Rivalry Corp.

Third Quarter Earnings Conference Call

November 24, 2021 - 10:00 A.M. Eastern

Operator: Good morning. My name is Julie Ann, and I will be your conference operator today. At this time, I would like to welcome everyone to the Rivalry Corp. Third Quarter 2021 Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. If you'd like to ask a question during this time, simply press star followed by the number one. Thank you.

I would like to introduce Mr. John Vincic, Investor Relations for Rivalry Corp. Please go ahead, Mr. Vincic.

John Vincic: Thank you, Julie Ann, and good morning, everyone. Our speakers on today's call will be Steven Salz, co-founder and Chief Executive Officer of Rivalry Corp., and Kejda Qorri, Chief Financial Officer.

Before we begin, I would like to remind listeners that certain statements made during this conference call presentation may constitute forward-looking information and forward-looking statements within the meaning of applicable securities laws. These statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of Rivalry Corp. and its subsidiary entities or the industries in which it operates to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements.

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And now I'd like to turn the call over to Steven Salz. Steven?

Steven Salz: Thank you, John. This morning we announced record results for the third quarter of 2021, our best ever quarterly performance in terms of betting handle, revenue, and overall engagement.

Q3 2021 is a continuation of what we've been building at Rivalry since our official launch in the summer of 2018. I will touch on the factors contributing to these results and spend time on how we intend to build on this momentum, but this being our first ever conference call as a public company, I wanted to set out Rivalry's view of the world and our vision.

Since the launch of Rivalry, we have led from the front with esports. In our view, esports is the access point to the next generation of sports bettors, which is Generation Z and young millennials, or those under the age of 30 years old. This is approximately 40% of the global population and the largest generational cohort in history.

Myself and much of the company are from this generation. It's our belief that this generation, which grew up interfaced with the internet, viewed gaming as a sport of the internet. Through that lens, we've shaped Rivalry as a brand that is deeply woven into the fabric of this emerging internet culture that is reshaping multiple consumer industries, in addition to sports betting. Everything from cryptocurrency to NFTs, the massive growth of influencers as the new Hollywood, universes such as Roblox and Decentraland, many of which are now termed the metaverse, are all mostly populated by and in many cases built by this generation.

I'm confident Rivalry as a company and a collection of talented individuals understands how to navigate and participate in this culture more than any of our traditional sports betting peers. It is an inevitable generational tidal wave that we are focusing all of our effort on acquiring, retaining, and entertaining.

To achieve this, we've built our entire product from the ground up utilizing none of the white labels so commonly used in our industry. Our brand is playful and relevant, which is proven by the fact that since our summer 2018 launch, Rivalry as a brand in esports betting is in orders of magnitude delivering more measured monthly engagement across our social properties than any of our competitors, in most cases with a fraction of the spend.

We built our own casino game from scratch, which we term Rushlane, and is the world's first massively multiplayer online gambling game, or MMOGG, which is a play on the more commonly known MMORPG, or massively multiplayer online role-playing game, in the video game industry. We are creating a universe of games with an underlying game lore, community, avatars, and much more.

We are just scratching the surface of our overall product roadmap, which is built to spec for this internet generation. We are looking ahead to where the culture is going, and believe our peers operating in the old world of traditional sports betting will struggle to adapt to this generational tidal wave that is beginning to hit shores.

To put it simply, Rivalry is redefining betting and entertainment for the next generation. Our vision is to, one, be the box on next gen sports betting globally; two, have the most engaged brand and portfolio of IP such as new games, content, creators, and more that is venerated and trusted; and three, with success in betting and brand, we will have a captive demo and a foundation of trust with under 30s in a regulated framework, fully KYC'ed with funded wallets that think we built great product. And this opens the door to a much deeper product offering that can go beyond sports betting in the future.

Our proof points thus far in just over three years of operating are delivering betting handle this quarter up 141% from Q3 2020, and revenue increasing 679% over the same period. Beyond this quarter, growth has been consistent historically, with Rivalry averaging 26% month-over-month growth since the beginning of 2020 on betting handle. Additionally, we have built Rivalry into the most engaged brand in esports betting globally as measured by monthly engagement across our social properties.

Also, our cost of customer acquisition figures are more than 80% below the average of mature sportsbooks, and this is a testament to the strength of our marketing efforts and brand equity in our active markets. And last but not least, a wholly owned and developed product with a modern user experience, innovative products such as our engagement program, Quest, which functions like a role-playing game layered into the entire product, and our in-house casino game IP, Rushlane, all of which were purpose built for our target demographic.

We are proud of this early success and on a balance sheet over a few years that some competitors of ours spend in just a few days. We are now entering the next phase of Rivalry's growth, having just completed our direct listing on the TSX Venture Exchange, with total capital on the balance sheet now greater than what we had raised in the life of the company and with zero debt, followed by an all-time record performance in October that we recently press released.

With that said, we are very confident in our positioning and momentum as we lean into multiple catalysts over the coming months from expected new regulated market launches, new product releases, and more. As we press ahead, I'm confident Rivalry will continue to demonstrate to shareholders why we will define this new generational paradigm in sports betting.

For now, I will pass the baton to our CFO, Kejda Qorri, to review the Q3 financial results in greater detail.

Kejda Qorri: Thank you, Steven. I will discuss the key line items from the results we announced this morning.

Betting handle was 23.2 million in the third quarter, up 141% from 9.6 million in Q3 2020. This is a very important metric for us, as it measures overall betting activity, which in turn drives revenue. Growth in handle is primarily a result of the increasing number of Rivalry customers around the world.

Our average bet sizes have remained consistent for some time now, so this quarterly growth is a function of an absolute increase in the number of bets as opposed to high-roller or VIP customers that can often drive growth at other sportsbooks. Rivalry's positioning is about creating mass appeal for the everyday next-generation sports bettor as opposed to focusing on VIP customers.

It's also worth noting that because the demographic Rivalry primarily serves is on average at least a decade younger than sports bettors on traditional sports books, average bet sizes are comparably smaller. And thus, the volume of bets Rivalry saw to deliver this quarter's triple digit year-over-year growth was significant. The company believes it is acquiring new bettors at the beginning of their life cycle, which we believe will lead to greater lifetime value than a mature sports better who is midway or toward the end of their life cycle.

Our revenue in the quarter was 3.7 million, an increase of 3.2 million, or 679% from 0.5 million in Q3 2020. For the nine months ending September 30th, 2021, we have demonstrated a similar growth rate, with revenue totaling 8.9 million, up 618% from 1.2 million in the first nine months of 2020. This revenue growth reflects our ongoing success in attracting customers to Rivalry.

Sequentially, revenue was up 12% from 3.3 million in Q2 2021. The second and third quarters both are often strong for us. We will discuss the seasonality in our business in greater detail momentarily.

Turning to our liquidity, the company had 41.3 million of cash as of September 30th, 2021, the majority being the 22 million US, which were proceeds from the subscription receipt offering in June 2021 and held in escrow until their release on September 24th. Working capital sits at 42.4 million, and we currently have zero debt. We are very confident in our financial position and that it provides resources to fund our growth strategy, which Steven will describe.

Given our business mix still remains majority weighted to esports betting at approximately 90% of our betting handle, with traditional sports making up the difference, we can see significant seasonality in our business from quarter to quarter. The COVID-19 pandemic has disrupted the usual esports calendar flow. However, it does seem to be returning back to normal.

In a typical calendar year, we will see the esports season kick off toward the end of January. This makes Q1 a bit lighter than Q2 and Q3, which see a relatively normal flow of events across all the major esports titles, being first person shooter game CS:GO and fantasy team-based strategy games League of Legends and Dota 2.

One of the two biggest events of the year historically takes place in August, which falls in Q3, and is called the International, a Dota 2 event. Lastly, Q4 sees the second of those major events, which is called Worlds, and is a League of Legends event that usually takes place in October. Then much of November

and December is quiet, with all the major esports titles in an off-season through the holidays until it picks back up again in that late January period in the following year.

As a result, Q4 can be lighter as compared to prior quarters, which can be expected this year as well. That said, we believe that as our business makes increases in traditional sports betting and casino, the impact of seasonality in esports will become less pronounced over time.

Management is not concerned about the fluctuations from quarter to quarter. We measure ourselves in year-over-year growth, which normalizes the seasonality comparatively.

At this point, I will turn the call back to Steven to discuss our outlook.

Steven Salz: Thank you, Kejda. Momentum continued into the fourth quarter. Our shares commenced trading on the TSX Venture Exchange on October 5th. We officially launched Rushlane. And we submitted an application to the Alcohol and Gaming Commission of Ontario, known as the AGCO, to become a fully registered operator of internet gaming and sports betting in the province. To our knowledge, we are one of the first globally to do so.

We also announced in early November that October was an all-time record month for betting handle and monthly active bettors and brand engagement. It surpassed each of the three months that led to our Q3 performance. That said, and as Kejda mention of her remarks, we expect Q4 to be seasonally slower as compared to Q3, given the reduction in events following League of Legends Worlds in October. And again, that mid November to mid January period is considered the off-season for major esports titles.

It's worth noting that these milestones and rapid growth to date have been achieved without the benefit of the 22 million USD of escrow funds released in the final days of September. Rivalry's history is that of a classic bootstrap company, having raised just under 9 million US in its first four years of operating. Some of our competitors burn through this in a single digit number of days on marketing spend alone.

We did not have the luxury of expensive promotions like some of our peers do, but in our view this leads to only renting a customer. We want to own our customers, not rent them. This pushed us to innovate how we attract new customers, leveraging social media, grassroots influencer work, and the original content that we've been creating that resonates with our target demographic, all wrapped around a modern user experience built entirely in-house.

This has turned Rivalry into the globally recognized esports brand that it is today. It has also resulted in an extremely low cost of customer acquisition relative to peers, favorable unit economics, an engaged base of users, strong organic growth, and an authentic brand. With our most recent financing, we will be doubling down on everything that has been working in our key markets and investing behind a 2022

marketing content and social media program that will make what we have done to date look like a light warm-up. Additionally, we are making numerous key hires across the business and investing behind R&D in the core product, our casino IP Rushlane and various other new initiatives on our product roadmap that we will discuss in future quarters.

As for near-term milestones, the catalysts, we are expecting to launch in Australia shortly, which will mark Rivalry's first regulated market to date. Australia is the most valuable betting market per capita in the world and we are eager to get going. After that is Ontario, which we anticipate going live in in the first half of next year subject to our application being approved. The AGCO has also not yet provided a firm launch date to the public, so we are still awaiting that.

Also, we are expanding our sportsbook offering in both esports title and traditional sports, as well as just overall depth of offering within existing titles. We are expanding our casino IP Rushlane with more games in development. We are also specc'ing out other games that are consistent with the brand and our desired user experience. It's our belief that these initiatives all will contribute to enhancing Rivalry's global brand equity and leadership position.

To conclude, we believe our just over three year operating history at Rivalry has demonstrated disciplined execution. On a lean balance sheet, we have delivered double-digit month-over-month growth since inception, the most engaged esports betting brand globally, cost of customer acquisition that is 80% below market, profitable unit economics, and built all of our technology in-house.

Now we are public and with cash on the balance sheet that is multiples of what we have had historically, we are shortly deploying that capital into multiple regulated market launches, a material expansion in our already successful social media and content profile, and investing further in our people and innovative technology that we believe will continue to create market leadership advantages for Rivalry.

All that said, it's a very exciting time for Rivalry. And we will now be happy to take any questions from participants on this call.

Operator: At this time, we will open the call for questions. If you would like to ask a question, please press star followed by the number one on your telephone keypad. If you are on a speakerphone, please lift your receiver before depressing any keys. Again, it's star-one to ask a question. Please hold while we gather the Q&A roster.

Your first question comes from Suthan Sukumar from Stifel. Please go ahead. Your line is open.

Suthan Sukumar: Good morning, Steven, Kejda. Congrats on another strong quarter of solid execution here. I just want to hit on a couple of--couple items here. Firstly, on your growth initiatives, I know Rushlane. I recognize that it's early days, but curious here, you know, how does engagement look to

date and has this been primarily a cross-sell dynamic, or is Rushlane helping to attract net new players to the platform?

Steven Salz: Yeah, I'll take that. I mean, the way that we built Rushlane was as like an introduction to the game lore and IP. So, as we've kind of outlined in some past investor material, it is very much like an entertainment-based game rather than a, you know, rapidly transactional game like a slot machine.

So, what we've seen so far and we put in the October release is, since the full launch, we're up about 150% in the last month on total player wagers or let's say stakes that have gone into the game. Players are definitely very engaged in the game and, you know, sending us some kind of feedback, hungry for more customization, more community. They want more games, really just kind of asking I guess what's on the product roadmap.

And then the way that we really utilize it and what its main purpose was at the beginning was to create more, I guess, like entertainment experiences for our content creators. So, we run these events on weekends often called Rushlane After Hours, and we'll see sometimes 10,000 to 12,000 concurrent people viewing our large content creator partners playing the game, and then they will rapidly register to try to play the game with that creator.

So, it's been, like, amazing for acquisition. It's been amazing for increasing, like, site dwell time, and then it allows us to cross-sell those users to other things on the sports book. So, it's definitely been serving its purpose, and I think we're, you know, pretty excited to continue to put more behind it, yeah, just more content and just, like, enhance, I guess, the world that we're creating with Rushlane.

Suthan Sukumar: Great. No, thanks, that's helpful. Next, I want to touch on new market entries, more specifically with Australia. It sounds like that market's still in ramp up mode. What does your go to market strategy look like in Australia, and kind of what's left to do to be fully operational and taking bets in that market?

Steven Salz: Yeah. So, we had expected to be operational. I mean, we've given guidance that we'd be operational this quarter. I'd say that's still the expectation. I think in our MD&A we cautioned it might push a little bit beyond that. Unfortunately, we're just completely beholden to regulators.

So, we're in the final phase where they're just testing the site, doing the final testing, and there has been nothing negative that's been happening. It's honestly just they've just been slow. It's just working with international regulators on a completely different time zone has just not been moving as quick as we'd hoped. So, we're kind of just sitting and waiting to get our next round of feedback. And then that's it and then we should be ready to go live.

So, internally, we're still optimistic that we get this thing going obviously before year-end, and that's still the hope. But given the pace that they've been moving at, you know, and especially that we're heading

into the holidays, we're trying to I guess throw some caution on that. But, you know, hopefully it's kind of imminent and we just--we're in the very, very last little phase here.

And in terms of launch, I guess our plan, so we definitely have a playbook that works in our markets. We've launched in multiple new gray markets under our Isle of Man license since we launched in the summer of 2018. The good thing about regulated markets is they're actually more flexible than gray markets. So, in regulated markets, payments are easier so we'll have way less friction on money-in/money-out, which sometimes is half the battle.

We can do land-based marketing. You know, not to say we'll do a ton of that, but we can still create a lot more experiences and kind of, you know, these moments for fans that we are not able to do in gray markets. We can do Facebook ads and Google ads. Again, not something we're going to maybe utilize a lot, but we just--it becomes legal for us. We can have a mobile app, another thing that you can't have in gray markets you can have in regulated markets.

So, it's a combination of, like, a lot more flexibility on marketing than we currently have, and then I think there's a misconception about the regulated market sometimes, where the gray markets having less rule of law, I guess you could say, means that anybody can operate there. And people sometimes can be really aggressive in these markets because there's not, you know, the eyes of a regulator watching over you constantly.

So, in some of our markets, there are listed over 100 active operators. You know, in Australia, I think there's 20 or 25. I think it's something like that. So, we actually expect there will be less of the style of competition we're used to facing right now. So, yeah, we'll deploy our usual playbook with more flexibility and, frankly, there's just less people to run into. So, yeah, we're excited.

Suthan Sukumar: Got it. Great. And Steven, in the past you've--you talked about Europe as a potential area of expansion. You know, kind of fast-forward now, you know, post the IPO, how does Europe still stack up in terms of priorities versus other growth markets like the U.S. that you have available to you?

Steven Salz: Yeah. I think as we said before, like, we see this is a generational opportunity. So, the U.S., even though it's a market we definitely are having a lot of conversations around with operators there, I'd say it's less of a--high impact thing for Rivalry than it would be for a traditional sports book.

So, if you're a mature traditional sports book who's been operating for 10, 15 years, the U.S. was the last bastion of growth for you. It's like there is no other market the size of the U.S. to regulate left in the world, that was the last one, whereas for us it's a complete generational play. There are under 30s or even under 25s in every market globally that are just coming into the fold of sports betting.

So, every market for us is a good market, and that's been part of the opportunity. And another thing we've talked about is the fact that we don't really run into competitors that often. So, we--where they're

competing in terms of the marketing channels they utilize and who they're going after, which is kind of an early to mid 30s to mid 40-year-old customer, is just so vastly different than us we just don't run into them. So, we're not finding we need to, you know, compete on a balance sheet basis all the time the way that they do.

So, yeah, you know, Europe is super important to us and critical, and I think we're spending a lot of time as a corp dev team looking for opportunities there, potentially by way of M&A or just also additional applications. And then the U.S. is the same. But again, I think on a relative basis, it's not the same level of priority for us as it would be for a mature traditional sports book.

Suthan Sukumar: Okay, thanks. And maybe just one last one from me. You know, it's a little bit more of a philosophical question, I guess.

Steven Salz: Um-hmm.

Suthan Sukumar: But, you know, there's been a lot of headlines in the industry around gaming crypto up in the meta-verse and, you know, how these worlds continue to increasingly collide. You know, what are you seeing with respect to these trends from your business in terms of how they interact and influence Rivalry, and what are you seeing in terms of opportunities from here?

Steven Salz: Yeah. So, if I go back really far, even before Rivalry, one of the first businesses we started in this space was called Loot Market. And it was an in-game item marketplace, so in-game aesthetics for the two most popular esports. Counterstrike or CS:GO and Dota 2 had highly liquid--like, I'm talking billion dollars plus of liquidity of people buying and selling aesthetics for their items. And we ran what at the time in 2016 and '17 was one of the largest in the world for Dota 2, less so CS:GO. But it was, again, a highly liquid in-game item marketplace.

So, this was kind of like NFTs before NFTs. And on that marketplace, one of our biggest transaction currencies was crypto. So, people were coming and depositing, you know, Bitcoin to buy an aesthetic for their item in Counterstrike. So, we've had definitely very intimate familiarity with the community.

And something we've said as well as that, if you had a Venn diagram of legitimate crypto users and now everything from, like, you know, play to earn games, all that kind of stuff, and let's say gamers and esports fans, it would be like, you know, an overlapping circle. So, ultimately, the demo we serve at Rivalry will, we think, be the most active and interfaced with this technology. But also as a collection of people in our industry specifically, we think we understand what's happening in that culture better than anyone and how to harness it.

So, you know, we already sponsor, actually, and are involved in Axie. Axie has a very large play to earn game in its community. We accept cryptocurrency on the website. We've done NFTs around Rushlane.

So, when we first launched Rushlane, we did NF trophies, which they were NFTs we sold on OpenSea. But again, it was just part of the community activation and engagement.

And then, you know, I've written an opinion piece, I think in the summer, that talked about how Rivalry as a brand rides the meta, so it was kind of meta before metaverse, I guess, and that everything we do is about injecting that sense of internet culture into product and content and our overall experience. So, yeah, we're already kind of interwoven into that community and extremely active and consistently participating in it.

You know, even at a personal level, you know, my second-biggest, you know, personal investment outside of Rivalry is crypto for almost five years now. So, yeah, we're super close to it. We think that, you know, things like the metaverse are going to be very ubiquitous, I guess, and we're going to continue to kind of play with the technology and play with the tools and make sure that we're staying consistent with what our demo expects from us.

So, yeah, it's been fun to do this stuff for some time now, and it's great to see it getting more mainstream appeal. And we'll all continue to kind of push on it on our end.

Suthan Sukumar: Okay, great. So, thanks for the color and thanks for taking my questions. Congrats again on the quarter, guys. I'll pass the line.

Steven Salz: Thanks.

Operator: Your next question comes from Adhir Kadve from Eight Capital. Please go ahead. Your line is open.

Adhir Kadve: Thanks, guys. Congrats on the quarter and congrats on your inaugural conference call here. You know, Steven, you mentioned that the handle is kind of still broken down 90/10 in terms of esports and traditional sports. Can you even talk about how you see that evolving, maybe a timeline on how that evolves and what your goals are in terms of the handle and user?

Steven Salz: Sure. Yeah, Casino, because we just launched it, honestly just relative to the size of our sports book, it's just not big enough to be a meaningful piece yet at this early stage. But our view is that esports versus traditional sports, at least on the sports book, right now it's about 90/10. We have seen an absolute dollar increase in traditional sports but, again, it's just not catching up to the rate of growth we're seeing in esports.

We do think, come second half of next year though, we'll be something more like 70/30, even potentially 60/40. Some of the regulated markets we're going into, obviously Australia and then hopefully we're expecting Ontario, these are slightly more mature markets from a traditional sports

betting perspective among a younger demographic, whereas some of our gray markets right now we definitely see potentially a higher propensity for esports versus sports.

So, we think the mix is just going to increase naturally just based on the markets we're going into, even among our target demographic, and then also just our general sports offering is continuing to improve and we're just adding a lot more depth to that product. So, with the underlying trends we're seeing in our customers and even the fact that we get almost like a 40% overlap between an esports and sports bettor just betting on it in general, we do think that that mix is going to increase on a percentage basis.

So, yeah, I'd say second half next year we're thinking internally maybe 70/30, 60/40, something like that, but esports will continue to be dominant. And then casino, as I mentioned in my prepared remarks, we are adding more games to casino and specc'ing out some others. So, I think that will increase and that will help with seasonality as well specifically.

But at least our current view--and maybe this will change once we have more casino on the site, but at least our current view is that, again, our target demographic has--is, I guess, less inclined for traditional casino style games, you know, like an Egyptian themed slot machine, than a--mid 30 to mid 40-year-olds who typically plays those games. So, we think that sports betting will be quite dominant, and we're not expecting massive share of our business for casino, I guess, in the short to medium-term.

Adhir Kadve: That's helpful. Thank you. And then just--you know, you kind of mentioned earlier new market launches being a key catalyst. Can you maybe talk to us about how you evaluate a new market, whether it be regulated or not, and what are some of the characteristics you look at when deciding and saying, hey, we're going to, you know, go hard into that market?

Steven Salz: Yeah. Yeah. So, we have definitely a pretty good framework now. I'd say we look at always like the demographics of the population and then, you know, percentage of population under the age of 30 typically. We look at proclivity for betting culturally. This is more of a--you know, speaking to people in the market and just getting an understanding of, yeah, culture around sports betting in general. So, that's always actually like a really critical piece. We spend a lot of time on that.

We also look at what games are played as video games. We look at which of those are esports, is there viewership there. And then one of the ones we've honestly found to be more--or almost as important as anything is are there pro players and teams and major content creators domestic to that market. So, you know, we've tried to go into some markets where it kind of ticked every box but that one. There's been no major pro players to come out of the market. And we've found that that is somewhat indicative of, like, the underlying, I guess, interest in esports at a let's say hard-core fan level. So, that one's really critical.

And then we also look at obviously all the operational stuff. You know, are there payments in our current payment suite that work? If not, are the ones that we need to get easily available? You know, are there any weird, you know, quirky kind of language or domicile requirements where we have to localize the site in a specific way that's going to take time? And we'll look at that stuff.

And then once everything there is ticked, we then have, you know, kind of our next layer of the playbook around, you know, hiring a country lead, building out the domestic team and how we scale and build initial launch and all that kind of stuff. But, yeah, those are kind of the key factors for evaluating a new market.

Adhir Kadve: Awesome, very interesting. And then, you know, an important aspect of any sports book or any consumer brand, really, you know, is its brand equity. You've talked a little bit about brand equity in your opening remarks today, but can you maybe talk to us about your plans and how you really intend on increasing that brand equity for Rivalry as you continue to grow and mature?

Steven Salz: For sure. You know, for us, I think anybody that's building a consumer product in any industry targeting specifically Gen Z, and I'd say definitely young millennials as well, is also a media company. It's really difficult to just offer, you know, a great transactional product and hope people come.

I think creating a sense of community and clout is super critical, and this is been just like central to our thesis at Rivalry from day one. And when you have a great brand, it also just gives you so much leverage where there's--you start to build in a prebaked trust for what you're doing, and then the likelihood of customers retaining is higher and the likelihood of converting them to other products is also higher because of that prebaked trust.

So, yeah, we care a lot about brand, and it's--kind of one of the North Stars of the company for sure is is the thing we're doing going to enhance our brand equity or not. So, the way that we look at just growing it is--and I guess I'd say speaking specifically to 2022 that it maybe diverges a little bit from how we've done things historically, is we are going to be working through much deeper integration with our influencers or brand partners. So, we've got, you know, 120, 130 global brand partners. I think we're probably--might have some of the highest volume of any brand that sponsors or is active in esports and gaming.

But what we're doing now is we've had some really long-term partners that are great and have been good to us. And in many cases, they're starting to look like they're just part of the brand in a much deeper way, if you think about almost like the personalities of Barstool as an example, where they're kind of like in-house to the brand.

So, that is like the next big step for us, is creating this like much deeper integration of brand partners to personalities that feel like they're more in-house and then building more original production and original IP behind them that is kind of Rivalry IP, where it will help kind of take the brand to the next level by adding more of that voice to Rivalry that feels, again, more in-house rather than a sponsor partner, and then in general just massively ramping our overall content and production quality across all languages and all markets, adding more depth to our social media portfolio, and continuing to kind of develop that market-leading following and engagement.

And then now in these regulated markets, we will be doing in-person activations, where we think we can just create more motive for fans to kind of have these Zeitgeist-y type experiences that can become kind of brand defining for Rivalry. We've got a great creative team that we're staffing up pretty materially to execute on that.

So, yeah, we definitely have a playbook that works, and I think the brand is resonating. And as we continue to build out our team of creatives, we're just going to continue to push behind what is making Rivalry Rivalry.

And then I'd say just philosophically also, I think corporate brands--the view of corporate brands is very different now in the market. It's--I think it's hard to be a pure play corporate brand in any consumer category targeting a younger demographic because there's just more affinity for individual personalities. And we're just hyper cognizant of this. So, yeah, the more we can create individual personality and even, you know, potentially like synthetic versions of it with some of our IP, like our game IP and creating character IP, the better. So, that's the big focus for us.

Adhir Kadve: Excellent. Congrats again, guys. I'll pass the line.

Operator: Your next question comes from David McFadgen from Cormark. Please go ahead. Your line is open.

David McFadgen: Oh, great. Thank you, a couple of questions. So, maybe to just look at the revenue, so it appears that the win rate was up substantially year-over-year. I mean, I'm sure it was. But do you break--or can you break down the revenue between GGR and other revenue just so we can actually calculate a very accurate win rate? But it--you know, it looks like it was up substantially. I'm just wondering what would cause that.

Steven Salz: Yeah. I mean, everything--like our topline is basically a proxy for GGR, right? So, you know, our win rate at this stage because of the size of the business, even though there's a lot of liquidity in bets, you know, we're still at a stage where there can be volatility in our win rate for sure on a month-to-month basis. This quarter, we definitely had abnormally high win rate.

And I would say also, just given the demographic and the relative sophistication of our sports bettors, we do see less experienced sports bettors coming into Rivalry. And in many cases, it can be their first time ever placing a sports bet, so we can sometimes see, in high acquisition quarters such as Q3, a disproportionately high win rate. And then over the life of the customer, as we educate them through stuff like Rivalry Academy and so on, they become a little bit sharper, and then the win rate for customers starts to normalize.

So, yeah, I mean, that really is kind of a GGR proxy to us, and it was a very high win rate. I wouldn't want to guide to say that we're going to continue to do that. I think over time we are definitely expecting that we will start to trend toward the win rate that we set on the sportsbook.

So, you know, every sports book in the world has a baked in win rate into every betting line, and it can vary, you know, depending on the line. If it's a very kind of obscure handicap or something like this, you'll set a much higher win rate because you're taking more risk. And if it's a--you know, a winner market as in who's going to win the game, the simplest market, you'll set something lower just because you'll see more volume on that.

So, I do expect over time that our topline equivalent win rate should trend to what market is, which is about 6.5% to 7.5%. So, that's what we're expecting. But, yeah, we're definitely in a somewhat volatile state still with the age and size of the business.

David McFadgen: Okay. And then I was just reading through the MD&A. I was wondering if you could just sort of maybe describe exactly what are the items that go into the cost of revenue line now.

Steven Salz: Yeah. So, for us, it is--I mean, one of the big ones is bonuses, obviously, because you have--and that's how you get down to NGR, because our gross profit is more consistent with kind of an NGR proxy. And then there's basic kind of, you know, post market corrections and different costs associated with running a sports book that also come under the COGS line.

So, if there's any, you know, yeah, corrections or bets we have to return or any errors on that combined with bonusing, then it becomes a cost of operating a sports book. And then that nets out to a gross profit figure, which is closer to our NGR. And then NGR would be more like a--let's say a contribution margin type proxy. So, yeah, that's obviously most of the cost in that figure.

David McFadgen: Okay. And then just moving on to Rushlane, you know, I assume that it's not a big revenue generator in the quarter, or you don't expect it to be a big revenue generator in the short-term. And I'm not trying to put words in your mouth, so if I've mischaracterized that, please tell me. But it would seem to me, is it a good tool where you could get some good conversion into sports betting to drive the sports betting business?

Steven Salz: Yes. I think the biggest benefit right now is, again, we have--we run lots of events with it. It's comparable to like a game that--like these marble games and stuff like this on Twitch where you get huge engagement from your community.

So, it just happens to be almost in a way like a backdoor form of acquisition where many customers--or many viewers, I guess, of some of our biggest partners will want to play the game with the content creator, which is part of how we designed it, as a game to be streamed. And the only way they can play is--you know, this isn't a game that you can enter through Twitch chat like many of the others. You have to register on Rivalry and then enter through Rivalry, obviously put up some money to enter the game.

So, being forced into that funnel with the desire of wanting to play with one of their content creators turns out to be like a great way to acquire customers at fairly low cost, because that activation costs us nothing. It's just one of the deliverables with the partner. So, I'd say one of the best benefits and one of the best things that's come out of Rushlane has been the ability to acquire customers cheaply through it through kind of the activation. And then once they're in the funnel, then we sell them. So, we cross-sell them on sports betting, esports, whatever it may be.

So, yeah, it's been great for that. And then the other is what we consider dwell time. So, esports is somewhat different--I mean, I guess, you know, you've got periods in hockey, but esports can sometimes have a lull in it. So, you'll have, you know, a best of three games for Counterstrike, which is played over three different maps. And in between some of the maps, it can be like a 30 minute wait. And the--you know, our users being--you know, skewing younger, definitely have less of an attention span, so a great way to keep them on the site is to have them play Rushlane in between games.

So, some of the highest volume activity we often see on Rushlane is in between games. So, that's really like the purpose of this stuff is, one, create entertainment and draw in users for acquisition, and then two, increase dwell time on the site so they don't leave the site and we can then increase their propensity to likely place additional sports bets. So, that's probably been the best gain we've had from it rather than just direct revenue generated from Rushlane itself.

David McFadgen: Okay. And then just moving on to Ontario, I don't know if you get access to this data, but do you know of anybody else that's planning on entering the Ontario market in the short-term with such a focus on esports betting that you guys have?

Steven Salz: I don't know. I mean, I think we have not heard of any of those types of operators having put their application in yet. I think also people are maybe a little tentative just because the AGCO hasn’t disclosed a firm launch date. We're still expecting it's going to be quite early next year. Everyone had been guided, as I'm sure you remember, to the end of this year, which is clearly not going to be the case at this time.

But we still think it's a, you know, around Super Bowl type launch. So, for the initial launch, I don't think so. I'd be surprised. Like, we moved like extraordinary fast through the application because we wanted to get it in, and we've been moving really quick through all the follow-up and everything that comes after it. So, yeah, we don't know of anyone else similar to us that's at that stage, possibly later, sometime next year. But at least at the beginning, we're--we haven't heard of anybody.

David McFadgen: Okay. All right. Thanks a lot, guys.

Operator: There are no further questions at this time. Mr. Salz, I turn the call back over to you.

Steven Salz: Yeah. Thank you, operator, and thank you to everyone for joining us on our third quarter results call. We are happy to continue the discussion offline if anyone has any additional questions, of course.

Operator: This concludes today's conference call. You may now disconnect.