

Huuuge Games

CONFERENCE CALL TO DISCUSS HUUUGE GAMES FINANCIAL AND OPERATIONAL RESULTS FOR THE FIRST QUARTER OF 2021

Company: Huuuge Games

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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 is Gabriela Burdach, I am the Investor Relations Manager at Huuuge. Welcome everyone and thank you for joining us for the first quarter earnings call. We have prepared a presentation, and after the slides we will have a Q&A session. Our presenters today are Anton Gauffin, Chief Executive Officer; Elad Kushnir, Chief Operating Officer; Grzegorz Kania, Chief Financial Officer; and Tal Shoham, Chief Marketing Officer. Having said that, I will now turn you over to Anthon Gauffin, CEO, to begin.

Anton Gauffin, Chief Executive Officer

Thank you, Gaby. Hello all, good to have you here with us today. Q1 was very good, the team at Huuuge delivered pretty much exactly as planned, and great progress was made

on many of our business fronts which is highlighted on the slide, pointing to the good KPI improvements we saw in Q1. The IPO conducted in late February to accelerate our Build & Buy strategy, had generated \$182 million by the end of Q1. In April 2021, we announced the acquisition of Traffic Puzzle. In terms of capital investment that meant expending approximately \$39 million for acquiring the game. We first published this amazing and unique puzzle game in summer 2019 and have now acquired it in 2021. This is tangible proof that publishing is an integral part of our Build & Buy strategy. This is part of our mission to build a massive network empowering billions of people to play together. How do we achieve this long-term mission? By systematically pursuing the Build & Buy strategy using our advanced technology. To operate our smart network, over the years we've been investing more and more into the tech side of our business. And what makes today special, and exciting is the unveiling of Huuuge Fuel, the smart tech powering us – the rocket fuel for scaling games. Later, we'll be talking more about the Q1 results and Huuuge Fuel, so let's continue with the Q1 briefing.

And now I'm happy to pass the microphone to my friend and our COO Elad who will give you a quick business update before talking more about Huuuge Fuel.

Elad Kushnir, Chief Operating Officer

Hello, everyone. Thank you for giving us the opportunity to present our Q1 results. We're very happy with the way the quarter ended. I'll be speaking today about three main elements: our core franchises, our new franchises, and a little later in the presentation, we'll be talking and using this opportunity to really unveil Huuuge Fuel – as Anton mentioned a moment ago.

In terms of our core franchises, I'll start with the bottom line. We had a great quarter. All key performance indicators were on an uptrend as expected, and we generated \$84 million of revenue from our core franchises in Q1. Our ARPPU, which is average revenue per paying user, grew 26% year-on-year, which is a good indicator of the highly skillful technology that we possess, which is the monetization side of the business. Our conversion rate went up to 8.3. I think this number is important and I would like to focus on that for a moment. Many of you may have heard me say before that much of the upside of the business is the existing user base. Because of the free to play business model, essentially most of our players either

don't pay or don't pay yet. And there's a very large upside to our ability to continue optimizing – this increases our conversion rate by giving our players a reason to pay. And I think this increase in the monthly conversion rate attests to our ability to capitalize on that upside.

During the quarter, the record high revenue was mainly driven by optimizing live operations and pricing strategies, much of which was possible thanks to Huuuge Fuel, which we will discuss in a moment. There are two other two reasons why we believe we had a very strong quarter. The first is our strong content roadmap, which allowed us to release 6 new slot machines in both Huuuge Casino and Billionaire Casino in Q1. The basic content of our core franchises are slot machines; and we spend a lot of time, money, and effort on ensuring that our machines are tier-one quality. We released what we believe are six strong slot machines in Q1 with more to come in the next quarters. The second reason for our good results is our robust product roadmap which drove high engagement and high retention of both our core user base and new players. And, just as a teaser, in March we generated record high quarterly revenue; so far this has been the best month in our Company's history.

Next slide. If you've been following Huuuge you should have seen this slide before; I guarantee you'll see it again in the future. Our conviction is that this cohort cake you see on the left tells the Huuuge story well. It's a visualization and expression of the revenue generated by players based on their install year: the red is 2016, the dark gray is 2017, etc. And what you should be able to see is the longevity of the business. Players who installed the game in 2017, or 2016, and so on, are still generating revenue for us today. This shows that the games are of an evergreen nature. The right side of the slide shows our core differentiating feature, i.e., the truly social nature of our games – at least in the Social Casino niche. Our games have a built-in social network and members of this club have an ARPDAU that is 6x higher than for non-members. The ARPPU, our average revenue per paying clubber, is also 40% higher than a non-clubber; 44% of our monthly active users are part of the club. This has been and will continue to be a core differentiator for our social casino products.

Let us turn to discussing our new franchises. What you see here are two graphs; one shows relative and in the other absolute numbers. Therefore, in Q1, our new franchises generated

approximately 12% of our total revenue in addition to the growth we generated on our core franchises. So, we're extremely happy with the momentum we have from the new franchises, much of which is driven by Traffic Puzzle and Huuuge Stars. In terms of absolute numbers, it generated \$11.4 million in Q1, which is substantial. At this point, we can say it becomes a relevant and needle moving part of our business.

Most of you should know that recently, we announced the acquisition of Traffic Puzzle. Traffic Puzzle is a match-3 game with very large market potential; it earned approximately \$100,000 in revenue and has one million monthly active users and a 64-cent ARPDAU. I think the ARPDAU element is also a critical part of the story because, for those of you who don't know, that specific ARPDAU is what puts us in the top five monetizing match-3 games on the globe. This testifies to the potential scale of this game, which we are continuing to focus on, and which will drive a lot of growth to the business in the coming years. I am happy to tell you that the handover from Picadilla is going well, and I am confident that the two teams will cooperate really well. We believe that we're on track for the game handover to Huuuge.

There are three core pillars to the transaction rationale. The first is financial diversification. Our strategy behind this transaction is to diversify our portfolio. Traffic Puzzle is essentially our third backbone product and is now our third largest product and the first in the casual game category. It is not just about generating more games but about generating big games in additional categories. Why the new categories? Many of you might know us as a social casino company, however we don't perceive ourselves as such; our true expertise is in free to play mobile games which is applicable in almost every genre in the mobile free to play industry. Let this transaction be the first proof of this. This is the strategy we intend to pursue in the future.

The second pillar is reinforced growth. We believe the growth momentum and potential of Traffic Puzzle will be able to drive our entire growth in the coming years. And we're super excited about the growth potential which was one of the reasons for the transaction. And finally, the third pillar is tapping a new market. Puzzle games as a category in the mobile games industry is one of the most established industry segments. They have expanded the total available market by \$10.5 billion. And over the next few years, we'll be fighting to expand our share in this market.

With that, I would like to summarize the Q1 business results, and I would like my friend and colleague Grzegorz, our Chief Financial Officer, to talk about the financial highlights.

Grzegorz Kania, Chief Financial Officer

Thank you, Elad. Hello, everyone, good morning. I'm very happy to be here with you today to present our Q1 results for this year. Yet another quarter of record high revenue, \$96 million in the first quarter of 2021, compared to \$76 million in the first quarter of 2020, this means we've delivered very high 26% growth quarter-on-quarter in Q1. As we've always highlighted when speaking about our business objectives for 2021, Q1 was a quarter of particularly high investment in user acquisition. We started our increased investments in user acquisitions in Q4 2020, we continued through Q1 2021, at the same \$39 million level in absolute terms. And in general, the first half of 2021 is the time when our investments in user acquisition are particularly high compared to what we are planning for the second half of the year. This is contrary to what we did in 2020 when we increased user acquisition investments in the second half of the year, particularly in the last quarter. That's why comparing our year-on-year EBITDA gives the impression of a decline. But this is temporary. I would just like to mention that the first half of 2020 delivered almost 80% of the total annual EBITDA, and increased investments in user acquisition in the second half of the year led to delivering only slightly more than 20% of the annual EBITDA. This year is quite the opposite. EBITDA for the first two quarters of 2021 will be relatively lower due to the increased investments in user acquisition activities. We are still capturing high ROI opportunities. We are scaling up our new franchises and we believe we are doing it very successfully.

Going into some details about our first quarter results, the main drivers of our 26% revenue growth quarter-on-quarter were our core franchises where we saw a 16% growth of revenue year-on-year, mainly from improved monetization of our users. But to reiterate what we have already said in our annual earnings call, we are particularly happy and excited about the growth that is being delivered by our new franchises. In Q1 2021, we can also see that revenue from those new franchises has more than tripled compared to the first quarter of last year. I've discussed the increase in user acquisition expenses. We continue to focus

sharply on the return on advertising spend. And we still have attractive opportunities to invest our budgets for user acquisition in Q2 and will continue to do so.

When it comes to general sales and marketing expenses, we see a growth from \$2.6 million in Q1 2020 to \$4.1 million in Q1 2021, which comes from ramping up the team and scaling and developing highly efficient data-driven competences, retargeting marketing campaigns to capture higher ROI and paying users. The research and development expenses increased from \$5.9 to \$7.8 million on a quarter-to-quarter basis. This is due to several factors, the first of which is scaling up research and development teams in our core franchises, the second the acquisition of Double Star – the studio we acquired in the middle of last year (so in Q1 2020 we did not recognize the respective expenses) – and the third is the investments and scaling up in the technology and our data tools and teams responsible for the Company's technological development.

With regard to general and administrative expenses, there was an increase from \$5.7 million in Q1 2020 to \$10 million in Q1 2021, mainly in effect of the cost of the employee stock option program, which, of course is relatively higher for companies which mature and become listed, than for private companies which have only begun to operate. The other factors that contributed to the increase in general and administrative expenses were the functions and competences that the Company developed in the course of 2020, particularly in Q4 2020, and Q1 2021 in preparation for going public. Because several functions were established, and several areas were enhanced and empowered with the competences required of a public company, the general and administrative expenses increased.

Looking at the financial costs, it should be emphasized that the Series C preferred shares liability only existed until February, as immediately before the IPO these shares were converted into common shares. However, the last fair market valuation resulted in an increase in our financial costs of \$39 million in Q1 2021. Once the shares were converted into common shares and became part of our equity, the accounting treatment was no longer continued and they are now treated like the other common shares in our equity accounts. Nevertheless in the first quarter of 2021, we have had to recognize a cost of \$39 million. Also, the non-recurring item which is included in our results for Q1 is the financial cost resulting from the foreign currency forward transaction, with respect to the fee for the IPO which had to be paid by the end of January. Given the fluctuations in the PLN/USD

exchange rate, the Company decided to enter into a forward transaction due to the need to convert the proceeds from the IPO from Polish zlotys to US dollars. The result was a cost of \$2.7 million recognized in the P&L.

Moving to the next slide, I would like to recap our adjusted numbers. The reported EBITDA was \$7.6 million, which when adjusted for the non-cash employee stock option program expenses of \$2.8 million, amounted to adjusted EBITDA of \$10.4 million – the adjusted EBITDA margin was 10.9%. With respect to the net results for Q1, ESOP of \$10.8 million, and the preferred shares revaluation cost of \$39 million give an adjusted net result of \$4.2 million compared to \$15.6 million in Q1 2020, again, the phasing of the investment of user acquisition is the main contributor to this decline.

On the next slide is a quick overview of our balance sheet. The proceeds from the IPO acquired in Q1 2021 caused a significant increase in our current assets and in total assets. The net proceeds of \$100 million resulted in an increase in our current assets to \$222 million, and approximately 80%, or even more than 80% of this is cash. When looking at equity and liabilities, you will see the effect of the conversion of the preferred shares liability of \$177 million into equity. Therefore, our equity changed from a negative value of \$96 million to a positive value of \$189 million as at the end of March 2021.

A quick overview of the cash flow. The operating cash flow for Q1 2021 was negative and was approximately \$24.6 million lower than in Q1 2020. The main contributors are a lower EBITDA caused by increased user acquisition expenses, as well as the settlement of the Washington case in Q1 2021 of \$6.5 million, and some unfavorable movements in working capital connected with the cycle of payments from distribution platforms, particularly Apple. This is a seasonal effect; in Q1, Q2, Q3, we see the negative impact of the cycle of payments from Apple, but towards the end of the year, it flattens out. So, in Q1, we see the negative impact on the receivables side.

With that I conclude the short overview of the financial results and hand you back to Elad to talk about our Huuuge Fuel technology platform.

Elad Kushnir, Chief Operating Officer

Thank you, Grzegorz. We wanted to hijack today's earnings report to unveil something that's been part of Huuuge for quite a long time, but has reached the level of maturity. We now feel the time is right to unveil it to the investor community; we also feel it's important that the investor community understand our competitive advantage in terms of technological capabilities. You've probably heard Anton say several times over the past quarters and during the roadshow, that Huuuge is very much a game company, but we're also a technology company. Today we would like to spend a few minutes talking about our technology and explaining to the investor community why it's a competitive advantage, and a growth driver that will fuel the business into the future.

With that, I'm happy to unveil Huuuge Fuel, which is essentially a technological platform, made up of many components inside the Huuuge technology team. Essentially, we've taken all the collective knowledge of our experts, and 'platformized' it into Huuuge Fuel. What we're doing is enabling our games and our game studios to focus on what they do best which is to operate games at scale but endowed with a large set and a menu of options that they can use to empower these games. I'll explain what I mean in the next few slides.

What you see in front of you is a functional scheme of Huuuge Fuel with four core components: Engage & Monetize, Analyze & Iterate, Grow, and Connect & Comply. This platform was built in a game agnostic fashion in a platform agnostic fashion, essentially allowing us to capitalize on the platform power on any game and on any platform that we choose to do business with.

I'm not going to discuss every feature here. Some of these are quite technical, and I don't want to bore you with the technicalities. But for each of our core modules, I want to pick an example to exemplify and demonstrate the level of sophistication that we've reached. In a moment we'll also discuss how this impacts the business and how we think it will continue to drive growth in the future. So, in our Engage & Monetize module, I think the most unique and sophisticated feature is our zero-code dynamic personalization engine, which sounds like a load of gobbledygook, but essentially it allows us to create a situation where every player may adapt the game to their behavior and to their needs in real time. So, you and I could be playing the same game at the same level, but we'll be receiving a different configuration based on what engages us the most. And that capability is very much scaled

and unique. This is just to give you a sense of the level of detail of the platform. Again, I'm not going to go through every feature – this will be available on our website later. If you have any questions, you're welcome to get in touch with me later.

Analyze & iterate, also one of the four core components of Huuuge Fuel. You may have heard me speak in the past about the fact that unlike many companies who build analytics, tool, kit or platform, and then plug it into their systems, we took a different approach architecturally. We built the data platform first, and then built everything on top of it. And that fact is unique and allows us to really drive some amazing features into our Analyze & Iterate module. One example is our centralized AB testing framework, which allows us to iterate various versions of the game and test how they act in the real world to decide which of the tested features are the most appropriate – every button, every configuration, every piece of content – before it goes live.

Fuel to Grow. Grow is our third module where we focus on user acquisition. It is a creative hub, which rapidly generates thousands of permutations for multiple ad creative formats. Some of you may remember that last year we acquired Playable Platform which has become part of Grow in Huuuge Fuel, giving us a strong competitive advantage in the market, where we can impact the creatives in real time. Rather than having to create 50,000 permutations individually, the system does it for us, pushes them into the platforms, into outside networks, into our ads. Essentially, it tells us which of these is performing best to optimize our user acquisition. Or our retargeting framework, which enables us to segment and retarget players across the web using personalized content. So, if you visited one of our games a few of days ago, and you were at level 401 two days later, you could be on your local news website and see an ad on the local news website saying: Oh, come reach level 402. And that capability is unique and super strong and drives a lot of our growth inside the business.

Connect & Comply might be the most boring module but it is a highly important one. First, the core feature of this is our connections suite. From everything I've said about Huuuge Fuel, and there are literally hundreds of features and hundreds of tools, our game studios are all plugged into them via a single connections' suite. And we believe that that fact itself is one of the most scalable characteristics of Huuuge Fuel, essentially allowing our game studios and game developers to plug into one system in which they get a menu of options,

but they don't have to use all of them. However, they can, and some do use all the features. Of course, we built the platform for ourselves. An additional part of the connections suite is that we have 30 third-party SDKs built into it. So, not only are they plugging into Huuuge Fuel, they're plugging into 30 third-party SDKs, and every game developer will tell you that plugging into third-party SDKs is one of the most hated and time-consuming factors of game development. And we provide this as a service, essentially allowing our game studios to focus on what they do best, and that's upgrading games at scale. We also provide an off the shelf compliance package; security compliance, privacy compliance, GDPR, operating system compliance. Now everybody's talking about iOS 14, this is an off the shelf component. When the game studios plug into the compliance package, we do all the compliance for them. Again, thinking of all the time and effort that many other companies have to spend in redoing this work every time in every game, I think you'll start to understand the value proposition and the real power of Fuel.

Next slide. I think this is an extremely important slide. Despite talking about technology to the investor community today, I wanted to make a connection between the technology and the business strategy. I've talked a little about Huuuge Fuel regarding the operations. But what does it mean for the business? For the business, it's a scalability tool. So, each of our business strategies, our Build & Buy, of which you've heard, like build are owned and operated studios. They're plugged into Huuuge Fuel. Any company we acquire in the future will plug into Huuuge Fuel or into parts of it. This, of course, also includes the publishing partnerships. Essentially, we're empowering all these games with a highly sophisticated, powerful engine to drive growth. And we feel it's important that the investor community understands it because the larger we grow, the more games we develop, the more companies we buy, this will develop into a very strong competitive advantage, so we feel it is important that everybody is familiar with it.

To summarize, putting the tech talk aside, what does Huuuge Fuel mean for our present and our future? One, it solidifies our technological advantage. It's important to us that everybody is familiar with the fact that we're not just any game company, we are one of the best and we're driven by a very strong technological background. Secondly this will allow us to scale the business across all three of our core business units. The bottom line is that Huuuge Fuel will fuel our growth into the future.

Thank you very much. I'm going to hand over to Anton, our CEO, to talk about our M&A funnel.

Anton Gauffin, Chief Executive Officer

Thank you Elad. Huuuge Fuel is really enabling and empowering us to be a smart network. Our focus remains unchanged; we do Build & Buy – how we do it makes all the difference. To briefly cover the buy side and what has happened since our annual conference call is that the numbers have changed slightly in the funnel. At that time, we had five M&A opportunities and we decided to close the deal with Traffic Puzzle. Since we've been working a lot on the buy side, we now have more companies on the radar, and I'm very pleased how things are progressing. All these companies with which we are building relationships need Huuuge Fuel. And we see significant growth opportunities in continued systematic Build & Buy, that's how we achieve our mission.

How are we doing it? It boils down to us being a global team of teams. A few key points on how we do it. Our business mindset and how we operate is very talent centric. We do active global hiring and headhunting. We put a lot of effort into bringing in the best people. Moreover, we are a technology plus gaming company. All these landscapes are evolving so fast. To be excellent now and tomorrow, we, as an organization, have to focus on continuous learning. And that's of course, all about Huuuge culture. Its key ingredients – being humble, hungry, and resilient. I've seen what the best teams can do. And I know the most amazing Huuuge products are still ahead of us.

Thank you. Enough slides, time for questions.

Gabriela Burdach, Investor Relations Manager

The first person I will unmute is Ken Rumph from Jefferies.

Ken Rumph, Jefferies

Hello, thank you for the presentation everyone. I have a couple of questions. One, starting with conversion. Is there a possibility that in expanding the conversion ratio, you bring in people who spend a bit less, so that the average revenue per paying user goes down, but it's still viable to do so? I'm just wondering, because I'd hate to think that one day, we get

blindsided by that figure going down, but you're making more revenue and the numbers are getting better profitability-wise.

The second question is probably for Grzegorz – just to understand how we should expect G&A and R&D and also the ESOP to develop through the quarters. Basically, the first quarter represents a base from which we gradually go forward, offerings like on ESOP – is that just one month of the quarter, or will it increase in future quarters? You get the idea, I think.

And finally, I obviously have to ask about Huuuge Fuel. Firstly, is this an expansion or just rebranding? And specifically, Fuel – is this only available to games you're publishing, or have you considered making it available to third parties? I think that will do – too many questions. Sorry. Thank you.

Anton Gauffin, Chief Executive Officer

Thank you, Ken. Elad, do you want to take the first and the Huuuge Fuel one?

Elad Kushnir, Chief Operating Officer

I'll start with the conversion rate question and then will answer the question about Huuuge Fuel. So, Ken, in terms of the conversion rate, every player we convert falls into a certain category, when we discuss ARPPU, we're talking about an average. But that average has a broad spectrum of player monetization levels; some may be spending \$1, some may be spending \$55. So, as we expand into an increased conversion rate, I think that trend will continue. There will always be a spectrum of players that really do depend on their purchasing power, their passion about the game, their location, etc. I don't think there should be a change in the average ARPPU, which I think is what you are asking, as we increase the conversion rate going forward. Does that answer your question?

Ken Rumph, Jefferies

Yes.

Elad Kushnir, Chief Operating Officer

Huuuge Fuel is really an amalgamation of all the tools and products that we've built in-house, and really is an opportunity for us to explain it to the market under a platform structure. At the moment we are not planning to offer it to third parties. This tool was built

for use in-house, it's our competitive advantage. And we want to maintain this advantage vis-à-vis our competitors. We're using this for our own products, for publishing, so any game that we do a publishing deal with has access to all Huuuge Fuel features. With regard to M&A, we believe that Huuuge Fuel for M&A is part of the secret ingredient. Why? Because we will be acquiring a game that has certain KPIs, and we believe that plugging it into Huuuge Fuel will allow us to create or tap into an upside of the game that may otherwise have not been available. And we're ecstatic about that. I hope this answers your questions.

Anton Gauffin, Chief Executive Officer

And Elad, as a reminder, we as a technology company, have 150 out of the plus 600 people working in the technology team. So, we've been investing heavily in building our capabilities, and building Huuuge Fuel which helps us be a smart network and very successful in the business. So, this is the beginning of the unveiling of Huuuge Fuel. There's a lot more upside and potential to leverage when we move into the future.

Ken Rumph, Jefferies

Thank you. There's a well-made plug-and-play game platform agnostic point. Thanks.

Grzegorz Kania, Chief Financial Officer

I'll take the questions about G&A and ESOP; I'll start with the latter one. Without the impact of the new grants for 2021, which, of course might be awarded at a later stage, the Q1 ESOP costs closely reflect our expectations for the coming quarters. They reflect the fair market valuation of the grants that the Company made in the last quarter of last year, and this fair market valuation remains unchanged. It's fixed for the whole vesting period. When it comes to G&A developments, as I have already said, much of the development of public company competences, and the establishment of new functions and the ramping up of in-house teams that could take the job over from the Company's consultants, already took place in Q4 2020, and to some extent, also in Q1 2021. So, the G&A increase over the next quarters should be much, much lower than what we see now. On average, I think, with the caveat that some developments also took place in Q1 2021, the next quarters should be slightly higher, but comparable.

Ken Rumph, Jefferies

Thanks. Great.

Gabriela Burdach, Investor Relations Manager

Okay, and the next question from the line of Matthew Walker from Credit Suisse.

Matthew Walker, Credit Suisse.

Hello guys. I'll start with the full-year guidance. Are you still reiterating the same guidance as you had before, therefore an over 20% revenue growth, and an EBITDA margin similar to 2020? That's the first question. Because it wasn't in the release.

The second question is on Q2 – can you tell us anything about Q2 trends? Specifically, in absolute terms, will revenue be above the Q1 level? Will we see sequential growth in dollar revenue above what you reported for Q1?

The third question is on UA costs, obviously, you're expecting them to be a lot lower as a percentage of revenue in the second half of the year, that's your financial plan. What gives you the confidence to suggest that you can achieve the levels of revenue that you want to if you reduce the level of user acquisition costs in the second half of the year?

And then, apologies for so many questions, but the final question is on IDFA and Apple, what impact have you seen so far? Has the removal of ID for advertising impacted your ability to target both former customers and the customers that you need to reach to grow the business?

Anton Gauffin, Chief Executive Officer

Thank you, Matthew. Maybe we'll start with the last question. Tal, if you would like to take that one, the IDFA, start with what we've seen.

Tal Shoham, Chief Marketing Officer

Sure, no problem. Let me give you a short recap about iOS 14, ATT and IDFA deprecation, we are looking at two main KPIs. One is the adoption, and the adoption rate in the market, the market benchmark is around 20% to 22%. And we see very similar numbers for our games. So, we're in line with what's happening with the market in terms of adoption. The second thing is the acceptance rate, meaning how many users allow us to track them versus how many choose not to be tracked. The market benchmark is around 30%: 29% for social casino, 32% for casual games. And we see substantially higher numbers than these benchmarks of around 30%, we see something significantly better. And that's thanks to how much work we've put into task forces and being obsessed over preparing ourselves for this kind of new era of IDFA deprecation, and ATT, and iOS 14. I'm happy to say that we have far better numbers anywhere between 20% to even 40% better than what the market benchmarks are, in terms of acceptance. It is still too early to see any type of impacts in terms of user acquisition, monetization, and our ability to find the right type of users for our games – it is still too early. And we still don't see any impact. But that's where we're at. So, we're pretty happy with where we're at in relation to the rest of the market – how we were and are prepared for this.

Elad Kushnir, Chief Operating Officer

Maybe I'll take the question regarding how we expect to drive revenue despite the decrease in user acquisition. I think I'll go back to the cohort cake slide and the progression of revenue generated by users. It takes a moment for the player to onboard into the game and reach a certain level before they start having the potential to convert. There is a disconnect between the install moment and the conversion moment. And there's a broad spectrum of factors impacting that. So, the short answer, Matthew, is that revenue growth doesn't only come from user acquisition. It comes from the conversion rate, deep in the funnel, and the optimization of our ability to convert and monetize players, from very varied cohorts. Therefore, much of the revenue in H2 might be coming from players from last year or the year before, or the year before that. And so, we have a sophisticated enough prediction methodology to understand how we expect the revenue to be generated in H2, unrelated directly to user acquisition. I hope that answered your question.

Grzegorz Kania, Chief Financial Officer

Maybe I can add to that, Matthew. We don't do anything unexpectedly; this is a very well planned and thought through approach to our user acquisition. Last year, we were already projecting that seasonality of user acquisition and revenue. So, nothing has changed in this respect. Perhaps I should also comment about the guidance that we discussed during our last earnings call: I can only say that, in his letter opening our quarterly filing, Anton made it clear that we remain confident about our objectives for 2021. And I can only add that the confidence he expressed was on behalf of all the Company's management.

Matthew Walker, Credit Suisse.

Thank you. I have a point about Q2 – will we see sequential revenue growth in Q2? I suppose it would be logical to assume that?

Elad Kushnir, Chief Operating Officer

Maybe I can take that. I'd rather not use that logic; I don't want to comment on revenue dynamics and give guidance to the quarter. It's a little early on, and we don't want to comment about such things until we're ready. I think we're extremely happy with Q2 so far. Important to say, just to make sure that everybody understands that our confidence levels remain very high about the quarter. But I don't want to comment specifically, will it be higher or lower. There are a lot of things that factor into that issue. We remain confident of the results for the coming quarters. And we also remain confident about the yearly guidance.

Matthew Walker, Credit Suisse.

Okay, thanks, guys.

Gabriela Burdach, Investor Relations Manager

Okay, so we have one question from the chat. Good morning, when will this higher UA spending translate into growth in revenue and the number of daily paying users? And the second one is about iOS, which has already been answered.

Elad Kushnir, Chief Operating Officer

Regarding the question about higher UA growth, the answer is that it takes time. It covers several quarters. I think we've been asked this question before at investor conferences, and I think the goal is to try and project the impact on future revenue. I must tell you that it's practically impossible with the amount of information out in the public. Many factors impact this revenue and the impact of increased user acquisition depends on the channel mix and the geo mix. And there are many factors which influence that. I wouldn't try and use it as a prediction tool for future revenue, because it's practically impossible to make the connection with the amount of information that's out there.

Tal Shoham, Chief Marketing Officer

I'll just add one thing. If you remember the cohort cake that Elad showed in the earlier slides, for every user that we acquire or every user that chooses to play our games organically or pay to play them, the cohort results will contribute to the revenue of the company for many years to come. So, it's not a short-term effort. We will see returns on these acquisitions for many years to come.

Anton Gauffin, Chief Executive Officer

I can see a couple questions on chat about regulatory risks related to casino games in Europe and the US. I can comment that there haven't been any regulatory changes since we last spoke. And we are very confident that we are in a good position. So, free to play games continue to grow, and at present our growth outlook and regulatory aspects are not a concern for us.

Gabriela Burdach, Investor Relations Manager

We have a question from Maria Mickiewicz from WOOD & Company. Maria, can you ask your question?

Maria Mickiewicz, WOOD & Company

Hello, everyone. I've got two questions. The first relates to user acquisition costs. Could you give us with a breakdown of spending into core franchises versus new ones? Just to help us analyse it.

And the second question relates to daily active user numbers, which we see are continuing to decline. Obviously, I am aware it's more about paying users and that conversion looks strong, ARPDAU is also growing, and so on. But I was just wondering if you could comment on your midterm target set before the IPO of 575,000 to 625,000 users, while right now we are already below that, in core franchises. How do you see this trend going forward? What should we expect midterm? Thank you.

Elad Kushnir, Chief Operating Officer

I'll take the second part of that question about the DAU. Firstly, I think it's important that everybody understands how we do this. It's a question of quality and quantity. When we spend our user acquisition money, what you're actually seeing in the DAU right now is our focus on the quality of our players, not necessarily their quantity. Hypothetically, we can bring in a million DAU tomorrow with the spend that we have, but it might be from Indonesia and Malaysia, in countries in which the chances to convert are low. On the other hand, we can take that same amount of money and bring in substantially smaller numbers of players into our games in the US, the UK, or France. What you're really seeing, Maria, is our focus on quality versus quantity. I hope that briefly answered your question. You should also expect to see more of this. So, we're focusing on our quality going forward; we believe there's still a large upside for us in the US. I think everybody should remember from the roadshow that unlike our direct social casino competitors, who are extremely focused on the US, we have yet to maximize our potential in the US. By the way, that's where the quality is, and the quality players are. So, you can expect this trend to continue. It's also an industry-wide trend in terms of DAU on the social casino games. But we're not scared of this reality.

We understand where it's coming from, and we're managing it. And we believe we're making the right decisions. And so, I don't think you should perceive this as any form of negative indicator.

Anton Gauffin, Chief Executive Officer

In addition, Huuuge Fuel is building a network, so we are building a more diversified portfolio and a network with Build & Buy. So, there will also be a lot of user growth. Will that user growth come from the core franchises? Not necessarily. As Elad said, we focus on quality.

Grzegorz Kania, Chief Financial Officer

Maybe one final addition to the answer. When it comes to the proportion of user acquisitions allocated to core franchises and new franchises, demonstrated in our previous calls and presentations, in 2021, we expect to allocate 1/3 of our overall user acquisition spend to the new franchises.

Elad Kushnir, Chief Operating Officer

Maybe one last comment. Some of our user acquisition budget goes to retargeting. We talked about this earlier in Huuuge Fuel with our retargeting capabilities, which are unique. Some of the money that we're bringing in is just to make sure that we're retaining and bringing back these quality users. And that's an important part of our spend.

Tal Shoham, Chief Marketing Officer

I'll just reiterate about user acquisition and DAU. We focus on quality, not quantity to bring high value, high retention users to the game. We understand they will be contributing to the business for many years to come. Not necessarily just to increase DAU daily. So, that's a big focus for us on the marketing side; hence, the retargeting and so on.

Anton Gauffin, Chief Executive Officer

There's another question. Can you tell us more about the current status of Star Slots and other games in production? Elad, maybe you would like to comment briefly on Star Slots?

Elad Kushnir, Chief Operating Officer

Star Slots is going well, we are continuing to invest in optimizing the core game KPIs. We were very happy with the results. Regarding other games, I'll reiterate what I've already said several times before at previous investor conferences, that it is our policy not to speak about games that aren't scaled. And I would like to remind you all that the reason is the way this industry operates. We might be working on 6,7,8, maybe sometimes more games at any given point in-house, but they're not necessarily a good indicator of our future success. Most of these games will eventually be shut down. So, there's a funnel process. In the ideation phase and the prototyping phase, there are a lot of games. And the goal is to have one of these games mature into a level where it moves the needle. As Huuuge, we have decided on a policy not to talk about our early-stage games, unless they've reached a level where we feel they're moving the needle. This is because we think it might be a bad tool for the investor community to judge us by as it is not a good indicator of a long-term success in the short term. How often do you hear of a new game reaching maturity? So, we'd rather not talk about early stage games. That's not a good discussion, and not a good indicator for you or for us.

Anton Gauffin, Chief Executive Officer

We have a very sophisticated process to develop concepts and ideas into live games. When the games are hitting global launch status, and we start pushing the games, that's when we love to talk more with the investors. But rest assured, all the time there's a lot of build going on. So, Build & Buy is what we do.

Tal Shoham, Chief Marketing Officer

Maybe I can take the next question: how do you see ad pricing on Android April-May? I'll give you a brief answer. In the last six to eight weeks, we have seen an increase in CPIs, cost per installs, across both platforms, iOS and Android. So, it's not necessarily related to iOS

14 or ATT, unlimited ad tracking, and so on. As I said there is a visible increase across the board. I've been speaking to a lot of the partners, a lot of the peers, and everybody's seeing this increase, so it's an entire market trend. It's not something specific for Huuuge. And we see that trend across iOS and Android. So how do you define ad pricing; CPIs are being increased on both platforms, not just on Android. I am aware that some companies see an increase only on Android, not on iOS, but we see it across all platforms like many of our vendors and other partners. So, that's a market trend – a general market trend of increasing prices.

Anton Gauffin, Chief Executive Officer

I'll take the questions on the chat. Are you interested in genres other than social casino and puzzle in your M&A activities? If so, what are your favorites?

I'd say that we love games that are sustainable and show similar potential to Huuuge Casino, Billionaire Casino, and the cohort cake. We love such games. I wouldn't say that we only obsess over social casino and casual because there's a lot of hybrid games and differences between the core game and the meta game. Therefore, in principle, we love games and businesses that are sustainable, where we see potential to drive a lot of growth and also make a lot of profit. We do have a great deal of domain expertise when it comes to social casino and casual games, and these are pretty big spaces – big genre. So, there's a lot of potential but we are not excluding any genre out there that provides solid growth opportunities and sustainable business opportunity to scale.

Elad Kushnir, Chief Operating Officer

If I may just add one thing. Let us return to Huuuge Fuel for a moment and our expertise. If I had to choose one domain of our expertise, it would be operating games at scale. And that is about engagement, monetization, and retention. And all of these including user acquisition apply to any genre in the free to play mobile space. To clarify it is about our ability to scale in any game genre, and that's really the most important thing.

Anton Gauffin, Chief Executive Officer

You're making your first acquisition in Poland was quite surprising. Where do you see the next targets?

I don't think it was that surprising. If you think about it, we knew Traffic Puzzle, the game we published, extremely well. We saw the potential to take it to the moon, and higher. So, at least for us, there was nothing surprising there. We built that case patiently and very carefully, and now in 2021, we have got to the point when it was ready to be taken to the next level, which is what we are doing. Again, in our deal flow, there are more companies than there were in Q1 at this stage, and free to play mobile gaming is a very big market. So, there's a lot of growth potential for us.

Tal Shoham, Chief Marketing Officer

I'll just add on top of what Anton said, it wasn't surprising at all that the first acquisition was in Poland. I can tell you that from the publishing lens we see a lot of talented teams and games coming out of Poland. And we're going to further push the pedal to the metal working with more and more Polish companies and more Polish teams. For us, it wasn't surprising at all, it was very natural. And we see amazing talent and results coming from Poland all the time.

Elad Kushnir, Chief Operating Officer

We also have what we think is a clear competitive advantage in Poland. It's one of our home bases and because of that it is easier for us to strike a deal. Acquiring a game in Poland will be much easier than acquiring a game in Vietnam, just to give an example. We feel at home in Poland, and we will continue investing and looking for targets in the local market.

Gabriela Burdach, Investor Relations Manager

We have a follow-up question from Ken Rumph from Jefferies.

Ken Rumph, Jefferies

First, Grzegorz, can I ask you to expand a little about the receivables that affected the cash flow in the first half of the year – you talked about seasonality, but is there anything specific that should be mentioned here. I know you said you don't comment about newer games, but looking at Android data: Billionaire Casino seems to be doing well in the second quarter, but Traffic Puzzle is a little flatter, which fits in with what you described as the handover process, but could you elaborate? I have a question on ESOP and tradable stock potentially coming into the market, when might that happen? And is there a plan to deal with that in an orderly way? And then finally, and apologies for more questions, but I think that Fuel is the highlight of the presentation, and perhaps, although I don't know if it's possible at this stage, could you show us an example of what you have done using Huuuge Fuel, using Traffic Puzzle or something like that, as an example. Could you point to any difference it could make? Thanks.

Elad Kushnir, Chief Operating Officer

Maybe I'll go to the business side first regarding Fuel and Traffic Puzzle. Firstly, the Traffic Puzzle handover is going well, we're on track with our partners in Picadilla, we're working closely with them, our team and their team are very satisfied with the level of cooperation that has always been present between the two teams; we have known each other for a long time. We are on track, and it is going well. And yes, Ken, as you alluded to earlier, given our focus on the handover, we're not pushing growth aggressively in Traffic Puzzle until it is over. I think that in the very short-term, everybody should expect this reality before we ramp up the scaling process.

Regarding Huuuge Fuel, today we are only planning to give a teaser. We shall be publishing far more information on the topic. We've decided to take quite a transparent approach to Huuuge Fuel and disclose more details regarding each of the features in the system to the public. We should be seeing that in the next one or two quarters on our website, and mainly in the publishing part of our website. There will be use cases and examples, just like you asked. The technology products team are working on these use cases as we speak for them to go public. And yes, I think you'll be happy and satisfied by the level of transparency of Huuuge Fuel information we intend to provide.

Ken Rumph, Jefferies

Simple people, we love an example.

Grzegorz Kania, Chief Financial Officer

Maybe I'll take the question on receivables and ESOP, if I may. So, starting from the receivables and the payment cycle from Apple, it does not correspond to the calendar months. Therefore, to cut the long story short when it comes to the last quarter of the year (Q4), we've got approximately one month's worth of sales outstanding in the receivables. But when it comes to the first quarter of the year, we've got approximately two months of outstanding sales in receivables. And that's purely because of the payment cycle that we receive from Apple. Basically, the payment is made just after the end of Q1. We received the payment on 2 April 2021 for sales spanning the period through 27 of February.

Ken Rumph, Jefferies

I guess I have legal bills to pay, so...

Grzegorz Kania, Chief Financial Officer

Hopefully nothing related to our cases. But this makes the working capital cycle quite disadvantageous throughout the year. But then when comparing apples to apples, when we compare December to December, it should be okay. And of course, in Q1 2021 when we have such a rapidly growing top line, then definitely those two months' worth of sales in receivables are much higher than the two months' worth of sales in Q1 2020, and therefore the negative impact is amplified by almost 60 days of sales.

Grzegorz Kania, Chief Financial Officer

When it comes to the question on ESOP, yes, we've got some shares, some options which it will soon be possible to exercise. There are of course many questions regarding the number of options that will be exercised as soon as the window opens. Our options are American type options. So, they have a minimum three-year vesting period. Therefore, this is an

uncertainty that needs to be factored into the expectations of how many options we will have to exercise. And the other question is: will the option holders be willing to put those shares on the market given the current market cap and the Company's growth potential? That's a dilemma I guess every investor has. Nevertheless, we are actively monitoring the participants in our ESOP regarding their plans and depending on their appetite to exercise the options and to sell the shares, we will definitely be looking to employ tools such as block or book building to ensure that the supply of shares is managed properly.

Ken Rumph, Jefferies

Excellent, good plan. Thank you very much.

Gabriela Burdach, Investor Relations Manager

Okay, and we have more questions from Matthew Walker from Credit Suisse.

Matthew Walker, Credit Suisse.

Thanks a lot. It's just one question. Going back to the DPUs for the core games, the DPUs were actually a little down, quarter-on-quarter and year-on-year, but then you had a very strong growth in ARPPU and ARPDAU, conversion was flat quarter-on-quarter for DPUs, obviously, at a high level, but they're still kind of flat. So, could you explain what's happening with that dynamic? Do you want to grow the DPUs? Or are we just going to see higher ARPPU and ARPDAU? What's driving that? Is it increased club membership, more content? What's actually driving the differential between the core flat DPUs and the strong ARPDAU?

Elad Kushnir, Chief Operating Officer

That's a good question. I'm going to answer only part of it, mainly, because there are a lot of impacting factors, so I'm going to try and keep it simple. Of course, there's the daily paying users, and there's the monthly paying users and some of the proximity of when each person pays, and when their pay multiple per time during the month changes based on much of our pricing strategy and the live operation events inside the business. So, it's really hard to discern and compare quarter-to-quarter reality, many sophisticated algorithms are used,

business decisions taken, and strategies pursued. Therefore, it is hard to look at it from 40,000 feet. And there's a lot more context needed to answer that question. In general, we are focusing on increasing our conversion rate, as we've been able to do, we're focusing on increasing engagement, which includes both the retention and monetization of the players. Retention and monetization is a balancing act. On the one hand, you can monetize, on the other hand, you can retain, and you want to make sure that you create a good experience. Let me refer to what we've already spoken about: that we are giving players a reason to play, stay, and pay. Balancing all three is a form of art and science. And so, in general, focusing on increasing all core KPIs, conversion, ARPPU, player retention is to make sure that we increase the already strong business fundamentals. Thank you.

Gabriela Burdach, Investor Relations Manager

We have one more question from the chat. What are the challenges for the global free to play market in 2021-2022? What do you expect in the post-COVID era in terms of market value and consumer behaviour?

Elad Kushnir, Chief Operating Officer

Post-COVID, I think everybody is talking a little about player behavior post-COVID, I must tell you that we don't see a post-COVID hangover across our KPIs. We're looking for it. Because people are screaming, where is it? Right now, it's nonexistent in our data. We're doing both qualitative and quantitative checks regarding this, and we don't see a post-COVID hangover. What I think is happening is that all this COVID bump – as some are calling it – did was to accelerate a type of behavior which is here to stay. And I think we're also looking at and talking to our competitors, and we are all seeing the same thing. There's not much visible change in user behavior where COVID has started to fade away and life has gone back to normal.

Anton Gauffin, Chief Executive Officer

When we focus on mobile free to play, I think it may be a little different in PC and console gaming. So, maybe post COVID people will be spending less time at home playing these games. But we don't expect such dynamic for mobile free to play games; more people will

be spending more time playing mobile games – the foundations of our business and future are looking excellent.

Tal Shoham, Chief Marketing Officer

Yes, like Elad said, this is something that we're hearing from many of our market peers. There are a few articles about it from several CEOs saying that the COVID bump, as Elad called it, is here to stay, and it's not going to go down or there's not going to be any type of hangover, and it's just going to go on – basically it accelerated our business and market, and that bump is here to stay.

Elad Kushnir, Chief Operating Officer

If we were to philosophize for a moment, and compare markets, you could look at what's going on in e-commerce. I think the acceleration of behaviour, people going from buying offline to buying online, that bump is here to stay, thereby accelerating a trend that's already in place. And I think that also holds true for free to play games.

Gabriela Burdach, Investor Relations Manager

Okay, I see no more questions. I think we can conclude the call.

Anton Gauffin, Chief Executive Officer

Thank you all for taking the time. Please remember to download our games and give us some love. We would appreciate that. And we appreciate you taking time today. Let's do it again soon. Thank you.