

EMBRACER⁺ GROUP

Q1 FY20/21
Interim Report
August 13, 2020



1. Operational and financial performance

HUNT DOWN

OPERATIONAL AND FINANCIAL HIGHLIGHTS

Financial and operational metrics

Q1 FY20/21:

Net sales
SEK 2,069m

YoY growth
+81%

Net sales – Games
SEK 1,622m

YoY growth
+153%

Operational EBIT
SEK 712m

YoY growth
+249%

Best quarter ever in terms of group net sales, group operating EBIT and net sales in the Games business area. Record numbers mainly driven by:

- Saber acquisition
- Multiple successful releases
- Strong back catalog
- “Lockdown gaming” during Covid-19 pandemic

Favourable M&A prospects

SEK 1.6bn
equity capital
raised in
April 2020

SEK 5.1bn
in cash and
unutilized credit
facilities at 30
June 2020

More discussions
than ever with
companies suitable
for joining the
Embracer family

Strongest pipeline to date

125
Pipeline projects

~3,200
Game developers
(internal + external)

SEK 457m
Invested in game
dev Q1 FY20/21

SEK 1.2–1.4b of released games in FY20/21

Management estimates total development cost of released games to more than double in FY20/21 to SEK 1.2–1.4b, compared to FY19/20.

Multiple successful releases – Quality first strategy is paying off



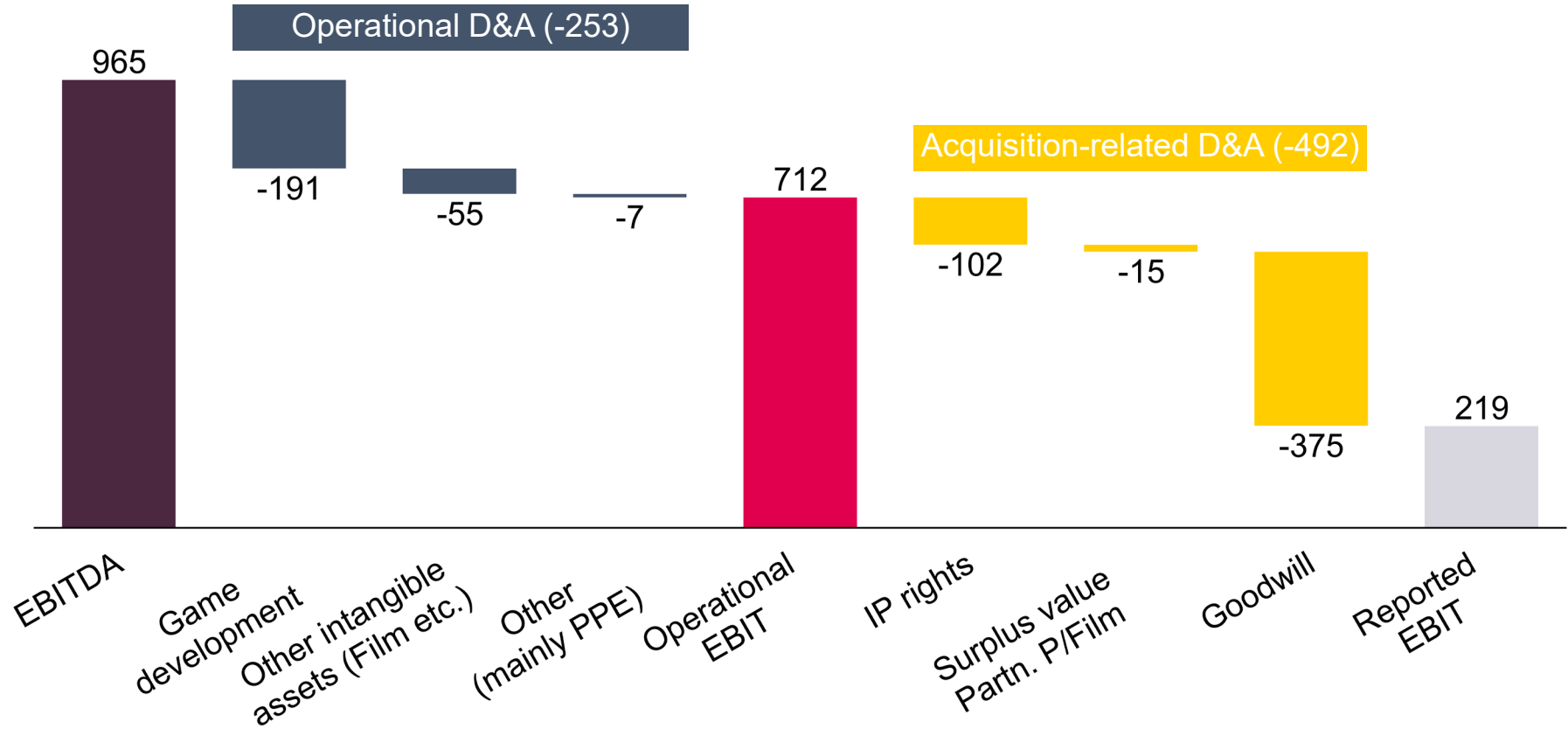
Ratings = median across PC, PS4, XB1 and Switch

KEY P&L METRICS

SEK million	Quarter			Trailing twelve months		
	Apr–Jun 2020	Apr–Jun 2019	YoY Change	Jul 2019–Jun 2020	Jul 2018–Jun 2019	YoY Change
Net sales	2,069	1,142	81%	6,176	5,426	14%
EBITDA	965	390	148%	2,397	1,549	55%
Operational EBIT	712	204	249%	1,541	900	71%
Operational EBIT margin	34%	18%		25%	17%	
Adj. EPS (SEK)	1.51	0.51	196%			

DEPRECIATION AND AMORTIZATION

Q1 FY20/21
SEK million



KEY CASH FLOW METRICS

SEK million	Apr-Jun 2020	Apr-Jun 2019
Cash flow from operating activities before changes in working capital	870	306
Change in working capital	-138	135
Cash flow from operating activities	732	441
Net investment in acquired companies	-1,104	-0.2
Net investment in intangible assets	-495	-381
Net investment in tangible assets	-16	-11
Net investment in financial assets	-18	-2
Cash flow from investing activities	-1,632	-394
Cash flow from financing activities	1,940	183
CASH FLOW FOR THE PERIOD	1,041	230
Translation difference in cash and cash equivalents	-26	-0.4

184% YoY growth in the quarter mainly due to the increase in earnings

Working capital increased in the quarter mainly due to strong digital sales and the timing difference between when products are sold by digital distributors and cash is collected

No forfeiting in Q1 FY20/21, SEK 51m decrease in forfeiting in the same quarter last year

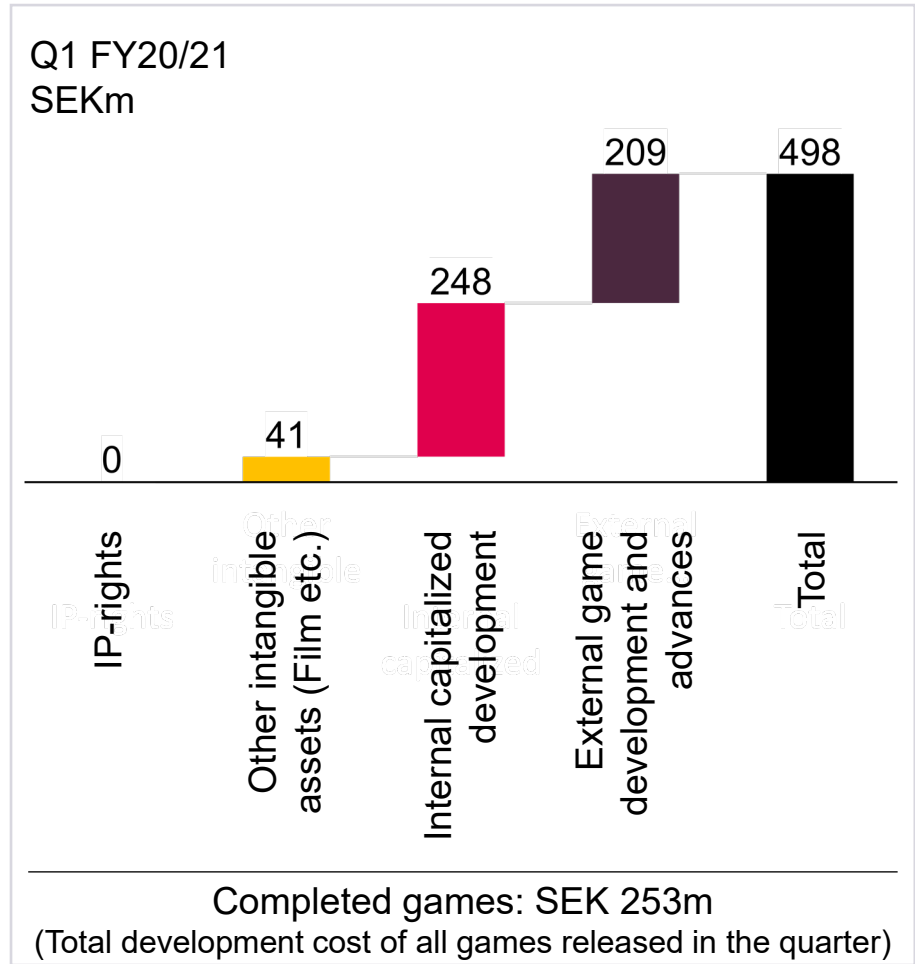
Inorganic growth investments (M&A), mainly relating to the Saber acquisition

Investment in game development with significant portion being organic growth investments

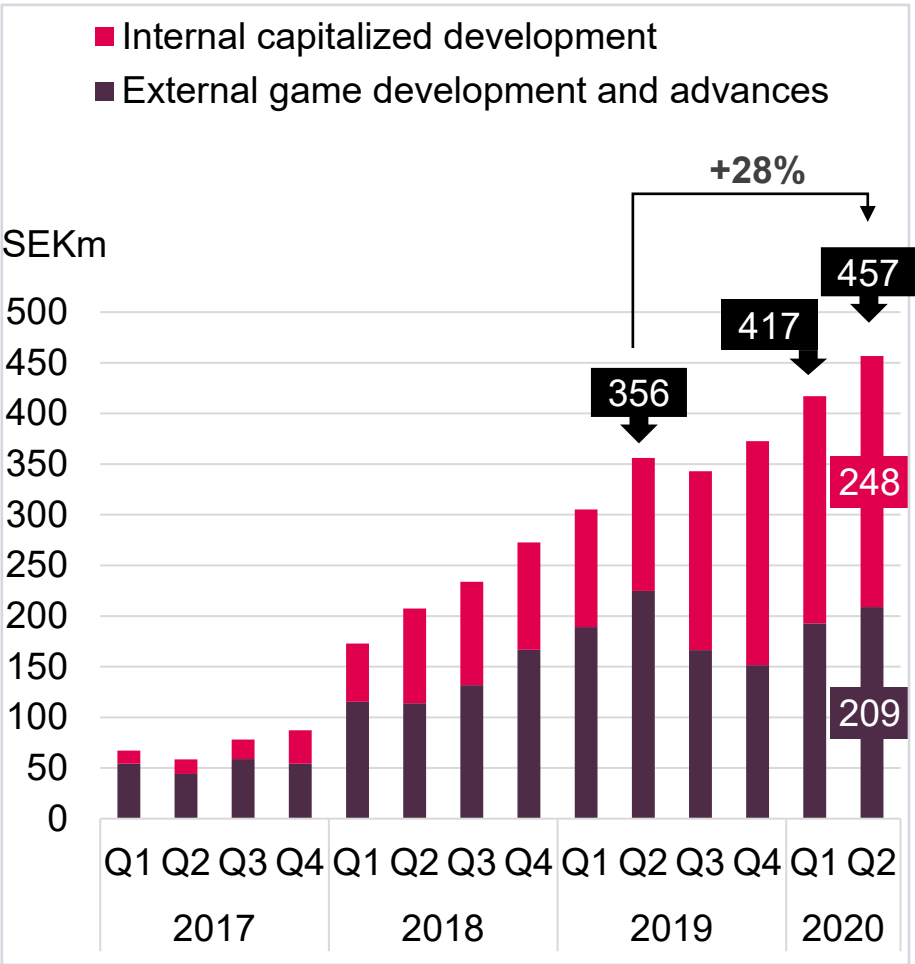
Mainly relating to the equity issue of SEK 1.6bn in April 2020

INVESTMENTS

Investments in intangible assets the quarter



Investments in game development by quarter



BALANCE SHEET

SEK million	30 Jun 2020	31 Dec 2019
Intangible assets	10,971	5,633
Property, plant and equipment	185	169
Financial assets	229	201
Inventories	429	387
Current receivables	1,885	1,570
Cash and bank balance	3,525	2,785
Total assets	17,224	10,745
Share capital	1	1
Other capital reserves	10,842	5,300
Recognized profit incl. the period	680	876
Provisions	1,176	1,306
Non-current liabilities	1,180	209
Current liabilities	3,345	3,053
Total equity and liabilities	17,224	10,745
Interest-bearing receivables	3,525	2,785
Interest-bearing liabilities	2,711	1,947
Net cash	814	838

Breakdown of intangible assets 30 June 2020

Finished completed games	512	5%
Ongoing game development projects	2,274	21%
Other intangible assets (film etc.)	193	2%
Operational intangible assets	2,979	27%
IP-rights	1,338	12%
Surplus value Partner Publishing/Film	152	1%
Goodwill	6,503	59%
Acquisition related intangible assets	7,993	73%
TOTAL	10,971	100%

- SEK 5.1bn in cash and unutilized credit facilities at 30 June 2020



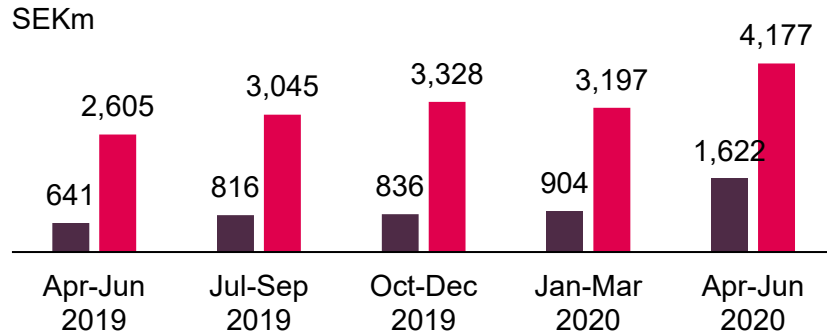
★★★★★ 8/10 PC Invasion	★★★★★ 8/10 Gameblog	★★★★★ 8/10 GameReactor	★★★★★ 8,3/10 Multiplayer.it	★★★★★ 8,5/10 GameSource
★★★★★ 8/10 ScreenRant	★★★★★ 9/10 Windows Central	★★★★★ 8/10 Jeuxvideo.com	★★★★★ 8,3/10 PCGamer	
★★★★★ 8,3/10 Gamers Palace	★★★★★ 9/10 Shacknews	SNOW RUNNER		
★★★★★ 9,5/10 PlayGround	★★★★★ 9/10 The Sixth Axis	★★★★★ 8/10 IGN	★★★★★ 9/10 PCGamesN	★★★★★ 9/10 FingerGuns
★★★★★ 10/10 ThumbCulture	★★★★★ 9/10 GamePitt	★★★★★ 8/10 HardcoreGamer	★★★★★ 8,5/10 PlayStation Universe	★★★★★ 8/10 GamingTrend

2. Business areas

GAMES – NET SALES BREAKDOWNS

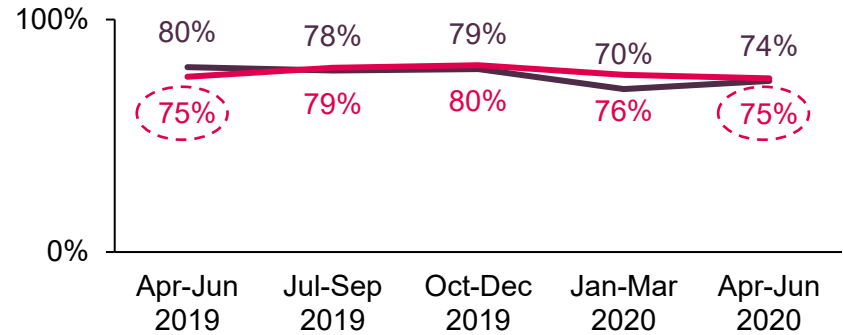
■ = Quarterly
 ■ = Trailing twelve months

Net sales

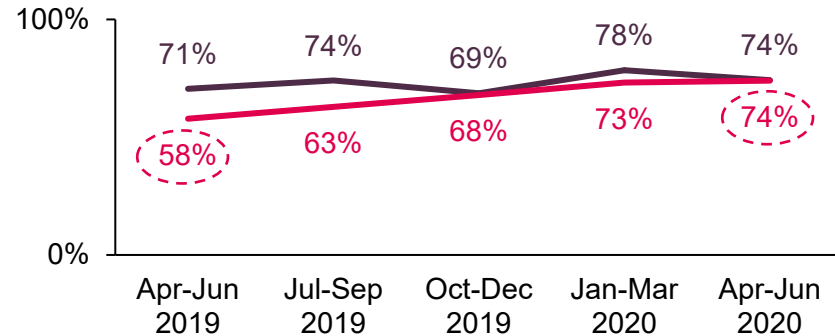


- 153% quarterly growth in the quarter YoY
- 60% TTM growth in the quarter YoY

Owned titles (rest is publishing titles)

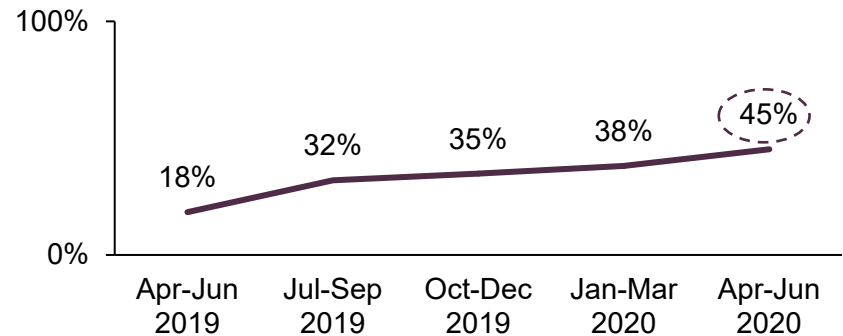


Digital (rest is physical)



- Digital share of sales is increasing, yet physical experienced all time high sales in the quarter

New releases (rest is back catalog)





SEK million	FY19/20				FY20 /21
	Q1	Q2	Q3	Q4	Q1
Net sales – Quarterly					349
Net sales – TTM					n/a

Upcoming releases

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




Madrid




S:t Petersburg

Releases in the quarter



1m+ copies

PC PS4 XB1 Switch | IP: Licensed



- Net sales of SEK 349m in a solid quarter with net sales in line with management expectations. SEK 100m relates to work-for-hire projects and SEK 249m to royalties received for released products.
- *SnowRunner* was a notable release in the quarter and the major revenue driver, selling over 1 million copies.
- Great continued performance of *World War Z* and stable revenues from external business partners.
- *WWE 2K Battlegrounds* (published by 2K) will be a notable release next quarter (FQ2) – solid previews so far.
- Saber integration has run smoothly despite Covid-19 challenges.
- Saber's entry into the family has exceeded our expectations with a number of synergetic cooperation opportunities within the Group already identified.



SEK million	FY19/20				FY20
	Q1	Q2	Q3	Q4	/21
Net sales – Quarterly	373	442	467	515	613
Net sales – TTM	1,606	1,796	2,076	1,796	2,036

- 64% quarterly YoY growth in the quarter.
- Covid-19 pandemic boosted digital sales.
- Notable releases in the quarter were *Saints Row the Third Remastered* which performed in line with mgmt expectations and *MotoGP 20* which exceeded management expectations.
- Back catalog performance exceeded management expectations mainly driven by digital, led by the *Metro* IP.

Notable releases in the quarter

IP: Own	IP: License	IP: External
3 releases in total		

Selected upcoming releases

 PS4 XB1 NS IP: 3rd party	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	WINDBOUND PC PS4 XB1 NS IP: Own

- Notable releases in FQ2 will be *Wasteland 3*, *Windbound*, *Iron Harvest*, and *Pathfinder: Kingmaker* for console



SEK million	FY19/20				FY20 /21
	Q1	Q2	Q3	Q4	Q1
Net sales – Quarterly	185	330	333	307	488
Net sales – TTM	804	1,009	991	1,154	1,457

- 164% quarterly YoY growth in the quarter.
- THQ Nordic had its best quarter to date, mainly driven by release of *Spongebob: Battle for Bikini Bottom Rehydrated* exceeding management expectations.
- Release of *Desperados 3* received exciting reviews but commercial performance is expected to be more long-term rather than short term due to the game’s more narrow genre.
- Back catalog had a great performance driven by *Wreckfest*, *Darksiders Genesis*, *Monster Jam* and *MX vs ATV*.
- *Destroy All Humans!* was released after the quarter and has exceeded management expectations – both in terms of sell through and community feedback.

Key release in the quarter



PC PS4 XB1 Switch
 IP: Licensed

69 8.9 95% positive on Steam



PC PS4 XB1
 IP: Own

85 7.7 96%

7 releases in total

Selected upcoming releases

BIOMUTANT.

PC PS4 XB1
 IP: Own

Released after the quarter



PC PS4 XB1
 IP: Own

70 8.5 95%

KINGDOMS OF AMALUR
 RE-RECKONING

PC PS4 XB1
 IP: Own






Switch
 IP: Own

Note: Ratings = median across PC, PS4, XB1 and Switch




SEK million	FY19/20				FY20/21
	Q1	Q2	Q3	Q4	Q1
Net sales – Quarterly	83	45	36	82	172
Net sales – TTM		239	261	246	335


Selected upcoming releases

	 PC IP: Own	 PC IP: 3rd party
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Three releases in the quarter

Full game release


84 8.0 96%


86 7.7

Steam release – Among tops sellers on Steam since launch in June 2020


 96% positive on Steam

Note: Ratings = median across PC, PS4, XB1 and Switch

- 108% quarterly YoY growth in the quarter.
- Coffee Stain had its best quarter ever, driven by releases *Satisfactory* on Steam and full game release of *Deep Rock Galactic* with both titles exceeding management expectations.
- *HuntDown*, developed by Easy Trigger in Trollhättan, was another release. Reviews came in great while the commercial performance was more limited. However, we are hopeful this will be a long-term seller.
- *Goat Simulator* is a solid contributor to the back catalog and continued to perform well on all its seven published platforms.

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)

In quarter



Launched Startup
Subsidiary Offer

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

Offers seasoned top talented game developers to join Amplifier to develop their passion games, with full creative integrity, long-term financial incentives and commercial support from industry veterans

After quarter



Increased stake in Stockholm-based studio Kavalri from 20% ownership to 41%

PARTNER PUBLISHING/FILM

SEK million	FY19/20				FY20
	Q1	Q2	Q3	Q4	/21
Net sales – Quarterly	501	444	673	436	447
Net sales – TTM	2,821	2,368	2,213	2,053	1,999

- Negative 11% quarterly YoY growth in the quarter, mainly due to absence of any larger releases.
- Main revenue driver in the back catalog was *Final Fantasy VII*.
- Koch Films had a solid quarter meeting management expectations:
 - Revenue more than doubled YoY, mainly driven by strong digital performance and the KSM acquisition.
 - Academy award-winning movie, *Parasite*, continues to be a major revenue contributor.
- Geographic expansion: US office (formerly Deep Silver Inc.) was re-branded and is now operating as a full Koch Media publishing office covering both the North and South American markets. Furthermore, later this year Koch Media will be entering the Asian markets with dedicated offices.

Main back catalog drivers



(Koch Films)



by Square Enix

Upcoming quarter (FQ2)



- Successful release of Codemasters' *F1 2020* post quarter
- Square Enix long-awaited action-game *Marvel's Avengers* will launch in mid-September on PC, PS4 and Xbox One as another major release.



3. Deep dive

SABER INTERACTIVE

PPA Saber Interactive	SEK m
On-going/completed game development	78
Other intangible assets	13
Other non-current assets	13
Current receivables excluding cash and bank	193
Cash and bank	5
Current liabilities	-77
Total net assets acquired excluding goodwill	226
Goodwill	5,853
Total net assets acquired	6,080
Less	
Cash and bank	-5
Ordinary shares issued	-3,930
Loan payable to sellers	-1,046
Net cash outflow on acquisition of business	1,098

Non-operational amortizations of approximately SEK 293 million on a quarterly basis for the coming five years.

- The main difference between K3 and previous GAAP applied by Saber is related to revenue recognition and project accounting. No material effect (SEK 5 m) at the operational EBIT level compared to previous GAAP in the quarter.
- Saber contributed with net sales of SEK 349m of which SEK 100m relates to Work For Hire projects and SEK 249m relates to direct sales and royalties for released products. SEK 18m in operational amortizations.
- Work For Hire reported as publishing titles, digital/non-physical-, back-catalog-sales within business area Games – Saber Interactive.
- Work For Hire agreements with royalties to be received post release, royalty revenue is recognized post release in-line with the sales of the underlying game and reported as publishing titles, digital/non-physical-, new release- or back catalog- sales within business area Games – Saber Interactive.

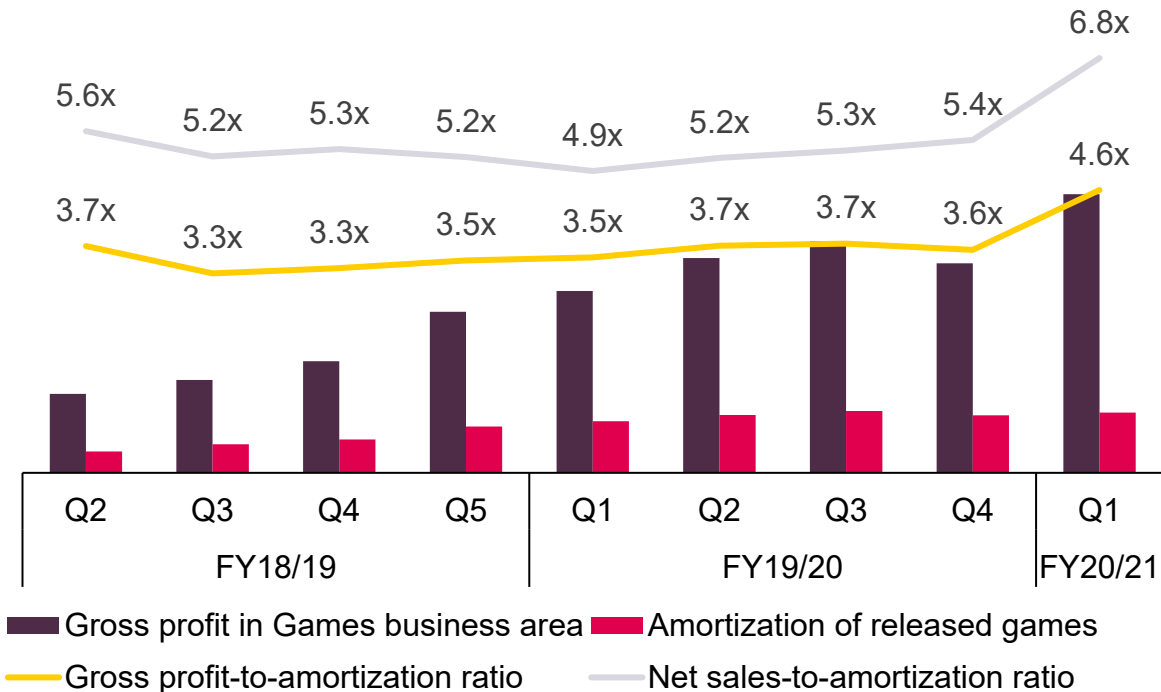
“GROSS PROFIT RETURN” ON INVESTMENT

Steep increase in the quarter, even on TTM basis

“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.

NEW KPI – ORGANIC GROWTH BUSINESS AREA GAMES

	20/21	19/20	18/19
	Q1	FY	FY
Organic growth, CCY	71%	9%	23%
Organic growth	74%	15%	31%
Proforma growth, CCY	25%	26%	16%
Proforma growth	27%	33%	24%

FY 18/19 included the release of Metro Exodus.
Growth in FY 18/19 mainly driven by Darksiders 3.
Tough comps for Saber in Q1 20/21 due to WWZ release a year ago.
19/20 growth driven by release of WWZ by Saber.

- Organic Growth = Growth between periods where net sales from companies acquired in the last five quarters have been excluded.
- Organic growth, CCY = Organic growth adjusted for differences in exchange rate.
- Organic growth will be part of the quarterly KPI's as from this report.
- Proforma Growth = Growth between periods where net sales is adjusted to include historical data from acquired companies.
- Proforma Growth will not be part of the quarterly KPI's since there is inherently more difficulties associated with the collection of historical data (e.g. GAAP).

EARN OUTS - OVERVIEW

EARN-OUT PROVISIONS

As of 30 June, 2020 the Group has provisions of 385.3 MSEK for earnouts with expected settlement dates according to below. All provisions are to be settled in cash.

SEK m	Financial year when settlement is expected					Total
	20/21	21/22	22/23	23/24	24/25	
Provisions for conditional purchase price	5.2	16.0	127.9	4.4	231.8	385.3

EARN-OUT SHARES OUTSTANDING

In addition, out of the 372,4 million shares outstanding there are approximately 49,5 million shares with clawback rights as per 30 June 2020. These shares have already been issued to cover for future earn-out obligations, hence there is no additional dilution if earn-out targets are met in the future.

FINANCE REPORTING IMPROVEMENTS AND IFRS PRE-STUDY

- Several initiatives have been concluded during the last year;
 - Increased capabilities at Parent Company and in Operative Groups
 - Consolidation software with IFRS relevant capabilities (e.g IAS16) implemented Q1 2020
 - Closing process improvements
 - Resource allocation
 - Increased disclosure in external communication
 - Internal audit function launched
 - Workshop with IFRS expertise in December 2019
- Board decision in November 2019 to conduct and present an IFRS pre-study to the board
- Resources being allocated to the acquisition and following integration of Saber Interactive during last 3-4 months.

A 3D rendered image of SpongeBob SquarePants. He is yellow, square-shaped, and has large blue eyes. He is wearing his signature white shirt, red tie, and brown shorts. He is giving a thumbs-up gesture with his right hand. He is standing on a sandy beach next to his pineapple house, which has a blue door and a porthole. The background is a bright blue sky with stylized white and purple flowers. A lifebuoy is visible on the right side of the image.

4. Sustainability quarterly update

ESG/SUSTAINABILITY UPDATE

Sustainability Report 19/20

- Final state – limited editing left. Part of upcoming annual report.
- First sustainability report for Embracer Group, Starting small this year to prepare for next years legal report.

Compliance Code Short version

- The site was published in May thecode.embracer.com
- Next step a training of the code is planned to be sent to all employees and contractors at the beginning of September, participation will be measured.

Ambassador program

- Ongoing project with monthly, regular online meetings group and one to one. Focusing on the ongoing situation regarding covid19 and other societal issues.



EMBRACER⁺
GROUP