactic</i>	Coffee Stain	External	PC, Xbox One	Online
<i>Huntdown</i>	Coffee Stain	External	PC, PS4, Xbox One, Switch, Mobile	Online
<i>Satisfactory</i>	Coffee Stain	Own	PC	Online
<i>Songs of Conquest</i>	Coffee Stain	Own	PC	Online
<i>Midnight Ghost Hunt</i>	Coffee Stain	External	PC	Online

For latest release dates please refer to above mentioned publishers.



OTHER INFORMATION

PARENT COMPANY

The Parent Company's net sales for the quarter were SEK 183.0 million (69.3) and profit before tax was SEK 95.1 million (30.0). Profit after tax was SEK 74.2 million (23.4). The Parent Company's net sales for the first six months were SEK 284.3 million (137.0) and profit before tax was SEK 122.8 million (54.1). Profit after tax was SEK 95.8 million (42.2).

Investments in intangible assets in the quarter were SEK 189.8 million (35.3). Investments in intangible assets during the first six months were SEK 321.0 million (42.3).

Cash and cash equivalents as of September 30, 2019 were SEK 2,069.5 million (1,148.1). The Parent Company's equity at the end of the period was SEK 5,552.0 million (2,586.3)

The Parent Company was renamed from THQ Nordic AB to Embracer Group AB pursuant to a resolution at the latest AGM.

SUSTAINABILITY QUARTERLY UPDATE

Our sustainability framework, presented in the annual report, has been rolled out throughout the group. Since last quarter we have also started the ambassador program, where people from all subsidiaries lead and coordinate the work locally. Together with coordination from the parent company, led by Karin Edner, the ambassadors identify activities with the most stakeholder value, that fit within our framework and the GRI standards, and share them amongst each other to inspire and share the best practice.

In addition, we have also adopted the compliance code and are currently working on a popular version as well. All activities will be presented in full in the annual report next year. Our framework creates a clear common ground of sustainability for the whole group.

RELATED PARTY TRANSACTIONS

During the quarter:

- > Quantic Labs S.R.L.¹⁾ has invoiced THQ Nordic GmbH for QA-services amounting to SEK 3.9 million (1.4).
- > Quantic Labs S.R.L.¹⁾ has invoiced Koch Media GmbH for services amounting to SEK 0.1 million (0.1).
- > Nordic Games Group AB has invoiced Game Outlet Europe AB²⁾ for services amounting to SEK 0.1 million (0.1).

Embracer Group AB also has a rental agreement with Lars Wingefors AB. Embracer Group AB paid SEK 0.1 million (0.1).

All transactions with closely related parties have been conducted at market prices.

¹⁾ Companies owned by Nordic Games Group AB, a Group that is wholly owned by Lars Wingefors, Erik Stenberg, Mikael Broden, Pelle Lundborg, Klemens Kreuzer and Reinhard Pollice.

²⁾ Game Outlet Europe AB was owned until August 14, 2019, by Nordic Games Group AB, a Group that is wholly owned by Lars Wingefors, Erik Stenberg, Mikael Broden, Pelle Lundborg, Klemens Kreuzer and Reinhard Pollice. From August 15, the Company is a part of Embracer Group AB.



EVENTS AFTER THE END OF THE QUARTER

- > Pursuant to an AGM-resolution, a split of the Company's shares was carried out with October 8 as record date. Each share, regardless of share class, was divided into three shares. The total number of shares in the Company thereby increased from 103,968,345 to 311,905,035 shares with a quota value of approximately SEK 0.003
- > After the quarter end Coffee Stain made a small minority investment in a UK-based studio.
- > Goodbye Kansas Game Invest AB invested for a 45% stake in the Norwegian fishing-simulator developer, Misc Games, based in Stavanger.
- > Goodbye Kansas Game Invest founded a wholly owned new studio with a senior game development team departing from a large AAA-developer. Further information on this team and their project will be announced in due course.

During the period October 1, 2019 until November 14, 2019, the following titles were released:

Title	Publishing Label	IP Owner	Platforms	Channels
<i>The Monkey King - Hero is back</i>	THQ Nordic	External	PS4	On- and Offline
<i>Little Big Workshop</i>	HandyGames	Own	PC	Online
<i>Cooking Simulator</i>	Ravenscourt	External	PC	Offline
<i>Let's Sing 2020</i>	Ravenscourt	External	PS4, Switch	On- and Offline
<i>Let's Sing Country</i>	Ravenscourt	External	PS4, X1, Switch	On- and Offline



THE SHARE

OWNERS AS OF SEPTEMBER 30, 2019

Name	Class A shares	Class B shares	Share of capital, %	Share of votes, %	Change from
					June 30, 2019
					Class B shares
Lars Wingefors through companies ¹⁾	6,501,467	29,523,732	34.65	51.11	
Swedbank Robur Funds		9,316,268	8.96	5.04	
Erik Stenberg through company ²⁾	1,407,724	6,392,600	7.50	11.07	
Handelsbanken Funds		5,920,277	5.70	3.20	-204,006
Didner & Gerge Funds		3,374,740	3.25	1.82	1,089,864
AP1 Första AP-fonden		3,140,934	3.02	1.70	755,671
Mikael Brodén through company ³⁾	483,378	2,195,063	2.58	3.80	
SEB Funds		2,138,603	2.06	1.16	39,584
Olsson Family and Foundation		1,760,000	1.69	0.95	-440,000
Life Insurance Skandia		1,593,879	1.53	0.86	-318,305
Luisa Bixio ⁴⁾		1,267,323	1.22	0.69	1,267,323
Avanza Pension		1,145,621	1.10	0.62	-67,228
Klemens Kreuzer through company ⁵⁾	201,784	916,321	1.08	1.59	
ODIN Funds		1,000,000	0.96	0.54	
AP2 Andra AP-fonden		919,000	0.88	0.50	
Martin Larsson		899,699	0.87	0.49	
Pelle Lundborg with family through company ⁶⁾	289,966	516,760	0.78	1.85	
Reinhard Pollice through company ⁷⁾	115,681	655,524	0.74	0.98	
Skandia Funds		648,990	0.62	0.35	-84,591
BlackRock		627,947	0.60	0.34	21,822
Rolf Lundström		600,000	0.58	0.32	-50,000
RAM Rational Asset Management		536,241	0.52	0.29	
Anton Westbergh ⁸⁾		533,437	0.51	0.29	
Danske Invest Funds		432,895	0.42	0.23	350,484
TIN Funds		410,000	0.39	0.22	50,000
Koch Media Holding GmbH ⁹⁾		375,976	0.37	0.20	
Sensor Fonder		360,451	0.35	0.19	
Aktia Asset Management		343,530	0.33	0.19	44,000
Nordnet Pensionsförsäkring		315,734	0.30	0.17	82,116
Knutsson Holdings AB		300,000	0.29	0.16	
Michael Knutsson		300,000	0.29	0.16	
Svenska Handelsbanken AB for PB		295,074	0.28	0.16	1,548
Meme Addict AB		293,185	0.28	0.16	
Spelfisken AB		293,185	0.28	0.16	
Amyril AB		293,185	0.28	0.16	
Grillus Janus Invest AB		293,185	0.28	0.16	
Hippies With Attitude AB		293,185	0.28	0.16	
Long Name Holding AB		293,185	0.28	0.16	
Stefan Spel & Bry AB		293,185	0.28	0.16	
Vedtraven Finans AB		293,185	0.28	0.16	
TOTAL TOP 40	9,000,000	81,102,099	86.69	92.51	
OTHER	0	13,866,246	13.31	7.49	
TOTAL	9,000,000	94,968,345	100.00	100.00	

¹⁾ Lars Wingefors AB and Lars Wingefors 2 AB, controlled to 100% by CEO Lars Wingefors.

²⁾ Xagonus AB, controlled to 100% by deputy Group CEO Erik Stenberg.

³⁾ CMB Holding AB, controlled to 100% by Mikael Brodén, co-founder of Embracer Group.

⁴⁾ ALB S.r.l. s controlled to 100% by Luisa Bixio, founder and CEO, Milestone.

⁵⁾ Gerado AB, controlled to 100% by Klemens Kreuzer, MD THQ Nordic GmbH.

⁶⁾ Lumarisimo AB, controlled by Pelle Lundborg with family, co-founder of Embracer Group.

⁷⁾ Gigalomaniac Holding AB, controlled to 100% by Reinhard Pollice, Director of Business Development and Production, THQ Nordic GmbH.

⁸⁾ Inwestbergh AB's controlled to 100% by Anton Westbergh, founder and CEO, Coffee Stain.

⁹⁾ Koch Media Holding GmbH (previously the Parent Company of the Koch Media Group), owned partly by Klemens Kundratitz, CEO and Co-Founder of the Koch Media Group.

Source: Monitor by Modular Finance. Compiled and processed data from various sources, including Euroclear, Morningstar and the Swedish FSA.



INFORMATION ABOUT NASDAQ FIRST NORTH GROWTH MARKET

Nasdaq First North Growth Market ("First North") is an alternative marketplace operated by the constituent exchanges of Nasdaq Stockholm. It does not have the same legal status as a regulated marketplace. Companies quoted on First North are subject to First North's rules, rather than the legal requirements set for trading on a regulated marketplace. An investment in a company trading on First North implies higher risk than one in a company listed on a regulated market. Companies must apply to the exchange and gain approval before trading on First North can commence. A Certified Adviser guides the company through the listing process and also ensures that the company continuously satisfies First North's standards.

FNCA Sweden AB is Embracer Group's certified adviser who may be contacted at: info@fnca.se or +46-8-528 00 399.

RISKS AND UNCERTAINTY FACTORS

Embracer Group is exposed to risks, particularly the dependence on key persons, dependence of the success of game development, the sales performance of launched games, dependence on a few distributors and the success and performance of acquisitions. The complete risk analysis is found in the company's most recent Annual Report.

ACCOUNTING AND VALUATION POLICIES

This Interim Report has been prepared in accordance with the Swedish Annual Accounts Act. The accounting and valuation policies applied are consistent with the Swedish Accounting Standards Board's Category 3 (BFN K3) regulation and are unchanged since the latest published Annual Accounts, and the Swedish Accounting Standards Board's BFNAR 2012:1.

The Company's accounting policies are stated in its most recent Annual Accounts 2018/19.

Amounts are reported in Swedish kronor, rounded to the nearest million unless otherwise stated. Rounding to the nearest million may mean that amounts are not consistent when added. Amounts and figures stated in brackets are comparatives for the corresponding period of the previous year.

AUDITOR'S REVIEW

This Interim Report has not been subject to review by the Company's auditor.

FORTHCOMING REPORTS

Embracer Group intends to publish financial reports on the following dates:	
Interim Report, April-December 2019	February 19, 2020
Full Year Report 2019/2020	May 20, 2020
Interim Report, April-June 2020	August 13, 2020

FOR MORE INFORMATION

There is more information about the Company at its website: embracer.com

For any questions on this report, please contact:

Lars Wingefors, Founder & CEO, lars.wingefors@embracer.com



SIGNATURES AND ASSURANCE

The Board of Directors and the Chief Executive Officer offer their assurance that this Interim Report gives a true and fair view of the Group's and Parent Company's operations, financial position and results of operations and describes the significant risks and uncertainties facing the Group and Parent Company.

Karlstad, Sweden, November 14, 2019

Kicki Wallje-Lund
Chairman of the Board

Ulf Hjalmarsson

Jacob Jonmyren

Erik Stenberg

Lars Wingefors
Chief Executive Officer

This Interim Report is information that is mandatory for Embracer Group AB to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out above, at 06:00 CET on November 14, 2019.

CONSOLIDATED INCOME STATEMENT

SEK m	Jul-Sep 2019	Jul-Sep 2018	Apr-Sep 2019	Apr-Sep 2018	Jan 2018– Mar 2019
Net sales	1,259.7	1,272.7	2,401.8	2,110.1	5,754.1
Work performed by the Company for its own use and capitalized	176.6	102.0	307.8	195.5	475.2
Other operating income	66.9	64.3	111.9	93.5	333.3
Total operating income	1,503.3	1,439.0	2,821.4	2,399.1	6,562.6
Operating expenses					
Goods for resale	–635.1	–895.2	–1,163.1	–1,361.2	–3,260.7
Other external expenses	–191.8	–158.2	–369.3	–278.3	–868.0
Personnel expenses	–258.2	–170.8	–481.4	–337.9	–841.2
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	–341.7	–124.0	–649.9	–278.4	–1,018.0
Total operating expenses	–1,426.8	–1,348.2	–2,663.7	–2,255.8	–5,988.0
Operating profit	76.4	90.8	157.7	143.3	574.6
<i>Profit from financial items</i>					
Other interest income, etc.	9.4	0.6	18.0	0.6	3.4
Other interest expenses, etc.	–6.1	–3.8	–12.7	–7.7	–32.6
Total financial items	3.3	–3.2	5.3	–7.1	–29.2
Profit after financial items	79.7	87.5	163.0	136.2	545.4
Profit before tax	79.7	87.5	163.0	136.2	545.4
Tax	–15.1	–22.5	–45.6	–37.7	–148.6
Net profit for the period	64.6	65.0	117.4	98.5	396.8
<i>Attributable to:</i>					
Equity holders of the parent	65.0	65.0	118.2	98.5	397.4
Non-controlling interests	–0.4	-	–0.8	-	–0.6
Earnings per share, SEK	0.21	0.25	0.38	0.39	1.56
Average number of outstanding shares, million	310	264	309	253	255

CONDENSED CONSOLIDATED BALANCE SHEET

SEK m	Sep 30, 2019	Sep 30, 2018	Mar 31, 019
Intangible assets	5,521.6	2,171.9	3,707.0
Property, plant equipment	169.9	142.1	155.6
Financial assets	218.1	199.7	196.2
Inventories	385.4	212.4	322.9
Current receivables	1,579.4	1,402.4	1,297.3
Cash and bank balance	2,867.9	1,345.6	2,929.1
Total assets	10,742.3	5,474.0	8,608.2
Share capital	0.9	0.7	0.9
Other capital reserves	5,289.1	2,357.0	4,976.2
Recognized profit including profit for the period	895.3	473.1	735.7
Provisions	1,214.0	331.2	666.5
Non-current liabilities	214.6	207.1	211.3
Current liabilities	3,128.3	2,105.0	2,017.7
Total liabilities and equity	10,742.3	5,474.0	8,608.2
Interest-bearing receivables amount to	2,867.9	1,345.6	2,929.1
Interest-bearing liabilities amount to	1,768.4	1,320.7	918.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEK m	Share capital	Other paid-up capital	Other equity including net profit	Minority interest	Consolidated equity
Amount as of April 1, 2019	0.9	4,976.2	719.3	16.4	5,712.9
Translation difference			42.4		42.4
New share issue	0.0	313.9			313.9
Issue costs ¹⁾		-1.0			-1.0
Other			-0.2		-0.2
Net profit			118.2	-0.8	117.4
Amount as of September 30, 2019	0.9	5,289.1	879.7	15.6	6,185.4

¹⁾ Issue costs constitutes of cost of rights issue SEK 1.3 million and tax effects of the cost SEK 0.3 million.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

SEK m	Jul-Sep 2019	Jul-Sep 2018	Apr-Sep 2019	Apr-Sep 2018	Jan 2018–Mar 2019
Cash flow from operating activities before changes in working capital	364.7	224.3	667.6	361.0	1,440.0
Change in working capital	-79.9	-964.4	55.5	-936.6	-83.6
Cash flow from operating activities	284.8	-740.1	723.1	-575.6	1,356.4
Investment in acquired companies	-802.7	-7.3	-802.9	-2.0	-1,070.6
Investment in intangible assets	-391.9	-273.3	-770.0	-511.8	-1,335.7
Investment in tangible assets	-8.6	-3.4	-19.2	-116.8	-140.3
Investment in financial assets	-0.1	-	-2.4	-	-
Cash flow from investing activities	-1,203.3	-284.0	-1,594.5	-630.6	-2,546.6
Cash flow from financing activities	619.6	856.7	802.8	2,453.2	3,488.3
Cash flow for the period	-298.9	-167.3	-68.6	1,247.1	2,298.1
Cash and cash equivalents at beginning of period	3,159.0	1,513.7	2,929.1	1,612.4	626.5
Translation difference in cash and cash equivalents	7.8	-0.7	7.4	-0.2	4.5
Cash and cash equivalents at end of period	2,867.9	1,345.6	2,867.9	2,859.2	2,929.1

PARENT COMPANY INCOME STATEMENT

SEK m	Jul-Sep 2019	Jul-Sep 2018	Apr-Sep 2019	Apr-Sep 2018	Jan 2018– Mar 2019
Net sales	183.0	69.3	284.3	137.0	416.4
Other operating income	2.7	-0.9	2.7	0.2	13.2
Total operating income	185.8	68.4	287.0	137.2	429.6
Operating expenses					
Other external expenses	-6.2	-3.3	-10.6	-7.4	-19.9
Personnel expenses	-2.2	-1.1	-4.0	-2.3	-6.3
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	-95.4	-36.4	-171.2	-79.8	-240.3
Total operating expenses	-103.8	-40.9	-185.8	-89.6	-266.6
Operating profit	81.9	27.5	101.2	47.6	162.9
Result from participations in Group companies	0.0	0.0	0.0	0.0	-71.0
Result from financial assets	2.5	-2.7	4.6	0.0	8.5
Interest income, etc.	16.1	5.0	27.5	8.8	23.7
Interest expenses, etc.	-5.4	0.3	-10.4	-2.2	-28.5
Total financial income/expenses	13.2	2.5	21.6	6.5	-67.3
Profit after financial items	95.1	30.0	122.8	54.1	95.7
Appropriations	0.0	0.0	0.0	0.0	-66.5
Profit before tax	95.1	30.0	122.8	54.1	29.2
Tax	-20.9	-6.6	-27.0	-11.9	-22.4
Net profit for the period	74.2	23.4	95.8	42.2	6.8

CONDENSED PARENT COMPANY BALANCE SHEET

SEK m	Sep 30, 2019	Sep 30, 2018	Mar 31, 2019
Intangible assets	382.7	197.9	234,6
Financial assets	2,678.6	1,179.6	2,171,0
Current receivables	771.6	509.9	406,3
Cash and bank balance	2,069.5	1,148.1	2,666,2
Total assets	5,902.4	3,035.5	5,478,1
Equity	5,552.0	2586.3	5,143,3
Untaxed reserves	95.6	91.7	95,6
Provisions	3.6	3.6	3,6
Long-term liabilities	214.6	205.3	208,4
Current liabilities	36.5	148.5	27,1
Total liabilities and equity	5,902.4	3,035.5	5,478,1

SELECTED KEY PERFORMANCE INDICATORS – GROUP

Financial metrics defined or specified pursuant to Swedish Accounting Standards Board standards (BFNAR)	Jul–Sep 2019	Jul–Sep 2018	Apr–Sep 2019	Apr–Sep 2018	Jan 2018–Mar 2019
Net sales, SEK m	1,259.7	1,272.7	2,401.8	2,110.1	5,754.1
Operating profit, SEK m	76.4	90.8	157.7	143.3	574.6
Profit before tax, SEK m	79.7	87.5	163.0	136.2	545.4
Profit after tax, SEK m	64.6	65.0	117.4	98.5	396.8
Number of shares at end of period, thousands ¹⁾	311,905	264,459	311,905	264,459	307,704
Average number of outstanding shares, thousands ¹⁾	309,759	264,459	308,737	252,791	254,493
Average number of full-time employees in the period	1,487	999	1,426	985	1,042
Number of employees at the end of the period	1,632	1,021	1,632	1,021	1,353
Alternative key performance indicators not defined or specified pursuant to BFNAR	Jul–Sep 2019	Jul–Sep 2018	Apr–Sep 2019	Apr–Sep 2018	Jan 2018–Mar 2019
Net sales growth, %	–1	1,403	14	2,281	1,034
EBITDA, SEK m	418.1	214.8	807.6	421.7	1,592.6
EBITDA margin, %	33	17	34	20	28
Operational EBIT, SEK m	240.7	103.4	444.8	173.1	897.1
EBIT, SEK m	76.4	90.8	157.7	143.3	574.6
EBIT margin, %	6	7	7	7	10
Equity/assets ratio, %	58	52	58	52	66
Earnings per share, SEK ¹⁾	0.21	0.25	0.38	0.39	1.56
Adjusted earnings per share, SEK ¹⁾	0.65	0.28	1.16	0.48	2.59
Dividend per share, SEK	0	0	0	0	0
<i>Derivation of the alternative KPIs, operational EBIT and EBITDA</i>					
EBIT, SEK m	76.4	90.8	157.7	143.3	574.6
Amortization expenses added back to Operational EBIT					
- Goodwill, SEK m	51.7	2.2	97.2	3.4	75.1
- Intellectual property (IP) rights, SEK m	100.5	8.5	169.7	15.0	198.9
- Surplus value of Partner Publishing/Film, SEK m	12.0	1.9	20.2	11.4	48.5
Operational EBIT, SEK m	240.7	103.4	444.8	173.1	897.1
- Other depreciation and amortization expenses, SEK m	177.4	111.4	362.9	248.6	695.5
EBITDA, SEK m	418.1	214.8	807.6	421.7	1,592.6

¹⁾ Recalculated with respect to the 3:1 split carried out on October 8, 2019 as resolved at the annual general meeting on September 17, 2019. Number of shares for previous periods have been adjusted.

DEFINITIONS OF ALTERNATIVE KPI'S

Embracer Group's definitions of a number of alternative KPI's used in this Interim Report are stated below. Net sales growth is reported by the Company because it regards this KPI as contributing to investor understanding of the Company's historical progress. EBITDA and EBITDA margin are reported because these are metrics commonly used by certain investors, financial analysts and other stakeholders to measure the Company's financial results. The company has chosen to disclose operational EBIT in order to provide a fair picture of the underlying operational performance. This alternative key performance metric excludes amortization of acquisition-related goodwill, surplus values of specific business areas (currently Partner Publishing/Film) and IP values (trademarks, patents, copyrights etc.). The equity/assets ratio is stated because the Company regards this as a metric commonly used by certain investors, financial analysts and other stakeholders to measure the Company's financial position.

DEFINITIONS OF KPI'S, GROUP

Adjusted Earnings per share	Profit after tax excluding non-operational depreciations and amortizations net of tax divided by the average number of shares in the period. Tax related to non-operational depreciations and amortizations calculated using the effective tax rate (no tax effect on goodwill amortizations).
Earnings per share	Profit after tax less non-controlling interest divided by the average number of shares in the period.
EBIT margin	EBIT as a percentage of net sales.
EBITDA	Earnings before interest taxes, depreciation and amortization.
EBITDA margin	EBITDA as a percentage of net sales.
Equity/assets ratio	Equity as a percentage of total assets.
Net sales growth	Net sales for the current period divided by net sales for the corresponding period of the previous year.
Non-operational Depreciation and Amortizations	Amortization of acquisition-related goodwill, surplus values of specific business areas and IP Values (trademarks, patents, copyrights etc).
Operational EBIT	EBIT excluding non-operational depreciations and amortizations.
Operational EBIT margin	Operational EBIT as a percentage of net sales.

DEFINITIONS, QUARTERLY INFORMATION

Depreciation	
Game development	Depreciation of finished game development projects - degressive depreciation over two years. 1/3 depreciation during month 1 to 3 following release, 1/3 depreciation in month 4 to 12 following release and the remaining 1/3 in month 13 to 24 following release.
Other intangible assets (Film etc)	The majority of other intangible assets (Film etc) relates to the Group's film business and is depreciated based on actual sales in relation to expected sales of the relevant title.
IP-rights	Depreciation of IP rights related to Games - straight-line depreciation over five years.
Surplus value Partner Publishing/Film	Depreciation of surplus values related to Partner Publishing/Film - straight-line depreciation over five years.
Goodwill	Depreciation of Goodwill - straight-line depreciation over five years.
Finalized and completed development	Total book value of finished game development projects (released games) during the quarter. Upon completion the released games are reclassified from On-going Game Development Projects to Finished Games and depreciation starts.
Internal game developers	Number of game developers (both employees and contractors) engaged in game development projects by studios that are owned by the group (internal studios).
External game developers	Number of game developers engaged in game development projects by studios that are not owned by the group (external studios).
Internal employees, non-development	Number of employees not directly engaged in game development (both employees and contractors).
External Studios	Number of external development studios engaged in game development projects.
Internal Studios	Number of internal development studios.
Number of IP:s	Number of IP:s owned by the group.
Net sales split – Games business area	
Owned titles	Net sales of game titles that are owned IP:s or titles that are controlled by the group.
Publishing titles	Net sales of game titles of IP:s the group does not own or control.
New releases sales by each quarter	Net sales of game titles that are released in the current quarter.
Back catalog	Net sales of game titles that are not released in the current quarter.
Physical sales	All net sales shipped physically.
Digital sales	All net sales not shipped physically.
Game development projects	Number of on-going game development projects financed by the group.

QUARTERLY INFORMATION BY CALENDAR YEAR

	2017					2018					2019			2019/20		
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Full year	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Full year	Jan-Mar	Apr-Jun	Jul-Sep			
Consolidated Group																
Net sales, SEK m	81.9	85.6	84.7	255.4	507.5	632.9	837.4	1,272.7	1,380.6	4,123.6	1,630.5	1,142.0	1,259.7			
EBITDA, SEK m	41.9	39.7	34.6	156.4	272.6	225.9	206.9	214.8	326.4	974.0	618.6	389.5	418.1			
Operational EBIT, SEK m	35.3	33.7	27.5	105.8	202.3	131.4	69.7	103.4	196.8	501.3	395.9	204.0	240.7			
EBIT, SEK m	31.9	30.3	24.0	102.0	188.2	107.3	52.5	90.8	152.1	402.6	172.0	81.2	76.4			
Profit after tax, SEK m	23.5	23.2	19.0	73.4	139.2	81.1	33.4	65.0	114.3	293.8	103.0	52.8	64.6			
Earnings per share, SEK ¹⁾	0.11	0.11	0.09	0.31	0.63	0.34	0.14	0.25	0.44	1.17	0.37	0.17	0.21			
Adjusted Earnings per share, SEK ¹⁾	-	-	-	-	-	0.42	0.19	0.28	0.60	1.50	1.00	0.51	0.65			
Cash flow from operating activities, SEK m	29.7	21.6	29.2	98.6	179.1	699.8	164.5	-740.1	455.0	579.2	777.2	441.3	284.8			
Number of shares (A&B), adjusted, million ¹⁾	216	216	217	238	222	238	241	265	283	252	283	308	310			
Sales growth, %	90%	62%	9%	99%	68%	673%	878%	1,403%	441%	713%	158%	36%	-1%			
EBITDA, margin, %	51%	46%	41%	61%	54%	36%	25%	17%	24%	24%	38%	34%	33%			
Operational EBIT, margin, %	43%	39%	32%	41%	40%	20%	8%	8%	14%	12%	25%	18%	19%			
EBIT, margin, %	39%	35%	28%	40%	37%	17%	6%	7%	11%	10%	11%	7%	6%			
Gross Margin (Net sales-COGS), SEK m	57.4	61.3	54.9	186.2	359.8	313.0	371.6	377.5	542.3	1,604.4	889.0	614.1	624.6			
Gross Margin, %	70%	72%	65%	73%	71%	50%	44%	30%	39%	39%	55%	54%	50%			
Net sales per business area																
Games - THQ Nordic, SEK m	81.9	85.6	84.7	255.4	507.5	134.5	145.5	124.2	351.9	756.1	142.8	185.1	329.6			
Games - Deep Silver, SEK m	-	-	-	-	-	256.5	338.2	251.8	186.7	1,033.2	794.4	373.4	441.7			
Games - Coffee Stain, SEK m	-	-	-	-	-	-	-	-	13.9	13.9	97.7	82.8	44.7			
Games, total	81.9	85.6	84.7	255.4	507.5	391.0	483.7	376.0	552.5	1,803.2	1,034.9	641.3	816.0			
Partner Publishing/Film, SEK m	-	-	-	-	-	241.9	353.8	896.6	828.1	2,320.4	595.6	500.7	443.6			
Net sales split – Games business area																
Owned titles, %	67%	76%	74%	82%	77%	34%	39%	50%	72%	50%	84%	80%	78%			
Publishing titles, %	33%	24%	26%	18%	23%	66%	61%	50%	28%	50%	16%	20%	22%			
Owned titles, SEK m	54.9	65.5	62.6	208.2	391.2	133.8	188.8	187.9	396.0	906.5	870.5	510.0	636.9			
Publishing titles, SEK m	27.0	20.1	22.1	47.2	116.3	257.2	294.9	188.1	156.5	896.7	164.4	131.3	179.2			
New releases sales by each quarter, %	36%	16%	39%	74%	-	63%	20%	31%	58%	-	75%	18%	32%			
Back catalog, %	64%	84%	61%	26%	-	37%	80%	69%	42%	-	25%	82%	68%			
New releases sales by each quarter, SEK m	29.5	13.7	33.7	190.2	-	246.1	97.8	117.3	320.7	-	781.0	117.6	260.9			
Back catalog, SEK m	52.4	71.9	51.0	65.1	-	144.9	385.6	258.6	231.8	-	253.9	523.8	555.2			
Physical sales, %	49%	31%	44%	60%	50%	62%	50%	48%	59%	55%	39%	29%	26%			
Digital sales, %	51%	69%	56%	40%	50%	38%	50%	52%	41%	45%	61%	71%	74%			
Physical sales, SEK m	40.1	26.6	36.1	149.9	253.2	243.0	241.9	178.9	324.0	987.8	406.8	189.2	215.3			
Digital sales, SEK m	41.8	59.0	48.6	101.6	249.4	147.6	241.8	197.0	228.5	814.9	628.1	452.2	600.8			
Depreciation and amortization																
Game development	-6.3	-5.6	-6.5	-43.4	-61.8	-59.0	-108.5	-80.2	-92.9	-340.6	-192.2	-162.4	-143.7			
Other intangible assets (Film etc.)	-	-	-	-	-	-32.5	-24.1	-26.7	-31.2	-114.5	-24.7	-16.5	-26.5			
Sub-total	-6.3	-5.6	-6.5	-43.4	-61.8	-91.5	-132.6	-106.9	-124.1	-455.1	-216.9	-178.9	-170.2			
<i>Acquisition-related depreciation</i>																
IP-rights	-3.4	-3.4	-3.5	-3.8	-14.1	-10.6	-6.5	-8.5	-7.7	-33.3	-165.6	-69.1	-100.5			
Surplus value Partner Publishing/Film	-	-	-	-	-	-12.3	-9.5	-1.9	-9.4	-33.1	-15.4	-8.2	-12.0			
Goodwill	-	-	-	-	-	-1.2	-1.2	-2.2	-27.6	-32.2	-42.9	-45.5	-51.7			
Sub-total	-3.4	-3.4	-3.5	-3.8	-14.1	-24.1	-17.2	-12.6	-44.7	-98.6	-223.9	-122.8	-164.3			
Total	-9.7	-9.0	-10.0	-47.2	-75.9	-115.6	-149.8	-119.5	-168.8	-553.7	-440.8	-301.7	-334.5			
Investments in intangible assets																
External game development and advances, SEK m	54.2	44.2	58.9	54.2	211.5	115.3	114.0	131.8	166.7	527.8	189.1	224.8	166.4			
Internal capitalized development, SEK m	13.0	14.4	19.2	33.0	79.6	57.6	93.5	102.0	105.9	359.0	116.1	131.1	176.6			
Other intangible assets	-	-	-	10.6	10.6	11.6	30.8	17.9	30.5	90.8	20.0	22.1	42.5			
IP-rights	-	-	3.8	-	3.8	-	0.2	21.6	10.6	32.4	0.4	0.0	6.4			
Total						184.5	238.5	273.3	313.7	1,010.0	325.6	378.1	391.9			
Finalized and completed development																
Finalized and completed development, SEK m	0.8	1.9	39.8	133.9	176.4	122.9	47.4	50.1	162.2	382.6	220.4	154.1	100.6			
Other KPIs																
Total Game Dev projects	32	30	29	36		54	51	55	77		80	81	86			
Announced Game Dev projects	14	13	13	12		19	17	20	29		32	34	37			
Unannounced Game Dev projects	18	17	16	24		35	34	35	48		48	47	49			
Total internal game developers	78	82	163	178		536	565	608	613		860	882	1,162			
Total external game developers	282	306	261	229		714	692	740	871		807	946	1,110			
Total internal employees, non-development	44	44	45	55		470	486	554	529		541	590	709			
Total number headcounts	404	432	469	462		1,720	1,743	1,902	2,013		2,208	2,418	2,981			
Number of studios																
Total number External Studios						18	29	26	26		42	48	49			
Total number Internal Studios						7	10	10	10		17	18	18			
Total number Studios						25	39	36	36		59	66	67			
Total number of IP						91	106	107	119		136	138	148			

¹⁾ Recalculated with respect to the 3:1 split carried out on October 8, 2019 as resolved at the annual general meeting on September 17, 2019. Number of shares for previous periods have been adjusted.

EMBRACER⁺ GROUP

Embracer Group is the parent company of businesses developing and publishing PC and console games for the global games market. The group has an extensive catalog of over 130 owned franchises, such as Saints Row, Goat Simulator, Dead Island, Darksiders, Metro, MX vs ATV, Kingdoms of Amalur, TimeSplitters, Satisfactory and Wreckfest amongst many others.

With its head office in Karlstad, Sweden, Embracer Group has a global presence through its three operative groups: Koch Media GmbH/Deep Silver, THQ Nordic GmbH, and Coffee Stain AB. The group has eighteen internal game development studios engaging more than 2,900 employees and contracted employers in more than 40 countries.