

Remedy Entertainment Plc

BUSINESS REVIEW

JANUARY-SEPTEMBER 2022



REMEDY 

Remedy Entertainment Plc | Business Review January-September 2022

Remedy's investments in game projects continued, burdening profitability

The next major game launch, *Alan Wake 2*, taking place as planned in 2023

The Business Review is unaudited. Figures in parentheses refer to the comparison period in the previous year unless otherwise stated.

HIGHLIGHTS FROM JULY–SEPTEMBER 2022

- Revenue grew by 6.8% to EUR 7.9 (7.4) million.
- EBITDA decreased to EUR -2.4 (0.4) million, mainly due to increased external development costs.
- Operating profit (EBIT) was EUR -3.0 (-0.2) million, and operating profit margin was -38.4% (-2.9%) of revenue.
- Cash flow from operations was EUR 4.7 (4.8) million.
- In August, Remedy lowered its revenue and operating result outlook for 2022.
- In September, Remedy's Board of Directors decided on a new option plan.

HIGHLIGHTS FROM JANUARY–SEPTEMBER 2022

- Revenue grew by 20.2% to EUR 30.0 (24.9) million.
- EBITDA was EUR -0.9 (3.6) million.
- Operating profit (EBIT) was EUR -2.7 (1.1) million, and operating profit margin was -9.0% (4.3%) of revenue.
- Cash flow from operations was EUR 14.2 (8.2) million.

KEY FIGURES

MEUR, IFRS, Group, unaudited	7–9/2022	7–9/2021	1–9/2022	1–9/2021	1–12/2021
Revenue	7.9	7.4	30.0	24.9	44.7
Growth in revenue, %	6.8%	-29.7%	20.2%	-7.3%	8.9%
EBITDA	-2.4	0.4	-0.9	3.6	14.5
Operating profit (EBIT)	-3.0	-0.2	-2.7	1.1	11.4
Operating profit, % of revenue	-38.4%	-2.9%	-9.0%	4.3%	25.5%
Result for review period	-2.6	-0.4	-3.2	0.6	8.8
Result for review period, % of revenue	-33.5%	-4.8%	-10.7%	2.5%	19.7%
Balance sheet total	98.9	93.1	98.9	93.1	101.1
Cash flow from operations	4.7	4.8	14.2	8.2	6.1
Net cash	57.5	57.3	57.5	57.3	52.8
Cash position	56.5	57.0	56.5	57.0	51.4
Net gearing, %	-66.9%	-73.1%	-66.9%	-73.1%	-60.4%

Equity ratio, %	86.9%	84.1%	86.9%	84.1%	86.4%
Capital expenditures	2.8	2.7	8.1	7.3	9.6
Average number of personnel during review period (FTE)	316	286	302	280	280
Headcount at the end of period	330	294	330	294	294
Earnings per share, €	-0.20	-0.03	-0.24	0.05	0.66
Earnings per share, € (diluted)	-0.19	-0.03	-0.23	0.04	0.63
Number of shares at the end of period	13,448,600	13,072,150	13,448,600	13,072,150	13,298,450

COMMENTS BY CEO TERO VIRTALA

In the third quarter of 2022, revenue grew by 7% to EUR 7.9 million. Development fees made up 95% and royalties 5% of the revenue. Key positive contributors were the development fees from *Alan Wake 2* and *Max Payne 1&2 Remake*. At the same time, development fees from *Codename Condor* and *Alan Wake Remastered* and game royalties from *Control* decreased from the comparison period. *Alan Wake Remastered* and *Crossfire* did not generate royalties.

In the third quarter, operating profit decreased to EUR -3.0 (-0.2) million. Our result was burdened by significantly increased external development expenses, mainly related to *Alan Wake 2* and *Codename Condor*. The lower share of higher-margin royalty revenue also affected profitability.

During the past years, we have successfully shifted into a multi-project model. Our game development capabilities are better than ever, our financial position is strong, and we have the right business partnerships for each of the five games in development. Four of these games are based on Remedy-owned brands and one is based on an external brand with a great strategic fit for us.

We have taken major steps in our long and extensive transformation journey. We have learned a lot along the way, and we continue to improve our way of working and development capabilities. The development of Remedy's games takes years. Measuring our performance on a quarterly basis can sometimes be challenging as our success depends on the future success of multiple games in development. Now, our focus is on the development of these five games, each of which has the potential to be a major success.

The most recent one of these games is *Max Payne 1&2 Remake* with Rockstar Games. In the third quarter, we continued to develop the game with a small core team, utilizing production and technology synergies across our projects.

Codename Condor, a spin-off game of *Control*, continues in the proof-of-concept stage. Our development team has discovered smart ways to utilize the world of *Control*, as well as designs that ensure a cooperative player experience that fits into the world of *Condor*. These designs are being prototyped and the gameplay already in this early phase feels fun. We are giving the team time to work on a multitude of important game design elements and finalize the key pillars before moving the project to the next development phase. *Codename Heron*, a bigger-budget *Control* game, is in the concept stage. Based on the well-progressing early development, the team size has been gradually increased. We will keep the team moderate in size for now and provide the time needed to continue the concept and prototype work for the game, as well as to develop selected technologies and tools in collaboration with our Northlight team.

Vanguard, a free-to-play (F2P), cooperative multiplayer game to be co-published with Tencent, continues in the proof-of-concept stage. As announced in August, we decided to take extra time in developing the game

to ensure it can be completed according to the high-quality standards set for this game. That is why we are keeping the game longer in the current proof-of-concept phase and postponing the significant expansion of the development team until 2023. This will also postpone income from 2022 to 2023, which was one of the main reasons why we lowered our guidance for 2022 in August. *Vanguard* will be an expansive service-based F2P game with a rich world and selected new elements, making it a game that stands out from other multiplayer games. We want to make sure all these elements merge together in the right way before we make final decisions on the plans for the next development phase in 2023. At the moment, many of the game's designs are taking shape and the team is busy prototyping and testing these.

Alan Wake 2 is in the full production stage and the game will be launched as planned in 2023. There is still a lot of work to be done, but the game is coming together on all fronts. User testing continues and the feedback from the user research has been encouraging. After seeing how the elements are coming together, I'm confident we will launch an excellent game. After the end of the reporting period in October, we announced with Epic Games that *Alan Wake Remastered* is now also available for Nintendo Switch, opening up a new platform and audience for the game.

Some of the games we are currently developing are co-published and/or co-financed with our partners. This means that compared to past years, we are paying a bigger share of the development expenses ourselves, which is burdening our profitability in the short term, but increasing consumer revenue and royalty opportunities in the long term. Some of these games are also longer-engaging service-based games, which provide a basis for even longer-term sustainable and profitable revenue.

In terms of business model, we are evolving from the current development fee focused business towards a higher margin, more scalable consumer business, while maintaining a close relationship with our development partnerships. This supports us in our next growth leap during the coming years.

In the third quarter, we continued to recruit new talents and use external resources to ensure progress in game development. With our current game road map and strengthened resources, we are planning to launch at least one new game per year from 2023 through 2025, accompanied by additional free and sellable content.

FUTURE OUTLOOK (AS ANNOUNCED ON AUGUST 1, 2022)

Remedy expects its revenue to remain at the previous year's level and its operating result to decline significantly compared to the year 2021.

LONG-TERM BUSINESS PROSPECTS

We have several games in development, each with a world-class partner and agreed long-term development fees. These development fees form a strong, growing, and predictable revenue basis for many years. On top of these revenues, we add the less predictable but highly scalable revenue streams arising from game royalties.

Individual game royalties depend on many variables, which are not all under our control. Therefore, our assumptions for game royalties are conservative. At the same time, even though not assumed as the base case, each high-quality game that stands out in the market has the potential to succeed in a bigger way, which would drive significant revenue and operating profit growth. Step by step, our games are transforming into longer-lasting experiences that typically continue to sell for many years. This also applies to the three games we launched at the end of 2021 and early 2022 with our partners.

In relation to our longer-term game roadmap, we now have five game projects in development and will have major game launches between 2023 and 2025. The timing of individual game launches and new game development agreements may cause variation from quarter to quarter and year to year. With several games out in the market accruing royalties and several new ones in development, this variation is expected to decrease in the coming years.

EVENTS AFTER THE END OF THE REPORTING PERIOD

On October 20, 2022, Remedy and Epic Games announced that Alan Wake Remastered will now be available also for the Nintendo Switch. Alan Wake Remastered offers the complete experience, with the main game and its two story expansions - The Signal and The Writer. In addition to the Nintendo Switch, the game is available on PC, PlayStation 5, PlayStation 4/Pro, Xbox Series X|S, Xbox One, Xbox One X and Xbox One S.

WEBCAST AND CONFERENCE CALL

Remedy will host a webcast and conference call in English on its financial results for investors, analysts and media on Friday October 28, 2022, at 2:00 p.m. (EEST). Remedy's Business Review will be presented by CEO Tero Virtala and CFO Terhi Kauppi.

The Business Review will be available after publication on Remedy's Investor Relations website:
<https://investors.remedygames.com/announcements-and-releases/>

Webcast details:

Register in advance for the webcast:

https://remedy.zoom.us/webinar/register/WN_VkC5ula_RMmbCiatCILthQ

After registering, you will receive a confirmation email containing information about joining the webcast.

Conference call details:

Dial in by calling your local phone number a few minutes before the briefing begins. International numbers available: <https://remedy.zoom.us/j/ki5whQbEA>

Finland: +358 9 7252 2471

Sweden: +46 850 539 728

United Kingdom: +44 330 088 5830

United States: +1 646 558 8656

Webinar ID: 835 3765 9705

Passcode: 338475

A recording of the webcast will be available after the briefing at
<https://investors.remedygames.com/presentations/>

NOTES TO BUSINESS REVIEW JANUARY-SEPTEMBER 2022

Revenue breakdown per quarter

EUR thousand	7-9/2022	4-6/2022	1-3/2022	10-12/2021	7-9/2021	4-6/2021
Development fees	7,500	7,443	11,619	18,341	5,428	6,118
Royalties	404	1,958	1,037	1,455	1,970	3,298
Total	7,904	9,401	12,656	19,796	7,398	9,417

Calculation formulas used for the indicators

EBITDA:	Operating profit (EBIT) + depreciation and amortization
Operating profit (EBIT):	Profit (loss) before taxes and financial items
Operating profit, % of revenue:	Operating profit (EBIT) / revenue
Net cash:	Cash in hand and banks + liquid investments - interest-bearing liabilities
Net gearing, %:	(Interest-bearing liabilities - cash in hand and at banks - liquid investments) / shareholders' equity
Equity ratio:	Shareholders' equity / (balance sheet total - advances received)
Capital Expenditures:	Change in tangible and intangible assets added by depreciation of these assets

Espoo, October 28, 2022
Remedy Entertainment Plc
Board of Directors

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Remedy in brief

Remedy Entertainment Plc is a pioneering, globally renowned video game company founded in 1995 and headquartered in Finland with an office in Stockholm, Sweden. Known for its story-driven and visually stunning action games, Remedy has created multiple successful, critically acclaimed franchises such as Control, Alan Wake and Max Payne. Remedy also develops its own Northlight® game engine and tools technology that powers many of its games.

The company employs over 350 game industry professionals from 32 different countries. Remedy's shares are listed on Nasdaq Helsinki's official list.

www.remedygames.com

This is not an interim report as defined in IAS 34. Remedy follows the half-year reporting schedule according to Finnish Securities Market Act and publishes business reviews off the first three and nine months of the fiscal year. These business reviews will include the most essential information regarding the company's financial performance. The financial figures presented in this business review are unaudited.