

GameSquare Esports Inc.
Fourth Quarter Fiscal 2021 Financial Results Conference Call and Webcast Transcript

Date: **April 29th, 2022**

Time: **8:00 AM ET**

Speakers: **Justin Kenna**
Chief Executive Officer

Paul Bozoki
Chief Financial Officer

Kevin Wright
President and Chairman

Operator:
Good morning and thank you for joining us to discuss GameSquare Esports' Fourth Quarter Fiscal 2021 Financial Results Conference Call and Webcast.

On the call today, we have GameSquare's CEO, Justin Kenna; CFO, Paul Bozoki; and President and Chairman, Kevin Wright.

Following the presentation, we will conduct a question-and-answer session.

Before Management discusses the results, I would like to remind everyone that certain statements in this call may be forward-looking in nature. Any such forward-looking statements are based on certain assumptions and are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from those expressed or implied in our forward-looking statements. Forward-looking statements speak only as of the date of this call, and there can be no assurance that the forward-looking statements will prove to be accurate, and you should not place undue reliance on such statements. Please refer to the forward-looking disclaimer and risk factors in the Company's MD&A for the period ended December 31, 2021, which can be found on the Company profile at sedar.com and on the Company's website. The Company undertakes no obligation to update such forward-looking statements, except as required by applicable law.

I will now turn the call over to GameSquare's President, Kevin Wright.

Kevin.

Kevin Wright:
Thanks, Ariel, and good morning to everyone. I'm Kevin Wright, President and Chairman at GameSquare Esports, and I'd like to welcome all of you to today's conference call to discuss GameSquare Esports' Q4 and Fiscal 2021 financial results for the period ending December 31, 2021, which we filed on sedar.com earlier today, along with the Management's Discussion & Analysis.

I'll highlight, just before we kick off, that the quarter did consist of four months, and the full year includes 13 months of performance, as we changed our fiscal year end from November 30 to December 31 in July of 2021.

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Ariel already ran through the disclaimers and forward-looking information, so with that formality out of the way, I'd now like to turn the call over to GameSquare's CEO, Justin Kenna.

Justin Kenna:
Thank you, Kevin.

Good morning and welcome to the GameSquare Esports' fourth quarter and fiscal year-end conference call.

GameSquare’s striving to become the largest and most profitable esports company in the world. Our shareholder letter, sent out earlier this month, outlined key strategic priorities for the business and the commitments that we have to our shareholders, our customers, and our employees. We believe in building long-term value for our shareholders, delivering outstanding outcomes for our customers, and we work with incredible people.

Our goal is to grow our business with discipline and focus, with the goal of creating wealth for our investors. We will do this by focusing on three areas of the business: one, leadership in digital media and agencies; two, building a world class streaming and content organization; and three, through competitive esports teams. You'll hear throughout today's call that our focus is on revenue growth while managing costs and margin to realize profitability across the Company.

This is an incredibly exciting time for esports: audiences are large, brands are taking notice, and investable business models have emerged. Esports is in the early innings, meaning the market is large and growing, and while it is competitive, there's a lot of business for companies that can provide incredible outcomes to their customers. In our case, these customers include brands, agencies, traditional sports and entertainment orgs, and other esports companies. By providing more choice to customers, we are emerging as a one-stop shop for marketing, digital advertising, production and strategy to help these customers meet their goals within the business of gaming and esports.
We are leaders in digital marketing content creation and production with a focus on esports, sports, and entertainment. Our digital marketing helps global brands navigate the large and growing esports landscape, and we create strategies to help those brands authentically connect with the massive gaming and esports fan base, a demographic that consumes media like no generation before them.

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We have delivered creative, impactful campaigns for our clients, and we have used our media network with an audience of more than 115 million to amplify these campaigns. We have made great progress on our programmatic media offering to expand our recurring and reoccurring revenue profile.

Competitive teams are the fan-facing part of our Company. We create authentic experiences across social media, video platforms, and at live and online events. our fans proudly wear the star and cheer on our athletes in competitions around the globe, and interact with our streamers and content creators under the Complexity Gaming and Complexity Stars banners. We create real connections with our fans, and this authenticity resonates with brands seeking to reach a highly engaged demographic.

We have been successful in attracting gamers, athletes, and entertainers to Complexity and to GameSquare. Tim the Tatman, Cloakzy, The Baka Bros, Jordan Fisher, Chicharito, Tony Hawk, J.R. Smith, Max Holloway, Leonard Fournette, Allisha Gray, Clara, Electra, and the list goes on. For our customers and our investors, this means that our audience of more than 220 million globally provides access to one of the largest esports and gaming platforms.

The breadth of our reach is extremely valuable to brands seeking to target customers, which is translating into revenue growth and margin expansion. Since acquiring Complexity eight months ago, we have announced deals with brands such as Lenovo, ARterra, Miller Lite, and the Dallas Cowboys.

A world class streaming organization like ours brings in more fans and more engagement, and this opens the door for authentic monetization opportunities, a strategy that we have proven works.

With that, I'll throw it over to Kevin for our financial performance, and follow with an operational update. I'll also discuss opportunities to go through M&A and will provide some insight into 2022 outlook.

Kevin Wright:
Thanks, Justin.

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Just to reiterate, before detailing our financial performance, that we did change our year end from November 30 to December 31. As such, our Fiscal ’21 year ending December 31, 2021, encompasses 13 months, and our quarterly results for 2021 include four months ending December 31.

Revenue for the four months was $9.1 million dollars. This compares to Q3 2021 revenue, a three-month period of $2.5 million, a 3.7 times increase in our revenue. The growth in sales reflects a full quarter of Complexity Gaming and Cut + Sew acquisitions, but also meaningful organic growth in each of our businesses. For the 13 months ending December 31, 2021, revenue was $13.7 million. The Company completed its RTO in October 2020, so year-over-year numbers are not comparable.

Gross margins showed quarter-over-quarter improvements. In Q4 2021, gross margin grew by 9% versus the previous quarter to 37%. This is largely due to the organic growth and operating leverage within the agency segment, as well as the integration of our acquisitions, including Cut + Sew, during the back half of 2021. This margin expansion highlights the profitable financial profile of digital agencies and why they remain central to our sustainable growth strategy.

The Company generated an accounting loss for the four months ending December 31, 2021, of $678,000. I would draw your attention to the operating cash flow. For the four months ending December 31, 2021, the Company reported operating cash flows of negative $2.3 million. As the Company transitions from integration of our acquisitions to the optimization of our businesses, we continue to look for efficiencies throughout the business without hindering the high rate of revenue growth that we've been able to achieve.

As of December 31, 2021, GameSquare had $7.6 million of cash and $8.6 million of working capital. Subsequent to Fiscal 2021 year end, we announced a fully committed US$3 million private placement led by Goff Capital and the Jones family, as well as a new strategic investor, to further strengthen the Company's shareholder base. We also signed a letter of intent which provides us access to an additional US$5 million credit facility with an entity to be established by Goff capital and Blue & Silver Ventures, Ltd., a Jerry Jones owned company. As a result, we have access to more than CA$10 million in capital which is not reflected in our year-end financial results.

I'll turn it back to you, Justin.

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Justin Kenna:
Thanks, Kev.

M&A was a dominant theme for GameSquare last year. We completed three acquisitions, and our team worked hard to integrate the businesses. Our fourth quarter results are evidence that integration of Code Red, Cut + Sew, GCN, and Complexity is taking hold. We are seeing significant revenue growth as leaders across the business are working collaboratively and using the full breadth of our offering to provide customers with outstanding outcomes. We are also seeing margin expansion which we expect from agency businesses, but also from high-value sponsorships within Complexity.

This year, we are turning our attention from integration to optimization. We expect that streamlining shared services across the Company and identifying cost efficiencies without hindering revenue growth will result in improving margins throughout the year as we pursue our path to profitability.

Audience growth has been significant since acquiring Complexity in June of 2021. At the time, we had an aggregate following of approximately 35 million, with a media network that reached 115 million. We recently reported that we have grown our total audience to more than 220 million. This makes us one of the largest gaming and esports platforms, which is proving to be very attractive to brands seeking to reach this large and affluent demographic that counts gaming as a major source of entertainment.

We are seeing growth in the number and size of RFPs from brand partners in our agencies. Importantly, we are seeing more reoccurring business as we pursue a land-and-expand strategy within companies that house multiple brands across numerous product categories. I'm extremely excited about the commercial prospects that we are seeing materialize.

The audience growth reflects the strategic shift that we've undertaken within Complexity. We have pivoted from being a pure esports team towards becoming a gaming and content brand that houses some of the top talent in content creation and streaming, alongside our athletes and pro esports gamers. We continue to compete at the highest level of esports, and we play to win, but we are also bringing the cool factor to Complexity. This is attracting fans that are interacting with our content, and brands are taking notice.

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We will sign major sponsorships for the team, and interest is growing among new and existing partners. The growth that we're seeing in Complexity is impressive, and we continue to seek out monetization opportunities.

Moving on to M&A. We slowed M&A in the back half of Fiscal 2021 so that we could focus on integrating our acquired businesses. Our revenues and updated 2022 guidance reflect those assets. This doesn't mean that we've stopped looking at and evaluating potential businesses that will accelerate our growth. We continue to look at great businesses run by great teams with a high interest in agencies that operate in esports, sports, and entertainment verticals.

Importantly, we focus on prudent capital allocation with a view to profitability and maximizing value creation from every dollar that we spend. We are investing in growth, and every decision that we make has revenue growth at its core along our path to profitability.

With that in mind, and as we have consistently communicated, we see companies that generate revenue roughly between $5 million to $25 million with EBITDA margins in the 20% to 40% range, depending on the size and maturity of the business. We prefer transactions with a mix of stock over cash, and we love structures that include achievable and reasonable earnouts over as much as 24 months. We believe that we can complete additional acquisitions in 2022 to bolster revenue and EBITDA.

Earlier today, we announced that we have increased our revenue guidance for 2022 from $28 million. We now expect to deliver between $30 million to $32 million in revenue for 2022. This reflects the progress that we have made within the agency businesses, enhance revenue opportunities at Complexity Gaming, and the integration of Cut + Sew. This reflects M&A that we have completed in the back half, but also the organic growth that we are focused on within Code Red, GCN, and Complexity Gaming.
Keep in mind that there is seasonality to our business, so we would typically expect the first quarter to be the softest, with the fourth being the most commercially active.

Our sales pipeline is the strongest it has ever been, we are executing activations at GCN, Code Red, and Cut + Sew for new and existing customers with an uptick in the number and size of RFPs. Additionally, recent announcements of major sponsorships and growth in league fees is indicative of

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the monetization turnaround that we are delivering at Complexity. From the beginning, we have indicated that the race car was built; now it's time to get it on the track and deliver real dollars.

We are extremely bullish on the prospects for the Company. The recently announced private placement and credit facility, in addition to our cash on hand, provides access to capital we require to achieve our growth ambitions. I want to share that revenue growth is an important metric, but that throughout 2022 we expect to be able to provide KPIs to the investment community to better measure our progress, including insight on timing of our path to profitability.

On behalf of the Company, I want to thank you all for joining the call this morning and for your continued support.

With that, I'll turn it over to the operator to take your questions.

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

Our first question comes from Robert Young of Canaccord Genuity. Please go ahead.

Robert Young:
Hi. Good morning.

My first question was going to be exactly on what you ended your monologue with, the KPIs that you're looking at as it relates to margins and profitability. You didn't give any guidance on that. Just directionally, is there any kind of timing you would put around a return to positive EBITDA or maybe just some high-level comments on what investors can expect? You said, you'd give us some KPIs as the year progresses, I understand, but any colour there will be helpful.

Justin Kenna:
Yes, for sure, I can jump in at the start, and then, Kev, can jump in as you see fit.

I think it's a little early to be giving KPIs there, Rob, but we will, as we said, update throughout the year. But I think it's a reasonable question. I think what to look for is—from our perspective, we spent the

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back half of last year really growing and bringing in assets to grow our brand and audience and to start to monetize, and I think we've proven that out really well with the growth in our aggregate following and the growth in revenue.

As we said, really going to a streamlined efficient approach moving forward. We feel that we have a lot of amazing assets and available inventory that we can now really go out to market and sell. I think we're just starting to see the effect of that. We are looking to be really efficient, find cost savings, and that's something to look for, Rob, is that continued growth in margin, tightening of spending, and really showing that path to profitability. But as we said, it really is about optimization for us over the next three to five months, and I think you'll see that, and we'll come out with some further KPIs.

Anything you'd like to add, Kev?

Kevin Wright:
Nothing more to add.

Robert Young:
All right. The fairly sizable jump in gross margin quarter over quarter. I don't have the year-over-year compare, obviously. You indicated that was driven, maybe, by mix of agency revenue. Is that correct, or are there any other pieces to sort of understand there? Maybe if you could just give a sense of where you think gross margins could possibly go, as, you know, with the given the focus on agency?

Paul Bozoki:
I can help a little bit. Everybody, it's Paul Bozoki.
We've given our investors a segmentation note, Rob, if you look in the financials, where we break out teams and agencies. Teams being really Complexity; and agencies, as you know, Code Red, GCN, and Cut + Sew, and the margin is from the agencies. A little bit distorting, in that the teams do support the agencies. But for accounting, you'll see that the dollars are being driven by the agencies. So, they had an excellent Q4.

Robert Young:
Okay. Excellent. So, going forward…

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Justin Kenna:
Rob, what I give you on that in terms of—again, we're not ready to start giving margin guidance on that. But we consistently point to the agency businesses being strong margin contributors. So, as we are going out this pipeline and as we start to realize the conversion of the pipeline into bigger sales, we'll start to stabilize that gross margin. We're not going to see 9% jumps, but we'll chip away at that to grow the gross margin as the agency business grows.

The other piece of that is things like the sponsorship, so we signed the Lenovo sponsorship. A lot of the infrastructure that's already in place, the cost base that's within the teams, that supports the sponsorship, so those are quite high margin. As well as league fees, which are—there's a fixed cost that is with the team, so as League fees increase. We are trying to grow that margin on both sides of the business. But as time goes on, you'll see what the—we'll be able to give you some guidance in terms of that margin profile.

Robert Young:
Okay. Should we expect a one-time jump from the Lenovo sponsorship in Q1? I guess it happened right at the end of Q1, so would that be something that would be a one-time profitability bump?

Paul Bozoki:
It should be a one-time bump, but I don't think we're going to see a—again, I don't think we're moving up 9% quarter to quarter. And the Lenovo contract, we announced it after the close of Q1.

Justin Kenna:
The other thing that I'd say, Rob, is Lenovo is certainly no outlier. We really are growing our agency businesses significantly, so we should be able to continue to see that upward trend, instead of just that one big deal and getting a really large bump. So, I think, overall, we've obviously seen it from Q3 into Q4, which is nice. But I think, as we continue to get more efficient and start to continue to land these large agency deals, you'll continue to see that number rise.

Robert Young:
Okay. The bump in the annual guidance is nice to see. Would that have been driven by any particular chunky deals? I think you attributed it to the pipeline. And the view on future deals, more than to things

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that you've announced already, but I guess I was wondering if that might have been the Lenovo deal, again, that might have caused that bump?

Justin Kenna:
Yes. You can see, obviously, the Lenovo deal not being apart of the Q4 revenue, you can see the numbers, obviously, for Q4. No, this is for future deals for sure. I mean, obviously, Q4 gives us really good confidence in that ability to deliver, but our pipeline is strong, and we talked about recurring and reoccurring revenue. We're starting to see that in some longer-term deals. So, it really is a mix across the group, which is really nice. We've seen some large, longer-term sponsorship deals out of Complexity, and we've seen a really consistent nice growth out of Code Red, continued growth out of Cut + Sew, and exponential growth out of GCN.

It really is a mix of this really strong pipeline across the group into future deals that gives us great confidence in 2022 revenue and delivery.

Robert Young:
Okay, that's great. Is it early to talk about repeat business? Or are there any customers that you can talk about that are coming back and maybe growing the business, seeing successful agency benefits or campaign benefits, and then coming back to work with you again?

Kevin Wright:
Yes, so I'll grab that one.
We are definitely seeing reoccurring business, and we're working on building our recurring pipeline as well. So, in terms of the RFP processes, customers that we've worked with in the past—and this is where we talk about the land and expand strategy, these large companies that house multiple brands, multiple product types. As we are able to do work with one of the companies, that allows us to expand our business into other areas of their businesses outside of the brand that we've already worked with. So, success within one part of a company is leading to RFP opportunities within other companies, and we are seeing reoccurring business with existing clients as well.

Robert Young:
Okay. Maybe just two more. Once you clear the credit facility, I don't think that's finished yet. Now that you moved forward, I guess, four months since the end of the year, can you gives us maybe a snapshot

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of where the balance sheet is today? Is it relatively similar? I think the end of the December quarter here was $7.5 million, and then the additional $10 million. Should we think of a number close to that on the balance sheet? And how much of that would be available for M&A? Justin, you highlighted that you might do another acquisition in 2022.

Paul Bozoki:
The way that I would think about our cash balance, I mean, we indicated where our cash burn was. There's a few expenses that are front loaded within the year that we've had to pay. In terms of the—so the credit facility is a revolving facility that we are able to draw down on as we require it. So, that won't be on the balance sheet as debt; it's facility that's available to us.

With the $3 million, you're right, we haven't closed that or the credit facility. We expect to announce that in the coming week. But I think we're in a good position in terms of access to capital and our ability to fund the growth that we need off of that access to the $10 million, and we'll look to grow our revenue, expand our margin. And now that we've done the integration, it is this optimization where taking a hard look at what costs can we combine across the business to get efficiencies out of the fact that we have four businesses operating that there's definitely some duplication of services within those.

Robert Young:
Okay. Last question is just on the Fourth Frame Studios. Would it be a provider of content to all the other businesses? Maybe just talk about why you are so confident and like that opportunity—the opportunities from Fourth Frame, and then I'll pass it on to someone else.

Justin Kenna:
Yes. Absolutely. I'll take that one.

Yes, so we're extremely excited about Fourth Frame. Femi, our Head of Content. Femi—we talked to him, I believe, in our last call. He was the VP of Content at FaZe Clan, award winning, and created some incredible content there. He's built a really, really strong team.

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I think in this space, if you listen to any of the orgs talk, whether their focused around the digital media agency space, whether they're esports orgs, everybody's talking about content. When we talk to brands, there's a real need for content in this space, and Femi fills that void incredibly well, and he's extremely creative.

The purpose really is to service our orgs first, with priority, through our agency businesses; instead of having to kick out our content and production budget, we can keep it internal, and that's already proven to be really lucrative. But also overseeing the content that comes out of Complexity. Complexity has its own internal content team, which is incredibly impressive in itself.

But having that extra layer of oversight is incredibly helpful, but we are in discussions with other esports orgs. We are a big believer in the fact that there's a lot of opportunity in this space. People often talk about competition, but we encourage it. I think rising tides raises all ships, and if we can help fill the void in terms of incredible content across the industry, and get paid for it, I think that only increases and enhances everything that we're doing at Complexity.

Yes, definitely a big help in terms of projects across our agency businesses, oversight of Complexity content, but definitely looking to service the wider industry, and not just our orgs.

Robert Young:
All right. Thanks a lot, everyone. Great to see the strong quarter. I'll pass it on.

Operator:
There are no questions on the phone at the moment. I would like to turn it back to Management for any questions from the webcast.

Kevin Wright:
Ariel, I'm not seeing any questions coming through on the webcast. Are you seeing any at your end?

Operator:
I don't currently show any questions from the webcast.

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Kevin Wright:
Okay. Well, let's turn it over to you, Justin, to wrap this up, and see everybody in a month.

Justin Kenna:
Yes. Perfect. Sorry, I was on mute; you'd think I would be able to work the mute button by now. But I'll just reiterate by saying thanks again to everyone for their support and thanks for joining the call this morning. Really appreciate it.

We feel really good about where things are at, and obviously we're really proud of the growth that we've been able to achieve thus far. But yes, I'd just like to say thank you all for the support, and we'll see you in a month for our next earnings call. Thank you very much on behalf of the Company.

Operator:
This concludes the GameSquare Esports Inc. Fourth Quarter Fiscal 2021 Financial Results Conference Call. You may disconnect your lines. Thank you for participating, and have a pleasant day.

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