



Play Together.

CONFERENCE CALL TO DISCUSS

THE FINANCIAL AND OPERATIONAL RESULTS OF HUUUGE GAMES FOR 2020

Company: HUUUGE Games

Date: 19.04.2021

Participants:

- Anton Gauffin, Chief Executive Officer
- Elad Kushnir, Chief Operating Officer
- Grzegorz Kania, Chief Financial Officer
- Tal Shoham, Chief Marketing Officer
- Gabriela Burdach, Investor Relations Manager

Gabriela Burdach, Investor Relations Manager

Hello. My name's Gabriela Burdach, I'm the Investor Relations Manager at HUUUGE and I would like to welcome you all and thank you for joining us today for HUUUGE's first earnings call. We've prepared a short presentation and will have a Q&A session after the slides. The speakers today are Anton Gauffin, Chief Executive Officer; Elad Kushnir, Chief Operating

Officer; Grzegorz Kania, Chief Financial Officer; and Tal Shoham, Chief Marketing Officer, all from our Company. I will now ask Anton Gauffin, CEO, to start the call.

Anton Gauffin, Chief Executive Officer

Thank you, Gabi. Hello, everyone. If we could see slide number five... Let's start with the next slide. This is our first annual results call as a publicly listed company. I should say that 2020 was a year like no other. And yet, in many ways, it was just another great year for Huuuge. That statement is intended to highlight the fact that we are a global growth company – that we have a lot of growth ahead of us. Our mission, to empower billions of people to play together is what guides us. To achieve this, we've been building Huuuge as a smart connected network that empowers both first-party and third-party games. But back to the 2020 summary, if we quickly discuss what we actually achieved last year – look at the numbers on the slide – revenue of \$333 million, which confirms that, as a business, we were already delivering an average \$1 million per day. Think about it! This speaks on our behalf. How can we consistently deliver industry leading KPIs such as the \$96 ARPDau, which is the best in class result. This is largely thanks to our focus on social, multiplayer aspects, on people playing together in real time around the globe. This is the 'Huuuge play together experience' that we are so excited about.

When I think of 2020, I'm proud and happy to report that we have advanced our capabilities on all these fronts. Huuuge never sleeps – our constantly improving mindset is what drives us forward. In terms of actual records, we broke many in 2020, from the highest daily revenue to the highest monthly revenue, annual, and so on. Amazingly successful, yet nothing new for us. We have very strong business fundamentals. And strategy wise, we are executing our “build and buy” playbook. In 2020 we have done a lot of “build and buy”, and there's more to come.

For curious shareholders, who want to learn more about how our acquisitions to date have served us, I'm very happy to share a couple of insights regarding Playable Platform – the epic acquisition we closed in July 2020. The slide showcases whether and how successful this acquisition has been so far – it has significantly increased our total output. This is thanks to Playable Platform which has enhanced and boosted our capabilities. In relative terms, we have already more than doubled user acquisition campaigns, powered by our self-optimizing playables compared to the point where we were when we closed the acquisition.

The fact that we have been winning with smart playables and our business momentum is not a fluke. It is all about systematic “build and buy” and the operational excellence of Huuuge as a global company. We are not just a gaming company – a lot of highly advanced tech is (em)powering us and helping Huuuge evolve into a smart connected network, which is very much our plan.

Having said that, I’m happy to pass the microphone to our COO Elad who will talk more about the progress with our core and new franchise.

Elad Kushnir, Chief Operating Officer

Thank you very much. Hello, everyone, I’m Elad, the Chief Operating Officer. I’m excited to talk to you today and I feel privileged to be able to tell you about our amazing year, and the amazing things going on in the business. But first I’ll talk about our core franchises, which most of you should be familiar with. We’ve had another amazing year. We’re extremely proud of everything we’ve been able to deliver. On the left of the screen are some indicators which will give you an idea of our achievements. Almost every key performance indicator across our core franchises has substantially improved from 2019 to 2020. We’re proud of this momentum, which was delivered with four core pillars in 2020, as you can see on the right of the slide.

Above all – which I hope you’ve already heard us say if you’ve been following Huuuge’s activities – we’re on a mission to build the most professional games team on the globe. These are not empty words. It’s the action that we take every day and idea behind everything we do. In 2020, we hired more than 110 global games industry experts; we take this process and strategy very seriously. Our philosophy is that we bring in the expertise, we provide them with a domain to manage and we move out of their way. This is one of our biggest growth drivers. And you’ll be hearing more and more about that as you get to know us better.

The second thing we did in 2020 was to deliver best in class features. This is a highly competitive industry. Our players expect only the best, and since we’re competing with giants, we have to deliver amazing game features. I’ve listed some examples on the slide – two of our collectible features that we launched in 2020, Huuuge Charms and Casino Fever.

We consistently deliver high quality slots content, which is tier one by definition. And we have a very robust feature roadmap for 2020, 2021 and beyond.

The third thing that we did in 2020 was to further solidify our tech stack advantage. Earlier, on one of his slides, Anton mentioned that we're not just a games company. We're very much a technology company. We've developed game development engines: live operation engines, user acquisition tools, artificial intelligence and machine learning models all operate at scale in our games and in our marketing activities. I'm pleased to say that in the next few... soon we'll be revealing a little more about why we have a substantial tech stack advantage that we're really proud of.

Last but not least, and in many ways very much our secret ingredient, is that we executed a rich and entertaining live operations calendar. For those who don't know the meaning of "live operations" it essentially means that we operate our games like an entertainment venue. We hyper personalize the entertainment venue for all players depending on their level, location or the amount of money spent on the game. So, you and I might each arrive to the game on the same day, same time, but our experience differs based on our behaviour. That's basically our live operations capabilities. As a result, like Anton said, we delivered many record monetization days, months and the entire year, and we substantially increased our user engagement and retention across the board. And we're very proud of that. We had a great year to summarize, in our core franchises, and I'll be happy to speak about our new franchises where we had an even more amazing year. Next slide, please.

Of course, you've heard Anton say many times, we're a global growth company. And we're obsessed with growth. Every day in everything we do we think of how we deliver more, in our top line, bottom line, key performance indicators across the board. The main accelerator of our growth in 2020 were our new franchises. So, one of the things that we're super proud of is that in Q4 of 2020, 9% of our revenue came from our new franchises. In December, their share was already double digit. In Q1 2021, it's even higher than that. All of this happening. Please remember that we're also growing on our core franchises; there's still a lot of upside in our core franchises. We're super proud of the momentum they have allowed us to bring to the table. We tripled our daily active users in 2020. And that continues to grow as we speak.

There are two games we want to highlight: our growth driver for 2020 was Traffic Puzzle, a match 3 game, that we acquired through our publishing division, developed by a third-party developer; and Star Slots, another of our core competency games developed inside Huuuge, a first-party game. Both are doing really well. And we're super excited about the growth that they're driving into our P&L. Next slide, please.

This may be the most important slide conceptually, because this is something I want everyone to understand. When you look at the left side of the slide, you'll see our cohort cake. Essentially what you're seeing is the revenue generated by installs by year. And it's important to really understand what you see here because Huuuge is very much an evergreen game company. Many games have a bell curve, Huuuge's games don't. This is because of the nature of our games and the way that we operate them as an entertainment venue, games as a service (some of you might have heard that term) or games of an entertainment venue, or live operations. This is really at the core of our expertise. And this drives the long-term loyalty of our players. Of course, this is just the icing on the cake. Our flagship feature is that we're a truly social mobile game company. This means that we have clubs, essentially social networks, inside the games. Forty-four percent of our monthly active users are members of our club, 84% of our players interact with other players. What this really does is to generate higher monetization and higher retention. So, our clubbers are extremely loyal. This also gives us a huge competitive advantage over our direct competition. It really is not easy to build such a social network into the game.

So, on that note, I would like to thank everybody for taking time to listen and I'm looking forward to communicating with you again in the future. Thank you very much.

Grzegorz Kania, Chief Financial Officer

Thank you, Elad. Hello, everyone, good morning. After the introductions from Anton and Elad you must be aware that I'm very pleased to present the key financial highlights for our 2020 results which was indeed a very good year – a year like no other. As Anton said, we've been able to increase our revenue for yet another year at a rate of almost 30%; 28% year-on-year revenue growth for the full year. Our adjusted EBITDA more than doubled; it actually increased by 131% compared with 2019. As a result, we've also enjoyed a significant increase in adjusted EBITDA margin of 7 percentage points from 10% in 2019, to high

double digits of 17% in 2020. As much as the whole year was a great one, so was the fourth quarter. Many of the key fourth quarter indicators have been discussed by Elad. When it comes to the product, our revenue increased by 24%. This was driven by both the core and new franchises as you've seen on the previous slides. The new franchises accounted for 11% of our total revenue in December which is continuing to increase going forward.

Looking at our results for the fourth quarter of 2020, let me return to what we communicated as our plans and product roadmap for 2020. Investments in user acquisition, and in the core and new franchises greatly increased in the fourth quarter – by \$15 million – compared to the fourth quarter of 2019, and comprised 45% of revenue. And, as already mentioned, they resulted from the actual product roadmap and scaling up of the new franchises. We are investing in the acquisition of new players to keep up the high top line growth. Although, particularly in the fourth quarter of 2020, that, including factors – which I'll discuss on further slides – led to a decline of \$12 million to a level of \$3 million in adjusted EBITDA.

Also, when looking at the results for the fourth quarter of 2020, particularly regarding revenue, please remember that the unique growth moment in the fourth quarter of 2019 came from fundamental upgrades in the game economies that we implemented in September 2019. So, the base of Q4 2019 already has the effect of this significant ramp up of revenue. When it comes to more details about our financial performance, as I have said, revenue increased by 28%, from \$259.4 million to \$332.7 million, which was driven by our core franchises that delivered 24% year-on-year growth, as well as our new franchises which almost tripled the revenue in 2020 compared to 2019. So, as you will remember from the product slides, we not only tripled our active users, but also – which is a very positive outlook for the future – we were able to maintain the same level of growth on the revenue generated in the new franchises. And, thanks to such dynamic growth, our new franchises increased their share in total revenue from 5.6% in Q4 2019 to 9.2% in Q4 2020, and 11% in December.

As far as our operating expenses are concerned, our main cost item – user acquisition marketing campaigns – amounted \$111.5 million in the full year, which represents a drop of 7% compared with 2019. The decrease came mainly from our core franchises where we were able to optimize our marketing efforts by focusing on high value players through the

retargeting campaigns. As you may remember from our roadshow presentations, the retargeting campaigns are about reaching out to the users who used to play our games in the past and who spent money on our games in the past and who are therefore highly likely to again spend money on them.

At the same time, in 2020 we increased user acquisition in our new franchises, particularly in Q4, and the level of our investments in marketing campaigns in 2020 for new titles more than doubled compared to 2019. As I have said many times, investments in user acquisition campaigns in Q4 2020 were considerably ramped up compared to Q4 2019 and the previous quarters of 2020. On the one hand, this was in line with the product roadmap of Huuuge Casino and Billionaire Casino, many Live Ops and other product features that Elad discussed earlier in the presentation. On the other hand, we further increased investments in user acquisition to capture high ROI in scaling opportunities for our new franchises, particularly Star Slots and Traffic Puzzle. Consequently, our user acquisition marketing campaigns increased by 58% in Q4 2020 compared to Q4 2019, and amounted to \$40 million.

Other notable OPEX and research and development expenses increased from \$15.8 million to \$29.8 million in 2020, as the combined effect of a higher headcount, which increased from 284 FTS as at the end of 2019 to 371 FTS as at the end of 2020, and also, the effect of the increased seniority of the team as our technology platforms become more advanced. General and administrative expenses increased from \$14.2 million to \$27.6 million, mainly due to higher cost of salaries and employee stock option plan expenses, but also as a result of higher costs of external finance and legal services in preparation for the company to go public. Those expenses, direct IPO expenses, amounted to \$1.5 million. The advisory expenses related to making the company ready for going public brought another \$0.5 million on top of it. So, altogether, we can allocate \$2 million of expenses from our G&A to those IPO related activities.

Please also note that in our other operating expenses for 2019, we've got a non-recurring one-off provision of \$6.5 million for the settlement of a claim brought against the company in the state of Washington. That's obviously a non-recurring item for 2019. Similarly, our financial costs for 2020 and also in Q4 2020 include a very significant non-recurring expense and non-cash expense relating to the revaluation of the Series C preferred shares, which is

explained on the next slide, where I would like to guide you through the bridge between our reported and adjusted results.

So, when it comes to EBITDA, as already explained, the adjustment for 2019 includes the \$7.5 million one-off provision for the Washington case. And the other adjustment relates to the employee stock option program expenses, which are non-cash expenses for our long-term incentive program in order to keep our employees engaged, motivated and have their skin in the game. And what's not reported as an EBITDA adjustment, but what's maybe also worth noting is those IPO related expenses, which as I explained a while ago, amounted to \$2 million in 2020.

When you look at the reconciliation or the bridge between net results and adjusted net results, you will note that the adjustments related to the valuation of preferred shares, the financial expenses and non-cash expenses after the IPO. Also non-recurring financial expenses related to the revaluation of the Series C liability (which is very specific to the accounting treatment of those shares) amounted to \$128 million in the whole of 2020, and \$190 million in the fourth quarter of 2020. Immediately before the IPO, the Series C preferred shares were converted into common shares, and the fair value of that conversion was recognized as part of equity. So, basically from the IPO forward, there will be no effects of any revaluation of those shares.

A quick look at the balance sheet. What may be worth highlighting here is that the total assets comprised mainly current assets, the largest item of which is \$94 million cash as at the end of 2020. The other significant item of the remaining balance is receivables. When it comes to equity, as I have already said, the Series C liability made our equity negative in 2020, however, the revaluation of those shares immediately prior to the IPO, and the recognition of it as equity already makes the equity reported for Q1 positive. In addition to the \$94 million of cash as at the end of the period, it's worth noting when it comes to our liquidity that 2020 brought about a very strong operating cash flow of \$73 million. This actually contributed to the \$94 million cash as at the end of 2020. Added to that are the proceeds from the IPO. On the next slides, you'll see that in the IPO we raised net funds of \$100 million. It's been the largest gaming IPO in Poland and the largest mobile gaming IPO in Europe. Altogether the offering was worth \$442 million. It attracted investors from more than 20 countries during the book building and post IPO our shareholding structure

remains very stable. The three largest shareholders account for approximately 49% of shares. And those are Anton Gauffin, Raine and Kora Management.

With that may be a quick review of our trading update. We released the flash revenue or flash gross bookings report earlier this month. Our revenue for Q1 2021 increased by 27% compared to Q1 2020, which, again, makes the first quarter of 2021 the best quarter in the history of Huuuge for both our core and new franchises. The core franchise revenue increased by 16%, while the revenue generated by our new titles in Q1 2021 again more than tripled compared to Q1 2020. We kept our user acquisition marketing campaigns on a very similar level to that of Q4 2020 in absolute terms. This again is in line with our increased investments in the user acquisition marketing campaigns in the first quarter of this year, so as to capture those high ROI investment opportunities in scaling of our new franchises, which you can see on the right-hand chart on this slide.

With the results for Q1 2021, we remain positive about our 2021 full-year EBITDA outlook. We expect 2021 to be another record setting year for our business overall. We envisage our revenue growth at low- to mid-twenties year-on-year focusing on delivering operating results and continued improvements in the monetization across our games. As planned, we expect our new franchise revenue to be at high-teen percent of the total revenue by the end of the year. Our outlook for user acquisition expenses also remains stable – we expect it to be at the level of 33% to 35% in 2021, with higher weighting of spend in Q1 and Q2 and lower weighting of that spend in the second half of the year. Approximately 1/3 of our user acquisition expenses this year will be allocated to scaling up the new franchises. We expect our adjusted EBITDA profitability, and adjusted EBITDA margin in 2021, to be broadly in line with that of 2020. This obviously comes with the increased costs of general and administrative activities related to public company compliance and the increased investments in user acquisitions. Again, we should remember that due to the phasing of user acquisition expenses, we expect our profitability in the first half of 2021 to be lower than that in the second half of the year.

With that, I will hand you back to Anton to conclude the presentation of slides on our 2020 earnings.

Anton Gauffin, Chief Executive Officer

Thank you, Grzegorz. “Build and buy”, specifically the “buy” side. I think it’s important to reiterate what our focus is. Essentially, we’re looking for additional growth. We’re looking for mobile free to play companies, to create mobile free to play games. We love strong synergies, and the outlook of additional growth. When doing this, we think of both the short- and long-term prospects, and ultimately we are looking for companies that will join us in our mission, to build a network. So, there needs to be strong alignment with that. We’re highly disciplined in how we do our “buy” part. As you can imagine, deal flow wise, we’ve been busy talking with many teams, as you can see from the slide. We are approaching the business very systematically, and currently we are actively pursuing five opportunities.

I’d love to tell you more, but I won’t. The plan we already communicated during the IPO roadshow, that is to have IPO proceeds deployed later next year at the latest, is still the case. What you can expect from us is that we are now highly active on the market and will be in the future. The “buy” part also includes our publishing activities, so it’s not exclusive to acquisitions. On that note, I think it’s now time for questions. And I thank you for your attention. Thank you.

Gabriela Burdach, Investor Relations Manager

[Operator Instructions]. Thank you. I think we can close the slides now.

Anton Gauffin, Chief Executive Officer

I can see that there are already a couple of questions on the chat. Shall we start?

Gabriela Burdach, Investor Relations Manager

Let’s start with the chat. At today’s conference for journalists, the company confirmed its interest in acquiring local mobile gaming studios. Is the company looking at game developers listed on the Polish Stock Exchange, or only non-listed companies?

Anton Gauffin, Chief Executive Officer

I'll take this one. I don't think I gave a clear answer to the question as to whether we are looking for any public companies, or how many. Our approach is a global one. As we mentioned earlier, we do see a lot of talents and the whole Polish game development scene has been evolving very positively, and we are very proud to be part of that. We are not disclosing specific details of how many non-listed and how many listed companies we are currently having discussions with.

Gabriela Burdach, Investor Relations Manager

The next question: could you please compare the performance and KPIs of Stars Slots with those of Billionaire Casino and Huuuge Casino at the same stage of their life cycles?

Elad Kushnir, Chief Operating Officer

That's a good question. I think I'll take this opportunity to discuss how we approach new franchises in general, just to make sure that everybody is aligned with how we operate. We work on a lot of games at any given point. So, we have an amazingly strong team that is executing our builds strategy. At any given point, there could be a handful of maybe even more games under development inside the company. The way that this works is that there is kind of a funnel such as aviation prototyping, first experiment, market test, etc. Very few games make it to global launch. It's really important that everybody understands how we operate on these new games and new franchises. The reason I say this is because over the past months, when we've been talking to investors and the market in general, there's been a lot of interest in that. I understand why. But I also want to make sure that everybody understands how we operate. I wouldn't like to have any unwarranted speculation coming from our early stage games, because in many instances these early stage games are just too young to be able to venture an opinion about them. With regard to Huuuge Stars, which is already a little more mature, and is formally in a scaling process, we're extremely happy with the key performance indicators. Across the board, their conversion rate, the ARPDAUs, the retention KPIs are super healthy. If you put them on an industry benchmark level, we're doing really well. It's an iterative process. So, we launch a new feature, we optimize, we launch another new feature, we optimize, we release more content, etc.

And so, to the question, if you're comparing HC and BC at the same time of their lifecycle, we're super happy with where it is. We also believe that we're going to be able to drive additional growth via this game. And we're super excited, both by the team and the product that we have.

Gabriela Burdach, Investor Relations Manager

The next question comes from Ken Rumph's line. You can now ask your question.

Ken Rumph, Jefferies

Hello, everybody. Thank you for the presentation. I have three questions. The first one was just to understand the trend in R&D expenses and generally in FTEs, how many employees do you have now? Excluding acquisition, where do you think you might be at the end of the year? I'm just trying to understand how far we are in terms of growth from what you want to achieve in the current games. And then the second two questions are a little more straightforward. One is about tax which was lower than expected last year. What should we expect going forward? What goes into the taxable profit number to understand the mechanics of that? And finally, a more general one, we see in the States, some of the real money gaming, people who have social casino businesses, thinking of Golden Nugget, for instance, seem to be using social casino or channeling their social casino players into real money gaming as that gets legalized. Do you see any effect of that? I know, Playtika have said this does not related to your players. Do you think that lessens the competition in social casino if similar competitors are using it as a channel into real money gaming? Thank you very much.

Elad Kushnir, Chief Operating Officer

That was a lot of questions. I will take two of those, the last one, the social casino one and the headcount one. Maybe since I jumped on board, I'll start. I'll start with the headcount one in terms of FTEs. So, we're still in the scaling process of the organization. We're in the low to mid six hundreds, right now; in terms of FTEs we expect to be in the range of 700 people by the end of the year. To be honest, the scaling process is not as quick as it used to be. We're not growing the headcount aggressively. For the record, we don't have a

headcount growth target. It's not something we're looking for. In general, the mindset is less people more revenue. In short, to answer your question, that is approximately 700 FTEs at the end of the year; but please don't hold us very tightly to that number.

Your second question was regarding the social casino, and companies funneling players from social casino to real money gambling. So, I'll start with a NO! – a big capital N and a capital O. So, first of all, one, we don't do it, and we'll never do it. Two, I don't know of any large-scale social casino company that thinks that's a viable strategy. By the way data shows it's an irrelevant strategy. Believe it or not, it's actually a different user base. So, anybody that you've heard doing that is probably bound to fail with this strategy. We think it's completely irrelevant. It's a very different user base, believe it or not. Our user base comes to be entertained; the real money gambling user base goes to gamble. It's a different world. That's kind of that. And, no, we don't see that. And because of that, we don't see it as a potential cannibalizing factor. I hope that answered both your questions.

Grzegorz Kania, Chief Financial Officer

If I may, I'll take the tax question which is a very interesting one. Perhaps, I'll start with our tax rates and tax for 2020 and then try to explain what happens going forward. So, regarding 2020, in our profit before tax, we had two significant items that are affecting our effective tax rate. One of those is, of course, the valuation of the Series C shares, as I mentioned, \$128 million, it's a fully non-taxable transaction. So, that definitely distorted the relationship between the net result and the taxes paid. And the other one was related to the treatment of the Washington case settlement in 2020. And if we take out the effect of the two, we will come up with what I would call a normalized relationship between the taxable profit and the tax rate. I can refer you to the note on income taxes in our consolidated financial statements, where all those details are provided.

When it comes to the taxation going forward, I need to make one important disclaimer in view of what is currently being discussed in the United States. We do know that our tax environment is subject to potential changes, which we can't assess right now and, therefore, I can't comment on it. So, that said, we believe that our tax rate for 2021 and going forward will be similar to that which we would have had without those two significant items affecting the 2020 tax, which is the Series C valuation and the Washington case tax treatment.

Ken Rumph, Jefferies

Okay, thank you. I'll drop back into the queue. I can always come up with more questions, don't worry.

Elad Kushnir, Chief Operating Officer

Thank you. I see we have some questions in the Q&A. Gabriella, please could you moderate to make sure that we answer them in the right order?

Gabriela Burdach, Investor Relations Manager

Yes, exactly. I would like to let Matthew Walker speak. Because he was raising his hand. So, Matthew, please can you ask your question.

Matthew Walker

I put some questions in the chat. It's about the timing for the launch of Bingo and Bow Land and have you got the licence for Bow Land? That was the first question. The other questions were, how are you going to deal with IDFA for retargeting? There are a lot of experts who are pretty nervous about the ability of mobile gaming companies to align customers when that comes in. And then the last question was about the lawsuits against Apple for social casino games. What risk do you think you run there on the lawsuits? Obviously, they're against Apple, not against your company. But how do you think Apple is going to react to people complaining about gambling, social casino games?

Elad Kushnir, Chief Operating Officer

I'll take the first one regarding the launch date. I don't think we want to speculate. As I said earlier, how we operate the early stage games, we prefer not to talk about them. Even if I give you a launch date, it shouldn't be an indicator of anything to anybody. It would just be a vanity metric, which we think it would be undisciplined of us to give out. With your

permission, I will respectfully decline to answer the question. I think it's not one that would add value, because it will be very decontextualized from reality.

Anton Gauffin, Chief Executive Officer

I think, Elad, that perhaps there is one thing here that we are reminding people about – when we acquired Double Star, they were working on a game called Bow Land. It seems that this Bow Land engine has actually sparked a couple of other product developments that we are taking forward, called Rogue Land and Arrows & Empires. Bow Land is also being taken forward by ByteDance Studio in China. So, I think the question may have been specifically about how Bow Land is doing in China. Regarding the licence, Bow Land has indeed, sparked a couple of new products. And, typically, we don't want to comment too much on the games that are in their earlier stages, as Elad said.

There were several questions. So, Grzegorz, maybe you'd like to take those parts?

Grzegorz Kania, Chief Financial Officer

There was also a question about the case brought against Apple regarding the social casino games. As you correctly noted, it's a case where Apple is the defendant, Huuuge is not, as well as many others like Playtika or Zynga, which also have their products listed on that claim. Perhaps it's worth mentioning that it's not the first claim of that type. We know that the free to play market is a big one, and that it's also a regulated market. So, claims like this at such an early stage will pop up. And we are not aware of any claims of that type that would have been approved by the court. To our knowledge, there have been cases that have been dismissed. It's very difficult for us to say what Apple will do. We believe that Apple as a distributor of free to play games will react accordingly. We believe that in the regulated business that we have now operated in for so many years, we comply with all the regulations to a sufficient extent.

Tal Shoham, Chief Marketing Officer

I think the last part of Matthew's question was around the IDFA, I'll take that. Generally about IDFA, I'll give everyone on the call a brief understanding of how we've been preparing

for the last 10 months – we’ve been obsessing over this matter, taking it very seriously and putting a lot of resources into it in terms of hours, the time we’re spending with our partners and consultants, and so on. We have two dedicated task forces in the company that have already been meeting three times a week for the past seven months. One is a general task force on the level of the entire company, on the HUUUGE level that combines the products, all the different studios, data and so on. We also have a dedicated task force on the marketing team. As I said, we’ve been talking to all our partners, our MMP, which is AppsFlyer, about how to deal with this, implementing new conversion values and events, playing around a little with probabilistic capabilities and probabilistic attribution. So, we’ve been out there experimenting and talking and working on this extensively. After all that, we’re very ready, as ready as we can be.

I think we’re also rather better positioned than other companies, when it comes to IDFA. Most of our DAU is non-iOS, most of our revenue is non-iOS. So, in that sense, it’s very good – 95% and above of our revenue comes from IAP and not from ads. So, this does not have a big monetization impact on our capabilities and our performance. It’s still a big question how this will impact UA and retargeting. But we feel we’ve done the most extensive and serious work that can be done. And we’re as ready as we can be. This should happen this week, by the way, the new ATT changes and the implementation of iOS 14, from a tracking and transparency standpoint. So, we shall see. But I feel we’re as ready as we can be in the most professional way. We’ve done a lot of work around this.

Anton Gauffin, Chief Executive Officer

Maybe in the IDFA context, it’s worth highlighting again, the big investment we’ve done, with tech and creating layers, if you want to share a few more words about Playable Platform.

Tal Shoham, Chief Marketing Officer

We’ve been allocating a lot of resources and putting in a lot of our time on building a lot of technologies around marketing, around data, and around segmentation, and targeting, and a lot of different things that we’ve been investing in. Almost a year ago, we acquired a company called Playable Platform that specializes in building technologies for playable ads, for consolidation of data of different formats and different ads, and doing automatic

optimization of different formats by building many, many different permutations of playable ads, and optimizing the ones that are working best and deprecating the ones that aren't. We've seen a dramatic increase in the number of creatives and playables that we're able to generate. Just as a reference, a year ago, we were able to do one to two playables a month. Now we're able to do 40 to 50, with around 200 different iterations each month. We spent around \$1 million per quarter around a year ago on playables, we're now spending \$3 to \$4 million a quarter.

So, we've ramped our capabilities up dramatically. When we look at all the creative capabilities that we're able to generate today, we feel that we're in a much, much better place. This has many implications on the business, especially when it comes to \$110 to \$150 million of marketing budget per year. If we're able to optimize that by 10%, 20%, 30%, which we are, that's a massive improvement and a lot of upside for us on the marketing side. And that's exactly where we are now. There's still far more to be done and achieved with that platform. And we're making many more investments into marketing technologies and technologies in general. Like both Elad and Anton said, we're not just a gaming company, we also treat ourselves like a technology company, and we make a lot of investments there. So, the acquisition of Playable Platform has dramatically improved our capabilities and optimization capabilities. So, we're very, very pleased with that, and there is much more to come.

Matthew Walker

Just one quick follow-up – you mentioned Traffic Puzzle and Star Slots as new games that you're focusing on. Is there anything that we should be aware of that you're going to focus on in new games for the second half of this year, aside from Star Slots and Traffic Puzzle?

Elad Kushnir, Chief Operating Officer

Again, we highlighted these two games because they're maturing and they're already in a place that we feel confident we can discuss them publicly, and put our names on them. I think again, speculating about any other new games would be undisciplined on our behalf. Sorry, Matthew. I know I'm sounding like a broken record right now. But I do want to be disciplined about it.

Matthew Walker

Okay. Thank you very much.

Gabriela Burdach, Investor Relations Manager

So maybe now, let's take three questions about Traffic Puzzle from the chat.

Tal Shoham, Chief Marketing Officer

I can take them all Gabi. I have them in front of me. I'll take everything around TP. TP is part of the publishing activity, which I'm also managing and leading. So, I'll take these questions. Regarding daily active users for Traffic Puzzle. We usually don't disclose daily active users' numbers; it's also not something that we necessarily optimize such as other KPIs for growth or decrease. But generally speaking, in Q4 the game had between 100,000 to 150,000 daily active users. And that number is growing and growing in Q1 2021, and we are going to continue growing that in the future. So, that's that.

About Traffic Puzzle in 2021 – again, we don't want to disclose too much about specific games, like Elad said, we're managing a portfolio of games, we're making changes in our investments in marketing and product and other resources, depending on game potential and growth, and KPIs. So, we'd rather not disclose too much about Traffic Puzzle in terms of exact numbers and growth. But I can say that the game has grown massively in the past six months, and we're planning to keep on investing and growing that specific game. Is there anything else about TP that I missed, Gabi?

Gabriela Burdach, Investor Relations Manager

Yes. When do you expect Traffic Puzzle to reach profitability?

Tal Shoham, Chief Marketing Officer

Ok. It's a good question but we're not yet at that stage, not at all. We are only in the growth mode with that specific game. We believe we can turn it into a top grossing game, which we are planning to do and which we're investing in doing. And that's the core focus for the game to generate hundreds of thousands of dollars on a daily basis. That's what we're focused on in terms of resources, in terms of marketing, in terms of working together with

a third-party partner that is building the game. And that's where the mindset is 100% for now – we're focused solely on massive growth for the game; we're not yet focused on profitability.

Gabriela Burdach, Investor Relations Manager

Maybe one question more from the chat - how is the cooperation with Cherrypick Games?

Tal Shoham, Chief Marketing Officer

Of course. Cherrypick Games, we're working together, publishing a Solitaire adventure journey, it's a Solitaire game. It's still in its very early stages, so there's not much that I can comment on. There's a lot of upside on the product that we're working on together with the Cherrypick Games team; we have a lot of fun, and it's a very talented team. That's all I can say right now. But it's still the very early stages and far from understanding the full KPIs and the funnel of the game. We understand that there's more work to be done. We've mapped out everything that we can do together, everything around the product, the KPIs that we want to help improve. But it's still very early stage. I'll go back to what Elad said about our portfolio management strategy, we have multiple games, and we're investing in all of them; not equally, of course, when the time is right, and the KPIs are on standard, we'll invest more and more when it comes to marketing and push that game for daily active users and revenue and so on. But it's still early with Cherrypick Games. That's all I can say.

Gabriela Burdach, Investor Relations Manager

Now let's perhaps talk about the next question from Robert's line. You can now ask your questions.

Anton Gauffin, Chief Executive Officer

His question was about Cherrypick. Maybe we've covered that already.

Gabriela Burdach, Investor Relations Manager

So, maybe Ken ask your follow-up questions.

Ken Rumph, Jefferies

I just wanted to check a point concerning where ESOP expenses appear. Are they spread through the cost lines or mainly in G&A? And would it be possible to get a breakdown of the

quarters last year? We obviously have the nine months' figure, and we'll have a first quarter figure when we get the first quarter numbers. But we're making estimates for quarters without knowing what the figure was last year or have I missed it, in which case it may be in the stuff that was published last night that I haven't read through. Thank you very much.

Grzegorz Kania, Chief Financial Officer

Perhaps I'll take the question about ESOP costs. Yes, you're right, beginning from 2020, we are spreading our ESOP costs across the functions. The details can be found in the notes to the financial statements. What I can tell you is that the largest part is in the general and administrative expenses, that's \$2.6 million; the research and development is \$0.7; and the sales and marketing is \$0.5. You will find all the information in note number 7 to our financial statements. When it comes to the quarterly split, I think that some part of it is already provided in our annual report when it comes to revenue. When it comes to the results, it's a very tricky question, because we are doing our quarterly reporting for the first time this year; on the 25th, we will be presenting our Q1 financial results and the comparatives. So, I believe we'll simply report it at that time. And the semi-annual results are subject to review by the auditors. So, again, the comparable will also be reviewed by the auditors. But I think that when it comes to the quarterly split we'll consider providing some of the data in advance – some of the revenue data and gross profit data of the sales margin data.

Ken Rumph, Jefferies

Thank you very much.

Gabriela Burdach, Investor Relations Manager

Okay, the next question from the chat. Could you comment on the operating costs excluding UA in the fourth quarter of 2020? Why they were visibly higher than on average in the nine months of 2020? What should we expect in the upcoming quarters?

Grzegorz Kania, Chief Financial Officer

Perhaps I'll take that one. I think that research and development has already been covered by Elad when he spoke about ramping up the teams of research and development; there is not much more than the cost of salaries in that function. When it comes to general and administrative expenses, I've already highlighted that there's about \$2 million of extra costs

related to the IPO, either directly related to the IPO of \$1.5 million or \$0.5 million related to the external services that helped the company to prepare for going public. So, definitely, this had a significant impact on the cost base of Q4 2020 for the general and administrative expenses. And of course, other than that, when you compare the first nine months of 2020 and Q4 2020 on a pro rata basis, of course you will find that 2020 was a year of rapid organizational growth as were the previous years.

Gabriela Burdach, Investor Relations Manager

The next question from Michał on the chat, could you tell us more about retargeting in casino games, how has increasing the share of retargeting in your marketing budget impacted the KPIs and results of your games? Are you still planning to spend around 30% of marketing budget on retargeting in 2021?

Tal Shoham, Chief Marketing Officer

I'll take that one. Yes, retargeting is indeed still a very big part of our strategy and also, part of our future strategy for the marketing side. We're also heavily investing on the product and technology side, and also on the UA or retargeting dollars that we're actually spending with the number of partners that we have, different creators and so on. So, that's definitely still a very big part of our strategy. Today, we're spending around 20% to 22% of our marketing and user acquisition funds on retargeting. That's roughly the number for the total company. Of course, 99% of that goes for our slots and casino games. We are also starting to spend on other games, but we're still in the range of 3% to 5% of retargeting spend on those games, which will increase dramatically. I do expect this to finish at around 30%, like we're planning and like we stated in the prospectus and at the roadshow. Those will roughly be the numbers that we're aiming for. There's still a lot of product development and enhancements that we're investing in, like all types of different segmentation capabilities. We're working on capabilities of giving very attractive rewards and gifts for our users that are not regular and are part of our core capabilities today. So, we are making a lot of different advancements and putting resources into the tech and product side, which will probably be ready in the next few weeks. And then we can ramp our investments up even more. In terms of KPIs, retargeting remains best performing in terms of return on investment and our ROS. We're seeing a 2 to 3, or even 4-fold increase in capabilities in terms of performance when investing in retargeting compared to user acquisition. So,

superior KPIs are definitely the result of our strategy adopted at the beginning of the year. We're now just executing it. And we're seeing the fruits of our efforts as we go.

Gabriela Burdach, Investor Relations Manager

Thank you. The last question in the chat, one of the risks highlighted in the prospectus was insufficient resources in the reporting departments. Have you managed to mitigate this risk?

Grzegorz Kania, Chief Financial Officer

Thank you. I think that the best example we did manage is today's meeting, which we are holding more than a week ahead of the statutory deadline for reporting our annual results. The audit went very smoothly, and the preparation of the annual report was run very smoothly. As indicated, we also changed our ERP system to SAP Business One, which is now up and running. We'll be using it to report our first quarter results. We've employed a highly capable, very experienced team, full of expertise, for the reporting function. And I'm confident that the risks, explained in the prospectus, have been mitigated to a sufficient extent.

Gabriela Burdach, Investor Relations Manager

Thank you, Grzegorz. I don't think there are any further questions. But if you have any at a later stage, or you want more information or data files, you can reach out to me or you can go to our IR website. I will now ask Anton for some closing remarks.

Anton Gauffin, Chief Executive Officer

Thank you, Gabi. Thank you all for joining us. Please remember to download our games. We appreciate your engagement, reviews, and, of course, your in-app purchases. Stay tuned for more Huuuge action. Thank you all once again. Goodbye.