



## **Q4/ Year-end 2022 Earnings Conference Call Script**

**March 27, 2023**

### **Speaker: Eric Bernofsky**

Thank you, Operator.

Good afternoon everyone, and thank you for joining Enthusiast Gaming's fourth quarter and year-end 2022 financial and operating results call. My name is Eric Bernofsky, Chief Corporate Officer of Enthusiast Gaming.

With me today is our new Chief Executive Officer, Nick Brien, our Chief Financial Officer, Alex Macdonald, our President Bill Kara and SVP Legal, JB Elliott.

We'll begin with some prepared remarks from Nick and Alex, before opening the floor to questions.

Before we begin, I'd like to remind everyone that 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 facing the Company appear in the Company's Management Discussion & Analysis for the three month period and year ending December 31 2022, which are available under the Company's profiles on SEDAR and EDGAR, as well as on the Company's website, [enthusiastgaming.com](http://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. 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, I'd like to turn the call over to Nick Brien, CEO of Enthusiast Gaming. Nick.

**Speaker: Nick Brien**

Thank you, Eric.

Good afternoon. It's a pleasure to be with you all today. Thank you for joining us on our fourth quarter and 2022 Year-end financial and operating results conference call. I'm looking forward to continuing to get to know you - our Shareholders, and analyst community, and share my insights on why I believe Enthusiast Gaming is uniquely positioned to become a leading player in the gaming media and entertainment industry for many years to come.

I am very excited to be your Chief Enthusiast Officer. Enthusiast has built an incredible foundation for growth - a broad portfolio of gaming assets that reflect the diverse entertainment needs and habits of younger people.

I'm confident that when the unique power of our communities, creators, content, and commerce are fully integrated, meaningful long-term value will be created for all Stakeholders.

Our 2022 financial and operating results continue to demonstrate that Enthusiast Gaming is on a path to achieving sustained profitability. The Company performed well in each of its main KPIs, including revenue, gross profit, gross margin, direct sales, and subscriptions, despite challenging macroeconomic conditions that impacted programmatic advertising revenue in the second half of the year.

Notwithstanding this challenge, we continue to diversify the business away from commoditized, low margin revenue, towards a higher margin, solutions-based mix, which is evident in the rapid gross margin acceleration, up 870 basis points in 2022.

This margin growth has been fueled by strong demand for bespoke content and brand solutions, subscription and product-based offerings, as well as strong performance within our Pocket Gamer Connects Live Events division.

Finally, our investment in 2022, and in particular in Q4, to launch a content initiative with the National Football League called Tuesday Night Gaming, gained significant momentum exiting the year as evidenced by the growing fan engagement and new brand participation in the series.

In the few short weeks, I've been here, I've been meeting with internal leaders and Enthusiasts, and doing a deep dive on the business. I'm looking forward to continuing that work intensely in the next coming weeks.

We continue to see massive disruption across the media and entertainment landscape and with disruption comes huge opportunities. Gaming is the largest and fastest-growing entertainment vertical in the world with more than three billion people playing games, creating and consuming content, and sharing fan experiences. I believe the entertainment industry is on the cusp of great change, from how media is consumed to how media is bought. Change is the one constant I believe that Enthusiast can swiftly evolve its business model to capture an increasing market share.

Subsequent to the year-end, we rose to become #1 gaming property in the United States for unique visitor traffic for the month of January, as measured by Comscore, which is the leading

independent media measurement firm, and it's certainly one of the most widely used measurement sources by advertisers and agencies for making ad-buying decisions.

We have grown by 350% over the past three years on the path to becoming the number one destination in gaming. This ranks Enthusiast Gaming as the top three fastest growing property on the Comscore's Top 100 Properties list.

Becoming number one in the Games category is a major achievement and it's both testament to our platform's ability to reach the largest and most dedicated audience of gamers, as well as a clear signal to the world's leading brands, that we are the number one Company to work with in gaming, in the biggest media market in the world.

The opportunity for ad buyers is very clear. Enthusiast Gaming has been building a leadership position in being able to deliver scaled media and content solutions that are FUN for FANS and SAFE for BRANDS.

Comscore has validated what many of the world's largest brands have already come to know. We are the Company that they're turning to, to execute on an important need - to engage younger, hard-to-reach audiences, through authentic content and engaging community experiences.

Let me be clear about one thing, I believe Enthusiast Gaming is on the cusp of something really special. The portfolio of assets is really impressive and a lot of foundational work has been done.

I believe my role is to focus on unlocking and leveraging these various assets and leading adtech to optimize inventory with first-party data to enhance our offerings, and prepare for a cookie-less future, and gain a wider reach of advertisers and marketers as they continue to look for more effective and efficient ways to connect and engage with valuable younger audiences.

Now, turning to our 2022 results.

In 2022, we delivered solid performance across all of our key performance indicators.

Revenue grew 21% to CAD\$203 million. The year-over-year increase in revenue was driven by increased direct sales, including both new logo and repeat customers, higher subscription revenue, the acquisitions and growth of Addicting Games and U.GG properties.

While revenue was impacted by macroeconomic pressure on the advertising rates, particularly in Q3 and Q4, our continued focus on higher-margin revenue diversification pushed 2022 gross profit to \$63.5 million, up 68% from 2021. Q4 gross profit reached an all-time high of \$18.1 million, up from \$13.7 million in Q4 of 2021.

Gross margin expanded 870 basis points to 31.3% in 2022 and reached 33.5% in Q4, both records for their respective periods. The increase in gross margin continues to be driven mainly by the strong performance of higher direct sales and subscription growth.

On direct sales, I'm pleased to report a strong end to the year.

Direct sales grew 69% to more than \$37 million in 2022, compared to \$22 million in 2021, and up from only \$5 million two years ago in 2020. In Q4, direct sales grew to \$12.8 million, up from \$8.8 million in Q4 2021.

Renewals and additional business with existing customers accounted for 50% of direct sales. This number is down from Q3 to account for the strong book of new business generated off the back of our new NFL Tuesday Night Gaming program, which was launched in September.

I do want to spend some more time on the NFL Tuesday Night Gaming.

This deal has already been transformational for Enthusiast Gaming. For those that may not be so familiar, NFL Tuesday Night Gaming is the first-of-its-kind gaming collaboration between Enthusiast Gaming and the NFL, that brings together NFL players and Legends and top gaming content creators. The program debuted in September 2022, and streamed weekly on YouTube and Twitter throughout the 2022/2023 NFL season.

We have unlocked value for amazing brands by placing them at the intersection of gaming and sports culture while reaching a new audience demographic at the same time. In Season one, we worked with incredible media sponsors such as Hulu+ Live TV, Xbox, TurboTax, Verizon, Paramount+, Disney+, Campbell's Chunky Soups, Hasbro, and the Sour Patch Kids.

It is important to note that many of these media sponsors are new to Enthusiast Gaming, which is a great testament to our teams for creating this show and being able to sell through in an extremely short period of time.

We are already in the planning stages for Season two, which given more lead time and following the success of a successful Season one, we are excited about this part of our business as a driver of meaningful higher direct sales numbers in 2023, including Q1 and delivering measurable ROI on our initial investment in 2022 to launch the program.

We previously mentioned that because of our work with the NFL, which already received inbound requests from 2 other major professional sports leagues about launching a similar program for them. I'm pleased to report that these discussions are progressing and we will provide further updates as necessary.

But again, these opportunities speak to the incredible programming our team is able to produce and execute on, that I reiterate is relevant and fun for fan audiences while delivering tremendous value for our brand partners.

Turning to subscriptions, revenue was 54% in 2022—it grew 54% in 2022 to \$14.5 million. At year-end, the Company had 262,000 paying subscribers compared to 220,000 at the end of 2021. I believe this is a strong area of high-margin growth for the business and one that I believe there is considerable one way ahead.

In closing, I want to reiterate my enthusiasm for what is ahead. I believe that despite the macroeconomic uncertainty that continues, we have the diversified business model to not only survive, but to thrive.

I'll now turn over the call to Alex, for further commentary on our financial results.

Alex?

**Speaker: Alex Macdonald**

Thank you, Nick, our Chief Enthusiast Officer, and thank you, everyone else, our Shareholders, lending partners, analysts and other stakeholders, for joining us today on this call regarding our fourth quarter and year-end December 31, 2022.

The Company showed strength in this quarter in many areas, setting records across a number of KPIs, both financial and non-financial. At the same time, it was a period impacted by both the macroeconomic environment and pressures in our sector, specifically much lower CPMs in the programmatic advertising markets. I will speak about these dynamics as they relate to the financial results momentarily.

First, 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 or forecasting results.

I note that our business is typically 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 advertising revenue streams.

I note that the typical seasonal pattern was disrupted in 2022, with Q4 programmatic CPMs showing almost no significant increase compared to earlier quarters in the year, which I will discuss shortly.

Now, let's speak about the financial results.

Q4 revenue was \$54 million, down 5% from Q4 2021 revenue of \$57 million. Q4 revenue by source was as follows:

- media and content, \$49 million;
- subscription, \$3.8 million; and
- esports and entertainment, \$1.1 million.

The Q4 media and content revenue of \$49 million compares to \$53.2 million reported in Q4, 2021, a decrease of 8%. The decrease was almost entirely driven by a decrease in RPM caused by lower CPMs in the programmatic markets. Web RPMs were down 38% year-over-year, and video RPMs were down 12% year-over-year in Q4.

These market price decreases in programmatic were offset by more direct sales. Direct sales were \$12.8 million in Q4 versus \$8.8 million in Q4 of last year, a 45% increase, with the majority of direct sales being recognized in media and content.

Q4 subscription revenue was \$3.8 million, up 23% from approximately \$3.1 million in Q4 last year. This increase was largely driven by an increase in paid subscribers, which were 262,000 as at December 31, 2022, as compared to 218,000, as at December 31, 2021. This was also paired with a higher yield on a per subscriber basis.

Q4 esports and entertainment revenue was \$1.1 million, up 91% from \$0.6 million in Q4 of last year. This increase was driven by more sponsorship revenue in Luminosity Gaming, and by increased revenue from our Pocket Gamer series, which held both a Pocket Gamer Connects Jordan event and an inaugural PGC Leader summit in Riyadh in Q4.

Certainly, in Q4, the Company's business model continued to be tested against macro headwinds, particularly in the digital advertising market, as seen in the CPM movements. This had an impact on overall revenue. However, at the same time, the Company set records across both direct sales and subscription, and the higher margins of these revenue streams make the Company inherently better positioned to absorb pricing fluctuations, and this is enabling the business to grow despite the macro headwinds. This is most evident in gross profit.

Gross profit was an all-time high of \$18.1 million in Q4, up 32% from \$13.7 million in Q4, 2021. This propelled the gross margin to an all-time high of 33.5%, which is up 950 basis points from 24% in Q4, 2021. Total operating expenses were \$30.3 million, up from \$25.7 million in Q4 of last year. Operating expenses in Q4 include non-cash items of amortization and depreciation of \$3.5 million, and share based compensation of \$2.4 million, as well as a foreign exchange loss of \$0.7 million. Also included in Q4 operating loss, is a net impact from investments in NFL TNG of \$3.7 million. After adjusting for these items, it is notable that the remaining operating loss fell below \$2 million, or approximately 4% of revenue.

In Q3 and Q4 2022, the Company undertook a number of cost cutting measures, including the divestiture of certain legacy editorial assets, the elimination of approximately 10% of headcount in addition to the divestiture, and reductions of other operating expenses primarily related to technology and content expenses. In aggregate, when excluding the NFL TNG investments, the Company's recurring quarterly cash-based OpEx was approximately \$2 million lower in Q4 as compared to Q2, 2022.

When including all these items, and other items affecting net loss, net loss was \$12 million for Q4, down from \$13.3 million in Q4, 2021, resulting in a net loss per share, both basic and diluted, of \$0.08 in Q4, down from \$0.10 in Q4, 2021.

Turning to the balance sheet, the Company ended the year with \$7.4 million in cash, and in addition, had an available operating line of \$5 million for total available cash of \$12.4 million as at December 31, 2022. We made operational investments in NFL TNG in Q3 and Q4 of both cash and working capital, but have now built the associated receivables and have contracts in hand from a number of Fortune 500 companies, including Microsoft, Mondelez, and Verizon, which will provide cash flows from NFL TNG going forward.

Also, subsequent to the year-end, the Company's lender agreed to extend the maturity date of the Company's term and operating facilities for an additional 12 months from December 31, 2023 to December 31, 2024. The term facility is classified as a current liability on the December balance sheet, but will be subsequently moved back to long-term.

Now, I want to talk about what to expect in 2023. We continue to expect profitability for the 2023 year. Here are the notable items which will impact how the financial results will unfold.

1. On CPMs. Throughout Q3 and Q4, we saw a deterioration in CPMs in the programmatic markets. As mentioned earlier, this had an impact on revenue growth in the second half of 2022. Had our RPMs stayed flat year-over-year in Q4, 2022 as compared to Q4, 2021, I am confident that we would have already been profitable in Q4. However, our job

is to seek profit at all times, not just in good times. To that end, we are anticipating and planning for RPMs, which we expect to be lower year-over-year until at least Q3, 2023.

2. On direct sales. We expect similar patterns to prior years with a material year-over-year growth in direct sales, including sequential increases following Q1 for each quarter throughout 2023. Incremental direct sales revenue will lead to gross margins continuing to expand in 2023.
3. On NFL TNG. We expect NFL TNG to be a contributor to profitability in 2023. We made a sizable investment in NFL TNG in 2022, and the program is proving its ability to quickly start generating ROI. Subsequent to the year end, NFL TNG has run a number of profitable episodes. NFL TNG also serves as a flagship product for direct sales, generating new leads and new business which can be expanded into other products and media, supporting the overall direct sales number.
4. On subscription. We expect continued growth in paid subscribers throughout 2023. Historically, we have acquired subscribers only through organic channels. Subsequent to the year end, we introduced a paid user acquisition pipeline, which will support subscription revenue growth in 2023. Subscription revenue has an outsized impact on profitability, as it accounts for less than 10% of revenue, but greater than 20% of gross profit.
5. Our events business is thriving in a post-COVID era with all recent large in person events both in 2022 and in 2023 setting attendance records.

The above represents a continued strategic diversification into higher yield and higher margin revenue streams, which will allow us to reach profitability despite the CPM downturn. Any earlier than expected recovery in CPMs will be a bonus.

I remain grateful to the analysts for their continued work on the Company.

I also want to congratulate my team on completing another year end, led by our VP Finance, Nathan Teal, and of course also state how proud I am of being here on this call following our new Chief Enthusiast Officer, Nick Brien, who will undoubtedly lead the Company to new heights. To our Shareholders and other Stakeholders, including our lending partners, thank you for your continued trust in us as custodians of Enthusiast Gaming.

I will leave you with one more stat I find relevant in light of the lifting of stay-at-home orders and public health restrictions in 2022. Our total views of content in 2022 were 41 billion, up from 40 billion in 2021. It appears our audience isn't putting down the controllers anytime soon. That's good for our business.

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

Thank you, and Operator, I kindly turn it back to you.