

## **Q&A session after the conference on Q2 2023 financial results**

### **1. What caused the increases in bookings in Fishing Clash and Hunting Clash in July and August? Was it the number of players or rather the higher average level of bookings?**

It has been a very busy summer at TSG, and I would like to thank the entire team for this hard work. A number of factors contributed to the improvement in our results. On the one hand, increased organic traffic, and on the other hand, improved LiveOps and new features. The combination of changes made translated into better monetization of games. There was not one decisive thing that weighed on the improvement. It was the result of many smaller or larger changes that took place in the process of creating features, among other things. Working with technology played an important role. We were surprised by how quickly and what scale of effects it brought. In retrospect, it was and is a great investment in our games.

### **2. Is there room for improvement in the profitability of advertising campaigns? How does the Management Board look at/what is the outlook for the profitability of these campaigns? How strong is the competitive pressure in the market at the moment, and if we are looking at the third quarter, should we assume a proportional increase in marketing expenses relative to the increase in bookings?**

It is difficult to accurately predict how marketing expenses will develop. Their level is influenced, for example, by the launch of new functionalities. On top of that, the condition of the marketing market and our decisions in this area can be affected by the launches of major games, distorting prices. Therefore, I would not like to say how exactly our marketing expenditures will be in September, October, November or December, because this is an unknown.

We, for our part, are always trying to optimize campaigns to get the best/ highest possible returns from them.

What may affect our marketing spending levels are new marketing channels, such as the browser version of Fishing Clash - we don't know yet how it will affect our spending. What I can say is that we will be working on new versions of our game in other third-party stores. We would like a version of our game to be on Amazon's store, we are not currently in a position to assess what expenses this might entail.

In addition, our cooperation with TikTok is working better and better, although it has its own peculiarities, e.g., graphic assets are used up much faster here than in other channels (after two or three days), which makes this cooperation require much more work from us. However, we observe that this channel is working better and better for our games.

### **3. What are the main marketing challenges before TSG? What are the identified areas for improvement?**

When it comes to marketing, there is always a constant battle for new creation. The whole market is racing and looking for new solutions. We are also participating in this, and we have noticed that we should test even more creations, and we are already doing this. We put a lot of emphasis on the creatives themselves, on optimizing the creative process and on new distribution channels.

In conclusion, marketing as a rule is unpredictable when it comes to the value of spending, so we will not undertake to determine the value of this spending in the coming months. Our focus is on optimizing advertising campaigns and we have assumed higher rates of return for them. This does not mean that we will buy less traffic, but we certainly have higher parameter requirements. It's a little too early to tell, but we see increases here, especially in Hunting Clash, it's small for now, but we hope it will continue.

**4. What is the long-term goal in terms of the share of bookings in the TSG store? Is the current level of 12.5% supported by additional promotional activities for players? Is this the target level?**

The 12.5% share is certainly not a value that would satisfy us in the long term. Our store is a very early prototype, we will work on its visual side and enrich it with more functionalities. Although this is just the beginning already 12.5% of Fishing Clash bookings are generated through the store. We have bigger ambitions, but at this stage I wouldn't want to talk about specific numbers yet. We know how these values are shaped by our competitors and what levels they reach with the largest international players. For now, we are focusing on its development because there is a lot of work to be done here, and that's all we can say about it for the moment.

**5. Is this TSG Store run and developed by the company on its own, or do you assist with an outside company?**

The website on which the store operates is ours, we build and manage it ourselves. We decide what is on it, what offers are available and at what prices. We use an intermediary that aggregates payments from users. This is the entity chosen by us, with whom we negotiate terms of cooperation, he handles payment refunds, tax issues, bank commissions, etc. This is done on terms that we negotiate, which is why the commission level is lower than that set by Google and Apple. Currently, the commission is about 10% of the payment, and this includes both bank processing and reimbursement costs. To sum up, conducting the sale of virtual game items on our own, the cost of this operation is about 10% of the payment vs. about 30% when selling the same items through Google and Apple.

Going back to the question itself - yes, we run the store on our own, we are assisted by an external company for payment processing.

**6. Aren't you worried about conflict with Apple and Google in this matter, Epic Games has had problems from this.**

Regarding the potential conflict with Apple and Google over the loss of their commissions, we did a thorough study of this issue and talked to the largest players in the market who implemented such solutions. We verified how they prepared such a

process, what were the biggest difficulties they faced, what mistakes to beware of. We prepared for this process thoroughly to ensure our safety and not to expose ourselves to misunderstandings in cooperation with large platforms.

**7. Are any new titles currently being developed at Ten Square Games not including Rortos and Gamesture, and is Fishing Clash 2 still in the plans?**

It is worth noting that TSG does not operate under the same model as, for example, CD Project or Techland. Those companies need new titles to make their results grow. We can generate growth and achieve great results on products that are already on the market. At this stage of our strategy, I don't want any of our product teams thinking about new products. I want these teams to remain focused on the growth of our core titles. In this regard, I would like to say again that we are not currently working on new products.

On the other hand, if the decision to develop a new title is made, I am able to believe that within a week we will make a decision on what product we would like to build.

As for Fishing Clash 2, it's too early to talk about it. I could anecdotally answer: we know, but we won't say 😊 .

**8. When does Ten Square Games have the opportunity to increase its share above 50% in Gamesture? Are there any specific conditions to be met to increase this share? Looking at the development of the Social Wars niche it is performing very nicely.**

We have an investment agreement to acquire more shares in Gamesture, in which the mechanisms for increasing this share are clearly defined. However, this is not the only way to increase this share.

Currently, the company has not reached profitability, and this is also important to us. We do not rule out that, depending on how Gamesture's results develop our involvement in the company may increase sooner or later.

**9. When will Gamesture be profitable? When will there be a purchase of more shares?**

According to our models, it is a prospect of several months. However, it is worth remembering that such models are based on a number of different factors, including factors beyond our control or Gamesture's control such as f.ex. marketing. This is a short-to-medium-term perspective. Let's just give Gamesture some time to figure it out.

At the time we decided to invest in Gamesture, we were fully aware of its performance, and we knew that the company was not yet generating positive results.

**10. What percentage levels, more or less, do competitors achieve in sales through their own stores ?**

From a few to tens of percent. Playtika achieves very good results - about 25%. There are entities whose results are significantly better, and there are those that have these

sales at a significantly lower level. There is no rule here. In our opinion, what matters here is the profile of the player. Our games attract players who will play browser games, shop at the TSG Store. How big this share will be - we will see.

**11. Are the possibilities of returning to the Chinese market being analyzed?**

Yes.

**12. Will the LiveOps system be a key test for Wings of Heroes, or are there any major milestones planned? When can the company start scaling the game again?**

The LiveOps system itself is not a crucial milestone for the game. The idea behind Wings of Heroes is much broader. At the moment, we believe that the LiveOps system could work well in the game. However, as with any new feature - one day they may be great, and the next day we will find that they nevertheless need two or three iterations to reach their target shape. This can take up to six months of work by our team. Therefore, until this system sees the light of day, until players verify it, we won't be able to say what of the things we have planned works and what needs further work.

Given our experience in Fishing Clash and Hunting Clash, and the testing of Wings of Heroes so far, we think we understand what such a system should include for this particular game. However, only after giving it to users will we be able to decide if and how much it will take to develop it further.

The answer to this question is very difficult.

**13. Are you seeing an increase in competition in the Fishing Clash segment?**

This has always been a competitive market segment. New games are appearing all the time and will probably continue to appear. We are watching the competition closely. The presence of competition requires us to take care of our products, to keep developing them. This is a positive impetus for us to work.

New games in the fishing and hunting segment are appearing and will continue to appear. We don't think this is a problem, but rather a motivation to develop our products.

**14. Did the cooperation with Major League Fishing bring tangible benefits? will similar initiatives continue as a result?**

Yes, it was a very good project and brought tangible results. We looked from a whole new perspective on our events in Fishing Clash, how we release new fisheries in the game and what format they are in. As a result, we noticed that our players really liked the tournament format of the events. In my opinion, this was such a first pilot in terms of such complex cooperation, but certainly not the last. It showed us what else we can do in Fishing Clash, and we will certainly look for new interesting solutions in this area.

**15. What is the reason for the weaker reading in games in June? Was it the impact of the vacations? Some seasonality? or perhaps reduced spending on marketing and grassroots work in games?**

The factor that most strongly affected the performance of our titles in June this year was the shortage of locations and the lack of new content.

Working out what the plan for releasing new content should look like so that players don't feel that it appears too often or too rarely was key. We hope that we have worked out the golden mean at this point, but this will only be verified in the next few months by looking at the results.

**16. How precise is the Sensor Tower data compared to what you see in your statistics?**

Sites like Sensor Tower report so-called net revenues - that is, payments after deducting commissions using a system of rounding to the nearest million - above one million dollars it rounds to one million, and below one million to hundreds of thousands. This is always some kind of estimate, an approximation of the result.

On top of this, it is worth adding that it does not take into account TSG Store data - these data must be taken into account independently when estimating the company's results. Sensor Tower's reading will additionally be disturbed when we run the browser version of Fishing Clash.

**17. Is the August EBITDA result repeatable? Was it supported by one-time factors? Does the company see prospects for further margin improvement and optimization in the coming months?**

Our company's EBITDA result depends primarily on the performance of our titles, in particular Fishing Clash and Hunting Clash. With their improvement and the reduction of the cost base, this result has definitely improved in August.

While we would like this to be a recurring result, it is worth remembering what Andrew said about the June results this year. Lack of localization can seriously disrupt short-term results. Given the planned development of individual titles, different functionalities can affect games differently and disrupt their m/m results, and we are reckoning with that, it's only natural with so many variables. Of course, we are determined to see both revenue and margin from operations grow, but I would like to emphasize that this does not mean that every month such growth will be seen.

I will also remind you of our initiatives in the area of cost discipline. The next few months should show the cost base in full, but on the other hand it is worth taking into account that there are specifics of the business in certain months. E.g. December as far as gaming revenues are concerned is a good month as a rule, while September is an unknown. The end of vacations in many countries, the return to routine quite often translate into the results achieved by games in this month. This is one such month that remains an unknown, Therefore, when evaluating the company's performance, it is necessary to look at it in a slightly longer perspective, in order to eliminate short-term

disturbances associated, for example, with increased spending due to the return of children to school.

**18. What costs in other general and administrative expenses have been reduced quarter-on-quarter? And what of these is recurring in subsequent periods?**

This cost item mainly records the costs of recruitment, training, business trips, legal services, stock exchange services, part of taxes not accounted for elsewhere in other items - this is a large collective cost item.

Some of these costs are fixed, and some depend on the number of our employees, the intensity of business trips, training, conferences. And here I would like to point out that during the vacations there are not many such events, this changes with the autumn season. It is worth taking this into account when looking at this item.

On the other hand, as a rule, the level of these costs has been reduced, whether the same level can be maintained in each quarter is difficult to say. It should be remembered that the greatest correlation of this value is with the number of employees, followed by the intensity of operations.

**19. How much extra cost savings would we have already seen if the entire quarter was with the number of employees currently working for the company? This is about the figures for the second quarter.**

As for the decrease in employment costs this is a savings of about PLN 1.8 million per month. To this should be added the surcharge on employee costs, which would give a total of about PLN 2 million a month.

**20. You have discontinued reporting in the quarterly results the revenue and marketing expenditures of games in the two months after the end of the published quarter here for July and August why ?**

We have abandoned reporting monthly data for bookings and marketing expenses, focusing on closed quarterly data. We made this decision after analyzing the detail of data reporting by others. We believe that reporting monthly expenses in short intervals is a disadvantage for us, it shows the company's activities in a much broader scope than is generally practiced.

**21. When is the next earn-out payment scheduled for?**

The first settlement took place a year and a half after the transaction and the payment was made in the second quarter of 2023. On the other hand, subsequent payments are annual, i.e. for 2023, the amount due for the entire period will be paid after the Italian report for 2023 is closed and approved, which will be roughly around April/May 2024. The settlement for 2024 and 2025 will be made in the same way.

**22. In the second quarter of 2023 EBITDA was adjusted for the cost of acquisitions/strategic options review. Does this mean that you are considering further transactions?**

Our current strategy is to focus on our core products, but it does not exclude that we will make another M&A in case of an interesting opportunity. As for those specific costs incurred in the second quarter of 2023, they were related to the closure of open processes.

**23. At the current share price, is the company considering buying back its own shares?**

No. If we wanted to carry out such a process, it would require the approval of the AGM and broader communication.

**24. What does the amount of about one million under other non-recurring events relate to?**

These are costs related to legal actions/legal analysis of security mechanisms for our main products in their market categories.

**25. In July 2021, at the height of the covid boom, the company purchased Rortos at a price of 45 million euros plus a several-year earn-out. Currently, that's about half the value of Ten Square Games. How do you evaluate the purchase of Rortos? Do you intend to audit this transaction?**

The value of TSG, expressed through its share price, depends de facto on the shareholders. As for the transaction to buy Rortos, its valuation was based on other measures - the discounted EBITDA of this business. We positively evaluate this transaction, the value of the company is verified during the audit of our statements - we check whether future cash flows justify this price, whether the company is profitable, whether the products make money. We do not plan to audit the transaction itself.

As for our evaluation of the transaction, if a company like Rortos appeared on the market today we, as TSG, would take part in the M&A process.

**26. How can deferred revenue be estimated? Without accurate internal data, is it possible to estimate this item?**

When it comes to estimating the value of deferred income for the quarter, it will always be quite difficult. The value depends on a couple of internal pieces of information, such as the average time life expectancy of a player, or expenses close to the balance sheet date, and this is not publicly available information.

On the other hand, in the long term, looking at year-on-year data, as long as the game is growing and is on an upward trajectory this revenue is deferred. As the game begins to enter a decline phase this revenue should be added to our P&L, so that at the end of the day all historical bookings equal all historical revenue. Short term this is indeed rather impossible.

**27. Contract liabilities are increasing what is the reason for this? In the long term, shouldn't this item, as well as deferred revenue, have a neutral impact on the results/balance sheet?**

Regarding contract liabilities to our players or users, that is deferred revenue. Liabilities are increasing because we are deferring more and more. This item is not decreasing, but it is an accounting deferral. These bookings are on track, the cash flows from these bookings are also on track, while we have to defer the portion of revenue that is due for the time these items are used after the balance sheet date. Short-term we will indeed deduct this income and reduce our income and result, but long-term these amounts equalize.

**28. Will Deadlander, which has been getting great reviews and seemed to be a very promising item return?**

Never say never, but that's what I said at this point I wouldn't want any product team to think about new products. And what the future will bring - we will see.

**29. Which market represents the greatest potential for Fishing Clash and Hunting Clash? Where do you see the largest revenues coming from?**

It's the U.S. - that's where most of the revenue comes from, and Germany. Those are our two key markets. Asia remains a strong market, and that is an interesting direction. We could certainly have more of a presence there and work on it a bit. In short, the richest countries in the world usually weigh the most in our revenues, but certainly Asia is one where we could have a stronger presence.

**30. When might Wings of Heroes be ready to return with more marketing?**

We have a very clear product development roadmap. It all depends on how quickly the features we have planned will reach their target shape. We would like to see an improvement in the performance of Wings of Heroes later this year, and we believe this will happen. Whether this will be the case we will see in the future.