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INSIDE INFORMATION

Press release

Karlstad, Sweden, 3 February 2021

Embracer Group merges with The Gearbox Entertainment Company and form a seventh operating group

Embracer Group AB ("Embracer"), has today entered into a merger agreement with US based The Gearbox Entertainment Company ("Gearbox"). Gearbox, based in Frisco, TX and founded in 1999, has been self-funded by the employees from inception. Post-closing, Gearbox will become a seventh operating group as a wholly own subsidiary of Embracer. Gearbox Founder and CEO Randy Pitchford will continue to lead Gearbox, and Randy Pitchford and the employees of Gearbox will jointly become a significant shareholder in Embracer. Gearbox brings highly creative AAA development studios, North American publishing capabilities and a robust IP portfolio, including critically acclaimed and iconic franchises like Borderlands, Brothers in Arms and Homeworld. On a preliminary basis, based on Embracer's accounting principles, Gearbox generated net sales of SEK 1,037 million and Adjusted Operational EBIT¹ of SEK 417 million during the nine month period from January 1 until September 30, 2020. In calendar year 2019, Gearbox generated net sales of SEK 1,052 million and Adjusted Operational EBIT of SEK 317 million.

The day one purchase price amounts to USD 363 million in total, on a cash and debt free basis, of which USD 175 million is paid in newly issued Embracer B shares (the "Closing Consideration Shares") and the residual in cash. Subject to fulfilment of agreed financial and operational targets in the next six years, an additional consideration of maximum USD 1,015 million may be paid, of which a maximum of USD 360 million in issued Embracer B shares (the "Additional Consideration Shares") and the residual in cash. To earn the maximum consideration, USD 1,378 million the accumulated Adjusted EBITDA, including expensed development costs, must exceed USD 1,300 million over six years.

¹ Adjusted Operational EBIT=Operational EBIT adjusted for non-recurring items, e.g. costs for share based compensation and similar which are cancelled as a consequence of Gearbox becoming a subsidiary to Embracer.

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“Gearbox is arguably one of the most creative and valuable independent developers in the world. We believe that the resources offered by Embracer will position Gearbox for continued significant growth in the years to come” says Lars Wingefors, Founder and Group CEO of Embracer Group

“Lars’s vision of Embracer as an allied partner group committed to fueling and accelerating the ambitions of a series of decentralized, successful entrepreneurial member companies while magnifying the collective value and advantages of diversification across the entire group is the most brilliant strategy and design for short, medium, and long-term success in this industry that I have worked in during 30 years. The feeling at Gearbox is that we are just getting started and this transaction is not merely a stimulant for the talent of our employee-owned company, but a propellant for the exciting future we have planned.” said Randy Pitchford, founder of The Gearbox Entertainment Company.

Background and strategic rationale

Gearbox was founded in 1999 and is to date fully owned by Randy Pitchford and Gearbox’s employees. Gearbox operates across two development studios located in Texas, USA and Quebec City, Canada, with a team of more than 550 talents with diversified backgrounds, skills and expertise.

Gearbox Software is a creative developer of multiple original AAA game titles and franchises. The IP portfolio includes, among others, the well-renowned and critically acclaimed games Borderlands, Brothers in Arms, Homeworld and Duke Nukem. The Borderlands franchise currently has three blockbuster installments and the franchise has sold more than 60 million copies to date. Borderlands 3 was one of the top 10 most popular premium games on PC and console in 2019². Gearbox’s first original IP Brothers in Arms was released in 2005 and has since grown into 3 franchise titles and 11 spin-offs. The Brother in Arms series has sold more than 10 million copies to date. Gearbox Software, the game development unit, has developed more than 20 game titles over almost two decades with hundreds of millions units sold combined.

Gearbox Publishing, the publishing unit, has over the past few years established itself on the North American scene, focused on bringing titles from top independent developers to market with recent game titles including Hello Neighbor (2017), We Happy Few (2018),

² Source: Statista (2020)

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Risk of Rain 2 (2019) and Godfall (2020). In 2019, Gearbox created and launched an industry-leading multi-platform currency cards that can be used for in-game purchases. The currency cards are currently available in USA and Canada, with plans for a broader international expansion. Gearbox has recently also expanded their operations into film and television with three projects under current development; a TV series based on the Brothers in Arms franchise, a feature film based on the Duke Nukem property, and a Borderlands movie in collaboration with Lionsgate.

Through the merger, Embracer onboards one of the leading independent companies within the games industry, with proven experience of creating long-lasting franchises and delivering strong original content. The merger will enable collaboration within Embracer in terms of development, publishing, technology, IPs as well as a platform for further M&A in North America. Gearbox will become the seventh operating group and continue to operate as an independent studio focusing on premium interactive gaming experiences.

The Transaction in brief

Upfront consideration – USD 363 million on a cash and debt free basis, as follows:

- USD 188 million in cash; and
- 7,438,983 B shares in Embracer, equivalent to USD 175 million, divided into equal parts subject to a one-year (12 months) and two-year (24 months) lock-up period, respectively.

Operational earn out – up to USD 300 million over six-years

- USD 150 million in cash; and
- 6,376,271 B shares in Embracer, equivalent to USD 150 million, vesting over six years, conditional upon completion of certain projects and that certain key employees remain employed by Gearbox 6 years following completion of the transaction.

Financial earn out – up to USD 715 million over six-years

- **Financial earn out 1:** Up to USD 180 million in cash; and
- 8,926,780 B shares in Embracer, equivalent to USD 210 million, subject to the financial development of Gearbox. If the accumulated Adjusted EBITDA over four years exceeds USD 335 million, the Financial earn out 1 will be triggered and will range from USD 210 million to USD 390 million on a proportionate basis based on

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an accumulated Adjusted EBITDA ranging from USD 335 million to USD 621 million. If earned, the Financial earn out 1 will be payable in shares until the aggregate amount is USD 210 million and all amounts in excess of USD 210 million will be paid in cash.. If the accumulated Adjusted EBITDA is lower than USD 335 million, the financial earn out 1 is zero. If the accumulated Adjusted EBITDA is higher than USD 621 million, the financial earn out is capped at USD 390 million.

- **Financial earn out 2:** Up to USD 325 million in cash, subject to the financial development of Gearbox. If the accumulated Adjusted EBITDA over six years exceeds USD 702 million, the Financial earn out 2 will be triggered and will range from USD 175 million to USD 325 million on a proportionate basis based on an accumulated Adjusted EBITDA ranging from USD 702 million to USD 1,304 million. If the accumulated Adjusted EBITDA is lower than USD 702 million, the financial earn out 2 is zero. If the accumulated Adjusted EBITDA is higher than USD 1,304 million, the financial earn out is capped at USD 325 million.
- The Earn-Out Consideration Shares will be issued at a price of SEK 197.57 per share which equals the 20 day volume weighted average price of Embracer B shares on Nasdaq First North Growth Market up to and including 2 February 2021, and using the FX rate USD/SEK of 8.3984 as of 2 February 2021.
- The Earn-Out Consideration Shares will be freely tradable when earned following fulfillment of operational and financial targets. The Earn-Out Consideration Shares are issued when earned and released if targets are met.
- Financial earn out 1 catchup mechanism: If the financial targets for Financial earn out 2 over six years are met, Financial earn out 1 may be recovered on a proportionate basis based on the cumulative financial performance over six years..

Issue of Closing Consideration Shares and Additional Consideration Shares

The Closing Consideration Shares represent 1.7 percent and 1.0 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 7,438,983. The share capital increases by approximately SEK 20,664.

The Additional Consideration Shares assuming full payment represent 3.5 percent and 2.1 percent of the total number of shares and votes in Embracer, respectively, on a fully diluted basis. By issuing the Additional Consideration Shares the number of shares and votes increase by 15,303,051. The share capital increases by approximately SEK 42,508.

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In total, the Closing Consideration Shares and maximum Additional Consideration Shares together represent 5.1 percent and 3.0 percent of the total number of shares and votes in Embracer, respectively, on a fully diluted basis. By issuing the Closing Consideration Shares and Additional Consideration Shares the number of shares increases by 22,742,034 to 446,541,711 and the number of votes increases by 22,742,034 to 747,133,944 (divided among 33,399,137 A shares and 413,142,574 B shares). The share capital increases by approximately SEK 63,172, from approximately SEK 1,177,221 to approximately SEK 1,240,394.

The Closing Consideration Shares and Additional Consideration Shares are issued at a price of SEK 197.57 per share which equals the 20 day volume weighted average price of Embracer B shares on Nasdaq First North Growth Market up to and including 1 February 2021, and using the FX rate USD/SEK of 8.39842 as of 2 February 2021.

Upon completion of the transaction the board of directors will resolve to issue the Closing Consideration Shares pursuant to authorization granted by a general meeting. The Earn-Out Consideration Shares are issued when earned and released if targets are met.

Completion of the transaction

The transaction is expected to be completed within three months after which Gearbox will be consolidated into Embracer Group. Closing of the Transaction is conditional upon customary conditions including regulatory merger control clearance.

Advisers

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

Juno Capital Partners and Union Square Advisors is acting as financial advisors and Fenwick & West is acting as legal counsel to Gearbox .

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

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the publication of this press release. The responsible person below may be contacted for further information.

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Webcast presentation for investors, analysts and media

Representatives from Embracer Group and Gearbox will participate in a webcast presentation today at 13.30 CET. Invitation and details for participation will be sent out by a separate press release.

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 57 internal game development studios and is engaging more than 5,500 employees and contracted employees in more than 40 countries.

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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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Forward-looking statements

This press release contains forward-looking statements that reflect the company's intentions, beliefs, or current expectations about and targets for the company's future results of operations, financial condition, liquidity, performance, prospects, anticipated

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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 the company 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 the Embracer nor anyone else undertake 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, unless it is not required by law or Nasdaq First North Growth Market’s rule book for issuers.