

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

WBTV.OQ - Q3 2024 Webtoon Entertainment Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 07, 2024 / 10:00PM GMT

CORPORATE PARTICIPANTS

Soothan Kim *WEBTOON Entertainment Inc - Vice President, Investor Relations*

Junkoo Kim *WEBTOON Entertainment Inc - Founder & Chief Executive Officer*

David Lee *WEBTOON Entertainment Inc - Chief Financial Officer and Chief Operating Officer*

Yongsoo Kim *WEBTOON Entertainment Inc - Chief Strategy Officer & Head of Global WEBTOON*

CONFERENCE CALL PARTICIPANTS

Doug Anmuth *JP Morgan - Analyst*

Andrew Marok *Raymond James - Analyst*

Benjamin Black *Deutsche Bank - Analyst*

PRESENTATION

Operator

Thank you for standing by. My name is John, and I'll be your conference operator today. At this time, I would like to welcome everyone to the WEBTOON Entertainment third quarter 2024 earnings call. (Operator Instructions) I would now like to turn the call over to Soohwan Kim, Vice President of Investor Relations. Mr. Kim, please go ahead.

Soothan Kim - *WEBTOON Entertainment Inc - Vice President, Investor Relations*

Good afternoon, and thank you for joining us. As a reminder, our remarks today will include forward-looking statements, including those regarding our future plans, objectives, expected performance and in particular, our guidance for the next quarter. Actual results may vary materially from today's statements. Information concerning risks, uncertainties and other factors that could cause these results to differ is included in our SEC filings, including those stated in the Risk Factors section of our filings with the SEC.

These forward-looking statements represent our outlook only as of the date of this call. We undertake no obligation to revise or update any forward-looking statements. Additionally, the matters we will discuss today will include both GAAP and non-GAAP financial measures.

Reconciliations of any non-GAAP financial measures to the most directly comparable GAAP measures are set forth in our earnings press release. Non-GAAP financial measures should be considered in addition to, not as a substitute for, GAAP measures.

Joining me today on the call are Junkoo Kim, Founder and CEO; David Lee, CFO and COO; and Yongsoo Kim, Chief Strategy Officer. With that, I will now turn the call over to our Founder and CEO, Junkoo Kim.

Junkoo Kim - *WEBTOON Entertainment Inc - Founder & Chief Executive Officer*

Thank you, everyone, for joining us today. I'll make a few brief comments on our third quarter performance, and then David will provide more detail on our results and outlook. For my full thoughts on the quarter and our path forward, please refer to the shareholder letter posted on our Investor Relations website.

The third quarter was a strong one for WEBTOON, marked by 9.5% revenue growth on a reported basis and double-digit growth on a constant currency basis, coupled with solid profitability, and supported by deepening engagement from our user base. In this first full quarter as a public company, we continued to advance our strategy and mature and streamline our operations as we further scale globally. We also reached an exciting milestone this year as we celebrated our 10th anniversary in North America. Looking back to when we first launched in this geography a decade

ago, webcomics were unfamiliar to most comic fans in this region. But now, we have seen the popularity of webcomics continue to grow outside of Asia. This was especially clear when we attended Comic Con in both San Diego and New York as fans came out in droves to support their favorite WEBTOON creators in person. This event proved that webcomics have become a significant global content medium, with fandoms that rival traditional comics.

Growth in Q3 benefited from an increased use of technology. Developed by our top-notch AI team, we believe our recommendation engine takes a cutting-edge approach to optimize the user experience. As a result of applying this technology in Korea, the number of weekly episodes viewed per user increased by 3 points year-over-year in what is already our seasonally strongest quarter. We also saw great success in Japan, which was primarily driven by optimization and improvement of our existing personalized recommendation capabilities. We'll continue to improve this AI recommendation technology globally in the future.

I also want to highlight the continued momentum we had in IP adaptations. We had a number of launches and development in some of our most exciting up-and-coming entertainment projects. I'm pleased to report that we had success around the world, and I'd like to highlight just three examples.

First, Studio N released season three of "Sweet Home" on Netflix, marking the third season of the show to hit the Top 10 Non-English charts. Second, we debuted Crunchyroll anime adaptations of "Tower of God Season 2" and "True Beauty," two of our most popular global titles, among other key anime launches. Finally, in Europe, we announced the two key webnovel adaptation projects with Amazon Prime, "Sigue Mi Voz" in Spain and "Love Me Love Me" in Italy.

Before I close, I'd like to share an exciting news update in North America. We are expanding our Wattpad leadership team, bringing on Aron Levitz as Co-President alongside KB Nam. Aron will also continue in his role as President of Wattpad WEBTOON Studios, and both Aron and KB will continue to report to me. KB has done an exceptional job improving Wattpad's core product and enhancing community safety over the last few years. Aron has deep knowledge of Wattpad's creators and community, and brings pioneer experience building and launching Wattpad WEBTOON Studios. Together, they are the right leaders to oversee Wattpad's next phase of growth. Our success in Q3 was made possible by our community of creators and users who share and consume content on WEBTOON. As always, I also want to thank our employees for their continued dedication.

With that, I will now turn the call over to David. David, please go ahead.

David Lee - *WEBTOON Entertainment Inc - Chief Financial Officer and Chief Operating Officer*

Thank you, JK, and thank you, everyone, for joining us. Let's talk a bit about how our global flywheel powered the strong results we saw in the third quarter and for the first nine months of the year. During the quarter, we grew revenue 13.5% on a constant currency basis with growth across all regions and revenue streams. Our reported revenue was up 9.5% year-over-year as a result of strength in Paid Content and Advertising, partially offset by our exposure to weaker foreign currencies. As we grew our paid content business outside of Korea, we also gained greater structural leverage on our gross profit, which expanded well over 300 basis points year-over-year. Adjusted EBITDA grew to \$28.9 million in the quarter, a significant increase compared to the same quarter of 2023. This was the result of our strong gross profit and effective cost controls, including a focus on higher returning marketing spend. As one example, we recently launched a partnership with Duolingo, which is increasing our brand awareness and exposure to our platform. Net income of \$20 million in the quarter also increased significantly compared to a loss of \$11.5 million in the year prior, driven by notably improved gross profit as well as increased interest income and an income tax benefit. As a result, our Adjusted EPS for the quarter was \$0.22 compared to \$0.03 in the prior year.

Turning to operational health. It's important to note that our MAU base consists of both web users as well as app users, and we've been increasing our focus on the app over time. This is a strategic priority of ours as we find the app drives greater user engagement and further monetization. And in Q3, while we saw a decline in MAU overall, we were pleased to see that users on the app increased 1%.

Now I'd like to provide an update on our revenue streams at a consolidated level. Starting with Paid Content. In the quarter, we posted 12.7% revenue growth on a constant currency basis, and year-to-date, we posted 13.2% revenue growth on a constant currency basis. Our Q3 performance was driven by deepening engagement and spend from paying users globally, particularly in Japan, which saw record high performance, as well as

successful monetization efforts in Rest of World. Additionally, our ARPPU growth on a constant currency basis of 14.7% in the quarter and 14.1% year-to-date represents continued success in driving paying user engagement as they discover new hits and become more accustomed to spending on quality content. Strong ARPPU growth was partially offset by MAU declines in Korea and Rest of World. But as I just noted, this was the result of our efforts to strategically shift users from the web to the app. And we were pleased to see that global MAU on the app increased 1% year-over-year, demonstrating that our strategy is working. Our business is widely diversified and is not concentrated in a small number of creators or users. As a result, we think of ARPPU as an indicator of increased habituation amongst an emerging set of users in Rest of World.

Advertising posted 24.3% revenue growth in the third quarter on a constant currency basis year-over-year. This strong performance was driven by double-digit growth across all regions. In Korea, we saw increased ad sales from both NAVER and other partners. And Japan's growth was driven by higher sequential and year-over-year MAU, especially for LINE Manga, where we saw record highs. We also rolled out several successful product improvements in Japan, including home tab optimization, which led to better targeting in achievement-based ads. And in Rest of World, we saw good growth from both achievement-based ads and new premium placement display ads on our app. This included our continued efforts to integrate our global ad platform across WEBTOON offerings to improve the advertiser experience and streamline our ability to address demand. Year-to-date, we posted 17.1% advertising revenue growth on a constant currency basis.

Finally, our IP adaptation business continues to support brand awareness globally, driving traffic to our platforms. On a constant currency basis, Q3 IP adaptation revenue grew 5.3% year-over-year, driven by growth in Japan and Rest of World. Through the first three quarters of the year, IP adaptation revenue was up 16.5%. And while adaptation revenue in Korea was down year-over-year, we're excited about our strong pipeline of entertainment projects in that region. That said, we had some project delays that impacted our Q3 growth, which may also extend into Q4.

Now I'd like to look at our results in the context of core geographies. In Korea, our revenue grew 1.7% year-over-year on a constant currency basis, primarily driven by growth in Paid Content and Advertising revenue. This was the result of a successful rollout of our AI-driven recommendation model and the previously mentioned increase in ad sales from NAVER and other partners.

Compared to the year ago period, MAU of 25 million decreased 5.8%, MPU of 3.9 million declined 8.8% and our paying ratio of 15.4% was down 51 basis points. That being said, ARPPU on a constant currency basis was up a solid 8.8% compared to the third quarter of 2023, representing the strong relationship we have with our existing users.

While user metrics in Korea declined on a year-over-year basis, we're pleased that, as a result of improvements implemented on the platform, both MAU and MPU improved sequentially by 7.9% and 3.4%, respectively. As mentioned earlier, the substantial majority of the decline in MAU year-over-year was driven by a reduction in web users as we executed on our strategy to prioritize our app. As we shared on our Q2 call, we recently implemented our AI-driven, personalized recommendation model, which personalizes each individual's home page rather than providing a uniform display for all users. The model went live in May of 2024 and we completed the rollout for all users in June of 2024. As a result, we've seen a rise in user spending and engagement with new episodes.

Moving to Japan. For the quarter, Japan posted revenue growth on a constant currency basis of 25%. This record high performance was driven by significant growth in each of our revenue streams on a constant currency basis during what is seasonally Japan's strongest quarter of the year. According to SensorTower, LINE Manga topped the overall app market by revenue in Japan, including games, in August and September. Revenue growth on a constant currency basis of 28.2% was similarly strong through the first nine months. Japan's user engagement was impressive in the quarter with PU reaching record highs. Compared to the prior year quarter, Japan's MAU of 22.5 million increased 4.3% and MPU of 2.3 million grew 14.1%, the paying ratio of 10.3% was up 89 basis points compared to the prior year. Engagement with paid users deepened with the third quarter ARPPU of \$23.80 growing 8% year-over-year on a constant currency basis. Q3 is seasonally the highest quarter for comic consumption in Japan and we capitalized on this opportunity by launching an impressive 189 new original titles during the quarter. This also coincided with our efforts to optimize and improve our existing AI-based personalized content recommendation capabilities and targeted advertising. This is a particularly exciting accelerator for us given Japan has continued to show both healthy monetization and steady increases in MAU.

In Rest of World, our opportunity remains significant. We saw revenue growth on a constant currency basis of 11.1% in the quarter, driven by growth across all revenue streams. Revenue on a constant currency basis grew 22.3% year-to-date. While third quarter MAU and MPU declined year-over-year,

paying ratio grew 5 basis points to 1.4%. ARPPU of \$6.70 grew 12.3% year-over-year on a constant currency basis, representing strong and growing engagement with core users.

Similar to Korea, we saw stable MAU on our app year-over-year, offset by decreases from web users. It's important to note, we don't monetize web users in North America, which is why we are laser-focused on converting users to the app. Of note, roughly a third of the MAU decline in Rest of World was isolated to one country where the government banned a number of global content sites, including Wattpad, during the quarter. We expect to see a full quarter impact from this in Q4 versus a partial quarter impact in Q3. And while we're disappointed our users can't access our platform in this one country, we did not withdraw from this market by choice.

As we continue our global expansion, France remains a bright spot for us. We again saw double-digit growth in the number of professional creators in this geography. As we are in the early stage of growing our presence in this country, we also saw a nearly 30% increase in the number of titles in serialization.

On the advertising front, we saw good growth from both achievement-based ads and new premium placement display ads on our app. We continue to advance our plans to integrate our global ad serving platform across WEBTOON offerings to improve the advertiser experience and streamline our ability to address demand.

Turning to profitability. Gross profit for the quarter was \$91.4 million compared to \$72.1 million in the prior year, representing growth of 26.7%. This resulted in a healthy gross margin of 26.3%, which expanded 358 basis points compared to the prior year as we have a structural advantage in areas with greater P&L leverage outside our market of origin in Korea.

We were able to exercise high OpEx control to deliver Adjusted EBITDA margin of 8.3%. On the cost side, total G&A expenses for the quarter were \$66.7 million as compared to \$45.8 million in the prior year quarter, primarily as a result of public company costs.

While we made similar levels of marketing investment compared to last year on a global basis, we've become more efficient with that spend. We've had particularly good results in Japan, where we've been able to reduce marketing as a percent of sales by more than 3 points while driving significant revenue growth. As we have experimented with different marketing strategies over the last year, we've been better able to recommend relevant content for users and entice them to become paid users after they reach the end of their promotions.

Interest income was \$6.5 million compared to \$0.9 million in the prior year and other income was \$11.8 million compared to a loss of \$0.7 million in the prior year period. Income tax benefit of \$9.9 million in the quarter compared to a \$5.9 million expense in the prior year. Depreciation and amortization was \$10 million compared to \$9.2 million in the prior year.

As mentioned earlier, excluding adjustments and other nonrecurring costs, our Adjusted EBITDA grew to \$28.9 million. This was the result of strong gross profit and effective cost controls, including a focus on higher returning marketing spend. To align with best practices, and given the more significant impact of interest income this quarter, we have removed interest income from our Adjusted EBITDA definition moving forward.

Net income of \$20 million was primarily driven by strong gross profit, growth in interest income, and an income tax benefit. As a result, GAAP EPS was \$0.15 compared to a loss per share of \$0.10 in the prior year period. Adjusted EPS was \$0.22 in the quarter compared to \$0.03 in the prior year period. Before I wrap up, I'd like to spend a few moments discussing our fourth quarter outlook.

For the fourth quarter of 2024, we expect to deliver revenue growth in the range of 10.3% to 13.3% on a constant currency basis. This represents revenue in the range of \$375 million to \$385 million, assuming FX rates remain relatively stable at the end of Q3, consistent with our guidance practice. FX rates used as the basis of guidance were 1,320 Korean Won to USD and 143 Japanese Yen to USD. That being said, we recognize that subsequent to the last day of the quarter, there have been significant movements in these currencies that may have an impact on the quarter. For example, if the recent rate of 1,383 Won to USD and 152 Yen to USD were to hold steady for the rest of Q4, this would result in a negative impact of roughly \$20 million relative to our revenue guidance.

We anticipate fourth quarter Adjusted EBITDA in the range of \$9 million to \$14 million, representing an Adjusted EBITDA margin in the range of 2.4% to 3.6%, as our ongoing efforts to source more content globally will be offset by increased IP adaptation costs as well as increases in marketing. Similar to the top line, recent FX changes would result in a negative impact of roughly \$2 million to EBITDA relative to our guidance.

As a general guideline, assuming a stable relationship between the Korean Won and the Japanese Yen, a roughly 5% move in the US dollar compared to these currencies would impact our revenue and Adjusted EBITDA by approximately \$20 million and \$2 million, respectively.

In closing, I'm pleased with the progress we made in the quarter and excited for an anticipated strong end to our first year as a public company.

With that, I'd like to turn it back to our operator to begin our Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Doug Anmuth, JPMorgan.

Doug Anmuth - JP Morgan - Analyst

This is Dae on for Doug. First one, could you explain a little bit more on the rationale or I guess, your decision to prioritize app users in Korea and in the US. I guess in the US, you're not monetizing web users, but in Korea, I thought web platforms do have a benefit of lower platform costs. So I was curious like why that decision? And then as a follow-up, could you give us an update on how you're progressing on building up your own direct sales team in Japan and in the US?

David Lee - WEBTOON Entertainment Inc - Chief Financial Officer and Chief Operating Officer

Sure. Thanks for the questions. First, just to take a step back, it's important that when we look at the health of the business, starting with MAU, the reason why we look at it on a web and an app basis is the app gives us the opportunity to apply more levers to improve engagement to maintain higher rates of retention and monetization.

I mean the clear example you note in Rest of World is that we primarily do not monetize from a paid content standpoint on the web at all. But even with regard to our results in Korea, the 50% penetration we have in Korea creates an opportunity for us to constantly apply new technology like the AI personalization engine we mentioned that rolled out in Korea as well as other product innovation.

So when you look at the business, our overall app MAU -- the portion of our MAU that is more retentive, that has greater levers applied, and that we think monetize better in the quarter actually modestly increased 1% year-on-year, reflecting, we believe, the health of the business.

Now to answer your question on Korea, when we look at Korea, you'll note that there is still a strong performance on overall revenue of a positive 1.7%, driven by ARPPU, right? We talk about how ARPPU is so critical, particularly when you have such dominant -- we are the digital Cleanex of storytelling in -- 50% penetration is strong.

So when you have a business this strong, your focus needs to be on continually improving the experience for the consumer and bringing new content in ways that they can find. And so this ARPPU increase driven by product improvements to the app, the example we give is this AI-driven personalization engine, but it's just one example of the product roadmap that the team continuously applies. That's the reason why we're so focused on it is it's not just financial. It's for the health of the experience for the consumer and the creator.

With regard to your question on investment in direct sales, first, just to note, the advertising progress we made in the quarter is quite significant. Constant currency growth of up 24.3% overall, and it's up in every region. And while we didn't disclose it in the script you heard, it's very significantly up in the areas that you're interested in, up teens, double-digit constant currency in Rest of World. And in Japan, it's frankly astounding growth.

And that growth has not been driven yet by a significant investment in direct sales. It's a huge opportunity, but our investment, which has begun in Rest of World will not deliver. As you know, the sales cycle for direct sales in North America, the largest ad market can be 12 to 18 months.

So we're preparing in '24 and the first half of '25 for the really big upside in Rest of World advertising we expect in '26 and beyond, but we're still delivering 24.3% year-on-year growth as a company in advertising from all three of our major regions.

Operator

ahaney, Evercore ISI.

Unidentified Participant

This is David on for Mark. Could you talk a little bit about some of the specific initiatives that you're using to drive users from the web to the app? And is there any room to improve the conversion tools to reduce churn?

David Lee - WEBTOON Entertainment Inc - Chief Financial Officer and Chief Operating Officer

Well, part of the -- first of all, the product experience is different by region. I think when you -- for example, if you're using our product here in the United States and you're either on our Wattpad or our WEBTOON US product, the experience that you have on the app is the fundamental product differentiation.

We have levers to deliberately drive traffic from the web to the app. We've been underway, and we had reported on, in the last quarter, that as an ongoing effort. But this is not a hard cut over the way you see in subscription business. Remember, this is a business where consumers are free to find the content they want. So think of this as an encouragement versus a hard cutover, and it's primarily driven by a better experience and better product that they can find on the app.

In terms of -- I think your question is about retention. This is not like many other businesses in consumer tech, where you're adding to the top of the funnel passive eyeballs with the hopes that they monetize. Here, you have a business where we let the consumer explore for free intentionally because when they choose to make a micro payment, remember, these are \$0.15 to \$0.70 on average purchases for an episode, an episode they want, we can see as they access more and more episodes that their ability to deepen their relationship to us and cohort data means that their ARPPU will increase over time.

So for us, this is less about adding to the top of the funnel and improving retention as it is making sure we're flowing content for them to self-select into stories they love that increases their confidence to access more episodes over time because that's our payment structure versus sometimes I think when you look at other businesses, you're thinking about it either as a social media business or a subscription business where you have a forced migration from either a web to an app, that's not our business. We have the benefit of having 120,000 new titles arrive every day, and it allows us to be more organic in our movement from web to app as well as more retentive.

Unidentified Participant

Got it. That's really helpful. And if I could with a follow-up. Could you please remind us of the underlying drivers behind the Q3 seasonality in Japan? And are there any other similar seasonalities in Korea or any of your other major markets?

David Lee - WEBTOON Entertainment Inc - Chief Financial Officer and Chief Operating Officer

We've only highlighted in Japan that the overall category consumption of Manga and its category has a high point in the month of September in the quarter. Beyond that, it is not something we've articulated that we're driving. We benefit from it, and we capitalize on it. Yongsoo, JK, anything you want to add to the seasonality question?

Yongsoo Kim - WEBTOON Entertainment Inc - Chief Strategy Officer & Head of Global WEBTOON

I think that covers it from our standpoint.

David Lee - WEBTOON Entertainment Inc - Chief Financial Officer and Chief Operating Officer

The other one that we want to mention is that when people have more time, they have the ability to consume more content. So over certain holiday periods such as the summer period, we do also see more Q3 consumption of paid content beyond the phenomenon that we articulated in Japan. But other than that, there aren't any major significant increases that we've disclosed.

Operator

Andrew Marok, Raymond James.

Andrew Marok - Raymond James - Analyst

I guess one on marketing. How would you characterize the marketing environment right now in terms of ROIs? And have there been any kind of particularly accommodating areas or channels that you've chosen to lean into?

David Lee - WEBTOON Entertainment Inc - Chief Financial Officer and Chief Operating Officer

Yeah. Marketing has been a very interesting area for us. We -- first, on marketing. Sequentially, you'll note that in Q3, we did increase our marketing by 40% in the quarter versus Q2 to the \$9.2 million that you mentioned. But interestingly, it's actually been flat versus a year ago as we've increasingly found ways to deliver higher revenue with higher returning marketing spend.

The two examples that we talked about, one of which is in Japan, where the team has developed a strong ability to regularly find high-returning investment in marketing that's delivered top of funnel and bottom line results. But the other -- the specific example we talked about is in Rest of World, when we have the ability to partner with someone who has a similar audience, remember, our audience is quite attractive in Rest of World, it skews younger.

So Duolingo is the example that we mentioned, the campaign, the mini-series we launched is called "Duo Unleashed!" that actually occurred here in the beginning of Q4. But it's an example of, why in our guidance, even though we deliver a positive Adjusted EBITDA midpoint range of \$11.5 million, in our guidance, we intend to spend 42% more in marketing in Q4 than you would see a year ago because we're finding more and more of these high ROI opportunities that combine product, content and partnership. I think that's a good example.

And it's also important to note that we've placed strong leaders now. Yongsoo Kim, the leader of our business in US WEBTOON, is driving this push for higher returning investment in marketing because we see the opportunity there. So we're very pleased with our return.

It happens to be a great Adjusted EBITDA benefit in Q3, but that was not our objective. Our objective was really to spend at higher return levels when we have the right combination of product and partnership.

Andrew Marok - *Raymond James - Analyst*

Really appreciate the detail there. And maybe one that's sort of connected, but you mentioned timeshare in an earlier answer. I guess one, to the extent that you're winning time, do you know where that other channels you're winning time from? And two, as you're looking at some of these partnerships with other digital media entities like Duolingo, is there even a kind of partnership opportunity in timeshare?

David Lee - *WEBTOON Entertainment Inc - Chief Financial Officer and Chief Operating Officer*

Well, first with -- in terms of timeshare, I think what we've talked about is the fact that right now as the category leader, JK created, our Founder, created this format in this business. We're the leader, and we don't compete at the expense of anybody else's business. We don't see the need to steal share because we're establishing a new format. In fact, our digital stories are a little (technical difficulty) right? They show up. We have 100 examples of them becoming rich adaptations.

You heard JK talk about "Sweet Home" in Korea. You heard us talk about our Crunchyroll developments with "Tower of God Season 2." So for us, we're in a privileged position of being able to expand the category we created.

But with regard to your question, the two examples we've talked about in Rest of World do include very attractive consumer bases that are interested in our business and there's a Discord, was the one that we mentioned in the previous quarter, and now we're talking about Duolingo.

When you have an attractive engaged consumer base that's spending 30 to 60 minutes per day on our stories, it gives us the ability to do this idea of cross-promotion and partnership with other very interesting consumer tech platforms. But to be clear, we don't really feel the need to share or compete for time. Our consumer is deeply engaged because 70%-plus of them say in, for example, North America, they can't get the stories we offer anywhere else. And so that's the reason why we don't really need to compete for time.

Operator

(Operator Instructions) Mark Mahaney, Evercore ISI.

Unidentified Participant

Sorry, this is David again for Mark. Would you mind sharing some of the components of your IT adaptation costs?

Junkoo Kim - *WEBTOON Entertainment Inc - Founder & Chief Executive Officer*

It's a good question. At this point, we have not broken down in disclosures the components. But we have talked about the fact that we have a relatively derisked structure. We don't heavily bet large amounts of CapEx. We're not creating studios that are changing the fundamental use of cash. You know that we're generating cash even as we deliver our pipeline.

So our business is one where we have data around stories that we know are hits and can more reliably, we think, identify ways in which they can cross over to rich film adaptation. The examples we gave you of "True Beauty," "Tower of God Season 2," "Sweet Home," these are on Netflix and on Crunchyroll are Korean examples.

But I'd also highlight in Rest of World, there are great examples. For example, Amazon Prime in Europe, "Love Me Love Me" in Italy or with our Spanish release of "Sigue Mi Voz," there are examples across all of our regions where stories begin in our platform and then find life almost inexpensively and organically with the help of our Studio, and WWS studios.

There is some expense that we can deliberately choose to spend, but these are development expenses like developing a script. We're not interested and nor do we need to make heavy, heavy investment. That is usually borne by the folks who are going to bring the crossover IP to market at this point. And there's one -- let me just turn it over to Yongsoo because he's been patiently waiting to offer a point of view on this statement. Yeah.

David Lee - *WEBTOON Entertainment Inc - Chief Financial Officer and Chief Operating Officer*

For the IP adaptation cost, actually, in our IP adaptation business, in most cases, our business model is licensing or pre-products. And in that case, we don't have actually any actual cost for them. Honest, we have -- we need to spend some money for the development, the packaging or development of script. We have some cases of co-production. So in that case, we have -- we take the different cost structure, but that is not our major business model for IP adaptation side.

And actually, I can add some more points to address your earlier question about what kind of initiatives we are taking to attract more users into app from web. And in some cases, then we actually download our latest episode only in the app, and our app user can enjoy the latest episode earlier than web. That is a very powerful tool, and we can attract more users to the app product.

Operator

(Operator Instructions) As there are no further questions -- my apologies. It seems we have another question. Benjamin Black, Deutsche Bank.

Benjamin Black - *Deutsche Bank - Analyst*

Could you just talk a little bit about the sort of the customer acquisition environment, both in Japan and also in North America? So just maybe dig a little bit into the strategy to effectively acquire more users?

David Lee - *WEBTOON Entertainment Inc - Chief Financial Officer and Chief Operating Officer*

Sure. I think this relates a bit to some of the commentary earlier on how we are leveraging our higher returning marketing. For us -- and let me just cover -- you may not have heard what we said before. We are very pleased with our performance. When you see our app MAU increased 1% with essentially flat marketing expense in the quarter, it's the reason why we have confidence to include, in our forward-looking guidance for Q4, this 40% -- 42% increase in marketing in Q4 year-on-year and still deliver really strong midpoint Adjusted EBITDA of \$11.5 million.

The example we're giving is to leverage the attractive engaged demographics of our user base in partnership with others. So you recall, Ben, we talked about Discord last quarter. The example we're giving that is going to be in Q4, it just began in October, is our partnership with Duolingo. We call it "Duo Unleashed!," where we have the ability not just to have to spend on our own, but to partner because of a mutually attractive audience and engagement, which improves the ROI as we increase the MAU on the business.

I think that's our best example of how we intend to continue to grow versus more lower ROI passive spend on top of funnel, which is thankfully not something that we have to do to deliver the strong revenue performance you see in the quarter.

Operator

As there are no further questions at this time, this concludes our Q&A session as well as WEBTOON's third quarter 2024 earnings conference call. Thank you all for attending today's session. You may now disconnect. Have a pleasant day, everyone.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All Rights Reserved.