

1 Thank you, Brian. And thank you all for joining us
2 today.

3
4 Good afternoon. Welcome to Zedge's earnings
5 conference call for the third quarter of fiscal year 2022,
6 which ended April 30th, 2022. I'm Jonathan Reich, CEO of
7 Zedge, and with me is our Chief Financial Officer, Yi Tsai,
8 who will provide additional insight into our financial
9 performance. We will then be happy to take your
10 questions.

11
12 Zedge builds marketplaces and games around digital
13 content that people use to express themselves. Our
14 leading products are the GuruShots photography game
15 and Zedge's freemium digital content marketplace, which
16 today offers mobile phone wallpapers, video wallpapers,
17 ringtones, and notification sounds. We also own
18 Emojipedia, a website that is the leading source of

19 information about emojis. In total, our products served
20 over 40 million users during May.

21
22 Our company is positioned at the intersection of two
23 major growth trends in consumer tech: casual gaming
24 and the creator economy. Today, most smartphone users
25 have become amateur content creators, sharing their
26 photos, illustrations, memes, and videos to express
27 themselves and gain social validation. In addition, they
28 value friendly competition and garner popularity and
29 recognition from their online community. Many of these
30 creators are talented enough to attract a meaningful
31 following and monetize their content. This is what's
32 known as the "creator economy," a market that has
33 grown massively over the last five years.

34
35 We aim to bring creators into our ecosystem to
36 compete with each other while improving their skills and

37 also offer them the opportunity to earn money. Our
38 game provides competitive photo challenges in a peer
39 community, and our marketplace allows this community
40 to share and monetize its content. Our existing base of
41 over 40 million users is an attractive value proposition to
42 talented creators. This synergy between gaming and
43 marketplace unlocks additional engagement and
44 provides an outstanding organic traffic funnel for
45 GuruShots players to also become Zedge Premium
46 artists. This has the dual benefit of lowering the spend
47 needed to acquire premium artists while also growing
48 gross transaction value and associated revenue.

49
50 We announced our acquisition of GuruShots in April.
51 It plays an important role in advancing this vision. The
52 GuruShots team brings significant expertise in gamifying
53 user-generated content and monetizing users by selling
54 game resources through in-app purchases. We expect to

55 apply that gamification expertise across our product
56 portfolio. Similarly, our Zedge marketplace team is highly
57 experienced in managing massive catalogs of user-
58 generated content and optimizing monetization through
59 a combination of advertising, subscriptions, and a virtual
60 token-based economy.

61

62 Those of you who regularly join our earnings call will
63 notice that our narrative has evolved and more clearly
64 articulates the strategy we have been pursuing. Now that
65 GuruShots is officially part of Zedge, it makes more sense
66 to explain the opportunity we see in combining games
67 and marketplaces under the same roof than it would
68 have before we owned a gaming property.

69

70 Both GuruShots and the Zedge marketplace offer
71 great promise for incorporating NFTs. Last December, we
72 launched NFTs Made Easy, inviting a select group of

73 Zedge Premium marketplace creators to start selling
74 their video wallpapers as single edition NFTs. Thus far,
75 our users have purchased 30% of all NFTs offered in the
76 marketplace, with prices averaging about \$20. This sale
77 rate and average price are substantially higher than other
78 premium marketplace content. I will provide more
79 details about the next evolution of NFTs Made Easy later
80 in the call.

81
82 We are also developing new products that fit our
83 interconnected games and marketplaces strategy. These
84 products remain experimental and are not expected to
85 contribute to our revenue in the short term.

86
87 We possess deep expertise in monetizing our digital
88 real-estate, whether through advertising, subscriptions,
89 or content sales. As a result, our products appeal to a
90 wide range of user segments globally. Today, Android

91 users account for roughly 96% of the Zedge App's MAU
92 and 91% of its revenue.

93

94 Before discussing our evolution and the exciting
95 opportunities we see coming down the pike, I'd like to
96 provide context to our third-quarter results. Despite a
97 solid first half of the year, we kept full-year revenue
98 guidance unchanged at 25-30% year-over-year growth
99 when we conducted our second-quarter earnings call.
100 We chose a conservative approach due to transitory
101 factors that were likely to negatively impact MAU and
102 paying subscribers, resulting in lower revenue growth
103 rates. MAU declines mainly resulted from traditional
104 seasonality in the business, with Q3, which follows the
105 end-of-year holiday season typically seeing a downturn in
106 MAU; a decline from users who uninstalled the app after
107 we changed its icon to the colors of the Ukrainian flag;
108 and the forced app upgrade relating to the necessary

109 migration to AppLovin's Max ad mediation platform. As
110 we mentioned last quarter, the latter also resulted in a
111 delay in the release of social and community features
112 which we believe will help reverse the MAU declines,
113 especially in well-developed markets by around a
114 quarter.

115
116 Despite these headwinds, ARPMAU increased by 8%;
117 and we generated \$5.6 million in cash flow from
118 operations including Applovin's one-time \$2 million
119 payment, bringing our cash balance at the end of the
120 quarter to \$17 million after the \$18 million payment to
121 GuruShots' shareholders. We also generated \$2.9 million
122 in adjusted EBITDA.

123
124 On another positive note, the operational transition
125 to AppLovin's Max platform has been smooth, and it is
126 yielding more revenue on a per-user basis compared to

127 MoPub. In addition, active user levels rebounded from
128 early May lows due to marketing initiatives implemented
129 in advance of the new social and community feature
130 upgrades, which we expect to be available later this
131 month. Over time, we believe these new features will be
132 an important catalyst for growing MAU in well-developed
133 markets, resulting in higher ad revenue and active
134 subscriber growth.

135
136 Zedge Premium’s Gross Transaction Value, or GTV,
137 continued to increase at an impressive rate with 63%
138 growth. We believe our NFT strategy, mainly providing
139 utility to creators, especially ones that lack a deep
140 knowledge of technology, is critical for building a
141 sustainable business. Fortunately, our business has been
142 insulated from what pundits are deeming the “Crypto
143 Winter” because we offer an affordable, easy, and eco-
144 friendly way for creators to tokenize their content that

145 uses Zedge credits and not cryptocurrency. This month
146 we will be expanding this functionality by introducing
147 several features, including numbered editions, the ability
148 to add audio to video wallpapers, and expanding into
149 static wallpapers. Keep in mind that the value
150 proposition to our Zedge Premium creator base
151 significantly improves with NFTs. Previously, a creator
152 could make pennies for selling multiple video wallpapers,
153 and now they can make thousands of times that amount
154 with one NFT sale through NFTs Made Easy.

155
156 To promote these new features, we are forging
157 relationships with artists that have demonstrated success
158 auctioning their NFTs on other platforms. These artists
159 are excited about the prospect of gaining access to our
160 global user base and offering numbered editions of up to
161 100 for price points that are more accessible to the
162 masses.

163

164 We are also in the final stages of unleashing more of
165 Emojipedia’s potential. By the end of June, we expect to
166 introduce localized versions of Emojipedia in Spanish,
167 French, German, Italian and Portuguese and refresh the
168 user interface with a new design, including all
169 monetization elements. This should benefit us in time for
170 “World Emoji Day” which is celebrated on July 17th.

171

172 In summary, we took steps to address some near-
173 term challenges, weathered the storm, generated cash,
174 and focused our attention on activities that we expect
175 will return the Zedge app to higher levels of profitable
176 growth.

177

178 This provides a good transition to discussing the
179 transformational GuruShots acquisition and our strategic
180 priorities going forward.

181

182 We closed the GuruShots acquisition on April 12th,
183 so our results include a partial month of their financials.
184 We see GuruShots as a transformational asset on its own
185 but have also identified significant potential synergies
186 that we expect will make 1+1 equal a lot more than 2.

187

188 My colleagues from Lithuania, Norway, and the US
189 recently returned from an in-depth set of planning
190 sessions with our co-workers at GuruShots, it was
191 amazing!

192

193 GuruShots is a category killer that fuses photography
194 with gaming, enabling amateur photographers –
195 essentially anyone with a smartphone – to compete in a
196 wide variety of contests across iOS, Android, and the web
197 that showcase their photos. The game mechanics include
198 progressively more difficult competitions, with successful

199 players mastering their skills and then continuing to the
200 next level until ultimately earning the coveted 'Guru'
201 title. Players can compete individually or join together as
202 a team. The product includes community features,
203 leaderboards, and chat functionality, which create a
204 sense of belonging, inspiration, and competition. While
205 the penetration rates leave a lot of room for growth, we
206 estimate that 30 to 40 million photo enthusiasts regularly
207 use their smartphones to take and publicly share high-
208 quality photos and who would be interested in
209 participating in photo contests every month.

210
211 Given the early stage of this gaming vertical and the
212 limited investments made to date, the stats are
213 impressive. GuruShots players have uploaded more than
214 140 million photos since the game's inception, with more
215 than 1 million new photos currently being added
216 monthly. In addition, their LiveOps team launches more

217 than 300 competitions per month. Users vote on
218 submitted photos and the ones receiving the most votes
219 secure higher rankings until there is a winner for the
220 competition. Depending on players' engagement,
221 amongst other things, they can secure more voting
222 power, and this yields over 5 billion votes cast monthly.
223 GuruShots is a Free-to-Play game that monetizes today
224 strictly by selling in-game resources that increase a
225 photo's exposure. Although only a small fraction of users
226 purchase these resources, GuruShots boasts an ARPMAU
227 of approximately \$3.50 versus 5 to 6 cents for the Zedge
228 app. Furthermore, currently paying players spend over
229 \$50 per month, representing an 18% CAGR over the past
230 six years.

231
232 When looking at GuruShots on a stand-alone basis,
233 we have several product and marketing initiatives that
234 we expect to make this year to accelerate growth.

235

236 Furthermore, we are investing in organic and paid
237 user acquisition strategies to expand the top of the
238 funnel and increase MAU. These efforts will include paid
239 user acquisition, app store optimization, also called ASO,
240 on iOS and Android, search engine optimization, or SEO,
241 and affiliate and influencer marketing across mobile and
242 the web. As a reminder, we have committed up to \$5.3
243 million for paid user acquisition over the next 12 months
244 subject to user cohorts generating a minimum return on
245 ad spend, or ROAS. If this spending is effective, it could
246 generate high double-digit revenue growth rates.

247

248 The product enhancements we are focused on
249 include improving onboarding by segmenting users and
250 drawing them into the gameplay early on. One of the
251 things I learned during my trip was that there is a steep
252 learning curve for new users, as successful competitors

253 develop sophisticated game strategies centered around
254 in-game resource utilization.

255
256 Next, we will release a feature called “Battles,”
257 which are simple mini-competitions that resemble a
258 social game. Battles will introduce new players to the
259 excitement of competing from the get-go. We expect this
260 will result in converting installs into free players, some of
261 whom will ultimately purchase game resources as they
262 become immersed in the experience and get hooked on
263 the game. Finally, we expect to introduce a “Learn”
264 option that users can turn to for photo tips and skills
265 building to improve their photo-taking ability. Although
266 we don’t have all the details worked out as of yet, we
267 expect this value add will act as a revenue driver and
268 catalyst for user engagement.

269

270 I would be remiss if I didn't address GuruShots' R&D
271 team. In a nutshell, they are impressive. Furthermore,
272 our combined teams have an in-depth plan for migrating
273 to a common cloud platform, which will lower costs and
274 simplify the platform.

275

276 Let me turn to synergies, which we think can bring
277 significant upside to the Company over the next several
278 years.

279

280 The GuruShots acquisition is expected to accelerate
281 the growth of Zedge Premium's marketplace and NFT
282 offerings. The possibilities here are truly exciting. Think
283 about it, GuruShots players are a self-selected group of
284 high-quality photographers that crowdsource great
285 content in near real-time. Furthermore, these players are
286 either playing for free or paying to play, enabling us to
287 offer them the ability to monetize their handiwork in our

288 creator economy. We believe that the opportunity for
289 GuruShots users to monetize the 1+ million photos
290 uploaded monthly through our NFTs Made Easy platform
291 is a very attractive value proposition that could
292 materially expand the size and growth rates for this part
293 of the business.

294
295 GuruShots also brings a deep knowledge of
296 gamification, especially in the world of visual arts. One of
297 our goals is to gamify the Zedge app to improve
298 engagement and retention and thus grow MAU.
299 Additionally, we have identified several other verticals
300 that we believe are ripe for gamification, but it is too
301 early to provide details.

302
303 The acquisition of GuruShots will alter our financial
304 projections given the expected growth investments we
305 will be making. Despite global economic uncertainty,

306 including the Russian war, inflation and rising interest
307 rates we expect fiscal 2022 revenue growth to exceed
308 30% on a consolidated basis. We also expect to remain
309 profitable and generate positive adjusted EBITDA in the
310 fourth quarter leading to adjusted EBITDA for the year
311 growing in line with revenue.

312

313 Beyond fiscal 2022, we are investing in GuruShots in
314 addition to our existing businesses. Our goal is to
315 continue to remain profitable and generate positive
316 adjusted EBITDA and cash flow from operations as we
317 drive GuruShots towards high double-digit revenue
318 growth and positive adjusted EBITDA on a stand-alone
319 basis over the next 18-24 months.

320

321 To better accelerate growth and control costs, we've
322 decided to redeploy our Innovation Team to GuruShots
323 for the remainder of the year. This will help accelerate

324 growth while also providing this team with an immersive
325 education in gamification. Once they've acquired this
326 knowledge and gained this experience, they will be
327 tasked with gamifying both the Zedge app and the other
328 verticals that we believe offer untapped opportunities. I
329 think this speaks to our management teams' strength
330 and its ability to make responsible decisions that inure to
331 the benefit of the business both from a growth and cost
332 perspective. It also points to the talented employee base
333 we have cultivated.

334

335 Before handing the call over to Yi to go through our
336 financial results, I want to thank our investors for your
337 continued support. As many of you have seen, some of
338 our board members and I made open market purchases
339 of Zedge since the GuruShots acquisition closed. We did
340 this because we truly believe in Zedge's long-term
341 potential, and that the stock price neither reflects this

342 potential nor the current financial results. I also want to
343 thank our employees for their commitment and hard
344 work, especially in light of the GuruShots acquisition.
345 Finally, I'd like to underscore how highly we think of our
346 colleagues at GuruShots. We've had a great start to our
347 relationship, and we are excited to work together to
348 increase shareholder value over time.

349

350 Yi?

351 **Yi**

352 Thank you, Jonathan! I want to remind those on
353 the call that our fiscal year ends July 31st and thus our
354 third quarter ended on April 30th. Please note that this
355 quarter included approximately two weeks of
356 GuruShots results. Also, we switched from reporting
357 EBITDA to Adjusted EBITDA this quarter in light of the
358 GuruShots transaction-related expenses such as
359 professional services and stock-based compensation.
360 Our press release supplemental tables have been
361 adjusted historically to account for this change.

362

363 Moving to our third-quarter results. MAU, defined
364 as the number of unique users that opened our Zedge
365 app during the last 30 days of the period, decreased
366 7% to 32.1 million for April 2022 versus 34.5 million
367 last April.

368

369 Total revenue in the third-quarter was 6.2 million
370 dollars, a 19% increase from last year. Ad revenue
371 and subscription revenue growth rates were
372 constrained due to the lower MAU numbers.

373

374 Other revenue, which includes revenue from our
375 emerging products including Zedge Premium,
376 Emojipedia, and GuruShots, was \$0.8 million.

377 GuruShots added 300 thousand dollars during the
378 final few weeks of the quarter. Also, note that our
379 auditors determined the \$2 million dollar payment
380 from AppLovin on April 1st should be classified as
381 revenue and amortized monthly over a two-year
382 period, which increased “other” revenue by less than
383 100 thousand dollars this quarter.

384

385 Zedge Premium's Gross Transaction Volume, or
386 GTV - that is the total sales volume transacted through

387 our marketplace – increased 63% to 410 thousand
388 dollars, reflecting increased sales and ASPs from our
389 NFTs Made Easy platform.

390

391 Active subscriptions were down 5% versus last
392 year as new subscription sales did not offset churn.

393

394 Overall, ARPMAU, was 5.2 cents – an increase of
395 8% year over year, driven by better advertising
396 performance and slightly higher subscription revenue
397 versus last year.

398

399 This year, operating expenses increased by 49%,
400 leading to a 32% decrease in income from operations
401 and an operating margin of 21.5% vs. 37.7% last year.
402 GuruShots was the biggest driver of these decreases as
403 it contributed an operating loss of about 249 thousand
404 dollars during the quarter, including 93,000 dollars of

Commented [YT1]: Correlate more to the slow down in new installs in T1 countries

405 amortization of intangible and 67,000 dollars of
406 retention bonus expensed for the partial month of
407 April. We also had a one-time 744 thousand dollar
408 expense during the quarter, mainly for professional
409 services related to the GuruShots acquisition.

410

411 Provision for income taxes was 429 thousand
412 dollars this quarter versus a benefit of 473 thousand
413 dollars in last year's Q3. The effect of becoming a tax
414 payer this year was material, as income tax benefit in
415 Q3 last year had the impact of increasing diluted EPS
416 by 3 cents while being a tax payer in Q3 this year had
417 the impact of decreasing diluted EPS by 3 cents.

418

419 Diluted EPS was 5 cents versus 17 cents last year.
420 Diluted share count was 14.9 million.

421

422 Moving to adjusted EBITDA, as I mentioned

423 earlier, this is the first quarter that we are reporting
424 this metric. We provided a historical Adjusted EBITDA
425 reconciliation table in our press release, but to review,
426 we are calculating it as follows:

- 427 • Calculating traditional EBITDA, which was \$1.6
428 million this quarter and \$2.3 million in Q3 of last
429 year;
- 430 • Adding back stock compensation expense of \$0.5
431 million this quarter versus 98 thousand dollars last
432 year;
- 433 • Adding back any one-time, transaction-related
434 expenses, which this quarter was the 744 thousand
435 dollars of professional services related expenses
436 tied to the GuruShots acquisition;

437 When we make these adjustments, we get adjusted
438 EBITDA of 2.9 million dollars this year, versus 2.4
439 million dollars last year, and an Adjusted EBITDA
440 margin of 46% this year versus just under 45% last

441 year. As you can see, our underlying operating
442 performance was masked due to one-time items and
443 other non-cash items.

444

445 From a liquidity standpoint, we remain in a strong
446 net cash position with almost no debt and over 17
447 million dollars in cash and cash equivalents.

448

449 Thank you for listening to our third-quarter
450 earnings call, and I look forward to speaking with you
451 again on the next call.

452

453 Operator back to you for Q&A.