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GameSquare Holdings Inc. First Quarter 2023 Results Conference Call Transcript

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Speakers: **Justin Kenna**
Chief Executive Officer

Lou Schwartz
President

Paul Bozoki
CFO, GameSquare eSports, Inc.

Mike Munoz
CFO, GameSquare Holdings, Inc.



Operator:

Good afternoon and thank you for joining us for the GameSquare Holdings Business Update Conference Call.

On the call today, we have Justin Kenna, GameSquare's CEO; Lou Schwartz, President; Paul Bozoki, former CFO of GameSquare eSports; and Mike Munoz, CFO of GameSquare Holdings. During the call, all participants are in listen-only mode. Following the presentation we will include 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. 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 MD&A for the quarter ended March 31, 2023, which can be found on our company's profile at [sedar.com](https://www.sedar.com) and on the Company's website.

I will now turn the call over to GameSquare's President, Lou Schwartz. Lou, please go ahead.

Lou Schwartz:

Thank you, Operator, and good afternoon everyone.

I'd like to welcome all of you to today's conference call to discuss our first quarter 2023 financial results for the period ending March 31, 2023, which we filed on [sedar.com](https://www.sedar.com) earlier today, along with Management's Discussion & Analysis.

Today is the first call since the completion of the merger between GameSquare eSports and Engine Gaming that created GameSquare Holdings. Any reference to GameSquare eSports is a standalone entity prior to the completion of the merger. Following the completion of the merger with Engine Gaming on April 11, 2023, the Company formally adopted the name GameSquare Holdings as the legal name for the combined legal entity.

It's important to mention that in our earnings release, in addition to GameSquare eSports Q1 2023 standalone financials, we included a pro forma income statement to show what a combined view of



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GameSquare eSports and Engine Gaming's operating results would have been had the two companies completed the recently announced merger on January 1, 2023, as opposed to the actual April 11, 2023 closing date.

GameSquare and Engine Gaming financial results will be presented on a consolidated basis as GameSquare Holdings starting in the second calendar quarter of 2023.

I'd now like to turn the call over to GameSquare Holding's CEO, Justin Kenna.

Justin Kenna:

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

This is the first call we have had since the April 11, 2023 merger with Engine Gaming, and I want to use my time today to review the progress we are making, the strategic rationale and opportunity of the Engine Gaming merger, and update on our markets and our strategic priorities moving forward. I'll then turn the call over to Mike, our CFO, who will review our financial results in more detail before I review our guidance for the remainder of the year.

Twenty twenty-two was a fantastic year of progress for GameSquare as we grew revenues by over 160%, while creating the necessary infrastructure to rapidly scale our business and pursue a path to profitability. Our ability to more than double revenue last year is a direct result of the differentiated business model and growth-oriented strategy we have created. Most importantly, it demonstrates the significant value we provide global brands as they look for impactful ways to connect with gaming and youth audiences. In fact, we went public towards the end of 2020 with a value proposition focused on developing new and innovative ideas that leverage our experience and understanding of eSports and use culture.

Over the last two years, we have executed on our goal to develop a truly differentiated end-to-end media platform by adding new capabilities that enable us to meet the growing needs of global brands. The merger with Engine Gaming & Media, which closed on April 11, furthers this ambition by combining GameSquare's award-winning content, advertiser and influencer businesses with Engine's market-leading data analytics, advertising, and marketing technology platforms. In addition, we uplisted to NASDAQ, opening up further access to the U.S. capital markets.



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Looking at our markets in more detail, the advertising and media industries are rapidly changing as brands face significant challenges to keep up with major shifts in youth culture and consumer engagement. Global brands are increasingly turning to GameSquare to help them navigate a myriad of issues today, including the inability to reach use culture audiences at scale; the difficulties in developing intimate relationships with these audiences; challenges understanding nuances across platforms such as Twitch, social media platforms like TikTok, Instagram and so forth; complexities of integrating campaigns across platform types such as web, CTV and mobile; the failure to assess the ROI of their investment or have quantifiable benchmarks; and lastly, difficulties finding long-term strategic partners to help navigate an emerging and rapidly changing media marketplace.

GameSquare's end-to-end platform solves these major pain points for brands by leveraging our market-leading analytics and technology as a key input to drive client go-to-market strategies, consumer activations, media and advertising, content development, as well as maximize brand ROI and overall success. Our platform also simplifies the process by providing a one-stop shop for our customers with solutions that span media agencies, gaming and eSports organizations, creative services and, with the addition of Engine Gaming, through best-in-class technology assets.

Creating an end-to-end solution for brands to connect with gaming and youth audiences has been an important strategic priority we have pursued since our inception. I'm extremely proud of the industry-leading platform that we have developed and the potential we have to help brands connect with gaming and youth audiences.

Over the past two years, we have talked about our strategic priorities, which include: creating compelling content, growing audience, expanding brand relationships, developing new revenue streams, and importantly, building a profitable organization at scale. Throughout 2022, and more recently with the successful merger of Engine Gaming and the addition of Ninja to our management team, we have made significant progress executing against these additional strategic priorities. Let's look at some of the progress we've made in 2022 and to date in 2023.

We have assembled a powerful creator network of nearly 1,500 creators including leading talent within gaming, sports, music and pop culture. Last year, our creators produced 375 million monthly viewer minutes or 4.5 billion annual viewer minutes. In addition, we have unparalleled creators, designers, editors, producers, and directors focused on creating premium content that deeply resonates with target audiences. Our content created in our content studio drives continued viewership and engagement,



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which is why brands such as Dairy MAX, Apple, Beats by Dre, L'Oreal, HyperX SteelSeries, Mavis and many others turn a GameSquare to create content that resonates.

The addition of Engine's analytics and technology platforms will now play an integral role in both content development and content distribution as they have successfully accomplished for their enterprise clients across numerous industries.

I'm thrilled to announce that today, we have officially launched the GameSquare Creator Network. Our vision is to develop the largest community of gaming influencers and creators in the world. This community represents an audience of hundreds of millions of 18- to 35-year-old men and women who are passionate about gaming and look to these creators for inspiration, guidance and entertainment. We believe that the GameSquare Creator Network will be a game-changer for creators looking to take their content to the next level and generate new streams of revenue. We are committed to supporting our community of creators and helping them succeed. With so many talented individuals in one place, we believe that this community will be a catalyst for new and innovative ideas in the gaming world.

Fortunately, we are already off to a commanding lead by leveraging our homegrown influencer relationship management software platform Sideqik, along with some of the most notable creators on the planet, including Tyler 'Ninja' Blevins.

Our platform will allow these influencers and creators to connect with each other, share their experiences, collaborate on new projects and generate new streams of revenue through the 350-plus brand partnerships that live within the GameSquare ecosystem. We are excited to see what the future holds for this community and are committed to supporting its growth. The GameSquare Creator Network is live and can be found by visiting creators.gamesquare.com.

Creating strong compelling content that resonates with youth audience combined with a talented roster of creators, influencers and athletes supports our efforts to scale our audience and grow followers. In 2021, we had an audience of over 125 million followers and active users. We grew this by approximately 91% and ended 2022 with over 220 million followers. With the addition of Ninja and Engine Gaming, today we have further increased our scale to over 500 million followers and active users, which comprises one of the largest gaming and youth audiences in the world.



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We have also been successful expanding our relationships with brands as we have seen customers return to GameSquare after successful campaigns, deepening our relationship and revenue opportunities within large global companies and creating recurring customer relationships.

As a one-stop shop, the merger also enhances our customer funnel and growth flywheel as we are now able to serve more customers and capture revenue opportunities across our customers' journey. In addition, the majority of Engine Gaming's revenue is recurring in nature, which provides a solid base of revenue that helps reduce quarterly volatility as our scale expands.

We have seen revenue synergies right out of the gate with numerous opportunities that leverage our expanded analytics and technology capabilities. For example, in April we announced that Complexity Gaming has partnered with U.S. Army for the fifth year to support the Army Soldier Showdown. As part of that partnership, Complexity will now be utilizing the analytics of Stream Hatchet to measure the performance of the competition. We believe that this is just the beginning, and we expect to announce new relationships that leverage our expanded end-to-end solutions throughout 2023.

Last year, we focused on developing and launching new opportunities to capitalize on the growing activity and brand involvement within eSports gaming and pop culture. This included the development of Fourth Frame Studios and Mission Supply, our in-house merchant consumer products business. We also produced the award-winning TimTheTatman's Tailgate, a first of its kind gaming and musical festival at The Star in Frisco, Texas.

In addition, in February 2023, we announced that Ninja joined GameSquare as our Chief Innovation Officer. As CIO, Ninja is leveraging his rich experience as an innovator in content to lead emerging growth opportunities. This includes launching Ninja Labs, an incubator focused on developing first-of-its-kind concepts, products and revenue streams directly focused on connecting with youth culture. Ninja has quickly started to contribute to our success, and we have just recently entered a seven-figure multiyear deal for the org with a large continued pipeline generated by the buzz around Ninja and Ninja Labs.

As we look to the future, we are committed to building a profitable organization of scale. Over the near term, we are focused on successfully integrating GameSquare and Engine Gaming. We have identified approximately \$8 million of duplicative costs and other opportunities to streamline the combined organization. In addition, with management and financial resources, we are optimizing our cost



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structure, improving the way we sell and price our services, and capturing more revenue opportunities to drive gross margin dollars in the future.

In April 2023, we raised approximately \$9.6 million of capital to support the integration of the merger and growth of our business. I'm pleased to report that insiders, including members of both Engine Gaming and GameSquare's management team and Board of Directors participated in the capital raise. This included additional investments for both the Jones and Goff families. As a result of the merger and capital raise, the Jones and Goff families now own 11.4% and 10.4%, respectively, of GameSquare Holdings, which reflects their commitment to the platform we have created and the growth strategies we are pursuing to drive significant shareholder value here in the future.

With that, I'll throw it over to Mike Munoz, our CFO, to give the Q1 financial highlights.

Mike Munoz:

Thanks, Justin.

On a pro forma basis combining the first quarter 2023 results of GameSquare and Engine, total revenue increased by approximately \$1.0 million to \$13.9 million in Q1 2023 from \$12.9 million in the prior year period.

Gross margin of GameSquare for the first quarter of 2023 amounted to \$2.0 million or 40.2%, up from \$1.6 million or 32.6% in the prior year period. On a pro forma basis, gross margin for the first quarter of 2023 amounted to \$4.3 million or 30.8%. Gross margin is expected to improve during the year as we see accelerated growth in our higher-margin offerings.

Both companies have made significant strides in improving its operating cash burn figures. On a combined basis, Adjusted EBITDA loss for Q1 2023 amounted to \$5.0 million, down \$2.3 million or 31% from \$7.3 million in the prior year period. The reduction in Adjusted EBITDA loss is driven largely by our focus on cost reductions through creating further efficiencies in our operations, finalizing integrations from prior period acquisitions, as well as the start of the integration efforts between GameSquare and Engine, and realization of cost synergies that kicked off in Q1 2023 in advance of closing of the merger. We anticipate the integration activities between GameSquare and Engine once fully implemented will yield annual cost savings of approximately \$8 million. Justin?

Justin Kenna:

Thanks Mike.

Before I turn the call over for questions, I want to review our guidance for the remainder of 2023.

Despite seasonality and overall tightening in ad spend that started to occur towards the end of 2022 and continue throughout March of this year, and while not immune to those factors on a pro forma basis, GameSquare managed to improve both its top and bottom line year-over-year. I am extremely proud of our team who have navigated these challenging headwinds extremely well and have set us up to come out the other side as a real outlier in this space.

I am pleased to report that as we talk here today, we have seen steady improvements in our pipeline, deal closures and revenue growth. In fact, over the past couple of weeks, we have signed several significant brand deals across numerous verticals such as healthcare, auto and CPG, with average deal sizes coming in north of seven figures. As of today's call, we are tracking well against guidance and are over 70% to our Q2 target halfway through the quarter.

We expect revenue growth to accelerate in the third and fourth quarters due to the strength of our pipeline, deals closed for the remainder of the year, larger deal values, the combination of creative events and software services and overall seasonality. As a result, we believe annual sales of the combined company in 2023 will be between US\$75 million to US\$80 million. In addition, we believe annual gross margin in 2023 will range between 30% to 35%.

As I mentioned previously, we have identified approximately \$8 million of expected cost savings, some of which has already been removed or will be removed over the next three months. As a result, we expect our cash burn to decline materially throughout the back half of 2023.

While we still have work to do to integrate the merger, drive sales, and accelerate our path towards profitability, I'm extremely encouraged by the significant progress we have made since our inception in 2020. I'm excited by the direction that we are headed and I look forward to updating you on progress that we are making on our second quarter call in August.

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



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

Operator:

Thank you. We will now begin the question-and-answer session. (Operator instructions).

The first question comes from Jason Tilchen with Canaccord Genuity. Please go ahead.

Jason Tilchen:

Thanks for taking the question and congrats on completing the merger. I guess to start, maybe in the prepared remarks you mentioned that there's been several large new deals signed across several different verticals over recent months since the deal has been closed. Can you maybe touch on some of the specific examples of how the conversations with brands are changing now that you're going to market with a more complete set of products and tools?

Justin Kenna:

Absolutely. I think, Jason, what we've really seen, and obviously spoke about in the script how well our team has sort of navigated a trickier brand market towards the end of last year and the start of this year, I think the really promising and pleasing sign has been that brands haven't fallen away, and in fact our pipeline is stronger than it's ever been. It's really just been an increased need and demand for ROI and accountability on campaigns. Gone are the days that brands are happy to just do a sponsored stream or put their logo on an event or a tournament. I think there's a real need for creativity in campaigns and strategies to really directly and authentically connect with the audience. I really applaud our team for being able to pave the way in that space.

I would say from a GameSquare kind of perspective, bringing in the Engine assets has really helped. When we're talking to brands really about that ROI and accountability, obviously, having Stream Hatchet and having these data and data analytics in-house has been incredibly compelling, right? We're using data to talk to brands on the front end. We're using data to wrap projects. We have a media network that can guarantee a certain amount of eyeballs. I really think that it really comes down to ROI and accountability.

I think this transaction has just further enhanced that for us. I think it's really working. Talking to brands being able to guarantee them a certain level of eyeballs on the front end, being able to show and provide done on the back end and provide them with real ROI, and I'd say, I think things have started to



shift. Since sort of March, we've really seen spend come back, and as I said, pipeline is in a strong way. I think the message of the end-to-end platform is really resonating with brands.

Jason Tilchen:

Thanks. That's really helpful. Then just a follow-up. In terms of the cost synergies you laid out in the press release and in the prepared remarks, that's very helpful. How should we think about the timeline for the company to reach breakeven and eventually move into profitability?

Justin Kenna:

I would think about the \$8 million in cost savings as annualized savings. We are aggressively pursuing profitability. We have pulled a lot of costs out and continue to. I would say within the next three months, we will have realized that \$8 million and I think you'll start to see improvements in Q2, but really start to see a new, I guess, normalized burn in the back half of the year.

I think a good way to think about profitability, and look, both companies have talked about profitability at the back end of 2023. Nothing has changed there. I think it's an accelerated path, if anything. I think a good way to think about it, Jason, would be if you look at sort of this Adjusted EBITDA in Q1 of \$5 million, the loss of \$5 million, if you think about that—and obviously, a big improvement on last year, which is good to see—this has been our seasonally lowest quarter from a revenue standpoint. If you annualize that \$8 million of cost savings, so \$2 million a quarter, you sort of automatically add that \$3 million loss in terms of Adjusted EBITDA in your lowest quarter from a revenue standpoint.

So, thinking about guidance—and let's just sort of take a conservative view here—the lower end of guidance—and I'm certainly not giving quarter-by-quarter targets here by any means—but if you look at just shy of \$14 million in relation to Q1, the lower end of guidance being \$75 million, you're a little bit over \$20 million per quarter moving forward, right? Obviously, that's going to build up more so in that back half of the year. But if we take, again, a conservative view of margin attached to that, 30%, you're at a little over \$6 million in terms of sort of gross profit for the year, which is effectively around \$2 million in gross profit moving forward each quarter.

If you look at the \$2 million in additional sort of gross profit, you look at the \$2 million in additional sort of cost savings, and there's \$4 million there taking a conservative view of both, which would have you on the Q1 basis at an Adjusted EBITDA loss in the quarter of \$1 million.

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Now again, we expect that to expand over the year in terms of revenue growth. We expect it to expand over the year in terms of margin growth. We think we're going to be really well placed in the back half of the year, particularly by Q4, to not only sort of get to that breakeven part by profitability, and obviously grow and scale the business from there.

I think that's probably a good way to start thinking about it.

Jason Tilchen:

Great. Thanks a lot and good luck on the rest of the integration work.

Operator:

The next question comes from Michael Kupinski with Noble Capital Markets. Please go ahead.

Michael Kupinski:

Thank you. Jason asked most of my questions and you gave a lot of colour on some of them. Congratulations on the merger, by the way.

What is the current cash position of the company? Can you give us a little thought about that right now?

Justin Kenna:

Lou, do you want to take this one, or do you want me to keep rolling?

Lou Schwartz:

Sure. I can jump in here. Hey Mike, how are you? Thank you for joining.

As we stated in our earlier sort of remarks, we just sort of completed a financing of about \$9.5 sort of million at or about the time of the closing of the transaction. We didn't provide sort of a pro forma balance sheet only because there were certain goodwill and other sort of accounting adjustments that would have had to be made, which we weren't able to sort of make so they would have been sort of estimates for a combined sort of Q1 sort of pro forma view.

But I would say when you look at our closing cash plus sort of the additional cash, it takes you closer to \$12 million before some of the closing costs and other sort of special expenses in connection with the merger.

Michael Kupinski:

Got you. You indicated that you expect the revenue growth to accelerate in the second half. Can you just add some colour on—I know that you talked a little bit about your pipeline of business and so forth, but can you add some colour on some of those key drivers for revenue improvement? How should we look at the Company in terms of segments, whether or not you plan to report those on a segment basis or going forward? Can you just kind of give us some thoughts about that?

Lou Schwartz:

Sure. The way sort of we think about the consolidated business going forward is really sort of several buckets. Advertising is obviously a big bucket for us. SaaS, right, is our subscription software business. Content production, and our agency sort of revenues. Those are like really sort of the four buckets. Then you have sort of our team revenues, which are the revenues that we generate through our eSports sort of franchise. Each one of them sort of have to I guess different margin profiles.

On a blended basis, as we indicated in Justin's earlier remarks, we expect to see somewhere between 30% and 35% sort of gross margin contribution. We don't break out each of the margin profiles for guidance purposes, but we expect, based on sort of the second half pipeline and productivity expectations to see higher margin sort of growth contribution from our SaaS businesses, from our agency and team sort of revenues, which will drive us to sort of a higher margin percentage in the back half of the year.

Michael Kupinski:

Got you.

Justin Kenna:

Apologies, I was just is going to add to that from Lou. I think if you look historically at Engine and GameSquare, that would reflect a stronger back half of the year. In relation to GameSquare's sort of numbers last year, high level sort of \$28 million in revenue, around \$11 million of that was in the first half of the year and around \$17 million in the back half. It's a combination of brand and ad spend. It's a combination of on the gaming front, a number of larger events and tournaments that fall in the back half of the year. There's obviously the holiday season with our emerging consumer products business and so forth. I think you'll see that within both businesses. The back half of the year tends to be stronger

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than the first half, and I think the historicals of both companies should be probably a pretty good indicator here on that path to reaching and exceeding guidance.

Michael Kupinski:

Great. Thank you and good luck.

Lou Schwartz:

Thanks Mike.

Operator:

The next question comes from Gianluca Tucci with Haywood Securities. Please go ahead.

Gianluca Tucci:

Hi. Good afternoon guys and congrats on the merger.

Justin, for your 2023 guidance, are there any implied top line synergies in that forecast? Embedded in that forecast, rather.

Justin Kenna:

Gianluca, we've taken a pretty conservative approach to guidance. Obviously, Engine as a standalone hasn't provided guidance in the past, however GameSquare has, and I think if you have a look at our track record over the past two years we've consistently raised guidance and beaten it. We are taking a very similar approach here to 2023.

I would say that there's some definite room built in there for some real upside. We're really comfortable like we talked about in terms of closed revenue to date, pipeline and how we're tracking, so we'll keep you updated on that front, but there's a little bit of buffer within that. We feel really good.

Gianluca Tucci:

That's great. On the technical integration and all that work that, in my view, will torque the engine here, Could you speak to the objectives or the milestones there from a technical perspective in terms of integration, Justin?

Justin Kenna:

Yes. I mean the integration assets—honestly, our team have been absolutely outstanding. There's a lot of pieces that come into it in terms of mapping charts of accounts and getting on to one accounting system, one CRM, working as one sales team, getting onto one payroll and benefits provider All of that is very well underway. I'd say by the start of June we're all going to be on one system. We have efficient processes now set up around legal and finance and other pieces, and the teams are working together incredibly well.

We're continuing to look at ways to centralize the ways that we deal with and kind of react to brands. I think is the easiest way to say it is our sales team is currently centralized and it works incredibly well.

We are about to implement a centralized creative and strategy team, so not only is this team doing things from a GameSquare standard sharing resources, but we are responding to RFPs, so being reactive to brands in a really efficient way. And then more importantly, opening up the time and ability to be proactive. There's a lot of pieces going on in terms of brand architecture, how we're positioned to market, how we go to market as GameSquare. We're making incredible progress. We're pulling out a lot of costs.

I would really think, Gianluca, that our financial results are probably a pretty good indicator of how we're achieving that. In Q2 and Q3, I think you'll continue to see efficiency in costs and continue to see growth in revenue. I think that will be a really good indicator of how our teams are working together through integration and centralization.

But to this point, it's been outstanding, to be frank.

Gianluca Tucci:

Okay. That's great. Thank you for that colour, Justin.

In terms of the pipeline, you mentioned that you've signed a few seven-figure deals recently. I'm just curious. As a result of the merger, are deal sizes in the pipeline getting larger, and are they closing quicker than in the past?

Justin Kenna:

Yes, they are. I don't want to put that entirely down to the merger either because I think that the market and the brand sentiment have probably turned a little. There's still a lot of hand-holding going on. There's still a real ROI, but I think December through March of this year was really tough, and I think that started to turn, which has been helpful. But yes, absolutely. As I was talking about before, I think there's an enormous amount of opportunity for scale within the influencers that we manage with Sideqik and the number of pieces of the larger conversations we're having with publishers and brands.

Then particularly on Stream Hatchet, Jake at Stream Hatchet has been doing a fantastic job working with our creative and strategy team to ensure that we're integrating this data offering into all of the RFPs that we attack and approach, and not only in a way to substantiate our strategy to brand and give them more insight, but also to upsell them into deals, right? Like adding in costs into our line items to give them visibility and access in RAP reports. A good example was actually a deal that we did last year. We charged a client, MiO Energy Drink, who is part of the Kraft Heinz Group, a \$30,000 line item for a Nielsen report to really wrap the project, which was really meaningful report for the client. Nielsen actually licenced that data from Stream Hatchet.

So yes, I think there's absolutely a lot of synergies that are working in our favour. I think it's helping us absolutely in terms of closing deals because of the ROI and accountability. And I think we're also sort of benefitting from the fact that the market, from a brand sentiment standpoint, is starting to turn a little bit.

Gianluca Tucci:

That's great colour, Justin. Congrats again on the merger to you and to the team, Lou and all, and I will talk to you soon. 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:

Yes. Thank you everyone for joining today. Really appreciate it. We're very excited that we're able to get the merger done and obviously behind us now and working on integration.

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Thank you everyone for joining. We're making a lot of progress. We're really excited to catch up with everyone again in August and keep you abreast of the progress along the way, but to really deliver results that continue on this path to profitability. We're really happy with the progress we're making and really excited about the path ahead.

Thank you everyone for joining and, as always, we really appreciate the support. Thank you.

Operator:

This concludes GameSquare's First Quarter 2023 Financial Results Conference Call. You may disconnect your lines. Thank you for participating, and have a pleasant day.