

EMBRACER⁺ GROUP

Q2 FY19/20
Interim Report
November 14, 2019



1. Operational and financial performance

OPERATIONAL AND FINANCIAL HIGHLIGHTS

Increased profitability mainly driven by strong digital back catalog of own-IP games

Q2 FY19/20

Net sales	YoY growth
SEK 1,260m	-1%

Net sales – Games	YoY growth
SEK 816m	117%

Operational EBIT	YoY growth
SEK 241m	133%

Cash flow from operating activities
(after change in working capital)

SEK 285m

Increased profitability driven by:

- Release of Wreckfest on console
- Strong back catalog lead by Metro franchise
 - Increased share of digital sales
- Increased share of sales from own-IP titles

Continue to strengthening our pipeline

Investments in game development in the quarter:

SEK 343m (+47%)

(47% higher than same quarter last year)

86 pipeline projects

At least **two AAA projects**
expected to be released in FY20/21

Additional deals signed for upcoming games on digital subscription and streaming services on various platforms

Two significant acquisitions



Leading two-wheel racing developer Milestone acquired – released MXGP2019 in August



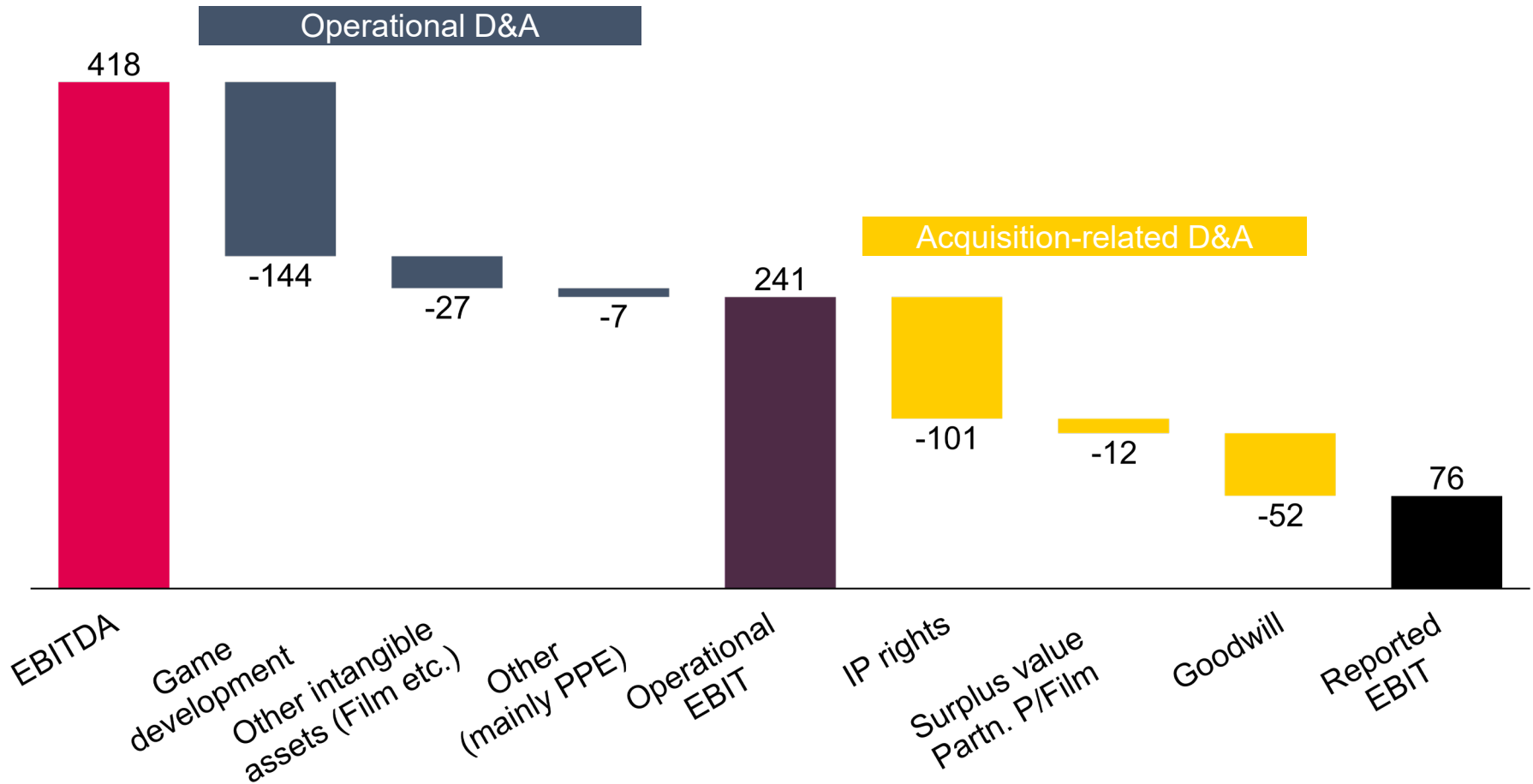
World-class studio Gunfire Games acquired – released Remnant (publisher perfect World) in August

KEY P&L METRICS

SEK million	Quarter			Trailing twelve months		
	Q2 FY19/20	Q3 2018	YoY Change	Q2 FY19/20	Q3 2018	YoY Change
	Jul–Sep 2019	Jul–Sep 2018		Oct 2018– Sep 2019	Oct 2017– Sep 2018	
Net sales	1,260	1,273	-1%	5,413	2,998	81%
EBITDA	418	215	95%	1,753	804	118%
Operational EBIT	241	103	133%	1,037	410	153%
Operational EBIT margin	19%	8%		19%	14%	
Adj. EPS (SEK)	0.65	0.28				

DEPRECIATION AND AMORTIZATION

Q2 FY19/20
SEK million

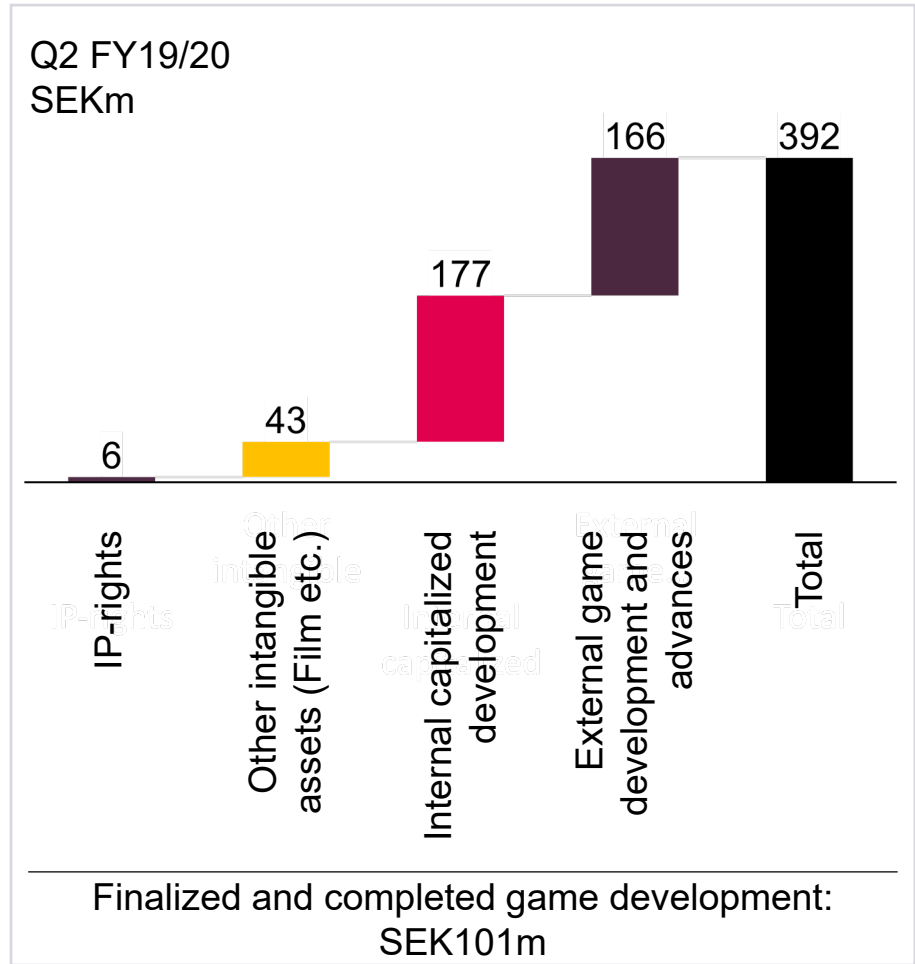


KEY CASH FLOW METRICS

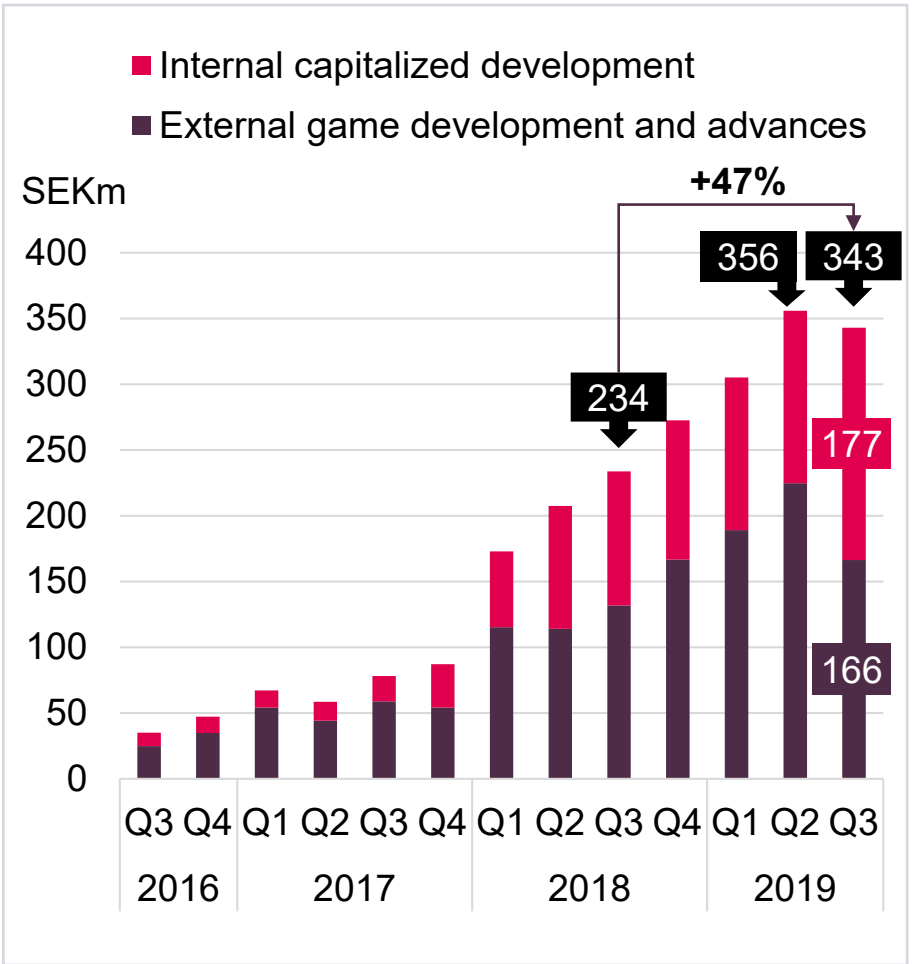
SEK m	Jul-Sep 2019	Jul-Sep 2018	
Cash flow from operating activities before changes in working capital	364.7	224.3	+63% YoY growth in the quarter
Change in working capital	-79.9	-964.4	No forfeiting in Q2 FY19/20, SEK 189m reduction in forfeiting in the same quarter last year*
Cash flow from operating activities	284.8	-740.1	
Investment in acquired companies	-802.7	-7.3	Growth investments (M&A growth)
Investment in intangible assets	-391.9	-273.3	A significant portion is (organic) growth investments (see slides 18-19)
Investment in tangible assets	-8.6	-3.4	
Investment in financial assets	-0.1	-	
Cash flow from investing activities	-1,203.3	-284.0	
Cash flow from financing activities	619.6	856.7	Increased utilization of credit facility in Koch Media
Cash flow for the period	-298.9	-167.3	
Cash and cash equivalents at beginning of period	3,159.0	1,513.7	*Cost of forfeiting amount to approx. EUR 93k during the period of utilization (~0,4% p.a.). The expense is reported within financial net.
Translation difference in cash and cash equivalents	7.8	-0.7	
Cash and cash equivalents at end of period	2,867.9	1,345.6	Cash taxes in the quarter was SEK 53m and SEK 125m in the first two quarters of FY19/20

INVESTMENTS

Investments in intangible assets the quarter



Investments in game development by quarter



BALANCE SHEET

SEK million	30 Sep 2019	30 Jun 2019	30 Sep 2018
Intangible assets	5,522	3,819	2,172
Property, plant and equipment	170	160	142
Financial assets	218	178	200
Inventories	385	385	212
Current receivables	1,579	1,373	1,402
Cash and bank balance	2,868	3,159	1,346
Total assets	10,742	9,074	5,474
Share capital	1	1	1
Other capital reserves	5,289	4,976	2,357
Recognized profit incl. profit for the period	895	801	473
Provisions	1,214	589	331
Non-current liabilities	215	211	207
Current liabilities	3,128	2,497	2,105
Total equity and liabilities	10,742	9,074	5,474
Interest-bearing receivables amount to	2,868	3,159	1,346
Interest-bearing liabilities amount to	1,768	1,110	1,321
Net cash	1,100	2,049	25

- Intangible assets of SEK 5,522m at 30 Sep 2019 comprising:
 - Finished, completed games of SEK 393m
 - Ongoing game development projects of SEK 1,582m
 - Other intangible assets (film etc.) of SEK 283m
 - IP-rights of SEK 2,072m
 - Surplus value Film and Partner publishing of SEK 208m
 - Goodwill of SEK 983m

- As of 30 Sep 2019, cash and cash equivalents were SEK 2,868m. Available liquidity including credit facilities was SEK 3,567m

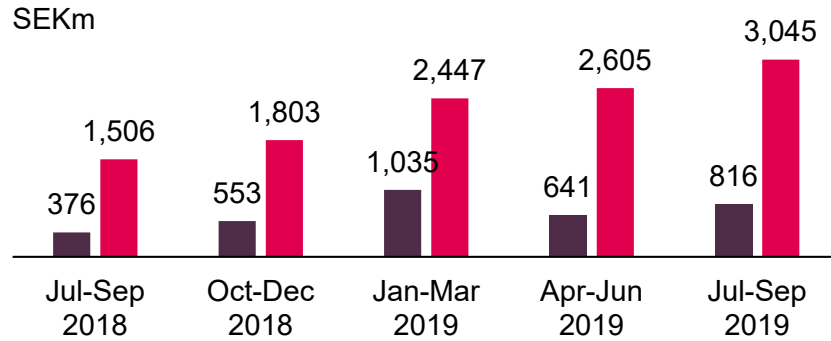
A close-up photograph of a goat's head. The goat has a white and grey coat. On its forehead, there is a horizontal surgical incision with visible sutures. On its nose, there is a vertical sutured wound. The goat's eyes are visible, and its ears are pointed outwards. The background is a soft, out-of-focus gradient of purple and pink. A semi-transparent dark purple horizontal band is overlaid across the middle of the image, containing the text.

2. Business areas

GAMES – NET SALES BREAKDOWNS

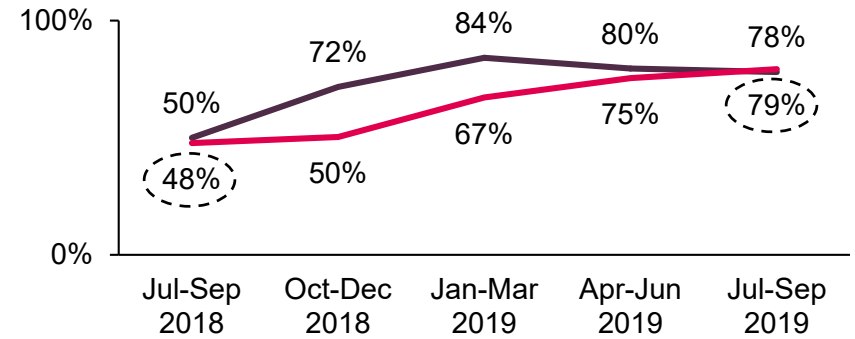
■ = Quarterly
■ = Trailing twelve months

Net sales

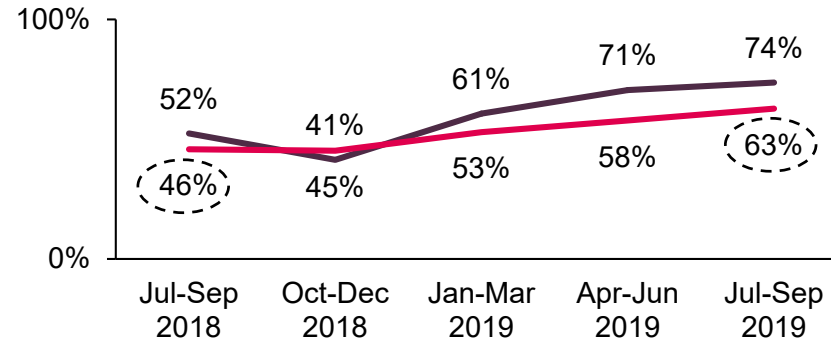


- 117% YoY growth in the quarter (quarterly)

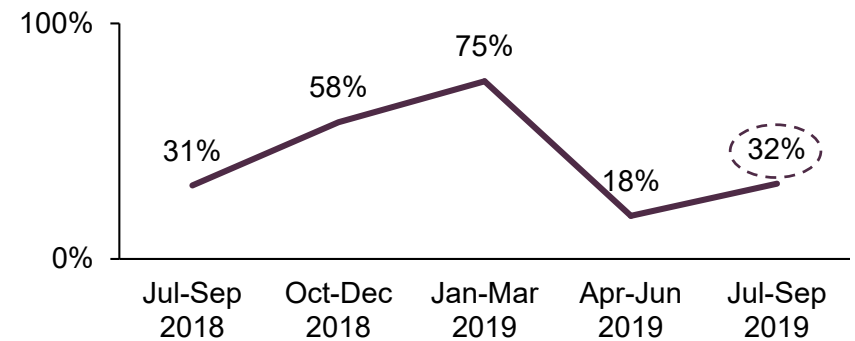
Owned titles (rest is publishing titles)



Digital (rest is physical)



New releases (rest is back catalog)





SEK million	FY18/19			FY19/20	
	Q3	Q4	Q5	Q1	Q2
Net sales	252	187	794	373	442

- 75% YoY growth in the quarter, mainly driven by strong back catalog where Metro franchise contributed the most
- Milestone, acquired on 14 Aug 2019, contributed with SEK 42m, mainly relating to the release of MXGP2019 at the end of August.

Notable releases in the quarter



5 releases in total

Selected upcoming releases

 PC PS4 XB1 IP: Own	 PC PS4 IP: 3rd party	 PC PS4 XB1 IP: 3rd party
 TOP SECRET	 volition	 TOP SECRET

Leading two-wheel racing developer Milestone acquired



SEK million	FY18/19			FY19/20	
	Q3	Q4	Q5	Q1	Q2
Net sales	124	352	143	185	330

- 165% YoY growth in the quarter

Key releases in the quarter

PS4 XB1 IP: Own	Switch IP: Own	Switch IP: Own
12 releases in total		

Selected upcoming releases

PC PS4 XB1 IP: Own	PS4 XB1 Switch IP: 3rd party	PC PS4 XB1 IP: Own
PC PS4 XB1 IP: Own	PC PS4 XB1 IP: Own	PC PS4 XB1 Switch IP: 3rd party

World-class studio Gunfire Games acquired, i.e. makers of Darksiders III and Remnant

			Remnant: From the Ashes was released in August and exceeded our expectations at acquisition date and contributed to the Group's performance in the quarter through royalties (publisher Perfect World)
--	--	--	--



SEK million	FY18/19			FY19/20	
	Q3	Q4	Q5	Q1	Q2
Net sales	n/a	14	98	83	45

Back catalog mainly driven by



Selected upcoming releases



SONGS OF CONQUEST

PC
IP: Own

Developers:
Coffee Stain
NORTH



MIDNIGHT GHOST HUNT

PC
IP: 3rd party





- No releases in the 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.

GOODBYE KANSAS GAME INVEST

Two investments in the quarter



Founded a wholly-owned new studio with a senior development team departing from a large AAA developer

Details of the team and their projects will be announced in due course.



MISC GAMES

Acquired 45% stake
in Norwegian fishing-simulator developer
Misc Games



PARTNER PUBLISHING/FILM

SEK million	FY18/19			FY19/20	
	Q3	Q4	Q5	Q1	Q2
Net sales	897	828	596	501	444

- Negative 51% YoY growth in the quarter due to the absence of larger releases to match those in the same period last year. Codemaster's F1 2019 continued to be a major revenue driver in the quarter.

Notable releases in the quarter

 by Capcom	 by Atlus
 by Saber Interactive /Solutions 2 GO	 By Focus

Selected upcoming releases in Q3 FY19/20

- > 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
- No notable AAA releases in the December quarter
 - We expect a few significant AAA releases in calendar H1 2020

Physical market update

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, fuelled by the launch of the next generation of consoles.

3. Embracer strategy

A character in a futuristic, dark-colored suit with glowing blue lights on the lower legs is floating in the air. The background is a lush, green forest with rolling hills and a large, semi-transparent purple banner across the middle. In the distance, there are mountains, some with snow, and a tall tower structure. The sky is filled with soft, white clouds, suggesting a bright but slightly overcast day.

GROWTH STRATEGY

Financial model

- Diversified portfolio/pipeline – reduces operational risk
- Strong balance sheet – reduces financial risk
- Strong EBITDA cash conversion
- Reinvests as much as possible of operating cash flow and willingness to issue equity – to capture attractive organic and acquisitive growth opportunities (ROI > WACC)

Empowering people

- Philosophy of decentralization to empower our great people across the group
- Commercial autonomy to business area CEOs, founders, and studio heads to run their operations
- Fosters creativity, speed and relevance as decisions are taken closer to local markets and niche markets

Organic growth

Invest for long-term organic growth

Investments in development should outpace finalised game development

- Develop and expand IP portfolio – including currently dormant IPs
- Develop and expand internal studios
- Establish new studios with top talent developers
- Development projects with external studios
- Continue to consolidate partner publishing market

M&A

Buy to build

Continue acquiring great companies that share our vision at fair valuations

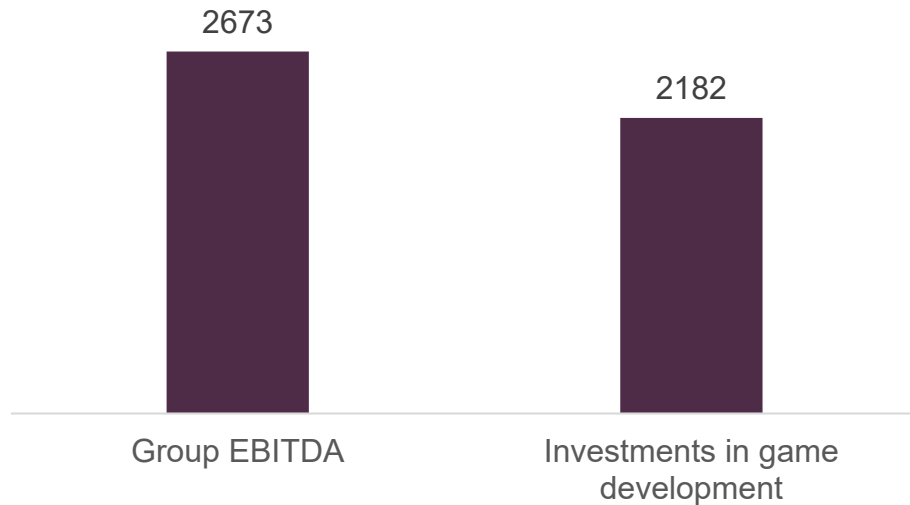
- Acquire and develop IPs, and studios and publishers
- Increase investments in acquired companies to unleash unlocked potential and capacity
- Synergies with distribution, marketing, knowledge-sharing, IPs, tech, development etc.
- In general to complement, not compete, with business partners in the game industry.

INVESTING FOR GROWTH...

Most of our operational cash flow have been invested into game development, of which a significant part has been growth investments

Since IPO, we have invested most of our EBITDA into game development...

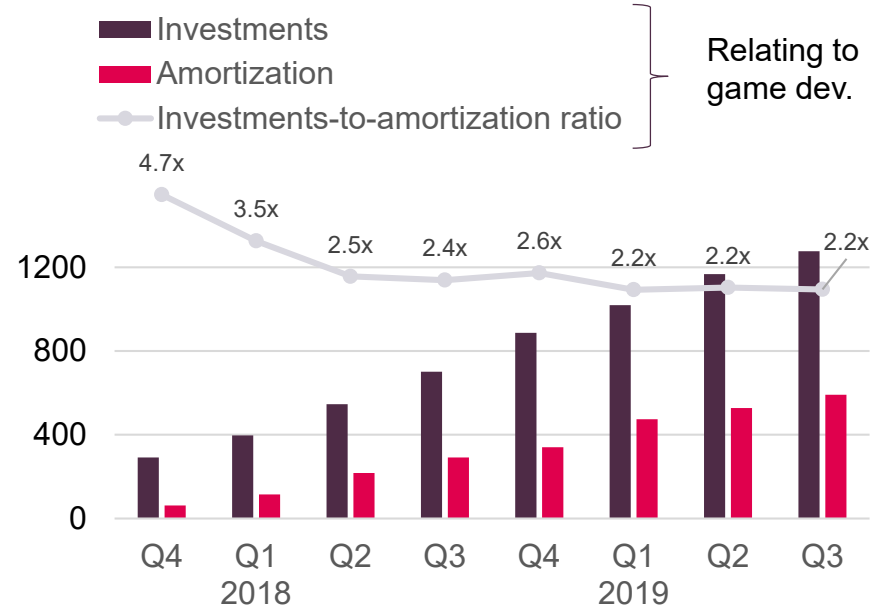
Jan 2017 – Sep 2019 (11 quarters), SEKm



- Investments in game development have been 82% of Group EBITDA between Jan 2017 and Sep 2019

...and investments are currently about ~2x amortization (game development)

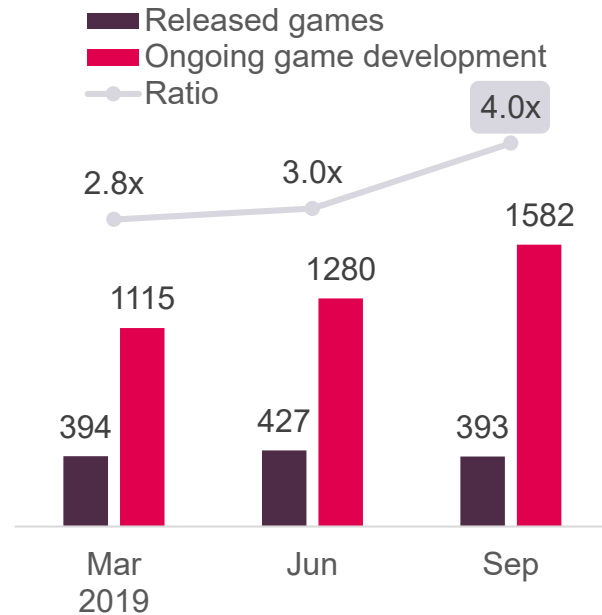
Trailing twelve months, SEKm



- Investments in game development have been around 2x the amount amortized on released games, **indicating that a significant share of our investments are to drive further growth in our business**

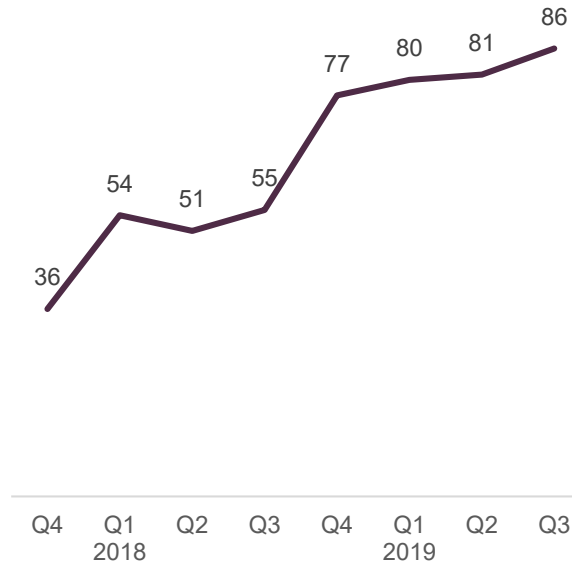
...TO CONTINUE BUILDING OUR PIPELINE

Capitalized game development



- Only “released games” are currently generating sales and profits, “ongoing game development” will in the future
- Ongoing game development is 4 times larger than released games
- Ongoing game development, including minor M&A effects, has grown by 42% in the last six months

of development projects



- Number of development projects continue to grow
- Record number of 86 projects as at 30 September 2019
- These are yet-to-be-released games and other content

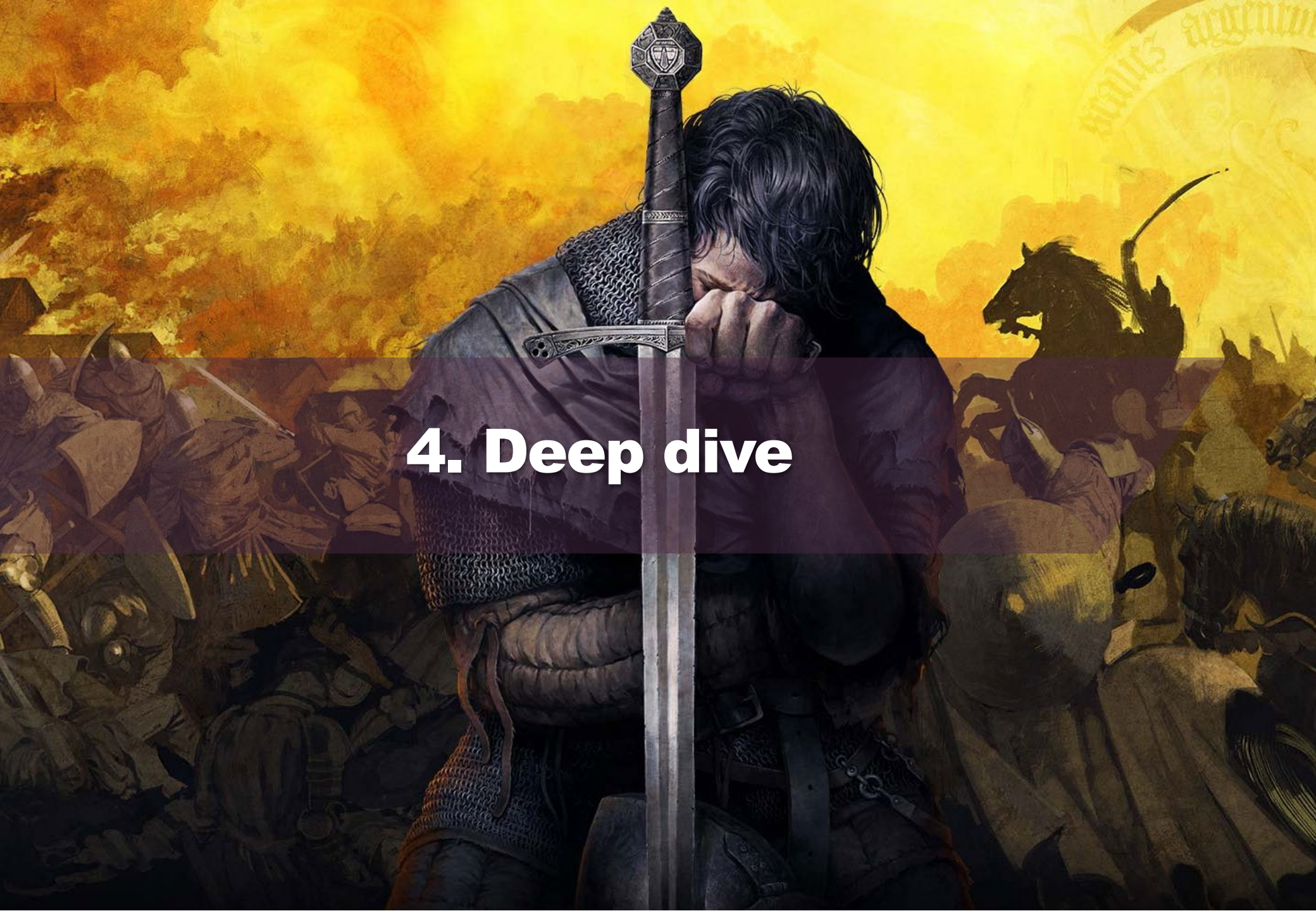
Selected pipeline projects



- Strongest pipeline to date
- At least two AAA releases in FY20/21, as well as several exiting AA titles and other amazing content

M&A OUTLOOK

- **M&A prospects continue to look favorable**
- **Ongoing scouting and research activity at HQ in Sweden, THQ Nordic Vienna, Koch Media Deep Silver and Coffee Stain**
- **Substantial watchlist of IPs, development studios and publishers**
- **Currently 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**
- **Strategy of giving autonomy to our local management teams is empowering them to continue succeeding and is attracting more studios and publishers to join our family**



4. Deep dive

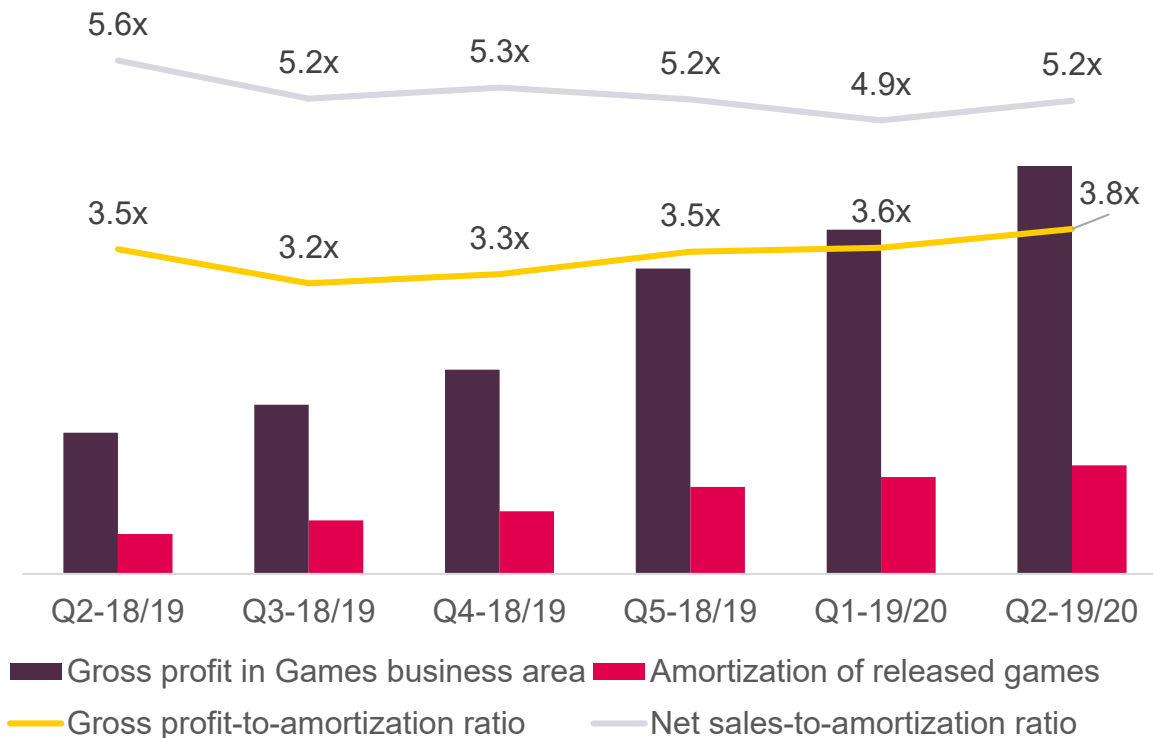
“GROSS PROFIT RETURN” ON INVESTMENT

Average of 3.5x for the last six quarters

“Gross profit” to “amortization of released games”

Games business area

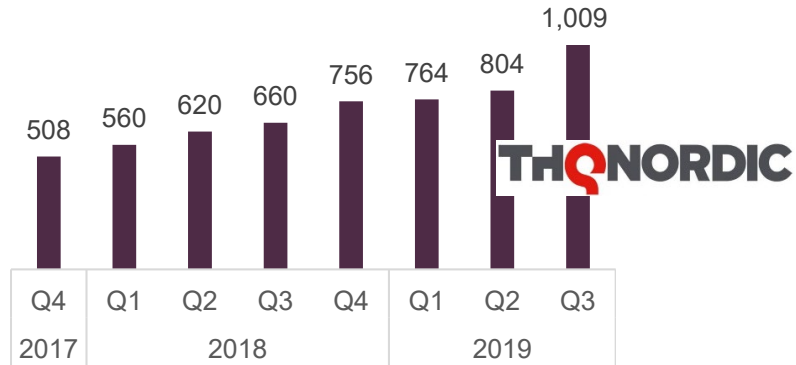
Trailing twelve months



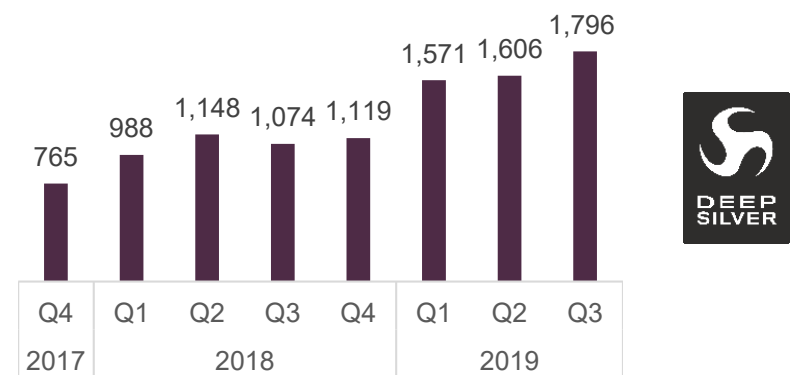
- The yellow line shows gross profit in the games business area as a ratio over amortization of released games, on a trailing twelve months basis.
- This is a rough indication of our recent “gross profit return” on investments in the Games business area.
- We fully amortize our capitalized development costs within two years of the release of our games, accordingly catalog games which have been released more than two years ago will contribute to gross profit, but the development costs will have been fully amortized by that point.
- Note: Gross profit does not e.g. include marketing or opex.

NET SALES PER BUSINESS UNIT

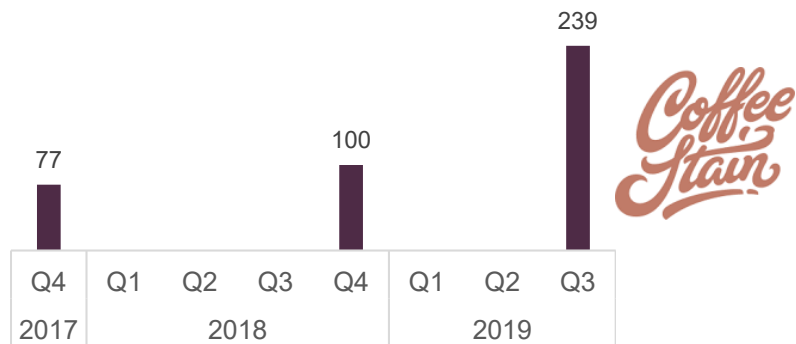
Trailing twelve months net sales, SEK million



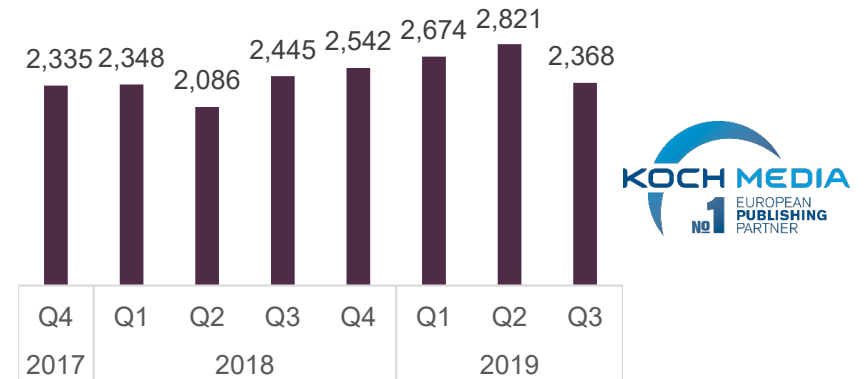
- 48% average growth (CAGR) Q4 2017 – Q3 2019



- 63% average growth (CAGR) Q4 2017 – Q3 2019
- Q1 2017 – Q1 2018 figures are proforma
- We acquired Deep Silver on 14 Feb 2018



- 91% average growth (CAGR) Q4 2017 – Q3 2019
- We acquired Coffee Stain on 14 Nov 2018



- 1% average growth (CAGR) Q4 2017 – Q3 2019
- Q1 2017 – Q1 2018 figures are proforma
- We acquired Koch Media on 14 Feb 2018

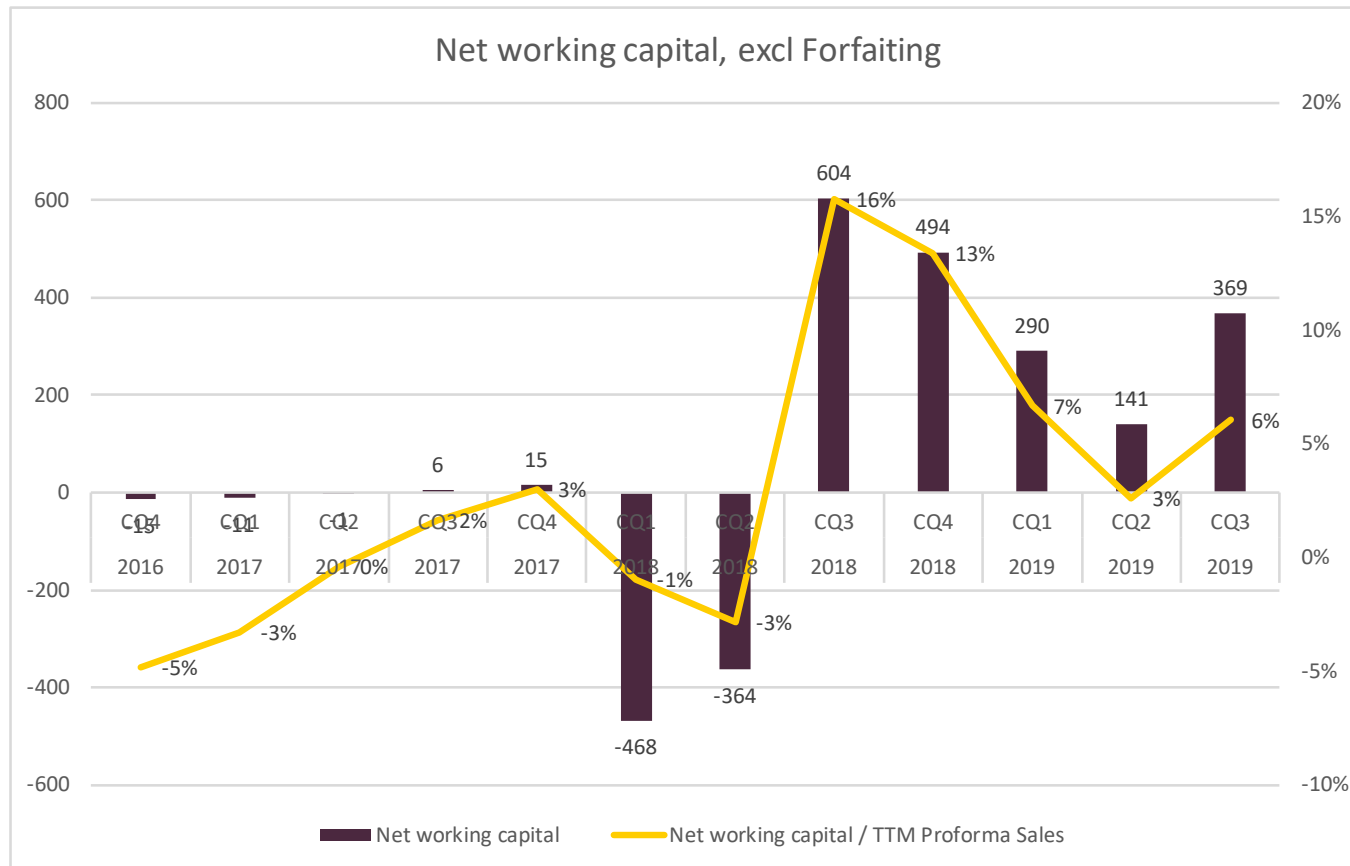
PURCHASE PRICE ALLOCATION

- 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 surplus value is then allocated between Goodwill, IP-rights and possibly business area surplus value and depreciated over 5 years.
- The book value of ongoing game development is taken over from the target company and when the games are released amortization start.
- As the target become part of the Embracer group, we implement Embracer Accounting Principles in target where development is capitalized and amortized over two years.

PRE-STUDY IFRS CONVERSION

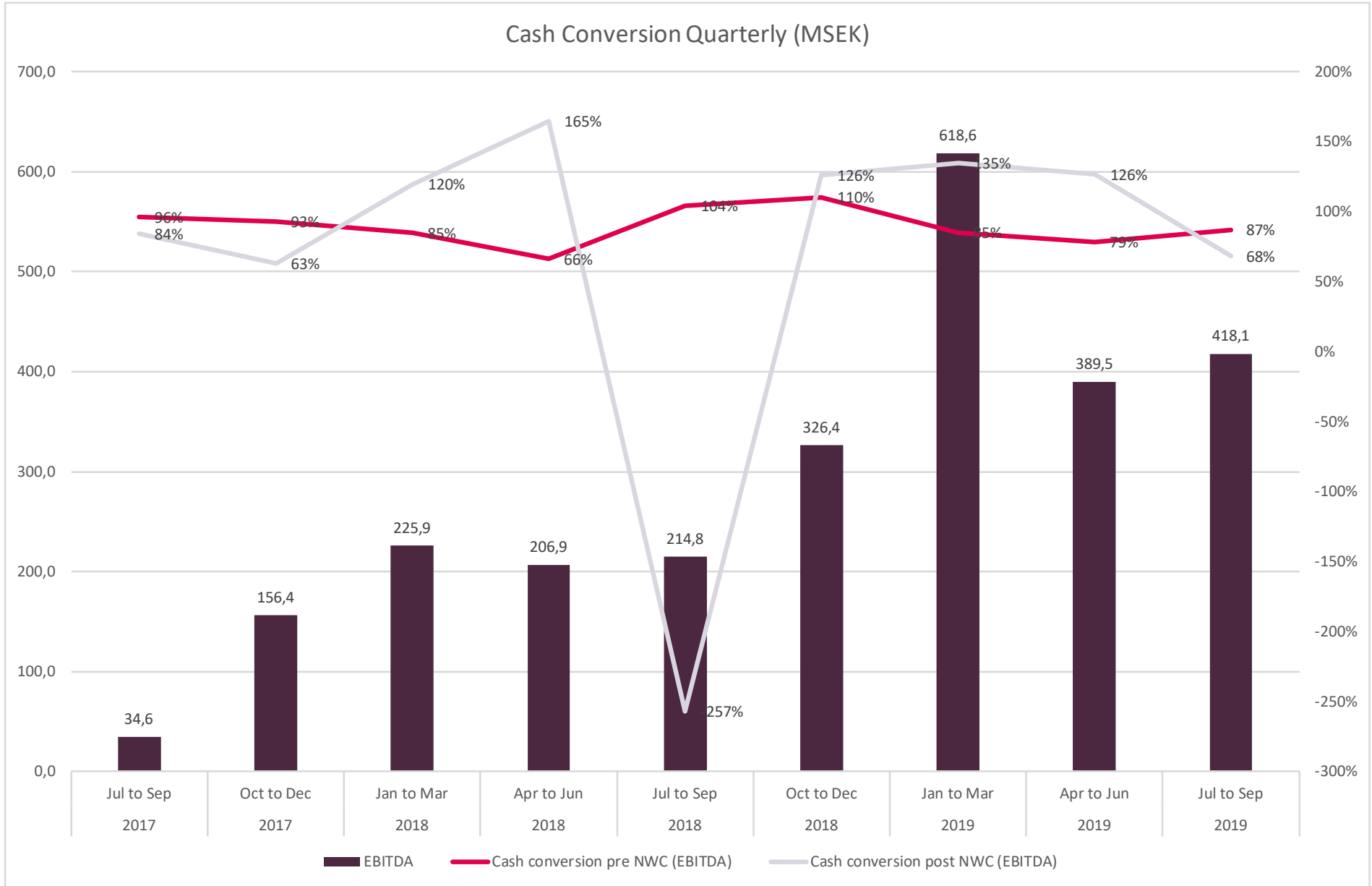
- The board has decided to conduct a pre-study for IFRS conversion and we will commence the project now.
- The requirement on documentation are more detailed and thorough.
- The requirement on disclosures for interim reports and annual reports are more detailed.
- Current amortization model for released games need to be revisited. Risk of a more individual model based on actual sales vs budget sales for each project.
- Lease contracts are recalculated
- No amortization of goodwill (yearly impairment tests)

WORKING CAPITAL



- Net working capital increased in the period from SEK 141m to SEK 369 m. The majority of the increase is related to acquired companies, and excluding the effects of acquired companies the change in NWC amount to approx. 80m. The change is mainly related to increased trade receivables as we had a large share of quarterly sales in September.
 - Net working capital in relation to TTM proforma sales is fairly low and amounts to 6%.
- Credit risk in trade receivables is limited thru insurances with insurance companies such as COFACE (the vast majority of nominal amounts are covered)

CASH FLOW



A vibrant 3D rendering of SpongeBob SquarePants. He is yellow with large blue eyes, a wide smile showing his teeth, and is giving a thumbs-up with his right hand. He is wearing his signature white shirt, red tie, and brown shorts. He stands on a sandy beach next to his pineapple-shaped house, which has a blue door and a porthole. The background is a bright blue ocean with stylized coral and sea life.

4. SUSTAINABILITY QUARTERLY UPDATE



Embracer Group Actions since Q1

- Adding a resource to the team working fulltime with coordinating the sustainability framework in the group – Karin Edner
- Rolling out Smarter Business – our approach to Sustainability
- Ambassador Program - to reach and involve the whole group
- Identified actions for sustainability reporting based on GRI Standards
- Compliance Code adopted
- Gathering initiatives within the group

Ongoing initiatives in our group:

- Support Start-ups and sponsor initiatives focusing on gender equality
- Collaborations with universities
- Initiatives to enhance work-life balance
- Workshops focusing on; Sensitive Content, Inclusive Play, People, Culture, and Brand
- Decreasing and minimizing crunch
- Initiatives are taken to decrease emissions from transport and making commute travel easier

OUT NOW

LITTLE BIG WORKSHOP

Q&A



EMBRACER⁺
GROUP