Embracer Group acquires Vertigo Games
September 16, 2020
<table>
<thead>
<tr>
<th></th>
<th>Topic</th>
<th>Presenter/Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The deal</td>
<td>Lars Wingefors, Embracer Group</td>
</tr>
<tr>
<td>2</td>
<td>Vertigo Games</td>
<td>Richard Stitselaar and Kimara Rouwit, Vertigo Games</td>
</tr>
<tr>
<td>3</td>
<td>The VR gaming market</td>
<td>Pierre Vinson, Koch Media</td>
</tr>
<tr>
<td>4</td>
<td>The future</td>
<td>Klemens Kundratitz, Koch Media</td>
</tr>
</tbody>
</table>
KOCH MEDIA ACQUIRES VERTIGO GAMES

The deal
- 100% of the shares acquired
- Upfront Consideration: €50M (€40M cash and €10M shares), implying an "upfront EV" of €45M, adjusting for €5M acquired net cash
- Earnout package: A mix of operational and financial targets spanning up to 10 years, capped at €65M (€25M cash and €40M shares)
- Two of several components of the earnout package stipulates selling mgmt to stay employed for up to 10 years
- One of several components of the earnout package stipulates that the sellers receive below consideration depending on its EBIT performance between 1 July 2020 and 31 March 2026, and the schedule looks as follows:

<table>
<thead>
<tr>
<th>EBIT (1 Jul 2020–31 Mar 2026)</th>
<th>Cash</th>
<th>Shares</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>≥ 100</td>
<td>15</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>≥ 95</td>
<td>12.5</td>
<td>10</td>
<td>22.5</td>
</tr>
<tr>
<td>≥ 90</td>
<td>10</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>≥ 85</td>
<td>7.5</td>
<td>10</td>
<td>17.5</td>
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Key financials (estimates)

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Net sales (€ million)</td>
<td>10–12</td>
<td>18–24</td>
<td>Stable sales and profit growth</td>
</tr>
<tr>
<td>Operational EBIT</td>
<td>6–8</td>
<td>11–17</td>
<td></td>
</tr>
</tbody>
</table>
Vertigo Games in Brief

World-leading VR developer and publisher with big ambitions in market finally taking off

Vertigo is exclusively VR

- Rotterdam, Netherlands
- Founded 2008
- Exclusively VR since 2013 (7 years)
- Games are developed exclusively for VR
- 50 employees of which 35 developers

Three complementary business areas

- **Studios**: Development of high-quality VR games
- **Publishing**: Publishing of own and 3rd party VR games
- **Arcades**: Development & Licensing of VR games to arcades

Strong VR track record and exciting pipeline project

- Co-op zombie shooter
  - #4 most sold VR game*
  - Developed, published and owned by Vertigo
  - Co-op action shooter
  - One of the most anticipated AAA VR releases
  - 25% of all playtime*
    - in Western arcade locations
  - 1.5M+ VR units sold
    - internal and 3rd party games

* During the last 24 months. Estimate by Vertigo based on third party market intel reports and indications from market participants.
ARIZONA SUNSHINE
Critically acclaimed, million-selling fan-favorite

Apocalyptic zombie survival first-person shooter
4-player co-op
Built exclusively for VR
Dec 2016 release
On all major VR platforms

#4 most sold VR game*
Over 68M views across 15 videos

"The Best VR Zombie Shooter Yet"
– UploadVR, 85/100 (29/06/2017)

"Featuring beautiful graphics, satisfying gunplay, and a detailed world, this is one of the best [VR] shooters"
- Windows Central Best VR Games Selection (12/02/2020)

* During the last 24 months. Estimate by Vertigo based on third party market intel reports and indications from market participants.
AFTER THE FALL
One of the most anticipated AAA VR releases

- The next VR Action FPS from Vertigo Studios
- One of few AAA VR titles announced for the next 12 months
- Built exclusively for, with gameplay unique to, VR
- Strong validation and support from leading VR platforms

"Impressive production values and all. An absolute thrill ride." UploadVR

"If every game were like this one in this category, I wouldn’t worry about the future of VR."
- VentureBeat: Dean Takahashi’s Favorite Games of E3 Selection

An epic VR action FPS with intense co-op gameplay at its core that pits up to 4 players against a vast, hostile VR world, set in the ice-covered ruins of LA nearly 20 years after the apocalypse, in a raging fight for survival.
**VERTIGO STUDIOS**
7 years of VR development excellence

### Vertigo Studios in brief
- Vertigo’s development studio
- Based in Rotterdam, Netherlands
- Founded 2008
- VR-only development since 2013
- 37 developers

### Development strategy

<table>
<thead>
<tr>
<th>VR exclusive development</th>
<th>Reimagining proven concepts</th>
<th>The long tail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building games from the ground up for VR to make full use of VR’s immersive qualities</td>
<td>Taking proven concepts and reimagining these for VR in full-feature titles</td>
<td>Keeping players engaged with replayability through multiplayer features and post-launch support</td>
</tr>
</tbody>
</table>

### Released VR games and pipeline

<table>
<thead>
<tr>
<th>Game</th>
<th>Released Date</th>
<th>Positive Steam Players</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona Sunshine</td>
<td>Dec 2016</td>
<td>83%</td>
</tr>
<tr>
<td>World of Diving</td>
<td>2014</td>
<td>52%</td>
</tr>
<tr>
<td>Arizona Sunshine</td>
<td>May 2018</td>
<td>76%</td>
</tr>
<tr>
<td>Dead Man DLC</td>
<td>Oct 2017</td>
<td>81%</td>
</tr>
<tr>
<td>Arizona Sunshine</td>
<td>Oct 2019</td>
<td>73%</td>
</tr>
<tr>
<td>Skyworld</td>
<td>Apr 2019</td>
<td>88%</td>
</tr>
</tbody>
</table>

Largest development project to date. Coming soon.

**Note:** Dates are release dates. Percentages are % positive Steam players.
Vertigo Publishing in brief

- VR exclusive publishing of Vertigo Studios titles and third party titles
- Based in Rotterdam, Netherlands
- 7 dedicated FTEs (excl. Vertigo group management)
- 1.5M units sold in total
- Offers funding, technical solutions, marketing support, and certified publishing to indie VR developers
- Currently few third-party VR publishers while demand for these services is assumed to increase as the VR market continues to grow.

Portfolio and pipeline

Vertigo Studios titles
- Arizona Sunshine
- Skyworld
- Kingdom Brawl
- After The Fall

Third party titles
- Fisherman's Tale
- Traffic Jams
- Path Craft
- Unplugged

Growth opportunity in 3rd party publishing with first mover advantage as the VR market takes off.
VERTIGO ARCADES

Leading distributor of Vertigo and third party VR titles to VR arcade operators globally, increasingly through proprietary platform Haze VR

Vertigo Arcades in brief

- Leading distributor of Vertigo and third-party VR titles to VR arcade operators globally
- Already available in 700+ locations in 40+ countries
- Leveraging on Arizona Sunshine success which is the #1 played game in VR arcades
- 25% of all playtime in Western VR arcades
- Highly curated content offering of 15-20 titles per arcade
- 3 dedicated FTEs (excl. Vertigo group management)
- Growing notably prior to a downturn with the Covid-19 outbreak, starting to pick up again.

Haze VR proprietary platform

- Vertigo Arcades’ proprietary platform available for VR arcade operators to access, launch, operate and monetize VR gaming content
- Already fully operational in 30+ locations in 13 countries

Selected portfolio titles
**VR MARKET OVERVIEW**

Facebook Oculus, PlayStation and Valve/Steam dominates hardware and digital stores

<table>
<thead>
<tr>
<th>Top VR headsets for gaming</th>
<th>Top VR digital stores</th>
<th>Selection of top VR games</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Oculus Rift S</strong></td>
<td><strong>STEAM®</strong></td>
<td><strong>HALF-LIFE: ALYX</strong></td>
</tr>
<tr>
<td>Connects to PC</td>
<td></td>
<td>+ <strong>BEAT SABER</strong></td>
</tr>
<tr>
<td><strong>$399</strong></td>
<td></td>
<td><strong>SUPERHOT</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>JOB SIMULATOR: the 2050 archives</strong></td>
</tr>
<tr>
<td><strong>Oculus Quest</strong></td>
<td><strong>oculus®</strong></td>
<td><strong>ARIZONA SUNSHINE</strong></td>
</tr>
<tr>
<td>Standalone</td>
<td></td>
<td><strong>SKYRIM</strong></td>
</tr>
<tr>
<td><strong>$399</strong></td>
<td></td>
<td><strong>VADE IMMORTAL</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>+ <strong>Fallout 4 VR</strong></td>
</tr>
<tr>
<td><strong>PlayStation VR</strong></td>
<td><strong>PlayStation.VR</strong></td>
<td><strong>SAINTS &amp; SINNERS</strong></td>
</tr>
<tr>
<td>Connects to PS4/PS5</td>
<td></td>
<td><strong>BONeworks</strong></td>
</tr>
<tr>
<td><strong>$299</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Valve Index</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Connects to PC</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>$999</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>HTC Vive Cosmos</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Connects PC</td>
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<td></td>
</tr>
<tr>
<td><strong>$699</strong></td>
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</tbody>
</table>

Platform cut usually 30% of net sales

+ Retail Software distributed worldwide

50% of top 10 games are shooters*

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* Estimate by Vertigo based on third party market intel reports and indications from market participants.
VR MARKET - CONTINUOUS GROWTH 2020
Facebook Oculus, PlayStation and Valve/Steam dominates hardware and digital stores

- Current Install Base estimated >10 Million headsets*

- **Console VR:** PSVR 5 Million units as of January 2020 *(Sony)*

- **Standalone VR:** Oculus Quest sold 705k in 7 months. “*The Quest (including future hardware updates) is expected to be the top-selling VR hardware through at least the end of 2021*” *(Superdata)*

- **PC VR:** Valve Index sales more than doubled following Half-Life Alyx announcement, showing a demand for more AAA content

- **AAA IP entering VR** market creating excitement & driving overall market

* Estimate by Vertigo based on third party market intel reports and indications from market participants.
STANDALONE HEADSET ACCELERATING GROWTH

Standalone VR had a big success since 2019, overcoming a major barrier for VR growth (accessibility)

**Standalone benefits**

- **Freedom and ease of use**
  No PC. No console. Completely wireless. Overall a much more convenient and better experience.

- **Cheap**
  Oculus Quest starts at $399 and requires no (expensive) PC or console.

- **Giftable**
  As it is standalone, easy to use and cheap, it is more giftable than tethered headsets.

“Standalone headsets are definitely the future of VR. [...] they're so much more convenient, there's so much easier to use. They're completely wireless, they're much more affordable. It's just an overall much better experience.” – Jesse Schell, CEO Schell Games

**Strong demand for Standalone Headset**

- **2020 Vertigo Net Sales (Standalone)**
  - 38% Standalone VR
  - 62% Tethered

- **2021 Vertigo Net Sales (Standalone)**
  +236% YoY

“**The so-hot-it-won't-stay-in-stock** $400 VR headset has been popping in and out of stock for months.” – CNET

**Facebook Connect: Oculus updates**

Facebook holds its annual Oculus/VR conference “Facebook Connect” on Sep 16, 2020

Oculus updates and general VR status and outlook will be presented

* Estimate by Vertigo based on third party market intel reports and indications from market participants.
THE FUTURE

Vision: Creating a world-leading VR developer and publisher as the VR market is taking off

Growth ambition

<table>
<thead>
<tr>
<th>Currently</th>
<th>Medium term</th>
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Ambition to substantially grow headcount in the Netherlands in the medium term

Sr. management is committed and remains independent

- Remaining autonomous within Embracer’s wholly owned sub-group Koch Media
- Management is long-term committed with a substantial earnout package spanning up to 10 years

Synergies

- VR potential within Embracer’s IP catalog
- Financial stability to Vertigo Publishing enabling higher investments
- Publishing knowledge and best practice sharing as Vertigo Publishing grows and the VR market matures
ACQUISITION HIGHLIGHTS AND OPPORTUNITIES

1. Early moving VR gaming specialist, well positioned to continue to lead and grow going forward
   - Focusing exclusively on VR gaming for the last seven years and has built a world-class development and publishing team
   - Mgmt is anticipating significant organic growth in the years ahead
   - Bolt on acquisitions opportunity in the VR space

2. Proven VR track record with Arizona Sunshine success
   - Critically acclaimed, million-selling fan-favorite
   - Forth most sold VR game in the last 24 month*
   - Streamer attention with 68M+ views across top 15 videos on YouTube

3. Highly anticipated After the Fall in pipeline
   - VR-exclusive co-op Action FPS
   - One of the most anticipated AAA VR releases - among few announced
   - Strong validation and support from leading VR platforms

4. Timing is right: VR gaming market set to take off with better headsets, games and investments
   - Expected growth of installed headset base due to committed platform holders driving the market with better and more accessible hardware
   - Increasing quantity of high-quality content released and announced and higher overall investment in VR games development – increased competition will lead to better games
   - The VR gaming software market is not yet dominated by established companies

5. VR Publishing and VR Arcades opportunities
   - Currently few players in third-party VR publishing and VR arcade licensing, while demand for these services is assumed to increase as the VR gaming market continues to grow

* Estimate by Vertigo based on third party market intel reports and indications from market participants.