Open letter by Embracer Group CEO on restructuring program

Everyone,

This morning we announced a restructuring program across the Embracer Group that will make us a leaner, stronger and a more focused, self-sufficient company. I want to share some background and context to this decision - and what it means for us going forward.

During the past years, Embracer invested significantly both in acquisitions and into a strategy of accelerated organic growth. We have acquired some of the world’s leading entertainment IP and we have invested into one of the largest pipelines of games across the industry. The program presented today will transform us from our current heavy-investment-mode to a highly cash-flow generative business this year. It will enable us to meet the worsening economy and market reality as a strong company and it will fundamentally change our prioritization of growth with raised capital towards optimization and growth based on our own cashflows. The program will lower our net debt significantly. After completion of this program, we will generate growth in profitability with less business risk and with higher margins in the PC/Console segment over the coming years. This, in turn, will give us the freedom to continue to grow and deliver the high-quality experiences our players really value.

The program is divided into different phases until March 2024 with focus on cost savings, capital allocation, efficiency and consolidation. The initial phase, which is initiated immediately, mainly targets cost savings across the group. The next phase, which also starts immediately, will require further analysis to determine specific actions. The last phase will focus on internal consolidation, further resource utilization and more synergies across the Group. The actions for each affected company will be implemented by the new interim COO and CSO in collaboration with each operative group CEO and management teams. Embracer currently engages close to 17,000 people and while that number will be lower by the end of the year, it is too early to give an exact forecast on this.

It is painful to see talented team members leave. Our people are what make up the very fabric of Embracer. I understand and respect that many of you will be worried about your own position and I don’t have all the answers to all questions. I want to be clear that the decisions about this program were not taken lightly.
I am asking all our managers to lead and act with compassion, respect, and integrity. Throughout each phase and wherever possible, we will work to ensure that affected team members receive information first. Where we can, we will try to provide opportunities for our colleagues to transition onto other projects. It’s important to note that while we are removing roles in some companies, we will continue to hire in others. We know, understand and respect that this is a challenging time for every person impacted. For me communication and transparency are key, but it’s also an increasingly difficult challenge in matters such as this program.

The reality is that the quicker we act, the sooner we emerge as a stronger company.

The actions will include, but not be limited to, closing or divestments of some studios and the termination or pausing of some ongoing game development projects. It will also include decreased spending on non-development costs such as overhead and other operating expenses. We will reduce third party publishing and put greater focus on internal IP and increase external funding of large-budget games.

Our new Executive Management team members, Matthew Karch and Phil Rogers, will work to implement a revised, thorough review process for investments in our ongoing and potential new game development projects. They will also take the lead on further consolidation of operations, including review of the operative group structure. We will have an increased focus on accountability across the group, ensuring performance is in line with or exceeding current targets.

The potential impact from the program of future game releases will almost entirely be around unannounced projects. All announced significant releases will still be released as planned.

I want to thank all of our industry partners that reached out in the past weeks and expressed their respect for Embracer and their desire to do more business with us, whether big, small, or transformative, on our journey forward. As one of the largest content providers in the industry, this is the everyday business we should continue to increase. I see this as an acknowledgment of how important our people, games and IPs are for the wider gaming ecosystem.

There is significant untapped potential in Embracer which we will work together to unleash. We need to better leverage our scale, the quality of our portfolio and our capabilities. Our commitment to our transmedia strategy remains intact. That strategy alone has great potential to deliver substantial value across the group over the coming years. Ultimately, this will empower our entrepreneurs and creators to continue to deliver outstanding and
memorable experiences to gamers and fans across the globe. I'm confident in our team’s ability to achieve results and maintain our position as a worldwide leader in the gaming industry.

I’m proud of what we have built over the past years, and we should acknowledge that we are heading into a solid year with many amazing releases such as Remnant 2, Warhammer 40,000 Space Marine 2, Payday 3, Hot Wheels Unleashed 2: Turbocharged, Arizona Sunshine 2, Alone in the Dark, Homeworld 3, and many many others. Our financial year started with one of our greatest successes so far, Dead Island 2, which exceeded our management’s already high expectations.

Embracer was founded on the values of trust, a long-term mindset, and a desire to embrace different perspectives. As difficult as some of the decisions we will take over the coming weeks and months will be, we are doing this because we are confident that we will emerge a stronger, more efficient company setting out on a stable future to build even greater value across our many studios and fantastic portfolio of IPs.

Thank you all,

_Lars Wingefors_
Group CEO Embracer Group

Attachments
*Open letter by Embracer Group CEO on restructuring program*