

Press release

Karlstad, Sweden, 02 May 2022

Embracer Group enters into an agreement to acquire Eidos, Crystal Dynamics, and Square Enix Montréal amongst other assets

Embracer Group AB ("Embracer") has entered into an agreement to acquire the development studios Crystal Dynamics, Eidos-Montréal, Square Enix Montréal, and a catalogue of IPs including *Tomb Raider*, *Deus Ex*, *Thief*, *Legacy of Kain* and more than 50 back-catalogue games from SQUARE ENIX HOLDINGS CO., LTD. ("Square Enix Holdings"). In total, the acquisition includes ~1,100 employees across three studios and eight global locations. The total purchase price amounts to USD 300 million on a cash and debt free basis, to be paid in full at closing. Embracer has secured additional long-term debt funding commitments for this and other transactions in the pipeline. The company today reiterates its current Operational EBIT forecast for FY 21/22, FY 22/23, and FY 23/24. The transaction is subject to various regulatory and other external approvals and is expected to close during the second quarter of Embracer's financial year 22/23 (July-September 2022).

Embracer will hold a webcast presentation for investors, analysts and media on 2 May 2022 at CET 09.00. Please find details in a separate invitation that will follow this release.

"We are thrilled to welcome these studios into the Embracer Group. We recognize the fantastic IP, world class creative talent, and track record of excellence that have been demonstrated time and again over the past decades. It has been a great pleasure meeting the leadership teams and discussing future plans for how they can realize their ambitions and become a great part of Embracer," says Lars Wingefors, Co-founder and Group CEO, Embracer Group.

"Embracer is the best kept secret in gaming: a massive, decentralized collection of entrepreneurs whom we are thrilled to become a part of today. It is the perfect fit for our ambitions: make high-quality games, with great people, sustainably, and grow our existing franchises to their best versions ever. Embracer allows us to forge new partnerships across all media to maximize our franchises' potential and live our dreams of making extraordinary entertainment," says Phil Rogers, Square Enix America and Europe CEO.

Background and rationale

The collection of studios represents a world-class creative team of ~1,100 employees across three studios and eight global locations, including two of the most reputable AAA studios across the industry in Crystal Dynamics and Eidos Montréal. The studios possess

a unique ability to deliver blockbuster hits decade after decade. The acquisition brings a compelling pipeline of new installments from beloved franchises and original IPs, including a new *Tomb Raider* game. The acquisition builds on Embracer's mission of creating a leading independent global gaming and entertainment ecosystem. Embracer has been particularly impressed by the studios' rich portfolio of original IP, housing brands with proven global potential such as *Tomb Raider* and *Deus Ex*, as well as demonstrating the ability to create AAA games with large and growing fan bases. There are compelling opportunities to organically grow the studios to maximize their commercial opportunities.

The portfolio of IP consists of iconic franchises appreciated by critics and players alike. For example, two original IPs, *Tomb Raider* and *Deus Ex*, have sold AAA units of ~88M and ~12M, respectively. Embracer sees an opportunity to invest in these franchises, as well as the additional acquired IPs such as *Legacy of Kain*, *Thief*, and other original franchises. The acquisition also includes the continued sales and operations of the studios' more than 50 back-catalogue games.

Founded in 1992, Crystal Dynamics consists of almost 300 employees across San Mateo, CA; Bellevue, WA; and Austin, TX. The studio is committed to creating narrative-focused AAA action-adventure games and is led by 30+ year veteran Scot Amos. Prior AAA releases from the studio include *Rise of the Tomb Raider* and *Legacy of Kain Defiance*. Crystal Dynamics is actively working on several AAA projects, including the next mainline *Tomb Raider* game that will deliver next-generation storytelling and gameplay experiences.

Founded in 2007, Eidos Montréal consists of almost 500¹ employees across Montréal, Canada; Sherbrooke, Canada; and Shanghai, China. The studio focuses on creating memorable AAA experiences focused on unique stories and strong characters within the action-adventure and RPG genres. The studio is led by David Anfossi, who has 26 years of industry experience. Prior AAA releases include *Thief 4*, *Deus Ex Human Revolution*, and *Shadow of the Tomb Raider*. The studio is working on a host of AAA projects including both new releases from beloved franchises and original IP.

Founded in 2011, Square Enix Montréal consists of almost 150 employees across Montréal, Canada and London, UK. The studio focuses on building mobile games that players will want to return to for years to come. The studio is led by Patrick Naud, who has 24 years of industry experience. The studio is uniquely talented in creating mobile experiences based on traditionally PC/Console IPs such as *Hitman*, *Tomb Raider*, and *Deus Ex*. The studio will continue to develop and operate memorable mobile games based on AAA IP.

After closing this transaction, the US will be Embracer's #1 country by number of game developers and Canada will be #2. In total, post pending closings, Embracer will have

¹Eidos Montréal employee count excludes QA and IT personnel.

more than 14,000 employees, 10,000 engaged game developers, and 124 internal studios. Embracer's upcoming content pipeline includes more than 230 games with more than 30 AAA games. This acquisition will bring additional scale to Embracer's current AAA segment, and Embracer will have one of the largest pipelines of PC/Console games content across the industry, across all genres. As Embracer's pipeline matures, this will be a key driver for organic growth in net sales, operational EBIT, and free cash flow.

Currently, Embracer's development resources are fully utilized either by ongoing internal development projects or by projects financed by external publishers. Embracer's teams dedicated to work-for-hire services to external studios and publishers are also fully utilized across all territories. The lack of available resources in the industry and demand for these services exceeds our available capacity. Through this acquisition, Embracer will augment its development capabilities specifically within the AAA segment, which will provide opportunities to accelerate organic growth.

Embracer believes there will be an increasingly strong demand for high-quality content, including AAA single-player games, over the decade. We aim to continue working with leading platforms and license holders and to form deeper strategic relationships with a handful of leading companies in the industry. Furthermore, synergies across Embracer's ecosystem benefit our people and companies. Our approach is that quality comes first in games development, which is why we believe our decentralized operating model of empowering management teams while facilitating synergies positions Embracer for sustainable long-term success.

Financial outlook for the acquired companies

Embracer has conducted customary due diligence as part of our M&A execution process both with external and internal teams including a more extensive commercial due diligence to fully understand the acquired businesses. We firmly believe that the studios will excel under Embracer's operating model and ownership.

Embracer expects significant net sales and operational EBIT contribution once the new slate of AAA pipeline titles releases. Embracer's base case financial plan implies that the combined acquired companies will be breakeven or have a smaller Operational EBIT contribution to the upcoming two financial years driven mainly by sales of the back-catalogue titles. This could change positively if the company decides to enter a deeper strategic relationship with one or more platforms around the upcoming pipeline. When the product pipeline matures in the years thereafter, Embracer expects the acquired companies to generate on average at least SEK 500 million in operational EBIT per year with notable upside potential. Further details around financials will be communicated at a later stage post-closing.

Financing and current trading

- Embracer has secured additional long-term debt funding commitments of SEK 4.0 billion and extended one existing loan of SEK 6.0 billion with our Nordic relationship banks Nordea, SEB, and Swedbank.
- The additional bank funding commitment will finance our current M&A pipeline, including today's transaction.
- With the inclusion of the new facility, we estimate to have more than SEK 10.0 billion in available cash and credit facilities by today's date.
- We estimate current average net interest cost across the group is expected to be approximately 1.0% including the new facility.
- Under the new terms, Embracer does not hold any short-term debt on the balance sheet. We do not have any debt that expires before 30 June 2023.
- Embracer expects strong growth in free cash flow during FY22/23 and the years beyond. We remain committed to delivering on our financial leverage target. If net debt temporarily exceeds 1.0x net debt to operational EBIT on a forward 12 months basis, our intent is to return to below 1.0x net debt to operational EBIT over the medium term.
- Current trading: The company today reiterates its current forecast (last dated February 17, 2022) of operational EBIT for FY21/22, FY22/23, and FY23/24.

Purchase price

The total purchase price amounts to USD 300 million on a cash and debt free basis, to be paid in full at closing.

Completion of the transaction

The transaction is subject to various regulatory and other external approvals. It is expected to be completed during the second quarter of Embracer's financial year 22/23 (July-September 2022).

Advisors

Juno Capital Partners acted as M&A and strategic advisor to Embracer. Baker McKenzie acted as legal counsel. EY acted as financial and tax advisor.

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About Embracer Group

Embracer Group is a parent company of businesses led by entrepreneurs in PC, console, mobile and board games and other related media. The Group has an extensive catalog of over 850 owned franchises.

With its head office based in Karlstad, Sweden, Embracer Group has a global presence through its ten operative groups: THQ Nordic, Koch Media, Coffee Stain, Amplifier Game Invest, Saber Interactive, DECA Games, Gearbox Entertainment, Easybrain, Asmodee and Dark Horse. The Group has 119 internal game development studios and is engaging more than 12,500 employees and contracted employees 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 +46-8-528 00 399.

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