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Press release

Karlstad, September 16, 2020

## **Embracer Group acquires Vertigo Games**

**Embracer Group AB ("Embracer"), through its wholly-owned subsidiary Koch Media GmbH, has today entered into an agreement to acquire 100 percent of the share capital in Dutch-based Vertigo Games Holding B.V. ("Vertigo Games"). Vertigo Games is a company that develops, publishes and distributes games exclusively for VR. It is behind the million-selling and award-winning global hit Arizona Sunshine, and has highly anticipated After the Fall in its pipeline.**

**The upfront equity purchase price amounts to EUR 50 million in total, where EUR 40 million is paid in cash and EUR 10 million is paid in newly issued B shares. This equals an upfront enterprise value of approximately EUR 45 million, adjusted for EUR 5 million in acquired net cash. Subject to fulfilment of agreed earnings targets and release of certain titles during a up to 10 years period an earn-out consideration of a maximum of EUR 65 million may be paid, where a maximum of EUR 25 million will be paid in cash and a maximum of EUR 40 million will be paid in newly issued B shares.**

**A company presentation of Vertigo Games will take place in connection with today's Annual General Meeting on September 16, 2020.**

"Since we decided to focus exclusively on VR gaming in 2013, we have experienced rapid growth with the release of global hit Arizona Sunshine, and we have our most ambitious project to date, After the Fall. The VR gaming market seems to be on the edge of really taking off with the coming together of better, more accessible hardware and more and more high-quality content being released and announced. We believe that now is the time to accelerate and in Koch Media and Embracer we have found the perfect partner to do so together with", said Richard Stitselaar, CEO of Vertigo Games.

Dr. Klemens Kundratitz, CEO at Koch Media adds: "We have been monitoring the VR market over the past years very closely. We feel that now is the right time to extend our groups activities into this fast-growing market. I am sure that we are only at the beginning of the technological development of VR and what it offers players around the globe. We are delighted that with the acquisition of Vertigo Games, leading VR experts are joining our group. Together, we will push the boundaries of VR gaming even further, combining our strong global development and publishing network with their specialized VR games expertise."

### **The transaction in brief**

- Embracer, through its wholly-owned subsidiary Koch Media GmbH has today acquired 100 percent of Vertigo's share capital from the owners of Vertigo for EUR 40 million in cash and EUR 10 million worth of newly issued B shares in Embracer ("**Closing Consideration Shares**") paid with 623,209 B shares. This equals an upfront enterprise value of approximately EUR 45 million, adjusted for EUR 5 million in acquired net cash. The Closing Consideration Shares are subject to lock-up, where 50 percent is subject to a 12 month lock-up and 50 percent is subject to a 24 month lock-up.
- The earn out, which at yesterday's closing share price is worth a maximum of EUR 65 million, if Vertigo achieves significant growth creating a substantially larger business, release of

certain titles and continued employment for certain of the sellers over the coming 10 years, is paid with 2,492,837 newly issued B shares in Embracer issued at closing (“**Earn Out Consideration Shares**”) plus an additional EUR 25 million payable in cash upon satisfaction of certain targets. The Earn-Out Consideration Shares are subject to claw back rights and three months lock-up following each vesting period.

- The main financial part of the Earn Out is based on the following schedule:

EUR million			
	Earnout consideration		
EBIT target for the period 1 July 2020 – 31 March 2026	Cash	Embracer B-shares	Total
≥ 100	15.0	10.0	25.0
≥ 95	12.5	10.0	22.5
≥ 90	10.0	10.0	20.0
≥ 85	7.5	10.0	17.5

- The Closing Consideration Shares and Earn Out Consideration shares are issued at a subscription price equal to the volume weighted average price per share during 20 trading days at Nasdaq First North Growth Market up to and including 15 September 2020, i.e. of SEK 166,47.
- During the next Financial Year (April 2021 until March 2022) the company expects net sales of EUR 18–24 million and Operational EBIT of EUR 11–17 million. The company expects both revenues and profitability to have a stable growth the years going forward.
- During the period January 2020 and December 2020, the company expects net sales of EUR 10-12 million and Operational EBIT of EUR 6-8 million.
- Net cash is estimated to EUR 5 million at completion.
- The disclosed expectations of net sales and Operational EBIT for January – December 2020 and April 2021 – March 2022 are based on Embracer Group’s accounting principles (K3).
- Vertigo’s financial results relating to the earnout calculation will be prepared according to Vertigo Games’ local GAAP accounting principles.
- Vertigo will be consolidated into Embracer’s financial accounts as of September 16, 2020.

### Background and rationale

Embracer Group has a long and successful growth strategy of partnering up with successful gaming entrepreneurs for long-term collaboration and business development.

On 16 September 2020, Embracer Group signed an agreement to acquire 100% of the shares of Vertigo Games.

Vertigo Games is a technologically advanced VR entertainment company that develops, publishes, and distributes to the consumer and out-of-home (arcades) market a growing portfolio of VR games, including evergreen brands like global hit Arizona Sunshine. Founded in 2008, it is based in Rotterdam, the Netherlands, and currently employs 50 people of which 37 are developers.

Since 2013, Vertigo Games has focused exclusively on VR, across all its business areas, to move early in the VR space and become a dominant player as the market takes off.

Vertigo Games comprise three business areas: Vertigo Studios, developing high-quality VR-exclusive games. Vertigo Publishing, publishing Vertigo Studios' games as well as third-party VR content. And Vertigo Arcades, licensing own and third-party games to VR arcades globally.

Arizona Sunshine, a four-player co-op zombie shooter built exclusively for VR, is Vertigo Games' largest success so far. Vertigo Games estimates it is the fourth most sold VR game in the last two years, having sold more than one million copies, and is currently the number one most played game in VR arcades. The game was released in December 2016, developed by Vertigo Studios and Jaywalkers Interactive, and is published by Vertigo Publishing. It is available on all major VR platforms. Vertigo Games owns the Arizona Sunshine IP and has the full rights to create sequels or spinoffs based on the IP.

After the Fall is Vertigo Games largest development project so far and is one of the world's most anticipated VR releases, slated for release on all major VR platforms. The game has already received strong validation and support from leading VR platforms and will have one of the largest marketing campaigns ever for a single VR game. The game is an epic VR action first-person shooter with intense co-op gameplay at its core that pits up to four players against a vast, hostile VR world in a raging fight for survival – set in the ice-covered ruins of LA nearly 20 years after the apocalypse. After the Fall is developed exclusively for VR by Vertigo Studios and published by Vertigo Publishing.

Vertigo Publishing offers funding, technical solutions, marketing support, and certified publishing to indie VR developers. There are currently few third-party VR publishers while demand for these services is assumed to increase as the VR market continues to grow. The company's pipeline includes proprietary title After the Fall and three third-party titles including Traffic Jams. In total Vertigo Publishing has sold 1.5 million games with the largest releases being proprietary title Arizona Sunshine and third-party title A Fisherman's Tale.

Vertigo Arcades is a leading distributor of proprietary and third-party VR titles to VR arcade operators globally. The company's titles are already available in 700+ locations in 40+ countries and account for estimated 25% of all playtime in Western VR arcades. Vertigo Arcades only account for a minor share of total net sales of Vertigo Games but was growing notably prior to a downturn with the Covid-19 outbreak.

Going forward, Vertigo Games will continue to operate independently within the Koch Media Deep Silver umbrella and work across the overall Embracer Group to find wider collaboration within VR. The senior management team is committed to stay on for the long-term and four key people, including Managing Director and co-founder Richard Stitselaar, Marketing Director Kimara Rouwit, and Director of Business Development John Coleman, have earnout packages spanning up to 10 years.

### **VR gaming market outlook**

Vertigo Games anticipates the VR gaming market to exhibit substantial growth in the coming years jointly driven by new high-quality headsets (both standalone and tethered) and increasing releases of high-quality VR games.

### **Purchase Price, Earn-Out Consideration, Lock-Up period and Clawback Right**

Embracer acquires 100 percent of the share capital in Vertigo from the owners of Vertigo for an up front payment of EUR 40 million in cash and 623,209 newly issued B shares in Embracer. The Closing Consideration Shares are subject to lock-up, where 50 percent is subject to a 12 months lock-up and 50 percent is subject to a 24 months lock-up.

The agreed earn-out consideration that may be payable by Embracer, a maximum of EUR 65 million in total, is paid with a maximum of 2,492,837 newly issued B shares issued at closing plus an additional EUR 25 million payable in cash upon satisfaction of certain targets. The Earn-Out Consideration Shares are subject to claw back rights and vest upon fulfillment of certain targets based on accumulated earnings and release of certain titles as well as continued employment for certain of the sellers. In addition to the claw back rights the Earn-Out Consideration Shares are subject to three months lock-up following each vesting period.

### **Issue of Closing Consideration Shares and Earn-Out Consideration Shares**

The board of directors of Embracer has today resolved to issue 623,209 of the Closing Consideration Shares and the Earn-Out Consideration Shares pursuant to the authorization granted by the annual general meeting on September 17, 2019. The board of directors will also no later than 30 September 2020 resolve to issue the remaining part of the Closing Consideration Shares and the Earn-Out Consideration Shares, in total 2,492,837 B shares pursuant to the authorization to be granted by the annual general meeting on September 16, 2020. The Closing Consideration Shares and the Earn-Out Consideration Shares are issued at a subscription price equal to the volume weighted average price per share during 20 trading days at Nasdaq First North Growth Market up to and including 15 September 2020, i.e. of SEK 166.47.

The Closing Consideration Shares represent 0.16 percent and 0.09 percent of the total number of shares and votes in Embracer, respectively, on a fully diluted basis. By issuing the Closing Consideration Shares, the number of shares and votes increase by 623,209. The share capital increases by approximately SEK 1,731.14.

The Earn-Out Consideration Shares represent 0.65 percent and 0.36 percent of the total number of shares and votes in Embracer, respectively, on a fully diluted basis. By issuing the Earn-Out Consideration Shares the number of shares and votes increase by 2,492,837. The share capital increases by approximately SEK 6,924.55.

In total, the Closing Consideration Shares and maximum Earn-Out Consideration Shares together represent 0.81 percent and 0.45 percent of the total number of shares and votes in Embracer, respectively, on a fully diluted basis. By issuing the Closing Consideration Shares and Earn-Out Consideration Shares the number of shares increases by 3,116,046 to 385,449,758 and the number of votes increases by 3,116,046 to 686,041,991 (divided among 33,399,137 A shares and 352,050,621 B shares). The share capital increases by approximately SEK 8,655.69 to approximately SEK 1,070,693.83.

### **Completion of the transaction**

The transaction is not subject to any further resolution or approval and is completed as of September 16, 2020.

### **Advisors**

Baker McKenzie acted as legal advisor to Embracer in the transaction.

### **For additional information, please contact:**

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## **About Embracer Group**

Embracer Group is the parent company of businesses developing and publishing PC, console and mobile games for the global games market. The Group has an extensive catalogue of over 190 owned franchises, such as Saints Row, Goat Simulator, Dead Island, Darksiders, Metro, MX vs ATV, Kingdoms of Amalur, TimeSplitters, Satisfactory, Wreckfest, Insurgency and World War Z, amongst many others.

With its head office based in Karlstad, Sweden, Embracer Group has a global presence through its six operative groups: THQ Nordic GmbH, Koch Media GmbH/Deep Silver, Coffee Stain AB, Amplifier Game Invest, Saber Interactive and DECA Games. The Group has 43 internal game development studios and is engaging more than 4,000 employees and contracted employers in more than 40 countries.

Embracer Group's shares are publicly listed on Nasdaq First North Growth Market Stockholm under the ticker EMBRAC B with FNCA Sweden AB as its Certified Adviser; [info@fnca.se](mailto:info@fnca.se) +46-8-528 00 399.

For more information, please visit: <http://www.embracer.com>

## **About Vertigo Games**

Vertigo Games is a multi-platform VR entertainment company with offices in Rotterdam, The Netherlands and Los Angeles, California. With teams in the areas of development, publishing and LBE (location-based entertainment) distribution, the company offers a growing portfolio of quality VR games that provide novel, powerful and full-featured gaming experiences both in- and outside of the home. Current games include Vertigo Studios' evergreen brand Arizona Sunshine®, critically acclaimed VR titles such as A Fisherman's Tale, and LBE-exclusive VR experiences like Ghost Patrol® VR. [www.vertigo-games.com](http://www.vertigo-games.com)

## **Forward-looking statements**

This press release contains forward-looking statements that reflect Embracer's intentions, beliefs, or current expectations about and targets for Embracer's and the group's future results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies and opportunities and the markets in which the Company operates. Forward-looking statements are statements that are not historical facts and may be identified by words such as "believe", "expect", "anticipate", "intend", "may", "plan", "estimate", "will", "should", "could", "aim" or "might", or, in each case, their negative, or similar expressions. The forward-looking statements in this press release are based upon various assumptions, many of which are based, in turn, upon further assumptions. Although Embracer believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurances that they will materialize or prove to be correct. Because these statements are based on assumptions or estimates and are subject to risks and uncertainties, the actual results or outcome could differ materially from those set out in the forward-looking statements as a result of many factors. Such risks, uncertainties, contingencies and other important factors could cause actual events to differ materially from the expectations expressed or implied in this release by such forward-looking statements. Embracer does not guarantee that the assumptions underlying the forward-looking statements in this press release are free from errors and readers of this press release should not place undue reliance on the forward-looking statements in this press release. The information, opinions and forward-looking statements that are expressly or implicitly contained herein speak only as of its date and are subject to change without notice. Neither Embracer nor anyone else undertakes to review, update, confirm or to release publicly any revisions to any forward-looking statements to reflect events that occur or circumstances that arise in relation to the content of this press release.