

EMBRACER+ GROUP

Q4 FY19/20
Full Year Report
May 20, 2020

WRECKFEST

DRIVE HARD. DIE LAST.

1. Operational and financial performance

9/10

Gamereactor

9/10

PSU

8.5/10

gameinformer

90/100

IGN

4.5/5

Xbox Hub

OPERATIONAL AND FINANCIAL HIGHLIGHTS

Financial and operational metrics

FY19/20:

Net sales YoY growth
SEK 5,249m +3%

Net sales – Games YoY growth
SEK 3,197m +31%

Operational EBIT YoY growth
SEK 1,033m +35%

Strong sales and earnings growth on a TTM basis. However, negative quarterly growth due to tough comparable vs. ATH quarter Jan–Mar 2019 when Metro Exodus, our strongest release ever, was released

Digital sales in “Games” ATH at 78% in the quarter

Key sales drivers in Q4 FY19/20:



Strongest pipeline to date

118 pipeline projects*

~3,000 game developers*

SEK 1.5b invested in game dev FY19/20**

FY20/21:

Tot. development cost of released games to more than double from SEK 589m in FY19/20 to SEK 1.2–1.4b

FY21/22:

First AAA releases since Metro Exodus – from this year on we expect to have AAA releases every year

* Saber included | ** Saber excluded

Continued organic and acquisitive expansion

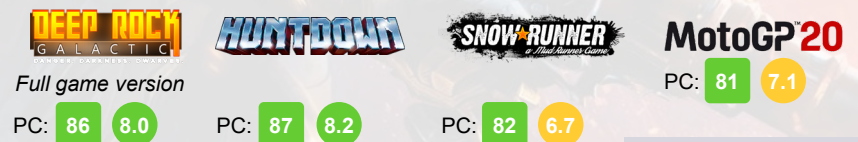
In the quarter

After the quarter



SEK 1.6b raised for further M&A

Successful releases after the quarter



+ WWZ GotY Edition

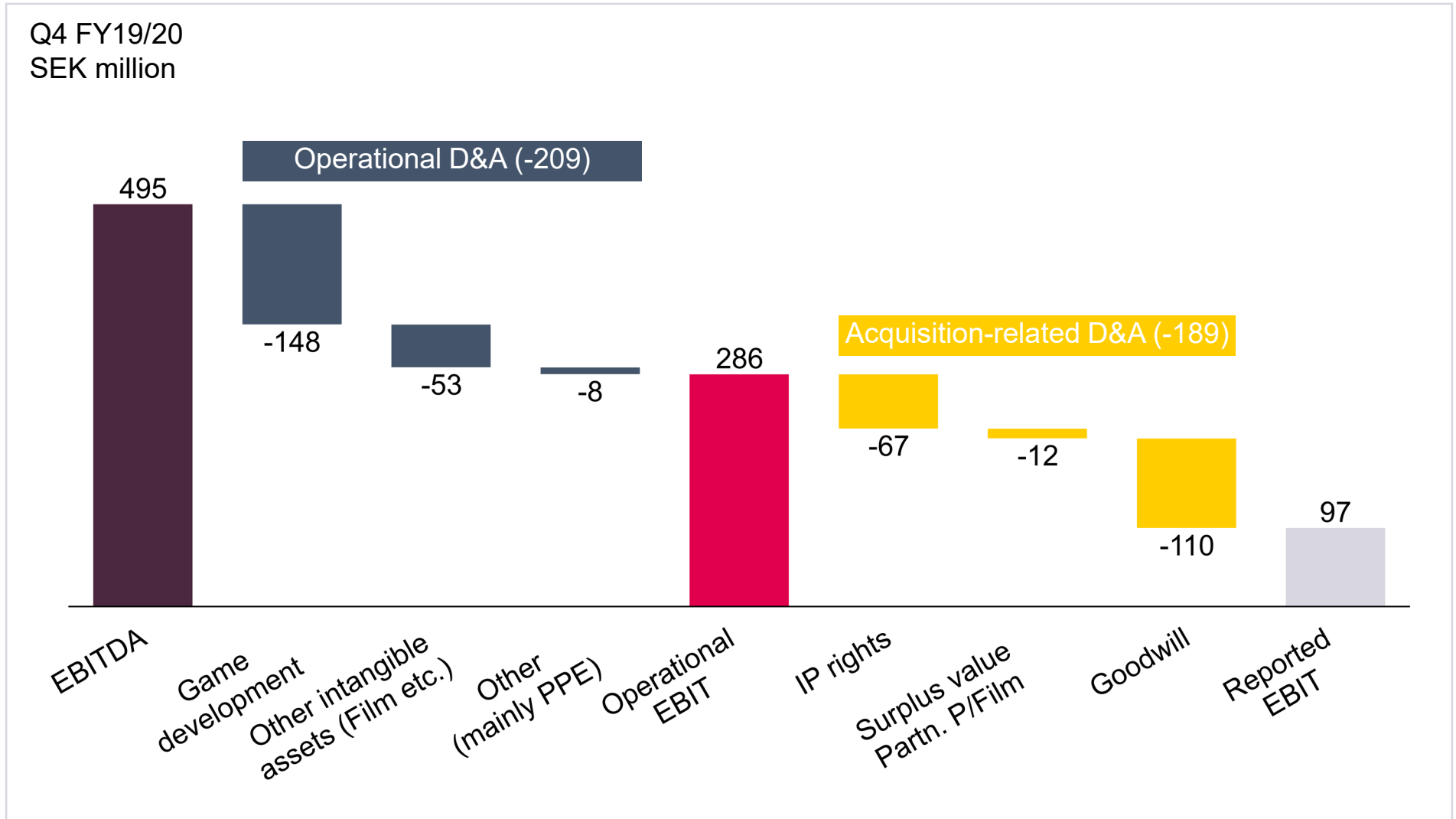
KEY P&L METRICS

SEK million	Quarter			Trailing twelve months		
	Jan–Mar 2020	Jan–Mar 2019	YoY Change	Apr 2019–Mar 2020	Apr 2018–Mar 2019	YoY Change
Net sales	1,339	1,631	-18%	5,249	5,121	+3%
EBITDA	495	619	-20%	1,821	1,367	+33%
Operational EBIT	286	396	-28%	1,033	766	+35%
Operational EBIT margin	21%	24%		20%	15%	
Adj. EPS (SEK)	0.97	1.00	-3%	2.81	2.12	+33%

Quarterly YoY figures show a decrease due to a very tough comparable in Metro Exodus, our most successful release ever, released in Feb 2019. TTM YoY earnings are up significantly due to strong performance in the games business area.

DEPRECIATION AND AMORTIZATION

Q4 FY19/20
SEK million



KEY CASH FLOW METRICS

SEK m	Jan–Mar 2020	Jan–Mar 2019
Cash flow from operating activities before changes in working capital	384.6	527.1
Change in working capital	381.1	250.1
Cash flow from operating activities	765.7	777.2
Cashflow from investing activities		
Investment in acquired companies	-14.6	-288.3
Investment in intangible assets	-464.4	-326.0
Investment in tangible assets	-14.4	-6.6
Investment in financial assets	-11.2	0.0
Cash flow from financing activities	-558.6	1,849.2
Cash flow for the period	-297.5	2,005.5
Cash and cash equivalents at beginning of period	2,784.7	921.7
Translation difference in cash and cash equivalents	23.1	1.9
Cash and cash equivalents at end of period	2,510.3	2,929.1

-26% YoY growth in the quarter due to tough comparable in Metro Exodus

Significantly positive contribution from reduced working capital in the quarter due to seasonal differences.

No forfeiting in Q4 FY19/20, SEK 56m decrease in forfeiting in the same quarter last year*

Growth investments (M&A growth)

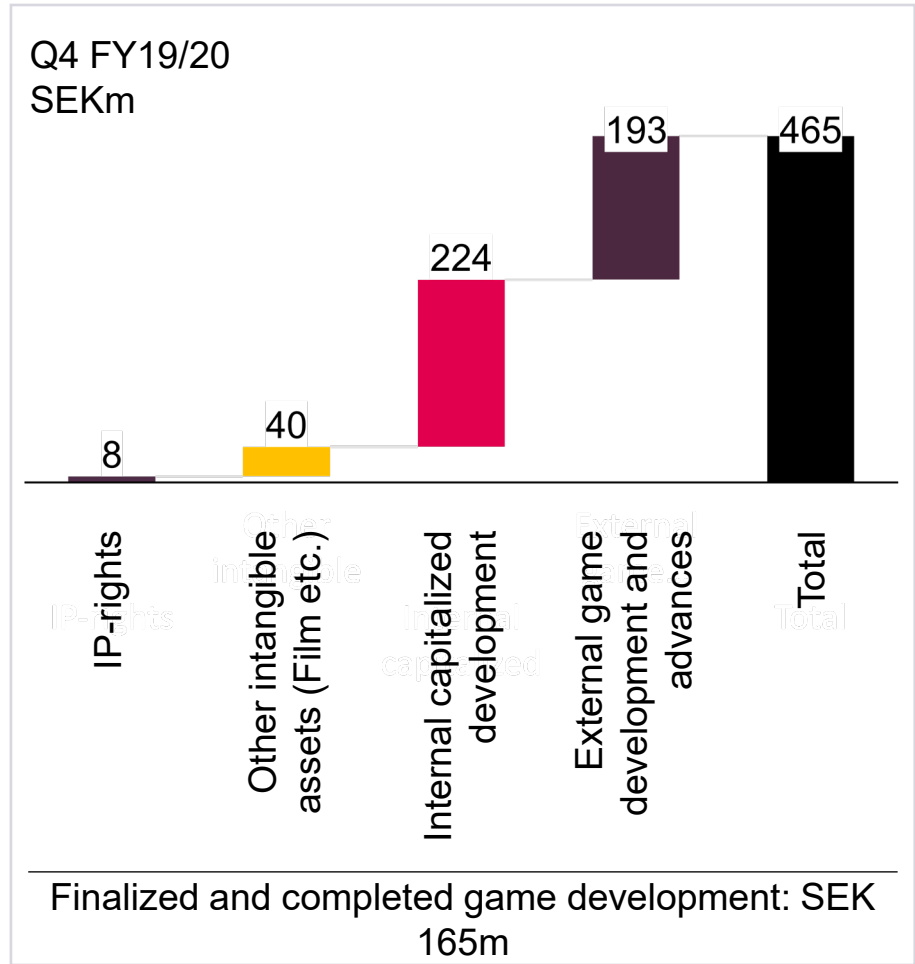
A significant portion is organic growth investments.

Decreased utilization of credit facility in Koch Media

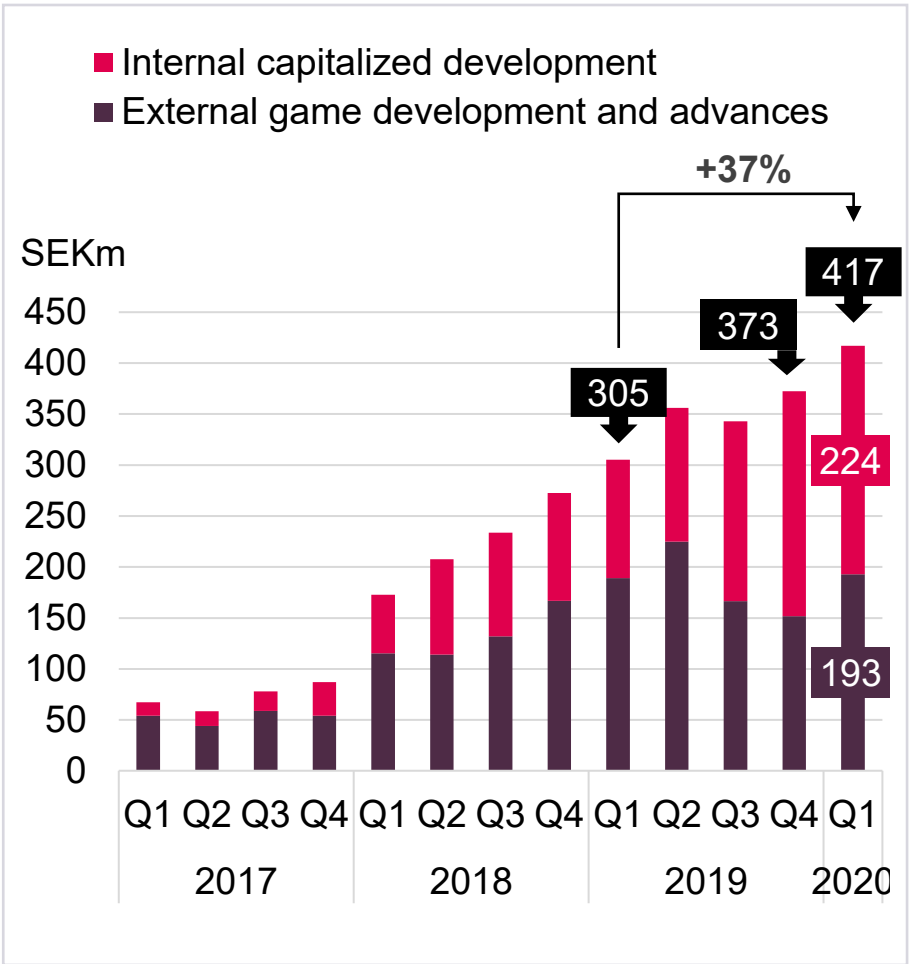
Cash taxes in the quarter was SEK 30m and SEK 152m in FY19/20.

INVESTMENTS

Investments in intangible assets the quarter



Investments in game development by quarter



BALANCE SHEET

SEK million	31 Mar 2020	31 Dec 2019
Intangible assets	5,871	5,633
Property, plant and equipment	185	169
Financial assets	251	201
Inventories	353	387
Current receivables	1,468	1,570
Cash and bank balance	2,510	2,785
Total assets	10,637	10,745
Share capital	1	1
Other capital reserves	5,301	5,300
Recognized profit incl. the period	1,094	876
Provisions	1,241	1,306
Non-current liabilities	222	209
Current liabilities	2,779	3,053
Total equity and liabilities	10,637	10,745
Interest-bearing receivables	2,510	2,785
Interest-bearing liabilities	1,491	1,947
Net cash	1,019	838

Breakdown of intangible assets 31 Mar 2020

Finished completed games	439	7%
Ongoing game development projects	2,118	36%
Other intangible assets (film etc.)	250	4%
Operational intangible assets	2,806	48%
IP-rights	1,480	25%
Surplus value Partner Publishing/Film	173	3%
Goodwill	1,412	24%
Acquisition related intangible assets	3,065	52%
TOTAL	5,871	100%

Preliminary surplus value and related amortizations:
Work is in progress with respect to the preliminary purchase price analysis related to the acquisition of Saber which will be presented in the quarterly report on 13 August 2020. Initial estimates indicate a surplus value between SEK 6,000m and SEK 6,250m, which will result in quarterly amortizations of surplus values between SEK 300m and SEK 313m starting from 1 April 2020.

UPDATE ON CREDIT FACILITIES, AVAILABLE LIQUIDITY AND FINANCIAL STRATEGY

Credit facilities and available liquidity

- After the end of the quarter the Group's unutilized credit facilities were extended with EUR 27m.
- The Group's credit facilities are mainly long-term with an interest rate between 0.5% and 1.0% at utilization. The average interest expenses for utilized credit facilities during the fourth quarter was 0.8%. The credit facilities are mainly without pledged collateral.
- At the reporting date, the Group's credit facilities amount to SEK 3.5b, split between ten banks in different countries, predominantly denominated in EUR. As part of the Group's finance strategy, risks are diversified between countries, currencies and counterparts, which is in line with each operative group having a strong local autonomy in its operations.
- At the reporting date the Group's total cash and unutilized available credit facilities amounted to approximately SEK5b.

Update on financial strategy

- The Group has prudently, but intentionally, decided not to leverage operations by adding debt and financial risk. As the pipeline of games under development is released over the coming years, a notable improvement of free cash flow is anticipated.
- The first priority for allocation of operational cash flow from released games is still to reinvest as much as possible into value enhancing organic growth opportunities, e.g. new game projects. The second priority is to use free cash flow to finance smaller, bolt-on acquisitions in the underlying businesses.
- This means that in general terms, game development costs will be self-funded from operating cash flow. The Group's leverage capacity will mainly be allocated to larger acquisitions to handle big swings in net working capital. Available credit facilities at favorable terms provide substantial financing for M&A purposes going forward.
- The ambition is still to keep a net cash position in Group to maintain maximum strategic flexibility. However, for the right inorganic growth opportunity financial leverage could temporarily exceed 1,0x operational EBIT to Net debt, where operational EBIT is measured as management expectations for the coming twelve months. In such circumstances, leverage should at least return to <1,0x net debt to operational EBIT over the medium-term, either by retaining cash from operations or by raising equity.

A dynamic scene from a MotoGP race, showing several motorcycles leaning into a turn on a track. The lead motorcycle is teal and black, with the number 23 and various sponsor logos like PETRONAS, Yamaha, and Barracuda. Other riders in red and blue are visible in the background, slightly out of focus. A semi-transparent dark purple banner is overlaid across the middle of the image, containing the text '2. Business areas'.

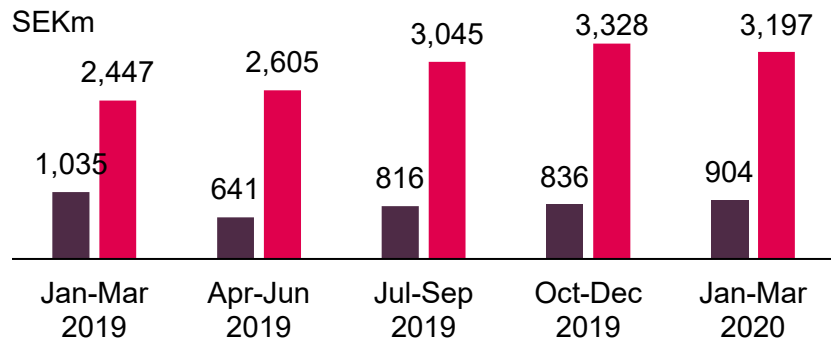
2. Business areas

MotoGP™ 20

GAMES – NET SALES BREAKDOWNS

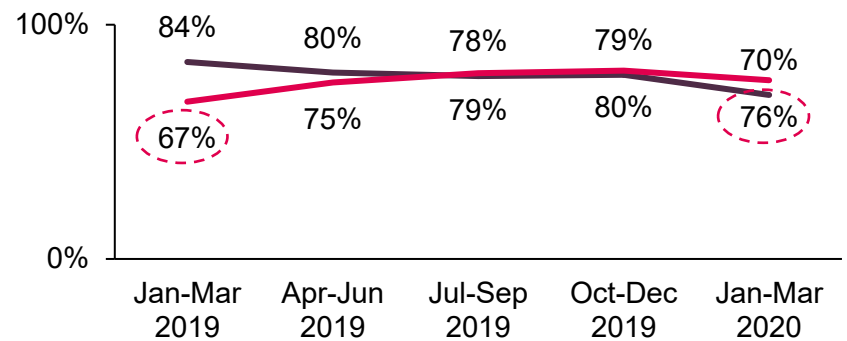
■ = Quarterly
■ = Trailing twelve months

Net sales

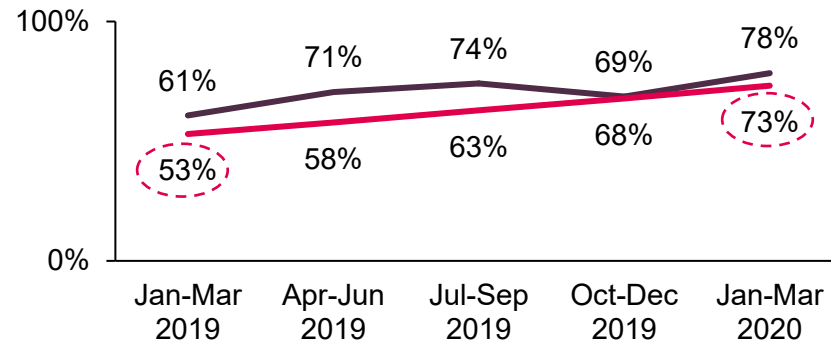


- 31% TTM growth in the quarter YoY
- 13% quarterly decline in the quarter YoY due to tough comparable in Metro Exodus released on Feb 2019

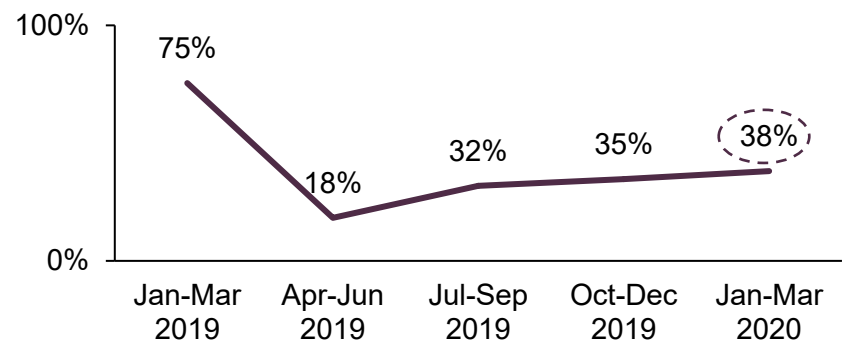
Owned titles (rest is publishing titles)



Digital (rest is physical)



New releases (rest is back catalog)





SEK million	FY18	FY19/20			
	/19	Q5	Q1	Q2	Q3
Net sales – Quarterly	794	373	442	467	515
Net sales – TTM	1,571	1,606	1,796	2,076	1,796

- 35% YoY decline in the quarter due to tough comparable with Metro Exodus released in Feb 2019. 14% growth TTM.
- Expansion of the Metro franchise was the key sales driver
- Re-releases of Saints Row the third and Saints Row IV on Switch also contributed notably
- Strong back catalog led by Kingdom Come: Deliverance

Notable releases in the quarter

 THE OFFICIAL VIDEOGAME IP: Licensed	 DLC IP: Licensed
8 releases in total	

Selected upcoming releases

 PC PS4 XB1 IP: Own	WASTELAND 3 PC PS4 XB1 IP: 3rd party	IRON HARVEST 1920+ PC PS4 XB1 IP: 3rd party
 PC PS4 XB1 IP: Own	 PC PS4 XB1 IP: Own	 PC Console IP: Licensed
 WARHORSE	 volition	 4A GAMES

✓ = Released after Q4 FY19/20



SEK million	FY18 /19	FY19/20			
	Q5	Q1	Q2	Q3	Q4
Net sales – Quarterly	143	185	330	333	307
Net sales – TTM	764	804	1,009	991	1,154

- 115% quarterly YoY growth in the quarter
- Key release was Darksiders Genesis for console, which performed according to management expectations.
- Back catalogue:
 - Wreckfest continued to perform well on all platforms
 - Gunfire original IP Remnant continued to perform well, generating high-margin royalty income in the quarter.
- Two new development studios set up:
 - Gothic-remake studio in Barcelona
 - Nine Rock Games in Bratislava, who swiftly have built up an experienced team of 40+ people, working on an unannounced new IP

Key release in the quarter



76

PS4 XB1 Switch
 IP: Own

Average on console

13 releases in total

Selected upcoming releases

BIOMUTANT.

PC PS4 XB1
 IP: Own



PC PS4 XB1
 IP: Own



PC PS4 XB1
 IP: Own



PC PS4 XB1 Switch
 IP: Licensed




SEK million	FY18 /19	FY19/20			
	Q5	Q1	Q2	Q3	Q4
Net sales – Quarterly	98	83	45	36	82
Net sales – TTM			239	261	246

Sales mainly driven by



Selected upcoming releases



SONGS OF CONQUEST

PC
IP: Own

MIDNIGHT GHOST HUNT

PC
IP: 3rd party

Releases after the quarter

DEEP ROCK GALACTIC

Full game release

86

8.0

PC

HUNTDOWN

87

8.2

PC

- One of the strongest quarters ever: Satisfactory and Deep Rock Galactic key revenue generators with Goat Simulator also performing well. All these three titles exceeded management’s expectations during the quarter.
- Satisfactory update III released on February 11: Well received by its audience with notable influencer attention.
- Deep Rock Galactic showed solid performance with a combination of new content and announcement of the upcoming update.
- After the quarter, both HuntDown and full version of Deep Rock Galactic have been released to great acclaim by critics and fans.

AMPLIFIER GAME INVEST



Investment strategy

1. Establish new studios together with industry veterans and highly experienced splinter groups (e.g. C77, River End)
2. Acquisitions of creative and proven indie studios seeking to advance to "the next level" (e.g. Tarsier)
3. Majority investments (e.g. Misc Games)

Q4 FY19/20



Organically setting up new, wholly owned, development studio in Gothenburg, comprising a hand-picked team of highly experienced game developers to be lead by Anders Hejdenberg and Karl Broström.

Increasing stake in Misc Games from 45% to 55%.

After quarter

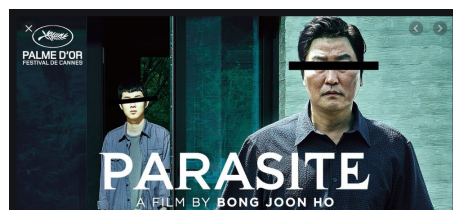


Acquired 100% of innovative Italian studio DESTINYbit with upcoming game Dice Legacy.

PARTNER PUBLISHING/FILM

SEK million	FY18 /19	FY19/20			
	Q5	Q1	Q2	Q3	Q4
Net sales – Quarterly	596	501	444	673	436
Net sales – TTM	2,674	2,821	2,368	2,213	2,053

- Negative 27% quarterly YoY growth in the quarter, mainly due to Covid-19 effects
- Final Fantasy VII from Square Enix shipped partly and was the quarter's main revenue driver
- Downturn of revenue from physical retailers partly shifted to e-tailers such as Amazon.
- All our logistics hubs across Europe remained operational
- Film had a solid quarter in line with management expectations, driven by continued performance of Academy award-winning Parasite at cinemas and physical retail.
- No major releases expected for Q1 FY20/21



Notable releases in the quarter



by Bethesda



by Atlus



by Square Enix



by Atlus

A promotional graphic for Satisfactory Update III. The background is a stylized, low-poly landscape with a large, grey, rocky mountain on the right and a smaller, green, hilly area at the bottom. In the center, a tall, vertical, metallic structure with two large, orange and grey mechanical arms is visible. A small, orange and black flying vehicle is in the upper left, leaving a white trail. The sky is a light blue with some white clouds. The text 'SATISFACTORY' is in a blue, blocky font at the top. 'UPDATE III' is in a large, bold, yellow font with a black outline. Below it, 'ON EXPERIMENTAL' is in a smaller, white font on a red background, and 'OUT NOW' is in a white font on a black background.

SATISFACTORY
UPDATE III
ON EXPERIMENTAL
OUT NOW

3. M&A and financing

JOINING FORCES WITH SABER INTERACTIVE

Develops top-quality content at a fraction of the cost, and offers a unique growth platform

Saber at a glance

- US based developer
- Founded in 2001 by Matthew Karch (CEO) and Andrey Iones (COO)
- Creates top-quality, multi-million sellers based on new or licensed IP, with highly cost-efficient development
- Technically one of the strongest game development companies in the world



20YRS
EXPERIENCE



5
STUDIOS



c. 600
DEVELOPERS¹



30M+
GAMES SOLD

Track record of owned or licensed IPs

WORLD WAR Z

MUD-RUNNER

NBA 2K PLAYGROUNDS 2

SNOW-RUNNER
a Mud-Runner Game

Financial performance

Preliminary figures



\$105m
REVENUE 2019



\$62m
EBIT 2019

Strong profitability with high cash conversion

Acquisition price

- \$150m upfront payment of which \$50m cash and \$50m in Embracer shares
- \$375m earn-out payment over six years, of which \$100m in cash and \$275m in Embracer shares

Strong and well-rounded pipeline

15 games currently under development including simulation, shooter and sports games

SNOW-RUNNER
a Mud-Runner Game
Released after the quarter

BATTLE GROUNDS

TOP SECRET

Madrid

TOP SECRET

S:t Petersburg

EMPOWERMENT THROUGH DECENTRALIZATION

A different type of gaming company – founded by entrepreneurs, run by entrepreneurs

We embrace a decentralization philosophy to empowering individuality, creativity and speed...

...while offering benefits of a large structure such as access to growth capital, knowledge sharing and (never forced) synergies

Attractive model for long-term creatives and entrepreneurs, will help bring more publishers and studios onboard

Each group and studio has its own unique culture, DNA and strategy

THQ NORDIC

Strategy of acquiring established, beloved IPs and enhancing their value through Asset Care and sequels



Multiple world-class AA–AAA IPs and studios
World-class marketing and distribution power



World-leading indie
Highly creative
Lean production



Multi-million sellers
Top quality while highly cost effective
World-leading tech



Amplifying the best creative talent in the industry



31 internal and 61 external studios*

* Figures are Embracer figures per 31 Mars 2020 plus Saber Interactive figures per Dec 2019

M&A OUTLOOK

A medieval knight in chainmail holding a sword, with a golden archway in the background.

- M&A prospects continue to look favorable
- Ongoing scouting and research activity at HQ in Sweden, Saber Interactive, THQ Nordic Vienna, Koch Media Deep Silver, Coffee Stain and Amplifier
- 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


DIRECTED NEW SHARE ISSUE

To continue our buy-to-build M&A journey

Comments

- Directed new share issue completed 8 April 2020
- SEK 1.6b raised before transaction costs
- Use of proceeds: Continued M&A following the successful acquisition of Saber Interactive
- More than one hundred Swedish and international institutional investors
- Subscription price: SEK 89 per share
- Dilution: 5% of capital and 2.7% of votes
- Bookrunners: Carnegie and Berenberg

Selected new and existing investors

Swedbank 

AP2



Olsson Family
and Foundation

 FÖRSTA
AP-FONDEN



DIDNER & GERGE

 Länsförsäkringar

skandia 



A 3D rendered image of SpongeBob SquarePants. He is yellow, square-shaped, and has large blue eyes. He is wearing a white shirt, a red tie, and brown shorts. He is giving a thumbs-up gesture with his right hand. He is standing in front of his pineapple house, which has a blue door and a blue porthole. The background is a bright blue underwater scene with various sea creatures and coral.

4. Sustainability quarterly update

ESG Update:

- Ambassador program further developed – with focus on engaging and supporting all subsidiaries.
- An external Whistleblowing service was adopted to ensure legality in accordance with our Compliance Code, while safeguarding employees and other stakeholders.
- Embracer became a partner to the organization Safe In Our World who provide tools for dealing with mental health issues and raise awareness in the industry.
- Progress is being made in the development of the sustainability report, included in this years Annual Report.



OUT NOW



OUT NOW

Q&A



OUT NOW

OUT NOW



MotoGP 20

EMBRACER⁺
GROUP