Prepared Remarks: Q2’24

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Roman Safiyulin, Chief Corporate Development Officer

Hello everyone and thank you for joining us today for the second quarter 2024 earnings results presentation for GVEV Inc. On today’s call, our presenters will be Andrey Fadeev, founder and CEO, Alexander Karavaev, Chief Financial Officer and Roman Safiyulin, Chief Corporate Development Officer.

Before we get started, I would like to remind you that today’s discussion may contain forward-looking statements which may not develop as we currently expect. We have posted a supplementary slide deck to the investor relations section of our website at gdev.inc, which contains information and precautionary warnings on forward-looking statements as well as our non-IFRS financial measures, and we will also post our prepared remarks. For a more complete discussion of the risks and uncertainties, please see our filings with the SEC.

With that, I’ll pass it on to Andrey.

Andrey Fadeev, CEO, Founder

We’re Back On-Air!

After a nice long break, we’re finally back in action! And you know what that means—we’ve recovered enough to show our faces again and fill you in on what’s been going on with us. If you’ve noticed that we’ve become more visible and are steadily growing our footprint, well, you’re not wrong. We’re making waves everywhere. Why? Because we’re excited and eager to show the world what we’re made of. And trust us, we’re not stopping anytime soon. As I’ve said in my posts before, we’re here to do things differently. Our mission? To pleasantly surprise, first and foremost, our users, and secondly, you—our dear current and future shareholders.

Now, I’m not here to talk about Q2 or H1—that’s what my much more professional colleagues are for. I’m here to talk about the future (with no promises, of course). And yes, we do have a future, and it’s looking brighter by the day. Each of our game studios now has a clear plan on how they’ll create the number one game for their audience. Every single one of them. Our dreams of diversifying beyond a single asset are finally starting to take shape. Fortunately, we see strong growth potential for our flagship franchise, Hero Wars. And after our cautious, sometimes awkward, first steps with PixelGun3D on Steam, we’ve realized that buying that fantastic product was worth every penny. If you’re curious, you can check out the success of our other studios on platforms like Data.ai.

We’re also seeing interest from top founders in the gaming industry who’ve expressed that they want to join us. It’s incredibly gratifying to watch our long-time dreams slowly become reality. Sure, it takes time, and it’s not happening overnight, but if there’s one thing you can count on from us, it’s that we never give up—and we’re in it for the long haul.

Alexander Karavaev, Chief Financial Officer

Thank you Andrey.

Now a few words about our financial results. Overall, our Q2 results are on track. We have expected the numbers that we achieved given seasonal factors and the current product mix. In the second quarter of 2024, we generated revenue of $106 million, compared to $115 million in the same period of 2023, mostly due to a decrease in the recognition of deferred revenue associated with bookings recorded in previous periods.

Bookings though, which we consider a very important metric for our business, remained relatively stable in the second quarter of 2024. They only decreased by 3% year-over-year primarily due to a decline in advertising revenue. It is important to note that the amount of in-app purchases, which is our core revenue stream, was relatively stable year over year.

Platform commissions decreased by 16% in the second quarter of 2024 vs prior year. This was driven by a decrease in revenues generated from in-game purchases, amplified by the higher share of revenues derived from our web platform, which are subject to lower platform commissions.

Game operation costs decreased by $2 million in the second quarter of 2024. It was primarily driven by an optimization of employee headcount.

Selling and marketing expenses in the second quarter of 2024 decreased by $3 million and amounted to $47 million. This decrease is driven by a successful execution of our strategy of enhancing the efficiency of user acquisition in Q2 2024. As a result, we managed to attract payers more efficiently in this quarter than in the respective period of 2023. In simple terms it means that our core efficiency parameter, which is the lifetime value of a payer divided by the cost of payer, increased in this quarter as compared with Q2 2023. Moreover, we continue to execute on our strategy to enhance efficiency of the business. In the next couple of quarters we plan to concentrate primarily on the product across all our titles and platforms. The primary goal is obviously to enhance the gaming experience and to increase the lifetime value of our players as a consequence. In this respect we adhere (as we did in the past) to a disciplined approach towards the investments in user acquisition. We generally only aim to invest in the user cohorts that produce sufficient returns. And this is the primary reason why we are not scaling the marketing investments now. We just saving the cash for future investments after we enhance our products the way we want it.

It also important to stress that one of the reasons why bookings stagnated in 2024 can be traced back to the fact that we have not invested heavily in user acquisition in 2022 and 2023. You might be aware that the market was tough over the past couple of years, and we didn't want to waste our resources into acquiring user cohorts that are not good enough from the IRR point of view or not predictable enough. Starting from the second half of 2023 we noticed that the cycle started to change – first of all, we saw that user behavior started to normalize. The same is true in respect of the costs of our user acquisition – the prices are getting less volatile and more predictable. These factors together with our internal initiatives

helped us to substantially increase the efficiency of the business in 2024. We also think that this trend is sustainable, and it gives us a certain confidence regarding our future growth.

As a result of all our steps we booked a profit for this period, net of tax, of $15 million, compared with $20 million in the second quarter of 2023. Adjusted EBITDA amounted to $16 million, a slight increase of 6 hundred thousand dollars compared with the same period in 2023.Cash flows generated from operating activities remained relatively stable at $11 million.

And last but not the least our total cash position as of the end of Q2 – which includes all our investments into highly liquid and low-risk government bonds – is $140 million, which is indeed a great resource to sustain our development in the future.

With that I pass it over to our Chief Corporate Development Officer Roman Safiyulin who continues with a discussion of our operating metrics and a product update.

Roman Safiyulin, Chief Corporate Development Officer

Thank you, Alexander. I'll now go over the group's operational performance and offer some insights into our main franchises.

Starting with the operating metrics, Monthly Active Users across all games declined by 3% year-over-year, from 11.9 million to 11.5 million, in line with a slight decrease in Monthly Paying Users, which fell from 392,000 to 381,000. This indicates a smaller drop compared to the reduction in marketing spend. Meanwhile, Average Bookings Per Paying User increased by 2% year-over-year, from $87 to $88. These operational metrics reflect our greater business resilience and an improved ability to retain and monetize existing player cohorts. But the blended numbers may not provide the right picture for each product in particular, so we believe it is important to dive into some details game by game

Hero Wars: Dominion Era, our PC RPG title, showed solid performance in Q2 2024. In terms of bookings, both year-over-year and quarter-over-quarter figures remained flat. This game is tailored for a more hardcore player base, who spend more time and money inside the game, but acquiring them is more challenging compared to the mobile version of the game. As a result of that, Average Bookings Per Paying User grew by 6% quarter-over-quarter and 3% year-over-year. So the focus for Hero Wars: Dominion Era is shifted towards product development and life time value growth as opposed to growth via scaling user acquisition investments.

In our mobile RPG title, Hero Wars: Alliance, the team is focused on product improvements, which are expected to drive the long-term value (LTV) of users and enable significant and more effective user acquisition investments during the peak season of Q4 and Q1. Due to this approach, marketing expenses in the second quarter 2024 declined 15% year-over-year, while the user economics of the acquired users was much stronger compared to last year. These factors led to a 4% year-over-year decrease in bookings for Hero Wars: Alliance, although the figure remained flat quarter-over-quarter, which is in line with our decision to focus on stronger growth in a hot season.

Now, let’s move on to our Pixel Gun 3D franchise. I would like to once again highlight the good start of Pixel Gun 3D PC Edition on the Steam platform. This launch once again demonstrated the strong brand of Pixel Gun, as the results were reached without significant marketing investments, relying solely on the title’s community and power of name recognition. As a result, in the second quarter, the Pixel Gun 3D franchise saw a 10% year-over-year increase in MAU and a 45% year-over-year increase in Monthly Paying Users. While we currently see a decline in this initial spike, as is typical with PC launches, the team is working diligently to offer the best product for this audience and develop the success of the game.

Moving on to Island Hoppers, our mobile farming title, this year the team has significantly improved retention and monetisation of paying users, thanks to LiveOps improvements and currently we are happy with the quality of the product, but still building a marketing infrastructure which we believe will allow us to scale the user acquisition investments in the second part of the year. To stay effective we have significantly decreased the UA investment in the second quarter.

Regarding the geographic breakdown of bookings in Q2, the U.S. market, with 34%, remains the largest revenue contributor, while the most significant year-over-year increase of 5 percentage points we have in the share from the European region, reaching 29%. This was achieved by a more tailored marketing approach in Germany as well as brand marketing activities including TV commercials in Poland, which helped to grow Hero Wars bookings there by more than 50% y-o-y.

Additionally, in the second quarter, we continued to observe a growing trend in our PC revenue, which increased by 4 percentage points compared to the same period in 2023, mostly due to the release of Pixel Gun 3D on the Steam platform.

Moving forward this year, our primary focus is on enhancing our key franchises. Our teams are dedicated to improving the user experience to increase retention, engagement, and monetization metrics, with the goal of boosting the projected lifetime value. We plan to reinvest the gains from these LTV improvements into more aggressive user acquisition efforts in the hot season, which is expected to generate new cohorts and support continued growth in the future.

With that, we conclude our second quarter 2024 earnings results presentation for GDEV Inc. We will now address any questions you may have during the conference call.