

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

3
4 Good afternoon. Welcome to Zedge's second
5 quarter fiscal year 2021 earnings conference call. I'm
6 Jonathan Reich, CEO of Zedge and with me is our Chief
7 Financial Officer, Yi Tsai, who will provide additional
8 insight into our financial performance.

9
10 Q2 was another record quarter for Zedge. We
11 surpassed \$5 million in revenue for the first time ever, an
12 increase of more than 100% when compared to the year
13 ago quarter, and also reported new highs for operating
14 income, operating margin, net income, EPS, cash flow
15 from operations and EBITDA. Operationally, we
16 completed the long-awaited migration to our new
17 content management system, which is delivering
18 encouraging results earlier than anticipated, and we

19 rolled out app icons on iOS. Taken as a whole, we are
20 well positioned for what we hope to be a strong second
21 half of our fiscal year.

22
23 For those of you that are newer to the story, Zedge
24 is a leading app developer focusing on mobile phone
25 personalization and entertainment. Our heritage is
26 rooted in being one of the leading providers of mobile
27 personalization content, focused on offering consumers a
28 rich array of high-quality wallpapers, video wallpapers,
29 ringtones, and notification sounds. Our flagship app,
30 Zedge Wallpapers and Ringtones, is all about personal
31 identity, and acts as a popular hub for self-expression for
32 millions seeking mobile phone personalization, social
33 content and fandom art. To date, the app has surpassed
34 482 million organic installs and currently has 35 million
35 monthly active users or MAU. The app generates
36 revenue from a combination of advertising, paid

37 subscriptions, and our Zedge Premium marketplace,
38 which enables content creators, ranging from world class
39 celebrities to emerging artists, to display and market
40 their digital content and sell it to our users.

41

42 Moving to our second quarter performance, we
43 continued optimizing our ad inventory, benefitting from
44 both MAU growth and seasonal strength in ad pricing.
45 Active subscriptions also performed well with 102,000
46 net additions and second-year renewal rate of
47 approximately 45%. As you may recall, we earn a higher
48 margin for year two renewals as Google's fee drops by
49 50%. We need to continue to provide the content and
50 user experience to maintain these strong renewal rates,
51 which we expect will fluctuate over time.

52

53 Turning to product... we completed the rollout of our
54 new content management system in December. This

55 milestone opened the door for us to start introducing
56 new features and enhancements that we expect will
57 improve engagement and retention, especially in well-
58 developed markets, including, overhauling user accounts,
59 social and community features, and search and
60 discovery. These will be tested and rolled out iteratively.
61 Currently, we are focused on reimagining user accounts,
62 the foundation needed for many of these initiatives. We
63 expect to complete this redesign in Q3, and shortly
64 thereafter, start introducing community features that
65 will enable users to: follow artists and other users, create
66 and share collections, notify users about new followers
67 and new content, and even offering an easy to
68 remember Zedge handle like zedge.me/jonathanreich.
69 We are also scoping out product enhancements that can
70 be offered to bolster our paid subscription offering in
71 fiscal 2022.

72

73 Our investment in Zedge Premium, our marketplace
74 for artists continues. We are in the process of identifying
75 and hiring a dedicated product manager to lead this
76 important part of our business. This position's
77 responsibility will be to increase the number of
78 professional artists using Zedge as a distribution
79 platform, growing the average revenue per artist, and
80 increasing the use of our marketplace by consumers. In
81 the meantime, we are testing new designs that better
82 display relevant premium content to users, as well as
83 growing our artist base.

84

85 I'm happy to report that the Shortz beta is now
86 available with an ad-supported model, enabling users to
87 consume as much content as they would like simply by
88 watching rewarded ads. Those users seeking an ad-free
89 experience can sign up for a paid subscription. We expect
90 the ad-supported version to increase the customer base

91 at the top of the sales funnel and set the stage for
92 increased subscriptions over time. In addition, last week,
93 we rolled out Shortcastz, which are high production
94 value podcasts of our Shortz stories. We're excited by the
95 possibilities that short form audio can bring to the
96 product and will start by analyzing how our users engage
97 with this content.

98
99 On our last call we discussed the \$5 million "At The
100 Market" offering, which has now been completed. We
101 expect to initiate a new \$10 million program imminently
102 to further fortify our balance sheet in order to provide
103 for maximum flexibility to pursue incremental potential
104 growth opportunities such as acquisitions, for example,
105 to drive incremental growth and unlock shareholder
106 value. We expect to consider potential acquisition
107 targets in, but not limited to mobile gaming, social video,
108 and even mindfulness. Our acquisition strategy is to seek

109 out opportunities where we can leverage our large user
110 base, expertise in monetization, outstanding engineering
111 teams and healthy balance sheet. We are early in this
112 process and do not know what will transpire, but suffice
113 it to say that we are being cautious and selective. We
114 also do not plan on discussing specific potential targets
115 or opportunities until there is something to announce
116 publicly.

117

118 In closing, we had a record first half and expect to
119 report continued strong year over year growth during the
120 second half of the year despite the seasonality in the ad-
121 supported portion of the business. As such, we now
122 believe that top line growth for fiscal 2021 will increase
123 between 75% to 80% when compared to the previous
124 year. In addition, we expect solid growth in EPS and in
125 cash flow from operations.

126

127 Before handing the call over to Yi I want to thank
128 you, our investors, for your support. I also want to
129 remind everyone that our success is a direct outcome of
130 the outstanding team of talented professionals who work
131 at Zedge and who go above and beyond to execute on
132 our vision. Thank you!

133

134 Now, I am going to turn the call over to Yi, who will
135 provide details about our financial performance.

136

137 Thank you!

138

139 Yi

140 Thank you, Jonathan!

141

142 I want to start by reminding those on the call that
143 our fiscal year ends July 31st and that our fiscal Q1 and
144 Q2 tend to be seasonally stronger, while Q3 tends to be
145 the seasonal low typically with incremental sequential
146 improvement in Q4. Additionally, we introduced the
147 term “Active Subscriptions” to replace “Paid
148 Subscriptions” as a metric this quarter due to a change in
149 calculation used by Google Play that now includes
150 account hold, which is a subscription status that begins
151 when a user's form of payment fails and the three-day
152 grace period has ended without payment resolution. The
153 account hold period lasts for up to 30 days with the aim
154 to reduce cancellation rate.

155

156 Moving to the second quarter results. Monthly
157 active users, or MAU, defined as the number of unique
158 users that opened our app during the last 30 days of the

159 period, increased 3.2% to 35.4 million during January
160 2021 from 34.3 million in January 2020, and was up 9.3%
161 sequentially. Emerging markets showed strong double-
162 digit growth while well-developed markets continued to
163 contract however at a lower rate than when compared to
164 all four quarters in fiscal 2020. As Jonathan touched on,
165 we are actively taking steps to enhance our offerings for
166 users in well-developed markets to spur both MAU
167 growth and higher growth rates for Zedge Premium.

168

169 Total revenue in the second quarter increased 101%
170 to 5.3 million dollars compared to the year-ago quarter.
171 The main drivers were subscription growth, optimization
172 of our ad waterfall and an increase in advertising rates
173 relating to year-end ad budgets.

174

175 Zedge Premium's Gross Transaction Volume, or GTV
176 - that is the total sales volume transacted through our
177 marketplace - was 211 thousand dollars in Q2, up 7.1%
178 compared to the year ago quarter. As Jonathan
179 indicated, we want to position Zedge Premium as a
180 growth driver in the quarters to come and the
181 introduction of user accounts and additional features will
182 be key to accelerating growth rates.

183

184 Active subscriptions exceeded 700 thousand at the
185 end of the quarter, a 139% increase year over year and
186 17% on a sequential basis. As you recall, when a new
187 user purchases a subscription or a freemium user
188 converts to a paid subscription, we pay a 30% fee to
189 Google – which shows up in our SG&A as a marketing
190 expense. However, if a subscriber – whether monthly or
191 annual - renews their subscription after 12 months, the

192 Google fee drops to 15%. We continued to see annual
193 renewal rates of approximately 45%, which is generally
194 considered to be strong performance within the industry.

195

196 Overall, average revenue per monthly active user or
197 ARPMAU was a record 4.9 cents – an increase of 88%
198 year over year and 35% sequentially. The year-over-year
199 improvement is primarily attributable to growth in paid
200 subscriptions and the continued advertising benefits
201 from inventory optimization and adding new distribution
202 partners.

203

204 Our operating margin increased to 47% vs 3% last
205 year and 29% in Q1. These reflect higher subscription
206 revenue and strong cost containment as SG&A only
207 increased 14% versus last year.

208

209 Net income and Diluted EPS were 2.3 million dollars
210 and 17 cents, respectively, versus 100 thousand dollars
211 and 1 cent in the prior year. Average shares outstanding
212 for the second quarter was 13.4 million on a fully diluted
213 basis.

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215 EBITDA was 2.9 million dollars, versus 500 thousand
216 dollars last year.

217

218 From a liquidity standpoint, we remain in a strong
219 net cash position with almost no debt. As of January 31,
220 we had 13.6 million dollars in cash and cash equivalents,
221 a 7.4 million-dollar sequential increase and an 11.4-
222 million-dollar increase compared to a year ago. The
223 increase in cash over Q1 was driven by a combination of

224 positive operating cash flow of 2.3 million dollars, and
225 net proceeds of 4.8 million dollars from the ATM we
226 completed during the quarter.

227

228 Moving to guidance for fiscal 2021, as Jonathan
229 mentioned we have increased our top line growth
230 expectations to 75% to 80%. Q3, which has historically
231 been our seasonally slowest quarter, is expected to be a
232 relatively favorable comp due to our business being
233 negatively impacted by Covid-19 last year. Q4 has
234 traditionally been higher than Q3, but also keep in mind
235 that our Q4 comp may be slightly tougher due to the
236 growth trajectory that began in Q420.

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239 I hope that each of you remain safe and I look
240 forward to speaking with you again on the next call.

241

242 Operator back to you for Q&A.

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