

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

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

9
10 Q3 was an excellent quarter for Zedge. We reported
11 revenue of \$5.3 million, our second-highest quarter in
12 the history of the company. We also delivered our 4th
13 consecutive quarter of net income, 6th consecutive
14 quarter of positive EBITDA and 7th consecutive quarter of
15 positive cash flow from operations. We're very proud of
16 these achievements, especially in light of the seasonal
17 nature of our business, with Q3 being historically weak,
18 mostly from a drop in post-year-end holiday ad budgets.

19

20 For those of you that are newer to the story, Zedge
21 is a leading app developer focusing on mobile phone
22 personalization and entertainment. Our heritage is
23 rooted in being one of the leading providers of mobile
24 personalization content, focused on offering consumers a
25 rich array of high-quality wallpapers, video wallpapers,
26 ringtones, and notification sounds. Our flagship app,
27 Zedge Wallpapers and Ringtones is all about personal
28 identity. It acts as a popular hub for self-expression for
29 millions seeking mobile phone personalization, social
30 content, and fandom art. The app is rapidly approaching
31 500 million organic installs, across Android and iOS, an
32 outstanding achievement for any app. The app generates
33 revenue from a combination of advertising, paid
34 subscriptions, and our Zedge Premium marketplace,
35 which enables content creators, ranging from world-class

36 celebrities to emerging artists, to display and market
37 their digital content and sell it to our users.

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39 Zedge's strong third-quarter performance is a
40 testament to the ongoing investments we are making in
41 ad operations, paid subscriptions, and MAU growth – the
42 latter of which was up nearly 20%, year-over-year.

43 Specific to the last point, we also started seeing a
44 material slowdown in the rate of MAU decline in well-
45 developed markets, which dropped by only 1% in Q3.

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47 Delving into paid subscriptions, although we
48 benefitted from what we consider healthy renewal rates
49 of ~45% in year two and ~65% in year three, and the
50 year-over-year increase remained strong, we did not
51 match the level of our prior sequential quarterly
52 increases. This was a function of customer churn rate
53 remaining constant on a higher total subscriber number,

54 combined with lower MAU in well-developed countries
55 where our subscription offering tends to have better
56 traction. It is unclear at this time whether the
57 subscription part of our business was actually impacted
58 by seasonality or if it was something else. Either way, we
59 are being proactive in our efforts to reverse the trend,
60 particularly in well-developed markets. Until recently, we
61 had two product managers overseeing our entire product
62 portfolio – Zedge Wallpapers and Ringtones, Zedge
63 Premium, Zedge Plus, and Shortz. We recognized that, to
64 better scale, we needed to invest in expanding our
65 product management team. We waited to pull the trigger
66 on this until early calendar 2021 with the completion of
67 the content management system migration and now
68 have three dedicated product managers working on our
69 personalization app – one focusing on the freemium
70 offering, another focusing on Zedge+, our paid
71 subscription offering, and the third focusing on Zedge

72 Premium. In addition, we have a product manager
73 assigned to new initiatives, including Shortz. We believe
74 that the additional resources will allow us to scale and
75 execute on the various growth initiatives that we have
76 identified, with greater efficiency and ease.

77

78 Although early, we're starting to see results from
79 these hires, most recently with the completion of the
80 overhaul of user accounts, a pre-requisite for social and
81 community features that will be incrementally
82 introduced later this summer. The ability to follow artists
83 and other users, create and share collections, notify
84 users about new followers and new content, and offering
85 an easy-to-remember handle like
86 zedge.me/jonathanreich are expected to unlock
87 fundamental user growth. Furthermore, we are going to
88 enhance Zedge+ by bundling in value-adds to make it
89 more attractive to a broader cross-section of prospective

90 customers and ultimately drive incremental growth.
91 Finally, the newly hired Zedge Premium product manager
92 is working on a set of initiatives to expand our premium
93 creator community, increase average revenue per artist,
94 optimize and localize pricing, make premium content
95 more accessible to consumers, introduce new
96 functionality, including NFTs, or non-fungible tokens,
97 ensuring that they are easy to use, operationally
98 affordable, environmentally sustainable, and an
99 improvement to our creator publishing platform.

100

101 Apart from this, we now have the marketing
102 infrastructure in place – from attribution to analytics and
103 all the associated connections – to start testing paid user
104 acquisition growth strategies. This will be an iterative
105 process allowing us to scale based on ROAS, or Return on
106 Ad Spend.

107

108 I would remiss if I didn't spend some time updating
109 you about Shortz. Earlier this year we hired a product
110 manager who has been spending the bulk of his time
111 doing the foundational work needed to understand the
112 user base, how they interact with the app, what content
113 they like and how they consume it. Under his watch, we
114 introduced an ad-supported version and Shortcastz, high-
115 value podcasts of the content. We believe that short-
116 form fictional content is optimal for smartphone users
117 and that this space is still in the early stages of
118 maturation. We are also beginning to test various paid
119 user acquisition strategies to complement existing
120 organic channels; introduce new features, and expand
121 our audio catalog. We were even more encouraged that
122 there is a large opportunity here for Zedge in light of
123 Naver's recent acquisition of Wattpad for \$600 million
124 and Kaoko's acquisition of Radish for \$430 million.

125

126 Last quarter we introduced disciplined M&A as part
127 of our growth strategy. While we don't have anything to
128 announce at this juncture, we have been active in looking
129 at potential targets. As a reminder, our acquisition
130 strategy is to seek out opportunities where we can
131 leverage our large user base, expertise in monetization,
132 know-how in managing complex platforms, outstanding
133 engineering talent, and a healthy balance sheet.

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135 In closing, our first three quarters of the fiscal year
136 have been outstanding, and we expect to report
137 continued strong year-over-year growth in Q4, despite a
138 tougher comp, as our business turned the corner in Q4 of
139 fiscal 2020. Based on our strong fiscal year-to-date
140 performance, we are raising our full-year fiscal 2021
141 expectations for revenue growth of 95-100% while
142 maintaining our track record of strong profitability and
143 cash flow from operations.

144

145 Before handing the call over to Yi I want to thank
146 you, our investors, for your support. I also want to
147 remind everyone that our success is a direct outcome of
148 the outstanding team of talented and dedicated
149 professionals who work at Zedge and who go above and
150 beyond to execute our vision. Thank you!

151

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

154

155 Thank you!

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158

159 Thank you, Jonathan!

160

161 I want to start by reminding those on the call
162 that our fiscal year ends July 31st. Additionally, last
163 quarter we introduced the term “Active Subscriptions” to
164 replace “Paid Subscriptions” as a metric due to a change
165 in the calculation used by Google Play that now includes
166 accounts hold, which is a subscription status that begins
167 when a user's form of payment fails and the three-day
168 grace period has ended without payment resolution. The
169 account hold period lasts for up to 30 days with the aim
170 to reduce the cancellation rate.

171

172 Moving to the third-quarter results. Monthly
173 active users, or MAU, defined as the number of unique
174 users that opened our app during the last 30 days of the

175 period, increased 20% to 34.5 million during April 2021
176 from 28.8 million during April 2020. Emerging markets
177 MAU expanded by nearly 30%.

178

179 Total revenue in the third quarter increased 153%
180 from last year to 5.3 million dollars. While our growth
181 was extremely impressive regardless, keep in mind that
182 Q3 of 2020 is when CPMs bottomed out, so this year we
183 saw the benefit of the work we are continually doing to
184 improve our ad operations. Subscription revenues were
185 up 98% from last year, still demonstrating strong growth
186 despite the slowdown in net additions. It is unclear how
187 much of the slowdown in sequential new subscription
188 growth was seasonal and how much was related to lower
189 MAU in well-developed markets, but with our recent
190 hires and product initiatives we are working to re-
191 accelerate growth in fiscal 2022.

192

193 Zedge Premium’s Gross Transaction Volume, or GTV
194 - that is the total sales volume transacted through our
195 marketplace - was 250 thousand dollars, up 68%
196 compared to the year-ago quarter and 19% sequentially.
197 As Jonathan indicated, we are investing in growing this
198 offering.

199

200 Active subscriptions exceeded 750 thousand at the
201 end of the quarter, an 89% increase year over year. As
202 you recall, when a new user purchases a subscription or a
203 freemium user converts to a paid subscription, we pay a
204 30% fee to Google – which shows up in our SG&A as a
205 marketing expense. However, if a subscriber – whether
206 monthly or annual - renews their subscription after 12
207 months, the Google fee drops to 15%. In Q3, we
208 continued to see annual second-year renewal rates of

209 approximately 45%, and third-year renewals are coming
210 in at 65%, which is generally considered to be strong
211 performance within the industry.

212

213 Overall, the average revenue per monthly active user
214 or ARPMAU was 4.9 cents – an increase of 121% year
215 over year, driven by the combination of better
216 advertising performance and higher-paid subscription
217 numbers.

218

219 Operating margin increased to 38% vs negative -6%
220 last year, reflecting the continued cost controls we've
221 implemented while still being able to invest in growth.

222

223 Net income and Diluted EPS were 1.9 million dollars
224 and 13 cents, respectively, versus a net loss of 300

225 hundred thousand dollars and loss per share of 3 cents in
226 the prior year. Average shares outstanding for the third
227 quarter were about 14.6 million on a fully diluted basis,
228 representing the shares we have issued as part of our
229 ATM, combined with option exercises as the stock has
230 increased significantly in value over the past 12 months.

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232 EBITDA was 2.3 million dollars, versus break-even
233 last year.

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235 From a liquidity standpoint, we remain in a strong
236 net cash position with almost no debt and nearly 25
237 million dollars in cash and cash equivalents, a 20 million-
238 dollar increase from last year and over 11 million dollars
239 sequentially. The increase in cash over Q2 was driven by
240 a combination of positive operating cash flow of 4 million

241 dollars, and net proceeds of 7 million dollars from the 10
242 million dollar ATM program we initiated this quarter,
243 sales of which occurred at a weighted average price
244 above \$15.

245

246 Moving to guidance for the full fiscal year 2021, as
247 Jonathan mentioned we have increased our top-line
248 growth expectations to 95% to 100%. Q4 has traditionally
249 been stronger than Q3, but also keep in mind that our Q4
250 comp will be tougher due to the growth trajectory that
251 began in Q420. Also note that, with some key new hires,
252 we expect our operating expense run rate to increase
253 slightly in Q4.

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255 I hope that each of you remains safe and I look
256 forward to speaking with you again on the next call.

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Operator back to you for Q&A.