Good afternoon, everyone, and thank you for joining Enthusiast Gaming's third quarter 2022 financial and operating results call.

My name is Eric Bernofsky. I'm the Chief Corporate Officer of Enthusiast Gaming. With me today is our Chief Executive Officer, Adrian Montgomery; our Chief Financial Officer, Alex McDonald; and joining us on his first quarterly conference call since becoming President is Bill Kara. We'll begin with some prepared remarks from Adrian, Bill, and Alex, before opening the floor to questions.

Before we begin, I'd like to remind everyone today's presentation contains forward-looking information that involves known and unknown risks and uncertainties and other factors that could cause actual events to differ materially from current expectations. These statements should not be read as assurances of future performance or results. Such statements involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements to be materially different from those implied by such statements.

A more complete discussion of the risks and uncertainties based in the Company appear in the Company's Management Discussion and Analysis for the three-month period ended September 30, 2022, which are available under the Company's profiles on SEDAR and EDGAR, as well as the Company's website enthusiastgaming.com.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this presentation. The Company disclaims any intention or obligation, except to the extent required by law, to update and revise any forward-looking statements as a result of new information, future events, or for any other reason.

Now, with great pleasure I’d like to turn the call over to Adrian Montgomery, CEO of Enthusiast Gaming.

Adrian.

Thank you, Eric.

Good afternoon and welcome to our third quarter 2022 financial and operating results conference call.
I'm pleased to share with you the details of another strong and record quarter, proving the continued strength of our diversified business model, and despite the macroeconomic headwinds, we are on the cusp of reaching profitability. On today's call, I want to reiterate why our business model and strategic plan is the right one and sets us up for sustained profitability in 2023.

Just two years ago, after completing the acquisition of Omnia Media, Enthusiast Gaming was largely a programmatic advertising revenue company with a gross profit of $4.1 million and a gross margin of 16.8% in Q3 of 2020.

In just eight quarters, we have become an integrated media and entertainment company for gamers rooted in communities, content, creators, and experiences. Our flywheel model has separated us from the pack. Our diversified model makes us less reliant than ever on the price fluctuations of programmatic ad units.

Today, Enthusiast Gaming owns some of the largest fan communities in the world. We own the largest gaming platform on YouTube. We own and make our own games like Little Big Snake, Apes, and EV.IO. We create our own desktop apps with millions of users, we sell subscriptions across a number of our properties, and we create our own content that we distribute on multiple platforms like Snap, Twitch, and TikTok. We also host sold out events all over the world through our Pocket Gamer brand from London to Toronto to Seattle, Helsinki, Jordan, and beyond.

We are the company that some of the world’s largest brands turn to execute their gaming and esports strategies, names like LEGO, State Farm, HBO, Netflix, Disney, the United States Navy, Amazon, RBC, Nintendo, DoorDash, Hasbro, Fidelity, Mattel, Procter & Gamble, and more. As I said, we are on the cusp of sustainable profitability; we have ample liquidity to get there, and we are a dominant player in the gaming and esports world.

Despite the macroeconomic pressures on advertising prices, we have grown our gross profit over the last eight quarters by more than four times to a record high of $16.6 million this quarter while nearly doubling gross margin in that same time frame to 32.7%. When you have a business with a 33% margin, you need much, much less scale to become profitable.

How have we done this? We've been laser-focused on developing a diverse and sustainable model that could stand the test of time and build a leadership position within the gaming and e-sports entertainment industry, and so we have continued to focus on the following key strategic business priorities that have all pushed Enthusiast Gaming further and further away from being a lower yield, lower margin business focused on programmatic revenue and into that diversified media and entertainment company that again is on the cusp of profitability.

These strategic priorities are:

**1. Invest in a direct sales team.**

From laying the foundation with our first direct sales hire two years ago; today, we have a sophisticated sales, marketing, customer success, and talent team that count some of the largest companies in the world as its customers. These customers are not simply buying advertising from us. They are coming to us to solve a very important problem, which I loosely define as an age or demographic issue. They need to reach younger audiences to convert new customers but do it in an authentic way and at scale, very, very hard for businesses to do.
This is exactly what our direct sales, customer success, and content teams deliver day in and day out. When delivered right, it leads to higher conversion rates for our customers versus plain old programmatic advertising. They pay more for it, and it drives higher margins for our business.

2. Grow a vibrant subscription business.

We have long held the belief that video game fans will pay for content that they find valuable, and this belief has proven to be true. We have grown both organically and through strategic acquisitions, our subscriber base from under 100,000 in early 2020 to 260,000 at the end of this past quarter. Today, our subscription business is an annual run rate revenue business of $15 million and counting and a meaningful driver of margin growth across the Company.

3. Focus on product-based services.

We know our audiences consume content in many different ways. Much of this variety underpins our flywheel strategy we have built that caters to the diverse entertainment needs and habits of our Gen Z and Millennials gamer audiences. Another data point we have learned is that the retention and engagement rate on a product is far greater than on an editorial piece of content.

Let me explain.

Last year, we acquired U.GG, one of the largest stats and analytics communities for League of Legends players. Late last year, U.GG launched a desktop companion app for players to use while playing League of Legends. This app, or what we are referring to when we say product, has been downloaded over 1.2 million times and has become integrated into daily and weekly habitual use. This level of engagement extends the life cycle of our product-based services significantly beyond a written piece, and in many cases some video content. This lifecycle extension is also driving higher margins in our business. Other examples of growing high margin products within our flywheel are Addicting Games, The Sims Resource, Icy Veins, and Tabstats.

4. Live event experiences.

While we have certainly all become too familiar with living in a remote world as a result of the COVID-19 pandemic, the gaming community has never lost its desire to connect in-person. After a two-year hiatus, we resumed running live events earlier this year within our Pocket Gamer vertical. Pocket Gamer Connects runs a series of live global gaming events in places like London, Seattle, Toronto, Helsinki, Finland, and most recently, in Jordan this past weekend, a key location in the rapidly growing Middle East gaming market, showcasing how the world’s largest game publishers and developers come together to learn, share, and grow the business of gaming.

Not only have we resumed live events, but we are seeing record attendance and increasing participation from across the gaming industry, including some of the world’s largest game developers, publishers, media, and investors. Our Q3 Pocket Gamer conference in Helsinki saw more than 120 industry speakers across 17 themed tracks, sharing insights and knowledge on a wide range of relevant topics. Sponsors of the event included Meta, Agora, AppsFlyer, Huawei, Xsolla, AppLovin, and more. Companies represented by featured speakers and panelists included Electronic Arts, Humble Bundle, Miniclip, Unity, Square Enix, and Tencent.
Again, the theory holds true with events as it does with subscriptions that if you can deliver a valuable experience, gamers and in the case of these Pocket Gamer events, industry participants and experts are recognizing the inherent tremendous value.

As you can see, the above strategic priorities have meaningfully reduced the business’ dependence on programmatic advertising, while shifting the revenue mix which has had an outsized positive effect on margin growth over the past eight quarters. We are on the right path, and we will continue to drive the financial performance of this business forward as we have always done. Despite market valuations being far from optimal, we will continue to build long-term shareholder value, while the market corrects itself over time.

During Q3, we delivered strong results again with revenue increasing 17% to $50.6 million. The year-over-year increase in revenue was driven by increased direct sales, including both new and repeat customers, higher subscription revenue, the acquisitions and growth of the Addicting Games and U.GG properties as well.

This quarter, revenue was impacted by the macroeconomic pressures on advertising rates. But as I highlighted in my opening remarks, our continued revenue diversification strategy pushed Q3 to a record gross profit of $16.6 million, up 64% from $10.1 million last year. Q3 gross profit was not just a record high for any Q3, but for any quarter in Enthusiast Gaming’s history, and we still have the seasonally strong Q4 to come.

Gross margin expanded 270 basis points to 32.7% in the quarter and expanded 930 basis points from 23.4% in Q3 of last year. The increase in gross margin continues to be driven by the strong performance of higher direct sales and subscription growth and M&A contribution.

On direct sales, I am pleased to report another strong quarter. Direct sales grew almost 50% to $10.1 million in Q3 compared to $6.8 million last year. Renewals and additional business with existing customers accounted for 65% of that number. Again, a strong validation of the return on investment we are delivering to our customers. If you remember the list that I highlighted at the beginning, these are very sophisticated customers, who have demonstrable ROI needs to validate their spend, and this has them coming back, again, despite macroeconomic pressure.

Turning to subscriptions. Revenue grew 51% year-over-year to $3.8 million in Q3. The increase in subscription revenue was driven by an increase in paid subscribers and pricing optimization. Paid subscribers were 260,000 as at September 30, almost 26% increase versus paid subscribers of 207,000 as at September 30 of last year.

I'd now like to pass it over to Bill Kara, our new President, to speak to one of the most exciting parts of the quarter, our first of its kind content partnership with the National Football League, as well as some other exciting trends that has us optimistic about the business.

**Speaker: Bill Karamouzis**

Thanks, Adrian.

First off, as this is my first quarterly conference call since being appointed President, I'd like to say hello to our shareholders, analysts, and other stakeholders for joining today.
Adrian is right, the NFL deal we announced in August and launched in September, called Tuesday Night Gaming, is truly an exciting and transformational moment for Enthusiast Gaming.

For some background, the NFL put an RFP out in 2021, looking for a partner and big idea to help execute first-of-its-kind gaming strategy.

After a long, almost 18-month process, from RFP to executing an agreement, the National Football League chose Enthusiast Gaming as its partner to launch Tuesday Night Gaming. It is an exciting new content platform for brands and agencies to connect with a younger audience through bespoke custom content, talent integrations, including owned moments, featured segments, social activations, and more.

It is important to recognize two points here. The NFL recognized that a path to a younger audience leads directly to gaming and esports, and second, the NFL chose Enthusiast Gaming as its partner to execute this crucial strategy. We want to be in business with the NFL full stop. We expect this multi-year partnership to be profitable on a stand-alone basis, but it has another equally powerful benefit. A large reason why we are on the cusp of profitability is that, as Adrian summarized in his remarks earlier, we created a direct sales and customer success function from scratch two years ago, and that this quarter contributed north of $10 million in revenue at a target 50% margin.

Now, alongside the NFL, we have signed new direct sales with Hulu, the Food and Drug Administration, Nickelodeon, Disney, and Universal Pictures, with more to be announced in the near future. Continued growth in direct sales will underpin our sustained profitability, and the halo effect of being in the company of the National Football League is substantial.

We signed a deal at the end of August, and it was important to launch in conjunction with the start of the football season, which meant we had little to no lead time to pre-sell, but we wanted to be a good partner and demonstrate that we can move quickly. Already, we have done big deals, as I mentioned a moment ago, and because of the NFL, we are speaking to brands we have never spoken before to. We are already locking up deals in Q1 2023 with close to $2 million. We have received inbound requests from two other major professional sports leagues, who have reached out to us, talked about doing something similar with them, which will allow our business to scale even further.

Not only are we excited about the NFL deal, we showed the business case to our lender and described the opportunity. They were incredibly supportive, seeing how this enhances our path to sustained profitability and increased the size of our debt facility by an additional $10 million.

Here are some early audience metrics for the NFL Tuesday Night Gaming show.

Since the September launch:

- we've generated 3.9 million total views on YouTube, across the P&G channel, VOD content, and live streams with an additional—accumulative 1.4 million total hours watched,
- 1.7 million organic impressions on Twitter, and 8.5 million views on TikTok.

One other example of an activation we launched in the quarter was the work that we did with Fidelity where we created the Fidelity Minecraft Safe Room Challenge.
In order to create a meaningful connection with the next generation of investors, Fidelity tapped into gaming to position the brand as a resource to help investors achieve success. A custom-made Minecraft map featured weekly challenges, if players were unable to complete them, they’d be taken to the Fidelity Safe Room where they could find Fidelity tips and tools to help them complete the challenge. The program was supported and promoted by Luminosity talent and amplified through custom videos and social posts to maximize awareness and engagement. Again, another example of a high-margin flywheel activation that brings together different assets to create a custom solution for brands.

Subsequent to the quarter, I'm excited about some of the recent work we started with Netflix. Netflix recently launched a live animated series named, *Geeked: Toon In*. As Netflix came to us for advice on talent and how to promote the series across our network of TikTok channels, giving viewers a glimpse into the animated series that is set to air on Netflix. We are thrilled to partner with Netflix. This new partnership provides a unique opportunity for Netflix to reach out to their non-subscribers on other platforms like Twitch.

We are constantly striving to deliver new and quality content and experiences to our community of gamers and esports fans across the world, and this partnership marks another powerful vote of confidence in our platform of digital media assets and our unique ability to reach Gen Z audiences. It's just another unique example of the flywheel in action where sales, content, and talent come together to deliver a bespoke solution to a client.

While on the topic of things subsequent to the quarter end, I'm particularly bullish on a few trends in the gaming industry that have a positive read-through for some of our fan communities in Q4. Last weekend, The League of Legends World Championship took place with record-high attendance. This demonstrates the continued strength of The League of Legends franchise, which bodes well for U.GG.

Second, Electronic Arts transitioned late last month its long running successful franchise, The Sims, to a free-to-play game, as owners of the largest Sims fans community, The Sims Resource, we have seen a marked increase in activity, both in free and subscription offerings.

Finally, World of Warcraft will be releasing its next expansion pack Dragonflight later this month. The last expansion pack Shadowlands saw engagement numbers rise on our site Icy Veins, and we're watching for a similar impact with the release of this next pack.

I will now turn it back to Adrian for additional remarks.

**Speaker: Adrian Montgomery**

Thank you, Bill.

Now that we've discussed the quarter, I do want to reiterate that the search for a new CEO continues and remains a top priority of the Company. Immediately following the AGM in July of this year, the Board struck a committee of Independent Directors and hired a fabulous firm Russell Reynolds, an L.A.-based Executive Search Firm with the mandate being run by the head of their CEO practice based in California.

We have an excellent list of candidates, and we're confident we'll have a new CEO shortly, who will take this business to the next-level and carry the momentum we have established.
In closing, I do want to reiterate that we do not need to raise additional capital on our road to profitability. We have substantial liquidity to achieve sustainable profitability in 2023 with close to $21 million on the balance sheet, by virtue of the increased facility and untapped line of credit with our lender.

Additionally, we also seized an opportunity in the quarter to sell a small cluster of Legacy Fan communities which were not profitable for a sale multiple of 4.5 times revenue. Think about that in the context of our current valuation, we sold a small cluster of money-losing communities representing almost half of 1% of our revenue for close to C$7 million.

The combination of these two moves bolstered the balance sheet and gave Management and the Board unanimous confidence to proceed with our NFL partnership which we expect will further drive the business towards increased profitability in 2023 and beyond.

I will now turn the call over to our CFO Alex Macdonald for further commentary on our financial results.

Alex?

**Speaker: Alex Macdonald**

Thank you, Adrian.

Certainly, it was a dynamic quarter, our third quarter of 2022, which I'll speak to shortly. But briefly, here are my usual notes. I note that our results are presented in Canadian dollars. I note that the significant majority of our revenues and expenses are measured in U.S. dollars and are translated into Canadian dollars for presentation in our financial statements. The exchange rate between the U.S. dollar and our presentation currency of the Canadian dollar should be monitored and considered when analyzing our forecasting results.

I note that our business is affected by seasonal trends in digital advertising with sequential increases each quarter throughout the year, driven by increasing ad prices and demand, which peaks in Q4. This seasonality is isolated to our media and content revenue streams.

Now, back to the quarter. Q3 revenue was $50.6 million, up 17% from Q3 2021 revenue of $43.3 million. Q3 revenue by source was as follows:

- media and content, $44.5 million;
- subscription, $3.8 million; and e-sports and entertainment, $2.2 million.

The Q3 media and content revenue of $44.5 million compares to a $38.7 million reported in Q3 2021, an increase of 15%. The increase was driven largely by the following:

1) More direct sales. Direct sales were $10.1 million in Q3 versus $6.8 million in Q3 last year, with the majority of direct sales being recognized in media and content; and
2) The continued strong performance in our two larger acquisitions in 2021 being Addicting Games and U.GG.
These increases in media and content revenue were offset by a decrease in CPMs with a resulting impact on our RPM. Our web RPM was 12% lower in Q3 2022 as compared to Q3 2021, caused by macro headwinds and digital ad prices, particularly in the second half of Q3.

Q3 subscription revenue was an all-time record high of $3.8 million, up 52% from $2.5 million in Q3 last year. The increase was largely driven by an increase in paid subscribers, which were 260,000 as at September 30, 2022, compared to 207,000 as at September 30, 2021. This was also paired with a higher yield on a per subscriber basis.

Q3 esports and entertainment revenue was $2.3 million, up 8% from $2.1 million in Q3 last year. The Company’s Entertainment division continues to benefit from the return of live events. In Q3, an inaugural Pocket Gamer Connect Toronto event was held, along with a very successful return of Pocket Gamer Connect Helsinki. Entertainment revenue accounts for $1.5 million of the $2.3 million esports and entertainment bucket, with esports accounting for the remaining $800,000.

Certainly, for the first time, the Company’s business model is being tested against macro headwinds, particularly in the digital advertising market. For over two years, we have been diversifying our revenue with our focus being on higher-margin revenue streams, including direct sales, subscription and more recently, our product portfolio, including U.GG and Addicting Games.

The higher margins of these revenue streams make them inherently better positioned to absorb pricing fluctuations, and this is enabling the business to succeed, despite the macro headwinds. This is most evidenced in gross profit. Gross profit was an all-time high of $16.6 million in Q3, up 63% from $10.1 million in Q3 last year.

This propelled the gross margin to an all-time high of 32.7%, which is up 930 basis points from 23.4% in Q3 last year. We are hyper focused on that gross profit number of $16.6 million, particularly when comparing it to the cash operating expenses of the business.

Total operating expenses were $26.6 million, up from $21.3 million in Q3 of last year. Operating expenses in Q3 included non-cash items of amortization and depreciation of $4.1 million, share-based compensation of $0.8 million, and a non-recurring expense for AGM legal and advisory costs of $1.1 million, as well as a foreign exchange gain of $0.5 million.

Also included in Q3 content expense is $2 million of investments into our NFL partnership, which Adrian and Bill spoke of earlier. The remaining $19.1 million of operating expenses are the recurring cash-based expenses of the core business and are down approximately $900,000 from Q2. While gross profit continues to rise, we’ve taken additional steps to propel the convergence of these two numbers. At the end of Q3, in September, we sold a number of legacy editorial properties for gross consideration of $6.8 million which will result in a net annual savings of approximately $2 million, most of which is in the first half of the year.

Also, subsequent to the quarter end, we eliminated additional Opex, well exceeding $1 million per year, and we expect further efficiencies and Opex will be found within the quarter.

The remaining convergence of gross profit and cash-based Opex being our path to profitability will be driven by:

1) The continued success of our high margin revenue streams, leading to increasing gross profit;
2) The sale of the editorial assets and the net savings realized;
3) The efficiencies found in Opex;
4) Our NFL partnership which has signed material amounts of revenue to be recognized over the coming quarters.

In summary, gross profits are increasing, costs are decreasing, and this combined will lead us into a profitable 2023 and beyond, and we have the resources to make it happen.

During Q3, we expanded our credit facilities by $10 million, resulting in cash of $15.8 million as at September 30, 2022, and in addition to that, we have a line of credit available to us for $5 million for total available cash of $20.8 million as at September 30, 2022.

There are two other material income statement amounts, which are notable in calculating net loss and comprehensive loss in Q3, due to a combination of rising interest rates, high inflation, and contracting equity valuations. Indicators of impairment were present, and the Company performed interim impairment testing across its seven CGUs. The results of this testing were a goodwill impairment charge across two of the Company's CGUs for a total of $31.3 million. This is a non-cash adjustment and the details and assumptions surrounding this expense are disclosed in Note 10 to the financial statements.

In addition, as I mentioned earlier, the Company has sold certain legacy editorial web assets for a gross consideration of $6.8 million. The Company derecognized a $2 million carrying value relating to these intangible assets in connection with the sale. This resulted in a gain on sale of intangible assets of approximately $4.8 million. These items had a material impact on net loss and comprehensive loss, which was $30.2 million in Q3, resulting in a net loss per share, both basic and diluted, of $0.25.

I remain grateful to the analysts for their continued work on the Company. I also wish to thank my team for their hard work on this busy quarter led by the VP Finance, Nathan Teal, and to our shareholders and other stakeholders, including our lending partners, thank you for your continued trust in us as custodians of Enthusiast Gaming. Finally, to the members of the Enthusiast Gaming family, my fellow employees, thank you for your continued hard work, and they remain, in my judgment, our most valuable asset.

We take pride in this quarter because our model has been tested, and it is standing strong and there is continued success both now and, in the future, to be found in our business.

Of course, ladies and gentlemen, our business is the business of gaming.