

COMMENTS BY THE FOUNDER AND CEO

OUR STRATEGY IS INCREASINGLY PAYING OFF

Despite a challenging environment with the COVID-19 pandemic affecting individuals, businesses and society at all levels, we are humbly summing up another stable year for Embracer Group. Across the Group, our colleagues and business partners have demonstrated impressive resilience, flexibility and operational performance.

EXECUTING ON OUR STRATEGY

The financial year 2020/21 was our most successful year yet, as we continued to execute our strategy. It was also the year of the COVID-19 pandemic. While the impact of the pandemic on gaming engagement and spending has been positive during the year, the pandemic is continuing to disrupt global supply chains. The health and safety of our employees have been my main concern all through the year. Working from home has been a new, challenging reality for most of our employees. Our decentralized governance model has proved itself as local managements have met these new challenges. I am really grateful for the willingness and engagement in maintaining our global group's business, despite the pandemic. First and foremost, I offer my sincere sympathies with all those personally affected by the pandemic and its consequences.

Embracer has evolved into one of the most diversified gaming companies in the world, and we are still only in the beginning of our journey. Ever since we acquired Jowood's assets back in 2011, management has persistently worked on bringing more attractive content to gamers across the globe, accelerating growth further by mergers and acquisitions. This has laid the foundation for today's Embracer Group. The pace of expansion was amplified by the access to the capital markets through the IPO in late 2016, which has enabled us to greenlight more exciting game development projects as well as welcoming more talented and successful gaming entrepreneurs to the Embracer family.

Since the IPO, our adjusted earnings per share have increased by 14 times. We have grown from three to 80 internal game development studios and at the time of publication of this report we have more than 180 ongoing game development projects. The Group has grown to eight independent operating groups, two of which were added in the past financial year (Saber Interactive and DECA Games) and two more announced in the year and closed by 1 April 2021 (Gearbox and Easybrain). In addition, all operating groups have made bolt on acquisitions, making each of them better positioned than before.

INVESTMENTS IN DEVELOPMENT GIVE STRONG ORGANIC GROWTH

Organic growth remains the main priority for all operating groups. Since the IPO, the Group has reinvested most of its underlying free cash flow into organic growth. We are pleased with the 70 percent strong organic growth

delivered in the financial year, primarily driven by numerous successful launches of high-quality games, but also thanks to a solid back-catalog. Notable sales performances of new releases during the year, other than *Valheim*, include close to 2 million copies of *SnowRunner*, more than 2 million of *Spongebob Squarepants: Battle for Bikini Bottom Re-Hydrated* and more than 1 million copies of *Destroy All Humans!*

We are increasingly excited about the potential for organic growth in the coming years. In 2020/21, the Group invested SEK 2 billion on game development, in comparison with the accumulated development value of games completed in the year, SEK 837 million. We are committed to fulfilling our ambition to complete more than 90 game development projects in the current financial year 2021/2022. The total completion value of these is estimated in the range of SEK 2,875 to 3,325 million, including projects from Gearbox and Aspyr.

NEW, FAST-GROWING SEGMENTS ADDED

The Group continues to grow within new segments of the gaming market. Up until the past financial year, we were primarily active within premium games for PC and console, but we are increasingly thrilled about the opportunities ahead within mobile. Through mergers and acquisitions of Easybrain, DECA, A Thinking Ape and IUGO, mobile will constitute a sizable business for the Group. Mobile is the biggest segment of the gaming market at USD 77 billion in 2020, showing no signs of slowing down with an estimated growth of 13% year-over-year in 2021. We truly believe that our model will be successful within this fast-growing gaming segment. Vertigo Games, also acquired in the year, is specialized in VR and represents another new segment for Embracer. The global VR-market is expected to grow from USD 3.3 billion in 2019 to 5.7 billion in 2023 according to Superdata, thanks to improved equipment that increases convenience and player experience.

Gaming has been a growth industry for a long time, but it has seen an accelerated growth during the pandemic because of the lockdowns. Embracer widely outgrew the industry on an organic basis, with a solid 85 percent organic constant currency revenue growth in the year, driven by multiple successful new releases and a strong back catalog. I remain confident that we are well positioned for continued, solid organic growth, as our publishers and studios bring new content to gamers in the years to come.



OUR STRATEGY IS MORE RELEVANT THAN EVER

Despite organically growing our headcount by approximately 20 percent in the past year, we have more IP's, licenses and ideas than we have developers to bring high quality games to market. We are consequently actively trying to attract more gaming entrepreneurs to become part of Embracer Group. Across the Group, we have been engaged in more dialogues than ever. Our ambition is to continue growing the number of mergers and acquisitions, as our ecosystem expands with additional operative groups where transactions are initiated and made.

In my belief, a key factor to our success is that entrepreneurs who become part of Embracer maintain their creative and operative freedom while they can go faster and boost their growth by being docked into our growing eco-system and available resources. We are steadily seeing more cooperation between the independent operating groups – for the simple reason that it makes sense for everyone. We hope that access to the Embracer eco system will be an even more decisive reason when gaming entrepreneurs chose to become part of the Embracer family in the future.

INCREASING EMPHASIS ON SUSTAINABILITY AND GOVERNANCE

In this annual report, we incorporate our first statutory sustainability report. Developing an efficient sustainability framework that takes into account our unique, decentralized governance model has been important for several reasons. Sustainability is in the core of any long-term engagement. As we execute on our long-term strategy to build Embracer into an even larger, diverse group of

companies, we have developed our own sustainability framework called “Smarter Business” for managing our growing responsibilities. We have also taken important measures to strengthen our management and governance structure. The parent company has further increased its capabilities and we have improved our onboarding and integration process of mergers and acquisitions, handled by a team from Embracer Group and external industry-leading advisors.

Embracer is well positioned for further growth in the coming years, strategically as well as financially. In May 2021, we had more than SEK 17 billion (USD 2 billion) in cash and available credit facilities. We just got started. We will continue to grow over the coming decades, executing the same strategy as when we started years ago.

I am impressed and proud to see the dedicated work being performed on a daily basis across our global group, despite the ongoing COVID-19 pandemic. I want to sincerely thank each and every one for all the efforts that keep our business going. Let's hope that we can meet in person as soon as possible. To conclude, I would like to send my thanks to all our shareholders, customers, colleagues and business partners for contributing to the prosperity and success of our growing family. We are all looking forward to our strongest and busiest year ever!

August 2021, Karlstad, Värmland, Sweden

Lars Wingefors
Co-founder & CEO