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Press release

Karlstad (Sweden), August 14, 2019, 6:30 a.m. CET

## THQ Nordic acquires Milestone s.r.l.

**THQ Nordic AB's indirectly wholly owned subsidiary Koch Media GmbH has today entered into an agreement to acquire Milan-based Milestone s.r.l., a leading racing games developer and publisher behind successful game series such as MotoGP, MXGP, RIDE and Monster Energy Supercross. The upfront purchase price is equivalent to 44.9 MEUR on a cash and debt free basis, plus additional earn-out considerations subject to fulfilment of agreed future profitability target. THQ Nordic estimates Milestone to have net revenues in the range of 27.5-32.25 MEUR, EBITDA of 15.5-18.0 MEUR and Operating EBIT of 10.75-12.5 MEUR in its next financial year ending June 2020.**

*"Milestone has developed racing games for 25 years now and is leading the two-wheel racing game genre today. With 50 developed games since inception, 8 million copies sold since 2013 and five games under development I am convinced that Milestone will see continued success in the future. I am thrilled to welcome Luisa and her experienced team to the THQ Nordic group", says Lars Wingefors, CEO of THQ Nordic AB.*

### The transaction in brief

- THQ Nordic AB ("**THQ Nordic**" or the "**Company**") acquires 100 percent of the shares in Milestone s.r.l. ("**Milestone**") through its indirectly wholly owned subsidiary Koch Media GmbH ("**Koch Media**").
- The upfront purchase price amounts to 55.8 MEUR, corresponding to an Enterprise Value of 44.9 MEUR on a cash and debt free basis. The upfront purchase price is financed through the Company's current cash balance and newly issued B shares in THQ Nordic.
- An additional earn-out consideration based on accumulated adjusted EBIT<sup>1</sup> during FY20-22<sup>2</sup> ("**Adj. EBIT**") is attributable to the seller. If Milestone reaches its targeted adj. EBIT of 39.6 MEUR, then 28.9 MEUR becomes payable. If Milestone falls below 70 percent of the targeted adj. EBIT, no earn-out applies. If Milestone achieves above 130 percent, i.e. 51.5 MEUR of the adj. EBIT, then 37.6 MEUR becomes payable, i.e. the maximum earn-out. The earn-out is part paid in cash and part in THQ Nordic B shares<sup>3</sup>.
- The total purchase price including earn-out based on targeted adjusted EBIT amounts to 84.7 MEUR, equivalent to an Enterprise Value of 73.8 MEUR.
- For the period July 2018 – June 2019, Milestone generated net revenues of 28.2 MEUR, EBITDA of 15.0 MEUR and EBIT of 9.31 MEUR.<sup>4</sup>
- For the period July 2019 – June 2020, THQ Nordic estimates Milestone to generate net revenues in the range of 27.5-32.25 MEUR, 15.5-18.0 MEUR of EBITDA and 10.75-12.5 MEUR of Operating EBIT. The growth and improved profitability are mainly related to expected continued increase in the share of digital sales and the release of three upcoming titles.

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<sup>1</sup> Based on agreed adjustments and according to Italian GAAP

<sup>2</sup> Refers to Milestone's financial year July-June

<sup>3</sup> More details in section "*Purchase price, earn-out consideration, lock-up period and Claw Back right*"

<sup>4</sup> After applying estimated adjustments to align with THQ Nordic's accounting principles

- Closing of the transaction is expected to take place later today, i.e. on August 14, 2019, and all conditions for completion will therefore be fulfilled.

*“As one of the leading companies in the racing games industry, we have assembled an experienced team and a large and growing portfolio of titles that we believe will fit perfectly with, and benefit from, THQ Nordic’s network of development studios and publishing capabilities. We are very happy to become part of THQ Nordic and look forward to continuing our growth journey together” says Luisa Bixio, CEO Milestone.*

### Background and rationale

On August 14, 2019, Koch Media entered into an agreement with the seller of Milestone to acquire 100 percent of the shares in Milestone.

Milestone is a leading racing games developer and publisher behind the global success series MotoGP, MXGP, RIDE and Monster Energy Supercross. The studio was originally founded in 1994 as Graffiti, renamed Milestone in 1996 and in 2013 transitioned from being a pure work-for-hire studio into publishing all its products in-house and initiated development of own IP. Milestone has grown to employ approximately 200 people today and has built up an impressive track record of 50 developed games - many considered epoch-defining within the two-wheel racing games genre. Since 2013, Milestone has sold 8 million copies and received notable awards.

Milestone’s passionate team creates hyper-realistic racing games, which perfectly positions them to catch on to the growing global eSport trend. To continue operating at the forefront of racing games development and offer gamers high-quality games, Milestone has developed a brand-new proprietary AI system based on neuron networks and machine learning, thereby taking user experience to new heights.

Milestone’s portfolio consists of several successful and globally renowned racing game series and has created an attractive business model involving yearly/bi-yearly game releases, supported by a large loyal player base, generating revenues of recurring nature. With five current games under development Milestone has a fully-stacked pipeline based on major portfolio titles and development of new IP.

Koch Media has acted as distribution partner for Milestone’s products on several European markets since 2014. Following completion, Milestone will continue to act as an independent entity under Koch Media, benefitting from joining Koch Media’s development studio network and being able to utilize its strong distribution and publishing capabilities.

Milestone is today led by sole owner Luisa Bixio, who has been with the studio for 10+ years and will after completion continue to lead Milestone as its CEO.

### Milestone’s financials for the twelve-month period ended June 30, 2019

Shown below is Milestone’s unaudited Income Statement for FY19. The financial results below include estimated impacts of applying THQ Nordic’s accounting principles, had THQ Nordic acquired Milestone on July 1, 2018.

<b>MEUR</b>	<b>Milestone s.r.l. (as adjusted) Jul 2018 - Jun 2019</b>
Net revenues	28.20
Other revenues	11.89
<b>Total revenues</b>	<b>40.09</b>
General operating expenses	-25.09
<b>EBITDA</b>	<b>14.99</b>
Depreciation, amortization and write-downs	-5.69
<b>EBIT</b>	<b>9.31</b>

Financial items	-0.13
<b>EBT</b>	<b>9.17</b>
Taxes for the period	-2.71
<b>Net result for the period</b>	<b>6.47</b>

The period above was mainly driven by online sales growth at approximately 33 percent CAGR (FY17-19)<sup>2</sup> and by successful releases of three games, namely Ride 3 (November 30, 2018), Supercross 2 (February 8, 2019) and MotoGP 19 (June 6, 2019), all being sequels to existing globally recognized racing game series. Estimated additional development costs that can be capitalized based on THQ Nordic's accounting principles amount to 2.9 MEUR (which has been adjusted above and included in the item Other revenues).

An unaudited condensed balance sheet for Milestone as of June 30, 2019 is shown below (i.e. no alignment to THQ Nordic's accounting policies or other adjustments have been made to the numbers below).

<b>MEUR</b>	<b>Milestone (as reported) Jun 30 2019</b>
Intangible assets	0.26
Property, plant and equipment	0.39
Financial assets	0.14
Inventories	2.96
Current receivables	10.03
Cash and bank balance	10.70
<b>Total assets</b>	<b>24.48</b>
Equity	15.93
Provisions	3.77
Current liabilities	4.79
<b>Total liabilities and equity</b>	<b>24.48</b>

#### **Impact on THQ Nordic's consolidation**

The acquisition will be consolidated in THQ Nordic's financial reports as of today's date. A customary purchase price allocation exercise will be performed later in the quarter, where the surplus value will be allocated to IP rights, goodwill and possibly other categories of intangible assets, all with a 5-year amortization period. The surplus value has been calculated at 39.9 MEUR as of June 30, 2019, based on the above balance sheet.

#### **Purchase price, earn-out consideration, lock-up period and Claw Back right**

55.8 MEUR, equivalent to 44.9 MEUR on a cash and debt free basis, will be paid at completion of the transaction through a cash payment of 44.3 MEUR to the seller, and 11.5 MEUR worth of newly issued class B shares in THQ Nordic issued at the time of completion of the transaction ("**Consideration shares**"). The Consideration Shares will be subject to lock-up commitments where 50 percent of the Consideration Shares will be covered by a one-year lock-up period and 50 percent of the Consideration Shares will be covered by a two-year lock-up period. The Consideration Shares are not subject to any other transfer restrictions or Claw Back rights.

An earn-out consideration may be payable by THQ Nordic of maximum 37.6 MEUR, due after agreed earn-out period FY20-22<sup>2</sup>. The earn-out will comprise a maximum of 22.6 MEUR in cash and up to 15 MEUR worth of class B shares in THQ Nordic issued at the time of completion of the transaction ("**Earn-out Consideration Shares**"). The earn-out mechanism is further outlined in the below table.

Planned Adj. EBIT	% of achievement	Adj. EBIT achieved	% of Adj. EBIT	Total Earn-out Amount to be paid	Whereof THQ Nordic B-shares	Whereof cash
39,642,000	60%	23,785,200	n.a.	n.a.	n.a.	0%
39,642,000	70%	27,749,400	58%	16,094,652	15,000,000	1,094,652
39,642,000	80%	31,713,600	58%	18,393,888	15,000,000	3,393,888
39,642,000	90%	35,677,800	73%	26,044,794	15,000,000	11,044,794
39,642,000	100%	39,642,000	73%	28,938,660	15,000,000	13,938,660
39,642,000	110%	43,606,200	73%	31,832,526	15,000,000	16,832,526
39,642,000	120%	47,570,400	73%	34,726,392	15,000,000	19,726,392
39,642,000	130%	51,534,600	73%	37,620,258	15,000,000	22,620,258
39,642,000	140%	55,498,800	73%	37,620,258	15,000,000	22,620,258

Amounts in EUR

The Earn-out Consideration Shares will be subject to lock-up which will be released at the end of the pre-determined Earn-out period (June 2022) in connection with fulfilment of agreed financial targets and subject to additional customary transfer restrictions if certain milestones are not met, THQ Nordic has the right to redeem or require the seller to transfer to THQ Nordic, at no consideration, the Earn-out Consideration Shares ("**Claw Back right**"). The seller will be entitled to keep the Earn-out Consideration Shares and THQ Nordic has the right to exercise the Claw Back right if agreed financial targets are not met.

#### Issue of the Consideration shares and Earn-out consideration shares

The Consideration Shares will represent 0.53 percent and 0.30 percent of the total number of shares and votes in THQ Nordic, respectively, on a fully diluted basis. By issuing the Consideration Shares, the number of shares increases by 549,970 to 103,117,944 and the number of votes increases by 549,970 to 184,117,944 (divided among 9,000,000 class A shares and 94,117,944 class B shares). The share capital increases by approximately 4,583 SEK.

The Earn-out Consideration Shares will represent 0.69 percent and 0.39 percent of the total number of shares and votes in THQ Nordic, respectively, on a fully diluted basis. By issuing the Earn-out Consideration Shares, the number of shares increases by 717,353 to 103,285,327 and the number of votes increases by 717,353 to 184,285,327 (divided among 9,000,000 class A shares and 94,285,327 class B shares). The share capital increases by approximately 5,978 SEK.

In total, the Consideration Shares and maximum Earn-out Consideration Shares together represent 1.22 percent and 0.69 percent of the total number of shares and votes in THQ Nordic, respectively, on a fully diluted basis. The number of shares increases by 1,267,323 to 103,835,297 and the number of votes increases by 1,267,323 to 184,835,297 (divided among 9,000,000 class A shares and 94,835,297 class B shares). The share capital increases by approximately 10,561 SEK from approximately 854,733 SEK to approximately 865,294 SEK.

Resolution to issue the Consideration Shares and Earn-out Consideration Shares will be made by THQ Nordic's Board of Directors in connection with completion with the support of the Extra General Meeting's authorization granted on 8 March 2019.

In both cases, the Consideration Shares and Earn-out Consideration shares will be issued at a subscription price corresponding to the volume-weighted average price of THQ Nordic's B shares as quoted on Nasdaq First North during the twenty (20) trade days preceding the signing date (i.e. August 14, 2019), i.e. SEK 224.31.

#### Advisers

EY is providing transaction support and Baker McKenzie is acting as legal counsel to THQ Nordic in connection with the transaction.

#### For additional information, please contact:

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### **About THQ Nordic**

THQ Nordic develops and publishes PC and console games for the global games market. The company has an extensive catalogue of over 100 owned franchises, such as Saints Row, Goat Simulator, Dead Island, Darksiders, Metro (license), MX vs ATV, Kingdom Come: Deliverance, Time Splitters, Satisfactory, Wreckfest amongst many others.

The Group has its head office in Karlstad, Sweden and a global presence through its three operative groups, Deep Silver/Koch Media, THQ Nordic GmbH and Coffee Stain. The Group has 18 internal game development studios and close to 2,500 employees and contracted developers in more than 40 countries.

THQ Nordic's shares are publicly listed on Nasdaq First North Stockholm under the ticker THQN B with FNCA Sweden AB as its Certified Adviser, reachable via [info@fnca.se](mailto:info@fnca.se) or phone: +46 8-528 00 399.

For more information, please visit: <http://www.thqnordic-investors.com>.

*This information is information that THQ Nordic is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out above, at 6.30 a.m. CET on August 14, 2019.*

### **Forward-looking statements**

This press release contains forward-looking statements that reflect the Company's intentions, beliefs, or current expectations about and targets for the Company's future results of operations, financial condition, liquidity, performance, prospects, anticipated growth, strategies and opportunities and the markets in which the Company operates. Forward-looking statements are statements that are not historical facts and may be identified by words such as "believe", "expect", "anticipate", "intend", "may", "plan", "estimate", "will", "should", "could", "aim" or "might", or, in each case, their negative, or similar expressions. The forward-looking statements in this press release are based upon various assumptions, many of which are based, in turn, upon further assumptions. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurances that they will materialize or prove to be correct. Because these statements are based on assumptions or estimates and are subject to risks and uncertainties, the actual results or outcome could differ materially from those set out in the forward-looking statements as a result of many factors. Such risks, uncertainties, contingencies and other important factors could cause actual events to differ materially from the expectations expressed or implied in this release by such forward-looking statements. The Company does not guarantee that the assumptions underlying the forward-looking statements in this press release are free from errors and readers of this press release should not place undue reliance on the forward-looking statements in this press release. The information, opinions and forward-looking statements that are expressly or implicitly contained herein speak only as of its date and are subject to change without notice. Neither the Company nor anyone else undertake to review, update, confirm or to release publicly any revisions to any forward-looking statements to reflect events that occur or circumstances that arise in relation to the content of this press release.