

EMBRACER⁺ GROUP

Q2 FY20/21
Interim Report
November 18, 2020



1. Operational and financial performance

Financial and operational key metrics

Financials for the quarter

Net sales – Group	SEK 2,383m	+89% YoY
Net sales – Games	SEK 1,495m	+83% YoY
Net sales – Partner Publ./Film	SEK 888m	+100% YoY
Operational EBIT	SEK 653m	+171% YoY
Free cash flow	SEK 312m	+SEK 427m YoY

All time high

61% organic growth
ATH on TTM basis

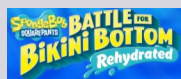
2nd ATH*

2nd ATH

All time high

Drivers

Strong back catalog performance across multiple titles



Quality first strategy and GaaS titles paying off

Key new releases



Pipeline and development capacity continue to strengthen

135
pipeline projects**

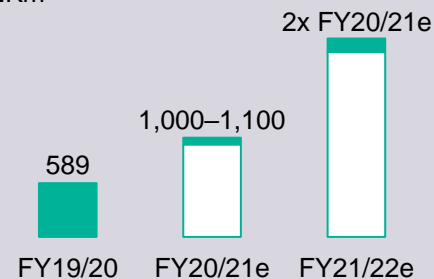
102
development studios**

~3,600
game developers**

SEK 445m
invested in game
development in the quarter

Total development cost of released games – new estimates

SEKm



Favorable M&A outlook and capabilities

SEK 4.7bn in cash
and available credit
as of 30 Sep 2020

SEK 5.8bn raised in
on Oct 8 for M&A
and organic growth
investments

M&A market is more active than ever and we are gearing up across our operating groups. We discussed with more than 100 entrepreneurs in the last quarter including a dozen sizable with new-leg potential

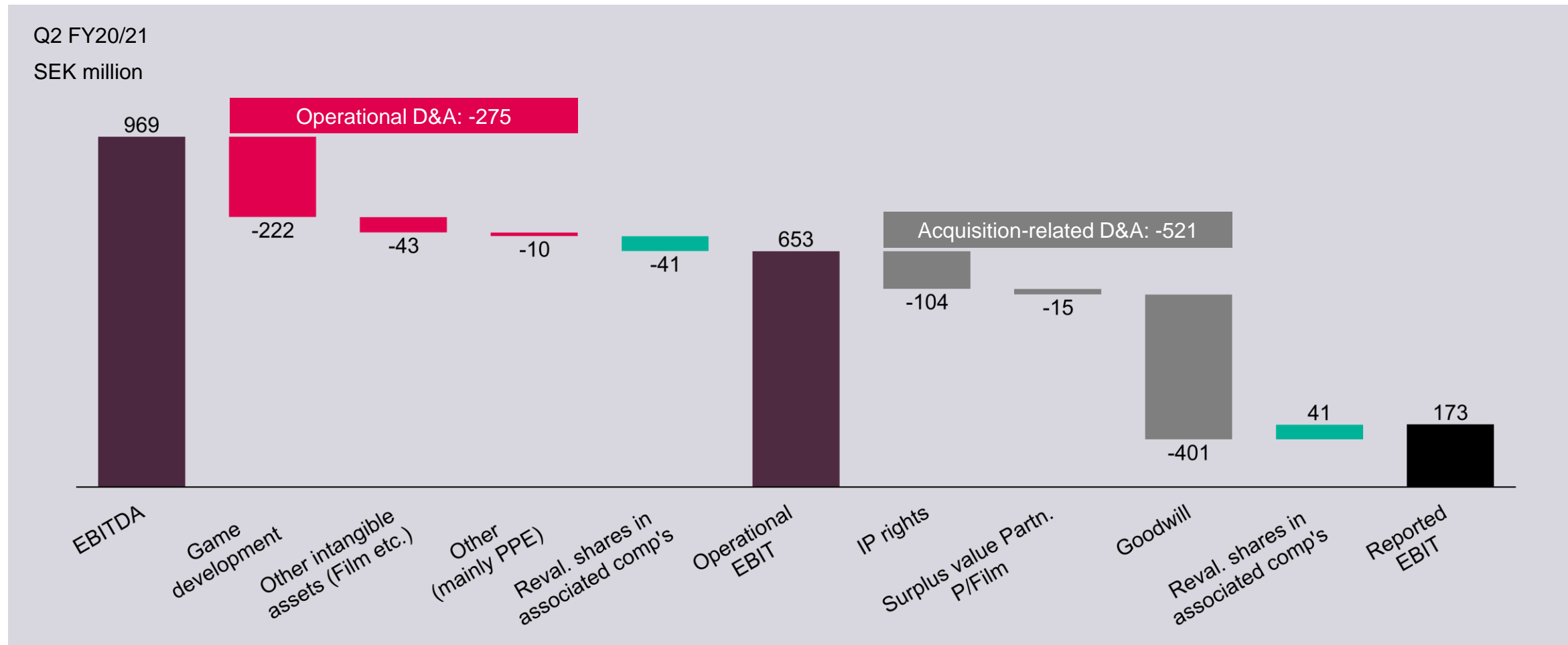
* At least since Embracer acquisition in Feb 2018. ** Counting both internal and external development studios, and both internal and external developers. As per Sep 30, 2020.

Key PnL metrics

SEK million	Quarterly			Trailing twelve months (TTM)		
	Q2 FY20/21	Q2 FY19/20	YoY change	TTM Sep 2020	TTM Sep 2019	YoY Change
Net sales	2,383	1,260	89%	7,300	5,413	35%
EBITDA	969*	418	132%	2,948	1,753	68%
Operational EBIT	653	241	171%	1,953	1,037	88%
Operational EBIT margin	27%	19%		27%	19%	
Adjusted EPS (SEK)	1.80	0.65	177%			

* EBITDA Q2 FY20/21 includes a non-cash accounting profit of SEK 41.4 million. See next slide for additional information.

Depreciation and amortization



EBITDA and EBIT for the period includes profit from revaluation of shares in associated company Palindrome of SEK 41.4 million. The profit is recognized in accordance with Swedish GAAP K3 and relates to Embracer's increased ownership in Palindrome during the quarter. The profit has no cash flow impact and has therefore been **excluded from Operational EBIT**

Cash flow statement

SEK million	Q2 FY20/21	Q2 FY19/21
Cash flow from operating activities before changes in working capital	852	365
Change in working capital	-48	-80
Cash flow from operating activities	805	285
Net investment in acquired companies	-774	-803
Net investment in intangible assets	-484	-392
Net investment in tangible assets	-13	-9
Net investment in financial assets	4	0
Cash flow from investing activities	-1,267	-1,203
Cash flow from financing activities	514	620
CASH FLOW FOR THE PERIOD	51	-299
<i>Translation difference in cash and cash equivalents</i>	3	8
<i>Free cash flow</i>	312	-116

← 134% YoY growth in the quarter mainly due to increase in earnings.

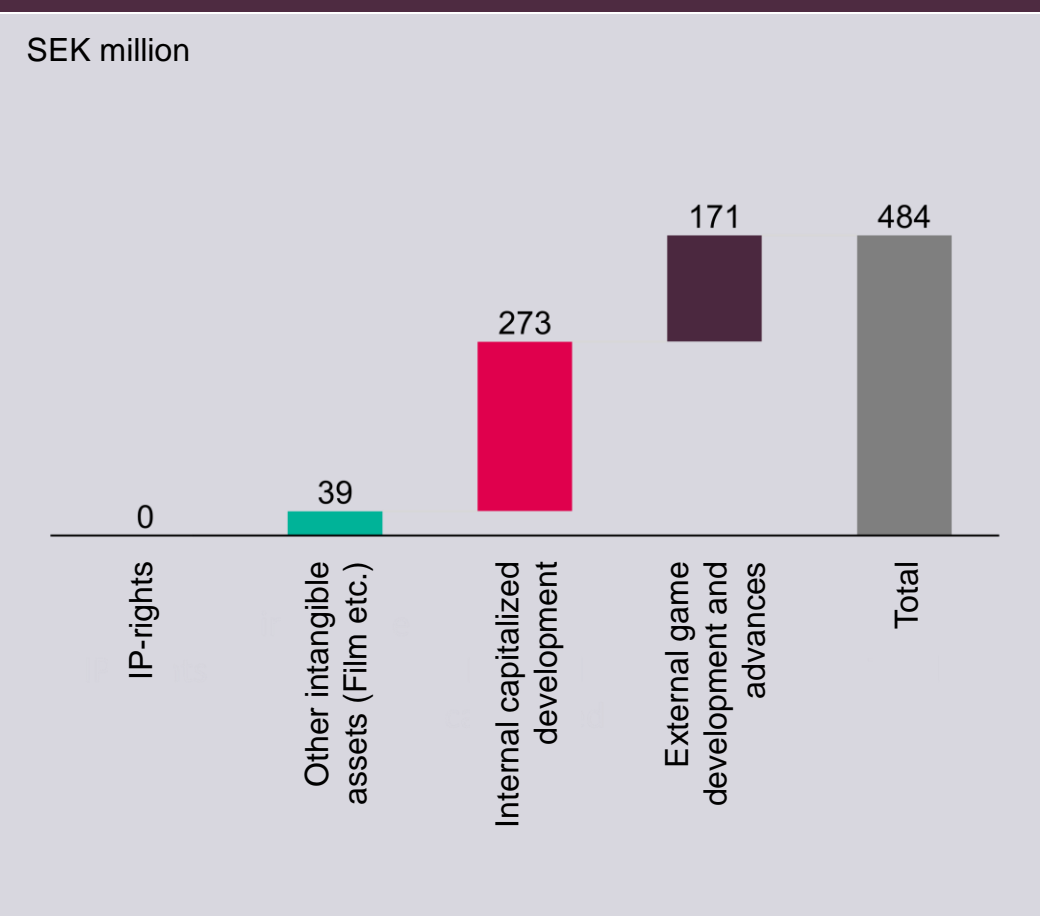
← Inorganic growth investments (M&A), mainly relating to the acquisitions of Vertigo Games and 4A Games.

← Investment in game development with a significant portion being organic growth investments.

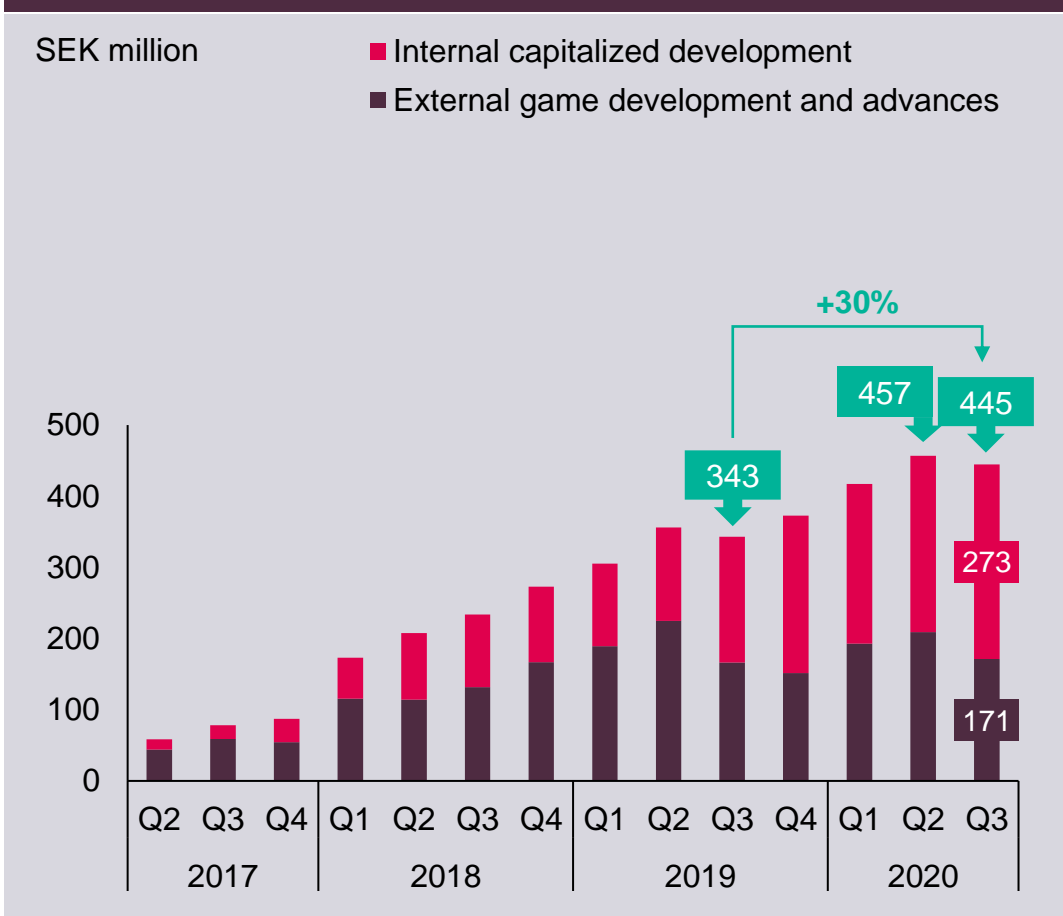
← Mainly relating to increased utilization of existing credit facilities.

← FCF improves i.a. as our pipeline matures.

Investments in intangible assets in Q2 FY20/21

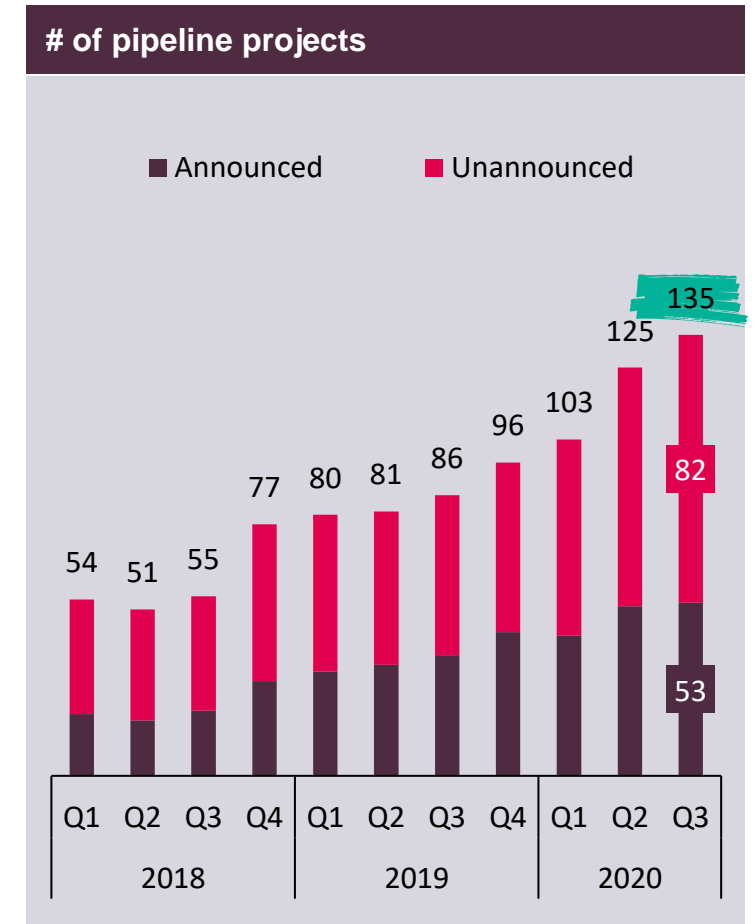
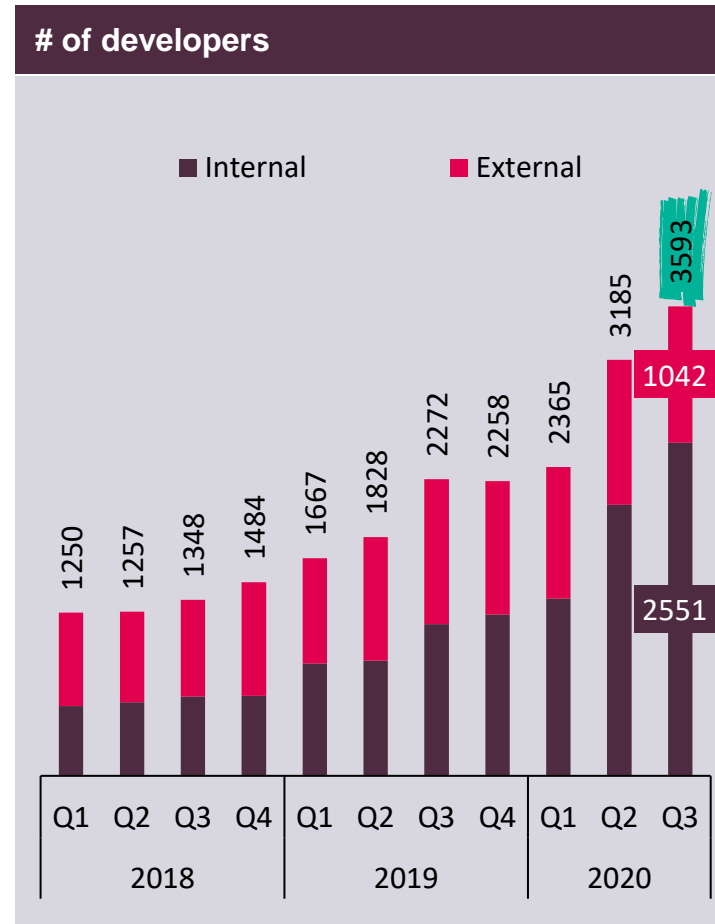
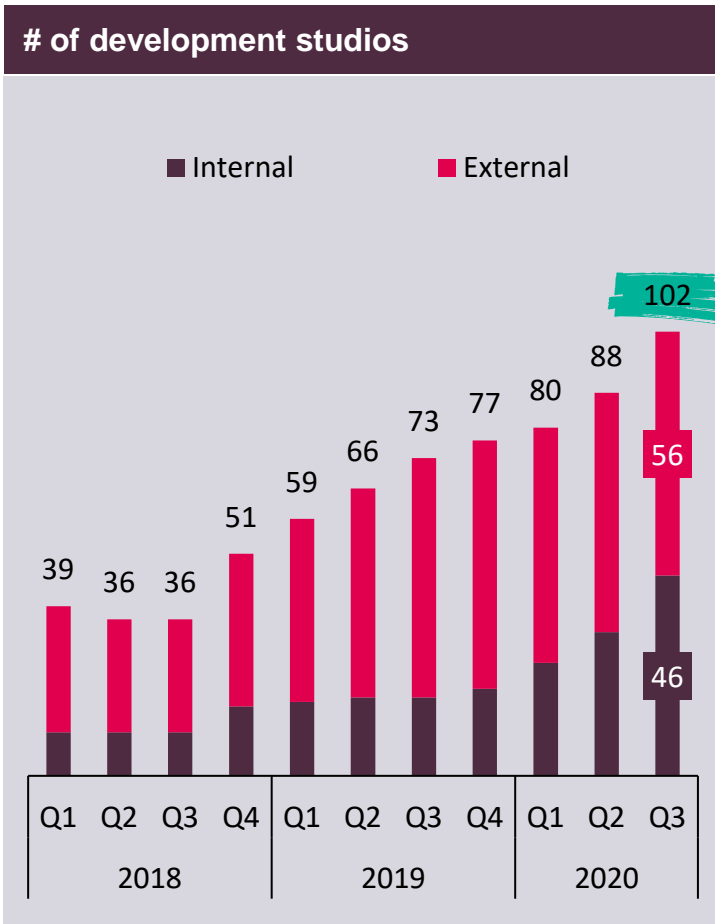


Investments in game development by quarter



Completed games: SEK 311m (Total development cost of all games released in the quarter)

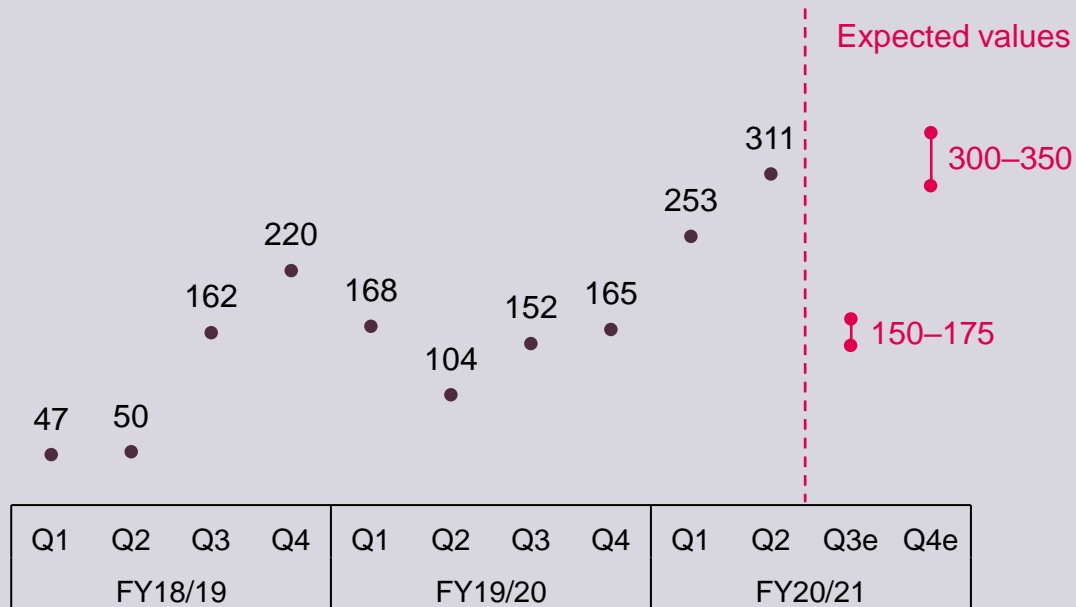
Pipeline and development capacity continue to grow



Upcoming releases in expected aggregate numbers

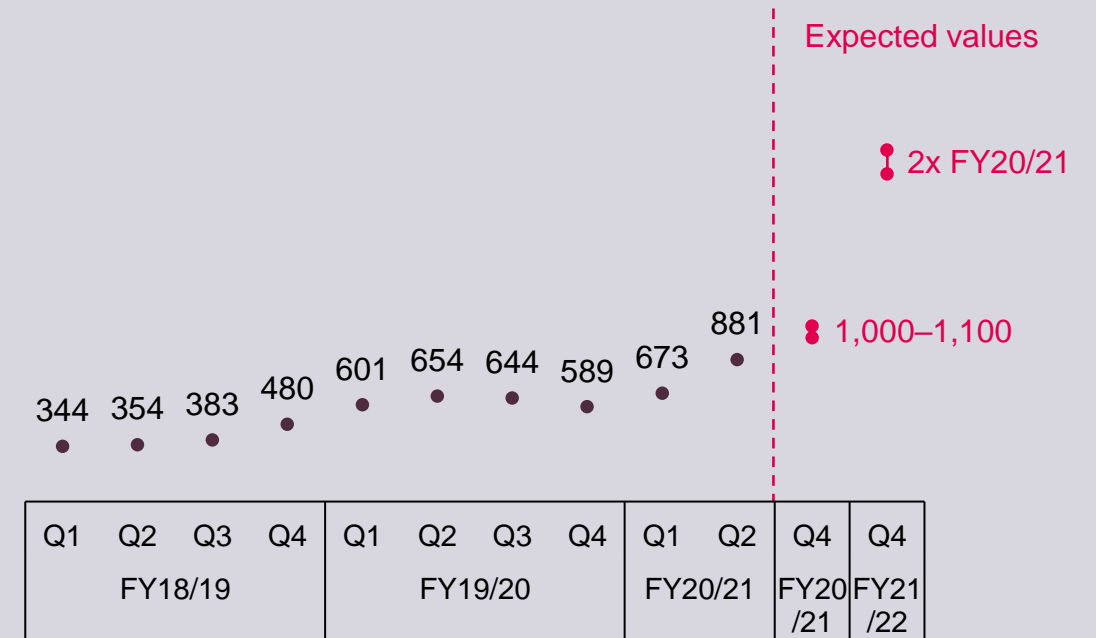
Total development cost of released games – Quarterly

SEK million



Total development cost of released games – Trailing twelve months

SEK million



Balance sheet

SEK million	30 Sep 2020	30 Jun 2020
Intangible assets	13,768	10,971
Property, plant and equipment	203	185
Financial assets	395	229
Inventories	381	429
Current receivables	1,983	1,885
Cash and bank balance	3,579	3,525
Total assets	20,309	17,224
Share capital	1	1
Other capital reserves	12,922	10,842
Recognized profit incl. the period	816	680
Provisions	1,547	1,176
Non-current liabilities	1,175	1,180
Current liabilities	3,848	3,345
Total equity and liabilities	20,309	17,224
Interest-bearing receivables	3,579	3,525
Interest-bearing liabilities	3,229	2,711
Net cash	350	814

Breakdown of intangible assets 30 Sep 2020

Finished completed games	605	4%
Ongoing game development projects	2,428	18%
Other intangible assets (film etc.)	212	2%
Operational intangible assets	3,245	24%
IP-rights	1,463	11%
Surplus value Partner Publishing/Film	168	1%
Goodwill	8,893	65%
Acquisition related intangible assets	10,524	76%
TOTAL	13,768	100%

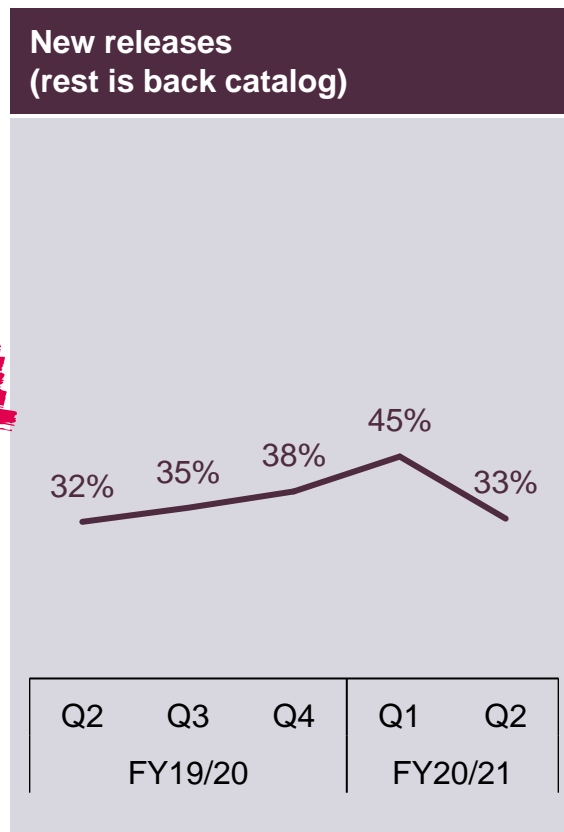
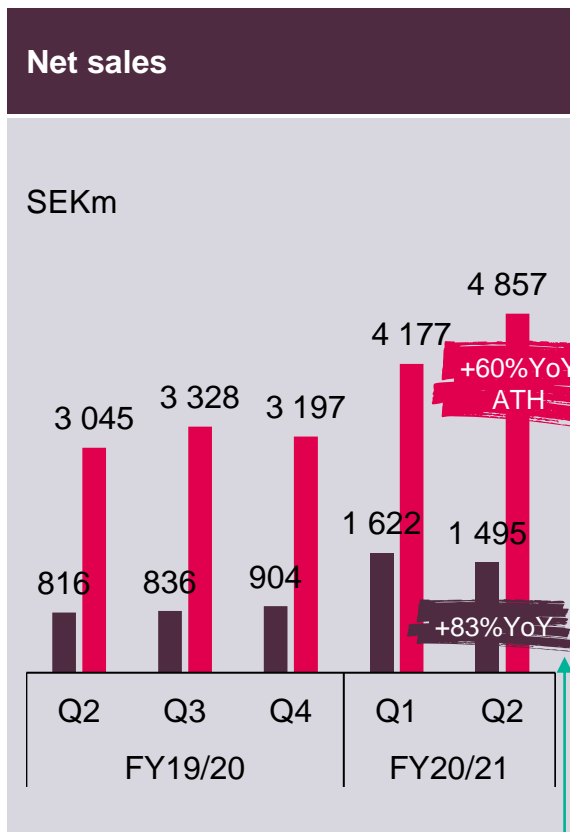
- SEK 4.7bn in cash and unutilized credit facilities at 30 Sep 2020

An aerial view of a tropical island with a semi-transparent banner across the middle. The island features a sandy beach, palm trees, and several vehicles. The banner contains the text '2. Games business area'.

2. *Games* business area

Net sales breakdowns

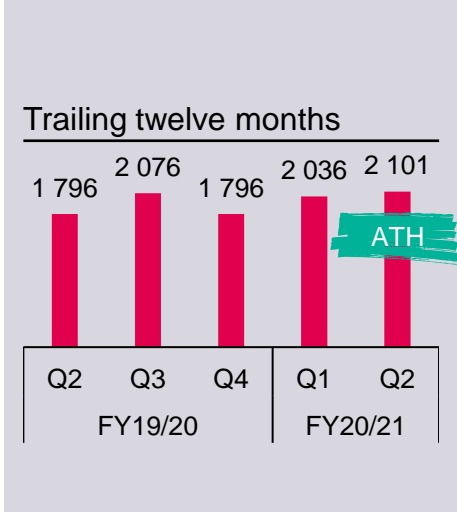
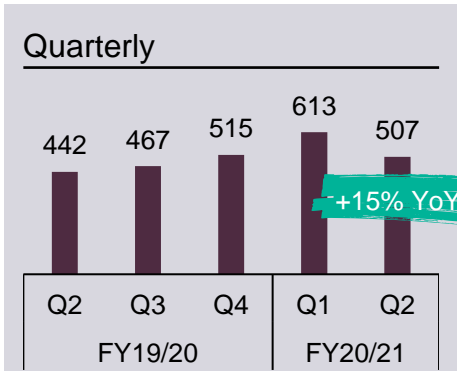
- = Quarterly
- = Trailing twelve months



Organic YoY growth in the quarter was 61% (constant currency)



Net sales (SEK million)



Net sales drivers in the quarter

Key releases

WASTELAND 3
PC PS4 XB1

WINDBOUND
PC PS4 XB1★

IRON HARVEST
1920+
PC PS4 XB1

Selected back catalog drivers

METRO EXODUS

Saints Row

Kingdom Come Deliverance

- Back catalog continued to exceed management expectations

Other

MILESTONE

- Milestone performed above management expectations, mainly driven by digital sales related to covid-19. MotoGP 20 continued to perform well, considered the best MotoGP ever by the community.

VERTIGOGAMES

- World-leading VR developer and publisher Vertigo Games acquired after the quarter, on Sep 16 – [link to presentation](#).

Selected pipeline

RIDE 4

Released after quarter

DEAD ISLAND 2

Saints Row

volition

4A GAMES

WARHORSE

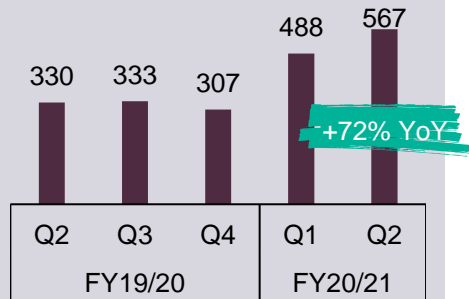
★ = Own IP, otherwise 3rd party IP

THQ NORDIC

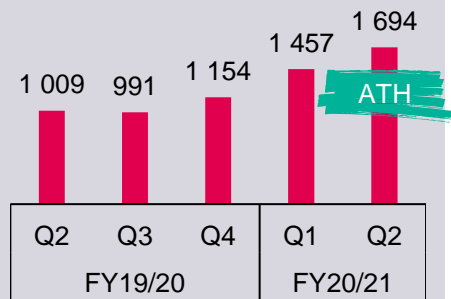


Net sales (SEK million)

Quarterly



Trailing twelve months



Net sales drivers in the quarter

Key releases



- Both titles exceeded management expectations

Main back catalog driver



- Released in prior quarter

Studio establishments, acquisition

Two new studios established:

- Ashborne Games, Czech Republic – experienced team focusing on strategy and RPG games
- Rainbow Studios Montreal, Canada, sister studio to Rainbow Studios in Phoenix, USA

Acquired Vienna-based studio Pow Wow Entertainment in August:

- Founded by two senior game developers with a focus on developing exceptional IP with user-generated content
- Two games under development of which one based on an existing THQ Nordic IP

Selected pipeline

BIOMUTANT.



Stadia



Stadia



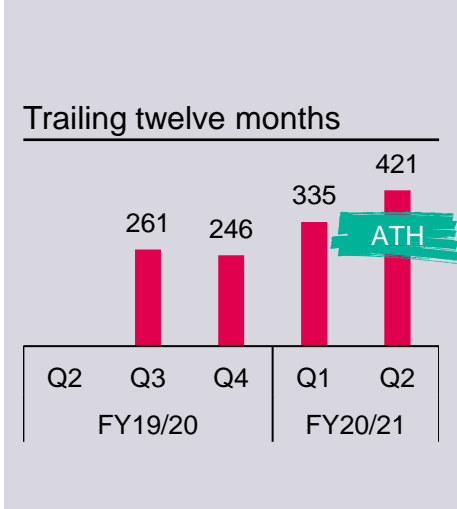
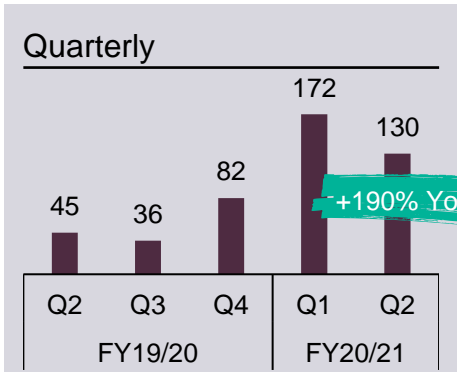
Remake



★ = Own IP, otherwise 3rd party IP



Net sales (SEK million)



Net sales drivers in the quarter

Main back catalog drivers

- No new releases in the quarter, but the back catalog continued to perform, led by Satisfactory

Organizational changes after quarter

- Stefan Hanna, Coffee Stain co-founder, new CEO of Coffee Stain Studios...
- ...replacing Johannes Aspeby, Coffee Stain co-founder, will move to work for Coffee Stain Publishing.
- Albert Säfström, Coffee Stain Publishing co-founder, new CEO of Coffee Stain Publishing...
- ...replacing Tim Badylak, who moves on to new ventures.
- Anton Westbergh remains Group-CEO

Selected pipeline

MIDNIGHT GHOST HUNT

SONGS OF CONQUEST



Net sales (SEK million)

Quarterly

Q2	Q3	Q4	Q1	Q2
FY19/20			FY20/21	

349
259

Jan–Dec 2019

Net sales: \$105m

EBIT: \$62m

Net sales drivers in the quarter

Releases

DLC

DLC

- Dronemaster DLC to WWZ added cross platform support and supported WWZ sales
- No revenue recognized for WWE 2K Battlegrounds in the quarter as 2K Games is publisher

Work-for-hire

- WFH projects also contributed notably

Main back catalog drivers

Other

- Active M&A talks, despite covid-19
- Collaboration with other operational groups within Embracer is strengthening
- After quarter, New World Interactive opened new studio New World East in Montréal, Canada to provide ongoing, post-release support for Insurgency: Sandstorm and crucial development support for an unannounced future title.
- Team continues to expand including key hires:
 - Todd Hollenshead, former CEO of iconic ID Software, new Head of Publishing
 - Bradley Doan, former CEO of Sperasoft, new Head of Production

Pipeline

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

Selected upcoming releases

Madrid

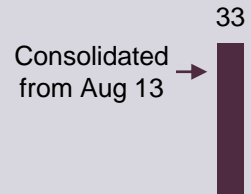
St. Petersburg

DECA



Net sales (SEK million)

Quarterly



Q2	Q3	Q4	Q1	Q2
FY19/20			FY20/21	

- DECA Games was acquired as Embracer's sixth operative group on Aug 13

Net sales drivers in the quarter



DECA had a solid quarter

Realm of the Mad God and *DragonVale* have performed above expectations because of covid-19 and increased content velocity

Two IP acquisitions in the quarter



Other

- Smooth integration despite covid-19
- Efficient remote operations
- Multiple ongoing M&A discussions regarding IPs and companies



Four investments in the quarter



Acquired Austria-based
Rare Earth Games

Stellar team with decades-
long industry experience

Now working on their
passion project



Acquired Madrid-based
Vermila Studios

Founder-led studio
working on Crisol: Theater
of Idols which has already
been awarded an EPIC
MegaGrant



Acquiring remaining 50%
of Palindrome

Skövde-based, founder-
led strategy specialist with
two exciting strategy
games in pipeline, of
which one original IP in
collaboration with Coffee
Stain



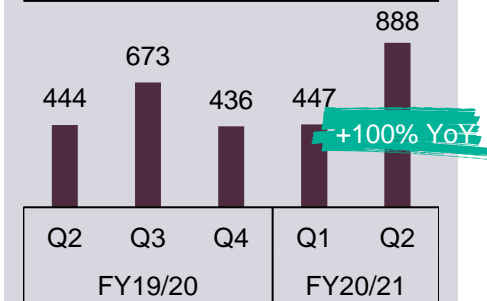
Increased stake in
Stockholm-based studio
Kavalri from 20%
ownership to 41%

A dynamic fantasy battle scene. In the upper left, a knight in ornate armor, glowing with blue energy, leaps through the air holding a glowing sword. Below, a large crowd of warriors in various armor styles is engaged in combat. The background features a dark, gothic-style castle with a bridge, set against a dramatic, orange-hued sky. The overall atmosphere is intense and action-packed.

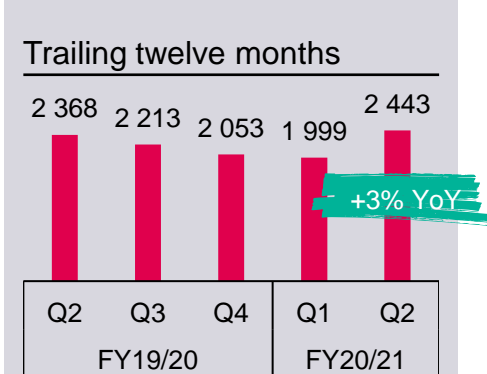
**3. *Partner Publishing/Film*
business area**

Net sales (SEK million)

Quarterly



Trailing twelve months



Net sales drivers in the quarter

Main releases



- Above releases and the general performance of Partner Publishing exceeded management expectations...
- ...despite covid-19 retail challenges which however were significantly lower than in the prior quarter

Other

Film business segment

- Sales >100% YoY in quarter, benefiting from KSM consolidation
- Exceeded management expectations
- Digital sales at high levels compensated for physical's covid-19 woes
- Acquired Sola Media
- Well-received launched of video subscription channel "Aniverse" on Amazon Prime

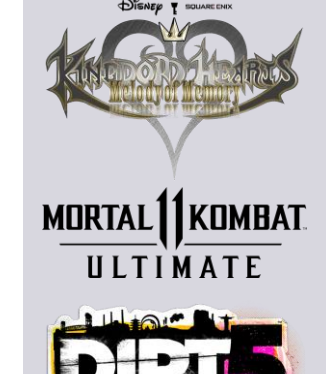
Game Outlet Europe

- Announced publishing label for niche titles, Clear River Games, that released its first title, Ys Origin in EMEA territories

Pipeline

No major releases expected for Q3 FY20/21

Selected upcoming releases fiscal Q3



A vibrant, fantastical landscape featuring a waterfall cascading down a rocky cliff on the left. In the foreground, a large, glowing blue mushroom with white spots sits on a mossy ledge. To the right, a character with large white wings is flying through the air, holding a long staff. Below them, a large, textured orange mushroom is visible. The background shows a lush, green valley with more rocky cliffs and a clear blue sky. The entire scene is framed by a dark, semi-transparent banner across the middle.

4. Sustainability quarterly update

Sustainability Report 19/20

Published in the Annual Report

Compliance Code Training

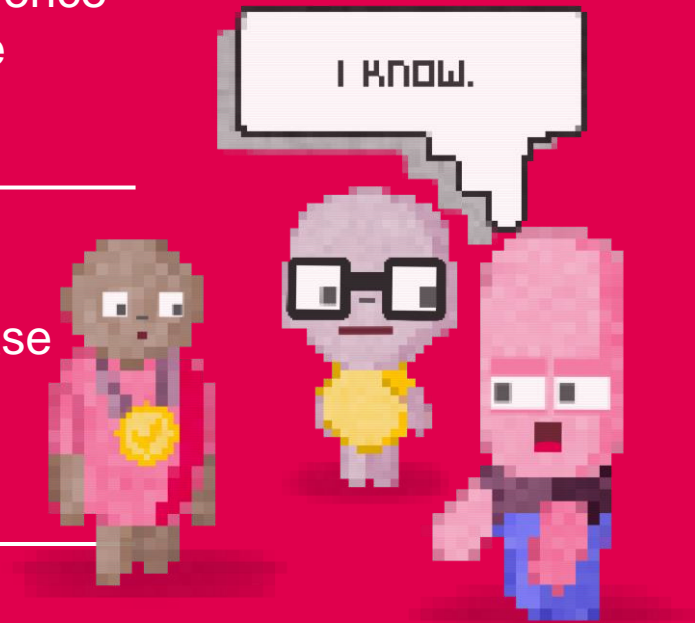
A training of the Compliance Code was launched in October, participation will be measured. As of today 41% completed the training.

Ambassador program

Ambassadors are actively working in small groups on topics that we believe make the most difference from a sustainability perspective, following the Smarter Business framework.

Climate Initiative launched

Play Create Green - An initiative initiated by Nordic gaming companies gathering to increase awareness and inspire the industry to more climate-smart actions.



EMBRACER⁺
GROUP