

EMBRACER⁺ GROUP

Second quarter ending September 30, FY21/22

Interim Report

November 17, 2021

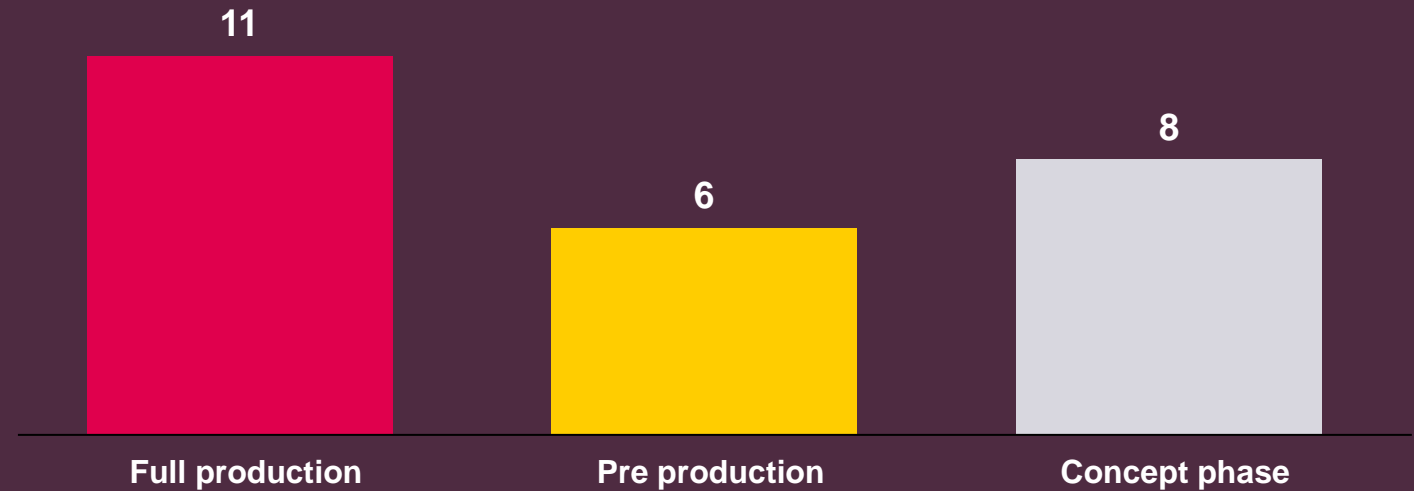


1. Operational and financial performance

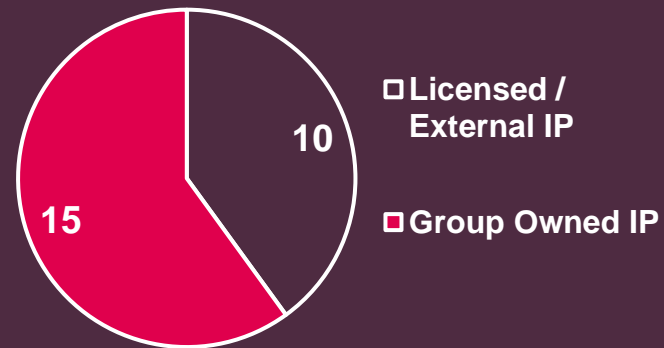
25 AAA premium games in pipeline

- Our current pipeline consists of 25 AAA games for premium PC/Console with notable or significant marketing budgets and are expected to become multi-million unit sellers.
- Each game has or will have between 100 and 250 game developers at peak development.
- All games are scheduled to be released during the upcoming years but no later than FY25/26 ending March 2026.
- All except two games are developed at internal studios.

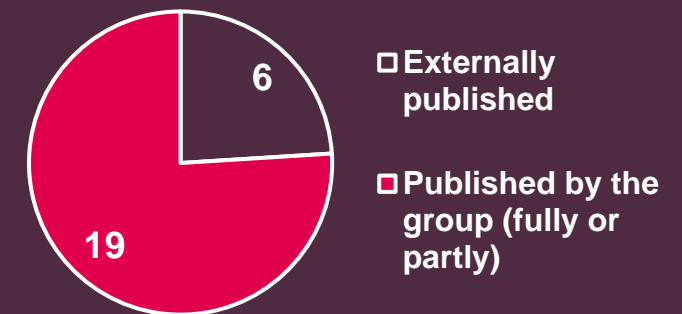
Development status per November 2021



Group owned IPs vs licensed or externally owned IPs



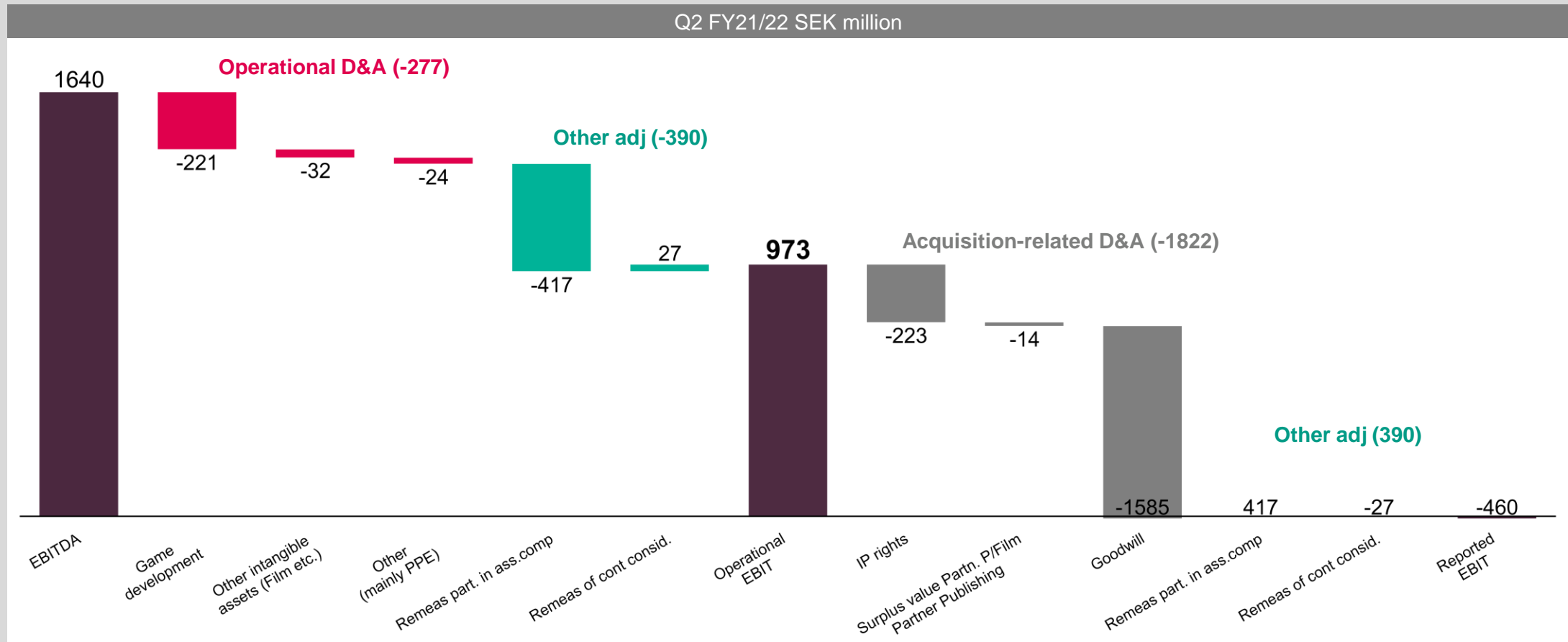
Published by the group vs externally published



Key PnL metrics

SEK million	Quarterly			Trailing twelve months (TTM)		
	Q2 FY21/22	Q2 FY20/21	YoY change	Sept 2021	Sept 2020	YoY Change
Net sales	3,296	2,383	38%	11,295	7,300	55%
Net sales – Games	2,831	1,495	89%	9,123	4,857	88%
Net sales – Partner Publ./Film	465	888	-48%	2,172	2,443	-11%
Gross profit	2,496	1,349	85%	7,858	4,093	92%
Gross Margin %	76%	57%		70%	27%	
Operational EBIT	973	653	49%	3,751	1,953	92%
Operational EBIT margin %	30%	27%		33%	27%	
Adjusted EPS (SEK)	0.65	0.90	-28%	3.36	2.49	35%

Depreciation and amortization



Cash flow statement

SEK million	FY21/22 Q2	FY20/21 Q2	TTM Q2
EBITDA, adjusted*	1,250	928	4,834
Cash Tax	-213	-29	-510
Other Cash flow items	-2	-47	98
Operating Cash flow	1,035	852	4,422
Net investment in intangible assets	-917	-484	-2,902
Net investment in tangible assets	-98	-13	-190
Net investment in financial assets	3	4	4
Net Investment	-1,018	-493	-3,088
Free Cash Flow before WC	17	359	1,334
Change in working capital	-11	-48	-419
Free Cash Flow after WC	6	311	915
Cash Flow from financing activities	176	514	13,098
Net investment in acquired companies	-2,723	-774	-7,708
Cash Flow for the period	-2,541	51	6,305

◀ The increased investments are related to the addition of Aspyr & Gearbox Entertainment coupled with increased organic investments into new game development, where the latter is impacted by a shift from co-publishing projects.

◀ Net investment in tangible assets is mainly related to investment in real estate amounting to SEK –73.4 million.

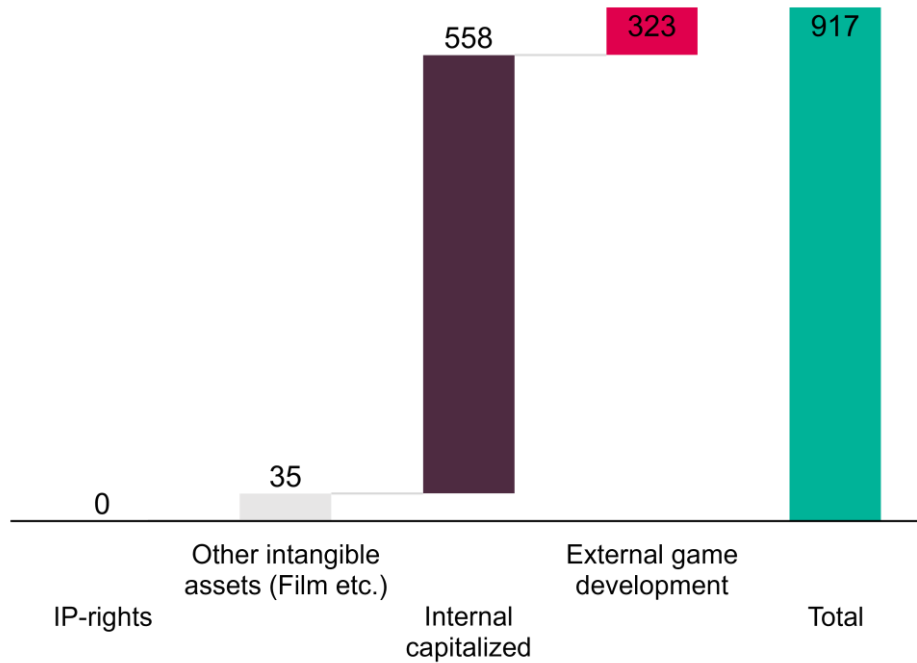
◀ Cash flow impact on closed transaction during the period.

*EBITDA, adjusted - EBITDA adjusted for remeasurement of participation in associated companies and contingent consideration.

Investments

Investments in intangible assets during the quarter

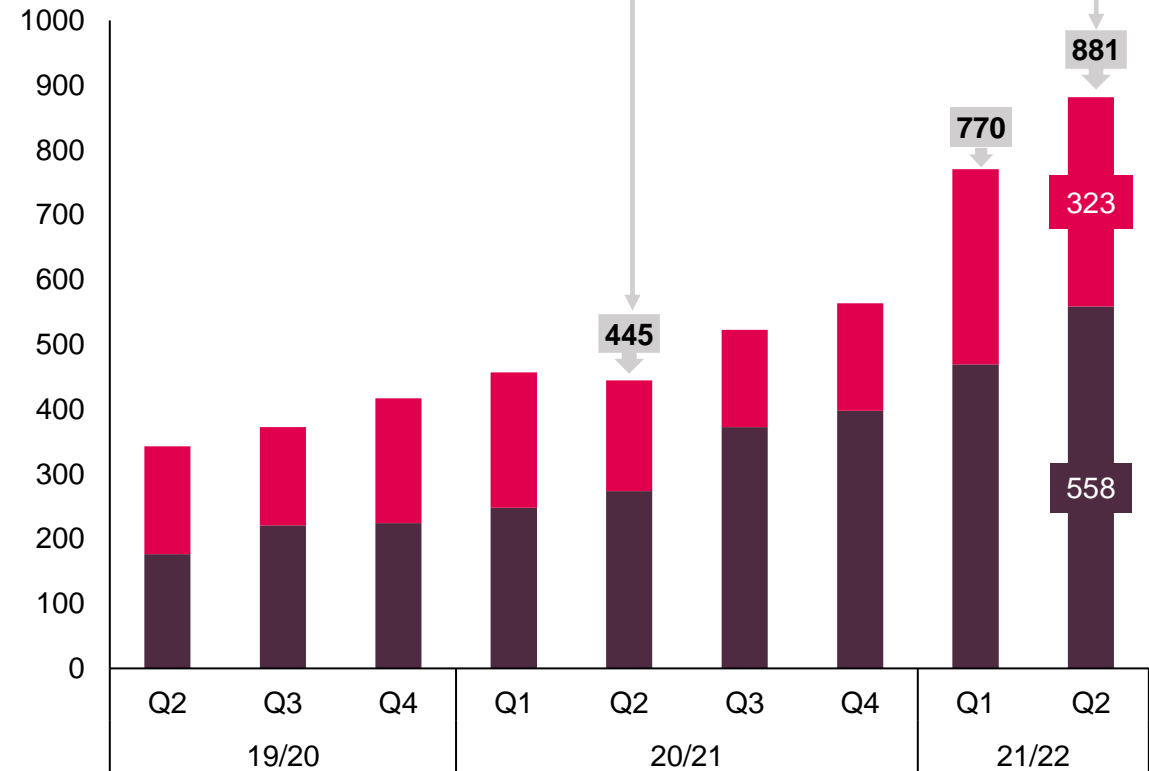
Q2 FY21/22
SEK million



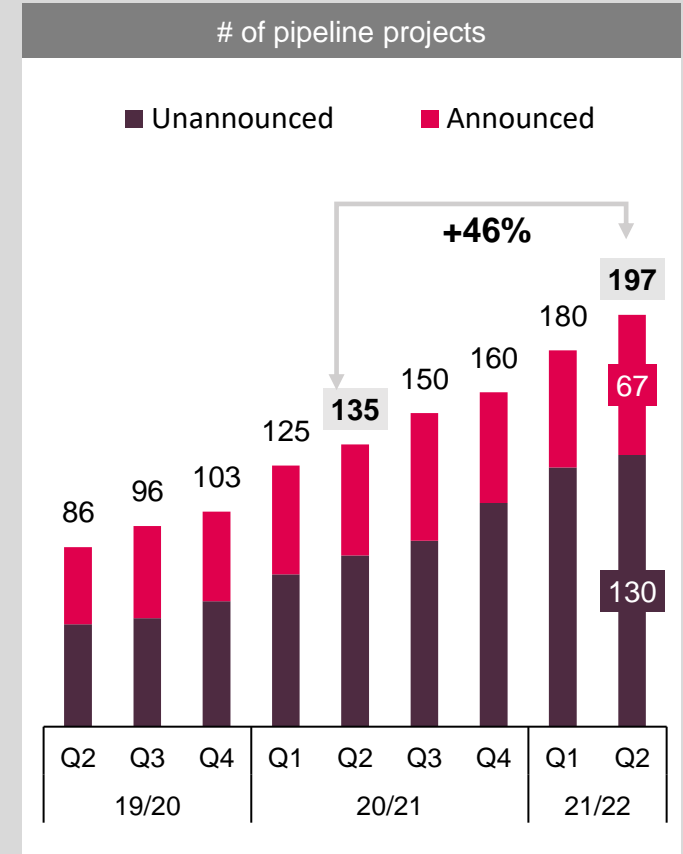
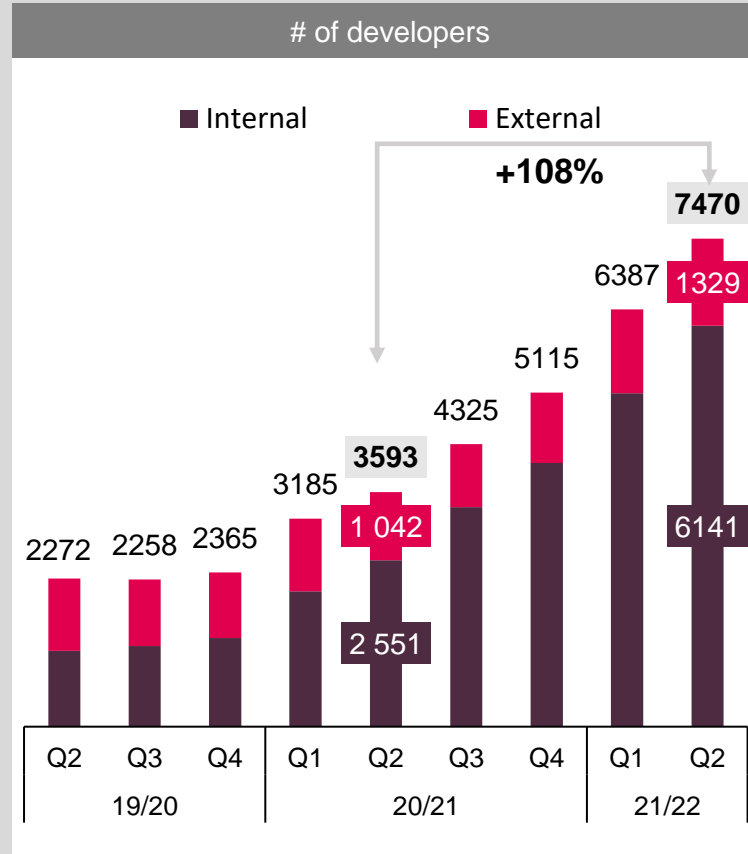
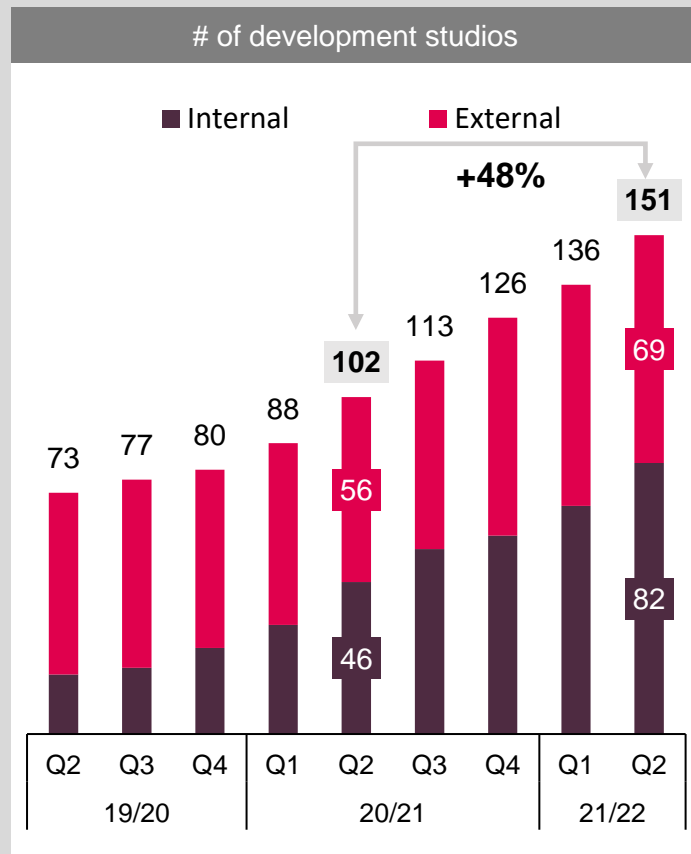
Completed games: SEK 281m
(Total development cost of all games released in the quarter)

Investments in game development by quarter

■ Internal capitalized development SEKm ■ External game development and advances



Pipeline and development and capacity continue to grow



Balance sheet

SEK million	30 Sep 2021	31 Jun 2021
Intangible assets	38,922	35,680
Property, plant and equipment	435	345
Financial assets	744	742
Inventories	531	403
Current receivables	3,028	2,547
Cash and bank balance	9,919	12,417
Total assets	53,579	52,133
Equity	37,132	36,085
Provisions for additional purchase prices	9,610	9,784
Other provisions	1,375	1,443
Non-current liabilities	688	1,442
Current liabilities	4,774	3,380
Total equity and liabilities	53,579	52,133
Interest-bearing receivables	9,938	12,422
Interest-bearing liabilities	2,256	2,153
Net working capital	621	573

7.7bn

Net cash per
30 Sep 2021

~ 7.1bn

Net cash per
17 Nov 2021

Breakdown of intangible assets 30 Sep 2021

Completed games (released)	794	14%
Ongoing game development projects	4 474	81%
Other intangible assets (film etc.)	227	4%
Operational intangible assets	5 494	100%
IP-rights	3 127	9%
Surplus value Partner Publishing/Film	107	1%
Goodwill	30 194	90%
Acquisition related intangible assets	33 428	100%

**16.8bn
SEK**

In cash and unutilized credit
facilities per 30 Sep 2021

**16.2bn
SEK**

In cash and unutilized credit
facilities per 17 Nov 2021

Non-operational Amortizations – Forecast

	FY	FY	FY	FY	FY	FY	Total
SEKm	21/22	22/23	23/24	24/25	25/26	26/27	
Amortization related to acquisitions closed 2021-09-30	-7 636	-7 970	-7 720	-7 389	-5 694	-430	-36 839
Non-operational Depreciations and Amortizations	-7 636	-7 970	-7 720	-7 389	-5 694	-430	-36 839

- The forecast for October to December 21/22 amounts to SEK 2,000 million.
- The forecast includes closed transactions as per 30 September 2021.
- The forecast is based on the average exchange rates for the period April to Sept 2021.
- Forecast is based on the purchase price allocations as per 18 November 2021, which contain both preliminary and finalized purchase price allocations.



IFRS conversion and change of listing Venue to regulated market

Solid progress during quarter

- The first quarterly report for next financial year will be made under IFRS.

Change of listing venue

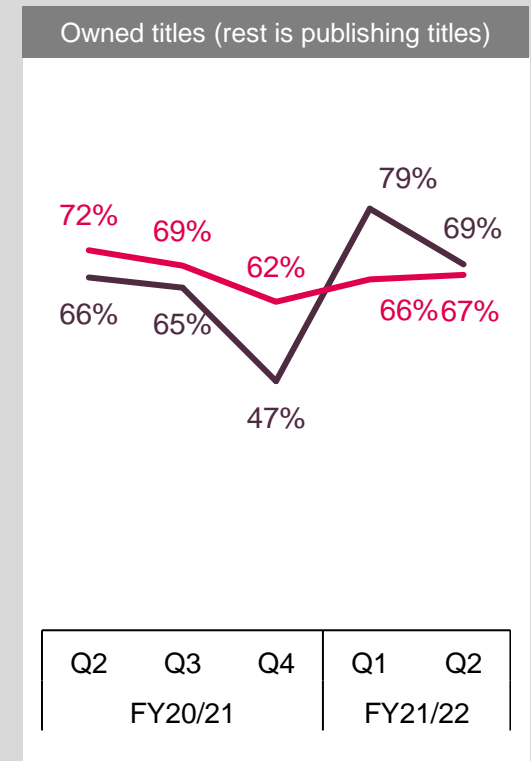
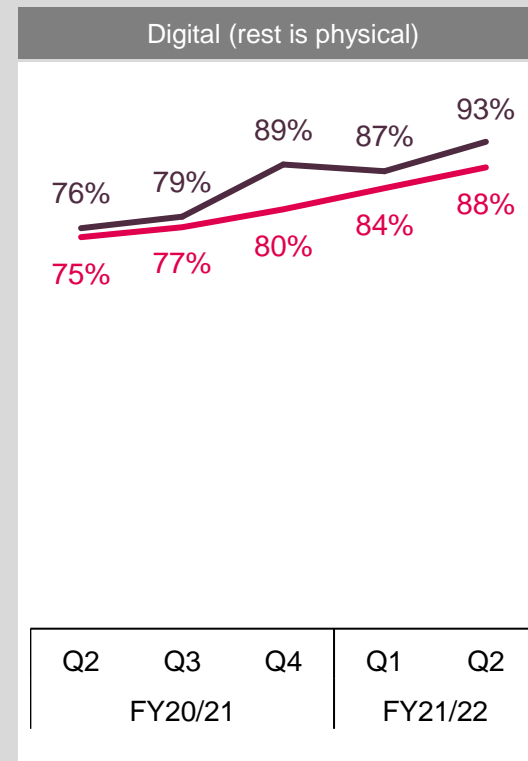
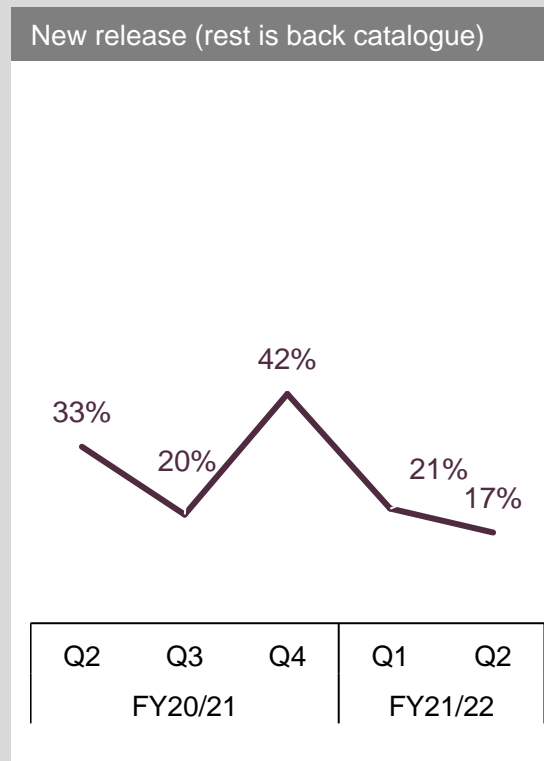
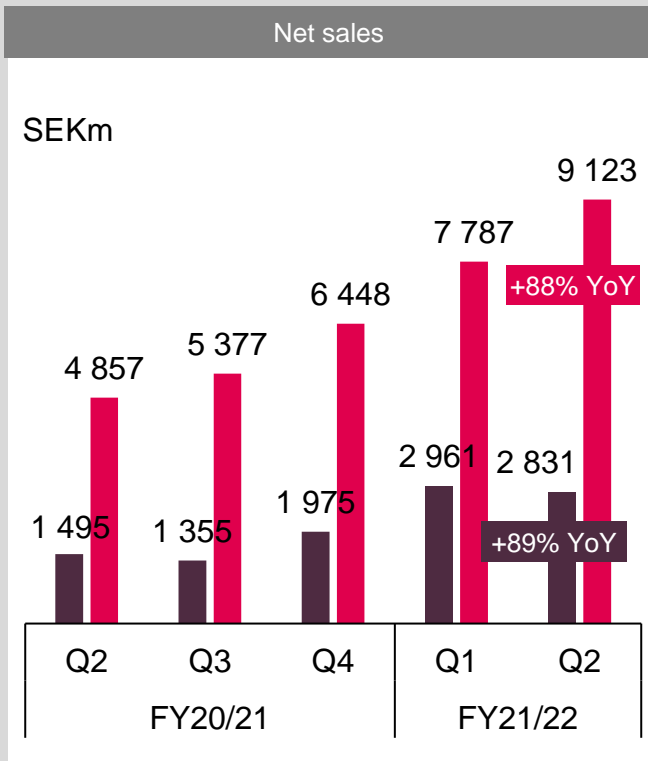
The project for change of listing venue to a regulated market has progressed well during the quarter. At the end of September, the Board of directors decided that Embracer Group AB should proceed with a change of listing venue to Nasdaq Stockholm. The listing change will take place after the publication of our first quarterly report under IFRS, but no later than June 2023.



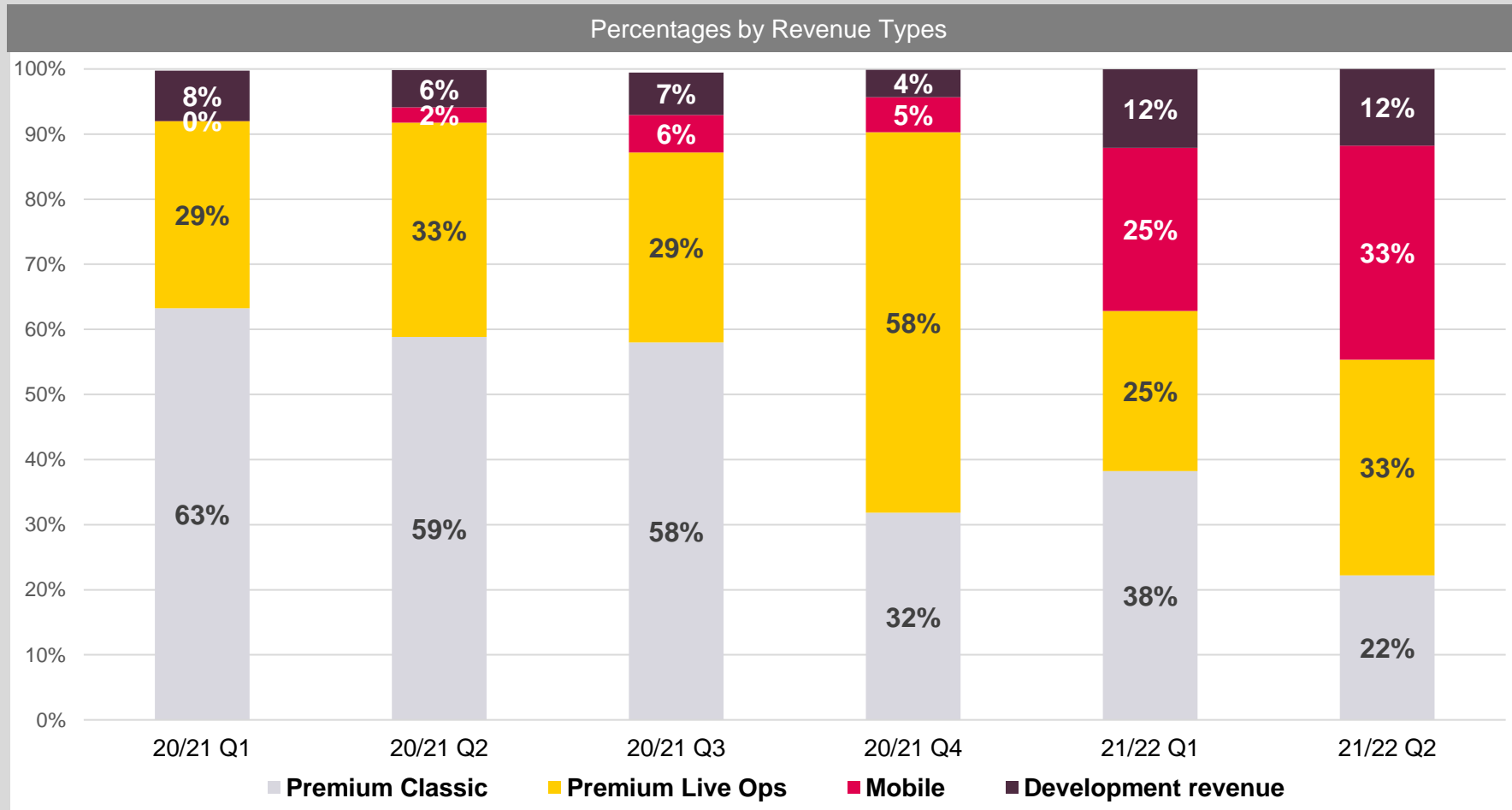
2. Business areas

Net sales breakdowns

■ = Quarterly
 ■ = Trailing twelve months



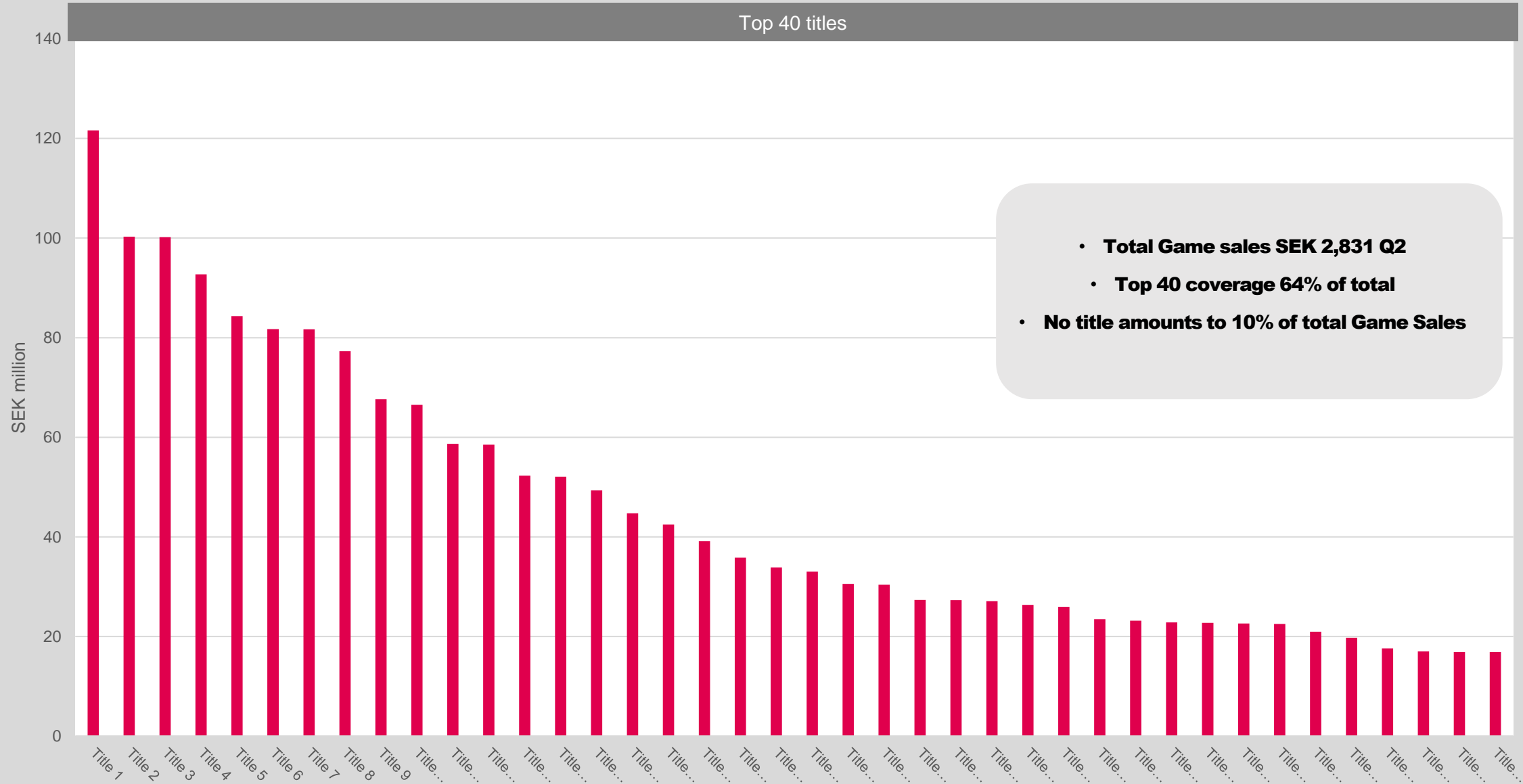
Increased diversification & recurring revenues

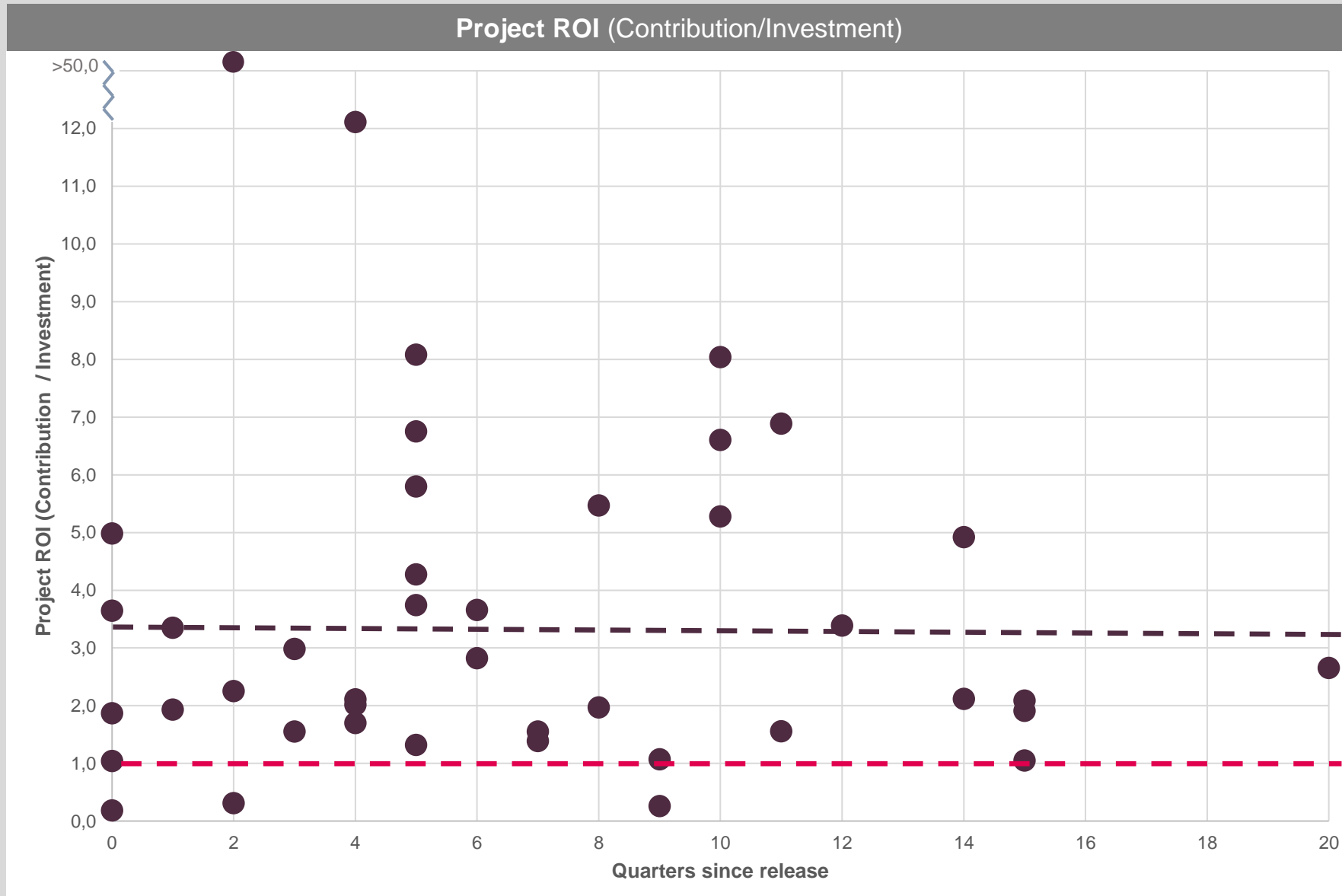


Other

94% of total reported net sales in the period has been classified and is assumed to apply for all net sales in business area games.

Diversified revenue base – Net Sales Business Area Games FY 21/22 Q2





- Based on reported numbers until 30 September 2021
- Sample includes projects with sales above SEK 40 mn or investment above SEK 40 mn (42 projects)
- ROI = Contribution / Investment
- Contribution = Gross profit less marketing expenses + Profit from associated companies, measured from release to 30 September 2021.
- Investment = Capitalized Development Expenses including follow-on investment and investment in associated companies.

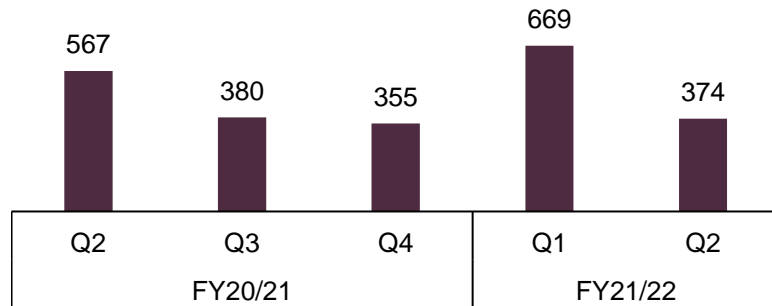
3.3x in weighted average

1.0x in break even

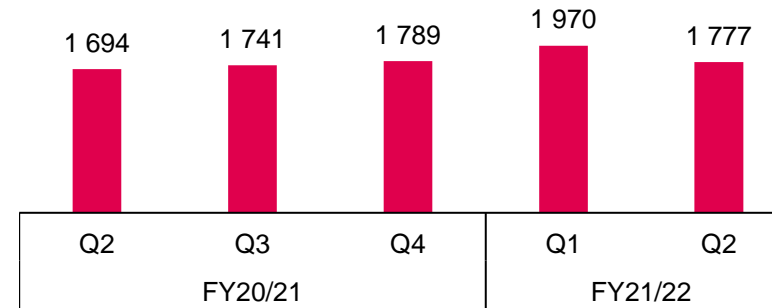
THQ NORDIC

Net sales (SEK million)

Quarterly



Trailing twelve months



Net Sales drivers in the quarter

Main back catalogue drivers



KINGDOMS OF AMALUR
RE-RECKONING

BIOMUTANT.



Other

- In the quarter, THQ Nordic celebrated its 10th anniversary in September by hosting its first ever digital games showcase



- Currently has **42 games in development**, of which 28 are yet to be announced.
- The number of **internal developers** within THQ Nordic **increased by 57%** since previous FY to 811.

Selected pipeline

ELEX II

EXPEDITIONS
ROME



MX-ATV
LEGENDS

JAGGED
ALLIANCE 3

DESTROY ALL
HUMANS! 2

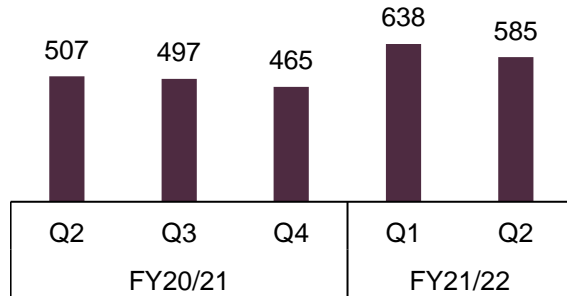
OUTCAST 2
— A NEW BEGINNING —

KOCH MEDIA

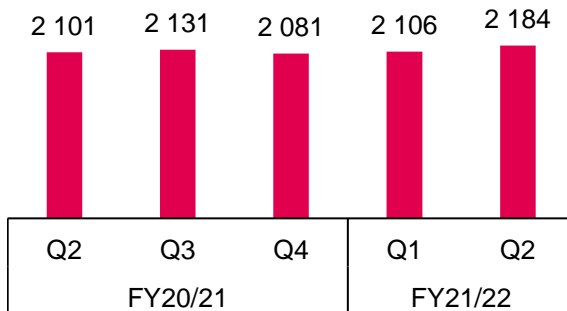


Net sales (SEK million)

Quarterly



Trailing twelve months



Net Sales drivers in the quarter

New releases



Main back catalogue drivers



Other

- Milestone is Italy's leading game developer. Milestone currently comprises over 250 employees and continues to expand. This month Milestone has been celebrating its 25th anniversary.
- Hot Wheels Unleashed is nominated for the **Best sport/racing** game at The Game Awards.
- The VR studio Vertigo Games was selected Best Studio 2021 at the Dutch Game Awards.

Selected pipeline

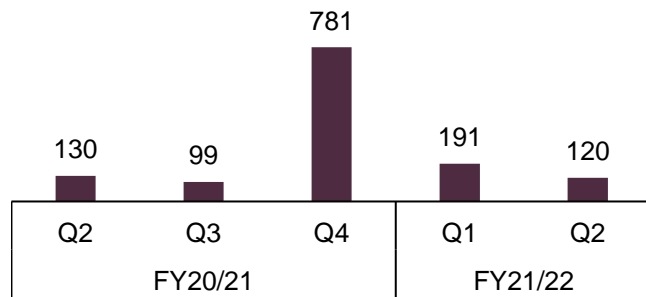


*More information about the game awards here: <https://thegameawards.com/nominees/best-sports-racing>

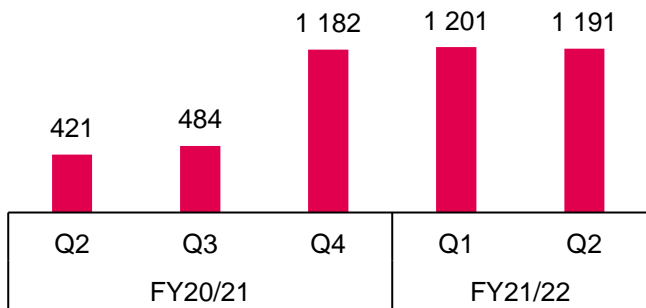


Net sales (SEK million)

Quarterly



Trailing twelve months



Net Sales drivers in the quarter

Main Revenue drivers



Other

- The long awaited and major update of **Valheim**, titled **Hearth & Home**, was launched in September. The update was well received from players. Valheim once again reached more than 100,000 concurrent players.
- **Deep Rock Galactic** got a major update with full modding support for the Steam version of the game. First season pass released in November.
- During the quarter, Ghost Ship Games invested into a minority stake in the Danish start-up Ugly Duckling Games.
- Iron Gate/ Coffee Stain with Valheim is nominated for the **Best debut indie game & Best multiplayer game** at The Game Awards.

Selected pipeline



Amplifier

GAME INVEST

New releases



Other

- Leveraging on their start up subsidiary strategy Amplifier announced the foundation of two new studios: **Zapper Games** in Durham, US, and **Goose Byte Studio** in Montreal, Canada.



- Goose Byte will design and build games based on their own IPs, targeting PC and Console platforms. The studio aims to expand existing genres to wider audiences by putting a strong focus on innovations in UX, networking and social elements.
- Zapper will focus on action-adventure games for PC and Consoles.

The absolute majority revenue contributor for the quarter were royalties from Little Nightmares 1 & 2.



Building for long term organic growth

STUDIOS



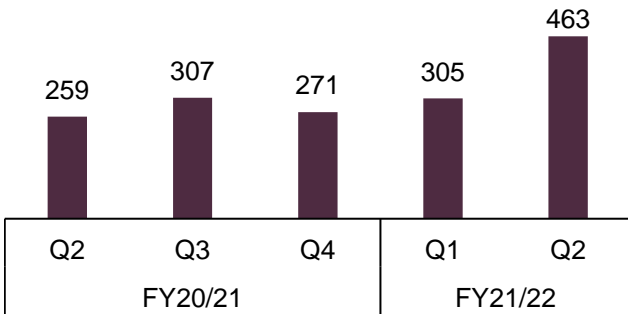
ASSOCIATED STUDIOS



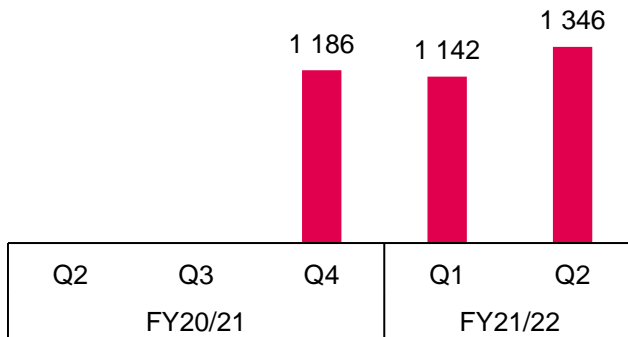


Net sales (SEK million)

Quarterly



Trailing twelve months



Net Sales drivers in the quarter

New releases



Main Back catalogue drivers



Other

Best quarter since joining the Embracer Group

- The highest operational EBIT margin in the Embracer Group during the quarter.
- Record high number of games under development, at publication of this report: **33 games**.
- Moreover, Work for hire had a contributing factor to the quarter.
- Internal headcount **has increased with 563 persons** where of 139 persons come from organic growth, compared to last quarter.
- During the quarter Saber completed the acquisitions of Slipgate, 3D Realms, SPL (Smartphone Labs), Bytex, and Demiurge.

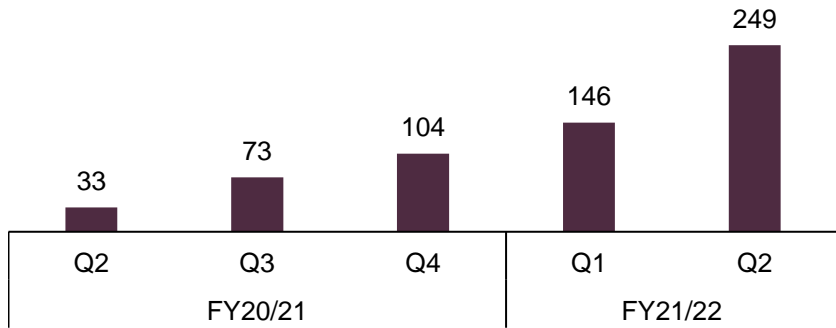
Selected pipeline



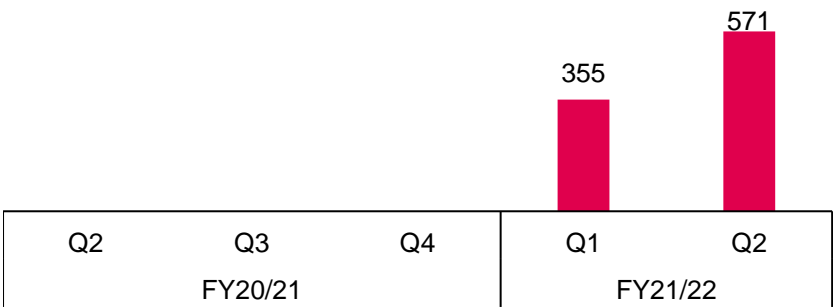
DECA Crazy Labs

Net sales (SEK million)

Quarterly



Trailing twelve months



Net Sales drivers in the quarter



Proforma KPIs

Daily active users (DAU)
20m

Monthly active users (MAU)
208m

Total Installs
273m

Other

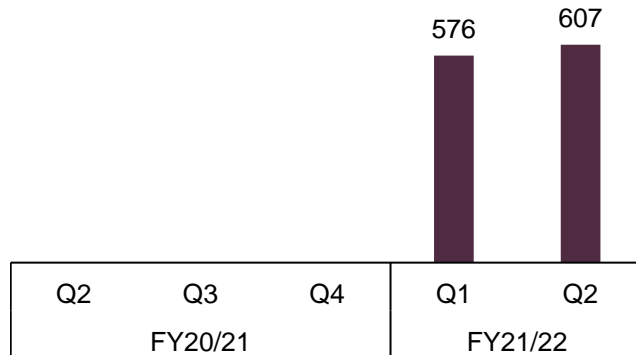


- The acquisition of the Israel-based publisher and developer CrazyLabs, closed in September and earlier than expected and contributed to SEK 104 million in the quarter.
- The acquisition of **Jufeng Studio** gives DECA Games access to a talent base in China and a platform for growth in the Asia Pacific Region.
- Jufeng studio will initially focus on the live operations of its six existing IP's but over time, additional IP's will be added to its portfolio, both through acquisitions and development in-house.

Easybrain

Net sales (SEK million)

Quarterly



Net Sales drivers in the quarter



Sudoku.com

KPIs

Daily active users (DAU)
12m

Monthly active users (MAU)
64m

Total Installs
78m

Other



- The IDFA changes negative impact was lower than management initially expected, and the overall performance of Easybrain business was significantly higher.
- Improving performance and monetization of existing games, and successfully launching the new game Number Match.
- 1 billion cumulative downloads and reached historically high levels of daily revenue, projected profits, and UA spend; further, DAU (daily active users) approached 14 million.
- Easybrain had three of the top five revenue titles of the group in the quarter, and four of the top five performers in the first half year.





Net sales (SEK million)

Quarterly



Q2	Q3	Q4	Q1	Q2
FY20/21			FY21/22	



Net Sales drivers

New releases



Main Back catalogue drivers



Other



- Gearbox Entertainment announced a new studio in Montréal, Canada.
- The studio has an ambition to over time employ 250 individuals. The new development team in Gearbox Studio Montréal will work on internal franchises and create new IP's.
- Steve Jones will take on the role as the president of Gearbox Software. Randy will remain to serve as CEO and President of The Gearbox Entertainment Company and oversee Gearbox's transmedia work in film and television.

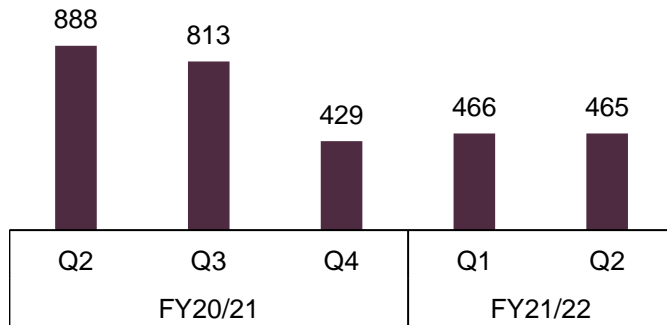
Selected pipeline



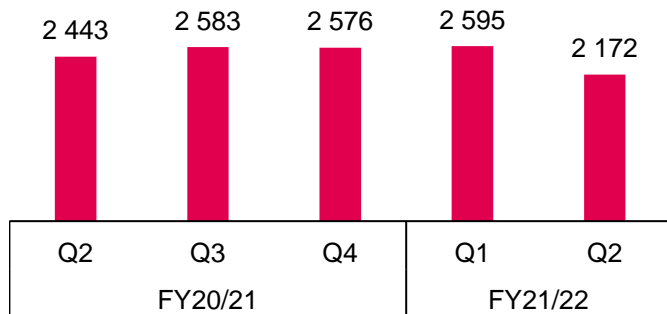
Partner Publishing/Film

Net sales (SEK million)

Quarterly



Trailing twelve months



Net Sales drivers



Other

KOCH MEDIA

- Koch Media is expanding the capacity of its Shared Service- and European Logistic Center in Austria.
- After the quarter, Koch Media UK announced the acquisition of the marketing and live events company Splatter Connect. Provides a multitude of field marketing services, spanning retail store attendance, experiential marketing and live event staffing and management.



koch films

- The theatrical market remains weak even though it has recovered compared to the same period last year.

Other Partner Publishing



Game Outlet Europe had a solid quarter. Sales were mainly driven by distribution of THQ Nordic's new releases and back catalogue games together with long awaited deliveries by manufacturers Retro-Bit and 8BitDo.



Quantic Lab, the software outsourcing company specialized in quality assurance ("QA"), localization and user experience for gaming and applications, **had a solid quarter above management expectations.**

GRIMFROST

Grimfrost, which was acquired by Embracer Group during the quarter, is a global leader within high-quality Viking merchandise. Investment have been made in product development to grow the range of custom Grimfrost products.



3. M&A update & outlook

M&A Outlook

Review of long-term financial leverage

As a consequence of an expected improvement in absolute profits and free cash flow from our core business area Games in the coming years, the board of directors has initiated a review of the Group's long-term financial leverage target, including likely cash payments for deferred M&A considerations. The outcome will be announced as soon as the review is concluded, but at the latest in connection with our Q3 report in February 2022.

- Currently, we have approximately SEK 7.1 billion in net cash and SEK 16.2 billion in available cash, including credit facilities.
- Most of our contemplated transactions relates to talent and IP acquisitions with the purpose of strengthening our existing eight operating groups. We are seeing increasing benefits from adding new studios to our growing eco-system.
- We are in active dialogue with entrepreneurs, management teams and owners across Gaming and Entertainment about larger, more transformative transactions, which would create new operating groups.
- Our policy remains unchanged. We will never force a deal for the sake of making a deal, but rather let it take the adequate time. It is no different from quality comes first in making games.
- The past 12 months we have made 37 acquisitions and we are expecting to do a similar amount of transactions over the coming 12 months. We currently have a large range of active processes and dialogues, including a good number of signed exclusive term sheets.
- The parent company acquired 100 percent of the shares in Aionic Labs from its founders. Aionic Labs Inc is a technology and business development company.
- The parent company has the past year been working on the ambition to create an independent operational group in retrogaming with passion-driven entrepreneurs and creators. During the start-up of this, the parent company has made two, not previously communicated, minor acquisitions in Sweden and Japan, but without any financial significance as of today.



A vibrant, fantastical landscape featuring a waterfall cascading down a rocky cliff on the left. In the foreground, a character with large white wings and a green tunic is flying towards the right. Below the character, a large, textured orange mushroom is visible. The background shows a lush, green valley with more rocky terrain and a blue sky. The scene is framed by dense green foliage on the right side.

4. Sustainability quarterly update

THE SMARTER BUSINESS FRAMEWORK

Being smart about our business to create great entertainment, be a great place to work and do better for the communities in which we operate.

SUSTAINABILITY AND GOVERNANCE Q2

- Developments for the Smarter Business Framework
- Recruitment Head of Sustainability
- On-going ESG initiatives and projects

Ongoing ESG initiatives and projects



FOCUS ON GREAT PEOPLE

- Diversity and inclusion pilot project launched locally including training and mentorship program.
- Update of annual Compliance Code Training program accomplished.



GOVERNANCE

- The project for change of listing venue to a regulated market has progressed well during the quarter. The project includes valuable governance and control structures, which will continue to develop our existing structures



CLIMATE STRATEGY

- Planning initiated for Embracer Group's emission reduction and climate offset compensations.



ESG INITIATIVES

- Sustainability webinars organized for Q3 group-wide.
- ESG Session for management in Operative Groups developed and to be launched.
- One example among many is Koch Media's work to become climate neutral. They have now been certified as a climate neutral company, with on-going projects to minimize carbon footprint.

5. Games Archive Update



Games are culture.

By building an archive we are embracing the history of games



First Video Game Archivist Recruited

- The Games Archive's is in a startup face, and its recently hired CEO, David Boström, has focused on recruitment and building the team during the quarter. Natalia Kovalainen was recruited as the first archivist
- 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.



Highlights of New Purchases and donations to the Games Archive

- 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 itself keeps growing, and in the quarter, a range of new games had been added, including a complete set of Japanese versions of the amazing Neo Geo CD games and hardware.



6. Parent company

We continue to build scalable corporate capabilities at the parent company

- We are building capacities throughout our organization and have increased overhead positions within legal, M&A, communication, ESG and finance.
- There are parent company investments that could potentially create new operative groups or be incorporated into existing ones. The parent company acquired 100 percent of the shares in Aionic Labs from its founders. Aionic Labs Inc is a technology and business development company. The company was founded in 2020 by Lee Guinchard (CEO), Winston Chen and Alexander Caveny.

PARENT COMPANY
TOTAL HEADCOUNT

3 → 30

IPO 2016 - Q2 FY 21/22

Recent key recruitments



Emma Ihre
Head of Sustainability



Anna Bokström
Head of Tax



Caroline Andersson
Vice president of M&A



Anna Orlander
Head of M&A legal



Ian Gulam
General Counsel

Q&A

EMBRACER⁺
GROUP