



Q3 2023 Earnings Conference Call Script
November 13, 2023

Speaker: Matt Chesler, FNK IR

Thank you, Operator.

Good afternoon, everyone, and welcome to the Enthusiast Gaming Third Quarter 2023 Results Conference Call.

I'm Matt Chesler of FNK IR. With me today is our Chief Executive Officer, Nick Brien, and our Chief Financial Officer, Alex Macdonald.

We'll begin with some prepared remarks and then open 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 appears in the Company's Management Discussion and Analysis for the three-month period ending September 30, 2023, which are available under the Company's profile on SEDAR, as well as on the Company's website at 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 statement 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. Take it away, Nick.

Speaker: Nick Brien, CEO of Enthusiast Gaming

Thank you, Matt, and welcome to everyone joining our call today.

We are making solid progress against our business strategy to build the most scaled gaming communities in North America, creating a platform for infinite growth. The core building blocks are our sites, channels, events, and esports. Our creator communities are producing the most compelling content to engage with their communities as we witness their growing influence in today's creator-led economy.

As we continue to invest in our vision to become the leading gaming media & entertainment company in North America, we are extremely thoughtful and deliberate, focusing on our largest opportunities. Today, over 56 million users visit our sites, games, and channels each month to play, learn, create, and connect. Certainly, traditional media's declining audiences across linear TV and movies helps us maintain our position as America's #1 gaming media platform, as measured by COMSCORE.

Our single-minded focus is to achieve profitability in Q4, by prioritizing high-margin brand solutions revenue in favor of low-margin programmatic media revenues. The decision we took in Q2 to focus primarily on North America is bearing fruit, as we continue to drive cost-efficiencies and consolidation across every area of the business. Today's clear operating model, built on a unified technology platform and supported by the most professional functions, is reducing internal friction and increasing our speed to market for each of our products and services. Collectively, these initiatives will enable us to exit the year as a profitable business.

We're fortunate to operate in the largest and fastest-growing entertainment sector globally. The continuing growth of diverse gaming audiences worldwide demonstrates their passion to play and connect with like-minded communities in the immersive gaming experiences that the industry imagines.

There are today 3.4 billion gamers worldwide in an industry expected to reach \$665 billion in value by 2030 with a CAGR of 13.4%. This exponential growth will demand innovation to craft the next generation of tools, products, and platforms to satisfy gamers' hunger for stimulation and creativity. It's clear that the impact of video games will not be limited to the video game industry. Innovation, skilled talent, and a large audience, supported by deep-pocketed developers, will flow across entertainment sectors. We're already seeing the convergence, as the Unreal engine is powering games and revolutionizing film and TV production; Game IPs are becoming hit movies and WaveVr and other studios are transforming live musical performances. The industry's growth across all age ranges defies the traditional gamer stereotypes as young men playing console games in their parents' basements.

Microsoft closed their largest-ever acquisition of Activision Blizzard, completing their vision to bring great games to players everywhere on any endpoint. Already with Game Pass, they are redefining how games are distributed, played, and discovered. I'm not alone in believing that the high price paid also reflected the value of Activision's gaming IP, given that players spend hundreds of hours over many years with the games they love, creating remarkable brand equity for some of the most famous games in the world.

We are witnessing the continuing transfer of gaming IP to Hollywood with leading creators being hired by top gaming companies to ensure that their content strategies are not only creative and compelling, but also authentic and faithful to their original game design. The power of gaming IP in such a crowded digital media world supports Netflix's decision to create a streaming video game service as their next big growth bet.

Gaming is also increasingly exciting to brands and their agencies. There is a growing realization that gaming media is no longer a 'nice-to-do' but a 'need-to-do', as their elusive Gen Z audiences abandon traditional media to focus their attention on social media, gaming content, and interactive experiences. Brands are now competing for attention in the Creator Economy, where content is created and consumed in fundamentally different ways than even five years ago. It's exciting for us to pioneer the next-generation gaming media & entertainment company for players, creators, and brands.

Operationally, we have consolidated as one company on a unified technology platform to ensure that our products and services are streamlined to create more efficient brand solutions for marketers and advertisers. Our rapidly improving programmatic stack ensures that our Ad Network is optimized to reduce unsold impressions and increase yield. We recently initiated a Cloud services review to ensure that our web hosting costs are optimized while critical AI functionality is fully integrated across the business.

Across our **Sites**, we continue to demonstrate our ability to capture momentum and audience attention around tentpole game releases.

U.GG, the leading data and insights player site for the League of Legends, with over 9m users, strengthens its 'Product-to-Platform' strategy, as it extends to the World of Warcraft site with data sourced from Blizzard's API. U.GG launched its League of Legends Desktop App in alpha in Q3 to enhance gamers' performance and provide a personalized experience. To date, we've gotten over 250,000 downloads without \$1 in marketing spend. In the month of September, we recorded 630,000 user sessions, with an average session duration of 1 hour 18 minutes. That is 819,000 hours of audience attention.

The time on site metric is indicative of the stickiness and added value of desktop apps, as they are able to provide real time, live data-driven insight and advice to our user base. This success informs our decision to pursue additional desktop app properties and the next to launch will be Valorant in November.

Icy Veins has launched a brand-new Content Management System to support Diablo IV and in the month of July, Icy Veins set a record for unique users in a month: 5.9 million, 26 million sessions, and 1.7 million hours of time spent on-site from our user base. This gives us a positive use case to further expand our CMS to enable us to repeat this success over and over to make Icy Veins and [U.GG](#) the dominant multi-title gaming community and insights platform.

Addicting Games continues to rationalize its portfolio of casual games and strengthen the competitiveness of its key titles. **Shockwave** has added a new collection of daily games, resulting in a 57% increase in Pageviews in Q3, up to 18 million from Q2. **Type Racer** has seen a 250% increase in subscriptions from Q2 to Q3, by simply increasing the number of accepted payment methods. **Apes.io** underwent technical refactoring to reduce load time by 90%, leading to a 13% growth in users and 15% more new users compared to Q2 2023. With this impressive improvement in growth, we are now focusing on in-game economy and user retention with daily bonuses.

The Sims Resource is a vital contributor within our portfolio, providing a unique resource to enable The Sims 4 community to celebrate its creativity and culture across generations. Our strategic initiatives kicked off in Q2 to focus on converting free traffic into paid subscribers while increasing LTV and ARPU and lowering churn. We have launched several projects to ensure smooth payment processing globally while aligning pricing geographically to optimize for conversions; this includes a soon-to-be-launched change on the site which will require all users to provide us with their email address in order to perform a free download of content. The TSR team is using landing pages, email marketing, paid media, and social media to drive conversions, engagement, and education with the goal to increase retention and conversion rates. Social media and community engagement are providing users and visitors with a strong sense of value from TSR offerings, as well as driving new traffic into TSR.

The momentum continues into Q4 and beyond, with a new email marketing platform with new data attributes to help us drive engagement and conversion rates. A new landing page platform will enable rapid testing and optimization of new billing and pricing configurations and options to determine the most effective scenarios to increase conversion rates globally and increase overall revenue.

Pocket Gamer remains the preeminent mobile games conference organizer globally. During Q3, we ran two Pocket Gamer Connects conferences one in Toronto and one in Helsinki and two fringe events, the Metaverse Mixer and the Top 50 Game Makers Dinner at Gamescom in Germany. Pocket Gamer celebrated its 8th Edition of PG Connects Helsinki and next year, Pocket Gamer Connects celebrates its 10th anniversary. In that time, we've hosted 44 PG Connects conferences in 14 countries with over 40,000 delegates attending. All event activity generated a profit in Q3, with Helsinki registering a 52% gross profit, while PGC Toronto live delegate numbers grew 28% YOY.

Following the successful June event in Dubai, we are currently in negotiations for a 3-year partnership with the Dubai Economic Forum to run the Dubai Games Expo Summit powered by PG Connects from 2024-2026. We're also in discussion with the local agencies in Singapore about potential activity in the APAC/SEA region in 2024 to 2025.

Gaming communities continue to demonstrate their insatiable desire to consume gaming-related content, whether on major streaming channels such as Twitch and Kick or leading social media networks such as YouTube and TikTok. Content remains, therefore, a major strategic pillar of our business.

Final Boss Studios, which we launched in Q2, now operates in five key verticals that maximize content resources and cross-functional support in Post-Production, Tentpole Creations, NFL TNG and the O&O Activations, Animation for Families and Luminosity Content. Our Content Calendar, with new content series and channels, is spanning the cross-section of gaming, esports, and popular culture. Our Channel expansion strategy begins with **BitSlam Comedy** which sold out the Bourbon Room in L.A. within 24 hours.

This innovative approach for leading gamers playing against leading comedians generated partnership interest in some of the biggest names in the comedy business.

Luminosity, our esports & talent organization, continues to thrive and expand throughout the "esports winter" that sees many larger competitors struggling with unsustainable business models. Throughout 2023, we have pursued a prudent cost structure that will lead to a sustainable and profitable esports business in 2024. This is a key part of building our creator community to fuel our growing talent needs while directly supporting our various sites and channels.

We launched the Luminosity Smash channel, breaking 2 million views in the first 60 days since launch, as well as our Pokemon Unite documentary surpassing 10,000 views in a week.

There is no shortage of creators who want to become part of the Enthusiast network, whether it's through Luminosity or Omnia Media, as they understand the value that Enthusiast Gaming can bring to them throughout their creator journey, leading to increased revenue and brand activation opportunities. New brand partners tapping into our internal talent rosters: Nintendo, Bandai, Netflix, Nickelodeon, Coca Cola and many more.

Brand Solutions continues to improve its performance since its establishment in Q2, both from a revenue and gross margin point of view. We've strengthened the team with some key external hires. George Devardo joined us from Barstool Sports to lead Revenue Operations, Madison Lockhart joined Epic to lead Product Marketing and Jerry Liu joined us from Sony to drive our thought leadership efforts, while coordinating all our research & insights. Account Management has been fully integrated into the Brand Solutions Org, enabling a deeper specialization of sales support to flip our approach from reactive selling to proactive solutions creation and delivery, creating engaging campaigns that can span multiple business units.

We had an exciting pipeline of new Brand Partnerships in Q3 with both new and returning clients, including Coca-Cola, State Farm, The UPS Store, AT&T, Toyota, Netflix, Shell, and Dove. State Farm and Dove are both new sponsors to NFL TNG — with **State Farm** being a six-figure deal, and the largest deal in our history. AT&T, Shell, Netflix, and The UPS Store all have partnered with us to create custom maps in leading games. This growing appetite by gamers to explore user-generated content in many of the biggest games, such as Roblox, Minecraft, and Fortnite, is only set to continue.

Our industry-leading partnership with the **NFL** continues to bear fruit, as we iterate and optimize NFL TNG week-in and week-out to improve program innovation and strengthen user engagement. Year to date, we have generated 40 million total impressions across all NFL TNG platforms, representing 72% YoY growth in overall Impressions compared to Season One.

To date, NFL TNG has increased the number of advertisers from 11 in Season 1 to 14 in Season 2. Our sponsors include some of North America's most recognized brands: Campbell's Chunky, Carnival Cruise Lines, State Farm, Lego, USAA, The Wonderful Company, Travel Texas, Little Caesars, Dove, Netflix, US Navy, Warner Bros., DAZN, and ESPN. Our active creative success with the NFL has reinforced our ability to work with major IP holders, leading to active conversations with other leading US sports leagues.

Our commitment to **Operational Excellence** is the opportunity to harness the power of automation and AI to improve our product and business performance across the entire organization.

We are actively using and testing:

- **Chat.gpt** as the most widely applicable AI chatbot, for campaign / creative concept brainstorming to coding QA
- **Active Campaign** for sales email marketing to leverage subscriptions and remarketing
- **Unbounce** to build landing pages to A/B test subscriptions.
- **Tube Buddy** as a tool to drive channel growth for YouTube
- **VidIQ** for channel analytics of YouTube videos
- **Semrush** for SEO optimization and tracking search ranking

We utilize a number of Automation applications, such as:

- **PowerBi** for data visualization and revenue dashboards
- **Monday.com** as a Project management tool
- **Boostr** for order management, media plan development, rate card management, and ad server management
- **Assertive Yield** for automated, centralized reporting for programmatic performance of SSPs

We have made significant operational progress in establishing a stable platform for profitable growth. Much of this progress has not yet been reflected in our income statement, as we have eliminated low-margin revenue that represented a drag on profitability, and focused on strategic or higher-margin opportunities. These initiatives are resulting in significant gross margin expansion, a reduction in unsold impressions and higher CPMs, and serve as the foundation for future financial improvements. We expect you will see this progress manifest in the fourth quarter, and we look into 2024 with a fully integrated, efficient platform for sustained profitable growth.

No great business was ever built on its capabilities alone. We believe passionately that a more disciplined and accountable culture is necessary to build long-term success for all stakeholders. We also recognize that great cultures require sustained effort and commitment to ensure that the most talented people are fully motivated to deliver their best performance each and every day. Leveling up is easier said than done.

Our **People & Culture** function continues to make great strides in many important areas of talent management, specifically in DEIB Progress and Women in Gaming and Women in Leadership.

We have tripled the number of female senior leaders since inception in April 2023. We **signed the [California Equal Pay Pledge](#)** .

We have established a “*Raise Your Game*” ERG, employee resource group, focused on elevating women in gaming and supporting women Enthusiasts with career growth and leadership opportunities, which launched in April, and we already have 26 members.

We are partnering with **Historically Black Colleges and Universities** to provide mentoring, career opportunities and development pipeline of great talent.

Last but not least, we are committed to creating the highest standards of **commercial acumen** across the organization to ensure that we are optimizing the yield of every single dollar of revenue we earn.

Today, I'm pleased to announce that we have hired Felicia DellaFortuna as our new Chief Financial Officer. Felicia joins us from BuzzFeed where she has worked for the past eight years. Felicia joined BuzzFeed in 2015 after serving as Senior Finance Director at Viant Technology, the parent company to MySpace, and various financial leadership roles at XIX Entertainment and Ernst & Young.

Felicia's deep digital media expertise, across BuzzFeed's many media brands, content channels, commerce sites and live events, makes her ideally suited to help us fully optimize our portfolio of assets today. At the same time, her extensive public markets and fundraising experience strengthens our commercial prowess, as we focus on reducing cash burn and driving profitability.

Alex Macdonald has performed a pivotal role in both the creation and growth of Enthusiast Gaming. We're extremely proud and grateful for the massive contribution Alex has made from day one, to diversify our business, serve our community and build a strong team that lays the foundations for our future profitable growth. Alex will transition to the role of a consultant and work with me and the board on a number of key strategic projects while collaborating with Felicia to ensure the smoothest handover of all finance and accounting functions.

This ends my prepared remarks, and I'd like to now hand over to Alex Macdonald to talk through the details of our financials. Over to you, Alex.

Speaker: Alex Macdonald, CFO of Enthusiast Gaming

Thank you, Nick, and thank you to all our shareholders, analysts, lending partners, and other stakeholders for joining us today to discuss the progress we made in this third quarter of 2023.

During the third quarter, we advanced the initiatives Nick has been speaking about since becoming our Chief Enthusiast Officer. We are continuing to focus on profitable revenue streams and margin expansion as well as creating comprehensive brand solutions and leveraging our diverse assets as a platform. The results of these initiatives include margin expansion and narrowing losses as we move toward profitability.

I'll speak on the numbers shortly, but first, here are my usual notes.

I note that our results are presented in Canadian dollars. 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 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, let's get back to the financial results. Q3 revenue was \$45.6 million, which is down 10% year-over-year, but up approximately 7% compared to Q2. Q3 revenue by source was as follows:

- media and content \$39.8 million,
- subscription \$3.7 million, and
- esports and entertainment \$2.0 million.

The Q3 media and content revenue of \$39.8 million compares to \$44.5 million reported in Q3 2022, a decrease of 11%. The decrease was primarily driven by a decrease in RPM caused by lower CPMs in the programmatic markets.

Our web RPMs were down 14% while our video RPMs were down 22% in Q3 year-over-year, with similar trends observed in the broader programmatic markets. These year-over-year RPM declines narrowed in Q3 compared to Q2 and we expect them to continue to narrow with further improvements being noticeable subsequent to September 30.

The decrease in Q3 media and content revenue was offset by higher video views year-over-year with 6.4 billion video views being measured in Q3 2023, as compared to 6.1 billion video views in Q3 2022. Webpage views also increased year-over-year with 3.7 billion webpage views occurring in Q3 compared to 3.6 billion in the same quarter last year. Notably, total views once again crested over the 10 billion milestone for Q3.

Q3 subscription revenue was \$3.7 million, down slightly by 2% year over year. Paid subscribers were 265,000 as of September 30, 2023, as compared to 260,000 as of September 30, 2022. The yield on a per subscriber basis decreased slightly year-over-year.

Q3 esports and entertainment revenue was \$2.0 million, down slightly from \$2.3 million in Q3 of last year. The decrease in esports and entertainment revenue is mainly attributable to decreased esports sponsorship activities, and slightly lower event revenue.

Gross profit was \$16.7 million in Q3, up 1% compared to the \$16.6 million of gross profit reported in Q3 2022.

Gross margin increased 400 basis points to 36.7% from 32.7%. This gross margin increase reflects the greater contribution of brand solutions and subscription revenue to our overall revenue profile, as well as the elimination of certain unprofitable products and channels, as well as the year-over-year decline in market-driven CPMs. In other words, our strategy to reduce our reliance on network programmatic revenue and focus on profitable revenue is driving improvements in our margin profile.

Total operating expenses were \$25.0 million, down 6.0% from the third quarter last year. Operating expenses in Q3 include non-cash items of amortization and depreciation of \$2.6 million and share-based compensation of \$1.4 million.

The decrease in cash-based Opex year-over-year was primarily due to decreases in professional fees, advertising and promotion, office and general and salaries and wages, related primarily to certain restructuring efforts. Also, the prior-year third quarter included approximately \$1.1 million in fees related to the annual general meeting. This year, the meeting was held during the second quarter. Additionally, the third quarter reflects costs associated with the kick off Season 2 of the NFL TNG.

Net loss was \$59.1 million in Q3, including a non-cash impairment charge of \$51.7 million. Net loss per share, both basic and diluted, was \$0.38 in Q3 2023.

Due to a combination of higher interest rates, inflation, contracting equity valuations, and continued industry pressures, the Company determined that indicators of impairment were present in Q3. Therefore the Company performed impairment testing across its seven CGUs. The results of this testing were impairment charges totaling \$51.7 million. This is a non-cash adjustment and the details and assumptions surrounding this expense are disclosed in Note 9 to the financial statements.

Turning to the balance sheet.

We ended the quarter with \$2.8 million in cash and in addition had an available operating line of \$4.5 million, for total available cash of \$7.3 million as of September 30, 2023.

Subsequent to the quarter end, we announced that we had extended and amended our credit facilities, providing additional liquidity of up to approximately \$7 million. Given the improving trends we are seeing in our business and industry, along with the benefit of the amendment to our operating line, we are confident we have sufficient liquidity to execute our near-term objectives. We continue to believe we will exit 2023 and enter 2024 as a profitable business.

As we drive through Q4, we do have certain expectations surrounding key drivers for the rest of the year.

We expect relative consistency across total views, with a recent short term trend towards increased video views to be maintained.

We expect an increase in CPMs across both web and video, and we note positive pricing movements observed subsequent to September 30. However, we remain cautious that seasonal trends in the programmatic markets, while returning, will not yet be as strong as would normally be expected. Similar to all other large digital publishers, we are watching closely as we approach black Friday and the holiday season, a period which typically sees significant CPM increases.

We expect to set records for total direct sales in Q4, and this number is key to profitability. Direct sales is expected to be an all-time quarterly high for the Company.

We do not expect a significant movement in subscription revenue in Q4.

The results of all the above will be continued gross margin expansion, expected to result in an all-time high gross profit. It is in the gross margin that short-term profitability will initially be found, and then expanded throughout the next year of profitable growth.

For all these reasons, we believe the Company has a clear sight line to a successful and profitable Q4.

It is an exciting time for the Company, particularly as our year of transformation comes to an end, and the Company sets its sights back towards growth.

I take particular pride in what has been built here, and my role in that over the past 5 years. I want to thank Nick for his kind words earlier, and for the opportunities he's provided me to date as CFO, including being part of an exceptional executive team which is leading change across the organization.

I also wish to thank our Board of Directors, particularly our Chairman, Adrian Montgomery, for their partnership over the years.

I look forward to continuing to work directly with Nick and the Board on a number of strategic projects.

But perhaps my greatest pride is the finance team that has been built at Enthusiast Gaming. They know exactly who they are, a best-in-class group, led by the VP Finance, Nathan Teal, himself a key member of the Company's senior leadership. The Company is in good hands with them.

And speaking of being in good hands, I welcome Felicia, the incoming CFO of the Company. Felicia's deep digital media expertise will be a tremendous asset to help lead the next phase of the Company's evolution.

Between Felicia, the rest of the executive team, and of course Nick, our CEO, I have full confidence that the best arrangements will continue to be made for our business,

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

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