

## **CORPORATE PARTICIPANTS**

**James Bigg**

*Senior Manager, Communications*

**John Levy**

*Chairman & Chief Executive Officer*

**Benjie Levy**

*President & Chief Operating Officer*

## **CONFERENCE CALL PARTICIPANTS**

**Rob Goff**

*Echelon Wealth Partners*

**David McFadgen**

*Cormark Securities*

**Nikhil Thadani**

*Mackie Research Capital*

## **PRESENTATION**

### **Operator**

Welcome to theScore's Q2 F2019 earnings conference call and webcast. On our call today will be the Company's Chairman and CEO, John Levy, and President and COO, Benjie Levy.

Following the presentation, there will be an opportunity to ask questions. If you would like to ask a question, please press star then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key.

For opening remarks, I'll now turn things over to James Bigg, theScore's Senior Manager of Communications.

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### **James Bigg, Senior Manager, Communications**

Hello and good afternoon. Many thanks for joining us on today's call and webcast for theScore's fiscal 2019 Q2 results. Presenting today will be theScore Founder and Chief Executive Officer, John Levy, and President and Chief Operating Officer, Benjie Levy.

At this time we'd like to caution our listeners that this presentation contains forward-looking statements. There are risks that actual results could differ materially from what is discussed and that certain material factors or

assumptions are applied in making these forward-looking statements.

Any forward-looking statements contained in this presentation represent the views of management and are presented for the purpose of assisting theScore shareholders and analysts in understanding theScore's financial position, objectives, and priorities, and anticipated financial performance. Forward-looking statements may not be appropriate for other purposes.

Additional information on items of note, theScore's reported results, and factors and assumptions related to forward-looking information are all available in our Annual Information Form and our MD&A for Q2 fiscal 2019, which was filed on SEDAR a few moments ago.

Our CEO, John Levy, will now begin the presentation.

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### **John Levy, Chairman & Chief Executive Officer**

Thanks, James, and good afternoon to everyone and welcome to our Q2 presentation for fiscal 2019.

On the call today, Benjie and I will provide you with an overview of our Q2 financial results, along with an update on our forthcoming sports betting platform, and details on the development of our core sports app, including a new record for user engagement, and on the great growth of our social and esports platforms. Let's start with our Q2 financial results.

Revenue for the quarter was \$6.8 million compared to \$7.1 million in the prior year with slower direct sales in Q2 following a very strong Q1 and some industry-wide softness in the programmatic advertising space. For year to date, revenue was \$16.3 million compared to \$15.5 million on the strength of our Q1 sales. Moving forward, we are pleased to report that early momentum in Q3 has been very good with strong sales in the quarter so far. EBITDA loss for Q2 was \$2.2 million versus a loss \$0.5 million for the quarter last year. This increase was driven primarily by increased expenses relating to the ongoing development of our sports betting business.

In terms of our audience, engagement continues to grow very nicely. We set a new Q2 record with 395 million average monthly user sessions on our base of four million average monthly active users. That's users opening theScore approximately 100 times a month each. This is a testament to the compelling and highly engaged experience we've created, reinforcing our position as one of the most popular sports apps in North America. This engagement and marketing position is particularly exciting in light of the forthcoming launch of our sports betting business.

A significant portion of our focus in Q2 has been spent on product development and setting up the operational infrastructure necessary to support our sports betting platform. I'm pleased to report that we remain on track to deliver what we believe will be a best-in-class sports betting experience for the US market in mid-2019, as previously announced, of course subject to receiving all required approvals and licenses. Our team is creating a unique integrated media and betting experience, which we believe will be a truly differentiated offering that will position theScore very well in the rapidly developing sports betting landscape throughout the US

In New Jersey alone, more than \$2 billion has been wagered since sports betting was legalized in mid-June last year with mobile and online sports betting revenue accounting for four times the amount wagered in person at retail sports books. And for us, this is just the beginning. As legalized sports betting continues its steady state-by-state rollout, we'll be ready with our base to highly engaged users that exists in each and every state across the country.

And let's not forget about Canada. Just last week, the provincial government in Ontario announced plans to legalize online gaming in the province, including support for the legalization of single event wagering at the federal level. These plans were endorsed by the commissioners of the NDA, NHL, CFL, and MLS. We fully support these proposals to modernize the outdated online gaming framework in Canada. As a highly recognized trend in the Canadian mobile sports business with the most popular mobile sports app in the country, we will be ready to provide fans here with the best-in-class mobile sports betting experience.

This is a very exciting time for us and we can't wait to show you what we're building. In the meantime, we invite you to sign up via the theScore.bet to receive updates as we get closer to the launch.

I'll now turn things over to Benjie, who will run through some of our product initiatives, as well as bring you up the speed on another impressive quarter for our social and esports content.

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**Benjie Levy, President & Chief Operating Officer**

Thanks, John, and good afternoon, everyone.

While our product team has been very focused during Q2 on our sports betting platform, we've also continued to roll out significant new product enhancements to our core sports app, including new social features like article commenting, which, together with our popular chat platform, are helping to continue to drive strong growth

and user engagement. In addition, we've released additional betting-related features, including betting polls in our public chat forum and the expansion of our Betting Info tabs to NBA and NCAA basketball match-ups. We'll be adding these sections into our NHL and MLB box scores in Q3, as well as adding support for additional sporting events, including the Women's World Cup and Copa América Soccer. I'm also pleased to share that theScore app was shortlisted for a Webby Award in the best sports app category up against the likes of ESPN and Bleacher Report. The public vote is still open online for one more day, so please vote if you haven't already.

From a content perspective, we've also been working to expand our sports betting coverage and plan to add more dedicated sports betting writers and feature editors to the team in the coming months. We've also been making select strategic hires in other areas where we believe we can enhance our coverage, including in combat sports and US college sports. As well, we're building on the success of theScore X video series. We recently released a new installment of theScore X, this time featuring NBA star Austin Rivers, and also debuted a new series, Cross Culture, where we explore the intersection of sports and pop culture.

Turning now to our social channels, this was another great quarter in terms of building our audience and reach. In Q2, average monthly reach exceeded 95 million users and in January we set a new single month record with our reach topping 118 million users. The engagement on our social channels is also resonating with our advertisers, with brands including Werner Ladder, Subway, Tim Horton's, and Disney signing on to campaigns that leverage our social reach and engagement. On top of this, our Instagram channel also received industry recognition with a nomination for both a Webby Award and a Cynopsis Sports Media Award. On esports, it's been a similar exciting story. Total video views of our esports content reached 39.3 million in Q2, which represents year-over-year growth of 93%. Total watch minutes for our YouTube content also grew significantly by 190% to over 260 million in the quarter with our subscriber base on the channel now exceeding 700,000, up from just 30,000 two years ago.

I'll now take a closer look at our financials. Revenue from the quarter was \$6.8 million compared to \$7.1 million for the same period last year with slower direct sales in Q2 following a very strong Q1 and some industry-wide softness in the programmatic advertising space. As John noted earlier, early momentum in Q3 has been very good with strong sales in the quarter to date. Expenses for the quarter were \$9 million compared to \$7.6 million last year with the increase largely driven by expenditures related to the development of our US sports betting business. As a result, EBITDA loss for the quarter was \$2.2 million

versus a loss of \$0.5 million in the same period of the previous year. Finally, with respect to cash, we finished the quarter with \$8.3 million of cash and a \$5 million revolving credit facility that remains undrawn.

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**James Bigg, Senior Manager, Communications**

That concludes the formal part of our presentation. Operator, we will now take any questions.

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**QUESTION AND ANSWER SESSION**

**Operator**

At this time I would like to remind everyone in order to ask a question, please press star followed by the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster. Your first question comes from Rob Goff with Echelon. Your line is open.

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**Rob Goff, Echelon Wealth Partners**

Thank you very much for taking my questions.

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**John Levy, Chairman & Chief Executive Officer**

Hey, Rob.

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**Rob Goff, Echelon Wealth Partners**

Thanks. The first one would be on the advertising softness. When you said that it has strengthened in this quarter, would that be strengthening to the point of year-on-year growth?

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**Benjie Levy, President & Chief Operating Officer**

I don't want to comment specifically in terms of, ah, but we can say that our progress on ad sales in Q3 is more reminiscent of Q1 than Q2.

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**Rob Goff, Echelon Wealth Partners**

Thank you. I tried to pull you as far as you were comfortable on that, so much appreciated. The next question would be what should we look for with respect to the next steps on the betting side in terms of the content or the partnering or the distribution?

**Benjie Levy, President & Chief Operating Officer**

I think, you know, from our perspective it's all hands on deck to get prepared for our planned launch in New Jersey, which we've indicated is going to be mid-2019. Internally, a lot of work is happening from a product development perspective, a lot of work is happening setting up our operational infrastructure to support, you know, with all of the ancillary services that are required in support of a sports betting operations and the internal processes that are required to support that. The regulatory licensing processes are ongoing. And, as John said earlier, at this point we believe we're solidly on track of the timeline we had laid out previously.

At the same time we've said that New Jersey is not the end of the story. So we have a keen eye on what's going on in the marketplace as additional states are in various stages of legislative and regulatory development. And as those states come online we will be there pursuing access as part of that process. And I would also note our excitement around the announcement that came out in the Ontario budget last week where all indications are that the province is going to be pursuing an online legalization and regulatory framework for the first time that contemplates licensing and regulation of online gaming kind of outside of the existing government channels. So that's something that isn't going to happen overnight but is very interesting and compelling to us.

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**Rob Goff, Echelon Wealth Partners**

Very encouraging. And should we look for your operating expenses to scale up somewhat prospectively as you ramp up for the betting?

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**Benjie Levy, President & Chief Operating Officer**

Yeah, I think that would ultimately be a reasonable expectation as we get ready for launch.

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**Rob Goff, Echelon Wealth Partners**

Okay. Thank you and I will pass it along with that. Thanks.

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**Operator**

Your next question comes from David McFadgen with Cormark. Your line is open.

**David McFadgen, Cormark Securities**

Hi, guys.

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**John Levy, Chairman & Chief Executive Officer**

Hey, David.

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**David McFadgen, Cormark Securities**

Just a couple of questions. So, when you talk about getting ready to launch in New Jersey, you said you need a bunch of regulatory approvals and so on. Can you give us some of the main ones that you need and has the software been GLI approved yet?

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**Benjie Levy, President & Chief Operating Officer**

So, yeah, we can talk about a couple of elements. The principal approvals that we need are from the Division of Gaming in New Jersey, and that's a process that is ongoing currently. And in connection with that there's a regulatory process associated with the corporate entity, with the key individuals, and also their gaming lab will review the technology and infrastructure. So that is the principle set of approvals that's required in connection with the launch.

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**David McFadgen, Cormark Securities**

So has their gaming lab started to review the software yet?

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**Benjie Levy, President & Chief Operating Officer**

I don't want to get into the specifics of where we're at in the process other than to say that we believe we're on track for the timeline that we previously talked about.

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**David McFadgen, Cormark Securities**

Okay. So, just moving on, so you disclosed you had about four million average monthly app users, so obviously they were all active, right?

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**Benjie Levy, President & Chief Operating Officer**

Yes.

**David McFadgen, Cormark Securities**

And obviously you have a bunch of users that were not active, so I was wondering can you give us a sense of the total number of users that you have active and inactive for the app?

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**Benjie Levy, President & Chief Operating Officer**

We don't really track that in the sense of looking historically at what an inactive or lapsed or churned user might be. Similar to when you hear people talk about well, I have a database of X, but the active portion of my database is 10% of X. We prefer to focus on the actionable element, which is the active people who we're talking to 100 to 125—

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**John Levy, Chairman & Chief Executive Officer**

And the engagement, right?

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**David McFadgen, Cormark Securities**

But I mean, you know, even if they're inactive today you could market to them and they could become active tomorrow, no?

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**Benjie Levy, President & Chief Operating Officer**

Depending on what former passion they've engaged with us in the past, that is true. That is true. I mean I think our two biggest opportunities, David, are marketing to our active user base on the app and also taking advantage of our massive reach on social, you know, the between 90 million and 120 million users that we touch each month on social through our content. And one of the initiatives we're focusing on is ramping up our gaming-related content and we think that will play and also with some specific hires on our social team in that respect. So that's an area we will be focusing on as well.

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**David McFadgen, Cormark Securities**

So I mean, you know, you're quoting some big numbers on the social touch. Do you have any idea how that would compare to, say, DraftKings and FanDuel? Because those are two big market share leaders right now in New Jersey.

**Benjie Levy, President & Chief Operating Officer**

On the social side, my recollection off the top of my head is that our numbers are significantly larger and that, you know, I was looking at some numbers the other day where we sit fourth of all the major media properties. I think that's in the presentation. In terms of their footprint in state, we think our audience compares very favourably to theirs and when we look at the New Jersey landscape where, between the two of them, they're between 70% and 80% market share, that's quite exciting to us as we think about of go-to-market plan.

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**David McFadgen, Cormark Securities**

Okay. So, just moving on to just the ad revenue in the quarter, can you give us an idea of why programmatic was soft and the direct was soft? Is there some reason for that?

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**Benjie Levy, President & Chief Operating Officer**

From we've seen in talking to our programmatic ad partners, the softness is something that, and there was, you know, I was reading a couple of articles in Digiday about this, the softness has been industry wide in Q1 and it's one of those situations where lower (inaudible) is leading to lower rates. And even in that context I think, from what we're seeing with our rates relative to the average that our partners are reporting, we're still able to extract a 20% to 30% premium over what others in the marketplace are seeing, but there was some general industry softness on the programmatic side. But in terms of the Canada direct, for us it's just, you know, it's the ebbs and flows of the sales cycle. Q1 was incredibly strong. January for the past three years has been soft. And then, as we said, we're seeing, at this point, with bookings to date in Q3, a return to some of that strength. So if you're seeing a couple of campaigns in Q2 get pushed to Q3, that ends up making the difference kind of year—

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**John Levy, Chairman & Chief Executive Officer**

Showed up in an aggressive Q1.

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**Benjie Levy, President & Chief Operating Officer**

You know, year on year. So, from a direct sales perspective, we're pleased with where we're at.

**David McFadgen, Cormark Securities**

Okay. And then just lastly, you talked about some pretty high growth numbers on the esports side. Can you give us an idea of what the ad revenue growth was for esports in the quarter?

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**Benjie Levy, President & Chief Operating Officer**

Yeah. So, we've talked about esports add revenue in some earlier calls and we're really just in the very formative stages of starting to monetize our e-sports audience. We hired a VP of sales out of New York to lead our esports sales efforts and he came on board, I think, in December, just before the holidays, and is starting to get his legs underneath them now. And so to date, monetization has been very, very little. It's just been what we've sold through the facilities of YouTube predominantly.

Given the scale and scope and reach that we have now with, you know, I'd say it's 700,000 subscribers in the video views and watch minutes we're doing, we're certainly in the top two or three esports channels on YouTube. And that will open doors for us and is opening doors for us for the more integrated branded content and sponsorship type opportunities as opposed to the more traditional media sales. So that's something that's being actively pursued right now and we'll be reporting more on that in coming quarters, but we think, given the massive growth we've seen in the audience, there is very big potential there.

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**David McFadgen, Cormark Securities**

Okay. That's it for me. Thank you.

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**Benjie Levy, President & Chief Operating Officer**

Thanks, David.

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**Operator**

Again, if you would like to ask a question, please press star one. Your next question comes from Nikhil Thadani with Mackie Research Capital. Your line is open.

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**Nikhil Thadani, Mackie Research Capital**

Great. Thanks, guys. I just wanted to go back to New Jersey for a second. Beyond the milestones that you

mentioned, John, are there certain other milestones that may apply to the development of the platform or sort of from an operational perspective that you need to have in place before lunch?

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**John Levy, Chairman & Chief Executive Officer**

The ones that Benjie mentioned obviously were the ones with respect to licensing and the regulatory matters. Over and above that it's just all hands on deck. Our whole team is working towards creating this very, very unique product. And I'd be lying if I didn't tell you it's a lot of work. It's very exciting. And thank goodness we have this humongous engineering pool to draw upon that's created one of the most popular apps in North America and about to launch the most popular sports betting app in North America, in our view. So, it's a day-to-day process. Everybody is rolling up their sleeves, not only on the technical side, on the engineering side, and obviously working hard on the marketing side, getting ready for our launch. We say mid-2019 and we're very, very hopeful that that's going to come to fruition and at this point we don't see any reason why that isn't going to become a reality. We're very, very excited and looking forward to taking our first bet sometime during this year.

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**Nikhil Thadani, Mackie Research Capital**

Got it. And you also mentioned some stats about New Jersey online betting and mobile betting. I was just curious if that has sort of translated to or, you know, if you've seen any sort of impacts of that on to user engagement perhaps in the New Jersey area specifically and sort of any data that you might have around that that you can perhaps extrapolate to the larger business as sports betting gets rolled out on a state-by-state basis.

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**Benjie Levy, President & Chief Operating Officer**

We're not going to comment on the specific engagement we're seeing on a state-by-state basis, but what I can say overall is that, you know, when you look to some of the new features that we've rolled out like our chat platform over the past four or five months and you look at the engagement and the conversation that's happening around the game and around the box score and around the teams, it's clear that sports betting resonates with a significant portion of our audience. They're engaging in conversions, they're engaging with the betting polls which we recently released, and so we think they will be very receptive to the type of integrated offering that we're planning to roll out later this year.

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**Nikhil Thadani, Mackie Research Capital**

Got it. And then as you get closer to your launch date, philosophically at this stage, how are you thinking about marketing that product launch? Just any high level of ideas and thoughts that you might have around marketing.

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**Benjie Levy, President & Chief Operating Officer**

One of our core tenets and the core reason why we're even contemplating getting into the sports betting business is because of the natural fit and sports betting being just one other part of the sport fan's experience and bringing the transaction as close as possible to where the fans are engaging around content. So, first and foremost for us it's how do we leverage the engagement of our audience and our media app. Beyond that, certainly we will be active in the market, doing some external marketing, but certainly it won't be the same approach that some of the others are taking in the market. It's, first and foremost, a strategy based around our users.

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**Nikhil Thadani, Mackie Research Capital**

Got it. Just one last one before I pass the line. Are you able to break out the sports betting related costs in this quarter and, at a higher level in terms of costs, how should we be thinking about that going forward? Thanks, guys.

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**Benjie Levy, President & Chief Operating Officer**

Not specifically yet, but that's something we will be contemplating as we roll forward towards the end of this fiscal year and certainly beyond.

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**Nikhil Thadani, Mackie Research Capital**

Great. Thanks.

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**Benjie Levy, President & Chief Operating Officer**

Thanks, Nik.

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**Operator**

Your next question comes from Rob Goff with Echelon. Your line is open.

**Rob Goff, Echelon Wealth Partners**

Thank you. To an extent, my question was just taken, but perhaps I'll go back at it a little bit. Thus far you've been more of an organic growth company in terms of letting the product build the user base. Would you entertain more of an influencer base or external promotional based marketing position once you get into betting?

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**Benjie Levy, President & Chief Operating Officer**

I think, you know, certainly there is a role for that to complement how we're going to plan to market our betting platform, but I wouldn't expect us to totally change our core approach and our product-led approach to the market, no.

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**Rob Goff, Echelon Wealth Partners**

Okay. Thank you.

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**Benjie Levy, President & Chief Operating Officer**

Thanks.

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**Operator**

That's all the questions we have at this time. I turn the call back to presenters.

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**James Bigg, Senior Manager, Communications**

Okay. Thanks, everyone, for joining us today. We look forward to presenting to you again when we deliver our Q3 results in mid-July.

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**Operator**

This concludes today's conference call. You may now disconnect.

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