



# GAMESQUARE

## GameSquare Holdings Inc. Third Quarter 2024 Results Conference Call Transcript

**Date:** Nov 14<sup>th</sup>, 2024

**Time:** 4:30 PM ET

**Speakers:** **Justin Kenna**  
Chief Executive Officer

**Lou Schwartz**  
President

**Michael Munoz**  
Chief Financial Officer



**Operator:**

Good afternoon and thank you for joining us for the GameSquare Holdings 2024 Third 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 September 30, 2024, which will be available on the Company's website or with the Securities and Exchange Commission.

I will now turn the call over to GameSquare's CEO, Justin Kenna. Justin, you may proceed.

**Justin Kenna:**

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

I'm pleased to announce GameSquare delivered strong third-quarter financial results that were in line with our pre-announcement and reflect the strategies underway to drive organic sales growth, complete the integration of our recent acquisitions, and build a profitable organization.

On a pro forma basis, revenue increased 10% year-over-year to a third-quarter record of \$26.4 million. Revenue growth during the third quarter reflects the continued success of the growth strategies we are pursuing and improving market dynamics compared to the same period last year.



I'm also encouraged by the significant improvements we are making to profitability with Adjusted EBITDA for the third quarter exceeding our initial expectations.

Our quarterly Adjusted EBITDA was a loss of \$2.2 million for the 2024 third quarter compared to a loss of \$5.4 million for the second quarter and a pro forma loss of \$7.9 million for the first quarter. The continued sequential improvements in Adjusted EBITDA demonstrate the success of our ongoing efforts to grow revenue, increase gross margin, and reduce operating expenses.

Our financial model is approaching an important inflection point and we expect our Adjusted EBITDA to continue to improve during the fourth quarter as we position GameSquare for profitability in 2025 and beyond.

As we have stated on prior calls, our operating plan for 2024 has focused on three main components. First, to complete the integration of FaZe Clan acquisition and significantly reduce our cost structure. Second, to strengthen our balance sheet and divest non-core assets. Third, to leverage our platform of owned and operated IP, agency and media, and SaaS technology assets to drive profitable growth. I believe our third quarter results demonstrate the progress we are making, executing against this plan.

As a reminder, in March 2024, we completed the acquisition of FaZe Clan in 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 we regard as the largest followed gaming brand 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 at the helm, have an ownership stake in the organization, and be empowered with creative direction.

As a result, we have completed three important transactions at FaZe Media to align GameSquare, FaZe's founders, and other key stakeholders around a plan to return the brand back to its roots and reboot FaZe Media for success in 2024 and beyond.

First, in May, we formed FaZe Media as a separate standalone entity that combines the FaZe's creative talent roster and non-esports assets into a creator-led IP and Internet media company under the



leadership of CEO FaZe Banks, an original FaZe Clan 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 Media's CEO, FaZe Banks. 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.

Finally, today, we announced a new \$10 million convertible note with GigaMoon Media, an entity controlled by Matt Kalish. Under the terms of the transaction, the conversion date is December 31, 2025, at which time the note at GigaMoon's election will convert into either shares of GameSquare's common stock at a conversion price of \$2.50 per share or 5.725 million shares of FaZe Media's Series A1 preferred stock beneficially held by GameSquare.

If GigaMoon elects to convert the note into the remaining shares of FaZe Media, it would value the entity at approximately \$44 million compared to GameSquare's current market cap of approximately \$32 million.

We believe this transaction is a huge win for GameSquare, for Kalish, and for FaZe Media. The transaction aligns with our operating strategy by optimizing our business model and raising non-diluted capital. It also deepens the alignment between GameSquare, Kalish, and other strategic investors while supporting FaZe Banks' vision for the future of FaZe Media.

We'll use a portion of the new capital to pay down our existing Equity Live facility with funds managed by Yorkville, while increasing our cash position to take advantage of opportunities and accelerate revenue growth in the fourth quarter and beyond.

In addition, we believe these transactions create the proper infrastructure for FaZe Media to be successful, as 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. I'm extremely proud of our efforts to turn around FaZe Clan's performance and bring the brand back to life.

This is a direct result of the return and hard work of the founders under the leadership of CEO FaZe Banks, the strength of GameSquare's platform, our history with and knowledge of the brand, and most importantly, our belief that if managed correctly, FaZe can re-engage 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 three quarters.

Since FaZe Media's reboot in April 2024, the re-engagement of the community has been fantastic. In addition to the statistics I shared on our last conference call, we recently announced the success of FaZe Clan's Subathon in September of '24.

The month-long Subathon was FaZe Clan's first major streaming event since the brand's reboot, showcasing the successful return of FaZe Clan and its new creator roster. Some of the highlights include over 1.1 billion impressions, more than 760 million video views, and over 47 million engagements, setting new records at FaZe Clan's biggest event to date.

The event averaged 52.6 thousand concurrent viewers, peaked at 132.2 thousand, and garnered 2.2 billion minutes watched, with 257 million total views.

Finally, FaZe Clan added over 300,000 new Twitch subscribers, as well as 350,000 total subscribers across all participating channels. In fact, FaZe was the number one brand, by minutes watched, on Twitch during the month of September.

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. We continue to see a larger number of multiple seven-figure deals enter our pipeline, which are expected to convert to partnerships in 2024 and '25.



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

For the third quarter, FaZe esports had revenue of \$4.8 million and contributed positive Adjusted EBITDA.

We are also focused on driving efficiencies and reducing costs at FaZe Media and FaZe esports. When comparing the third quarter of 2024 and 2023, we have removed approximately \$17 million of annualized costs and believe there are opportunities to remove additional costs during the 2024 fourth quarter.

With a more efficient operating model and a more disciplined management structure, we believe there are a lot of opportunities to drive profitable growth at FaZe Media and FaZe esports, especially as each business scales. Our third quarter Adjusted EBITDA demonstrates the continued improvements we are making and the benefits of our integration strategy.

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

Overall, we are seeing trends continue to strengthen and through the first nine months of the year, we have increased the number of customers on retainer. We've grown our average contract value by 46%, more than tripled the number of UEFN World Building Campaigns deployed and achieved record monthly contract wins in August of '24.

Highlights during the third quarter for FaZe Media and esports include a multi-year, multi-million-dollar expansion of role bid sponsorship deal, a new multi-year, multi-million-dollar sponsorship and licensing deal with G Fuel, and FaZe esports' largest ever tournament winnings in the inaugural Esports World Cup, which was held in Saudi Arabia during July and August.



Within our media business, we announced multiple new projects during the quarter, including campaigns for Topgolf, Dairy Max, 5-hour ENERGY, and a new and already growing relationship with one of the big five entertainment studios.

We are also seeing favourable trends with—in our events business and we are kicking off our partnership with the NFL to launch a new travelling creative series called NFL 4 THE FANS LIVE. This innovative series blends the excitement of NFL fandom on game day with interactive gaming and creator-driven content accessible for in-person and online audience during the 2024 NFL season.

Finally, in the rapidly evolving landscape of gaming and influencer marketing, we continue to evolve our staff and technology offerings, focusing on the integration of data and insights with our creator management and activation platform. This strategic approach is designed to provide game publishers and brands with a comprehensive solution set to effectively target audiences and optimise revenue performance.

Essential to this development is our influencer CRM tool, which has been refined to meet the specific needs of our customers, allowing them to engage meaningfully with their most valued commercial channel influencers. This capability will enhance our differentiated position in the influencer marketing space.

In October, our streaming analytics and business intelligence platform launched an AI-powered influencer discovery tool designed to redefine how brands identify and connect with creators. This AI-powered solution marked a significant breakthrough in influencer marketing by using proprietary algorithms to sift through data on over 15 million creators to find the most aligned partners for brand campaigns.

We have launched this product with a customer that operates one of the largest online mobile games, and we have seen interest grow quickly from other game publishers as well as brands and creators.

As we look to the fourth quarter and beyond, we are excited by the direction we are headed, and positive momentum is growing across our business as more brands recognise the value of our next generation media platform.



Our interconnected media, creative and technology capabilities continue to provide brands with best-in-class solutions to connect and engage with youth audiences at scale. We expect to end 2024 with record revenue, a record backlog of committed revenue, a higher number of customers on retainer, and a growing pipeline.

As a result, we believe 2025 will be a strong year of growth and significantly improved profitability.

With this overview, I'd like to turn the call over to Mike to review our third quarter financial results. Mike?

**Michael 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 non-core 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 third quarter results to the prior year pro forma results, total revenue was \$26.4 million compared to \$24.0 million. The 10% year-over-year increase in revenue was primarily due to growth from our agency and media business and owned and operated IP segment.

Gross margin for the 2024 third quarter was \$5.2 million or 19.8% of sales compared to \$3.4 million or 14% of sales on a pro forma basis for the same period last year. We expect gross margin to improve going forward, supported by a more profitable revenue mix in the fourth quarter and additional 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. Adjusted EBITDA loss for the 2024 third quarter amounted to \$2.2 million compared to a loss of \$10.4 million on a pro forma basis last year.





As a percentage of revenue, our Adjusted EBITDA loss improved from a negative 43.4% for the pro forma 2023 third quarter to a negative 8.2% for the 2024 third quarter.

When comparing the third quarter of 2024 and 2023 results to FaZe Clan, the Company has removed approximately \$17 million of annualized costs and expects to remove additional costs during the fourth quarter of 2024.

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

**Justin Kenna:**

Thanks, Mike.

Before we open the call up to questions, I want to review our expectations for the remainder of the year. After a solid nine months, we believe we are extremely well positioned to achieve between \$105 million and \$110 million in annual revenue.

As I mentioned earlier, we ended the 2024 third quarter with a record backlog of committed revenue, a higher number of customers on retainer and a growing pipeline, which we believe provides us with good visibility into 2025. As a result, we believe 2025 will be a strong year of revenue growth and significantly improved profitability.

As we improve our cash burn and approach profitability, we have made additional strides to strengthen our balance sheet. At September 30, 2024, we had over \$11 million in cash on our balance sheet and added an additional \$10 million of cash through today's announcement of the convertible note.

As a result, we have the flexibility to pay down our existing equity line facility and take advantage of opportunities to accelerate revenue growth in the fourth quarter and beyond. Twenty twenty-four is shaping up to be a transformative year for GameSquare, and we believe that we are well positioned to show further sales growth and significantly improve profitability in 2025.

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



**Operator:**

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 will hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star and then two.

Our first question comes from Jack Vander Aarde with Maxim Group. Please go ahead.

**Jack Vander Aarde:**

Hey, that's pretty good. Hey, guys, congrats on the results. Great to see the strength. I have a couple—maybe just a couple questions here. Can you speak a bit further into the record backlog you mentioned? Just what type of revenues does this include and just a sense of the margin profile as you guys make strides to increase that gross margin overall? Thanks.

**Justin Kenna:**

Yes, absolutely. I can kick off there. Mike, Lou, feel free to add any colour. Jack, I think what's most pleasing is a lot of the revenue growth that we're seeing, a lot of these longer-term, multi-year deals are coming from growth in our agency business, which was a big contributor to that 46% average contract size increasing and the higher retainer revenue. What is most pleasing about this, these multi-year seven-figure deals, to your point, Jack, around margin, is that they are higher in margin. I think that you'll continue to see margin expand. Q2, there was a higher than expected programmatic revenue quarter and what we're starting to see, and I think you'll see more so into Q4 and specifically into 2025, is continued growth of our SaaS business, which is really high margin and growth of our agency business, which again, we've really gone from, I think over the past two years, competing for the RFPs into building long-term relationships. Now we're a lot more selective with who we're working with. We named some of the clients earlier in the call, but incredible clients that we're expanding our offerings with and getting more strategic with and certainly expanding margins. We expect margins to expand. I'd say that a lot of that growth is coming from that agency segment of the business.

**Jack Vander Aarde:**

Excellent. That's helpful colour. I think it was in August, you guys put that press release out. That was very encouraging about, I think there was \$15 million or so of new revenue in sponsorship and licensing deals, you guys, over multiple years, obviously. Just give us a sense, is this just the tip of the iceberg?



How does that compare to what you're expecting to bring in in terms of additional licensing and sponsorship deals as you guys continue on this path here of getting momentum? Just how does that \$15 million or so that was acquired in the month of August, how does that compare to where you guys are heading, just to give us a sense? Thanks.

**Justin Kenna:**

Yeah, we certainly believe that it is, Jack. I think what we're most pleased with and excited about, certainly this year, as we talked about, it's been very transformative for us as a business. It's been a lot of heavy lifting on integrating FaZe Clan and pulling out costs. What I think has been the most pleasing is really the organic growth of the SaaS business and the agency business while we've been doing the FaZe cleanup. I think it really is—the floodgates are starting to open, to be really frank with you. I said this last year, and it's really true in the fact that we went through a pretty tough time into the brand and ad markets, and there were budgets shrinking, and I think, currently, we're seeing the opposite. I think a lot of the handholding we were doing, and I give our team a huge amount of credit for this, is these weren't lost clients. These were budgets that were shifting to later quarters, and we're starting to see the benefit there.

I think that the reality is that we talked about one of the biggest studios that we're partnered with, I think the opportunity that we have to expand with our current customer base, rather than going out and fighting to try to win new work, is enormous. We're getting expanded budgets from these really large clients because we're executing, and that's really pleasing. That's one. I think another one is Epic Games. We continue to deliver for Epic. We're helping them activate a lot of their large cultural moments. Super Bowl, TwitchCon, to name a few. We have an event this weekend in Vegas. We're doing a lot of their live event work, a lot of their strategy work, working a lot more closely with their mobile team now. Yes, we expect a huge amount of organic growth in 2025. Pipeline's stronger than ever, but I think pipeline's easy to say. I think what's the most pleasing for us is we're executing, we're expanding clients, and we're going to kick off 2025 with more locked in recurring revenue than ever before, so we're in good shape.

**Jack Vander Aarde:**

Okay, fantastic to hear. I think that does it for me. Great work, guys. I appreciate it. I'll hop back in the queue.



**Operator:**

The next question comes from Greg Gibas with Northland Securities. Please go ahead.

**Greg Gibas:**

Hey, great. Good afternoon, Justin, Lou, and Mike. Thanks for taking the questions, and congrats on the quarter. Really nice with the additional cost savings that you're seeing and reductions there. You mentioned seeing additional opportunity for cost reductions in Q4. Wondering if you could expand on these opportunities and are you able to quantify them in any way?

**Justin Kenna:**

Yes. I think, Greg, it's just continued efficiencies. I think a lot of the initial clean up of FaZe, there's still some continued clean up. Obviously, when you come in and you integrate any asset, it takes a while. There's some clearer maybe resource or contracts that you can eliminate sooner, but there's certainly runoff and there's areas as you learn to integrate different systems and find greater efficiency. I think we identified when we acquired FaZe, we publicly came out and said we can see around \$18 million of costs. You can see that we've achieved that on an annual basis, looking at the Q2 and Q3 numbers. There's actually more and I think they're more so coming down to efficiencies rather than anything else.

I think you'll see continued improvement. I think the reality is, Greg, that cost improvement is not going to be at the same rate as it was in Q2 or Q3. I won't give you an exact number, but I wouldn't expect that to be at the same level of cost improvement, but we certainly think that there's some further cost efficiencies. What I would say is profitability comes from here for us, because I think that we've done everything we said we would do on the cost side. Profitability really comes from increased revenue and increased margin. I think that if you look at again Q2 was higher than expected that's great, but a lot of that additional revenue did come from the programmatic area, which is lower margin.

What we're expecting in Q4 and certainly into 2025 is a lot of that growth in revenue is coming from our higher margin areas of business. You will see improved costs. It won't be at the same rate as Q3. Q4, there'll be some continued runoff of contracts and resources on the FaZe side, but I think a lot more on getting efficient. I do think we're getting to a really healthy level of operating leverage. I think the reality is that we have the key pieces in place at the business. Like I talked about before, expanding these current clients is not costing us the same level per dollar as it is to really create operating leverage and drive additional revenue. We're seeing six figure and, in some cases, low seven figure deals translate



to high seven figure deals. In some cases, some opportunities to even expand to eight figure deals. We don't need to go and hire the same percentage of headcount to execute on those projects.

**Greg Gibas:**

Great. That's helpful, Justin. Just regarding the record backlog and current pipeline, obviously great to see. If I could follow up on the first question, I think you guys were asked those larger number of seven figure deals that are entering the pipeline, what segments or categories are you seeing them in? It sounds like you mentioned strength in the agency business, but just wondering if you could provide any more specifics on those new deals entering the pipeline. Thanks.

**Justin Kenna:**

Yes, absolutely. I think it's a really healthy mix across the business, to be really frank. I think that on the FaZe side, the esports business, we have some really exciting opportunities. I think there'll be some really positive news coming out of that world really soon. I think the FaZe media side we touched on the reality is that for part of this year, we blacked out our social channels, which have access to huge audience, and we signed new talent. There was a bit of a cooling off period. We've come back and I think the Subathon in September just showed the true power of that brand. That's now resonating into we signed G FUEL and DraftKings, and we've got a really large and active pipeline on that side as well.

The agency business certainly getting a lot more inbound. I think, again, I covered off on this a little bit, but what, again, is really pleasing for us is the way that we are expanding budget with our existing clients. These clients are large, and I think there's opportunity to expand even further. I think, Greg, if you have a look at even into segment one, the SaaS business is really healthy. We're getting to scale. We're growing that as high margin, but we have within there nine of the top 10 game publishers as clients, currently we're providing agency event or content services for probably three of those nine. I think there's a huge opportunity for us to continue to execute and cross sell and upsell within the group. That's certainly something we'll be focused on in 2025. It is a really healthy mix across the group. Yes, we would expect to be getting out some pretty positive news to market soon because—again, I know it's easy to talk to pipeline and obviously need to execute, but we're going to be kicking off 2025 in a really good position.

**Greg Gibas:**

Great. Appreciate the colour. I'll pass it on.



**Operator:**

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

**Justin Kenna:**

Yes. Thank you for that, and as always, thank you to everyone for joining and the continued support.

It really is greatly appreciated. I think it's certainly been a challenging year from a macro standpoint. Again, I'm extremely pleased with the way we've been able to navigate that, the way our teams have been able to put their head down and really execute.

I feel extremely bullish about the position that we're in closing out the year really strongly and entering 2025, and a period of time that I really believe is a major inflection point for us as a business. That is going from ultra growth and cleanup mode to really generating cash. I think that that is going to be an inflection point for us. We look forward to getting the credit and the appreciation from the market as we continue to execute.

Thank you everyone for joining. We feel really bullish about where the Company's at and our path forward here is. Thanks again for the support and really looking forward to updating everyone on Q4 as we continue to execute.

Thanks.

**Operator:**

This brings to a close the GameSquare Holdings 2024 third quarter conference call. You may now disconnect your lines. Thank you for participating, and have a pleasant day.