



GAME SQUARE

GameSquare Holdings Inc. Fourth Quarter 2023 Results Conference Call Transcript

Date: April 16th, 2024

Time: 5:00 PM ET

Speakers: **Justin Kenna**
Chief Executive Officer

Lou Schwartz
President

Mike Munoz
CFO of GameSquare Holdings, Inc.



Operator:

Good afternoon and thank you for joining us for the GameSquare Holdings 2023 Full Year 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 their 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-K for the year ended December 31, 2023, which is 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. 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 are making at GameSquare as we pursue strategic priorities aimed at creating a next-generation media business.

Since GameSquare's inception in August of 2020, we have quickly scaled revenue primarily through an M&A strategy focused on acquiring industry-leading technology, media and creative assets, and we ended 2023 with \$52 million in annual revenue, compared to \$28 million in 2022, and just \$11 million in 2021. Growth in 2023 would have been stronger had we owned Engine Gaming for the full year, and revenue would have increased to \$61 million in 2023.

As you can see, we have been extremely active executing our growth strategies, optimizing our business model and building a disruptive platform that we believe will create lasting value for our shareholders. To date, we have completed five acquisitions, while divesting two non-core assets since August of 2020. Integrating acquisitions takes a significant amount of focus, resources and time. There



are also one-time expenses over the near term that we incur before we start to see the financial benefits of operating and cost synergies. I want to recognize the dedication and efforts of the Board, Management Team and associates of GameSquare, as well as our acquisition partners.

I believe we will see the benefits of our M&A efforts in 2024, and beyond, and I want to use my time today to review our 2023 performance, the actions we have completed in 2023, and so far this year and the go-forward strategies we are pursuing, before turning the call over to Mike to run through our financial results in 2023.

As I've said, it takes time before the benefits of an acquisition can be seen in a company's financial results. Our 2023 financial results also reflect softer growth than we had anticipated at the beginning of the year. This was impacted primarily by a slowdown in spending by several of our brand partners on the media side of our business, and other delays, as a result of more cautious overall spending patterns. These trends were seen across the media and advertising landscape, and we were not immune from broad budget cuts in 2023.

As a result, two high-margin, multi-million programs that we expected to recognize earlier in the year were pulled during the fourth quarter. These programs had an impact on both sales and profitability during the quarter, and our mix of revenue was more skewed to low-margin programmatic advertising sales. While budgets retracted in 2023, we don't believe this trend will continue in 2024. We are starting to see signs of normalizing advertising spend and our pipeline remains really strong. In fact, pulled programs in 2023 remain in our pipeline, which we expect to materialize and convert into sales in the near term in 2024.

As GameSquare's business has evolved during the fourth quarter, we also restructured our sales and marketing organization to better align with our new operating model. We added a new, proven Head of Commercial to lead a high-performing sales team. While this temporarily affected sales during the fourth quarter, our team has done a tremendous job maintaining relationships and supporting our pipeline, which we believe will convert into new sales opportunities in 2024, and beyond, especially as our markets continue to improve.

Despite these near-term impacts, we have made significant progress executing against our long-term growth strategies, so let's look at the actions we've completed in more detail, starting with the Engine Gaming acquisition.



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In April of 2023, we completed the acquisition of Engine Gaming, which significantly enhanced our scale and added technology-based capabilities to enhance our differentiated next-generation media platform. I'm encouraged by the progress we made integrating the acquisition and removing duplicative operating and corporate expenses throughout the year. While the extent of the cost synergies have been masked by additional M&A activities, we estimate that we have removed approximately \$7 million of annualized cash operating expenses from the combined business during 2023, as a result of the transaction.

The Engine transaction also fast-tracked our efforts to list on the NASDAQ Stock Exchange in 2023, and most recently, in March 2024, we voluntarily delisted from the TSX Venture Exchange and redomiciled the Company from Canada to the U.S., where the majority of our operating subsidiaries, brand partners and shareholders are located.

While these actions required investments during the 2023 fourth and 2024 first quarters, they have simplified our operating structure, and they are expected to further reduce our operating expenses going forward.

During 2023, we made strategic investments in our business to continue to provide our brand partners with new, innovative technologies and services. This includes the 2023 launch of our world-building capabilities. World-building develops custom worlds for brands and popular gaming titles, such as Fortnite and Roblox, and during 2023, we worked with global brands, including Mastercard, Samsung, Six Flags and Coca-Cola. Through our world-building efforts, we provide end-to-end solutions, including conceptualization and development of gaming worlds, along with a campaign strategy, execution and amplification through the marketing services offered by our various subsidiaries. World-building has been a fast-growing, high-margin strategy, and we expect these activities to continue to drive organic growth in 2024.

Another organic area of growth in 2023 was through our creator-driven marketing initiatives. The combination of Engine Gaming's best-in-class technology assets with GameSquare's award-winning agency and creative capability allows the Company to offer unparalleled insight into consumer behaviours. It also allows us to develop data-driven creator strategies and measure and optimize campaigns towards customer acquisition goals in real time, creating impactful marketing solutions to drive ROI for GameSquare customers.



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Finally, having an omnichannel engagement approach has become an important component to building audiences. As a result, during the fourth quarter of 2023, we made additional investments in our Events business, including the addition of Paul Ioakim to lead this division, in our efforts to support our brand partners as they look to drive powerful and immersive connections with their customers.

We continue to focus on investing in organic growth opportunities, while optimizing our business to take advantage of large, growing secular growth trends. I'm pleased to announce that over the past four months, we have completed the biggest moves in our Company's history.

First, because of the Engine transaction, we completed the sale of non-core radio assets associated with Frankly Media in December of 2023. The radio assets had approximately \$1.8 million of annual sales and added \$2.75 million in non-diluted capital to our balance sheet, with another \$650,000 in the form of contingent consideration to be collected in April 2024, and '25, if the contingencies are met.

Most importantly, in March of 2024, we completed the acquisition of FaZe Clan, marking a significant milestone in our journey to revolutionize the gaming and media landscape. FaZe Clan is one of the biggest brands and influencers across the global gaming market. The combination with FaZe continued our strategy of acquiring leading companies focused on esports gaming and youth culture to increase capabilities, grow scale, unlock cost savings, empower fans and creators, and drive ultimate value for our shareholders.

We believe there are significant strategic and financial benefits to the acquisition, as we leverage the powerful infrastructure we have created and full spectrum of resources within the GameSquare ecosystem to reinvigorate and drive value at FaZe. I'm extremely excited to welcome back three of FaZe Clan's founders to lead FaZe and to re-establish the brand's authenticity. Banks, Temperrr and Apex are highly motivated to re-engage with FaZe's core fan base and empower FaZe's creators and community.

This strategic alliance strengthens our positions across global industries, amplifies our ability to connect brands with elusive and influential youth audiences, and unlocks even more opportunities to support our partners with cutting-edge technology. Together, we will seek to redefine the future of esports and gaming by leveraging our combined expertise to pursue opportunities for growth and innovation. Our commitment remains unwavering as we aim to lead the way in shaping the ever-evolving intersection of gaming, media and brand engagement.



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As a result of the FaZe acquisition, GameSquare has built a top creative network in the gaming and esports space. GameSquare and FaZe Clan will combine a hyper-engaged global fan base with a core focus on 13- to 34-year-old audiences. We will have a powerful portfolio of brand partners that include Porsche, Nike, Jack in the Box, Xfinity, Dairy MAX, GHOST, and many more.

Over the near term, we are focusing on removing costs from the combined company and have identified over \$18 million in future run rate cost savings supported by reduced corporate costs and focus on driving efficiencies across the organization. We are also quickly pursuing licensing opportunities for the FaZe brand, leveraging FaZe's success building an innovative dual revenue model that has generated over \$75 million of product sales and \$7 million of high-margin gross co-branded product revenue.

Given FaZe Clan's proven track record and a strategy of selling co-branded products at retail, compounded with the incredible resources within the GameSquare ecosystem, we are excited to see continued growth of this high-margin business in 2024, and beyond.

As a result of the FaZe Clan acquisition, and to support our growth initiatives, we successfully raised \$10 million from existing shareholders, new investors and members of the Board, further strengthening our balance sheet.

Finally, in March 2024, we completed the sale of our prior esports team, Complexity Gaming, for total consideration of \$10.4 million. The sale of Complexity follows the successful growth strategy, which, from 2021 to 2023, saw sales increase 175% and the number of aggregate social followers under our ownership increased by 10x. Through the FaZe Clan acquisition, we now own one of the most successful and influential esports teams in the world. We are focused on replicating the rapid growth strategy we pursued with Complexity now with FaZe Clan and expect to see similar growth trends in the coming years.

As you can see, it's been a very busy and exciting period at GameSquare. To summarize the actions we have recently completed, we've unlocked significant value for our shareholders by selling non-core businesses that, combined, represented approximately \$13 million in annual revenue last year. These efforts will contribute approximately \$13.8 million in non-diluted capital when fully realized.



We also recently completed a \$10 million equity raise from new and existing shareholders, and completed the all-stock acquisition of FaZe Clan, that was valued at approximately \$40 million and had an annual sales in 2023 of approximately \$43 million.

So, with this overview, let me turn the call over to Mike to run through our financial results in more detail.

Mike Munoz:

Thanks, Justin.

Comparing our 2023 full year results to the prior year, total revenue increased by 85.2%, or by \$23.9 million, to \$52.0 million, from \$28.1 million in the prior year. The increase in revenue was primarily due to the contribution from the April 2023 Engine Gaming transaction.

Gross margin for the 2023 full year was \$13.4 million, or 25.9% of sales, compared to \$9.7 million, or 34.4% of sales, in 2022. The decline in gross margin for the year reflects the less profitable mix of sales which temporarily impacted gross margin in the fourth quarter.

While we have made significant strides in improving our operating cash burn figures, on a combined basis, Adjusted EBITDA losses for 2023 amounted to \$15 million, compared with the loss of \$13.2 million last year. As a percentage of revenue, our Adjusted EBITDA improved from 47.2% last year to 28.8% in 2023. We believe the integration activities between GameSquare and FaZe Clan will yield annual cost savings of approximately \$15 million in 2024, when comparing GameSquare and FaZe Clan pro forma combined results in Q4 2023 to combined results in Q4 2024.

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

Justin Kenna:

Thanks, Mike.

As you can see, 2023 and the beginning of 2024 have been historic periods for the Company as we work to build a disruptive and innovative next-generation media company. We are pursuing additional value-creating actions that not only optimize our business, but add additional capabilities and resources to the Company.

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Looking to 2024, on a pro forma basis, that assumes a full years' contribution for the March 2024 FaZe Clan acquisition, we expect to achieve over \$100 million in annual revenue, with an annual gross margin to range between 22.5% to 27.5%. We are also committed to executing against strategies that reduce SG&A expenses and ultimately drive profitability. I'm extremely excited by the direction we are headed and I look forward to updating investors on our success on our first quarter conference call in May.

So, with this overview, Lou, Mike and I are happy to answer questions. I'll throw it back to the Operator to open up on Q&A. 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 will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

Our first question comes from Sean McGowan of ROTH Capital Partners. Please go ahead.

Sean McGowan:

Hi, guys, good afternoon. If I can, I've got a couple of questions, one on gross margin. I think, Mike, you were talking about factors that affected the full year margins being mostly mix, but if you look at it on a—just for the fourth quarter, it seems quite a bit lower than just a mix issue. Are there other, you know, kind of one-time things, maybe true-ups, that are in that December quarter number that would make that unusually low, or is 9% actually indicative of how low it could go?

Justin Kenna:

You know ...

Mike Munoz:

Go ahead, Justin.

Justin Kenna:

Yes, I'll jump in, and then, Mike, if you want to add some colour, feel free. Yes, Sean, we kind of touched on it in the call a little. We had a couple of projects on the agency side of the business, where

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budgets were pulled by clients. I mean, I think we've sort of seen that across the industry, in general. There were some headwinds that, obviously, we've been having to navigate, and then I think, largely, we've navigated them really well, but a couple of projects where budgets were pulled back, we're doing our best to get those realized here in 2024, and making some really good progress. But, in Q4 of 2024, obviously pulling back a few million dollars on these larger projects that are obviously higher margin in nature, you then get an ultimate revenue mix that has a higher percentage of programmatic revenue. Certainly not ideal in Q4, and certainly not a trend that you would expect to see continue. We've got a really strong pipeline on the agency side. That part of our business is continuing to grow, but it was something that we faced just through sort of some market headwinds and budgets being pulled away. So, definitely due to the higher mix of programmatic revenue in Q4, and certainly not something that we expect to see continue.

Sean McGowan:

Okay, thank you. I have one other question, and then I wanted to ask you to clarify something from your prepared remarks. The other question I had was what would give you the confidence that that pullback that you referenced would not recur. I mean, are people not as concerned about the environment in '24 as they were in the fourth quarter of '23?

Justin Kenna:

Yes, I mean, I think, so far in 2024, we've definitely seen a lot of sentiment shift in the market. I'd say our pipeline is strong, as strong as it's ever been, if not stronger than ever. I think, obviously, bringing in the acquisition of FaZe Clan, we've had a huge amount of brand interest. Obviously, FaZe brings some Tier 1 brands in itself and there's an opportunity there from the services that we currently already provide to be able to upsell into some of those existing partners. But, we're getting a lot more doors opened currently, we're starting to see that translate, and so we feel pretty confident in the sort of move-forward strategy.

I think last year, as I said, we navigated the pipeline well. We're still pretty young in the overall sort of life of the business, and so for us, it's really about executing with these brand partners when we open the door, so we can turn them into longer term relationships and more recurring revenue. We are seeing the recurring revenue base go up, but, unfortunately, as we mentioned, there are a couple of larger campaigns that definitely affected Q4 revenue, but we're seeing those trends shift. We're getting some deals closed, we're getting some higher, longer term deals papered, and so we feel really good about 2024, and moving forward.



Sean McGown:

Okay, thank you, and then the clarification, if I can ask you that. I think earlier in the call, towards the beginning, you mentioned—I think you said \$7 million worth of costs that have been taken out, and then later you referenced \$15 million to come, and I was asking you to—I'd like to know how those relate to each other. Are they unrelated to—are they two different kinds of cost reductions, or is one included in the other?

Justin Kenna:

The \$7 million in cost reductions is in relation to the Engine Gaming transaction in terms of sort of the annualized ...

Sean McGowan:

Okay, all right, and the other one is for FaZe. Okay.

Justin Kenna:

Yes. So, the annualized costs that we've been able to realize by the transaction, I think the reality is that it's been pretty tough out there in the micro-cap market and I think, really, there's an opportunity for us to start to get to scale, right? There's no doubt that being a public company is expensive and I think we're starting to realize that, right? Obviously, we mentioned kind of getting to \$100 million in revenue. That's one piece trying to get to scale, but, obviously, the other important piece is reducing costs and trying to get to profitability.

I think we've been able to realize some real cost savings as part of the Engine deal, and we think that there's more than double to be realized here with FaZe, and we've realized a lot already. Obviously, there's headcount, but there's a number of duplication in costs across the businesses and we've been able to realize a number of those already. We've moved our head office to new headquarters. Obviously, the corporate costs of being public. Obviously, FaZe was also public. The list kind of continues. So, we're going to be really aggressive there. We know the revenue piece is important, but we're going to be really aggressive in pulling out those costs this year and showing that trend throughout 2024.

Sean McGowan:

Okay, thank you very much.



Operator:

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

Justin Kenna:

Thank you, and again, thank you, everybody, for joining the call today. We are very appreciative of the continued support.

We're working around the clock to really drive value to shareholders and feel really good about where the Company is positioned to do exactly that. We're incredibly excited by the FaZe acquisition. I think that we've shown a really clear roadmap on the success that we were able to achieve at Complexity, if you look at sort of the financials of Complexity from the time we took over to ultimately the sale there. I think that's a really good roadmap for what we're able to do with FaZe, which is ultimately a much larger brand in terms of audience and reach. So, we feel really good and we're really well positioned.

So, I just want to really thank everybody for joining the call, thank everybody for their continued support, and we look forward to catching up in a month here, in May, to sort of report back on Q1 and some additional updates. So, thanks, everybody, really appreciate it.

Operator:

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