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Q2 2021 Playtika Holding Corp Earnings Call

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CORPORATE PARTICIPANTS

Craig J. Abrahams *Playtika Holding Corp. - President & CFO*

David Niederman *Playtika Holding Corp. - VP of IR & Capital Markets*

Robert Antokol *Playtika Holding Corp. - Chairperson of the Board of Directors & CEO*

CONFERENCE CALL PARTICIPANTS

Andrew Edward Crum *Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst*

Douglas Lippl Creutz *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Eric Owen Handler *MKM Partners LLC, Research Division - MD*

Jason Boisvert Bazinet *Citigroup Inc. Exchange Research - Research Analyst*

Matthew Andrew Cost *Morgan Stanley, Research Division - Research Analyst*

Stephen D. Ju *Crédit Suisse AG, Research Division - Director*

PRESENTATION

Operator

Welcome to Playtika's Second Quarter 2021 Earnings Call.

I would now like to turn the call over to David Niederman, Vice President, Investor Relations and Capital Markets.

David Niederman *Playtika Holding Corp. - VP of IR & Capital Markets*

Welcome to everyone, and thank you for joining us today for the second quarter 2021 earnings call for Playtika Holding Corp. Joining me on the call today are Robert Antokol, Co-Founder and CEO of Playtika; and Craig Abrahams, Playtika's President and Chief Financial Officer.

I'd like to remind you that today's discussion may contain forward-looking statements, including, but not limited to, the company's anticipated future revenue and operating performance. These statements and other comments are not a guarantee of future performance but rather are subject to risks and uncertainties, some of which are beyond our control. These forward-looking statements apply as of today, and you should not rely on them as representing our views in the future. We undertake no obligation to update these statements after this call. For a more complete discussion of the risks and uncertainties, please see our filings with the SEC.

We have posted an accompanying slide deck to our Investor Relations website, and we'll also post our prepared remarks immediately following the call.

With that, I will now turn the call over to Robert.

Robert Antokol *Playtika Holding Corp. - Chairperson of the Board of Directors & CEO*

Thank you, David, and thank you, everyone, joining us today. We're excited to provide an update to our current and future investors. Our dedication to our mission at Playtika remains strong, providing our players with infinite ways to play. We are committed to delighting our players with the best possible personalized entertainment offering and will continue to use our creativity and technology to achieve this.

We are pleased with our results for the second quarter. Playtika grew revenues 1.3% to \$659 million year-over-year and 3.2% sequentially over a strong Q1. This growth is impressive for 2 important reasons. First, we experienced very strong growth of 39% in the second quarter of the last year due to COVID lockdowns. This provided us with a difficult comp, and I'm incredibly proud of our teams for this incredible performance in driving growth we experienced this quarter.

Second, I want to highlight that the growth we achieved this quarter was entirely organic. Our ability to sustain growth in our games for many years using our proprietary technology is a great example of what made Playtika special. We believe we can apply these skills and technologies to our future games to repeat this success and to continue to create long-lasting franchise that will drive our future growth.

If I had to use one word to define this quarter, it will be acceleration. We sped our progress across several important areas, I will highlight 3. First, we accelerated the timing of the global game launch of our Switchcraft game to fourth quarter of this year. This affirms our

commitment to a new game, and we are excited that we are able to deliver on this well ahead of schedule. Switchcraft is a story-driven Match 3 style game developed by our Wooga studio. Match 3 is 1 of the most popular channels in mobile gaming, and we are proud of Wooga's innovative approach to the genre. Switchcraft will offer a new take on Match 3 by adding compelling a narrative alongside the gameplay. Testing of Switchcraft is going very well, allowing us to pursue a Q4 global launch with confidence. With this launch, we have accelerated our overall game development plan and now also a plan to introduce another new game after Switchcraft at some point at 2022.

Second, we continue to increase the percentage of our business that comes through our proprietary platform to over 20% of revenues, up from nearly 13% in the second quarter of 2020. Revenue that flows through our proprietary platforms is not subject to a platform license fee and helps Playtika achieve best-in-class margins.

Finally, we accelerate the pace at which our casual game portfolio has come to represent a nearly even split of our overall revenue, achieving around 48.5% of revenue this quarter. All of this success increased our confidence in our ability to drive growth, both in second half of this year and also for the long term.

Now I will spend some time reviewing a few of our many features and innovation we deployed during the second quarter. Turning first to our casual portfolio. We continue to see excellent performance. June's journey continued to see the benefit from second season of Detective Leagues, hitting a high for the quarter in Q2 of 1.9 million players.

Bingo Blitz had a great quarter, growing 20% year-over-year. The Team's feature enabled by our Boost platform continued to perform. Bingo Blitz added a new seasonal room, [Splash], and released some more map rooms and the Collection's Past feature. These features, which Playtika pioneered, are an excellent example of how our games have developed far beyond the original game mechanics, providing our players a world of entertainment. There are so many ways to enjoy Bingo Blitz with all the content we have added beyond simple Bingo. Bingo Blitz also benefited from a second campaign of the song She's BINGO and our partnership with Dr. Phil marketing activities.

Solitaire Grand Harvest grew phenomenally in the second quarter, growing revenues 30% Q-over-Q at 2021 and 61% year-over-year. For this game, we released the second season of the My Farm feature, with the collection items giveaway mechanic. Solitaire also continued to benefit from our localization and marketing campaign in Germany and reached top 25 in mobile game grossing ranking in the country. 10% of the daily average users in the game are now from Germany. This success underscore how much potential we have to continue to adjust our games for local markets and to take share in geographies beyond the U.S.

The games in our casino portfolio continued to innovate in the second quarter. For Caesars Casino, we introduced The Chase, which gives a real-time progression indication to our users and adds a great new capabilities to the game. The unique advantage of The Chase is that it connects with our features and give the monetization planner the ability to run multi-day promotions in any area of the game. Chase is the next generation of our real-time player journey capabilities, and the result is both enhanced player experience and also better option and control for our monetization team.

In closing, our momentum continued in the second quarter with sustained innovation in both of our casual and casino portfolios. And I'm very pleased that we have accelerated the global launch of Switchcraft. I believe Playtika is very well positioned for the remainder of 2021 and beyond.

Now I will turn the call over to Craig to discuss our operations and financial results.

Craig J. Abrahams *Playtika Holding Corp.* - President & CFO

Thank you, Robert. I'd like to thank everyone for joining us on the call today. I'll review some financial and operational highlights. Following that, we will take questions.

As Robert mentioned, we sustained our momentum in the second quarter, continuing to innovate in leveraging our Boost technology to drive growth. The fact that we're able to grow organically against a very challenging comp of Q2 2020 at the height of the COVID

lockdowns really speaks to the effectiveness of Playtika's model.

Turning to the performance of our game portfolios. Our casual portfolio continues to excel, with second quarter revenue growth of 16% year-over-year. Casual now represents 48.5% of total revenue, up from 42% in the second quarter of last year as we continue to execute against our goal of diversifying our total revenue base through expansion into new game categories. Individual game highlights within the second quarter include revenue growth for Solitaire Grand Harvest of 61%, Bingo Blitz of 20% and Board Kings of 18%, all on a year-over-year basis. Again, I'd like to reiterate how impressive this growth is when accounting for the outsized comp from the second quarter of last year.

Our casino theme portfolio showed relative stability, down just 2.6% on a sequential basis. We feel confident that our casino theme games will continue to perform well in the second half of the year based on our road maps of features and promotions we have planned.

Turning to our financial performance. Revenue for the second quarter was \$659.2 million, up 1.3% year-over-year. Cost of goods sold declined as a percentage of revenue from 29.6% to 27.9%. This improvement was driven by the growth of revenue on our proprietary platforms in the second quarter to 20.4% of revenue, up from nearly 13% in the second quarter last year. This continued performance in Q2 has been driven by the successful relaunch of Bingo Blitz on our own platforms in Q1, combined with a strong road map for Bingo Blitz in the first 2 quarters of the year.

In Q2, we reported GAAP net income of \$90 million versus a net loss of \$139.6 million last year. First quarter adjusted EBITDA was \$264 million, representing a margin of 40.1%, which compares to 43.5% in the same period last year.

Regarding the components of our operating expenses, the year-over-year increases in R&D and sales and marketing were largely driven by increases in headcount and media expenditures, respectively. We are investing for our future growth by hiring engineering talent and also with the marketing activities that we discussed on this and last quarter's call. We will continue to be opportunistic in how we allocate resources to drive growth as we evaluate new marketing channels and markets for our games.

As of June 30, we had over \$1.1 billion in cash and cash equivalents, and we now have around \$1.7 billion in available liquidity to support future M&A, which includes \$600 million of an undrawn revolver. Our M&A pipeline is strong, and we continue to evaluate opportunities while staying vigilant of our mandate to create shareholder value by acquiring and enhancing target assets and diversifying into new game categories for growth.

I would also like to highlight that we have crossed our 2-year milestone of acquiring Supertreat. In that 2-year span, we have grown revenues 3.6x over Q2 2019. This is a testament to our M&A execution and our ability to significantly grow assets at scale by leveraging our monetization capabilities and technology platform.

Finally, I'd like to confirm guidance for the full year 2021. With our toughest comps of 2020 behind us and a very solid first half performance, we are reiterating our full year 2021 guidance of revenue of \$2.6 billion and adjusted EBITDA of \$1 billion.

It's been an exciting 6 months since we went public. The entire company has appreciated the opportunity to display our vision, talent and drive on the public stage. As we try to convey on the call today, we believe that many aspects of our business are going even better than we anticipated as we prepared for the IPO last year. Due to this, we feel the timing is right to host an Analyst Day to update the investment community with a deeper dive into our strategy and growth drivers for the next 3 years. I'm pleased to announce that we'll hold our first Analyst Day in New York City on December 6. More details will follow, but please mark your calendars. We look forward to providing some exciting presentations and the opportunity to meet key management team members at that event.

With that, we'd be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Brian Nowak with Morgan Stanley.

Matthew Andrew Cost Morgan Stanley, Research Division - Research Analyst

It's Matt, on for Brian. I guess for Switchcraft, how is the testing going? And any details of what you're seeing so far in that process and any key learnings? And how would you define success for that game? And is there anything you would point to for investors to sort of get a sense of potential sizing? And then if you could just give an update on the broader pipeline and the pace of game development outside the Switchcraft.

Robert Antokol Playtika Holding Corp. - Chairperson of the Board of Directors & CEO

Thanks for the question. So as we mentioned before, we are really excited about launching Switchcraft in Q4, a huge milestone for the company. We are testing Switchcraft in the last 3 quarters. We did use this in few different regions. We changed things in the game. And only after we -- feeling confident about the success of the game, we can launch the game. So it's not something that happened in a few weeks or a few months. It's a long process. We need to be confident in ourselves. We want to win. We don't want to fail, and this is what's always Playtika ways.

So regarding success, the answer is really, really simple. For us, a success is \$100 million after 3 years. This is a success of a game. We believe we can do better than this. This is our way to measure our work here. And the most important thing, yes, we're launching a game in Q4, but we're going to launch another game in the 2022. And so it's like 2 games, like we're doubling our new games in the coming 6 months. And we are really excited about it, and we're feeling very confident about our success here. Thank you for the question.

Operator

Your next question comes from the line of Stephen Ju with Credit Suisse.

Stephen D. Ju Crédit Suisse AG, Research Division - Director

Okay. So just a follow-up on Switchcraft. So when you're talking about a global launch, I mean, should we be thinking about the Chinese market as being part of that launch? And if so, do you already have a publishing partner lined up and are going through the approval process, I guess? And it does sound like Slotomania might be down year-over-year against what were pretty tough comps there. But it does seem like the dollars of revenue there that you're generating is still holding at levels ahead of where you otherwise would have been if the pandemic had not happened. So can you talk about what you're seeing in that game in terms of engagement or monetization? Have we just reached a new level that we're holding with that game?

Robert Antokol Playtika Holding Corp. - Chairperson of the Board of Directors & CEO

So thanks for the 2 questions, actually, not one. So for the first question, we're going to launch Switchcraft in the areas that we're already working right now. We're not going to do it in China because we are not in China right now, and we are focusing in the markets that we understand, we are focusing in the markets that we control. And when we know that we're going to have a success, and we are not going to do any other experience regarding this, so the game is going to be launched in Europe and in the U.S. And this is our main market, and we are really excited about it.

Regarding Slotomania. The interesting stuff here, you guys, everyone, the market can see only the platforms, but we have our own propriety platform that nobody can see the results. What I can tell you is Slotomania is stable, very stable and at some points, even growing. So we are very excited about Slotomania and the future of Slotomania, and we're going to grow this game. As I always said in the beginning, and I said even before in the road show, we look at our games as a platform. This is not a game that we said, "Okay, in 2 or 3 years is we're going to make another game." Slotomania is here to stay. It's a brand that is running more than 11 years, and it's going to run another 11 years. And we have many big plans for Slotomania and for our other games. So we are not done in any way. We're only growing. Thank you.

Craig J. Abrahams *Playtika Holding Corp. - President & CFO*

Stephen, just to put the numbers in context for you. Slotomania, in the first quarter, was up 5% over the fourth quarter and the second quarter was down just 1% sequentially. And so again, strong continued performance in Slotomania. And as Robert mentioned, we're very excited about the road map there.

Operator

Your next question comes from the line of Drew Crum with Stifel.

Andrew Edward Crum *Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst*

20% of revenue source or a little more than 20% sourced from your proprietary platform during the period. What are your expectations for '21 in the second half, specifically? Are you assuming that, that level holds or does it increase? And what does that portend to gross margin in the second half? And then just a quick housekeeping item. What are you embedding in the revenue guidance for '21 from Switchcraft?

Robert Antokol *Playtika Holding Corp. - Chairperson of the Board of Directors & CEO*

So regarding our proprietary platform, it's grown really dramatically in the last 12 months. We said in the road show that we're going to get to 30%. We're already more than 20%. I see stability in the -- until the end of this year, maybe we'll grow another 1% or 2%. We are not going to add any more games this year. The new games that we're going to add on our platform is going to be during the next year and the year after. So we are already on the right run rate, and we're feeling very comfortable.

And especially in this day, it's very important to be independent. It's very important to hold your own future. And we have like almost 1/4 of our revenues is running on our own platform.

Regarding the second question, Craig, do you want to take the second one?

Craig J. Abrahams *Playtika Holding Corp. - President & CFO*

Sure. On Switchcraft, given it's a Q4 launch, top line is not going to be material to the projections. In terms of the investment in marketing, that's baked into our guidance of the \$1 billion target. And so we do -- we have that covered as part of that. So nothing is changing there on the guidance, and we're excited about the Q4 launch.

Operator

Your next question comes from the line of Doug Creutz with Cowen.

Douglas Lippl *Creutz Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Could you talk a little bit about what you've seen the impact of IDFA? I know you don't have a big ad business, but anything you can comment there? And then more importantly, have you seen any impact on the user acquisition side?

Craig J. Abrahams *Playtika Holding Corp. - President & CFO*

Perfect. Thanks for the question. We feel confident about our positioning regarding IDFA for a couple of reasons. And as you mentioned, our ad revenue is only 3% of our business. And so our top line is minimally impacted by this.

Second, the data we've seen on the media buying side has been encouraging. Our effective CPIs have been stable in pre- and post-IDFA periods, and our current consent rate and adoption rates are higher than we expected at 34% and 78%, respectively. In other words, 78% of the impact has been absorbed, and we haven't seen an increase in our effective CPIs. Just to be clear, effective CPIs include organic and unattributed traffic acquired.

Third, this is a type of event where Playtika's excellence really stands out. We've become very effective in our off-line and nonperformance marketing campaigns, and we buy traffic from a larger number of networks. So we're more diversified in that respect as well.

In addition, with our live ops, we're very successful at monetization, which means we have more tools to drive growth. And we convert users faster, so our feedback loop is stronger since we get data faster. We also use sophisticated AI in our proprietary [Samurai] tool. That allows us to optimize our media buying and budget allocation based on ROI.

On the upside, we actually think that IDFA will create more M&A opportunities, given the level of operational sophistication needed to succeed in this environment has just increased dramatically, and many small companies are not going to be able to meet that bar.

Operator

Your next question comes from the line of Eric Handler with MKM Partners.

Eric Owen Handler MKM Partners LLC, Research Division - MD

As we dissect your revenue by geography, the EMEA market looked to be up about 9% year-over-year. And I'm assuming a lot of that had to do with the advertising campaigns that you ran for Bingo Blitz. I wonder how does this maybe change your thinking about doing more of these targeted geo advertising campaigns for not just Bingo Blitz, for other games and the opportunities you're seeing overseas.

Craig J. Abrahams Playtika Holding Corp. - President & CFO

Sure. Thanks for the question. So localization for us is an area we're really excited about. I think Solitaire Grand Harvest and the campaign we recently did in Germany is a proof point for not only other markets for Solitaire Grand Harvest, but all of our games. I mean, truly taking localization beyond language into live ops into customer support into the events that we run and then partnering on the marketing side, both off-line and online, with influencers and other sort of local celebrities has really allowed us to penetrate these markets successfully. So I think Europe represents the biggest part of upside in the near term. I think longer term, Asia is probably where we're going to focus in terms of upside. But definitely excited about the results and have more in the works to update on in the future there as well.

Operator

Your next question comes from the line of Jason Bazinet with Citi.

Jason Boisvert Bazinet Citigroup Inc. Exchange Research - Research Analyst

I just had 2 quick questions. You mentioned the good progress you made getting the casual up to 48% of your mix from 42%. Is there a soft goal in terms of where you want that mix to go as part of casual? And then my second question, you said CPIs were stable. Some of the other -- some of your -- maybe not direct competitors, but others in the industry have talked about CPIs moving up pretty demonstrably. Is that -- is your stable number just a function of a mix shift between organic and unattributed traffic?

Craig J. Abrahams Playtika Holding Corp. - President & CFO

Sure. So I'll take the second part first. So we said the effective CPIs are stable. So effective CPI takes into account organic traffic and unattributed traffic. I think if you're looking at just attributed traffic, yes, the CPIs are going up. But for us, looking at the full picture, right? Because now you have traffic that's unattributed, we're seeing our effective CPIs are stable. And so I think our technology, our AI models and all of the things that we're doing are really enabling us, especially with the off-line campaigns, to continue to perform at levels that we have in the past.

In terms of -- to go back to your first part of your question, in terms of casual target, there's no target per se. What I would say is that all of our new product developments are focused on the casual market. All of our M&A discussions and efforts are focused around casual and other adjacent markets as well, and we're excited about some of the opportunities that we're looking at there as well. So I don't think there's a target per se.

I think what you do see is that the casual business continues to grow at double-digit rates, and we see the casino portfolio probably as a single-digit grower. And so we'll continue to see that mix shift over time, but no specific target to date. But stay tuned on the Analyst Meeting in December, we will provide more detail.

Operator

There appears to be no more questions at this time. I'll turn it back over to Robert for closing remarks.

Robert Antokol *Playtika Holding Corp. - Chairperson of the Board of Directors & CEO*

Thank you. Thank you, everyone, for the call. To summarize what we said in the last 30 minutes, we had an amazing quarter. We beat the numbers of the COVID quarter from 2020. We're launching a new game on Q4. We are growing our business. Our property platform is growing more than 20%, and we see the IDFA as a big opportunity for Playtika now to show the skills of the operations of Playtika and the monetization tools. So I see a really, really good future for us in this year and the year after. Thank you so much for joining us. Hope to see you again soon.

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