

OverActive Media

Second Quarter 2023 Earnings Conference Call

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CORPORATE PARTICIPANTS

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OverActive Media — Chief Commercial Officer

Rikesh Shah

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CONFERENCE CALL PARTICIPANTS

Towaki Dojima

TD Cowen — Analyst

PRESENTATION

Operator

Good day, everyone, and welcome to OverActive Media's Second Quarter Conference Call. At this time, participants are in a listen-only mode. A question-and-answer session will follow management's remarks. This conference call is being recorded and a replay of today's call will be available on the Investor Relations section of OverActive Media's website. It will remain posted there for the next 30 days.

I will now hand the call over to Mr. Babak Pedram, Investor Relations for OverActive Media, for introductions and the reading of the Safe Harbour statement. Please go ahead, sir.

Babak Pedram — Investor Relations, OverActive Media

Thank you very much and good morning, everyone, and welcome to OverActive Media's second quarter 2023 earnings conference call. A copy of the Company's earnings press release is available on the Investor Relations section of our website at www.overactivemedia.com.

With us on today's call are Adam Adamou, OverActive's Co-Founder and Interim Chief Executive Officer; Alyson Walker, Chief Commercial Officer; and Rikesh Shah, Chief Financial Officer. Today we'll review the highlights and financial results for the second quarter 2023 and recent development. Unless otherwise specified, all amounts mentioned on today's call are in Canadian dollars.

Before we begin, I will read our cautionary note regarding forward-looking information. Certain information to be discussed during this call contains forward-looking statements within the meaning of

applicable security laws, including, among others, statements concerning the Company's 2023 objectives, the Company's strategy to achieve those objectives, as well as statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance, or expectations that are not historical facts. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management and are subject to several significant risks and uncertainties that could cause actual results to differ materially from those anticipated.

Also, our commentary today will include adjusted financial measures, which are non-GAAP measures. These should be considered as a supplement not as a substitute for GAAP financial measures. Reconciliations between the two can be found in our MD&A, which is available on sedarplus.ca and our website.

At this time, it is my pleasure to introduce Adam Adamou, Co-Founder and Interim CEO of OverActive Media. Adam, please go ahead.

Adam Adamou — Co-Founder & Interim Chief Executive Officer, OverActive Media

Thanks, Babak. Greetings, everyone, and welcome to today's conference call.

The second quarter saw groundbreaking progress by our teams, both on and off the server. Revenue growth was strong at 65% year over year and 138% sequentially over the first quarter. This was driven by strong results across all facets of our business, including league revenue share, prize money from our teams, and contributions from live events and merchandise sales. We have accomplished this

while reducing team and business expenses both annually and sequentially. We've been executing a well thought out plan to lead us toward a successful, scalable, and sustainable business model. While we are not immune to challenging times, we are realizing strong growth and expect to finish the year with record revenue.

Our cash at the end of the second quarter was \$9.3 million. The second half of the year is generally stronger than the first and I believe that we will end the year with a strong balance sheet. Having a solid balance sheet with sufficient working capital puts us in a unique position compared to many of our peers. Our ability to self-fund our growth strategy gives us tremendous competitive advantage, allowing us to take advantage of opportunities that may arise from industry consolidation. Additionally, we fully understand the importance of being prudent when managing our finances.

Moving on to our operational highlights, I am pleased to share that we made great strides in reducing operating expenses in the first half of 2023 by more than \$900,000 relative to the same period last year, the bulk of which was realized in this current quarter. We've identified further areas where we could reduce costs without impacting the quality of our overall experience for our fans or sponsors. These changes should yield incremental benefits throughout the rest of the year.

Regarding our teams business, our coach-led, talent-first system continues to pay rewards for team performance. In Europe, our MAD Lions League of Legends team won the LEC 2023 Spring Championship after placing as a finalist in the winter. Along with this came a qualification for the global mid-season invitational tournament held live in London. MAD Lions continues to exceed expectations for viewership through its success and it ranks at the top of peak viewership hours across all western

esports teams. At the mid-season invitational, MAD Lions placed in the top five matches in terms of viewership, peaking at over 1.46 million concurrent viewers. On a standalone basis, and before the allocation of corporate overhead, our MAD Lions business is operating at or near a breakeven level.

Our Call of Duty team, the Toronto Ultra, finished second at the Call of Duty League Championships in Las Vegas. Since launching in 2019, Ultra has emerged as one of the most successful competitive teams in the Call of Duty universe and beyond. We are consistently at or near the top for viewership, engagement, and number of followers, and our Call of Duty Majors held live in Toronto have become an established presence in the esports calendar. In July, we signed Call of Duty Champion and All-Star team member, Dylan “Envoy” Hannon, to our 2024 roster, an addition we are confident will complement the existing competitiveness of the team.

Our Overwatch League team, the Toronto Defiant, is currently competing to qualify for the end-of-season tournament and championship, which will be held live in Toronto for the first time. In Q2, we made strategic roster changes to enhance the team as they head into the latter half of the season. On June 5th we announced an important new agreement between the Overwatch League team and Activision Blizzard. The agreement will see remaining team franchise entry fee payments eliminated, subject to certain conditions, which OverActive is on track to achieve. Further, Activision Blizzard became Toronto Defiant’s newest sponsor in a new three-year, first-of-its-kind deal in esports. The impact of most of these items, valued at approximately \$10.8 million, will be recognized in our financial statements over the rest of the year. When we announced this new agreement in June, we also mentioned that it included a plan to further explore changes to the Overwatch League business plan. Activision Blizzard has since disclosed additional information relating to these go-forward plans,

announcing a structure that may see a \$7.9 million payment to participating teams, including OverActive. We expect to see this payment's impact in the fourth quarter. These are important developments for Overwatch esports. We believe in Overwatch and in the Overwatch esports ecosystem. We hope and expect that this will present new opportunities and secure a bright future for our teams, players, partners, and fans. We expect to be a key force in competitive Overwatch in 2024 and beyond.

I will now turn it over to Alyson Walker, our Chief Commercial Officer, who will speak about our commercial and business highlights from Q2 and to date.

Alyson Walker — Chief Commercial Officer, OverActive Media

Thank you, Adam, and good morning.

As Adam highlighted, we're pleased to share strong Q2 results, in part thanks to steady partnerships revenue; an infusion of live-event revenue; in-game MTX transactions, microtransactions, through our league revenue share; audience growth engagement; and a laser focus on cost containment and reduced overhead costs.

From a partnerships perspective, and as discussed on our last call, we announced renewals in early May with AMD, LG UltraGear, Scuf Gaming, and Nielsen Sports. While not previously announced, we're pleased to have renewed our partnership with Red Bull effective for the two-year period through 2023 and 2024 as our official energy drink, a deeply integrated partnership focusing on delivering unique and premium esports events, content, and experiences to our fans.

In addition to our new agreement with the Overwatch League, ah, includes sponsorship of the Toronto Defiant, representing new annual partnership revenues for the team, as Adam shared. The sponsorship creates a deeper connection between the Overwatch League, Toronto Defiant, and our fans [inaudible] jersey, socials, and at events. While the partnership ecosystem experiences softness based on macroeconomic conditions, we are pitching and delivering premium assets and activations against a coveted Gen Z audience that is deeply engaged in the esports and gaming ecosystem. An extremely positive trend OAM continues to optimize is the rise of in-game microtransactions with team packs and skins representing significant contemporary revenues that we believe will grow for all of our teams.

Our first live event of the year, the Call of Duty Major V, experienced a weekend sellout and significant ticketing partnerships in merchandise sales. Regarding reach, we welcomed over 9,000 fans in person and garnered close to 10 million social impressions and a potential media reach of 435 million. We were thrilled to announce co-hosting the 2023 Overwatch League Grand Finals in Toronto this fall in collaboration with the Overwatch League from September 28th to October 1st, a historic first for Overwatch in Canada. The event will see the top-eight teams from across the globe compete for US\$1.8 million in prize money. Building on the success of the Overwatch League Summer Showdown we hosted last September, we expect sold-out crowds and a record viewership as the world shows up and tunes in to watch the culmination of the season. We have developed a strong reputation for planning and executing world-class esports events and expect to breakeven across our two live event spectacles in 2023.

From an audience growth perspective, so far in 2023 our teams have exceeded more than 42 million hours across tournament matches and over 12 million engagements on our team social channels,

thanks to solid team brands, team performance, and engaging creators. With a positive first half of the year, we expect to exceed our annual audience growth targets in 2023. And finally, Q2 and our year-to-date financials have benefitted from a laser focus on cost containment across all lines of business and a significant reduction in corporate payroll expenses as we optimize roles and responsibilities in the organization.

As we look towards LEC and Overwatch League playoffs and hosting the Overwatch League Grand Finals, we are excited for what is to come this year and look forward to delivering strong results in the remaining quarters.

I will now turn it over to Rikesh Shah, our Chief Financial Officer, to review our second quarter results.

Rikesh Shah — Chief Financial Officer, OverActive Media

Thank you, Adam and Alyson. Good morning, everyone. Today I'll review our second quarter financial results. Please note that the financial information we discuss today is prepared in accordance with International Financial Reporting Standards and is in Canadian dollars, unless otherwise indicated.

For the three months ending June 30, 2023, we reported total revenue of \$3.9 million and an adjusted EBITDA loss of \$2.5 million versus a loss of \$3.9 million in the comparative period. That said, our Q2 results were strengthened by decisive actions that have reduced operating costs by \$0.6 million year to date. We expect the savings trend to continue in the remaining quarters. And further, as Adam

noted, our cash position as of June 30, 2023 was \$9.3 million, providing us with a strong balance sheet to pursue our strategy prudently with fiscal discipline top of mind.

That concludes our prepared remarks and I'd like to open the call for questions. Operator, please go ahead.

Q & A

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star followed by the number one on your touchtone phone. Again, that's star followed by the number one on your touchtone phone. If you would like to withdraw your request, please press star followed by the number two.

Your first question comes from the line of Towaki Dojima from TD Cowen. Please go ahead.

Towaki Dojima — Analyst, TD Cowen

Good morning, everyone. Thanks for taking the questions. I have a couple here, but I wanted to start out with the \$10.8 million across, I think it was, ah, early revenue and franchise asset payments reduction. Are you willing to give a split on what's going to be the revenue and what's going to be the reduction in franchise asset payables?

Adam Adamou — Co-Founder & Interim Chief Executive Officer, OverActive Media

I don't think we're able to do that, but I think, for the \$10.8 million that we referred to there, most of that will be the reduction of the franchise payables.

Towaki Dojima — Analyst, TD Cowen

Okay. That makes sense. And correct me if I'm wrong, but I think, in your reports today, franchise asset payables on the balance sheet didn't decrease. Is this just a timing issue? You mentioned there were a couple of things that need to, ah, are subject to to get it going, so should we expect that decrease to come in Q3?

Adam Adamou — Co-Founder & Interim Chief Executive Officer, OverActive Media

If you're talking about the... Go ahead, Rikesh.

Rikesh Shah — Chief Financial Officer, OverActive Media

Yeah, that's right, in the back half of this year.

Towaki Dojima — Analyst, TD Cowen

Gotcha. Okay. And on the early revenue share payment, I think it mentioned that most of it will be coming in the second half, but can you just confirm that there was nothing in Q2?

Rikesh Shah — Chief Financial Officer, OverActive Media

As it relates to the \$10.8 million for Overwatch League, that's correct.

Towaki Dojima — Analyst, TD Cowen

Gotcha. Okay. Sounds good. And then on the \$7.9 million incremental from Blizzard, my understanding is that there's going to be some sort of a vote to terminate what OWL looks like currently, Overwatch looks like currently, and then, if the vote happens and it gets terminated, the payout happens. Can you flesh out kind of what happens to the payout if OWL kind of comes back in a new format and you are going to be a part of the new format as well? Do you get to retain that \$7.9 million payout as well as be a part of the new Overwatch League? Or is there a portion that doesn't get paid out? Like can you just flesh out a little bit of that?

Adam Adamou — Co-Founder & Interim Chief Executive Officer, OverActive Media

It's somewhat difficult to do, because some of the items are still under discussion or negotiation, right? So what I can say is that, you know, think of the \$7.9 million as an option that is in the hands of the team. We can exercise that option and take that, right? Or we can choose not to exercise that option, which would mean that whatever the other offer is is better than that, right? So that's the way that I would kind of look at it for context, right? You've got that and you can take it or if there's something better that comes up, you will take the other one instead. So, in either case, I think the \$7.9 million, I would consider that a floor.

Towaki Dojima — Analyst, TD Cowen

Gotcha. Okay. That makes sense. And then in the press release you mentioned getting towards breakeven in the second half of this year. Can you provide whatever the puts and takes are? What needs to happen to get to that breakeven point and kind of what are some surprises that might put you below breakeven?

Adam Adamou — Co-Founder & Interim Chief Executive Officer, OverActive Media

I'll leave this for Rik. He's got the details here.

Rikesh Shah — Chief Financial Officer, OverActive Media

Well, we were executing again on our partnership strategy, so that needs to, ah, is a target that we're driving towards. And then we continue to manage our costs as we have through the first half of the year and realizing those savings through the back half of the year. So, still some actions to go through, but reasonably confident that that's what we're driving towards.

Towaki Dojima — Analyst, TD Cowen

And the \$7.9 million potential payout, that's not included in assuming of breakeven?

Adam Adamou — Co-Founder & Interim Chief Executive Officer, OverActive Media

No.

Rikesh Shah — Chief Financial Officer, OverActive Media

That's correct.

Towaki Dojima — Analyst, TD Cowen

Okay. And then just a little specific on VALORANT. I think the season ended, or the Challengers season ended, which is where MAD Lions operates in, and I think VALORANT kind of changed the structure of Challengers to be full year instead of at the same time as the main VALORANT league. Kind of can you just talk about what your plans are in VALORANT, how that Challengers league structure change impacts you guys, and kind of how you're thinking around that title?

Adam Adamou — Co-Founder & Interim Chief Executive Officer, OverActive Media

So, first of all, I think the change is positive. I think the first season was suboptimal, I would say, and every team would probably agree with that, but I think the changes are definitely positive. I would say, with respect to next year, that's still something that we're looking at. I don't think we've got any commitments at this point to operating there. As you can imagine, with some of the current environment, more opportunities come up and there's more incentives that are offered for teams to participate as costs continue to kind of increase in that ecosystem and kind of revenues continue to be a challenge. So I think we're going to take our time and look for opportunities and do so thoughtfully.

Towaki Dojima — Analyst, TD Cowen

Sounds good. Thanks for taking my questions.

Adam Adamou — Co-Founder & Interim Chief Executive Officer, OverActive Media

Okay. Thanks, Towaki.

Operator

Thank you. Ladies and gentlemen, just a reminder, should you have a question, please press star followed by the number one on your touchtone phone.

There seems to be no further questions at this time. I'd now like to turn the call back over to Mr. Adamou for any closing remarks.

Adam Adamou — Co-Founder & Interim Chief Executive Officer, OverActive Media

Okay. Thanks again for joining us today for the call and for your continued interest in OverActive Media. I love this industry and this business and, while it has its challenges at times, the creativity and versatility of our staff and passion and engagement of our fans never ceases to amaze me. Have a great summer, folks. Don't forget to cheer for MAD Lions tomorrow in the LEC Playoffs at 15:30 Madrid time and 11:30 here in Toronto. And if you act quickly, I'm told there may be a few tickets still available for the Overwatch Grand Finals in Toronto, starting on September 28th. I look forward to seeing you there.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Have a lovely day.