

Press Release
Karlstad, Sweden, 20 May 2026

Open letter by Chair of the Board on the Fellowship Entertainment spin-off

Dear Shareholders,

It's time to take another important step on our journey. Today we are announcing the intention of the next spin-off, Fellowship Entertainment, to the Nasdaq main market in Stockholm during calendar year 2027. Over the past year, it has become evident that this approach represents the most effective long-term solution, and the rationale is now ready to be communicated.

Ever since the foundation of Embracer the question has been asked to me what the strategy of the group really is. The reality is that it has been difficult to easily communicate the Embracer story historically due to its mix of operational strategies and a combination of decentralization from HQ but part-centralization within operating groups. We are now forming two separate business segments with two different strategies. Fellowship will be one business segment with one strategy and business plan. This will form the new publicly listed company, Fellowship Entertainment. Embracer will be highly decentralized with several different strategies across each of the entities in the business segment. The companies will be driven by entrepreneurs and management teams that are incentivized to deliver their own long-term business plans, while synergies will mainly be within each niche or/and group.

The main rationale to spin-off Fellowship is to increase management focus to capture the full joint potential of the IPs, their respective communities and some of the best game developers in the world. Just like Asmodee and Coffee Stain, we believe Fellowship Entertainment will thrive the most by becoming its own standalone business.

I think the assets held by Fellowship Entertainment are among the most undervalued in the industry and I feel it's my duty as the largest shareholder to change this and create a structure to realize their full potential. I'm convinced that Fellowship Entertainment could reach industry leading profitability and show healthy long-term organic growth above the industry average. The business model is geared to have high incremental Cash EBIT [1] margins well in excess of 50 percent in the long-term, with strong cash conversion as the company grows. My optimism is underlined by the commercial and creative track record of the studios within Fellowship Entertainment, which are strong, with an average ROI of over 3.2x for the games released under our ownership.

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Profitable growth will be achieved by a combination of greater cadence – at least 2 per year starting FY27/28 - of outstanding AAA products, increased focus on external licensing revenues by creation of a new focused business unit, adaptation of new technologies and AI and, above all else: an increased management focus, only executing on this opportunity. The good news is that we already have all the assets to succeed with this transformative journey within Fellowship Entertainment. Now, we need some patience and great execution.

This morning we announced the forming of a new IP & licensing business unit as part of Fellowship Entertainment. In addition to expanding our largest transmedia IPs, The Lord of the Rings/Middle-earth and Tomb Raider, we see great potential to invest own capital in and form new partnerships for our largest other AAA IPs, such as Kingdom Come: Deliverance, Dead Island, Darksiders, Remnant and the licensed Metro series. Apart from the largest IPs we will more actively be exploring external partnership around our roster of other well-known IPs such as Saints Row, Legacy of Kain, Deus Ex, Red Faction, The Mask, Thief, TimeSplitters, amongst many others. Dark Horse will operationally become part of the new IP & Licensing business unit with its long track record of co-producing film and TV shows with partners in Hollywood.

If you have been a shareholder since the IPO in 2016, it has been a long journey. Fast forward a decade, in calendar year 2025, the combined proforma revenues of Asmodee, Coffee Stain and Embracer exceeded SEK 35.5 billion (USD 3.8 billion) with more than SEK 4.5 billion (USD 480 million) in Adjusted EBIT. The combined share price today has increased by approximately 1,000% since the IPO. However, I am painfully aware that the value creation has been negative since the peak pandemic years. With that said, I am confident that today's announced changes will enable more and faster shareholder value creation than keeping it in the current structure.

Even if, for some, we have become closely associated with industry layoffs, the reality is that we have worked hard to retain as many people as possible through a very difficult period, while balancing the needs to drive a profitable business operation. That reflects our commitment to our people, our portfolio of beloved IPs, and the promises we have made to entrepreneurs. Looking back at the large adjustment we made in 2023, we decided not to do a hard "US Corporate style" headcount reduction, but to give a number of studios and IPs the chance to prove themselves. We have been and are still adjusting to a new industry post-pandemic to drive value. We are now finally past the largest cycle of productions started prior to or during the pandemic. Positively, we are seeing great business for PC/Console games based on proven IPs or licenses, especially large, great single-player experiences. Consumer research clearly states that gamers at large are still looking to spend time and

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money on high-quality games. For example, if we look at the Kingdom Come: Deliverance 2 it has already reached a ROI of 3.2x just 14 months post-release, with great continued momentum for the future.

The decision to spin off Fellowship Entertainment is based on the learnings from the spin-off of Asmodee and Coffee Stain. Operationally these businesses have delivered strong results and have also accelerated strategic initiatives, each supported by a more focused management team and improved governance with a dedicated board of directors.

To give you some additional background to the decision, we have been discussing the market cap size of the two separate entities as one of the largest challenges. I'm well aware that by cutting a pie into more pieces you do not automatically see increased shareholder value. The board has been unanimous in the decision that the new entities on a separate basis are likely to generate faster cash flow growth and higher returns by improved and more focused execution. We do not expect overall corporate costs to increase due to the spin-off. Our ambition is to operate a lean and efficient overhead for each of the groups. Considering the actual separation is planned in 2027, and the fact the Fellowship Entertainment has a notably stronger product pipeline for 2027 and onwards we believe the timing is about right. One of the learnings from the Coffee Stain spin-off on Nasdaq First North is that there was a significant sell-off from passive index investors. Therefore, we are now aiming for the Nasdaq main market.

We firmly believe that Fellowship Entertainment on a standalone basis will have more attractive and easy-to-understand investor communication and that it will, over time, attract a larger pool of international investors. The planned CMD ahead of the spin-off will be an important event to educate the market in detail about its prospects.

The strategy for the business segment Embracer will be improved for the better. This is a unique chance to create the future Embracer, using all the learnings from the past decade. This group will transform to a compounder focusing on Cash EBIT and profitable growth. The profitability for Embracer companies measured as Cash EBIT has been weak over the past years but changes and divestments of unprofitable businesses are now largely executed, and we could already see improvement in the forecast for FY26/27 that will continue to improve the years thereafter. I am a firm believer in that the need for a strong industry holding company supporting leading entrepreneurs and management teams is greater than ever.

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The business segment Embracer has strong or leading positions in the following industry niches – all with economy-of-scale and synergies within each area for further in-organic growth:

- **Retro gaming and collectibles:** Aspyr, Clear River Games, DPI, Game Outlet, Limited Run Games, Tatsujin and PLAION Replai generated net sales of SEK 1.4 billion (USD 150 million) in FY 25/26, and is expected to have one of the largest growth contributions within the group in the current financial year, driven by the release of Neo Geo AES+ in November 2026. Early pre-order KPIs show demand heavily exceeding initial expectations. The release will be a notable driver of revenue and profitability within this business area in H2 this financial year.
- **Mobile games-asset care:** our companies DECA, A Thinking Ape and Crazy Labs have more than 600 FTEs in hubs across most time zones. Jointly, they have industry-leading capabilities to manage and grow established mobile games by active community management and content creation. In total they are managing a catalogue with more than 350 games and in FY 25/26 had net sales of over SEK 2.3 billion (USD 245 million).
- **Physical distribution of video games:** our European market leaders PLAION Partners specializes in the physical distribution of both software and hardware. It has shown to be a remarkable stable business over the past years and is forecasted to grow this year. PLAION Partners had net sales of more than SEK 3.2 billion (USD 340 million) in FY 25/26, with a reasonable profit margin.
- **Film distribution:** PLAION Pictures has built one of the leading film distribution businesses in central Europe with a deep, growing catalogue of horror, Independent, Anime, and children movies. With distribution through cinema, digital and physical, it generated more than SEK 0.9 billion (USD 95 million) in net sales FY 25/26
- **PC/Console game development:** our studios provide a strong European footprint through studios such as Alkimia, Ashborne, Bugbear, DigixArt, Experiment 101, Grimlore, Nine Rocks, Purple Lamp, Snapshot, Tarsier, Voxler and Vertigo amongst others. In total, we have more than 900 game developers based in Europe, with competitive development cost dynamics.
- **PC/Console game publishing:** our publishers, including Aspyr, Beamdog, Handy Games, Milestone, THQ Nordic Games, Tripwire, Vertigo and Zen hold strong or leading positions in A/AA games.
- **PC/Console racing games.** The Milano based Milestone with over 300+FTE has over the past 30 years built a leading position within racing games such as Hot Wheels, Moto GP, MX, Ride, and Screamer.

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In addition, the business segment Embracer has a portfolio of franchises with millions of fans, and a highly cashflow generative back catalogue:

- PC/Console IPs and back catalogue: our franchises include Alone in the Dark, Biomutant, Destroy All Humans, Gothic, Killing Floor, Kingdoms of Amalur, Lets Sing, Maneater, MX vs ATV, REANIMAL, Road 96, The Guild, Titan Quest, Way of the Hunter, Wreckfest amongst 100s of others.

I can once again also see the potential for value accretive, opportunistic, and synergistic M&A to strengthen these already successful niche businesses within the Embracer business segment. To be clear on M&A, it could be all three – acquisitions, mergers with others and divestments of less strategic assets. The target is clear: all directly reporting groups and companies within Embracer are to have a positive Cash EBIT on a recurring basis.

As stated earlier, this is a unique chance to create the future Embracer. The journey over the past decade has given some hard and invaluable learnings, which I, as Chairman, will make sure that we will use as we lay the foundation for the coming decade across both future companies. Let me share a few selected insights that the years have taught us with all of you:

1. Trust matters more than anything. Keep your word, treat people well, and never forget to be human.
2. Some of our best transactions came from knowing the people, understanding the market, and building from there.
3. In this industry, delays are inevitable - and they almost always cost more and push cash flows further out than expected.
4. Debt can become very dangerous in a volatile business if you are not careful.
5. Accounting can make things look better than they are. A capitalized cost is still a cost, working capital still ties up cash, and every investment needs to earn its keep.
6. Problems rarely solve themselves. If something is not working, it is almost always better to deal with it early.
7. The value of strong IP often lasts longer than people think, while building new IP is usually harder, slower, and more expensive than expected.
8. Cost control does not get enough respect, but over time it makes a bigger difference than many people realize.
9. As you grow, decentralization only works if capital allocation becomes more disciplined.
10. The businesses that have done best are often the ones that kept focusing on what already worked, without letting costs run away.

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A new stronger governance structure led by CFO and Deputy CEO Müge Bouillon is now being put in place for the business segment Embracer. To be clear, the current Embracer Group CEO Phil Rogers will be leading the overall group until spin-off, at which point he will assume the new role as Group CEO for Fellowship Entertainment. The recruitment of a new CEO for Embracer has been initiated, and the new leader is planned to be in place well ahead the separation. Phil Rogers has done great in the past years and especially since my transition as CEO on 1 Aug 2025, becoming the natural leader also for the future Fellowship Entertainment. He is steadily building a unified company with greater synergies, better execution, and tighter cost control.

The total historical acquisition price (cash and shares) of all assets within the current Embracer Group amount to around SEK 26 billion (USD 2.8 billion). Today, this is higher than the latest market enterprise value of SEK 12.5 billion (USD 1.3 billion). As you probably understand by reading this letter from me, I am confident that the future value exceeds the acquired value. Still, we announced a non-cash impairment/IAC this morning of approximately SEK 7.2 billion (USD 760 million) in Q4 and we will thereby have a more conservative goodwill value of SEK 4 billion (USD 420 million) in our balance sheet. Accounting principles call for impairment of book values for underperforming assets and will not allow for revaluation or increase of book values for overperforming assets. Many of our greatest assets are booked at low or zero value including most IPs, many high-quality studios and older PC/Console back-catalogue games.

Alongside the structural changes, I'm pleased that we this morning announced a SEK 750 million (USD 80 million) share buyback program running until 31 March 2027. With a net cash position at end of March of SEK 3.8 billion (USD 400 million), we are already well capitalized to execute on our continued transformation journey. Once the separation is concluded, my desire as a large shareholder, is that both companies will return capital to shareholders on regular basis.

Starting FY 26/27, we will add Cash EBIT alongside Adjusted EBIT to become our key internal profitability metric. The key change is that there will be no game development capitalization in Cash EBIT. My view is that capitalization for too long has been hiding questionable investments across the industry, including in our companies. Ultimately, game development spend is our largest cost item across the group and we need to get an attractive return from the money we invest, but also to have an appropriate balance between growth and cash flow generation. By steering the business on Cash EBIT, we foresee that this balance will be more visible for all stakeholders.

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To be clear, just as with Asmodee and Coffee Stain, I'm strongly committed to be an active long-term shareholder in both Embracer Group and Fellowship Entertainment.

Finally, I would like to thank all of you who are, or have been, on this journey since the foundation. Many of you have become close to me over the years. It has not always been a straight road, but I can assure you that myself, the board and executive teams are working diligently to make the best possible decision at every given moment.

Yours faithfully,

Lars Wingefors
Founder and Chair Embracer Group AB

[1] Adjusted EBIT excluding operational depreciation and amortization expenses, less investments in intangible and tangible assets and payments of IFRS 16 lease liabilities.

Attachments

[Open letter by Chair of the Board on the Fellowship Entertainment spin-off](#)