

EMBRACER⁺ GROUP

Q3 FY20/21
Interim Report
February 18, 2021

A vibrant, stylized illustration of a fantasy landscape. In the foreground, two characters stand on a grassy bank overlooking a river. The character on the left is a large, muscular figure with a large, round, metallic shield on their back and an axe slung over their shoulder. The character on the right is a smaller figure in a dark, layered tunic and boots, holding a long staff or spear. The background features a range of mountains, with a prominent, jagged, snow-capped peak. The sky is a mix of blue and purple, suggesting a dawn or dusk setting. The overall style is painterly and atmospheric, with a color palette dominated by blues, purples, and greens.

1. Operational and financial performance

Q3 FY20/21 highlights

Financial and operational key metrics for the quarter

Net sales – Group	SEK 2,168m	+44% YoY
Net sales – Games	SEK 1,356m	+62% YoY
21/33% organic/proforma growth (constant currency) ↗		
Net sales – Partner Publ./Film	SEK 813m	+21% YoY
Operational EBIT	SEK 603m	+100% YoY
Free cash flow	SEK 309m	+SEK 516m YoY

Drivers

Mainly driven by strong back catalog performance



Quality first strategy paying off

Selected releases

Pipeline and development capacity continue to strengthen

150 pipeline projects*

113 development studios*

~4,300 game developers*

SEK 523m invested in game dev.* in quarter, which was ATH and 3X the dev. value of released games

BIOMUTANT → May 25, 2021

Revised expectations for total dev. cost of released games:
 Q4 FY20/21: SEKm 120–140
 FY20/21: SEKm 840–860
 FY21/22: SEKm 2500–3000



Successful release after quarter ~3m units sold

M&A

13 acquisitions in the quarter



3 acquisitions after the quarter



Landmark mergers forming two new verticals/legs

Favorable M&A outlook

- M&A market is more vivid than ever
- SEK 5.8bn raised on Oct 8 for M&A and organic growth investments
- SEK 10bn in cash and available credit facilities currently**

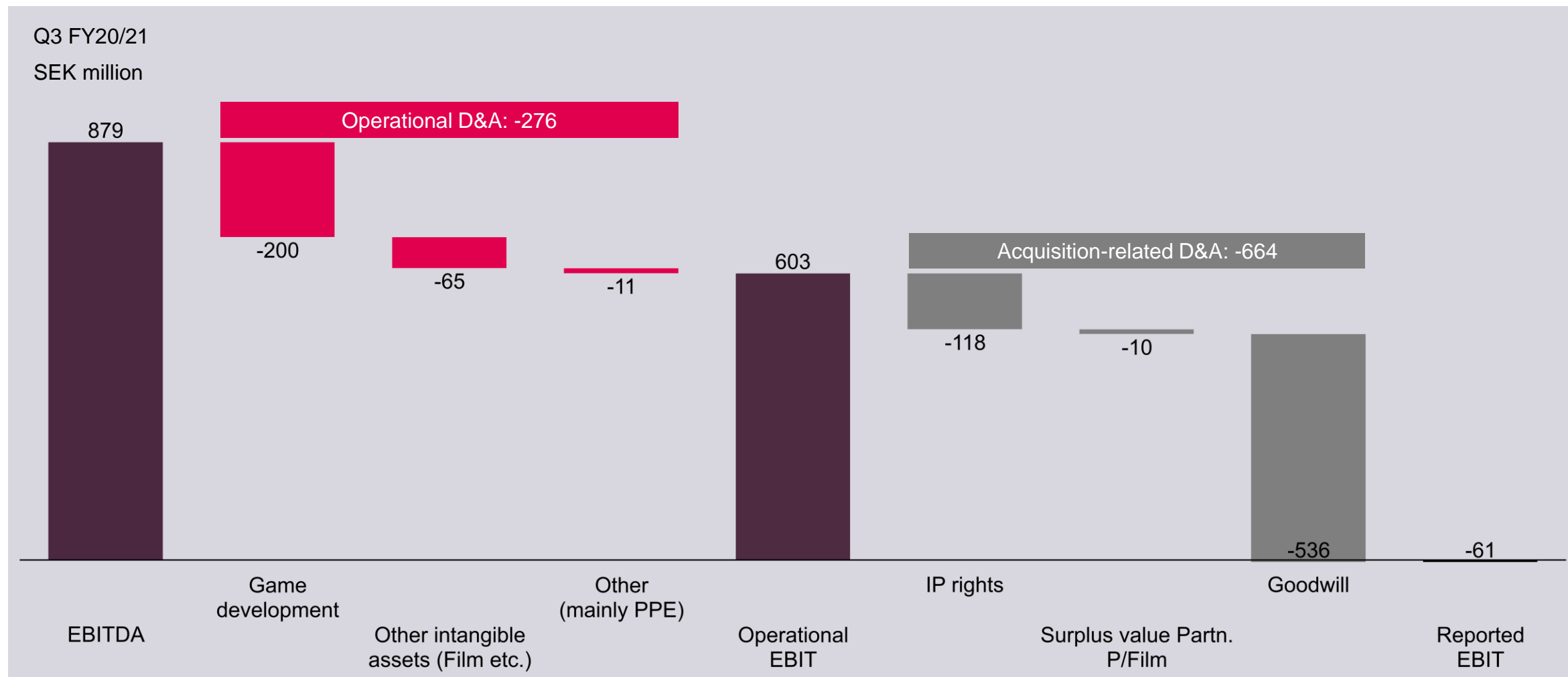
- Board has decided on IFRS conversion,
- starting point for process of becoming listed on a regulated market within 18–36 months.

* Counting both internal and external pipeline projects, development studios, developers and investment. As per Dec 31, 2020, i.e. not including the M&A in Q4 FY20/21. | ** "Currently" here means cash and unutilized credit facilities per Dec 31, 2020 with the cash consideration of the announced acquisitions in Q4 FY20/21 deducted, assuming these acquisitions close.

Key PnL metrics

SEK million	Quarterly			Trailing twelve months (TTM)		
	Q3 FY20/21	Q3 FY19/20	YoY change	Dec 2020	Dec 2019	YoY Change
Net sales	2,168	1,509	44%	7,959	5,541	44%
EBITDA	879	518	70%	3,308	1,945	70%
Operational EBIT	603	302	100%	2,254	1,143	97%
Operational EBIT margin	28%	20%		28%	21%	
Adjusted EPS (SEK)	1.06	0.68	56%			

Depreciation and amortization



Cash flow statement

SEK million	Q3 FY20/21	Q3 FY19/21
Cash flow from operating activities before changes in working capital	847	552
Change in working capital	-7	-313
Cash flow from operating activities	840	240
Net investment in acquired companies	-2,308	-88
Net investment in intangible assets	-558	-419
Net investment in tangible assets	-24	-9
Net investment in financial assets	50	-19
Cash flow from investing activities	-2,840	-535
Cash flow from financing activities	5,404	229
CASH FLOW FOR THE PERIOD	3,405	-66
<i>Translation difference in cash and cash equivalents</i>	-65	-17
<i>Free cash flow</i>	309	-207
<i>Free cash flow – trailing twelve months</i>	1,100	n/a

← 53% YoY growth in the quarter mainly due to increase in earnings.

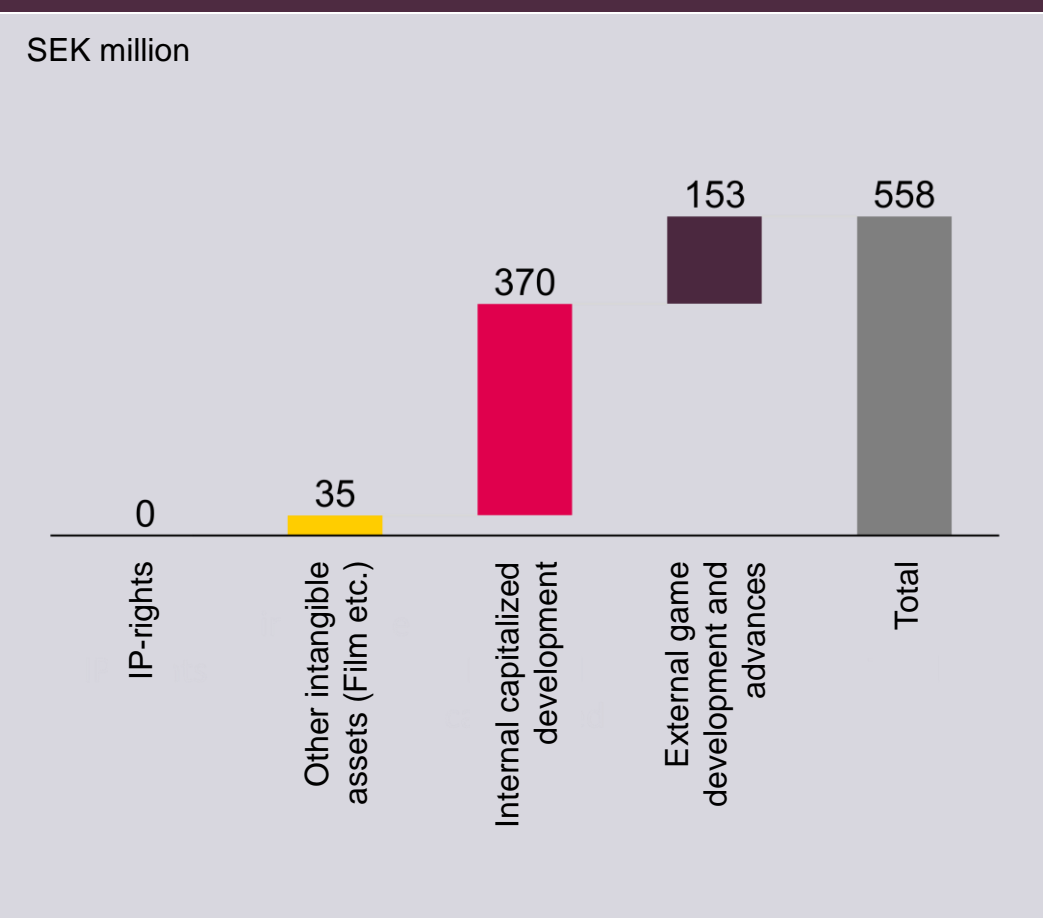
← Inorganic growth investments (M&A).

← Organic investment in game development with a significant portion being growth investments.

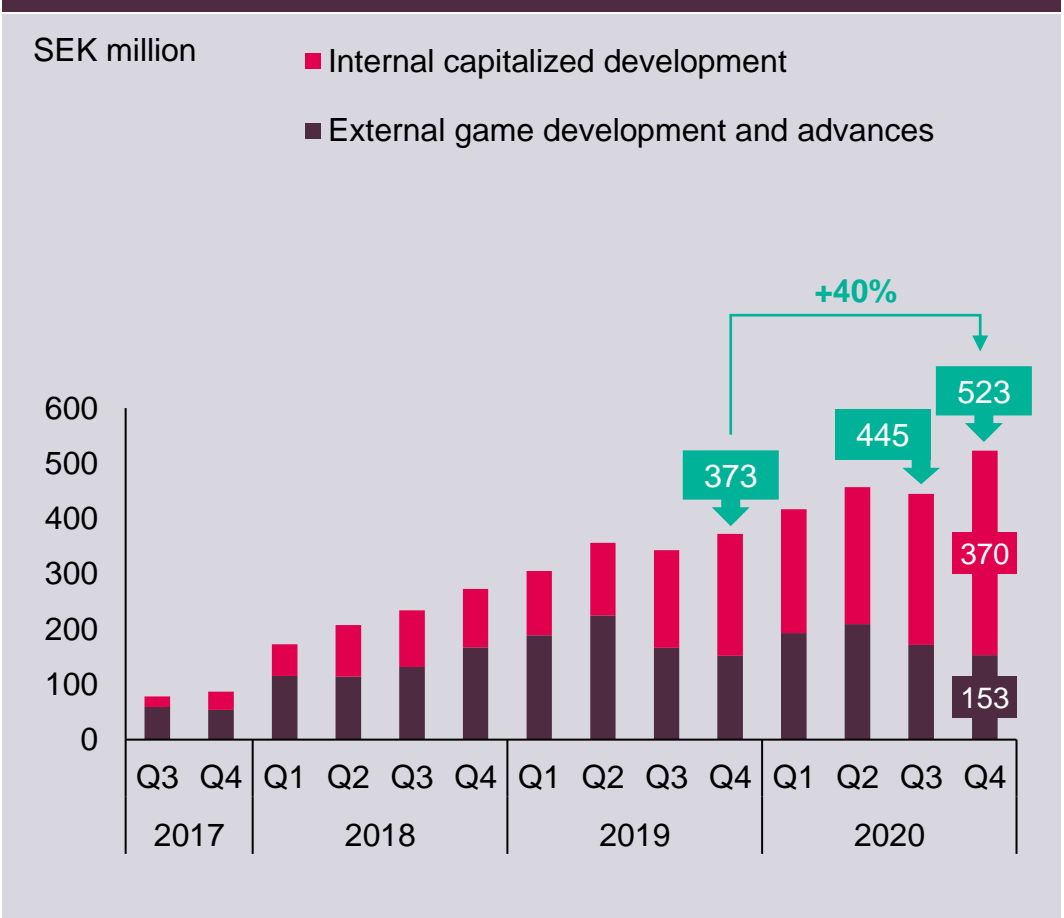
← Mainly relating to the new share issue of SEK 5.8bn in Oct 2020.

← FCF improves i.a. as our pipeline matures. FCF in the quarter was SEK 309m simultaneously as we invested more than ever into game development (SEK 523m). FCF in 2020 was SEK 1,100m.

Investments in intangible assets in Q3 FY20/21

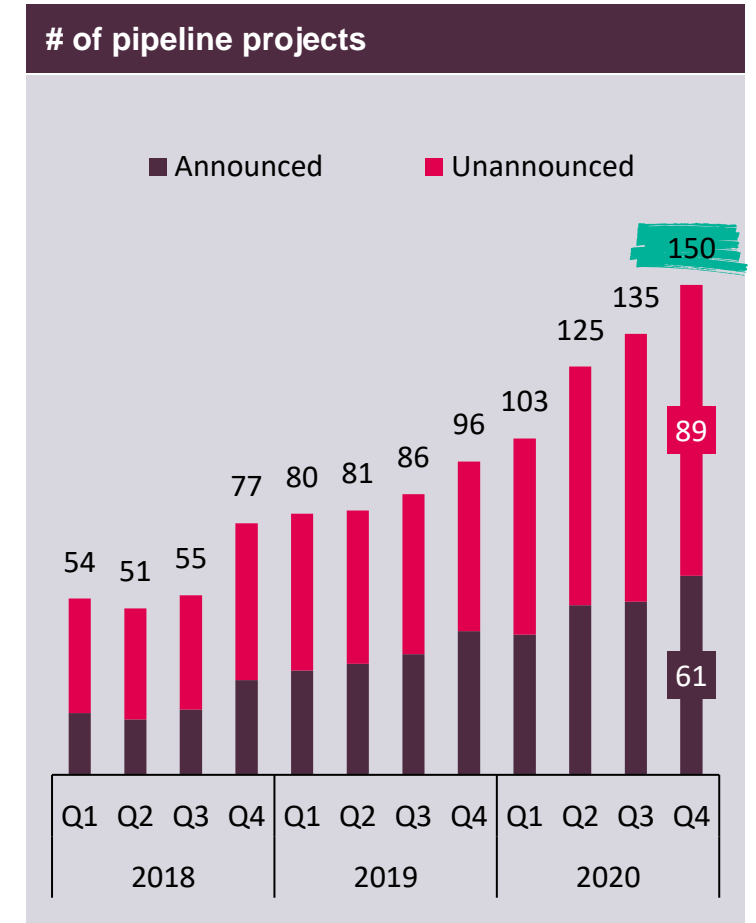
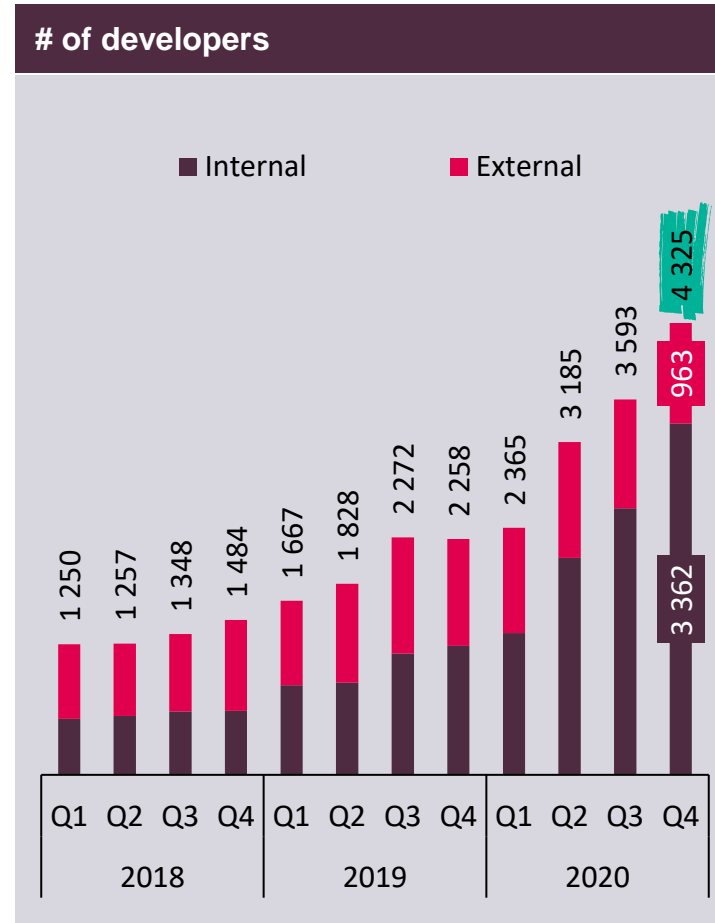
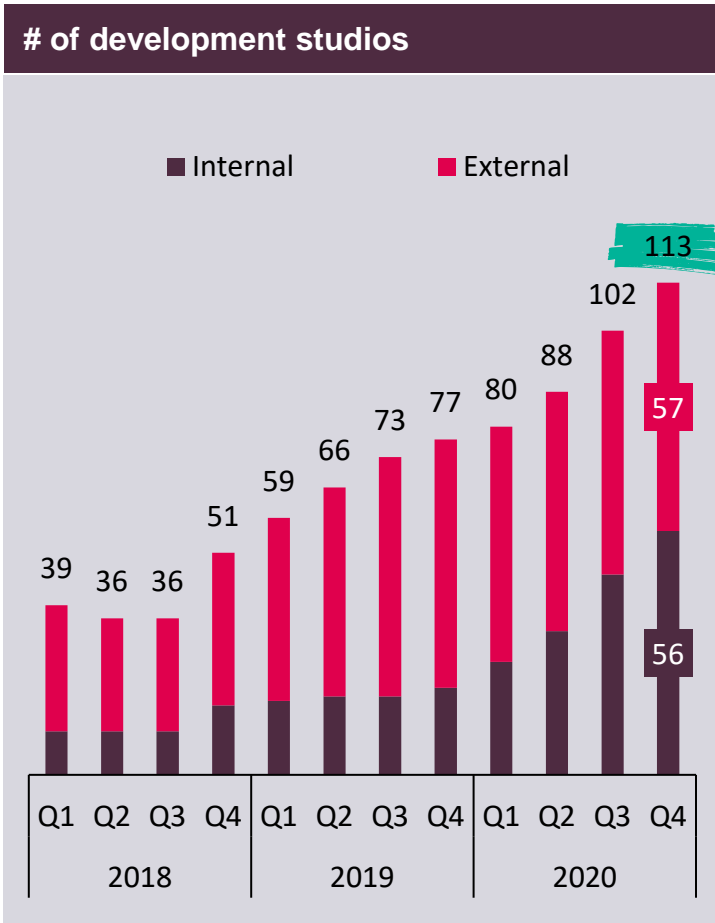


Investments in game development by quarter



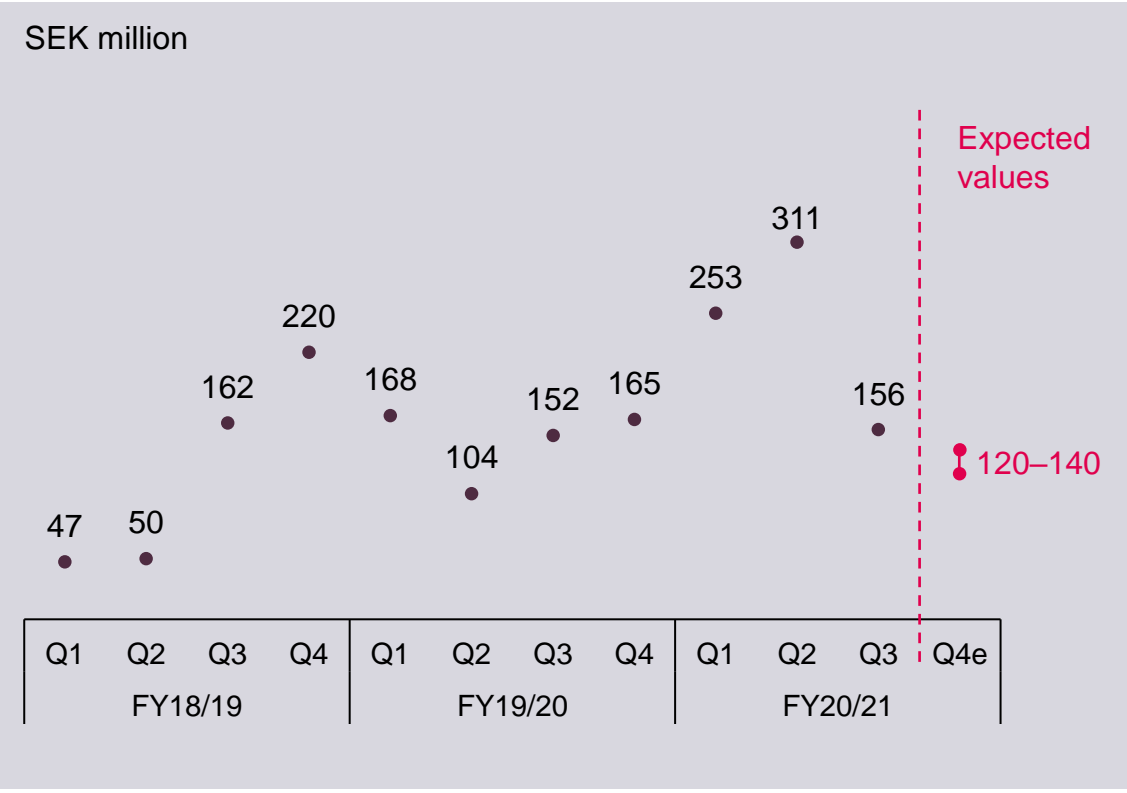
Completed games: SEK 156m (Total development cost of all games released in the quarter)

Pipeline and development capacity continue to grow

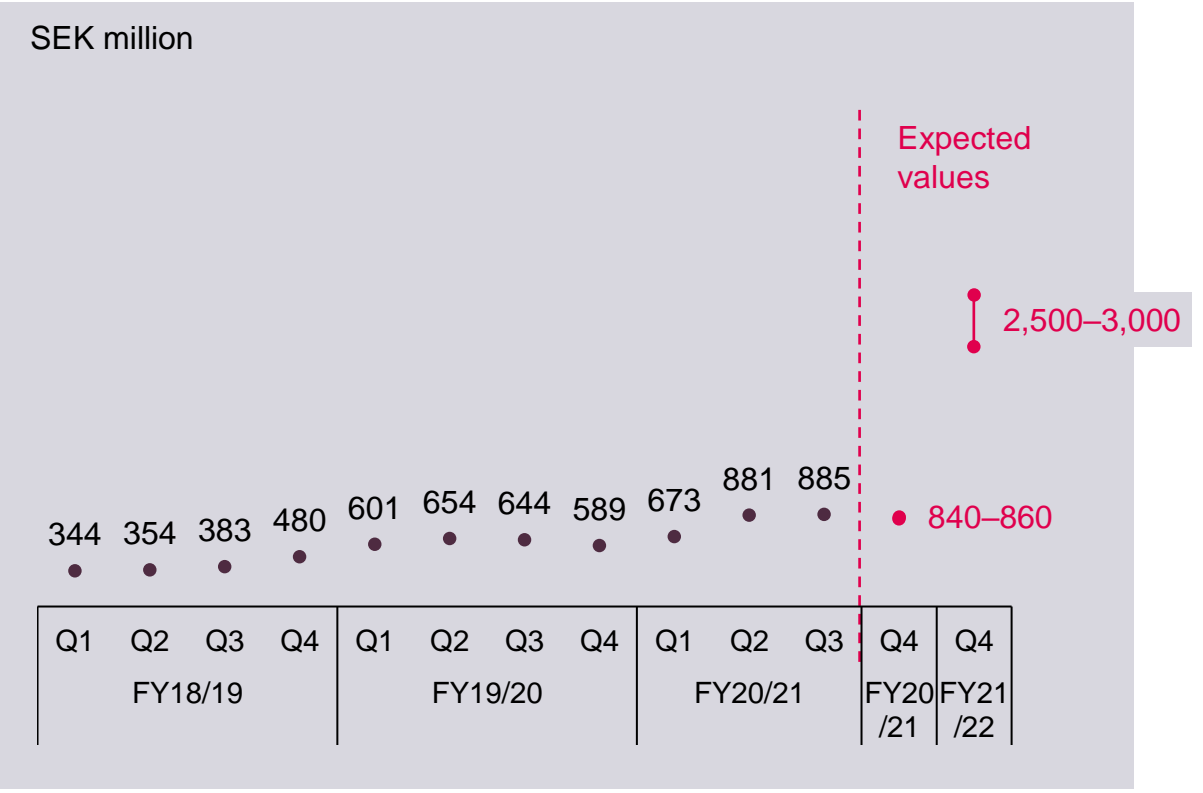


Upcoming releases in expected aggregate numbers

Total development cost of released games – Quarterly



Total development cost of released games – Trailing twelve months



- Biomutant release date set to May 25, 2021 – completed games value expectations for Q4 FY20/21 to SEK 120–140m and FY20/21 to SEK 840–860m.
- Quality-first approach is fundamental to releasing games that perform well and over a long period, and is a key contributor to our strong back catalog. During the current fiscal year we have postponed over ten games due to our quality-first principle.
- We expect release activity in FY21/22 to be the strongest in our history with more than 70 premium games released and a total development cost of released games of SEK 2,500–3,000m, skewed towards the end of that fiscal year.

Balance sheet

SEK million	31 Dec 2020	30 Sep 2020
Intangible assets	14,686	13,768
Property, plant and equipment	230	203
Financial assets	367	395
Inventories	279	381
Current receivables	1,878	1,983
Cash and bank balance	6,919	3,579
Total assets	24,359	20,309
Share capital	1	1
Other capital reserves	19,068	12,922
Recognized profit incl. the period	-344.0	816
Provisions	1,931	1,547
Non-current liabilities	267	1,175
Current liabilities	3,436	3,848
Total equity and liabilities	24,359	20,309
Interest-bearing receivables	6,919	3,579
Interest-bearing liabilities	2,041	3,229
Net cash	4,878	350

Breakdown of intangible assets 31 Dec 2020

Completed games (released)	552	4%
Ongoing game development projects	2,795	19%
Other intangible assets (film etc.)	183	1%
Operational intangible assets	3,529	24%
IP-rights	1,369	9%
Surplus value Partner Publishing/Film	147	1%
Goodwill	9,641	66%
Acquisition related intangible assets	11,157	76%
TOTAL	14,686	100%

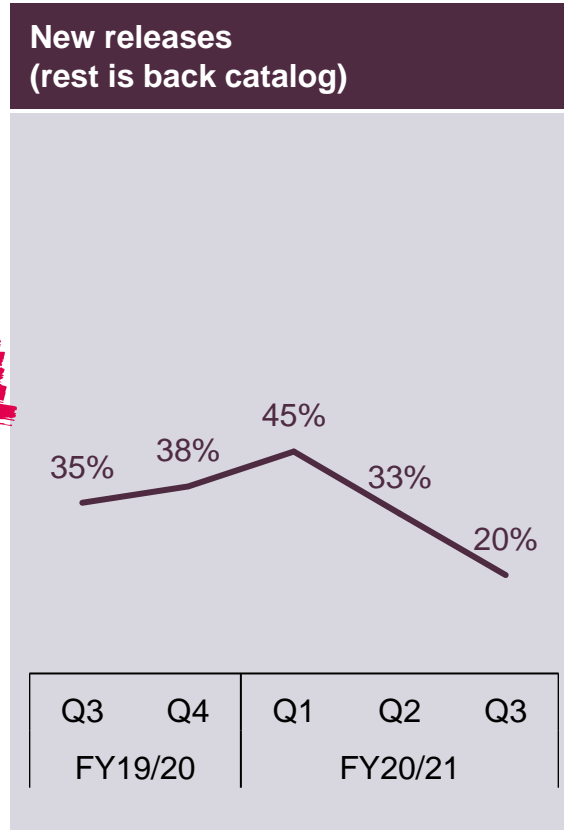
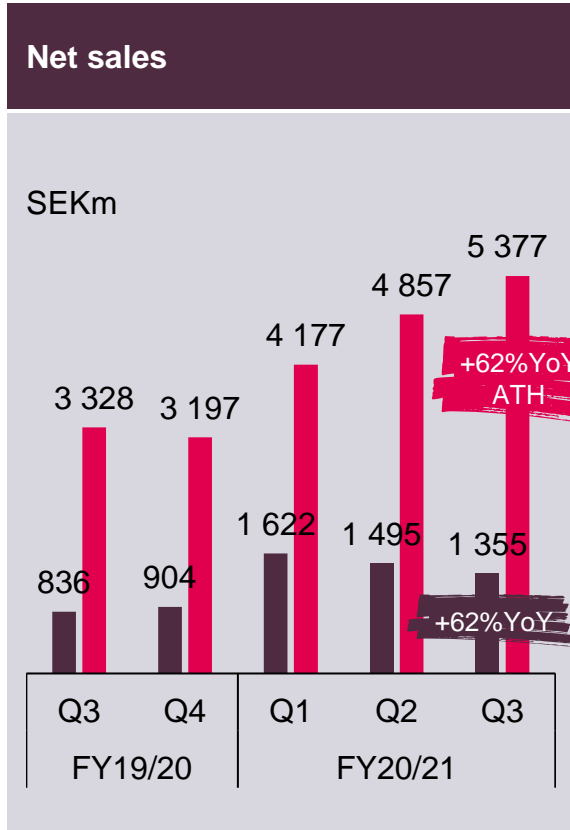
- SEK 12.5bn in cash and unutilized credit facilities at 31 Dec 2020
- SEK 10bn in cash and unutilized credit facilities per 31 Dec 2020 with cash consideration of announced fiscal Q4 M&A deducted



2. *Games* business area

Net sales breakdowns (Games business area)

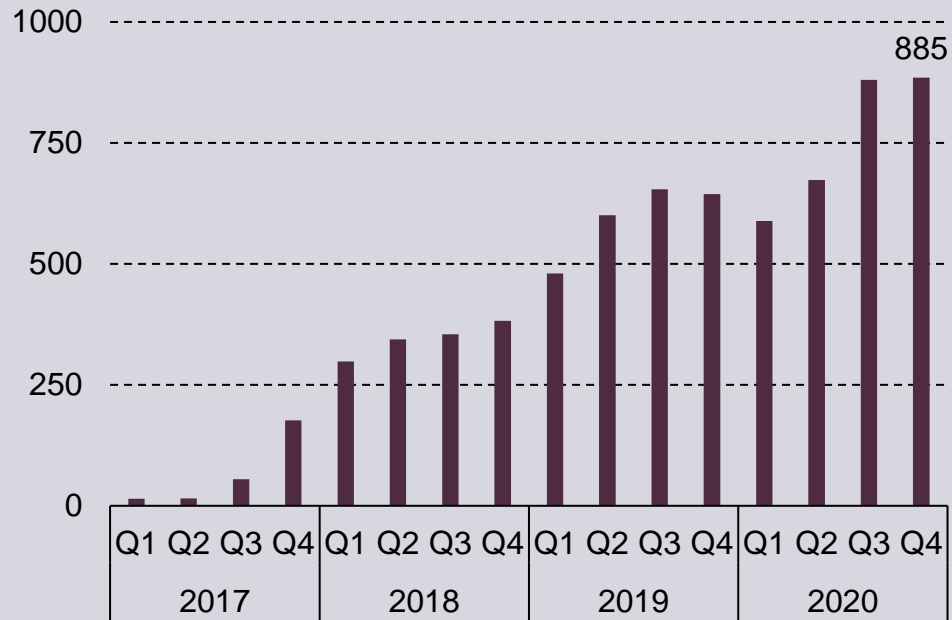
- = Quarterly
- = Trailing twelve months



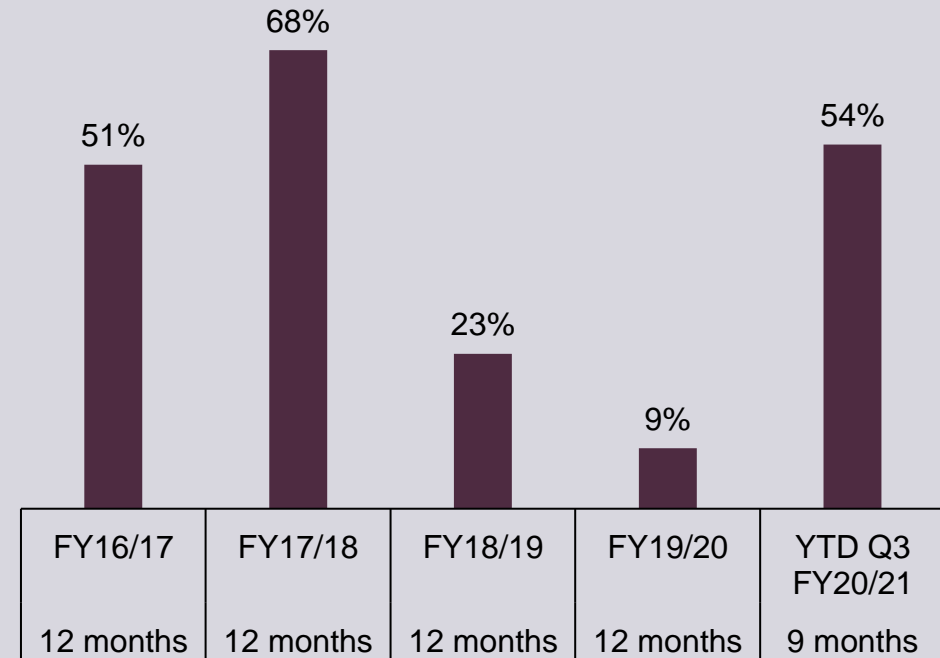
Release activity and organic growth

Consistent organic growth investments has lead to consistent increasing release values and strong organic growth

Value of completed games (Trailing twelve months, SEK million)



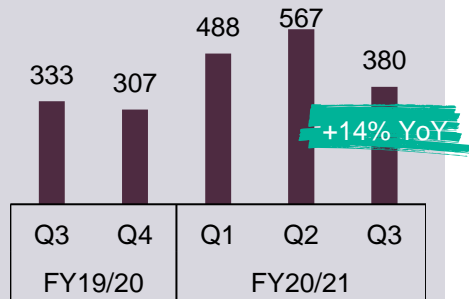
Organic growth (constant currency)



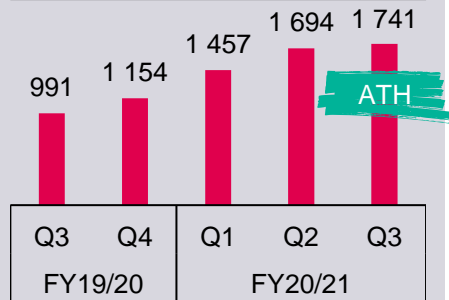


Net sales (SEK million)

Quarterly



Trailing twelve months



Sales mainly driven by back catalog

Main back catalog drivers



Solid quarter, mainly driven by the back catalog with evergreen titles like *Wreckfest*, and more recent releases including *Spongebob* and *Destroy All Humans!*

Other



Purple Lamp Studios acquired in Nov 2020. 38 FTEs. Longstanding partnership with *THQ Nordic* incl. collaborating on *SpongeBob SquarePants: Battle for Bikini Bottom – Rehydrated*.

During the quarter, several significant commercial deals were signed. On the back of the success of previous license releases, new licensing deals will be pursued.

BIOMUTANT®

Release on May 25, 2021

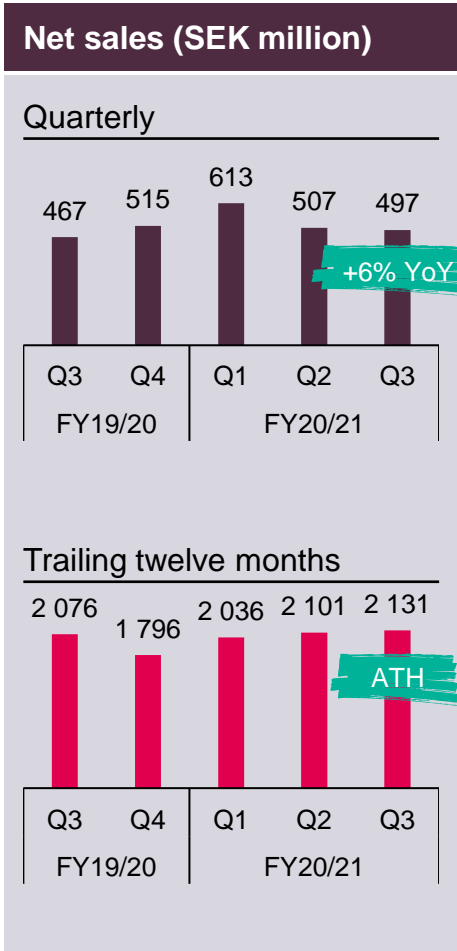


Selected pipeline

BIOMUTANT®
PC+Console (★)

KINGDOMS OF AMALUR
RE-RECKONING
Switch (★)

MONSTER JAM
STEEL TITANS 2
PC+Console



Net sales drivers in stable quarter

Key releases

THE OFFICIAL MOTOCROSS VIDEOGAME
PC+Console

PC+Console

Next-gen consoles

Selected back catalog drivers

Milestone, Vertigo, Flying Wild Hog

Milestone performed in line with mgmt expectations. Main revenue drivers were *Ride 4*, *MotoGP20*, and a stable back catalog.

Gross revenue +40% YoY in the quarter without a major release

Successful release of Facebook's Oculus Quest 2 VR headset, selling 1m units in Q4 2020 (SuperData), benefits the general prospects of the VR market

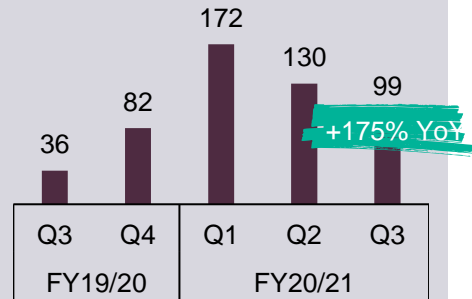
Acquired Flying Wild Hog in Nov 2020. Polish developer of AA+ PC and console games e.g. critically acclaimed *Shadow Warrior* series. Team of 260+ across three studios in Poland. [Link to presentation](#) (slides 28–30).

Selected pipeline

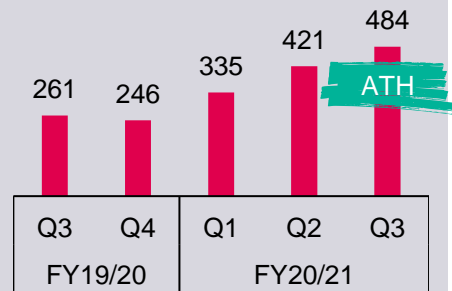


Net sales (SEK million)

Quarterly



Trailing twelve months



Sales driven by back catalog



- No new releases in the quarter
- The back catalog continued to perform well, led by *Satisfactory* and *Deep Rock Galactic*.

Other

- The remaining 40% of Coffee Stain North acquired in November. The studio is working on an unannounced title since 2017.



- Successful Early Access release of *Valheim* after the quarter
- Developed by minority-owned studio Iron Gate and published by Coffee Stain



96%

“Overwhelmingly positive”

~3M+ copies sold

Selected pipeline

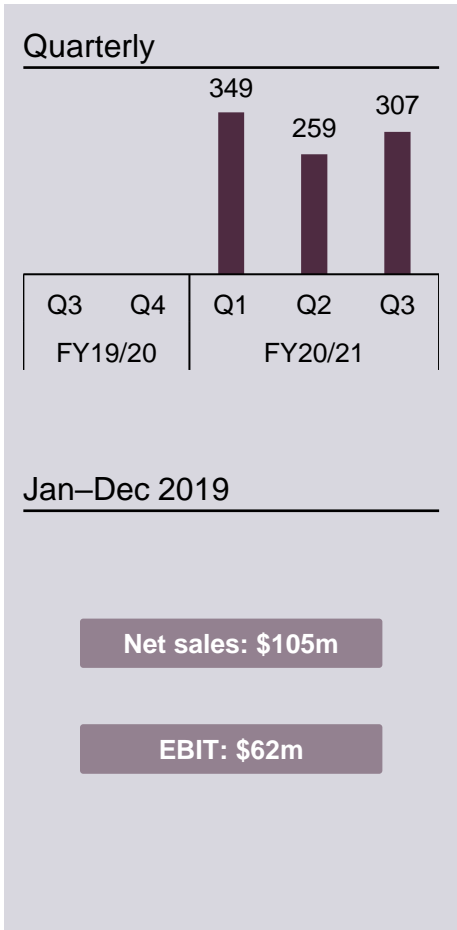


MIDNIGHT GHOST HUNT

SONGS OF CONQUEST



Net sales (SEK million)



Net sales drivers

a Mud Runners Game

Solid quarter driven by back catalog, mainly WWZ and Snowrunner

Six acquisitions in the quarter and one after

Leading pinball games developer. 65 FTEs. Hungary.

Developer of premium strategy games e.g. Phoenix Point. 65 FTEs. USA and Bulgaria.

Leading Latam PC/console game developer. 75 FTEs. Argentina.

Extensive and efficient game developer. 130 FTEs. Serbia.

Developer of premium games for PC, console and mobile. 28 FTEs. Italy.

PR and influencer relations agency specialized for in gaming. 13 FTEs. USA.

Indie developer and publisher with 24+ years of finding beloved IPs and connecting them with new audiences on all platforms. 140 FTEs. USA. After the quarter.

Link to presentations (1) and (2)

Pipeline

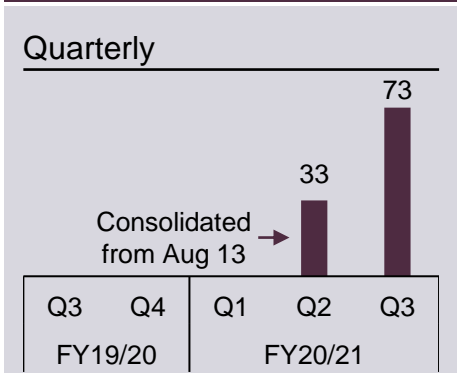
Selected upcoming releases

Madrid

St. Petersburg



Net sales (SEK million)



- DECA Games was acquired as Embracer's sixth operative group on Aug 13, 2020

Net sales drivers in the quarter



- Stable performance overall in the quarter,
- mainly driven by new products *DragonVale*, *Almost a Hero*, and *Gods and Glory*.
- *Realm of the Mad God* continued to performed well
- *DragonVale* underperformed management expectations as content updates were delayed

Two acquisitions in the quarter

- Mobile studio • Founded 2008 • ~82 FTEs
- Vancouver, Canada • \$190m lifetime sales

- Mobile studio • Founded 2003 • ~86 FTEs
- Vancouver, Canada

Both *A Thinking Ape* and *IUGO* is developing one original IP for release in cal. year 2021

[Link to presentation](#)



Key events in and after the quarter



metacritic
(PC)

84 **8.8**

94%

“Very positive”

Tarsier Studios released *Little Nightmares 2* on PC, consol and Stadia after the quarter

Strong reviews from critics and players alike

Minor contribution to the result due to external publisher

Going forward, *Tarsier Studios* focuses on creating new IP



Majority-owned studio *Misc Games* released *Fishing North Atlantic* on PC in the quarter which underperformed vs. mgmt expectations



Acquired founder-led studio *Silent Games* in the quarter

Founded 2018 in Newcastle, UK

Team of four with ambition to grow to 30 heads



Invested into start-up studio *Plucky Bytes* in the quarter

Based in Karlstad

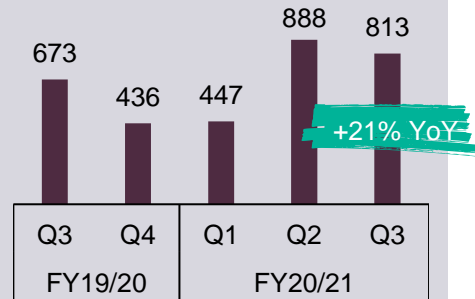
Run by three industry veterans

A large yellow and black logging truck with a trailer full of logs, driving through a snowy, rocky stream in a forest. The truck is the central focus, moving from left to right. The background features snow-covered evergreen trees and a cloudy sky. The foreground shows the turbulent water of the stream and rocks.

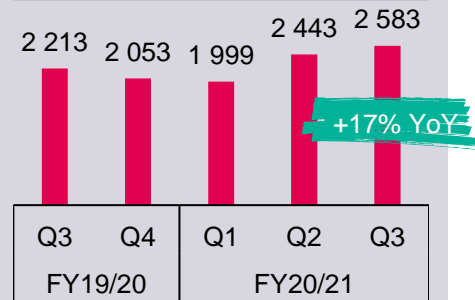
**3. *Partner Publishing/Film*
business area**

Net sales (SEK million)

Quarterly



Trailing twelve months



Net sales drivers in the quarter



- Sales were above management expectations,
- mainly driven by releases Dirt5, Yakuza 7, Mortal Kombat 11 Ultimate, and Covid-19 recovery
- Other releases included Puyo Puyo Tetris 2, Kingdom Hearts Melody of Memory and Chronos: Before the Ashes.

Film and other

Film business segment

- Exceeded management expectations
- Highlights: Successful theatrical release of Pataní, exclusive distribution contract with Paramount for Italy territory, notable TV-agreements with Italian broadcasters Sky and RAI
- Digital sales at high level, physical hampered by covid-19
- Video subscription channel “Aniverse” on Amazon Prime continued to perform well

Other

- Game Outlet had another stable quarter
- Acquired 95% of Romanian *Quantic Lab* – gaming Quality Assurance

Pipeline

No notable release with significant commercial impact expected for Q4 FY20/21

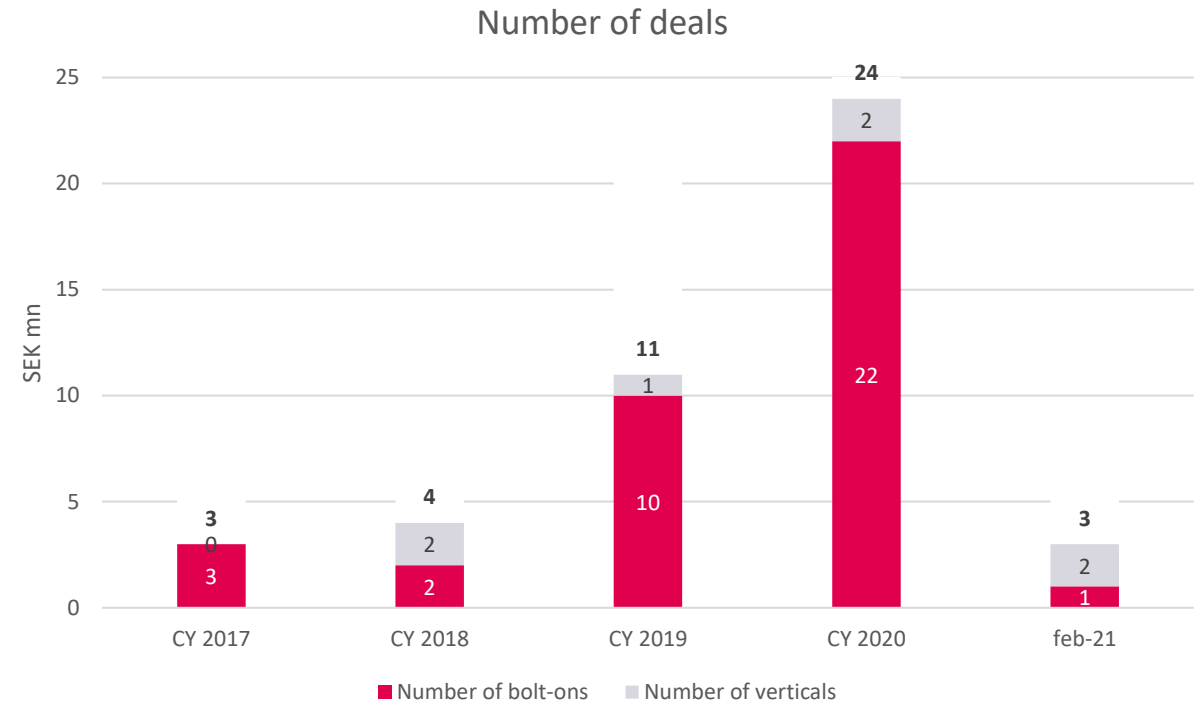
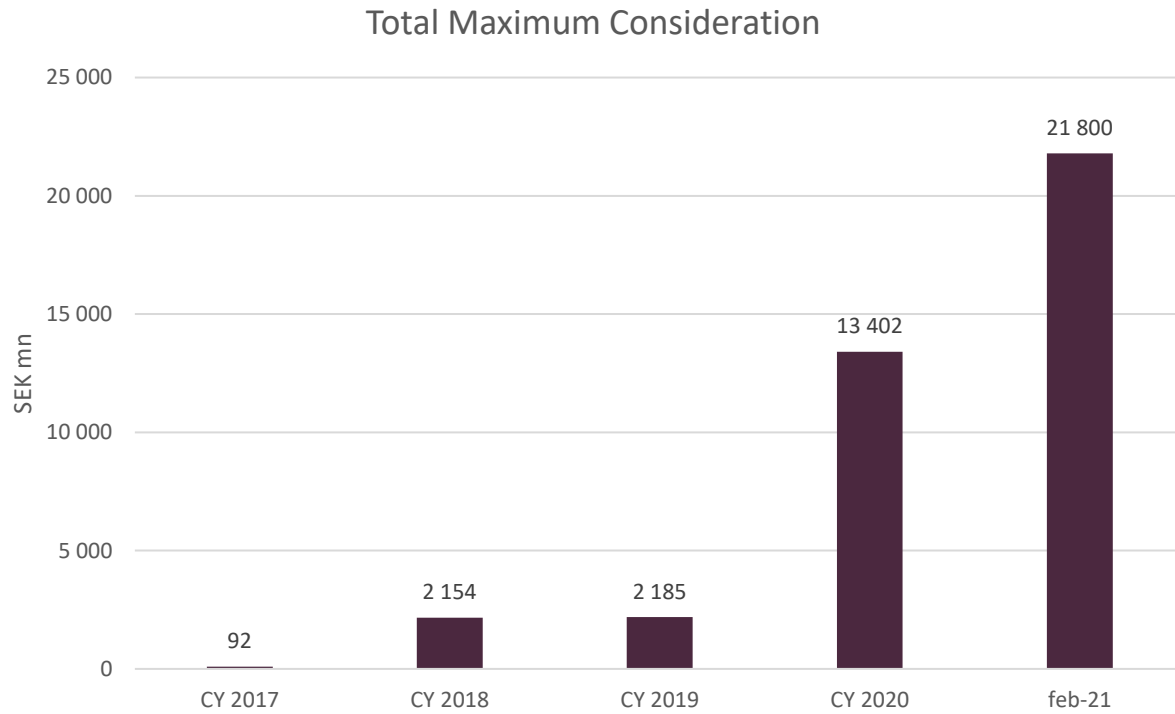
Selected upcoming releases fiscal Q4

HITMAN III



4. M&A update & outlook

Recap on mergers and acquisitions



Two landmark acquisitions forming two new verticals (after quarter)



Gearbox brings highly creative AAA development studios, North American publishing capabilities and a robust IP portfolio, including critically acclaimed and iconic franchises like Borderlands, Brothers in Arms and Homeworld.

[Link to presentation](#)

Easybrain

Easybrain is a leading mobile game developer with a core focus on advertising-based puzzle and logic games. Easybrain's titles have more than 750 million installs to date and 12 million daily active users across 15 live games.

[Link to presentation](#)

M&A outlook

- Our M&A capabilities are stronger than ever with HQ in Sweden and eight operating units across the globe scouting and researching for suitable entrepreneurs that want to join the family.
- Consequently, we are in more such dialogues than ever and our ambition is to continue grow our M&A activity going forward.
- Embracer's buy to build mindset and operating model with autonomy to the founder(s) within a diversified group remain attractive to many gaming entrepreneurs.
- Vivid M&A market – however we will continue the same principles and strategy to execute transaction. We are truly independent with approx. 1% global market share. Our competitors and industry peers are generally significantly larger companies.

5. Financial deep dive



IFRS CONVERSION AND REGULATED MARKET

- **The Board of directors decided on the Board Meeting 17th of February to convert to the reporting standard IFRS and thereby start the process to become listed on a regulated market.**
- The work will be done through execution of a project, which is centered around **three workstreams**; Financial Reporting & Principles, Internal Control Process and Corporate Governance structure, with a clear ambition to achieve industry leading efficiency and transparency for each workstream throughout the Embracer Group while maintaining a well-balanced approach to Embracer's decentralized strategy. The workstreams are split in phases with clear milestones.
- The overall timeline for the process is estimated to **between 18 and 36 months** where timing is dependent on the pace of training, recruiting, and onboarding of key employees and the need for business support and financial integration of future mergers and acquisitions.
- The first set of milestones within the Corporate Governance structure workstream was implemented 17th February with the decision to establish an **Audit Committee and a Remuneration Committee, to become effective immediately.**

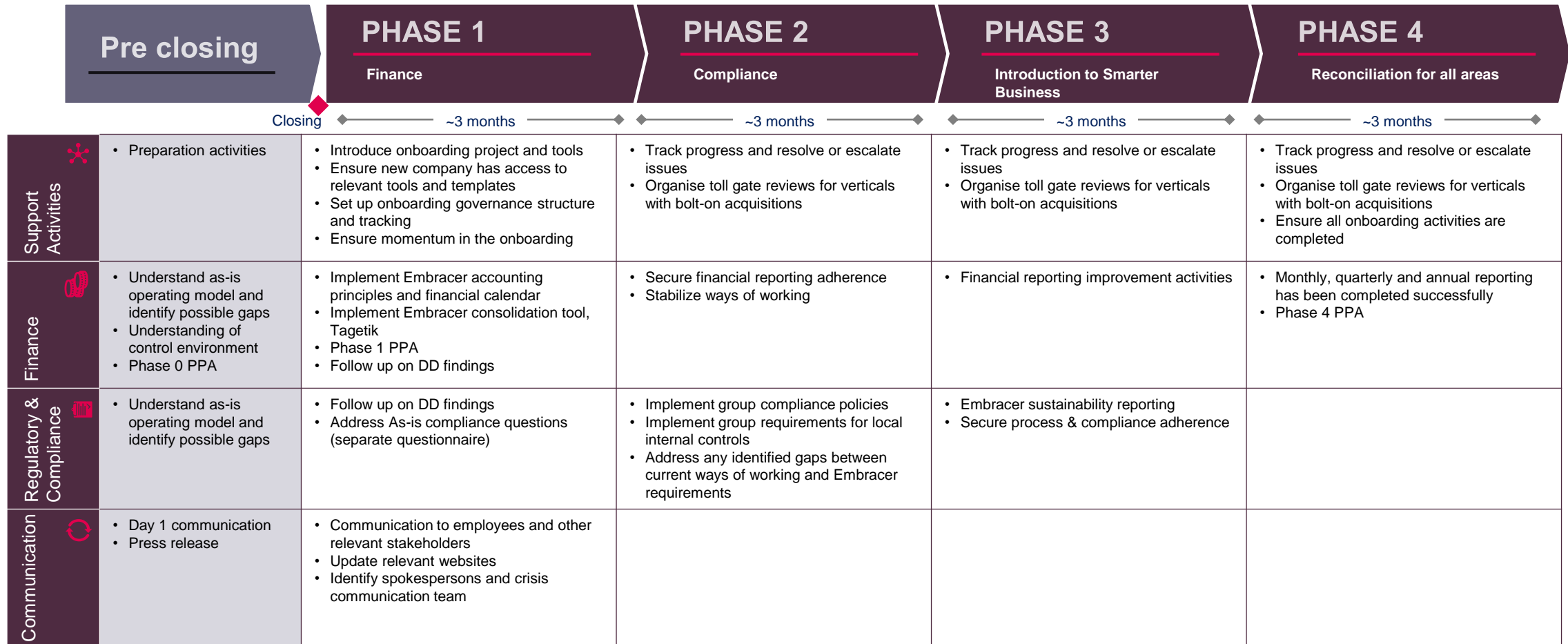
Onboarding timeline

– the first year with Embracer Group.

The onboarding process is divided into four sections during the first year with Embracer. Each of them will be in depth described by a dedicated onboarding representant from Embracer Group that will guide through each section.



High level onboarding timeline and key actions.



The onboarding aims to preserve each company and align with **Embracer's core values.**

Decentralization, standalone entities and maintaining responsibilities and authority.

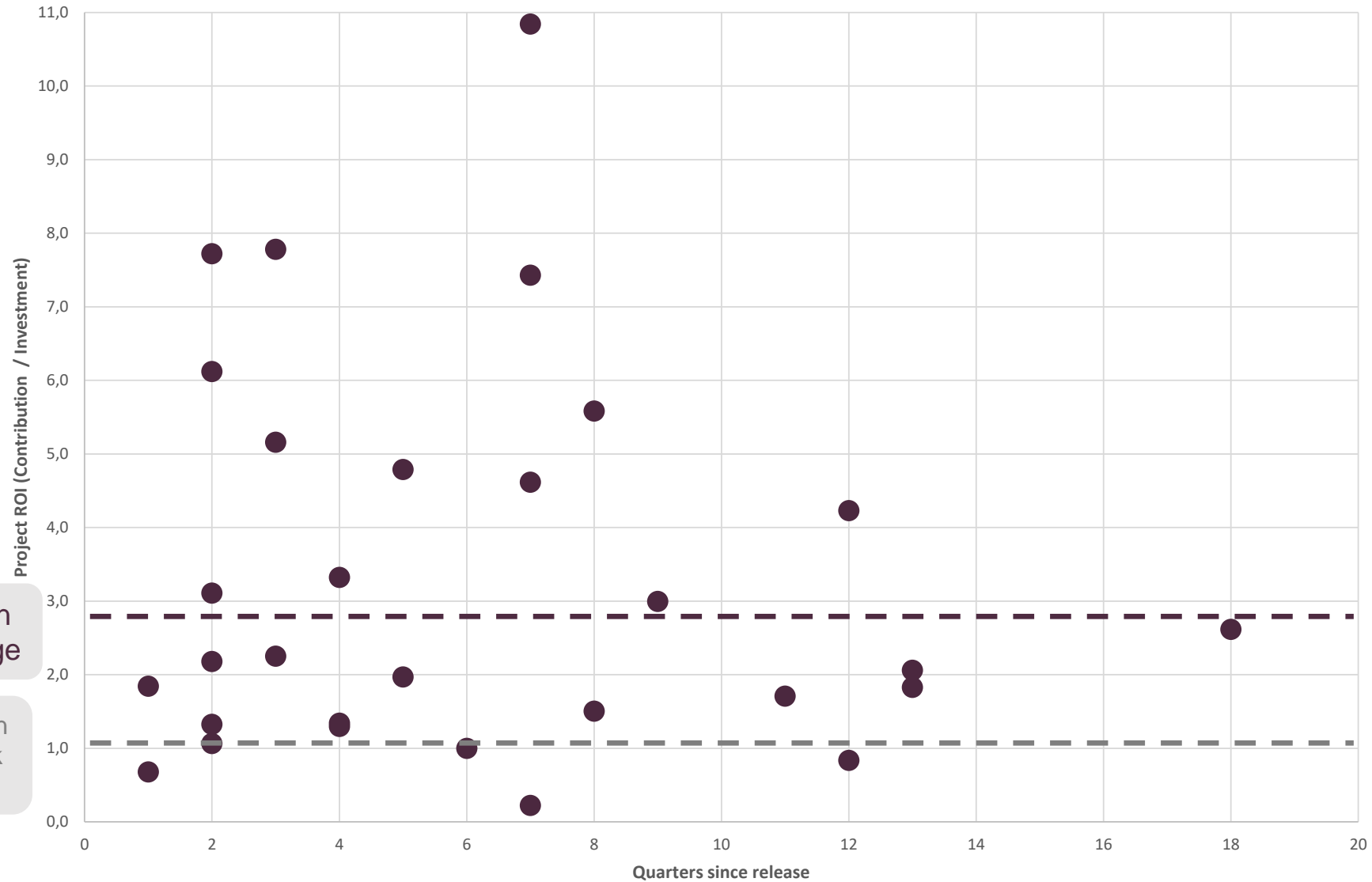
Remain independent with business as usual.
Enabling growth through maintaining its creative freedom and entrepreneurial spirit.



Being a part of Embracer Group.

Being a part of a global listed company includes understanding and adopting to financial structures, governance, risk, compliance and communication directions. Respect for Embracer's core values, compliance code and the ESG framework "Smarter business".

PROJECT ROI



2.9x in average

1.0x in break even

Based on reported numbers until 31 December 2020

Sample includes projects with sales above SEK 40 mn or investment above SEK 40 mn (30 projects)

ROI = Contribution / Investment

Contribution = Gross Profit less marketing expenses from release to 31 December 2020.

Investment = Capitalized Development Expenses including follow-on investment.

Non-operational Amortizations - Forecast

- Forecast includes signed deals as per 2021-02-17.
- Forecast is based on the purchase price allocations as per 2021-02-17, which contain both preliminary and finalized purchase price allocations.
- Acquisition values are converted to SEK as per 2020-12-31 and consideration shares are valued at the VWAP as set forth in each SPA.
- Forecast Q4 20/21 is based on the average exchange rate during the quarter. Other periods are based on exchange rate as per 31st December 2020.
- Forecast assumes closing date of Gearbox, Easybrain and Aspyr as per 2021-04-01. IUGO, ATA, Zen assumed closing mid Q4.

	Q4	FY	FY	FY	FY	FY	FY	Total
SEK m	20/21	21/22	22/23	23/24	24/25	25/26	26/27	
Amortization related to acquisitions closed 2020-12-31	-708	-2 738	-2 677	-2 416	-2 130	-508	0	-11 178
Amortization related to acquisitions expected to be closed after 2020-12-31	-42	-3 706	-3 706	-3 706	-3 706	-3 663	0	-18 527
Non-operational amortizations	-750	-6 444	-6 383	-6 121	-5 836	-4 171	0	-29 705

A vibrant, stylized landscape featuring a large, gnarled tree with green and yellow leaves on the right. The foreground is filled with a field of red flowers and green grass, with a large, textured rock in the center. A blue and orange creature with large ears is perched on the rock. The background shows a hazy, mountainous landscape under a blue sky with white clouds. A semi-transparent dark purple banner is overlaid across the middle of the image.

6. Sustainability quarterly update

Sustainability Report 20/21

Upcoming annual report FY 20/21 will uphold the first statutory sustainability report and according to ÅRL-regulation including concerns regarding the environment, social conditions, employees, respect for human rights and counteracting of corruption.

New Policy

A Global Trade Compliance Policy was adopted

Training

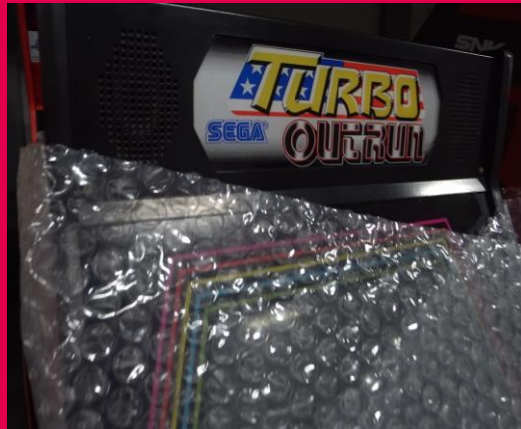
More than 50% of total headcount completed our Compliance Code training by year end 2020, initiated autumn 2020.
Enables us to ensure awareness of our common principles of integrity, quality and social responsibility.
Mental health training – operative group level

Ambassador program

Extended with new ambassadors joining and contributing to the ongoing sustainability/ESG agenda to improve our identified focus areas. Monthly meetings focusing on environment, social issues and governance.
Initiatives, based on our four focus pillars, shared and started; targeting recruitment, data protection and inclusion.

GAMES ARE CULTURE

Preserving games and their history is important as it's a part of our heritage.



Embracing the history of games

- Embracer Group will build the games archive with the long-term ambition to preserve and document the video games heritage for both internal and external stakeholders.
- The foundation of the archive has during the year been donated by CEO Lars Wingefors. The company has recently extended the archive with the purchase of a few significant life-achievement collections from private collectors in Europe. Currently the archive holds approx. 50,000 pieces of games, consoles, peripherals and arcades including many of them extremely rare and almost unique items.
- The archive will be located around our HQ in Värmland and could in the future have satellite exhibits at our companies or external parties around the world. The goal is to build an archive for the sake of preserving games and a complete reference library for the benefit of the group.
- Contact [Thomas Sunhede](#), head of the project, for more information.



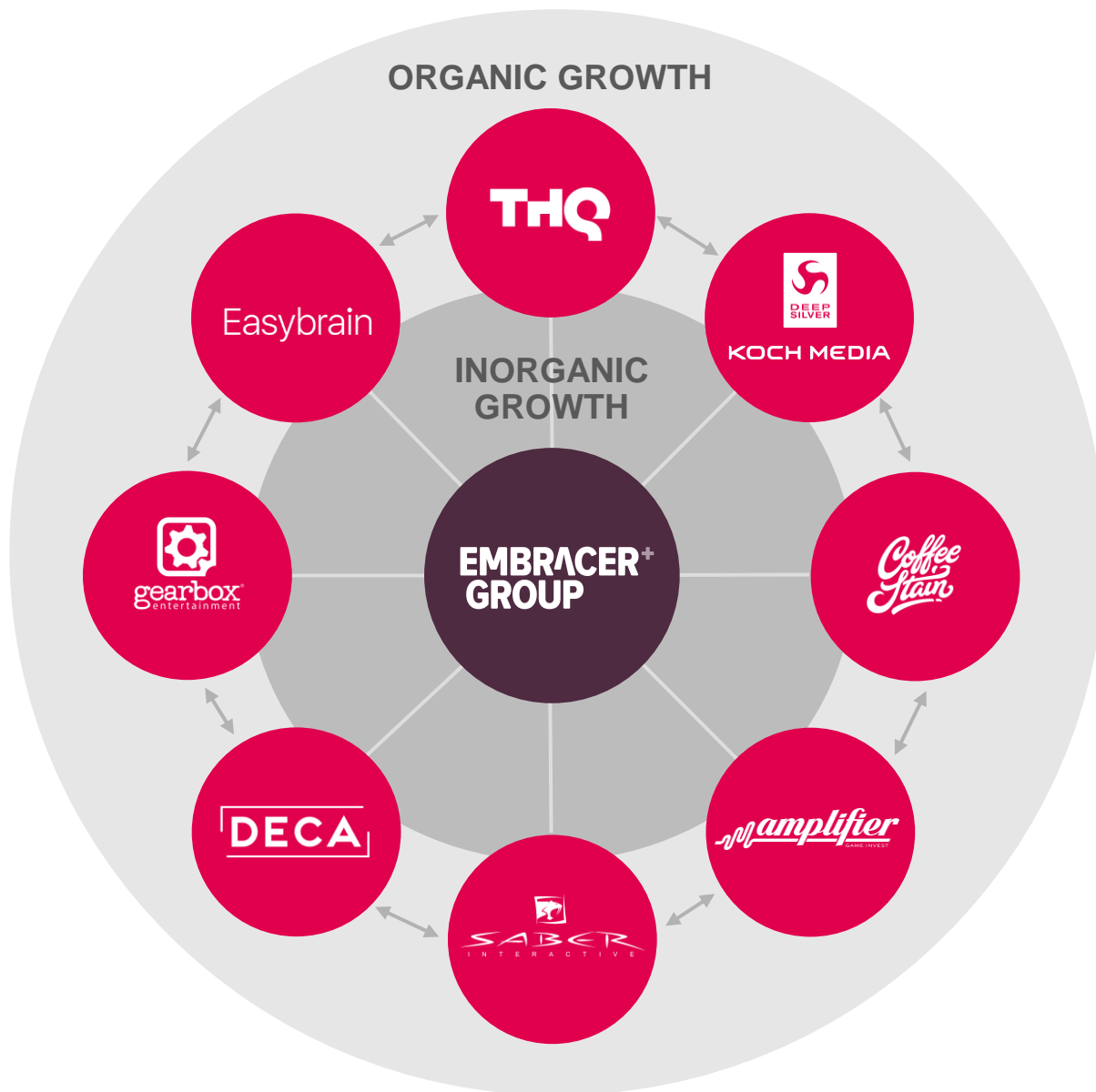
EMBRACER⁺
GROUP

Decentralization philosophy
empowering individuality,
creativity and speed.

Offering benefits of a large
structure e.g. access to growth
capital, knowledge sharing and
soft synergies.

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

Eco System with soft
synergies



EACH PLATFORM HAS ITS
OWN UNIQUE CULTURE, DNA
AND STRATEGY