



**Super League Enterprise, Inc.**

**Third Quarter 2023 Earnings Call**

**November 14, 2023**

## C O R P O R A T E P A R T I C I P A N T S

**Ann Hand**, *Chief Executive Officer*

**Clayton Haynes**, *Chief Financial Officer*

## C O N F E R E N C E C A L L P A R T I C I P A N T S

**Howard Halpern**, *Taglich Brothers*

**Scott Buck**, *H.C. Wainwright*

## P R E S E N T A T I O N

### **Operator**

Hello, and welcome to the Super League Third Quarter 2023 Conference Call.

Please note, this conference is being recorded.

Before we begin, I'd like to caution listeners that comments made by Management during this call may include forward-looking statements within the meaning of applicable securities laws. These statements involve material risks, uncertainties and actual results could differ from those projected in any forward-looking statement due to numerous factors.

For a description of these risks and uncertainties, please see Super League's financial statements and MD&A for the third quarter 2023 ended September 30, 2023, available on the SEDAR, EDGAR. Important qualifications regarding forward-looking statements are also contained in Super League's earnings release distributed earlier this afternoon and also available on SEDAR and EDGAR.

Furthermore, the content of this conference call contains time-sensitive information accurate only as of today, November 14, 2023. Super League undertakes no obligation to revise or otherwise update any statements to reflect events or circumstances after the date of this call.

I'd now like to turn the conference call over to Ann Hand, Chief Executive Officer. Please go ahead, Ann.

### **Ann Hand**

Thank you so much, Kevin.

Hello, and welcome to our quarterly call.

I'm delighted to report Super League's third quarter 2023 financial results, along with other corporate updates. Let's hit the big headline out of the gate.

We delivered a quarterly record of \$7.2 million in revenue, representing top line year-over-year revenue growth of 60% versus prior year third quarter. While the third quarter presented a volatile macroeconomic backdrop based on the uncertainty of the interest rate cycle, which we know rippled across the equity

market, Super League's step change quarterly and revenue growth is empirical validation that our scalable, vertically integrated and highly innovative publishing and product engine across some of today's leading digital social platforms and the wider 3D web is in demand by many of the largest brands in the world.

As we always do on our calls, let's first frame the industry context and key trends that establish us with a differentiated position and present as an exciting opportunity. Traditional digital advertising continues to face headwinds, with ad blocking, cord cutting, the shifting landscape of audiences and attention spans. Much of digital advertising doesn't perform from marketers the way it did in the past. The statistics tell the story here. There are over 0.5 billion users in digital social platforms that are more gamified or interactive such as Roblox, Minecraft and Fortnite.

While there's still a learning curve for brands to understand these emerging yet already mighty marketing channels, the audience has already moved there. They're there and they're highly engaged. In fact, the average Roblox user spends 156 minutes a day on the platform as compared to 95 minutes on TikTok and 74 minutes on YouTube; 156 minutes a day.

Super League is well positioned to reap the reward as ad dollars are going to inevitably catch up to this seismic shift in audience, and again, attention. It's worth noting that immersive content performs. Immersive content increases consumer engagement by 252% and has a 40% higher conversion rate, and 47% of U.S. consumers expect to discover brands first in 3D platforms through their digital personas as a true digitally native generation.

Now there are three megatrends that are guiding this here. These are the trends that accelerate our growth and strategy. First, phygital lives and commerce, meaning a blended existence, notably for Gen Z and Alpha, between their digital and their physical self. It impacts how they behave, how they prefer to interact and consume.

Second, as we've talked about before, the continued democratization of content creation or often called the emergence of the content creator class through co-creation platforms like Roblox and TikTok.

Finally, another megatrend is AI-led transformation that enables accelerated offer development, more efficient, faster R&D cycles and more. Super League is embracing and living these trends, and these trends are fueling our business model.

Now let me elaborate on our strong third quarter performance. We've taken notable strategic actions in 2023 that have impacted our trajectory. The acquisition of MELON enabled us to form SL Studios and lift our publishing capacity and margins in building immersive worlds. There is our fairly new but very coveted partnership with Roblox Partner Programs. We're one of a handful of companies that has this privileged relationship. It is our view a clear sign that Roblox endorses the value we add to their ecosystem and the essential role we play as strategists, innovators and product builders inside their amazing platform.

On to our pipeline. Our current audience reach combined with our end-to-end solutions is proving that we can take an increasingly larger share of advertisers' wallets. Customers are continuously coming back to work with us, as our repeat buying percentage for the quarter remains at a strong 70-plus percent. As well, our average pipeline deal remains in that \$300,000 to \$400,000 range with new brand and partner entrants over the last few months like Kraft Heinz, Hershey's, Walmart and Publicis.

We have closed on three seven-figure deals this year versus just one seven-figure deal in '22 at about \$1.2 million. But it's much more about the frequency of seven-figure deals in our pipeline and even more the size of these seven-figure deals that's growing. For me, this might be one of the most important proof points and maybe one of the most important things that I'm going to say on this call, and I really want investors to take stock of this.

Recently, we landed our largest deal ever in our history, a deal valued at nearly \$4 million spread across a few quarters. Again, let's pause on that, a nearly \$4 million singular deal. Three times our largest deal last year. This has a big message to brands and agencies that Super League is uniquely positioned to be a go-to partner for all of their immersive marketing goals, along with the increasing strategic imperative that brands and agencies face that they need to create a more persistent presence in these immersive social channels for their brands. Super League is positioned to be that go-to partner.

Now you've heard me mention before that we've served over 80 brands last year to deliver nearly \$20 million in revenue. As our deal sizes continue to grow, it means we have the potential in the future to deliver big top line results in 2024 and beyond with a fraction of the number of brands. Our sales force effectiveness continues to improve with our top sellers establishing a new ceiling of about \$4 million to \$4.5 million in annual booked revenue as compared to a sales capacity of approximately \$2.5 million in 2022 for a top seller.

That's all the pieces of the puzzle coming together here. Our compelling one-stop shop solutions, increasing brand partner knowledge and the confidence in our capability to be the team that can deliver against it and a more productive sales force build on a lean operating structure. Again, this is scale. This is operating leverage kicking in, and this is a game-changing time for Super League.

Now to win this large program, we had to move fast, and we accepted the entire job with a lower margin than we would usually target. But that was a strategic choice and a good one in my opinion, and I'd do it again. Again, we believe the size of this deal will send a shock wave through the hallways of global ad agencies who are supporting the largest brands in the world, that Super League is a Company that they must get to know.

This doesn't change our resolve to continue to walk up margins to our targeted 40% to 50% range, and we can do that through new product lines and expanded revenue streams as we prove ourselves as the strategist and product builder to partner.

To round out the P&L, in the third quarter, we saw the impact of the material cost-cutting reductions that we launched in the back half of last year, and we delivered a 33% reduction in operating costs on a non-GAAP basis relative to the same quarter prior year. This reduction, coupled with top line growth, has taken a sizable bite out of our operating losses on a quarterly basis, as we make significant progress towards our goal of breakeven in 2024 with a more optimized organization and a cost structure that's focused on revenue generation.

Now to expand on some of our Q3 and subsequent operating highlights, as I mentioned previously, our partnership with Roblox is a source of great pride. This came about through a lot of relationship building and hard work. We've established ourselves as an innovator in their platform over the last few years and a trusted partner for their beloved brand and community.

In my view, this validates the important role Roblox sees that we play in the health of their ecosystem. Now Roblox is the leading platform where the next-generation prefers to socialize digitally. As I shared at the onset of the call, 156 minutes a day, the average Roblox user. This partnership opens up our access to their massive user base, which is hundreds of millions strong, along with potential access to their long list of Marquee global brand partners.

The Partner Program enables Super League to sell both our own immersive capability and proprietary dynamic content, along with Roblox's highly innovative wide-reaching ad inventory. It really further expands our suite of products and allows us to take down larger and larger revenue programs.

On to some other partner specifics, leveraging our tech and capability, every week we are launching new immersive experiences and products for powerful brands and IP owners, and none shine brighter than the launch of Hamilton in Roblox. The Hamilton Simulator brings the biggest Broadway hit ever into a 3D

environment with remarkable early results. Hamilton Simulator went viral with over 1 million visits in the first two weeks and surpassed top Roblox experiences in terms of average session time of 21 minutes and overall rating of 97%.

As we know, Hamilton is a once-in-a-generation cultural touchstone and this persistent, gamified Broadway experience proves that anything that exists in the physical world can have a virtual twin to reach new audiences, and it also demonstrates that education can be more fun and memorable.

Hamilton isn't our only persistent experience. You've heard us talk before about Yas Island. We continue to support a consortium of signature Abu Dhabi entities to bring Yas Island to life, full of iconic Abu Dhabi attractions and one of the most expansive tycoon experiences on Roblox. The attractions within the virtual environment are situated across the space, representing 15 square miles in the real world, enabling endless exploration and interaction within a socially engaging world.

Another more recent wildly fun experience we activated was the enchanting world of DreamWorks Animation's Trolls Band Together via Roblox's Livetopia. Yes, I really did play this one myself much like I played in Barbie's Dreamhouse, as you may know. This unprecedented collaboration allows us to blend the magic of Trolls with the boundless creativity of the Roblox community and forge a new frontier where film and digital experiences coalesce into something truly extraordinary by using storytelling, interactive play and musical delight. The captivating week-long listening party experience received 22 million visits, which is about twice the expectation for a typical immersive brand engagement.

Now let's turn to the capital markets. We can't avoid them, right? As so many investors have said to me, Ann, the markets aren't your fault, but they're your problem, right? They're all our problem here as investors as well. We completed a \$2.2 million public offering early in the third quarter which provided necessary working capital and funds for general corporate purposes to support the ongoing growth and development of Super League.

Additionally, we executed a 1-for-20 reverse stock split in a concerted and successful effort to regain compliance with NASDAQ listing requirements. It is my intention to remain transparent with Super League shareholders as it relates to our operations and objectives towards execution of our revenue-generating product lines.

With that said, the fragmented experiential metaverse is ripe for consolidation, and we are continuously monitoring the market for select opportunities. In parallel with a judicious view of M&A, like any smart operator, Management is actively working to address our short and long-term capital requirements, and we'll provide additional updates via our SEC filings.

Given the challenging environment for raising capital and the necessary time spent on those initiatives, I'm looking forward to successfully closing this chapter in short order and focusing on our 2024 path to profitability.

Looking ahead to Q4 and on the heels of our largest delever, as I've said, we have line of sight on at least \$9 million in revenue, and we're just at the midpoint of the quarter. While that would be another quarterly record breaker in itself, we're not done yet. We continue to rally the troops in this seasonally strong time of year toward an even higher revenue record and perhaps our first ever eight-figure revenue quarter. That completes our review of the third quarter and corporate update.

With that, Operator, we can go to Q&A.

**Operator**

Thank you.

(Operator Instructions)

Our first question is coming from Howard Halpern from Taglich Brothers. Your line is now live.

**Howard Halpern**

Congratulations on a great quarter in a challenging environment, like you said. In terms of the cost structure, are we pretty much set now with that \$7 million operating expense baseline number, even with that big contracting program that's coming up?

**Ann Hand**

Well, certainly on an operating cost structure, we continue to look for additional ways to trim our operating expense. We have pulled the largest levers that we started pulling, as I mentioned, in the back half of the year.

As well, I do believe that from a cost of revenue perspective, you will see a little bit of that continued pressure on margins in Q4. Because, again, that sizable program that I mentioned, the heart and soul of it is a Q4 program. There's pieces of it that are recognized and the appropriate cost of revenues associated in Q3, but it is primarily a Q4 program.

**Howard Halpern**

Is this win, does this meet your goal of having longer duration programs?

**Ann Hand**

Yes, it's a good question. It is actually just a good old-fashioned campaign, right? It's just a few-month campaign. That's a long campaign, so I don't want to devalue that at all. But it was a pretty big branded house of products and offers. We believe that this does two things for us. It first allows us to go into that larger holding company and talk about what we did for just one of their product lines and the opportunity to do it for more of their product lines.

It certainly is the beginning, as we've talked about before, about us also going back and saying, what an amazing amount of engagement you just pulled off for 90 days. Now you just got all those fans excited and you just disappeared on them. Why wouldn't we be an anchor or a core part of all the campaigns that you're doing across that brand for 2024? That's more of that persistent approach.

Then the other exciting thing about this specific deal is it was actually the very large ad agency, the holding company that supports this mega global brand that came up to us and said, we think you guys are the best people to manage this. That's a big deal because while the Company that we're doing this activation for has 100-plus product lines under them, you're now talking about a massive global ad agency as well who has hundreds of brands that they support.

When we talk about persistent programs now, we're not just talking about what can we do persistently for the specific brand that we're representing in these channels. But could we almost become the quasi-internal agency or agency of record for these large ad holding companies who are already seeing us as the one trusted capable place because we've been in this space for almost a decade, we understand it so well, could we almost become their go-to partner as well, and that would open the pipeline to a lot of brands, too. There's a lot of legs or ways that we can grab more dollars either through continuous programs, working more with these master brands that have a suite of products and offers and sub-brands underneath them, and then really changing our agency relationships so that we become their first point of call anytime they have a brand say they want to explore these immersive channels.

**Howard Halpern**

Okay. How does the Roblox partnership agreement, how does that figure in, in terms of the number of referrals you get or you have to go out and touch base with them as part of that partnership? How does it actually work and how will this translate into new customer engagements?

**Ann Hand**

Yes. The first way it works is that we are a handful—one of a handful of companies that has the opportunity to resell their massive ad inventory as well across their entire platform. Imagine if we already had a beautiful menu of immersive experiences in worlds and innovative, immersive dynamic ad products that we could sell, imagine that we now get to bolt on all of their special unique products. Now when we go and we package deals to brands, we're grabbing a lot of their products, too.

That makes those deal sizes bigger for us. Roblox doesn't have a sales team to do that. That makes us in a special position. We're not competing against them in that case. But then as well, they don't publish immersive worlds or experiences. Any time, think about the biggest brands, the Nikes of the world and others, they're going to call Roblox first and say, hey, I want to work with you.

We're now, again, on this short list of companies that they will now pass that referral through to. It has the potential to be the single greatest injection into our pipeline of potential deals that we can be pursuing. It really supplements our ad inventory and helps our programs and packages get better, but it becomes a really powerful referral tool as well, as you mentioned.

**Howard Halpern**

Okay. Thanks. Keep up the great work.

**Ann Hand**

Thank you.

**Operator**

Your next questions were entered in by Scott Buck. Ann, congrats on the third quarter 2023 revenue number. I know your gamers skew a bit younger, but curious if you've seen any pullback in automotive ad spend?

**Ann Hand**

No. Actually, on the contrary, we, in Q3, I think, had our largest automotive spend ever. We did a pretty sizable program for Toyota, and that's a repeat customer with us. We're seeing that that's a vertical like fashion and beauty, CPG, food. These are verticals that we weren't as strong in maybe a year ago. We were heavily skewed towards entertainment and toys, but now we're seeing some nice signature brands that are coming into those verticals and they're coming back for more.

Fashion and beauty, it's the L'Oréal and their suite of brands like Maybelline and Urban Decay and others. But specifically, to automotive, the way—while we do have a portion of our reach is certainly under 13, we work with a lot of brands that are targeting that over 13 audience, whether it's State Farm and Visa, financial services. Certainly, automotive skews there, 14 and 15 year olds are thinking about getting their license and that first car. We can uniquely help them reach that over 13 audience and very specifically, if they're trying to reach even one a little older.



Roblox talks a lot about the fact that their platform in general is aging up. There is data to support that they're watching them start to build a little more presence in that kind of 17-plus as well. Some of that makes perfect sense because that 17-year-old grew up in Roblox. As long as the offers and experiences that speak to the 17-year-old are still there, just like the ones are that speak to the under 13, they can keep that stickiness to the platform because it's more than gaming for them. It's their social hangout with the friends they grew up on it.

They're aging up. We have seen that then respectfully ours have been shifted and aged up a little. To date, we haven't had any brand that we can't deliver the right program to hit the audience they want. Sometimes brands will say, I want an over 18 audience. In the case of Toyota, specifically, it is a family-friendly content activation. It's not specifically in Roblox. It is trying to reach a wide net, both the young up-and-coming driver as well as the parents who are maybe making that investment in the next car as well.

**Operator**

Thank you. We do have a follow-up coming from Scott Buck. The added cost of revenue in this quarter, is that pulled forward? Should we expect some relief in Q4? Thank you.

**Ann Hand**

I answered this a little earlier. Clayton, do you want to jump in and add anything?

**Clayton Haynes**

Yes. That particular program that Ann mentioned during her remarks earlier is a Q3 and Q4 program. We certainly mentioned the importance of that particular program and how delighted we were to take it on. But it is one that spans Q3 and Q4, and we were—and we accepted a lower margin with respect to that. But with respect to that program, on that lower margin should wind up in Q4 of 2023. It's not something that we expect to carry and continue into 2024 as we continue to, again, as Ann said, walk up our margins to that 45% to 50% level.

**Ann Hand**

Yes, agreed.

**Operator**

Thank you. The second follow-up from Scott, is your large \$4 million contract coming from an entirely new customer? Is this an existing relationship that the Company has?

**Ann Hand**

It's a new customer. We're really excited to tell you more about it in our next earnings call.

**Operator**

Thank you. We have reached the end of our question-and-answer session. I'd like to turn the floor back over to Ann for any further or closing comments.

**Ann Hand**

All right. On a final note, we understand it's been a challenging time for our shareholders in spite of our strong top line growth. We believe the value of our current share price is at a meaningful discount.



Consequently, Company insiders, including myself, have taken the opportunity to further increase our ownership.

Our strategy is continuing to prove itself out. We built a leading vertically integrated immersive innovation engine that's successfully monetizing the 3D web that exists today with an exciting vision for the opportunity presented by the 3D web of tomorrow.

That is why we modified our name recently and took out the word gaming because gaming represents our roots but our future is even bigger and brighter.

With that, I encourage you to visit [superleague.com](https://superleague.com) to immerse yourself with our capabilities and the exciting brand work that we do. We wish you a great day, and thank you, as always, for joining us, along with your continued interest and support.

**Operator**

Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.