

Press Release
Karlstad, Sweden, 14 March 2024

Embracer Group ceases all operations in Russia through the divestment of selected assets from the operative group Saber Interactive

INSIDE INFORMATION: Embracer Group AB (“Embracer”) has today entered into an agreement to divest selected assets, from the operative group Saber Interactive for a purchase price of USD 247 million (SEK 2,527 million), including assumed earnout liabilities of USD 44 million (SEK 450 million) but before any additional consideration. Through this divestment, Embracer ceases all operations in Russia, while immediately improving cash flow, reducing capex, net debt and future liabilities. The buyer is Beacon Interactive (the “Buyer”), a company controlled by Saber Interactive co-founder Matthew Karch.

“I am pleased that we have found a win-win solution for Embracer and the parts of Saber that now will leave us. This transaction puts both companies in a stronger position to thrive going forward. Embracer is now able to discontinue all operations in Russia, according to a previous board decision, while safeguarding many developer jobs under new independent ownership. At the same time, we keep key companies, valuable IPs and future publishing rights. Cash flow is immediately improved, and we remain committed to reducing net debt. The transaction yields additional headroom to amortize debt in accordance with existing bank agreements and will improve financial flexibility. This is the first transaction of the previously mentioned structured processes and marks a small but important step in our journey to transform Embracer into the future for the benefit of all employees, gamers, and shareholders,” says Lars Wingefors, co-founder and Group CEO of Embracer.

“Over the past four years, I have been proud to be part of Embracer’s amazing transformation into one of the leading game companies in the world. As part of the company’s efforts to reorganize for a changed industry and geopolitical challenges, we jointly felt it was the right decision for both Embracer and the core of Saber to part ways. This divestment leaves both parties in much better positions to grow our respective businesses. I will continue to remain a large, long-term shareholder of Embracer and we will remain partners on several ongoing and future projects. This transaction also safeguards the livelihoods of hundreds of professionals, many of whom I have worked with for over two decades,” says Matthew Karch, co-founder of Saber Interactive and director of Beacon Interactive.

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Transaction key components:

- The purchase price of USD 247 million (SEK 2,527 million^[1]) comprises:
 - USD 203 million (SEK 2,077 million) which is paid with promissory notes to be repaid in cash no later than December 31, 2024. During a period starting June 2024 until September 2024 promissory notes amounting to a total of USD 65 million (SEK 665 million) will be repaid as part-payments and the remainder will be paid in full at maturity. The promissory notes will carry an interest per annum of 10 percent that will start to accrue as of October 1, 2024 up until December 31, 2024 for any amount outstanding under the promissory notes; and
 - Absorbed earn-out debt obligations in accordance with IFRS of USD 44 million (SEK 450 million).
- Furthermore, Embracer will be entitled to an additional consideration of up to USD 94 million (SEK 962 million) if the Buyer resells the assets for a higher consideration subject to certain conditions and time periods.
- The Buyer also assumes and forgoes notable current and future performance bonuses and other management compensation relating to the Saber Interactive transaction dated February 2020.
- The Buyer is granted an option right to acquire 4A Games and Zen Studios for a fixed price within a certain time period. Due to commercial reasons the parties have agreed not to disclose full terms. The Board of Embracer is, however, confident that the exercise price stipulated in the option right reflects at least the studios' market value and is significantly higher than the current net book value (including goodwill) of USD 81 million (SEK 829 million). In addition to paying the exercise price the Buyer will, if exercising the option right, assume additional earnout liabilities of approximately USD 31 million (SEK 317 million). Long-term license and publishing rights to all current and future PC/console games in the Metro franchise are held within the Embracer operative group PLAION. These rights will not change regardless of whether the option rights are exercised. During the past 12 months, 4A Games and Zen had net sales of SEK 191 million, Adjusted EBIT of SEK 65 million and EBITDAC^[2] of SEK 19 million.
- The divested assets include 38 ongoing game development projects, amounting to a book value of around SEK 2.3 billion. The divested assets also include certain proprietary engine technology and game tools relating to the divested companies.
- The retained pipeline includes 14 games to a book value of around SEK 0.5 billion. The retained projects, including two joint projects with the Buyer, include:
 - The next AAA game from 4A Games
 - An unannounced concept phase AAA game

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- A previously announced AAA game based on a major license
- A new AAA multiplayer shooter based on a controlled IP
- A new AA game based on an Asmodee IP
- A new AA game from 34 Big Things based on an owned IP
- Killing Floor 3
- Teardown (ongoing development)
- The full upcoming pipeline and back catalog from Zen Studios, Aspyr and Tripwire

Illustrative financials for the period 1 January – 31 December 2023 (subject to the option agreements for 4A Games and Zen Studios):

SEK, million	Divested assets	Retained assets	Divested assets % of group	Retained assets % of group	Group total, incl. divested assets
Net sales[3]	1,606	1,425	4%	3%	42,687
Adjusted EBIT	47	390	1%	6%	6,552
EBITDAC	-1,156	214	-38%	7%	3,024
Capex	-1,448	-395	19%	5%	-7,803
# internal headcount[4]	2,950	800	21%	6%	14,140
# of projects	38	14	22%	8%	179

Embracer financial impact

- Upon full payment of the promissory notes, Embracer's net debt is reduced by around SEK 2.1 billion. Further, at closing, cash earn-out obligations in accordance with non-GAAP are reduced by SEK 0.5 billion.
- Capex will be reduced by around SEK 1.2 billion, based on the current annualized run-rate and taking into account capex relating to joint projects with the Buyer. Post-transaction, the restructuring program target of an annualized capex run-rate below SEK 5 billion will be reached. Any additional divestment under the restructuring program would further reduce capex and improve the balance between capex and completed games development. A growth capex is also expected post-transaction and the value of completed games (SEK 3.2 billion on an LTM basis in Q3 FY 23/24) is expected to be notably higher in FY 24/25.

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- The transaction is expected to be immediately accretive to free cash flow generation.
- As of 31 December 2023, goodwill for the divested entities amounted to approximately SEK 6.3 billion, and intangible assets amounted to approximately SEK 2.8 billion of which ongoing game development projects amounted to approximately SEK 2.3 billion. At closing, the transaction is expected to create a non-cash net expense of approximately SEK 6.0 billion. The net expense of SEK 6.0bn related to this transaction will be treated as an Item affecting comparability in the upcoming Q4 report. The non-cash net expense amounts to approximately 9 percent of total consolidated equity for Embracer Group as of 31 December 2023, and the pro forma equity-to-assets ratio amounts to 57 percent compared to 59 percent pre-deal.
- For the divested companies, the majority of the goodwill which has been recognized as part of the purchase price allocation has utilized a weighted average share price of 51.08 SEK.
- The absolute majority of the non-cash net loss relates to the book value of goodwill in Saber Interactive, which is notably influenced by the challenges to realize full goodwill value in this transaction mainly due to geopolitical factors.
- The remaining goodwill of retained companies is approximately SEK 6.1 billion and relates mainly to Tripwire, Aspyr, 4A Games, Tuxedo Labs and Demiurge.

Transaction evaluation

In a comprehensive process led by Aream & Co, Embracer has evaluated several different options, including divestment and restructuring of Saber Interactive. After interactions with several potential buyers, including receiving offers, the Board of Directors deems the terms of the transaction with the Buyer to be the best option and in the interest of Embracer and its shareholders.

On 22 November 2023, Embracer entered a non-binding term sheet with the Buyer regarding the proposed offer. At the same time, Embracer and Matthew Karch entered into a separation agreement to avoid conflict of interests.

Matthew Karch has only taken part in the transaction as a buyer and assisted Embracer in providing the material necessary to evaluate the transaction. No members of the remaining management of Saber Interactive have participated in the Buyer's preparation of the offer and the transaction.

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Since the offer was made, Saber Interactive has been run operationally by the remaining management, with restrictions relating to Matthew Karch previously being a related party to Embracer.

The Board of Directors has appointed independent third-party experts and advisors who, at arm's-length, have evaluated the offer and the attractiveness for Embracer and its shareholders. Furthermore, and due to the previous related party relation, the Board of Directors has appointed Carnegie Investment Bank AB (publ) as financial advisor, to among other things prepare and issue a valuation assessment regarding the fairness of the offer. According to the valuation assessment Carnegie Investment Bank AB (publ) concluded that the transaction terms, including the price and the transaction structure, for divesting parts of Saber Interactive to the Buyer are fair and Carnegie Investment Bank AB (publ) has recommended the Board of Directors to proceed with the transaction.

The transaction in detail

The assets from the operative group Saber Interactive included in the transaction are:

All Saber branded studios	Nimble Giant
DIGIC	Saber Interactive Inc.
Fractured Byte	Sandbox Strategies
Mad Head Games	Slipgate
New World Interactive	3D Realms
All owned or licensed IP and related liabilities owned or held by the studios and entities listed.	All contractor relationships relating to the studios and entities listed.

All Russian employees have been transferred to new entities that are wholly owned by local management that work exclusively with the Buyer. Embracer will initiate a liquidation process to dissolve any Russian companies in accordance with Russian legislation.

Embracer will retain the following studios and companies (subject to the option agreements for 4A Games and Zen Studios):

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34 Big Things (Italy)	Shiver (USA)
4A Games (Malta, Ukraine)	Snapshot (Bulgaria)
Aspyr (USA)	Tripwire (USA)
Beamdog (Canada)	Tuxedo Labs (Sweden)
Demiurge (USA)	Zen Studios (Hungary)

The retained companies will be welcomed and integrated into other parts of Embracer Group in the coming period.

Collateral and release of shares under clawback

At closing Embracer has agreed with the Buyer to release 12,798,274 A shares and 27,438,336 B shares in Embracer currently held in escrow with clawback rights for payment of future earnout obligations to S3D Media LLC. These shares plus an additional 4,620,434 B shares will be used as collateral for the repayment under the promissory notes. S3D Media LLC will therefore at closing transfer a total of 44,857,044 B shares of Embracer to an escrow account. 12,798,274 of these B shares are currently A shares and will be converted to B shares at closing. Following closing S3D Media LLC will no longer hold any A shares in Embracer. No shares to be held in escrow will be released until the whole loan amount under the promissory notes are repaid. The loan is also secured by the underlying assets of the divested companies.

Closing of the transaction

Closing of the transaction will take place as soon as the conditions for the transaction, including customary conditions, are fulfilled.

Investor presentation

Embracer Group will hold a webcast presentation for investors, analysts, media and other stakeholders on 14 March at 09.00 CET. Please find more information in a separate distributed invitation that will follow this release.

Advisors

Aream & Co, are acting as financial M&A adviser. Carnegie Investment Bank AB (publ) are acting as financial adviser. Baker McKenzie is acting as legal counsel to Embracer Group in the transaction. EY has provided services for financials and tax.

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Octagon Capital Group is serving as advisor to Beacon Interactive.

For more information, please contact:

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About Embracer Group

Embracer Group is a global Group of creative and entrepreneurial businesses in PC, console, mobile and board games and other related media. The Group has an extensive catalog of over 900 owned or controlled franchises. With its head office based in Karlstad, Sweden, Embracer Group has a global presence through its twelve operative groups: THQ Nordic, PLAION, Coffee Stain, Amplifier Game Invest, Saber Interactive, DECA Games, Gearbox Entertainment, Easybrain, Asmodee, Dark Horse, Freemod and Crystal Dynamics – Eidos. The Group has 132 internal game development studios and is engaging more than 15,000 employees in more than 40 countries.

Embracer Group's shares are publicly listed on Nasdaq Stockholm under the ticker EMBRAC B.

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[1] FX rate as of 13 March 2024, with USD/SEK at 10.23 (Source: Riksbanken)

[2] EBITDAC = Adjusted EBITDA less Gross investment in intangible and tangible assets.

[3] Net sales include intercompany transactions within Embracer

[4] Internal headcount includes internal game developers, internal employees, and non-development, as of December 31, 2023.

This information is information that Embracer Group AB (publ) is obliged to make public pursuant to the EU Market Abuse Regulation 596/2014. The information was submitted for publication, through the agency of the contact persons set out above, at 2024-03-14 07:00 CET. The persons above may also be contacted for further information.

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Attachments

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