

EMBRACER⁺ GROUP

Q4 FY20/21

Interim Report

May 20, 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 warrior with a large, round, metallic shield and an axe. The character on the right is a smaller figure, possibly a mage or scout, holding a staff. The background features a majestic mountain range with a prominent, snow-capped peak. The scene is framed by dark, silhouetted evergreen trees on the left and right sides. The overall color palette is dominated by blues, greens, and purples, creating a magical and atmospheric setting.

1. Operational and financial performance

Financial and operational highlights

Financial and operational key metrics for the quarter

Net sales – Group	YoY growth
SEK 2,404m	+80%
Net sales – Games	YoY growth Organic growth
SEK 1,975m	+119% +85%
Net sales – Partner publ./Film	YoY growth
SEK 429m	-2%

Operational EBIT	YoY growth
SEK 903m	+216%

Free cash flow	YoY growth
SEK 861m	SEK +585m

Record financial performances, both for the quarter and the financial year 2020/21. Mainly driven by a solid back catalogue & success of new releases.

Key Revenue drivers during Q4:



Q4 6.8m
Q1 1.0-1.2m

Pipeline

Pipeline projects*
160

Development studios*
126

Game developers*
~5,100

Invested in game dev.*
SEK 563

in the quarter, which was **ATH & 4,8x** the dev. value of released games.

Expected value of completed games the first quarter.
SEK 300-350m

Expected value of completed games in the end of the FY 21/22.
SEK 2800-3300m
Complete more than 90 game development projects.

Other updates

ANNOUNCED ACQUISITIONS AFTER THE QUARTER

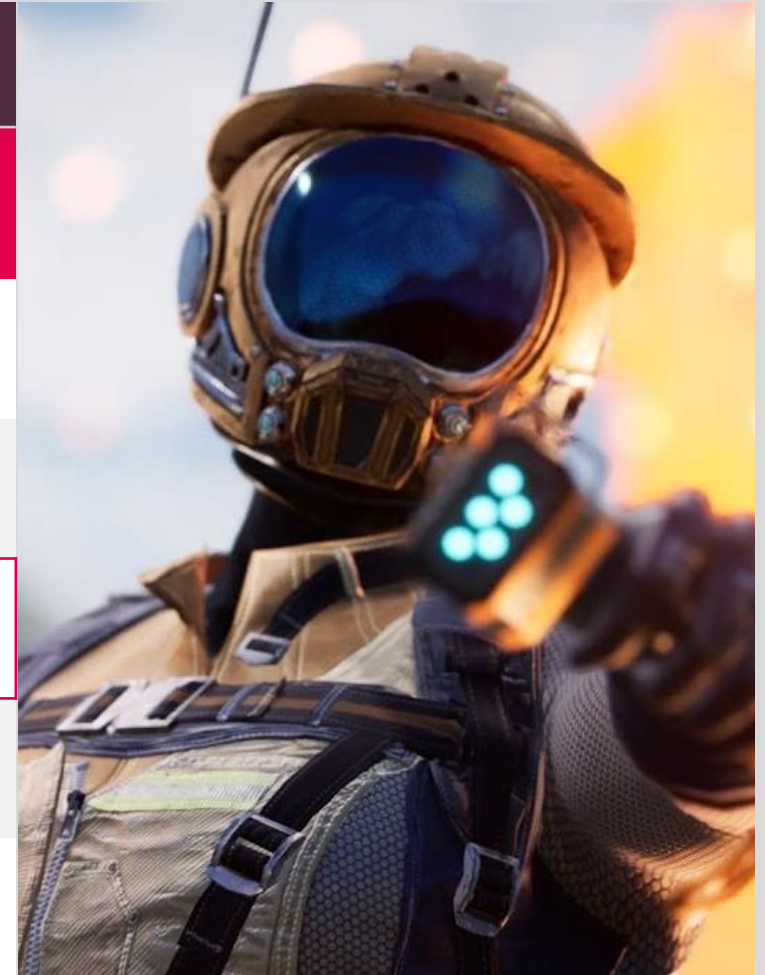


- Per May 20th, 2021, the group has more than SEK 17 billion in cash and available credit facilities.
- In March, we completed Nordics largest ever ABB, raising 7.6 billion SEK from institutional investors.
- During the past quarter, we have been engaging with more than 150 companies and currently have 20 late-stage talks.
- Integration of **Gearbox, Easybrain and Aspyr** goes according to plan.
 - ~Easybrain's performance is exceeding management expectations at the time of the merger.
- Reformation of Free Radical Design, Nottingham UK

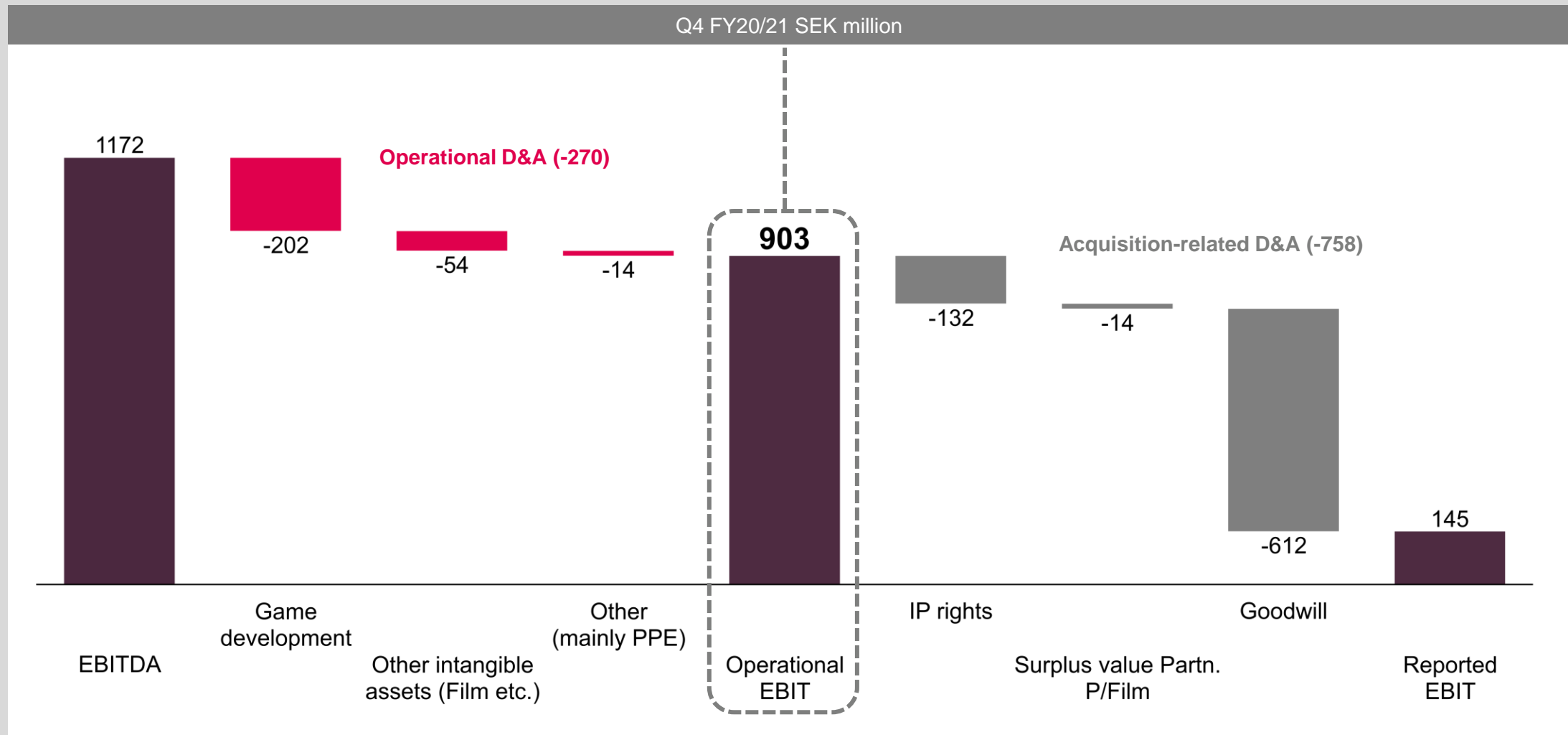
TIME SPLITTERS

Key PnL metrics

SEK million	Quarterly			Trailing twelve months (TTM)		
	Q4 FY20/21	Q4 FY19/20	YoY change	Mar 2021	Mar 2020	YoY Change
Net sales	2,404	1,339	80%	9,024	5,249	72%
EBITDA	1,172	495	137%	3,985	1,821	119%
Operational EBIT	903	286	216%	2,871	1,033	178%
Operational EBIT margin	38%	21%		32%	20%	
Adjusted EPS (SEK)	2.07	0.97	113%	6.44	2.81	129%



Depreciation and amortization



Cash flow statement

SEK million	Q4 FY20/21	Q4 FY19/20
Cash flow from operating activities before changes in working capital	1,197	385
Change in working capital	325	381
Cash flow from operating activities	1,522	766
Net investment in acquired companies	-405	-15
Net investment in intangible assets	-599	-464
Net investment in tangible assets	-17	-14
Net investment in financial assets	-45	-11
Cash flow from investing activities	-1,065	-504
Cash flow from financing activities	6,867	-559
CASH FLOW FOR THE PERIOD	7,323	-298
Translation difference in cash and cash equivalents	58	23
Free cash flow	861	276
Free cash flow – trailing twelve months	1,685	0

◀ 211 % 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.

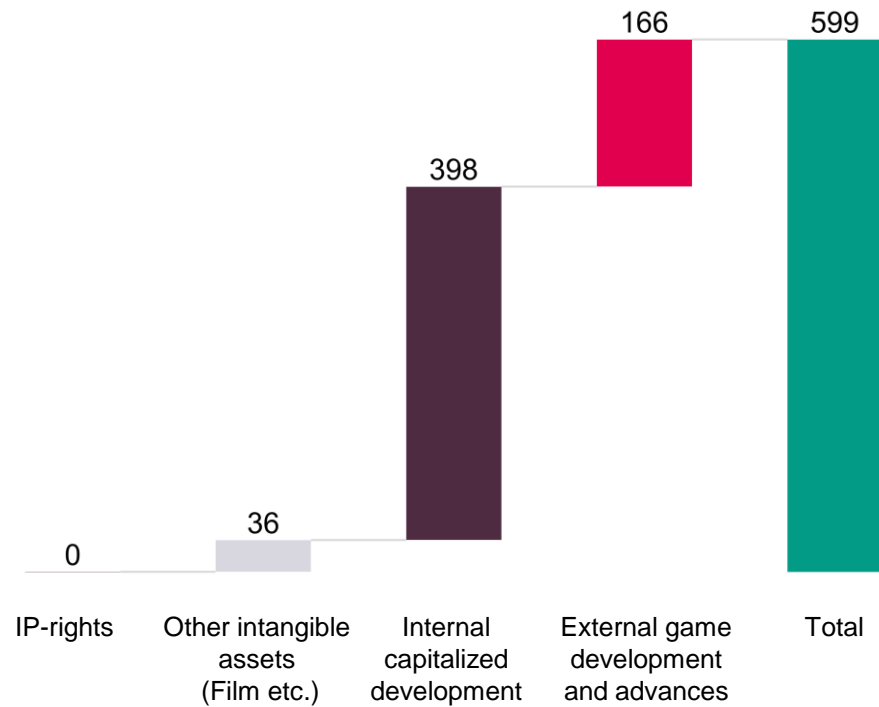
◀ Mainly relating to the new share issue of SEK 7.4bn in Mars 2021 & reduced utilization of credit facilities in Koch Media.

◀ FCF in the quarter was SEK 861m simultaneously as we invested more than ever into game development (SEK 563m).

Investments

Investments in intangible assets during the quarter

Q4 FY20/21
SEK million

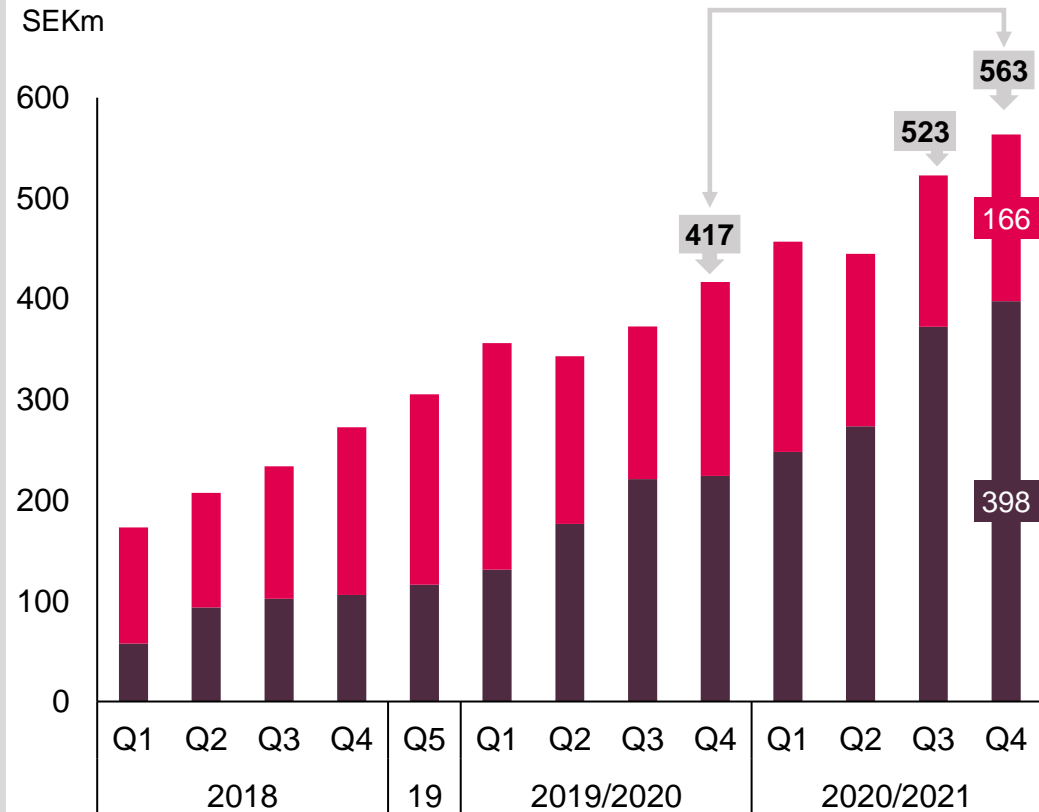


Completed games: SEK 117m

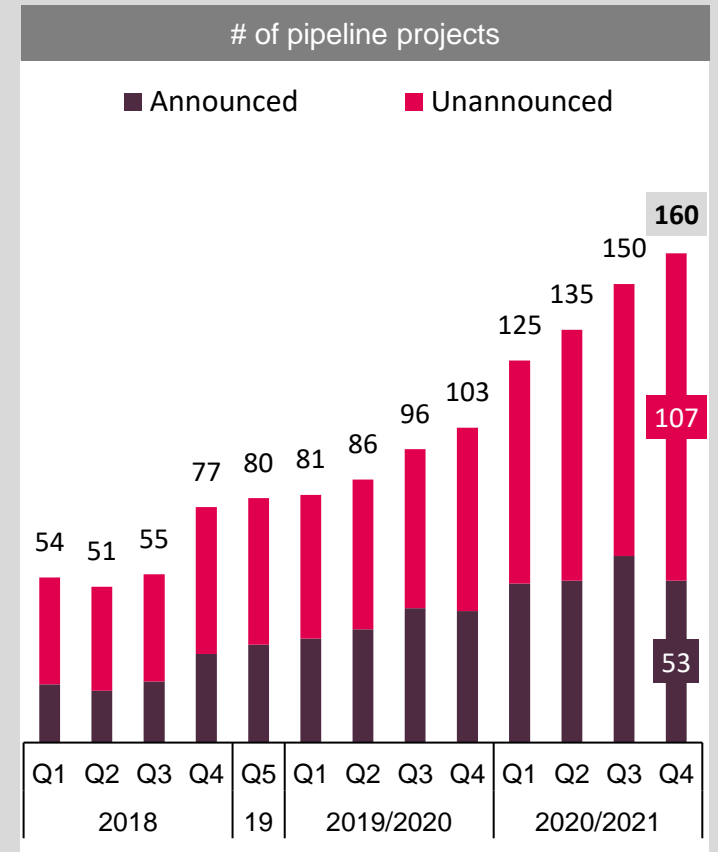
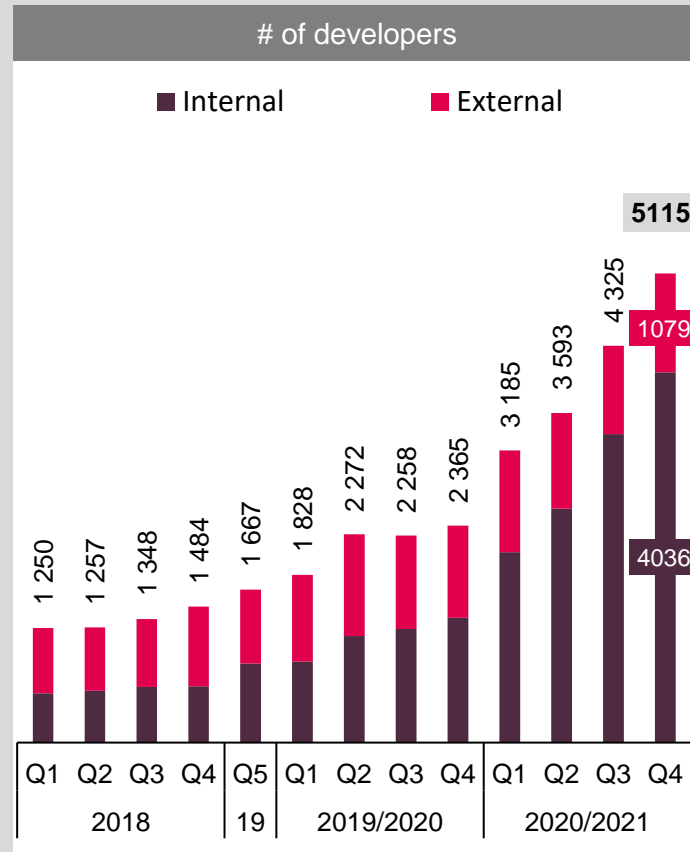
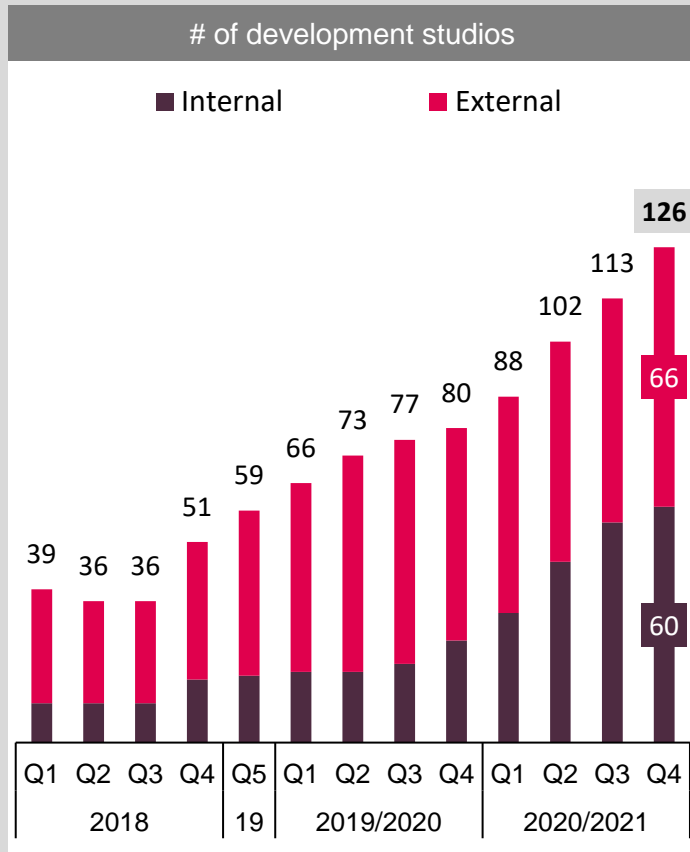
(Total development cost of all games released in the quarter)

Investments in game development by quarter

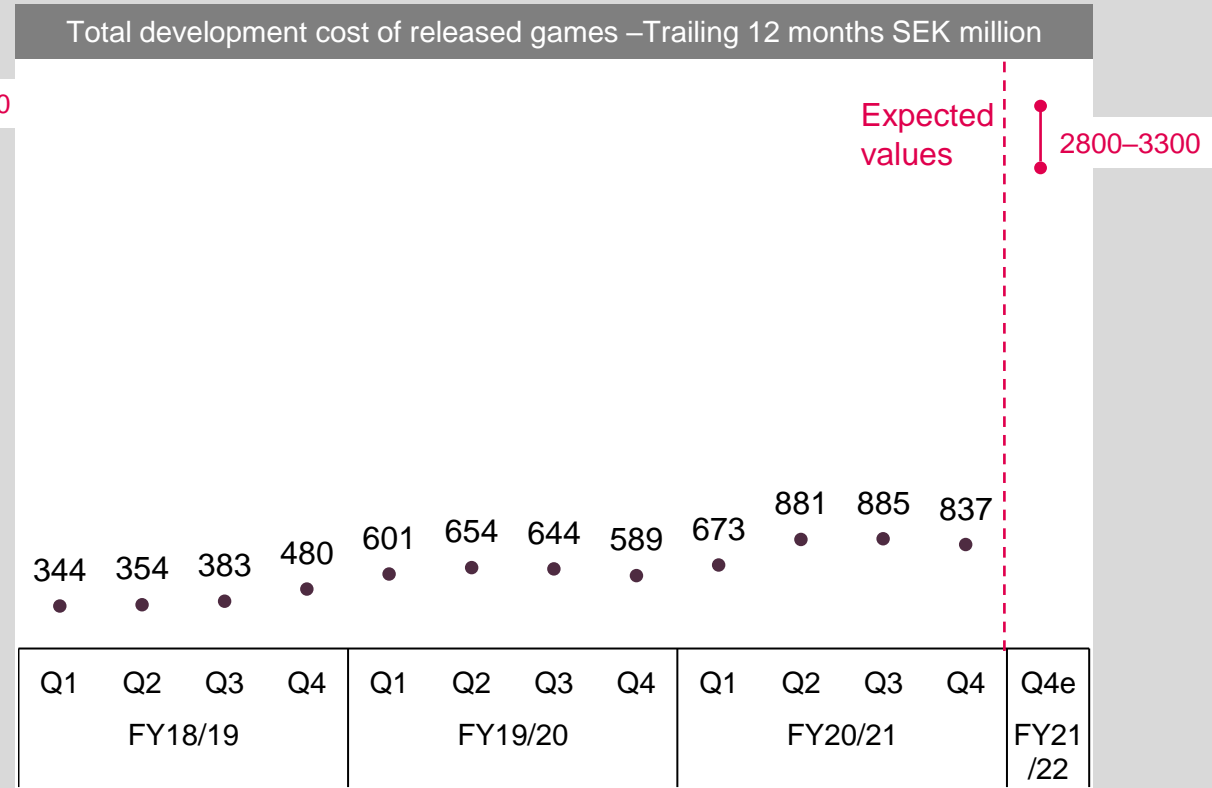
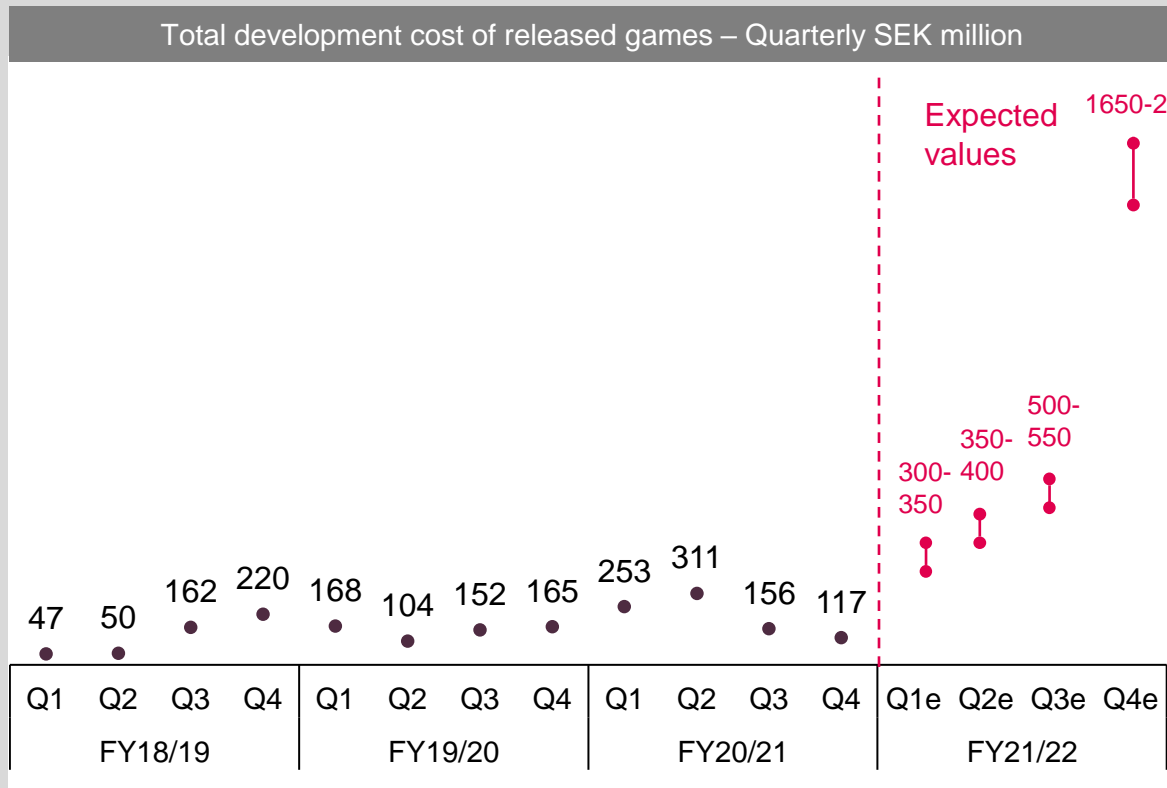
■ External game development and advances ■ Internal capitalized development
+35%



Pipeline and development capacity continue to grow



Value of finalized game development



- The first quarter of FY21/22 the value of completed and released games is estimated to be in range of SEK 300 to 350 million.
- The level of completion is expected to be back-end loaded during the year, with significantly higher completion value in the fourth quarter.

- During the year ending March 2022, the ambition is to complete more than 90 game development projects with a total completion value in the range 2800 – 3300m.

Balance sheet

SEK million	31 Mar 2021	31 Dec 2020
Intangible assets	16,390	14,686
Property, plant and equipment	238	230
Financial assets	571	367
Inventories	243	279
Current receivables	2,010	1,878
Cash and bank balance	14,300	6,919
Total assets	33,752	24,359
Share capital	1	1
Other capital reserves	26,762	19,068
Recognized profit incl. the period	402	-344
Provisions	2,817	1,931
Non-current liabilities	246	267
Current liabilities	3,524	3,436
Total equity and liabilities	33,752	24,359
Interest-bearing receivables	14,300	6,919
Interest-bearing liabilities	1,494	2,041
Net cash	12,806	4,878

Breakdown of intangible assets 31 Mar 2021

Completed games (released)	513	13%
Ongoing game development projects	3 182	82%
Other intangible assets (film etc.)	180	5%
Operational intangible assets	3 875	100%
IP-rights	1 575	13%
Surplus value Partner Publishing/Film	135	1%
Goodwill	10 804	86%
Acquisition related intangible assets	12 515	100%

**20.5bn
SEK**

In cash and unutilized credit facilities per 31 Mar 2021

**17.2bn
SEK**

In cash and unutilized credit facilities per 20 May 2021

Non-operational Amortizations – Forecast

SEKm	FY	FY	FY	FY	FY	FY	Total
	21/22	22/23	23/24	24/25	25/26	26/27	
Amortization related to acquisitions closed 2021-03-31	-3 121	-3 069	-2 789	-2 482	-770	0	-12 231
Amortization related to acquisitions expected to be closed after 2021-03-31	-3 559	-3 559	-3 559	-3 559	-3 559	0	-17 797
Non-operational amortizations	-6 681	-6 628	-6 349	-6 041	-4 329	0	-30 028

- The forecast for April to June 21/22 amounts to SEK 1,670 million.
- The forecast includes closed transactions as per 31 March 2021 and Gearbox, Easybrain and Aspyr who were closed after quarter end.
- The forecast is based on the exchange rates as per 31 March 2021.
- Forecast is based on the purchase price allocations as per 20 May 2021, which contain both preliminary and finalized purchase price allocations.
- Consideration shares related to transactions that were not closed per 31 March 2021 are valued at the volume weighted average share price (VWAP) as set forth in the relevant share purchase agreement.

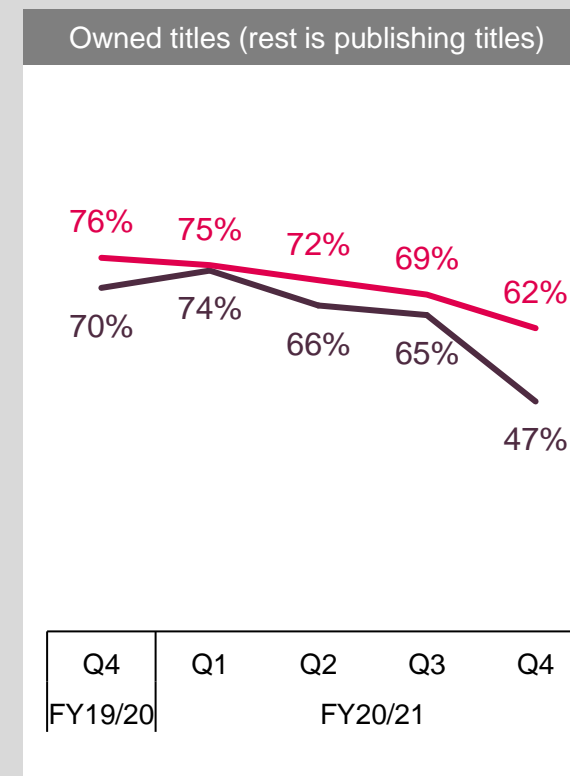
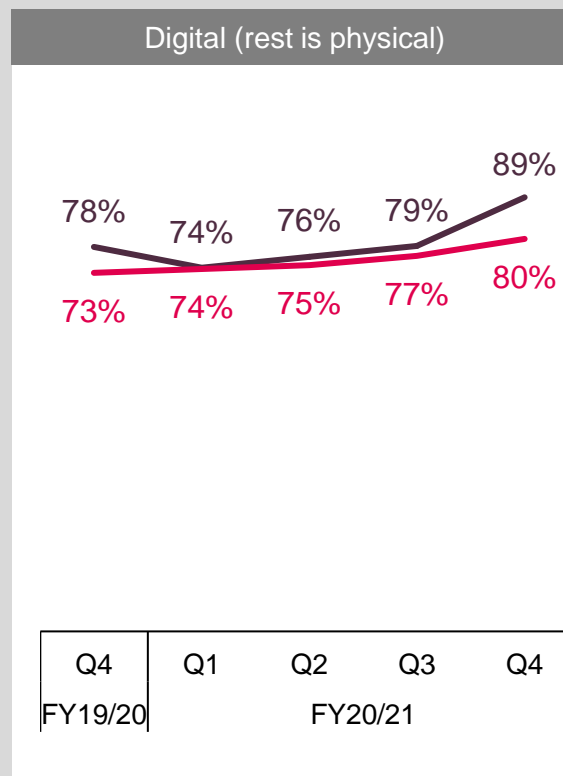
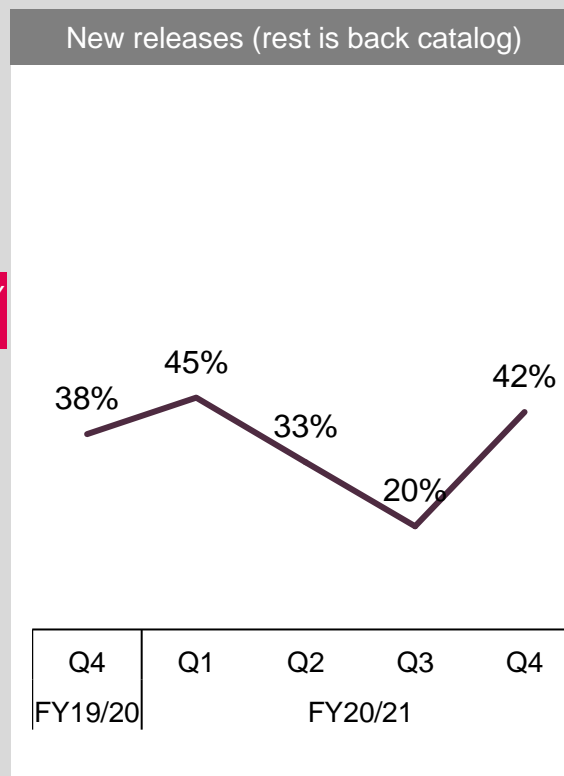
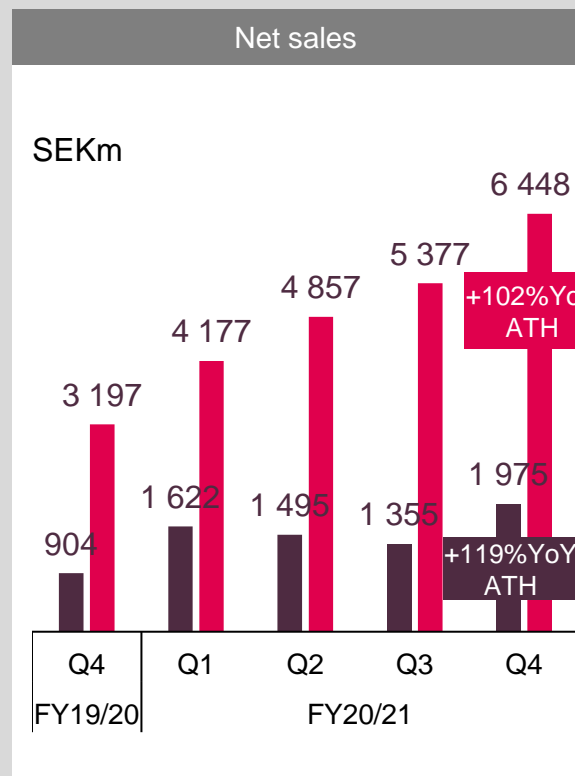
An aerial, isometric view of a tropical island. The island is lush with green palm trees and dense vegetation. A winding dirt path leads from the top of the island down to a sandy beach. Several small, colorful boats are scattered around the island: one on the left, one near the top, one on the right, and one in the water. The water is a vibrant turquoise color with white foam from the waves. A semi-transparent dark blue banner with a diagonal cutout on the right side is overlaid across the middle of the image. The text "2. Business areas" is written in a bold, white, sans-serif font across the banner.

2. Business areas

Net sales breakdowns

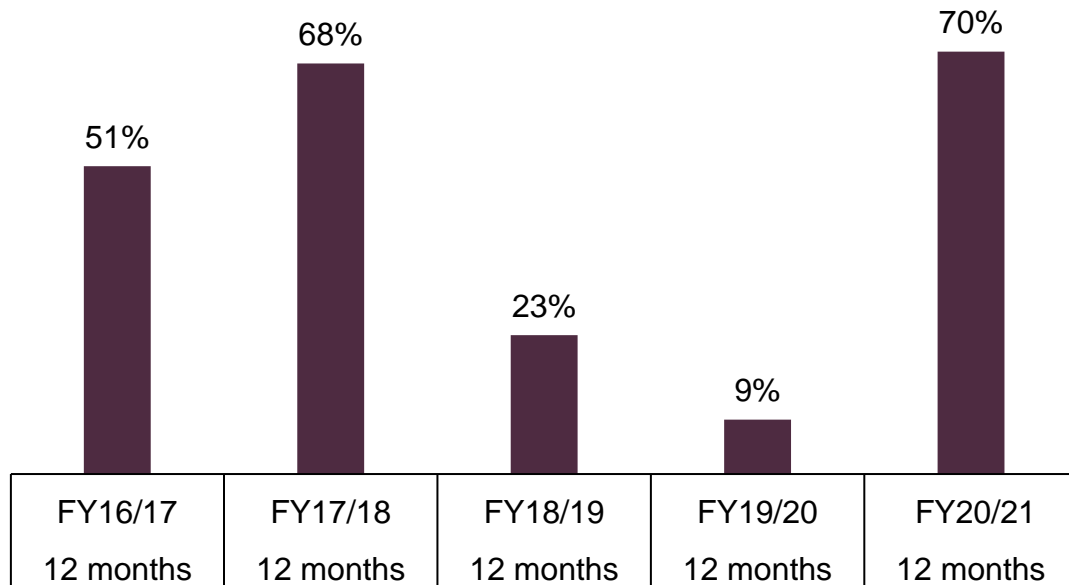
■ = Quarterly

■ = Trailing twelve months

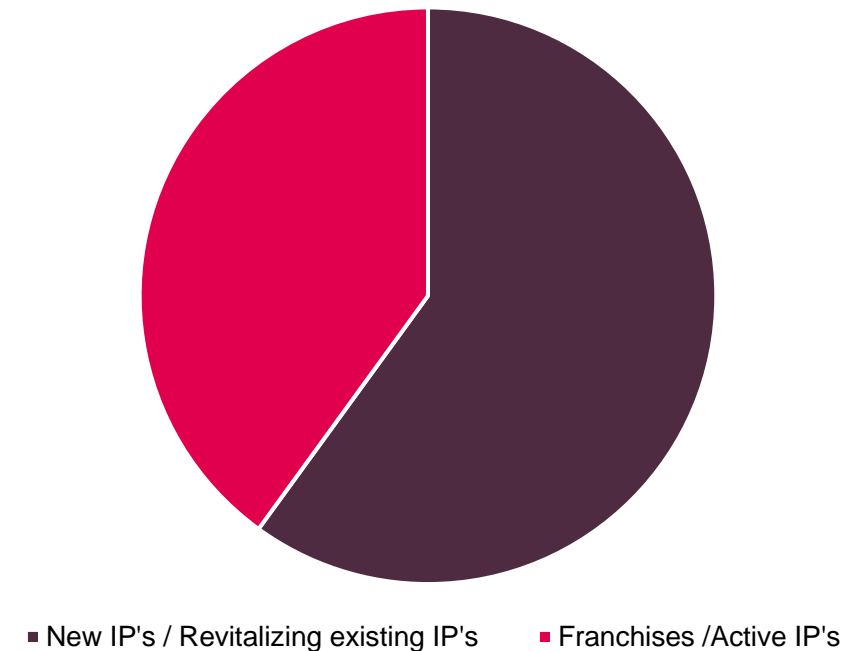


Organic growth set to continue

Organic growth (constant currency)



Ongoing game development projects

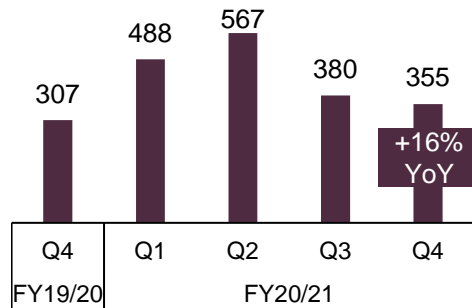


- More than 2/3 of the current 160 ongoing game development projects are based on new IP's or revitalizing existing IP'S (without any installments in the past 5 years).
- These projects should bring incremental revenues and contribute to organic growth in the years to come.
- We still have plenty of dormant IP's, licences and ideas for new IP's that we need to find a studio for.

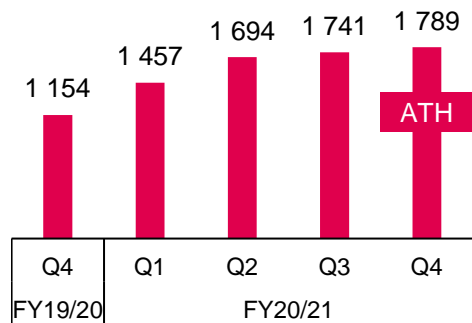
THQ NORDIC

Net sales (SEK million)

Quarterly



Trailing twelve months



Net Sales drivers in the quarter

New releases



Main back catalogue drivers



Solid quarter with two new releases. Supported by a strong back catalogue, mainly driven by evergreen titles like *Wreckfest*, *Spongebob* & *Destroy all Humans!*.

Other



Destroy all Humans! has sold over 1million* copies over the Year



Spongebob has sold over 2million* copies over the Year

Selected pipeline

BIOMUTANT.

PC+Console (★)

Preorders for *Biomutant* are strong and ahead of management's expectations. Release on May 25, 2021



DRIVE HARD. DIE LAST.
PS5 (★)



Switch (★)

THQNORDIC

Recent acquisitions update



Massive Miniteam

Today's speaker guest:



Klemens Kreutzer
CEO
THQ Nordic

A premier studio with a talented and experienced team

Game development studio focused on creating open-world games

Based in Belgium

2018
Founded

c. 55
Employees



Yves Grolet
CEO

Deal terms

- THQ Nordic acquires 100% of the shares
- Management is retained in current roles
- Earnout based on financial performance during a 5-year period

Games development and portfolio extract



Developer

Publisher

IP owner*

Publisher

Sci-fi open-world project in development

Tech stack



Game engines



Game platforms

The future

- Continued focus on development of creative and memorable open-world games as an independent studio under THQ Nordic
- Partnering up enables the development of larger titles and better utilization of the studio's resources

Kaiko brings highly praised IP to PC and console

2014

Founded

c. 10

Employees

Germany



HQ,
Frankfurt



Peter Thierolf
CEO

Deal terms

- THQ Nordic acquires 100% of the shares
- Management is retained in current roles

Games development studio and portfolio extract

Example of games portfolio



THQ NORDIC

IP owner & publisher

- Finalizing the new DLC for Amalur
- Exploring development of a high profile THQ Nordic IP
- Ambition to work on bigger and original titles based on THQ Nordic IP
- Allows Kaiko to excel in creating high-quality games and to grow as a game studio



A growing, talented and highly creative team

Game development studio focused on creating indie, VR/AR and additional gaming services for all consoles and PC

Germany

2018

Founded



c. 20

Employees

Based in Pulheim just outside vibrant gaming centre of Cologne

Deal terms

- HandyGames acquires 100% of the shares

Games development and portfolio extract



IP owner



Publisher



IP owner



The Wild Gentleman

IP owner

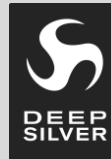


CONFIDENTIAL PROJECT

A successful partnership that has already started

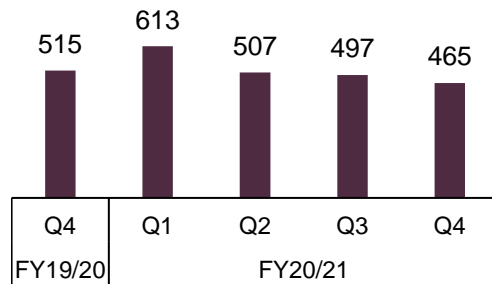


Massive Miniteam has worked closely with HandyGames on several titles and has worked with other entities within Embracer Group

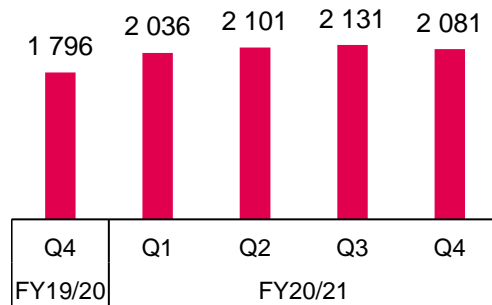


Net sales (SEK million)

Quarterly



Trailing twelve months



Net Sales drivers in the quarter

New releases



Main Back catalogue drivers



Sales were driven by the back catalogue, headed by evergreen titles *Metro* and *Kingdom Come Deliverance*, *Outward* & *Saints Row*. Solid performance of Milestones new release, *Supercross 4*.

Other



Milestone announced their most ambitious game project yet, *Hot Wheels Unleashed*.



Vertigo Games announced that their co-op FPS title *After the Fall* will be coming to VR, with full cross-platform multiplayer support, release summer 2021.



Flying Wild Hog have an exciting project pipeline with four titles that will be released starting from FY 21/22.



During the Quarter, Deep Silver announced a global long-term co-publishing agreement with Starbreeze for their upcoming game *Payday 3* for PC/console.

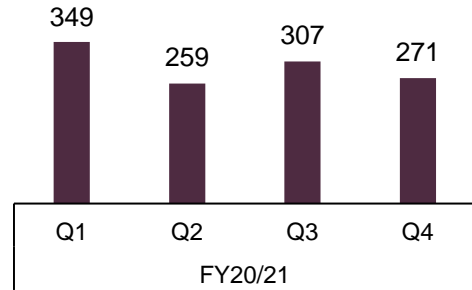
Selected pipeline





Net sales (SEK million)

Quarterly



Net Sales drivers in the quarter

Main Back catalogue drivers



The period was driven by continued strong performance of *Snowrunner* and *World War Z*.



*Snowrunner** has sold close to 2 million copies during the year.

Other



During the quarter, the acquisition of Zen Studios was completed.



Zen studios released *Star Wars Pinball VR* on April 29th which has gained favorable reviews.



The acquisition of Aspyr was completed successfully in the beginning of April 2021. Aspyr will help Saber becomes a stronger organization in the U.S market with the support of an experienced management.

Looking ahead, *Snowrunner* on Switch and *Snowrunner* on Steam will be released during the quarter ending June. Both will be Game of the Year editions.

Selected pipeline



Madrid



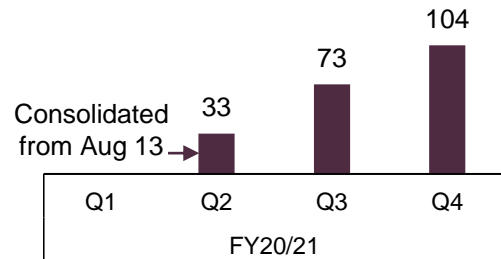
St. Petersburg

DECA



Net sales (SEK million)

Quarterly



Net Sales drivers in the quarter



The more than seven-year-old title *Zombie Catchers* had a solid quarter, of which one month had its best revenue month ever driven by technical improvements increasing store rankings and additions of regional ad networks.

Main revenue drivers



Other



A THINKING APE



During the quarter, the acquisitions of A Thinking Ape and IUGO were both completed. The main focus has been on collaboration between companies within the DECA Games Group.



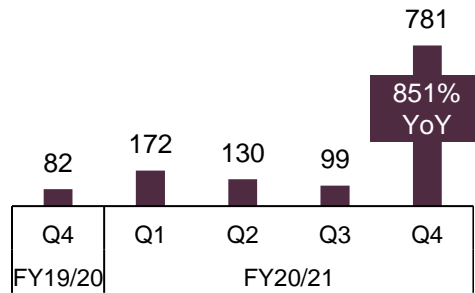
Easybrain

All mobile platform developers are closely monitoring the effects of Apple IDFA-changes, requiring user-consent for tracking that started to roll-out in the end of the quarter.

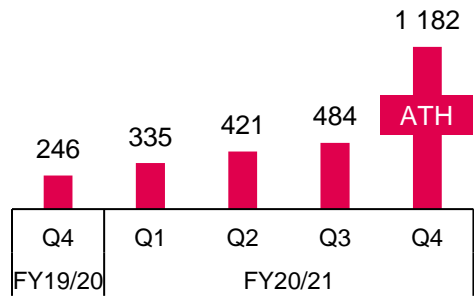


Net sales (SEK million)

Quarterly



Trailing twelve months



Net Sales drivers in the quarter

Main Revenue drivers



The quarter was heavily impacted by the massive success - *Valheim*. Selling more than 6.8 million copies during the quarter. We expect another 1.0-1.2 million copies to be sold the current quarter ending June.

The back catalogue continued to perform well with solid contribution from both *Satisfactory* and *Deep Rock Galactic*.

Selected pipeline





Key events in and after the quarter

LITTLE
NIGHTMARES
II

During the quarter, *Little Nightmares 2* developed by Tarsier Studios, performed well. Success in terms of Sales and Metacritic.

 **metacritic**
(PS4)

82

8.5

**FRAME
BREAK**

After the quarter Amplifier announced the acquisition of the Swedish-based Indie Studio FRAME BREAK.

The Studio is based in Skövde with 5 current developers.

FRAME BREAK develops games on their own IP, focusing on highly re-playable co-op experiences on platforms like PC and Consoles.

Building for long term organic growth

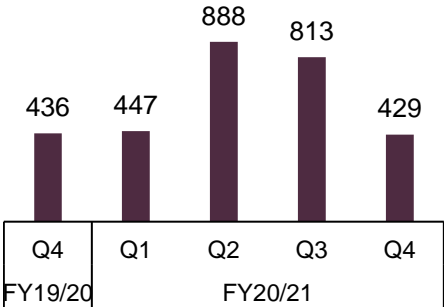


- Amplifier is still in investment mode.
- Game Investments in the coming years.
- The purpose is creating new IP's and driving long term organic growth.

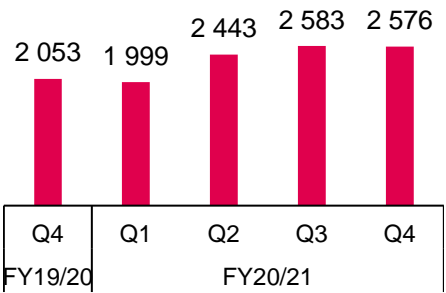


Net sales (SEK million)

Quarterly



Trailing twelve months



Net Sales in the quarter

- Koch Media has entered a new agreement with a major publisher for physical distribution.
- Hong Kong and Tokyo Office has opened.
- European Logistic center.

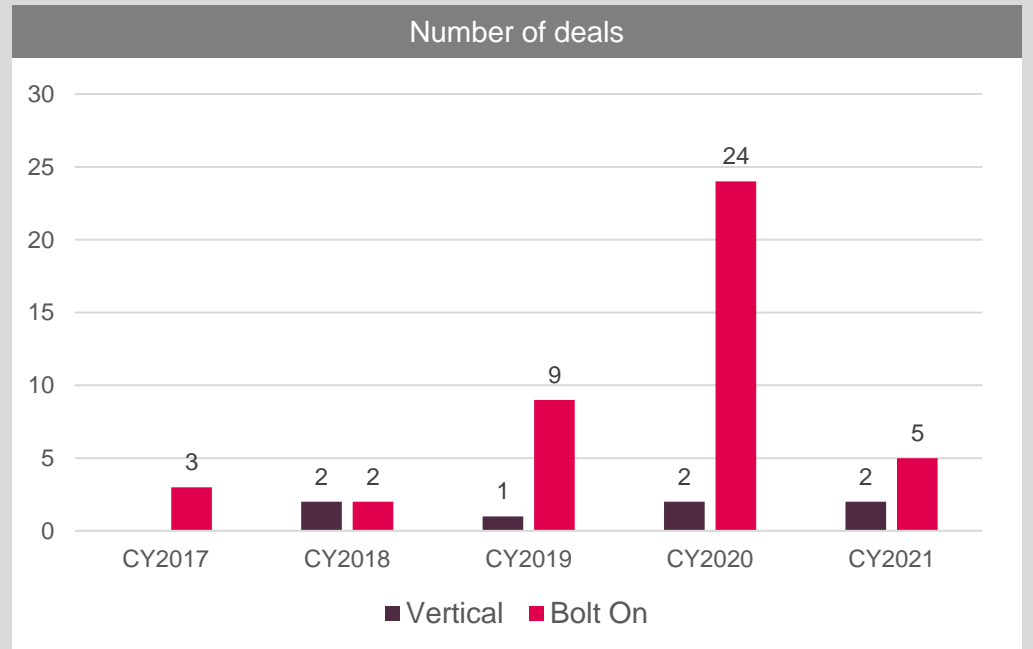
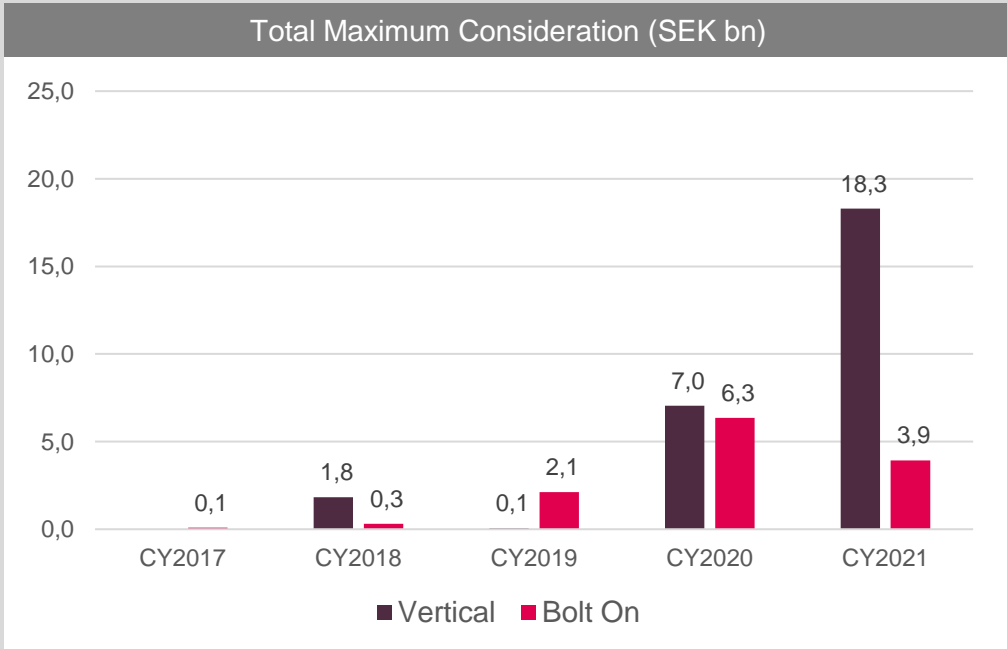
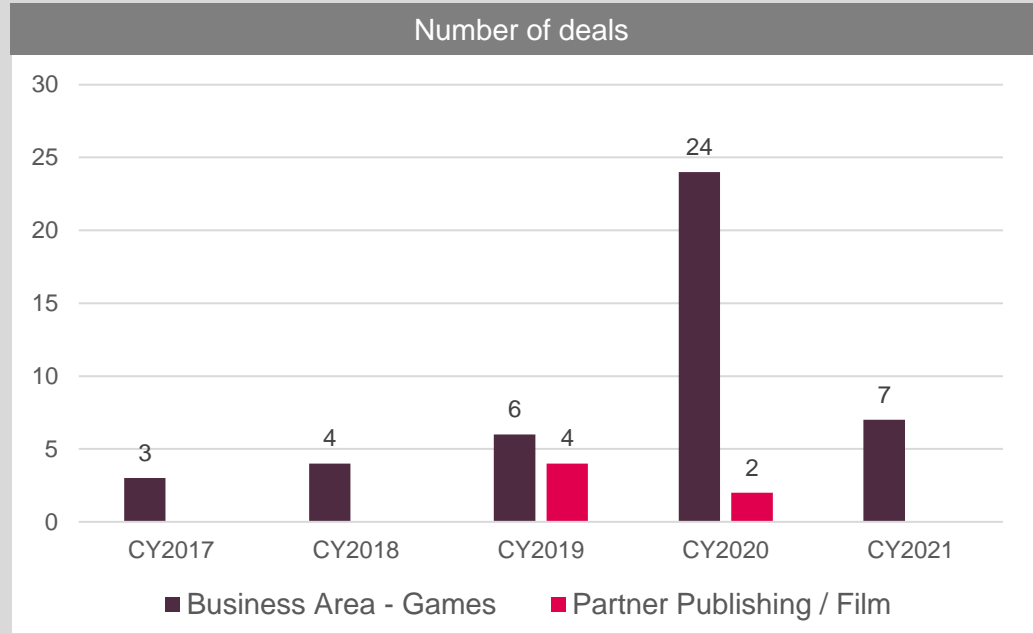
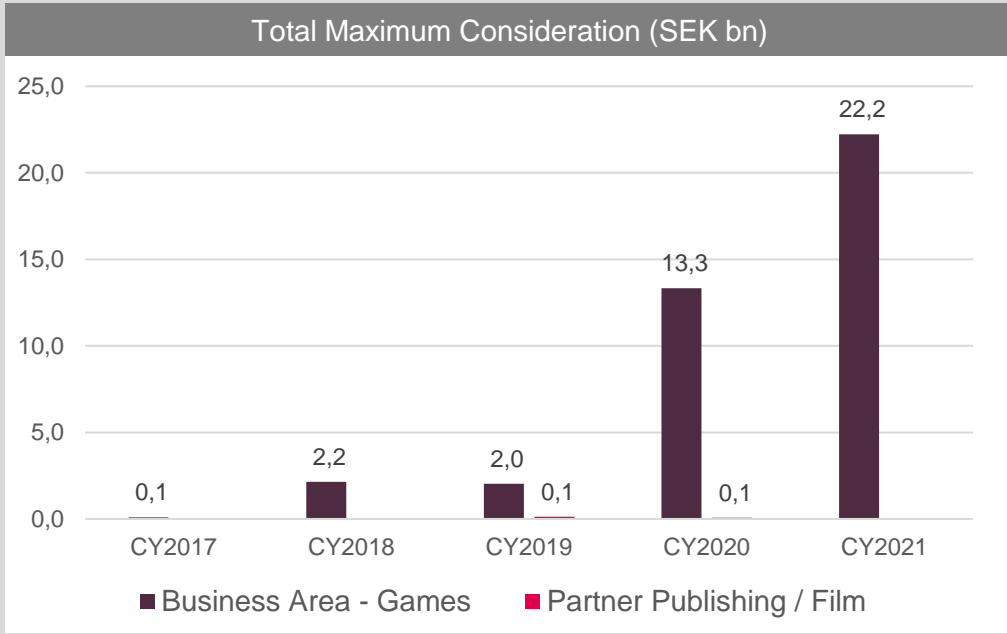
Film

- The film business had a strong quarter performing above management expectations, mainly driven by strong digital and physical sales in Germany and solid TV-license deals in Germany and Italy.
- The YouTube channel for movie streaming called “Moviedome” reached more than 100k subscribers within four months.
- Sola Media performed in line with management expectations



3. M&A update & outlook

Recap on mergers and acquisitions



- **Interest among gaming entrepreneurs and creators to join the Group.**
- **Our strategy of empowering great people lead their own operative decisions, offering them access to a growing independent eco-system of resources while supporting them with a long-term mindset has proven to be attractive.**
- **During the quarter, we have engaged with more than over 150 companies about joining the group, including larger companies that could form additional operating groups and have a significant impact on the Group as a whole. Currently, across the Group, we are in more than 20 late-stage talks. These include several signed exclusive LOI's that would, if concluded, strengthen the operating groups and further improve the outlook of the Group.**
- **Acquisitions will be announced in due course when they occur. It is important that we stay prudent in our M&A strategy and not rush into closing a transaction before it is ready. In M&A as in game development, quality comes first.**

4. Sustainability quarterly update



Global Employee Survey

During the reporting quarter, Embracer Group initiated engagement surveys to measure and monitor employee satisfaction, developed together with an external party. The response rate 74%, the average data stated positive feedback in all areas covered by the survey.

Risk analysis

During the quarter, a sustainability risk analysis was carried out by external sustainability experts (ESG). The ESG data collection accompanied with the results from the global employee survey & will set the basis for our future strategy within the ESG area.

Ambassador program

During the quarter the ambassador program, from their different working groups, covering the different framework pillars, resulted in a list of actions for sharing ideas and thoughts cross border the group.

Smarter Business Framework

<p>BUSINESS SENSE</p> <p>With honesty and trust we make acquisitions and build brand value for the long term.</p>	<p>SOLID WORK</p> <p>Our products entertain and create feelings, based on creative expression and common sense.</p>	<p>GREAT PEOPLE</p> <p>Our people are creative, dedicated and our most important asset.</p>	<p>GREENER PLANET</p> <p>We want to make our planet greener through innovation and technological advancements.</p>
<p>GOVERNANCE</p>	<p>SOCIAL / GOVERNANCE</p>	<p>SOCIAL</p>	<p>ENVIRONMENTAL</p>

ISFE

We joined ISFE, the Interactive Software Federation of Europe. Underlining our European and global scope.

Mental Health Month

In May we contributed to “The Safer together fundraiser” by donating and by sharing knowledge about the initiative across the group. We wanted to support Safe in our world`s ambition to foster worldwide mental health awareness and their efforts made and the initiatives taken for the mental health month.

5. Games Archive Update



Archive Quarterly update

WE ARE BUILDING AN ARCHIVE TO EMBRACE THE HISTORY OF GAMES

For us, games are more than just games. It is culture. It is something created by great people with creative ideas. By building a large gaming archive, we want to preserve and tribute the gaming culture for a long period of time.

The journey has already begun and it is time to take the next step. Our goal is clear – We want to archive and display as much of the video game industry as possible. Hopefully you will join us on our journey.

Welcome to the games archive.

WANT TO PLAY A PART?

We are looking for more friends who wants to play an important part in our aim to build the games archive. These services are currently available and you can read more about them here.

CHIEF OPERATING OFFICER

[APPLY NOW ↗](#)

GAME ARCHIVIST

[APPLY NOW ↗](#)

WAREHOUSE AND LOGISTICS MANAGER

[APPLY NOW ↗](#)

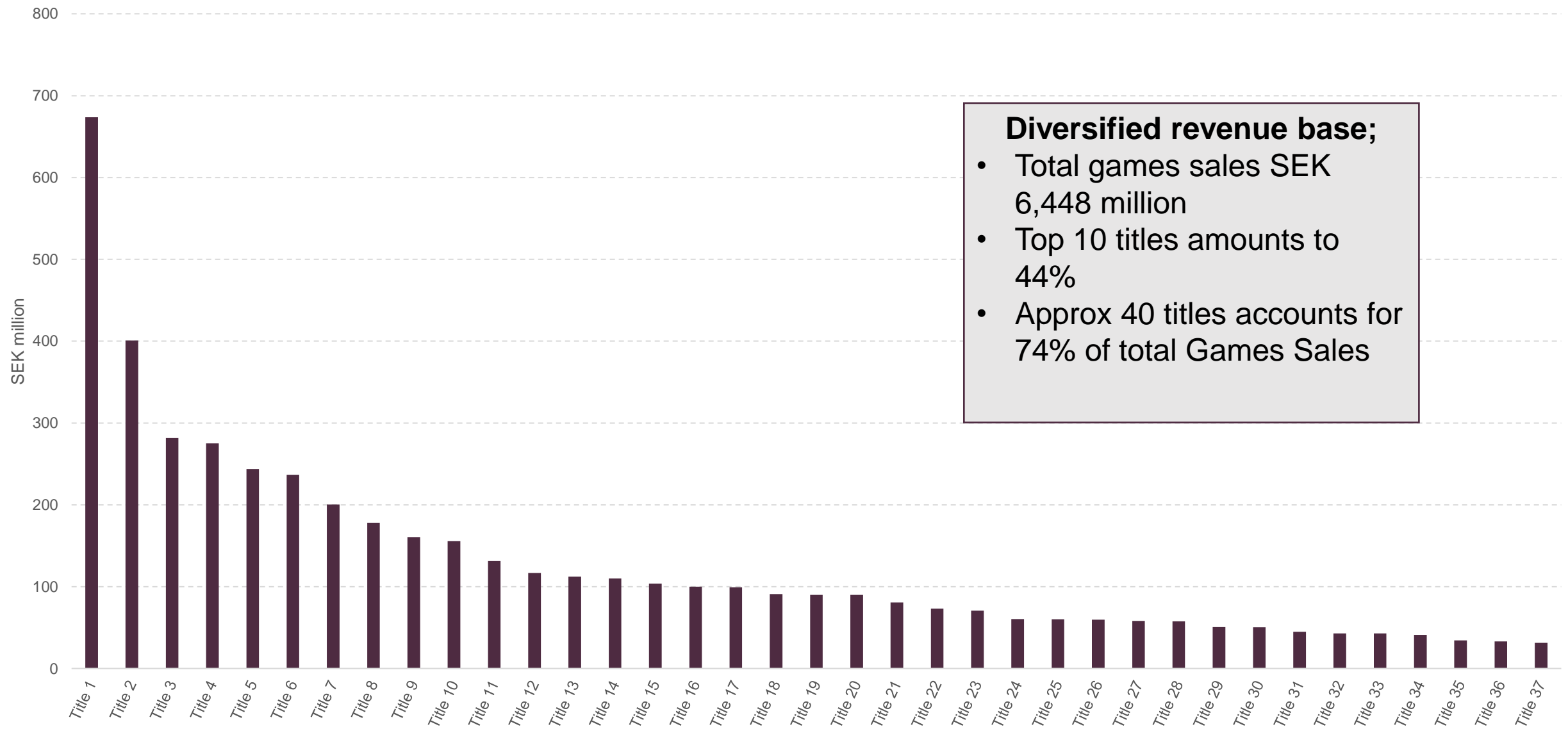
Link to homepage:<https://embracer.com/gamesarchive/>



A detailed illustration of a medieval battle scene. In the foreground, a knight with long dark hair, wearing chainmail and a dark tunic, is shown in a state of despair. He is holding a sword vertically, with his head buried in the hilt. The background is filled with the chaos of battle: soldiers on foot and on horseback, some on fire, and a large, bright orange and yellow fire or explosion in the distance. The overall atmosphere is one of tragedy and the futility of war.

6. Deep dive

Nonrecurring information

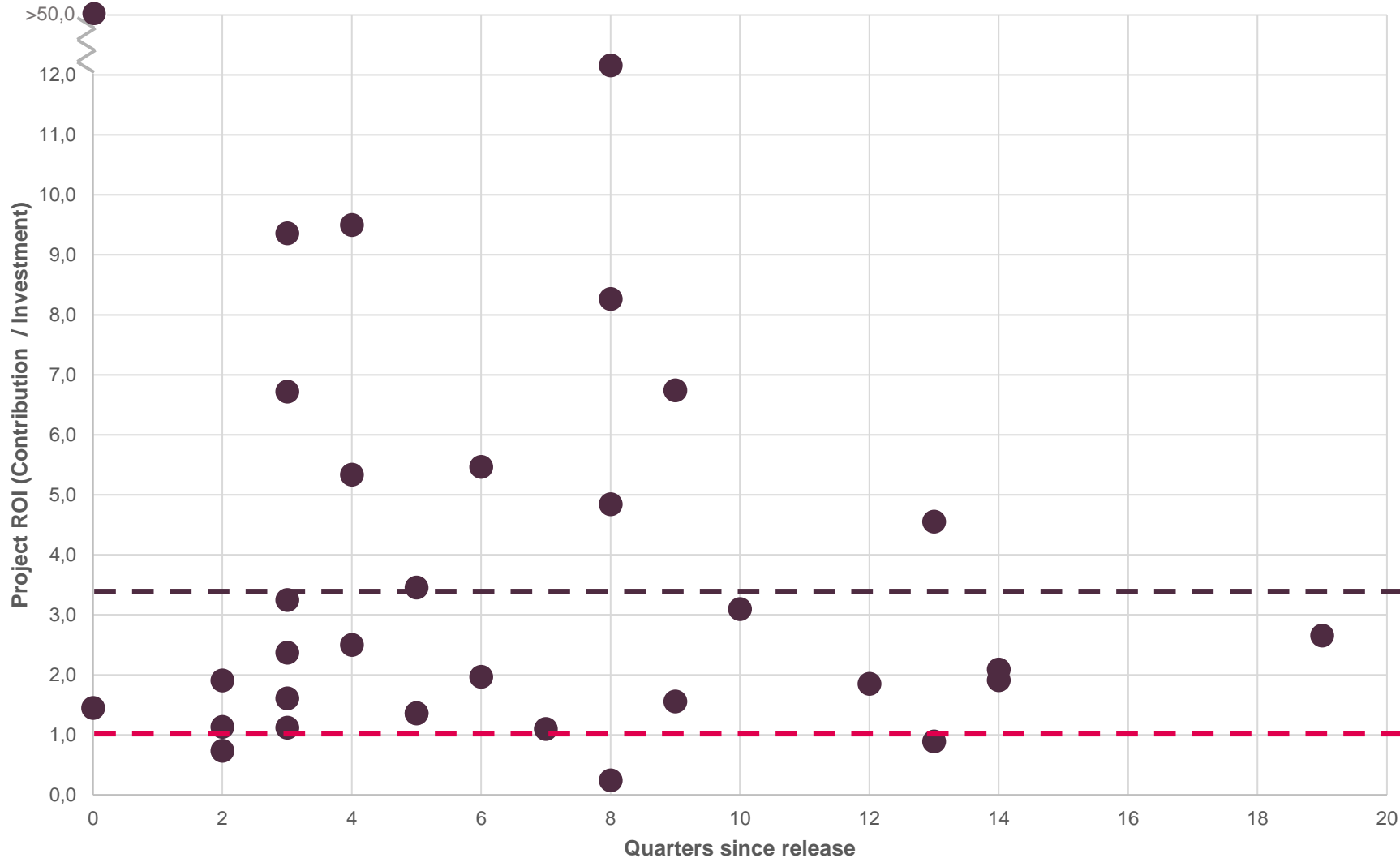


IFRS conversion and regulated market

- 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 overall time-line for the project is estimated to be between 18 and 36 months from February 2021.
- During the Quarter, several key activities have been completed;
 - Agreement signed with a senior resource that will be instrumental for the overall process of listing on a regulated market.
 - Strengthening of group finance team with a senior resource as Head of Financial Control.
 - Evaluation and agreement with external partner to provide support and expertise throughout the IFRS conversion project.



Project ROI (Contribution/Investment)



- Based on reported numbers until 31 Mars 2021
- 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 + Profit from associated companies, measured from release to 31 March 2021.
- Investment = Capitalized Development Expenses including follow-on investment and investment in associated companies.

3.3x in weighted average

1.0x in break even

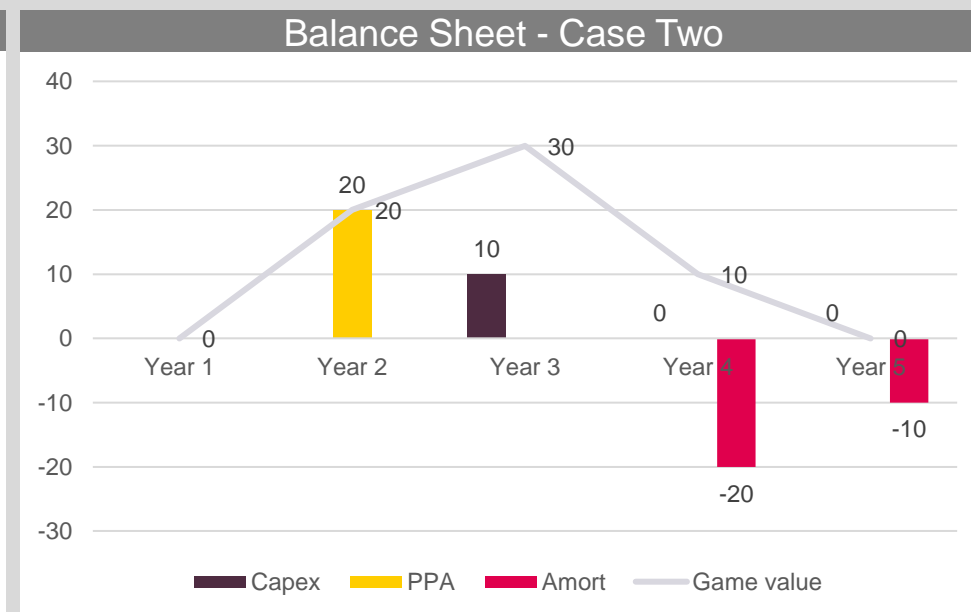
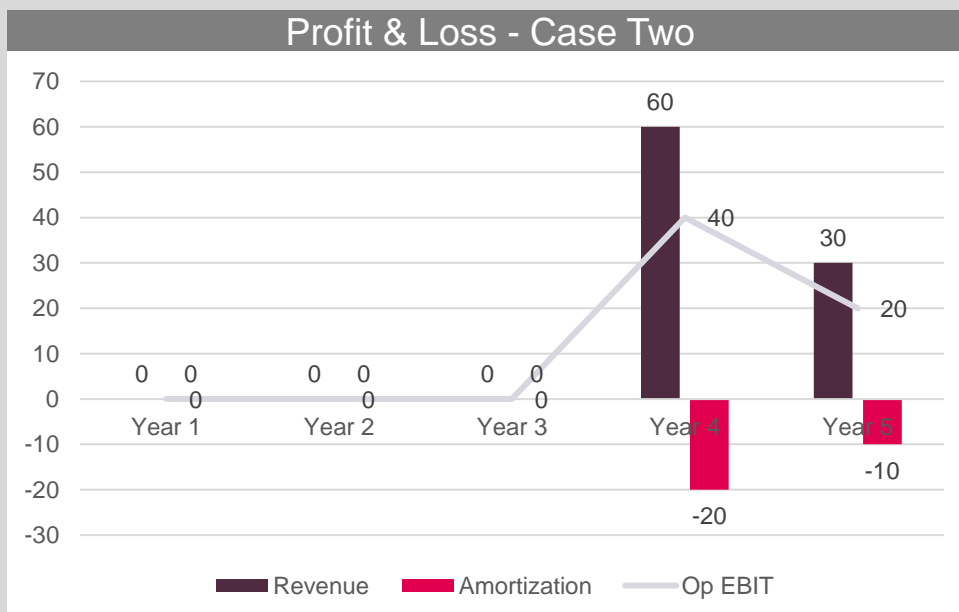
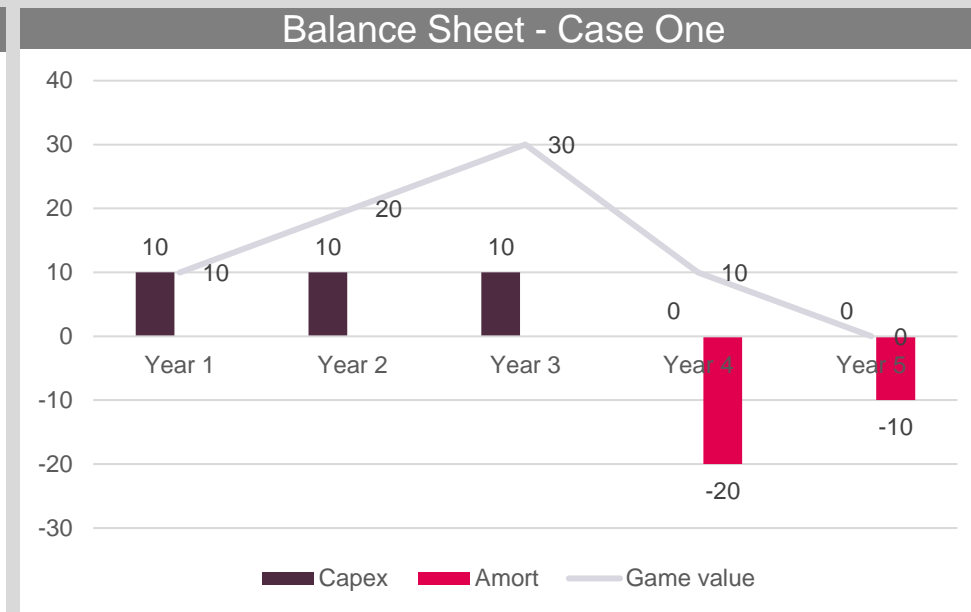
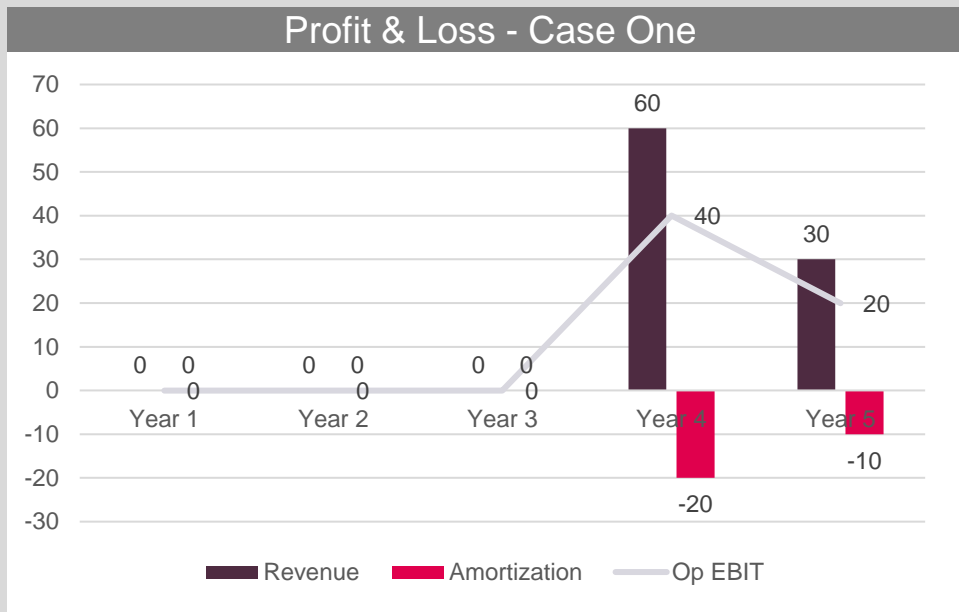
PPA Process description

- **Step 1: Identify the purchase price**
 - Calculation of upfront consideration (exchange rate at closing, share price at closing)
 - Calculation of conditional considerations (shares, cash, time-value, business case)
- **Step 2: Identify the value of what has been purchased i.e. the value of net assets in the target company**
 - Opening balance sheet = balance sheet at closing date of transaction
 - Perform and document GAAP Analysis
 - Adjustments to align opening balance sheet with K3 based on GAAP analysis;
 - Recognition of on-going game development that fulfills the criteria of capitalization under K3.
 - Recognition of completed game development that fulfills the criteria of capitalization under K3. Amortizations calculated from release date to closing date
 - Other adjustments necessary to align with K3 according to the GAAP analysis
 - Based on materiality and traceability.
- **Step 3: Calculate the surplus value by subtracting the net assets purchased from the purchase price**
- **Step 4: Allocate the surplus value to identifiable intangible assets**
- **Step 5: Surplus value that cannot be allocated to identifiable intangible assets are classified as goodwill**

By following the above process, it is our assessment that operational EBIT presents a representative picture of Embracers operational and organic performance.

- **Needs to fulfill the criteria for capitalization under K3**
- **Assessment of the commercial agreements linked to the relevant project;**
 - Generally, two types of agreements; Internal development agreements or Work For Hire development agreements
- **K3 stipulates that the following principles should be applied;**
 - Internal development projects; Development expenses are capitalized during development and amortization starts when development is completed.
 - Work For Hire development projects; Development expenses are expensed as occurred and revenue is recognized based on the percentage of completion method
- **Based on the above we can conclude that under K3;**
 - Studios working with Work For Hire development should not recognize any intangible assets related to game development.
 - Studios or Publishers that fund own development projects should recognize on-going game development assets
 - If a publisher that applies K3 acquires a studio that is currently working on a project funded by the publisher. As per the closing date the publisher has capitalized the development cost of the project, hence there will be no additional recognition of on-going game development in the PPA relating to the acquisition of the studio.
- **During the year SEK 162 million has been recognized as either on-going game development or finalized game development in the acquisitions that has been made.**
- **Two companies with an important WFH business (Saber and Flying Wild Hog) and existing publishing relationship with 4A and Purple Lamp**

- Development expense SEK 10 million per year for three years.
- ROI = 3x the investment with 2/3 in year 4 and 1/3 in year 5
- Game released in beginning of year 4
- First case depicts an organic investment and its implications on operational EBIT and balance sheet
- Second case depicts a situation where the studio/publisher is acquired at the end of year two.
- The value of on-going game fulfils the criteria of capitalization and is thereby recognized in the opening balance through the PPA. This results in an operational EBIT that is identical to case 1.



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GROUP