

INSIDE INFORMATION

Press release

Karlstad, Sweden, 3 February 2021

ESTIMATED SEK 3,600-4,600 MILLION IN NET SALES AND SEK 1,000-1,500 MILLION IN OPERATIONAL EBIT ADDED DURING FY2021/22

Embracer Group (“Embracer”) and its subsidiaries have as previously communicated this morning entered into three transformative merger and acquisition agreements (the “Transactions”). After completion of the Transactions, Gearbox and Easybrain will create the seventh and eighth operating group within Embracer, respectively, and Aspyr will become the largest independent company to join the operating group Saber Interactive. The merged and acquired businesses are, during the financial year ending March 31, 2022, expected to contribute to Embracer’s net sales in the range of SEK 3 600-4 600 million and contribute to operational EBIT in the range of SEK 1 000-1 500 million.

The aggregated day one purchase price for the Transactions amounts to approximately SEK 9.3 billion in total, on a cash and debt free basis. Approximately SEK 2.1 billion is paid in cash and SEK 7.2 billion in newly issued Embracer B shares. To create long term alignment, a maximum additional consideration amounting to SEK 12.5 billion on an aggregated basis, which is subject to fulfilment of agreed milestones, both financial and operational, over a period of up to 7 years, has been agreed. The additional consideration comprises of a maximum of approximately SEK 7.0 billion to be paid in cash and approximately SEK 5.5 billion to be paid in Embracer B shares at a price corresponding to the volume weighted average price per Embracer B share at Nasdaq First North Growth Market during 20 trading days preceding (but not including) the date of the signing of the Transactions, i.e, SEK 197.57 (the “**VWAP 20**”).

To earn the maximum consideration of SEK 21.8 billion the acquired businesses must generate an accumulated operational EBIT in excess of SEK 23,0 billion over the next 6 to 7 years.

The total number of shares that are issued as part of the aggregate consideration, excluding shares issued as part of earn-out structures, amounts to 36,344,747 Embracer B shares issued at a price of SEK 197.57 per B share. The part of the additional consideration consisting of Embracer B shares amounts to a maximum of 28,055,592 shares provided that all earn out targets are met. 5,313,559 B shares being part of the additional consideration are issued at closing of the Transactions and subject to such as claw back rights and lock-up restrictions. A maximum of 22,742,033 B shares may be

issued in the future as additional consideration subject to fulfillment of certain targets.

Strategic rationale

The Transactions considerably strengthen Embracer in terms of diversification of revenues, the absolute contribution to profit and free cash flow as well as the organic growth outlook. Through the Transactions, Embracer grows to 64 internal development studios and more than 6 600 employees and contracted employees, of which more than 4 000 are game developers.

Within premium Games, Embracer onboards Gearbox, one of the most creative game developers on the globe with two decades of originating beloved and innovative AAA franchises. Gearbox's studios in Frisco, TX, USA and Quebec City, Canada will be the backbone of Embracer's global AAA development capabilities. Critically acclaimed IP's like Borderlands, Brothers in Arms, Homeworld and Duke Nukem will stand out in Embracer's vast IP portfolio. Gearbox adds a highly scalable publishing organization in North America, which is primed for growth.

Aspyr, with a track record of 24 years of self-funded profitable growth, solidifies Embracer's position within asset care across multiple platforms and licensor partners, while contributing an exciting pipeline of new development projects.

Within Free-to-Play Games, Easybrain adds a highly process oriented and data driven organization with an impressive track record of creating category leaders within puzzles and logic games, with a highly scalable technology platform, strong user acquisition capabilities and an exciting pipeline of new games. Easybrain's strategic focus will remain on driving organic growth. Free-to-play will with the addition of Easybrain comprise to more than a fifth of the net sales within Embracer's business area Games going forward.

The Transactions are aligned with Embracer's growth strategy with focus on combining organic and inorganic growth. The acquisitive growth agenda is based on adding new, larger operating groups under the parent company, as well as steadily integrating smaller bolt-on acquisitions into the operating groups. In less than three years, Embracer has grown from one to six operating groups, which are all still managed by the founders of the respective group, and today, Embracer adds two additional founder-led operating groups, with attractive prospects for growth.

Strong long-term alignment with founders

The Embracer operating model with emphasis on decentralized decision making and independence for local management to work on a day-to-day basis has been crucial to attracting some of the best gaming entrepreneurs into the Embracer family with a long-term mindset. Becoming part of Embracer is not an exit, but rather considered as the next step on the journey for companies led by founders and strong management teams.

Embracer is highly encouraged by the appetite among founders to become shareholders in Embracer while operating their businesses under various earnout schemes and create a strong long-term alignment of interests. The Transactions underscore Embracer's position as a company not only run by gaming entrepreneurs but also majority owned by gaming entrepreneurs. Easybrain founders Peter Skoromnyi, Matvey Timoshenko, and Oleg Grushevich will jointly combined become the third largest shareholder in Embracer, while Gearbox founder Randy Pitchford and the Gearbox employees jointly will become a significant shareholder, as a consequence of merging their businesses into Embracer and accepting at least half of their consideration in Embracer B shares. Additionally, Aspyr founders Michael Rogers and Ted Staloch will receive close to 50 percent of their total consideration in Embracer B shares.

Capital allocation strategy to drive long term growth remains unchanged

Embracer's capital allocation priorities are unchanged. The first priority for allocating operational cash from released games is to reinvest as much as possible into value enhancing organic growth opportunities, e.g. new game development projects or user acquisition. The second priority is to use free cash flow to finance bolt-on acquisitions in the operating groups.

The Transactions will contribute additional free cash flow to the group, while extending the range of opportunities for organic growth investments. The sizable portion of Embracer B shares being part of the upfront and total consideration means that Embracer maintains a strong balance sheet post closing with a solid net cash position, which provides significant strategic flexibility going forward.

Embracer reiterates the ambition to maintain a strong balance sheet, but for the right inorganic growth opportunity, financial leverage could temporarily exceed 1,0x operational EBIT to net debt, where operational EBIT is measured as management's expectations for the coming twelve months. Under such circumstances, leverage should at least return to below 1,0x net debt to operational EBIT over the medium term, either by retaining cash from operations or by raising primary capital in the equity market.

Cash at hand and available credit facilities post the cash payments of the Transactions amounts to approximately SEK 10 billion. The ambition is to continue to partly fund acquisitions with equity to create long term alignment with founders and management joining Embracer.

The shares and dilution

Through the Transactions, Embracer may in aggregate issue, including earn-out consideration shares, a total of 64,400,339 B shares, meaning that the number of B shares in Embracer can increase from 423,799,677 to 488,200,016 B shares, and that the number of votes can increase from 724,391,910 to 788,792,249.

The total number of B shares that are issued as part of the aggregate consideration,

excluding shares issued as part of earn-out structures, are issued at a price of SEK 197.57 per B share, corresponding to the VWAP 20.

The part of the additional consideration for the Transactions consisting of Embracer B shares amounts to a maximum of 28,055,592 B shares provided that all earn out targets are met. 5,313,559 B shares being part of the additional consideration are issued at closing of the Transactions and subject to such as claw back rights and lock-up restrictions. A maximum of 22,742,033 B shares may be issued in the future as additional consideration subject to fulfillment of certain targets. All earn-out shares are issued at a price of SEK 197.57 per B share, corresponding to the VWAP 20.

The Transactions will, if all earn-out consideration shares are issued, lead to a dilution of approximately 13.2 percent of the share capital and approximately 8.2 percent of the votes in Embracer based on the number of shares and votes in Embracer following completion of the Transactions and issuance of all earn-out consideration shares.

Authorization and extraordinary general meeting

The board of directors of Embracer intends to convene an extra general meeting and propose that the shareholders authorize the board of directors to resolve to issue shares within the framework of the Transactions in connection with the completion of each transaction.

Advisers

Ernst & Young AB is providing transaction support and Baker McKenzie is acting as legal counsel to Embracer in connection with the Transactions.

Responsible party

This information constitutes inside information that Embracer Group AB is obliged to make public in accordance with the (EU) Market Abuse Regulation 596/2014. The information in this press release has been made public through the agency of the responsible person set out below for publication at the time stated by Embracer Group's news distributor Cision at the publication of this press release. The responsible person below may be contacted for further information.

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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. Embracer Group has an extensive catalogue of over 200 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. Embracer Group has 56 internal game development studios and is engaging more than 5,000 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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