



GAMESQUARE

GameSquare Holdings Inc. Second Quarter 2024 Results Conference Call Transcript

Date: Aug 15th, 2024

Time: 5:00 PM ET

Speakers: **Justin Kenna**
Chief Executive Officer

Lou Schwartz
President

Mike Munoz
Chief Financial Officer



Operator:

Good afternoon, and thank you for joining us for the GameSquare Holdings' 2024 Second Quarter Conference Call.

On the call today, we have Justin Kenna, GameSquare's CEO; Lou Schwartz, President; and Mike Munoz, CFO.

During the call, all participants are in listen-only mode. Following the presentation, we will conduct a question-and-answer session.

Before Management discusses the results, I'd like to remind everyone that certain statements in this call may be forward-looking in nature. These include statements involving known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied in our forward-looking statements. For information about forward-looking statements and risk factors, please see our 10-Q for the quarter ended June 30, 2024, which will be available on the Company's website or with the Securities and Exchange Commission.

I would now like to turn the call over to GameSquare's CEO, Justin Kenna. Justin, please go ahead.

Justin Kenna:

Thank you, and good afternoon to everyone joining us on today's call.

I'm extremely excited to review the progress we're making at GameSquare as we pursue strategic priorities aimed at creating a fast-growing, highly profitable and next-generation media business. Activity across our business is high, and we are making significant progress towards optimizing our business model, investing in our long-term growth and improving profitability. While we still have work to do, we believe our pro forma results demonstrate the meaningful accomplishments we are making to create lasting value for our shareholders.

On a pro forma basis, revenue was \$28.6 million for the 2024 second quarter, representing a 24% increase year-over-year and a 22% increase in 2024 first quarter. Strong revenue growth during the second quarter reflects the initial success of the actions we've taken and the strategies we are pursuing to rapidly grow our business. I'm extremely pleased with the significant improvement in profitability and



our pro forma Adjusted EBITDA loss for the 2024 second quarter improved to \$5.4 million from \$10 million for the same period last year and \$7.9 million for the 2024 first quarter. The \$2.5 million improvement in Adjusted EBITDA loss over the past three months provides us with growing confidence in our efforts to reach profitability by the 2024 fourth quarter as we expect further revenue growth, higher gross margin and additional OpEx reductions to benefit our business in the second half of the year. As you can see, we expect to see the same, if not, greater dollar improvement in Adjusted EBITDA in the third and fourth quarters as we approach profitability.

Our operating plan for 2024 focuses on three main components: first, to complete the integration of the FaZe Clan acquisition and significantly reduce our cost structure; second, to strengthen our balance sheet and divest noncore assets; and third, to leverage our platform of owned and operated IP, agency and media and SaaS technology assets to drive profitable growth. I'm pleased with the progress we have made executing our plan during the first half of the year, which I believe will result in accelerating revenue growth and significantly enhanced profitability in the second half of the year.

I'll use the rest of my time today to provide a business update before turning the call over to Mike, who will review our second quarter results in more detail.

As a reminder, in March of 2024, we completed the acquisition of FaZe Clan, an all-stock transaction valued at \$14 million. FaZe Clan is comprised of two assets: FaZe Esports, which is one of the world's best and most recognized esports organizations; and FaZe Media, which is one of the largest followed gaming brands in the world.

As part of our strategy for the FaZe Clan acquisition, we understood that in order for FaZe Media to be successful FaZe's founders and creators must be allowed to have an ownership stake in the organization and be empowered with the creative direction. As a result, we have completed two important transactions with FaZe Media to align GameSquare, FaZe's founders and other key stakeholders around plan to return the brand back to its roots and reboot FaZe Media for success in 2024 and beyond.

First, in May, we called FaZe Media as a separate stand-alone entity that combines the FaZe's creative talent roster and non-esports assets into a creative-led IP and Internet media company under the leadership of CEO FaZe Banks, an original FaZe founder. We simultaneously closed an \$11 million



investment in FaZe Media from Matt Kalish, a founder of DraftKings, who now serves on the Board of FaZe Media.

Second, in June, we agreed to sell a 25.5% interest in FaZe Media to an entity controlled by FaZe's CEO, FaZe Banks, and owing FaZe Media at \$14 million. Under the terms of the transaction, GameSquare retained voting control of the transferred shares for a period of two years during which FaZe Media will continue to be consolidated into GameSquare's financial statements. We believe these transactions create the proper infrastructure for FaZe Media to be successful.

FaZe Media now truly is a creator-led IP and media company supported by the leadership and expertise of Matt Kalish and full resources of GameSquare.

When we acquired FaZe Clan, the brand was suffering from significant losses, declining community engagement and no clear strategic direction. We're extremely proud of our efforts to turn around FaZe's performance and bring the brand back to life. This is a direct result of the return and hard work of the FaZe founders under leadership of CEO FaZe Banks; the strength of GameSquare's platform; our history with and know all the brand; and most importantly, our belief, if managed correctly, FaZe can reengage with an extremely committed community and lead to monetization opportunities in the coming months and quarters.

I'd like to use this opportunity to thank everyone at GameSquare and FaZe for their hard work and dedication over the past two quarters. Since FaZe Media's reboot in April of 2024, the reengagement of the community has been fantastic. A couple of highlights include four of FaZe's talent roster were in the top 50 most watched streamers worldwide in July. FaZe's created roster has gained 4.5 million stream followers since May and now have 173 million followers in total. FaZe's roster garnered over 1.2 billion total views in Q2 '24, a 28% increase in three months. Finally, from April to July, FaZe Clan's weekly viewership has increased from 1.5 million hours watched to a peak of 4.8 million hours watched, an impressive three times increase in just four months since the brand's reboot.

Driving engagement with FaZe's community is an important indicator of future growth opportunities for GameSquare, as engagement helps support a robust pipeline of brand deals and future monetization opportunities. In fact, we have multiple seven-figure deals that we expect to convert to partnerships in the coming months.



In addition to GameSquare's ownership and voting in FaZe Media, we continue to own 100% of FaZe Esports. As one of the top esports organizations in the world, we believe there is an enormous opportunity to profitably grow FaZe Esports, following a similar strategy that successfully grew our former esports team by over 220% in just two years.

Supporting FaZe's brand overall is important for FaZe Esports, too. We're currently working on several opportunities to begin monetizing FaZe Esports with a new multiyear sponsorship and partnership deal opportunities. As you can see, in just a short period of time, we are quickly rebuilding FaZe Clan, creating a proper foundation and developing new monetization opportunities that we believe will support multiyear high-margin revenue opportunities for GameSquare.

We are also focused on driving efficiencies and reducing costs at FaZe Media and FaZe Esports. When comparing the second quarter of 2024 and 2023 results at FaZe Clan, we have removed approximately \$18 million of annualized costs and believe there are opportunities to remove additional costs throughout the remainder of 2024.

With a more efficient operating model and a more disciplined management structure, we believe there is a lot of opportunity to drive profitable growth to FaZe Media and FaZe Esports, especially as each business scales. Our second quarter improvement in adjusted EBITDA reflects the initial benefits of our integration strategy, and we expect additional enhancements to our cost structure in the coming quarters.

We are extremely excited by the opportunities the FaZe Clan acquisition represents and how the brand fits into the GameSquare ecosystem. As part of our plan throughout 2024, we have sold noncore business assets to optimize our business and strengthen our balance sheet. Year-to-date, GameSquare has raised over \$36 million of non-diluted capital, raised over \$16.5 million of new capital through a private placement and a prepaid advance agreement, and paid off the principal balance of our senior secured notes. As a result, we have significantly strengthened our balance sheet and capital position and have the financial resources in place to support the growth strategies we are pursuing to take advantage of growing demand trends currently underway across our global markets.

The final component of our plan in 2024, I want to review today the opportunities we are pursuing across our owned and operated IP, agency and media, and SaaS technology assets to profitable



growth and improved profitability. Since our first quarter call, we made progress growing our owned and operated IP, agency and media, and SaaS technology assets.

Starting with owned and operated IP. As I mentioned previously on today's call, FaZe Media's highly successful reboot and new talent roster is driving engagement within the community, which is supporting our deal pipeline and beginning to contribute to GameSquare's revenue growth. In addition, during the second quarter, we launched the FaZe Clan's co-branded product line with SteelSeries to retailers globally. We recently announced a partnership with NFL to launch a new traveling creator series called NFL 4 THE FANS LIVE. This innovative series blends the excitement of NFL fandom on game days with interactive gaming and creator-driven content accessible for an in-person and online audience during the 2024 NFL season.

We are also starting to see growing revenue contribution from our newly traded events business for GameSquare direct-to-brand experiences with partners such as Epic, owned IP such as the recently announced NFL partnership in the creative series, programming partner opportunities such as our SEICon partnership in Las Vegas, and large-scale esports production with the FaZe Halo Championship Major. In fact, events in the second quarter contributed over 5% of consolidated revenue. We are continuing to develop this area of the business with more partnerships and announcements, which we expect to come in the second half that showcase this continued revenue growth and our growing expertise.

Looking towards growth in our media and agency businesses, we continue to pursue opportunities to expand our publisher relationships with major players like Epic Games and leverage the rapid success of our UEFN world building business. Just last week, we announced the \$3 million of total new brand partnerships with renowned brands, including Topgolf, five-hour ENERGY and Dairy MAX as well as multiple soon-to-be-announced projects with leading global sports media and entertainment companies. Our pipeline continues to grow, and we expect to announce additional new partnerships as we enter the seasonally strong second half of the year.

Finally, on the SaaS and technology side of our business, we continue to combine our data and insights capabilities with our creative management and activation platform to deliver a more comprehensive solution for game publishers and brands looking to drive targeted audiences and improved revenue



performance. In addition, we have developed an innovative AI-supported solution that leverages our data and technology stack to uncover influencers and creators based on unique search criteria.

By utilizing our platform for data analysis and audience insights, companies can identify the most influential creators to partner with for their marketing efforts. We believe that this data-driven approach ensures that campaigns are effectively targeted and yield high performing ROI and performance-based returns. Our new AI solution is set to launch in the coming weeks in a customer that operates one of the largest online mobile games. We plan to make this capability available to other customers as part of our broader rollout plan throughout the quarter.

Additionally, we are excited to announce the expansion of our managed services to include even more tailored solutions for our clients. This will include end-to-end campaign management, content creation and performance optimization. By offering these comprehensive services, we can now provide a one-stop shop for companies looking to enhance their marketing efforts through creator and influencer-led partnerships.

As we look to the back half of the year, we are excited by the direction we are headed. We believe we will start to see the benefits of the investments we made in the first and second quarters throughout the second half of 2024. In addition, we are already seeing positive momentum underway across several of our markets as our refined platform resonates with global brands.

While 2024 has already been a busy and transformative year for GameSquare, we believe we are just getting started, and I'm optimistic about reporting on our continued success on future calls. With this overview, I'd like to turn the call over to Mike to review our second quarter financial results.

Mike Munoz:

Thanks, Justin.

As a reminder, 2024's financial results include multiple corporate actions, most significantly, the March 7, 2024, acquisition of FaZe Clan and the March 1, 2024, sale of Complexity Gaming, which has been treated as a discontinued operation in our 2024 and 2023 year-to-date results. We also further divested noncore assets during the year on May 31, 2024. As a result, we believe it is best to look at our business on a pro forma basis, which includes a full year-to-date contribution of FaZe Clan.



Comparing our 2024 second quarter pro forma results to prior year, total revenue was \$28.6 million compared to \$23.1 million. The 24% year-over-year increase in revenue was primarily due to growth from FaZe Clan operations and programmatic advertising. Gross margin on a pro forma basis for the 2024 second quarter was \$4.2 million or 14.8% of sales compared to \$4.6 million or 20.1% of sales for the same period last year. The decline in gross margin for the year reflects a less profitable mix of sales, which temporarily impacted gross margin in the second quarter. We expect gross margin to improve going forward, supported by a more profitable revenue mix in the second half and actions underway to improve gross margin.

As Justin mentioned, we have made significant strides in improving our operating cash burn figures over the last 12 months. On a pro forma basis, adjusted EBITDA loss for the 2024 second quarter amounted to \$5.4 million compared to a loss of \$10 million last year. As a percentage of revenue, our Adjusted EBITDA loss improved from 43.5% for the 2023 second quarter to 18.9% for the 2024 second quarter. We believe the integration activities between GameSquare and FaZe Clan will yield annual cost savings of approximately \$18 million in 2024 when comparing GameSquare and FaZe Clan pro forma combined results in Q4 '23 to the combined results in Q4 '24.

With this overview, I'll turn the call back over to Justin.

Justin Kenna:

Thanks, Mike.

Before we open the call to questions, I want to review our expectations for the remainder of the year. After a solid first half, we believe we are extremely well positioned to achieve well over \$100 million in annual revenue with an annual gross margin to range between 22.5% to 27.5%. We anticipate revenue growth to accelerate in the third and fourth quarters. In addition, we remain committed to pursuing strategies to expand gross margin, reduce SG&A expenses and drive profitability.

As we look to the seasonally strong second half of the year, we believe we are well positioned to achieve our guidance and benefit from dramatic improvements in profitability. I believe our strong first half financial and operating performance support our initial success in creating a fast-growing, highly profitable and next-generation media business. I look forward to updating investors on our success on our third quarter conference call in November.



With this, Lou, Mike, and I are happy to take questions. Operator, please open up the line to take questions. Thank you.

Operator:

Thank you. We will now begin the question-and-answer session.

To join the question queue, you may press star, then one on your telephone keypad. You'll hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause a moment as callers join the queue. Once again, if you have a question, please press star, then one.

The first question comes from Sean McGowan with ROTH Capital. Please go ahead.

Sean McGowan:

Thank you. Thanks a lot for your time. I don't know if this is a question for Mike or Justin or Lou or anybody, but can you tell us if there were any unusual items that drove the gross margin to its level in the second quarter? Because it looks like your target for the year implies a pretty steep rebound in the back half of the year. Was there anything in the quarter that was unusual? What gives you the confidence that you can rebound that much?

Justin Kenna:

Yes, I can kick off, and Lou or Mike, feel free to add into this. Sean, the Q2 results had a higher percentage of programmatic revenue within the mix, which is our lowest margin area that drags the blended down. You'll see from some of the recent news, the \$3 million that we spoke about and recent brand wins, they are from being driven from the agency side of the business, which are much higher in nature.

We do tend to see a fair spike on the agency side and the owned and operated IP side in the back half of the year. You will see that, seasonally, we are stronger in the back half of the year than the first half of the year, and that tends to come from that higher-margin revenue. It may seem like a bigger jump just based on the numbers, but for each dollar of growth within agency and owned and operated IP, you're going to see a real increase in margins.



But we still feel very confident in being able to hit that number. We expect back half of the year margins to be far greater. We still expect revenue to grow, but I think the mix of that revenue will come more from the agency and owned and operated IP areas rather than large growth from programmatic.

Sean McGowan:

Okay. Thank you. Two housekeeping questions. Can you remind us of where on the income statement we would see embedded things like the transaction costs? Is stock-based comp in one line or is that spread around?

Mike Munoz:

Yes, I can answer that. All stock-based comps and general and administrative expense, we don't spread it between the three primary operating costs. Sorry, Sean, what was the former question?

Sean McGowan:

Yes, where is transaction cost embedded in the P&L?

Mike Munoz:

Transaction costs, yes, roll up into other operating expenses.

Sean McGowan:

Okay. All right. Thank you. Then my last question is a general question for you, Justin. We're in weird economic times. We get good news. Some days, we get bad news. We've got election stuff, a lot of moving parts. What's your sense among your advertising partners as to what to expect as we go into the holiday season?

Justin Kenna:

Yes. It's certainly been tricky, Sean. I think that there was a lot of discussion earlier in the year that ad and brand spend was back. We found that our pipeline was really growing, but brands were still quite hesitant to spend. But we're in a really strong position. That pipeline that we've been working on is starting to really resonate and close and translate into real revenue. Again, we mentioned some of the brands attached to the new \$3 million of agency recent wins.



I think we mentioned there are a couple of seven-figure deals on the FaZe side that we're in the process of closing out. There's real pipeline into the back half of the year. There's definitely mixed stories coming out of ad and brand win. But we're certainly feeling like we're breaking through, and we expect that to continue.

Q3, Q4 is looking really strong for us. We talked about the growth of our events business. There's a lot of events in the back half of the year from a gaming perspective. You have a lot of majors from the esports perspective. There's TwitchCon. We have the NFL creator series.

There's a number of real catalysts there, but just from the advertising perspective, yes, we're closing deals right now. I think that this is certainly a space where we are starting to see those dollars finally flow in. Yes, we feel really good about the back half of the year.

Sean McGowan:

Okay, thank you.

Operator:

This concludes the question-and-answer session. I would like to turn the conference back over to Justin Kenna for any closing remarks. Please go ahead.

Justin Kenna:

Thanks, everyone, for joining the call today. We touched on the fact that we're very much looking forward to giving you another update in November. Certainly, we've been working tirelessly around the integration of FaZe and the cleanup on that front. I think you've seen some of the benefits in the Adjusted EBITDA improvement, but we expect that to really continue in a material way.

We're excited to continue putting runs on the board. This is our first real combined set of financials, and we're very much looking forward to showing that continued improvement, and like we talked about, getting to profitability. We are very aware that, that is going to be key in these markets. We're well on track and looking forward to catching up with everyone in November. Thanks for joining, and thanks for the continued support. Cheers.



GAMESQUARE

Operator:

This concludes GameSquare's 2024 Second Quarter Financial Results Conference Call. You may disconnect your lines. Thank you for participating, and have a pleasant day.

