

SLE Earnings Call Transcript

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Quarter: 2

Operator: Greetings, and welcome to the Super League Second Quarter 2025 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 the applicable securities laws. These statements involve material risks and uncertainties, and actual results could differ from those projected in any forward-looking statements due to numerous factors. For a description of these risks and uncertainties, please see Super League's financial statements and MD&A; for the second quarter ended June 30, 2025, available on EDGAR. Important qualifications regarding forward-looking statements are also contained in Super League's earnings release distributed earlier this afternoon and also available on EDGAR. Furthermore, the content of this conference call contains time-sensitive information accurate only as of today, August 14, 2025. 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 over to Matt Edelman, President and Chief Executive Officer. Please go ahead, sir.

Matthew Evan Edelman: Thank you very much, and thank you to all who are joining us today. I'm pleased to bring you our second quarter 2025 financial results and provide an update on our business. Super League's second quarter was one of transition. We streamlined our operations, closed a series of important financial transactions, forged new partnerships to support our revenue diversification strategy and reinforced our standing with key brand clients with more than 75% of our closed deals coming from repeat customers. Our accomplishments have realigned the company's focus and put us on a determined path towards sustainable profitability. Importantly, we continue to see a compelling long-term growth opportunity that validates our core mission. Our expertise is in enabling iconic brands and IP owners to engage the legions of consumers whose daily content consumption includes playing games. Whether within massive platforms such as Roblox, Fortnite or Minecraft or the rich universe of mobile games, our playable media and content solutions help brands capture and keep the attention of these audiences who play. At Super League, we think of play as a state of mind and body. While playing, people are engaged and physically, emotionally connected, aspirational and deeply focused. There is no form of leisure content that inspires more authentic human behavior than play, which makes it the perfect forum for brands and advertisers to build lasting affinity with their desired customers. Our research shows that there are more than 5 billion people in the world who play in various forms, spending 8 billion hours per day in active play mode, translating to more than 3 trillion hours of play per year worldwide. Audiences who play video games represent the largest segment at 3.32 billion people globally. One of the powerhouses in the video game industry continues to be Roblox, a user-generated content platform in which every game is created by the community. Think of it as the YouTube of gaming. Roblox recently posted remarkable second quarter results with record high revenue and strong growth in daily active users, hours engaged and average monthly unique players. In March 2025, a user-created game named Grow a Garden became the largest Roblox game in history and then the largest video game in history in terms of simultaneous players with at least 21.9 million concurrent users, surpassing Fortnite's record of 15.3 million and nearly matching the size of Netflix's audience for their debut NFL games on Christmas Day last year. The growth and power of interactive entertainment is undeniable with 85% of the total online population playing video games.

That includes 98% of Gen Alpha, 96% of Gen Z and 88% of millennials. It is why the International Advertising Bureau has just announced a new measurement framework. This is where Super League lives at the forefront of this thriving space, punctuated by our recently announced partnership with Advertising Week to launch the first-ever gaming summit at AW New York in October 2025. This summit will showcase the value, effectiveness and scale available within this underappreciated sector with an expert advisory panel of marketers, creators and gaming platform leads. Why does this matter? Because the story of the opportunity and case study successes must continue to be told. Despite the data, the shift of advertising dollars to meet consumers where they are the most passionate and attentive within interactive digital entertainment spaces is still in its early stages. Measurement and attribution capabilities that validate the value of digital advertising spends are advancing, but not yet as well established as within other digital media formats. That's the opportunity for Super League to stay in our leading position, to continue helping to define the future and to bring creativity, products and solutions to our clients that raise the bar. Our opportunity is to be the signature company that makes brands playable. Turning to our recent operating highlights. While immersive gaming platforms like Roblox, Fortnite and Minecraft have been the backbone of our business historically, mobile gaming has emerged as an exciting growth opportunity, leading to our exclusive partnership with AdArcade, whose patented playable ad format outperformed standard playable ads by 3x. We now have access to the entire U.S. population of mobile gamers, representing more than 56% of the country at 191 million people. Advancing our ability to deliver scalable, brand-safe solutions to advertisers across every consumer segment while diversifying the company's revenue mix. Non-immersive platform revenue in Q2 remained approximately 15% of our total revenue, keeping pace with Q1, whereas we did not have any meaningful mobile gaming revenue in the first half of 2024. We are particularly encouraged by recent advancements with programmatic advertising partners that we expect to contribute to broader distribution of this unique playable media product in the second half of the year. With an eye towards further revenue diversification and complementing our current market opportunity, we announced an expansion of our partnership with Meta- Stadiums that propels Super League into the TikTok ecosystem through their Metastars Creator Network, an AI-powered TikTok-centric monetization platform. This expanded collaboration aligns with our strategy to bring innovative solutions to brands across gamified content systems with TikTok leveraging mobile gaming engagement and monetization best practices that drove more than \$6 billion of in-app purchase revenue in 2024, including through the Chinese version named Douyin. We expect to see revenue from this initiative beginning in Q4 of this year and then scaling across 2026 through content, commerce and campaign activations. With the importance of reliable data only increasing as the fuel powering the engine of businesses, we launched our first subscription product tied to immersive gaming named Roadtrends Pro. Roadtrends is a Roblox trend intelligence analytics tool, providing actionable Roblox trend insights and unlocking new information for marketers, developers, investors and analysts. The response has been encouraging with a broad array of subscribers already validating the opportunity. We see Roadtrends as another new contributor to revenue that can help accelerate our path to sustainable profitability while underpinning our company's leading position. While our gross revenue reflected caution from marketers to max out their Q2 budgets due to tariff uncertainty, our client partnerships included programs with an enviable list of companies such as Disney, Mattel, LEGO, Hasbro and Logitech. We broke into the sport of golf with Augusta National and the Masters as well as the USGA, driving more than 120 million impressions with Gen Z and Gen Alpha audiences. We expanded on our past success in the finance category with Visa through an initial campaign with Ally, and we continued our work with long-time partner, Chipotle. In April, at the IAB PlayFronts, the Advertising Bureau's dedicated marketplace showcasing advertising and sponsorship opportunities in the gaming industry, we introduced new products that have already been brought to life through 2 first-to-market opportunities. One is the recent launch of a bold first-of-its-kind campaign across both Fortnite Creative and Roblox with Panda Express and their creative agency, The Many. The activation continues to demonstrate the power of playability to drive memorable brand engagement and transform a product launch into a hands-on shareable adventure. The second is a never-before-seen cross-platform program featuring interactive 3D characters on Roblox, Fortnite Creative and Minecraft, done in partnership with Universal Pictures for their animated film, Bad Guys 2. Just this week, we were proud to partner for the third year in a row

with Hiku on a multidimensional Fortnite creative campaign. Their products look like they were designed to live inside video games. Also in Q2, we acquired Super Social, an award-winning Roblox studio with past clients, including Gucci, e.l.f. Beauty, Walmart, Universal Music, Heidi Klum and others. That addition expanded the brand partnership structure and resulted in a Roblox business that has delivered 49 immersive builds, racking up more than 390 million visits and 3 billion impressions on the platform. We continue to look at select opportunities within a fragmented industry to consolidate assets and capabilities through attractive accretive acquisitions. In terms of our financial results, our Q2 revenues grew sequentially by 10%, but decreased 27% on a year-over-year basis due to macro headwinds largely attributable to tariff uncertainty and as we complete the process of adapting to the structural shifts in the Roblox ad ecosystem as previously discussed. With that said, our relentless focus on higher-margin revenue is paying off with Q2 gross margin at 44% compared to 40% in Q2 a year ago and up from 38% in fiscal year 2024. Our cumulative cost reductions, as previously announced, further led to the 23% pro forma operating expense decrease in Q2 2025 compared to the prior year quarter. Most encouraging as we look to the second half of the year with the hard restructuring work behind us, we see promising signs on the revenue front. Of note is our East Coast sales performance. New York is the largest advertising market in the world and had been under-resourced, leading to the bulk of our revenues coming from West Coast-based brands and relationships. With team members anchored in New York and Chicago and a new regional leadership installed in Q3 2024, we have broken through and begun to unlock the potential of this invaluable market. Our East Coast sales revenue was up 150% through June 30 compared to the first half of 2024 with our top seller having achieved almost 100% of his annual \$3 million target in just the first 6 months, knowing that more advertising dollars are put to work in the back half of the calendar year, we see this progress as setting a new benchmark for sales force efficacy with annual revenue targets per seller of \$5 million or more being possible in the future. Our strategic work in Q2 was no less ambitious. As part of further streamlining our focus on reducing operational costs, we divested our Minecraft property in PVP to Mineville, through the all-cash transaction, we became Mindville LLC's exclusive partner for brand partnerships and advertising sales, expanding our access to Minecraft audiences. Simultaneously, much of our effort has been focused on the necessary improvements to our capital structure and balance sheet. We've made substantial progress, curing our annual meeting and \$1 bid price NASDAQ deficiencies, securing \$6.6 million in cumulative new capital since early May. \$4.5 million of which closed in the form of a convertible note with a conversion price premium to market just subsequent to the end of Q2. We also took steps to reduce our 2025 debt service obligations by 90% from \$5.7 million to \$600,000, including the conversion of high interest debt facilities into equity, and we established a \$20 million equity line of credit. The benefits of these transactions will kick in during the second half of the year with greater operating leverage and corporate flexibility that allows us to pursue a broader range of strategic and capital market opportunities. Taken together with our continued focus on revenue diversification and gross margin expansion, we remain on track and committed to delivering adjusted EBITDA positive results in Q4 of this year. Finally, less you think we are unlike so many microcap companies in today's market, we are exploring opportunities in the cryptocurrency space. We are particularly enthusiastic about the recent passes GENIUS Act, which has established a regulatory framework for launching stablecoin-powered programs that have the potential to drive deeper, more consistent and more enduring consumer engagement for brands and advertisers. I'm grateful for your ongoing support and promise never to waver in my determination to lead Super League towards a more successful future. And with that, I'd like to turn it back to the operator to start the Q&A.;

Operator: [Operator Instructions] Our first question today is coming from Jack Vander Aarde from Maxim Group.

Jack Codera: This is Jack Codera calling in for Jack Vander Aarde. Can you touch a little bit on the new revenue lines? I think you highlighted mobile has already grown to about 15% of total revenue. You're seeing potentially more programmatic in the future, a new subscription service. From a high level, can you kind of describe the scope of the opportunity of each? And then maybe like a year or 2 ahead from now, what do you expect the mix to look like?

Matthew Evan Edelman: Jack, it's good to have your question. Thank you and a good question. So this year, the real opportunity will likely remain in mobile in terms of diversification. The subscription product

and our partnership to move into TikTok will really just be getting started this year and probably not be as material certainly compared to mobile. Our target for mobile has been to get it closer to 25% of our revenue this year. We're still aiming for that target. We'll certainly get closer. And then as we look to next year, I think what we're really hoping is that the immersive platforms in general represent more like 50% to 60% of our revenue with 40% to 50% coming from these other areas that are still connected, of course, to reaching gaming and gamified content platforms.

Jack Codera: Okay. That's super helpful. And then given a little bit of efficiencies, do you see your expenses to be -- do you expect this to be kind of like \$1.7 million, \$2 million-ish to be kind of the quarterly run rate of OpEx? Or do you expect that to kind of on a go-forward basis, maybe creep up? Any commentary there would be helpful.

Matthew Evan Edelman: I mean we are -- we don't have any plans to increase our expense footprint. We think we have rightsized the business for what the company needs to achieve in order to get to profitability. And that's our determined goal and the outcome that we're working hard to achieve. The actual flow of dollars will continue to be somewhat seasonal with the advertising industry, typically spending more money in certain quarters over others in the back half of the year being stronger, and so while we don't anticipate any growth on the expense side, there will be a bit of a likely dip in sort of our revenue in the first half of next year like there has been historically and then an acceleration in the second half like there has been historically.

Jack Codera: Congrats on the solid quarter.

Matthew Evan Edelman: Thank you.

Operator: Our next question today is coming from Howard Halpern from Taglich Brothers.

Howard Allen Halpern: Congratulations on the progress that you've made so far in Q2. In terms of what you're seeing your customer base, has that hesitation started to abate and activity increased in -- so far in Q3?

Matthew Evan Edelman: That's a great question, Howard. Thank you, and good to hear your voice. The answer is yes. The fear we had in late Q1 and early Q2 was that budgets were going to be cut. And thankfully, that's not what occurred. They were just paused. And so a number of campaigns were pushed out a bit further than they had initially been planned to run. And a lot of the budgets that were sort of sitting on the sideline have opened up since then. And so we are seeing stronger signs than we've seen in the past relative especially to and are very encouraged based on that shift.

Howard Allen Halpern: And just maybe enlighten us on your thinking, you moved -- you said to New York, Chicago some people and team. What is the cycle going to be like as they start to get close to their, what you call them max capacity and you're adding new people, what kind of cases could we possibly expect growth from that -- from your sales force?

Matthew Evan Edelman: That's another good question. So from our experience, when you bring somebody new into your sales organization, it's a solid 6 months before they are sort of operating at full throttle. And so as it relates to the East Coast, the fact that we are seeing some quite encouraging results does reflect that the team across Chicago and New York really did begin to solidify late last year. And so we think that they're -- they've just begun hitting their stride, and it's one of the reasons we're encouraged by the second half of the year.

Howard Allen Halpern: Okay. And also from your perspective, are you looking for potential partnership or maybe a small acquisition to exploit or trying to way to exploit the GENIUS Act going forward or bringing someone new into the organization that has some experience with stablecoind.

Matthew Evan Edelman: I'm glad you asked about that. We have a handful of ideas as to how the GENIUS Act might open up business opportunities for Super League. We are surrounding ourselves with the right expertise and the right potential partners to make sure if we enter the space, it's from the right starting point with the right foundational elements. There is no need in today's world to build those elements from scratch. And now that the regulatory framework makes it possible to really put together a compelling consumer-facing proposition, leveraging infrastructure that other companies have built is a pretty profound opportunity.

Howard Allen Halpern: And do you see that opportunity in terms of payments or more that the consumers of your customers in control of their digital footprint.

Matthew Evan Edelman: So I'm not sure that where we would see the opportunity is about the way that

customers would possibly manage their identity through the blockchain or other parts of the crypto ecosystem. I think for us, it's really about looking at new models for consumer engagement and helping our partners understand those models and take advantage of what's achievable, particularly because of the nature of how the GENIUS Act was designed.

Howard Allen Halpern: Okay. It's interesting. I know it's like plan new for many different industries out there, but I'm glad you're exploring it. And keep up the great work.

Matthew Evan Edelman: Thank you very much, Howard.

Operator: We reached our question-and-answer session. I'd like to turn the floor back over for any further closing comments.

Matthew Evan Edelman: Thank you again for joining the call today and hearing about our progress. We are excited to be back here telling you about our achievements in Q3 and hope you will stay tuned to what we're able to talk about between now and then. Thank you again.

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