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PRESENTATION

Operator

Thank you for standing by. My name is John, and I will be your conference operator for today. At this time, I would like to welcome everyone to the WEBTOON Entertainment second-quarter 2024 earnings call. (Operator Instructions) I would now like to turn the call over to Lauren Hopkinson, Director of Investor Relations. Ms. Hopkinson, please go ahead.

Lauren Hopkinson Hopkinson - *Webtoon Entertainment Inc - Director of 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 within 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 on the call today 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 - Chief Executive Officer, Director*

Thank you, everyone, for joining us today. I have outlined my full thoughts on the quarter and our strategic path in a shareholder letter, which you can access on our Investor Relations website. While I urge you to read it in its entirety, let me make a few brief comments before turning the call over to David to cover our performance and outlook in more detail.

In June, we fulfilled our long-time ambition to bring WEBTOON to the public markets after nearly two decades of innovation, building and expanding our global flywheel, while nurturing and growing our creator ecosystem and their loyal global fandoms. We are thrilled to continue to build this business alongside our new investor community. Our strategy is working, and I'm pleased that we continue to deliver robust performance in the second quarter, demonstrating the strength of our value proposition and the power of our global flywheel.

I want to thank our creators who have shared their stories on WEBTOON. Because of you, we are a leading global entertainment company and home to some of the largest storytelling platforms in the world. And a special thanks too to our employees for their hard work and dedication to our company and our mission as we embark on this journey as a public company.

Before I conclude my remarks, I want to share some detail around two important executive appointments. Yongsoo Kim, currently Chief Strategy Officer, will expand his role to include Head of Global WEBTOON. In this new role, he will oversee the global WEBTOON platform, including Southeast Asia, Europe, and the US. And he will report directly to me. This change aligns with our strategic focus to continue to grow our business outside of Korea and Japan.

Further, Kyunam Kim, formerly the Head of Legal for WEBTOON, will take on a new role as Chief Risk Management Officer, responsible for managing the company's risk management operations, reporting to David Lee, our COO and CFO. Congratulations to both Yongsoo and Kyunam on these new and expanded roles. 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. We are thrilled to share results from our first quarter as a public company following our successful IPO earlier this summer. As you'll hear me talk throughout the call, we are just beginning to penetrate a massive and growing addressable market. And we look forward to providing updates to our progress as we continue to capture this incredible opportunity.

Before I dive into the numbers, allow me to provide some color on our business. WEBTOON, at its core, is a storytelling platform. Our business and our founder, JK, created an entirely new category of entertainment that's fundamentally changed the way audiences consume digital content.

From pioneering webcomic and vertical scroll format to nurturing a vast and diverse creator community, we're successfully powering new global hits across platforms and mediums. This success is directly borne out of the radical transformation that we brought to the content creation industry, powering democratized creation and publication. And our growth doesn't stop there.

One of the key competitive strengths lies in the size, breadth, and depth of our content library. Because our content is bite-sized and serialized, it's easily digestible for readers and simultaneously gives creators power to innovate, experiment, and incorporate real-time feedback. And with 124,000 new episodes published daily, there's no shortage of fresh content for users. This vast content library is powered by a growing base of loyal and passionate creators, both amateurs and professionals, who create a continuous stream of evergreen content.

With a global user base of approximately 170 million monthly active users in over 150 countries, we are the number one player in webcomics based on smartphone monthly active users in all our core markets. Across geographies, our model is underpinned by our global flywheel, driven by our users, the creator community, and our unique content. This ultimately powers our diversified revenue streams, paid content, advertising, and IP Adaptations.

Given more than 85% of our revenue is generated outside the US, I'll be referring to our results on a constant currency basis, excluding discontinued operations, for the remainder of this call. A full reconciliation of GAAP to constant currency metrics can be found in our earnings materials.

Let's talk a bit about how our global flywheel powers the results we saw in the second quarter and first half. During the quarter, we posted double-digit revenue growth of 11.1% on a constant currency basis, with growth across all three of our diversified revenue streams.

Our reported revenue was roughly flat year over year as growth across the business was offset by our significant exposure to weaker foreign currencies, including the Korean won and the Japanese yen. The latter of which reached historically low levels against the US dollar. We also delivered a strong overall first half with 13.7% revenue growth on a constant currency basis versus 2.7% on a reported basis.

In the first half of 2024, we also saw our platform gain popularity and become even stickier with our paying users, with both MAU and constant currency A-R-P-P-U or ARPPU growth in all of our geographies. Adjusted EBITDA grew to \$22.4 million in the quarter, marking a strong profit improvement for the second consecutive quarter, driven by reduced SG&A spend, and leveraging improved operational efficiency.

Net loss of \$76.6 million in the quarter compared to a loss of \$19.7 million in the year prior and was primarily driven by IPO-related costs and onetime stock-based compensation expense. As a result, our adjusted EPS for the quarter was positive \$0.20 compared to a loss of \$0.01 in the prior year.

Before detailing our geographic performance, I'd like to provide an update on our revenue streams at a consolidated level. Starting with paid content, which is by far the most sizable of our revenue streams. In the quarter, we posted 11.5% revenue growth on a constant currency basis and 13.3% growth in the first half.

Our Q2 performance was driven by double-digit growth in rest of world as well as Japan, which is our largest paid content market, thanks to continued successful conversions of users to paying users. Additionally, our ARPPU growth on a constant currency basis of 12% in the quarter and 13.6% in the first half was impressive, as our paying users continue to engage more deeply with our content.

Advertising, which remains a significant white-space opportunity, saw triple-digit revenue growth on a constant currency basis in Japan and double-digit growth in rest of world as we continue to pursue growth in a relatively nascent North American market.

Our Korea business continues to be impacted by our strategic diversification of advertising partners and inventory away from our parent company, NAVER Corporation. As a result, we posted modest advertising revenue growth of 2.3% in the quarter. However, our first-half growth was 13.3% on a constant currency basis.

We are continuing to diversify our advertising products and the implementation of achievement-based ads across both mature and emerging markets has been a massive success with pronounced double-digit growth in both products in both Japan and rest of world in Q2. We expect this to support further growth over time.

Finally, our IP adaptation business continues to be an exciting avenue for future growth as well as user acquisition. We saw growth across all geographies, contributing to total IP adaptation revenue growth of 24.9% on a constant currency basis in the quarter versus the prior year period and 20.6% growth in the first half. While it is currently the smallest part of our business, IP adaptations remains a core driver of organic growth in our paid content revenue as well as bringing new users to discover our content through books, TV shows, and films to our platforms.

Now, I'd like to look at our results in the context of core geographies. We're in different stages of building our flywheel across these markets as we execute on our global expansion strategies. Before I go in more depth on our results, I want to frame how we think about our portfolio of businesses. Korea is our most mature, developed market with a high rate of penetration. We see Japan and the rest of world as our growth markets with significant untapped potential we believe we can capture with our brand and unique content.

In Korea, we are confident in the health of our business and the potential for continued long-term value creation. We're already a part of everyday life with roughly 50% penetration and high levels of habituation. We continue to be number one in webcomics in this market, and we believe we'll continue to see more penetration and growth here.

In the quarter, our revenue declined 10.8% on a constant currency basis compared to the second quarter of 2023, primarily driven by decreases in our advertising and paid content revenue, slightly offset by strong growth in IP adaptations. As our market of origin, Korea continues to be our primary source of original content.

During the quarter, we were successful in our continued efforts to attract top industry creators and introduce fresh and innovative content to the platform. As a result, we saw great growth in new originals with the overall number of new original webcomic titles growing by 30% year over year.

The Korean market continues to demand IP as fans can't get enough of their favorite stories and universes. As such, our Studio N video adaptation business continues to perform strongly. Given the maturity of our Korea market and flywheel as well as our dominant market share, our continued focus in the region has been on engagement and monetization. While we look at average users on a daily, weekly and monthly basis to understand broader trends in consumption, we find that looking at MAU on a longer-term horizon can often be more indicative of the underlying health of the business.

To that end, MAU for the first half of 2024 underscored our strength and stability in the Korean market, with MAU down only approximately 1%. Particularly in our most mature market, our monthly active users may trend up or down quarter-to-quarter. But what's really important is the engagement that we continue to see and finding ways to increase monetization of our existing user base.

To continue bolstering engagement and monetization, we have remained focused on implementing product improvements to the platform. Most recently, we introduced an AI-driven personalized recommendation model in the middle of the quarter that is intended to reinforce the content discovery journey.

Originally slated to launch at the beginning of Q2, the delay in the launch of the recommendation model resulted in softer overall user dynamics in the quarter as MAU of 23.2 million decreased by 6.6% year-over-year (added by company after the call). MPU of 3.7 million declined 7.3% year over year. And our paying ratio of 16.1% was stable, down just 12 basis points year over year.

Additionally, ARPPU on a constant currency basis experienced a small decline compared to the second quarter of 2023 driven by these delays but was slightly up for the overall first half. Importantly, since implementation, we've seen a clear rebound in user engagement with MPU specifically, improving through the end of the quarter.

Improvement in engagement has been seen across the full funnel, including visits, reading, and payments. We expect this trend to continue as we complete the rollout of the AI-driven personalized recommendation model to 100% of our geographies and users in the third quarter, which we believe will enable users to discover more content they love.

As we look to grow our external advertiser portfolio, our intentional and strategic diversification away from NAVER as a primary advertising partner in Korea continued in the quarter. It is also important to note that NAVER made a large, planned marketing investment in the second quarter of last year, spending roughly 3 times their usual quarterly amount with us. This, therefore, had a disproportionate impact on our year over year results.

We made strong progress on increasing the mix of external advertisers on our portfolio with gross ad revenue from partners outside NAVER growing double digits year over year. As a result, as of the end of the quarter, revenue from advertising partners outside of NAVER represented the majority of our advertising revenue mix. This was in large part thanks to the efforts of our direct sales team and the implementation of high-CPM ad products like pre-roll ads that are anticipated to bolster growth in our seasonally important second half.

Moving forward in Korea, we will remain focused on helping our creators develop amazing content and supporting their efforts with new technology. Whether through more personalized recommendations, story-driven features, creator support tools or platform updates, we want to ensure, the WEBTOON experience for creators and users is unmatched.

Moving to Japan. As I mentioned earlier, we already have a strong foothold in Japan, where we've strategically leveraged the popularity of traditional manga to attract new users to our platform and drive growth. From there, we've been extremely successful in converting users into consumers of webcomics across all genres.

For the quarter, Japan posted impressive revenue growth on a constant currency basis of 29.8%, primarily driven by explosive triple-digit growth in advertising and IP adaptation revenue as well as double-digit growth in paid content revenue.

Revenue growth on a constant currency basis of 29.2% was similarly impressive for the overall first half. Japan's paid content growth was outstanding in the quarter. It's important to remember that we have two powerful businesses in this geography, EBIJ and LINE MANGA. EBIJ was our launchpad acquisition an online service for e-books in Japan.

LINE MANGA, we like to call our rocket ship. It's our webcomic and digital manga offering in Japan dedicated to both amateur and professional creators. The combination of these two businesses results in us having a market-leading offering in a critical geography. This was evidenced in the fact that LINE MANGA topped the overall app market in Japan, including games, across iOS and Google Play in May and June, according to SensorTower.

Ongoing execution of our user conversion strategies as well as our continued efforts to build out the local creator ecosystem in Japan have been successful. We've seen an enormous increase in content on the platform, much of which was organic. This included 70 new launches from local titles in the second quarter as well as the expansion of global distribution for successes such as Savior of Divine Blood.

IP adaptations also powered our flywheel with major titles like The Wife and Viral Hit, gaining popularity after IP adaptation drove users back to the platform. As a result of this focus, Japan's user engagement was impressive in the quarter, with both MPU and paying ratio reaching record highs.

Japan's MAU of 22 million increased 1% year over year in the quarter and 1.6% in the first half of the year. Remember, this reflects growth in LINE MANGA, partially offset by EBIJ. MPU of 2.2 million grew 15.5% in the quarter and 14.7% in the first half, while the paying ratio of 10.2% was up 128 basis points in the quarter and up 116 basis points to 10.1% for the first half.

Engagement with paid users deepened with second quarter ARPPU of \$24.10, growing 7.4% year over year on a constant currency basis, and the first half ARPPU of \$24.50, growing 7.1% year over year, driven by successful execution of our user engagement strategies.

On our Japanese platforms, growing traffic was supported by strong content, as I mentioned earlier, as well as efficient and effective marketing campaigns. We've increased our focus on personalized offerings to tailor content to individual users. As a result, we saw growth across impressions, engaged users, conversion, and ARPPU, as I just mentioned.

As we move forward in Japan, our primary focus will continue to be on cultivating and growing our local pool of creators. Expediting the growth of Japan's amateur creator platform, and cultivating local webcomic studios are just two ways we're doing this.

Seasonally, August is the highest consumption month for manga in Japan. As such, we planned launches of numerous new titles and released several new IP adaptations in July to coincide with this time frame.

In the rest of world, we continue to see significant white space ahead of us, particularly in North America. We saw strong growth in the quarter with revenue on a constant currency basis growing 24.9% in the quarter, primarily driven by growth in advertising revenue from the usage of pre-roll ads, outperformance in paid content revenue as a result of strong user viewership and constant currency ARPPU growth, and modest growth in IP Adaptations. Revenue on a constant currency basis also grew 28.7% in the first half.

Building our library of local content across the globe has proven time and time again to be a cornerstone of our success. As we expand geographically, this means we need to be strategic in building out our local creator ecosystems to support the development of compelling and original content. As we grow globally, the US will remain a top priority for us. In North America broadly, the majority of our users are on Wattpad, our global webnovel platform, which we acquired in 2021.

As we continue to integrate our Wattpad and WEBTOON businesses, we posted sequential growth in our paying ratios for the second half of 2023 into the first half of 2024 on both platforms in the US. We also saw engagement from paying users strengthen as we exited the quarter.

Further, we've seen exciting growth in other parts of the world. For example, in France this quarter, we saw an increase in professional creators on our platform of 21% compared to the second quarter of 2023. We're proud of this milestone and believe that France has the potential to act as a gateway into our expansion in Europe. As always, we remain committed to introducing creator-friendly programs that support our deep belief that creators should be able to receive compensation for their work.

In the quarter, we launched a new Super Like feature for CANVAS creators in the US. This enables fans to purchase Super Likes on individual story episodes, visually highlighting their fandom and directly supporting creators financially. Super Likes are an important addition to our amateur creator economy, supplementing our existing ad share monetization program for CANVAS creators.

Just as we are cultivating creators, we are also spreading the word about our platform in rest of world, where we have a massive user base of over 120 million that continues to show strong traction in engagement and monetization. While second quarter MAU, MPU, and paying ratio were

relatively flat year over year in rest of world, ARPPU of \$6.50 grew an incredibly impressive 30.2% year over year on a constant currency basis, representing extremely quick user habituation and clearly showcasing that users we have acquired so far are increasing engagement with our product.

Additionally, if we look at the first half of 2024, MAU in rest of world grew 1.9%, outpacing our most explosive growth market of Japan across the same period, and ARPPU grew 41% on a constant currency basis.

With the biggest white-space opportunity for advertising in rest of world, we were pleased with revenue growth we saw in advertising, high double digits year over year in the quarter and first half, in addition to the sequential growth compared to the first quarter of this year. This performance was primarily supported by the introduction of pre-roll ads, which resulted in increased user engagement and growth across all regions.

We will continue to mature our capabilities in this area, including with the implementation of a direct sales team. As a first step, Wattpad and US advertising teams are being merged to create a single North America ad team. We will need to onboard further talent as we grow, and recruitment for this is expected to steadily grow in the second half of the year.

As we strategically and thoughtfully expand this team, we expect the benefit to our top line to begin flowing through in early 2025. Moving forward, organic user acquisition, user inflow from local IP adaptations, and building out our advertising capabilities will continue to be the primary focal points of our rest of world growth strategy.

On the cost side, total G&A expenses for the quarter were \$138.7 million as compared to \$53.5 million in the prior year quarter, primarily as a result of onetime IPO and stock-based compensation expenses.

Turning to profitability. Gross profit for the quarter was \$83.1 million compared to \$81.1 million in the prior year, representing growth of 2%. This resulted in healthy gross margin of 25.9%, which expanded 57 basis points compared to the prior year.

We had minimal interest expense in the quarter, and interest income was \$2 million compared to \$1 million in the prior year. Other income was \$2.3 million compared to a loss of \$6.1 million in the prior year period. Income tax expense of \$1.9 million in the quarter compared to \$11.2 million in the prior year. Depreciation and amortization was \$8.9 million compared to \$9.3 million in the prior year.

Excluding adjustments and other nonrecurring costs, we were pleased with structural improvement in our adjusted EBITDA, which grew to \$22.4 million, a significant increase from a loss of \$0.9 million in the prior year. Net loss of \$76.6 million was better than anticipated. Although this was a larger loss than in prior year, this was primarily due to IPO-related costs as well as onetime increase in stock-based compensation expense.

At a fundamental level, we were able to improve our profitability by managing costs appropriately to fund our growth initiatives. As a result, our adjusted EPS was \$0.20 in the quarter compared to a loss of \$0.01 in the prior year period. On a reported basis, including onetime expenses, EPS was a loss of \$0.70 compared to a loss of \$0.18 in the prior year period.

As we noted at the time of our listing, our IPO has unlocked access to additional capital we can invest in our business to continue expanding our user base by improving our content localization and expanding to new geographies, supporting our creators in cultivating its fandom throughout their stories, and enhancing the foundational technologies powering our platform. We will maintain a balanced capital allocation program that prioritizes long-term value creation for all our stakeholders.

Before I wrap up, I'd like to spend a few moments discussing our third-quarter outlook. For the third quarter of 2024, we expect to deliver revenue growth in the range of 12.5% to 14.5% on a constant currency basis, reflecting the strong underlying trends within our business and the continued expansion of our flywheel. This represents revenue in the range of \$332 million to \$338 million, assuming FX rates remain relatively stable with the end of Q2.

We anticipate third quarter adjusted EBITDA in the range of negative \$7.7 million to negative \$10.0 million, representing an adjusted EBITDA margin in the range of negative 2.8% to negative 2.1%, primarily driven by broad-based increases in marketing spend to support our user acquisition.

In closing, we are at an incredibly exciting point for our business. We believe in the power of our global flywheel to drive future growth and long-term value creation, and we look forward to continuing to update you on our progress.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Eric Sheridan, Goldman Sachs.

Eric Sheridan - Goldman Sachs - Analyst

Maybe a two-parter, if I can, on content creation. Can you put a finer point on some of your comments in the front part of the call about some of your key initiatives to drive content creators onto the platform and continue to build scale around content?

And the second part would be, how do you think on a market-by-market basis, Korea, Japan, and rest of world, of the role that content plays in terms of the broader competitive landscape that you see for users?

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

Thanks, Eric. It's David Lee responding to your first and second question, both good ones. I wanted to highlight the strong progress in Q2 in nearly all our markets with regard to improving the flow of additional original content in many cases and importantly oftentimes, local content that, frankly, others cannot replicate.

So specifically within Korea -- and this is critical because remember, Korea is an everyday part -- we're an everyday part of people's lives with 50% penetration. Having a 30% increase in original titles, as we mentioned in the commentary, is significant. And it will be key for the continued performance for that market.

But even as I look to really exciting new growth markets at the under end of the spectrum, in Japan, we highlighted 70 in the quarter important new additions from local creators. Remember, our model is quite differentiated versus anybody. We don't have, as JK has said to you in the past, a commodity store model.

We create an ecosystem. For example, in Japan, a local creator like the ones who created Savior of Divine Blood have a unique ability only through us to publish in multiple languages and in multiple genres beyond what they may have been used to previously.

So that flow, for example, in Japan of those 70 local pieces of developed content -- or take France, right, where this is the first time I think we've talked about France. But having a 21% increase in professional creators in Q2, we believe these are important developments not just for the potential short-term revenue they may represent, but for the mid- to long-term proven fact that we are on a global expansion. And so for us, Yuki and (inaudible), a strategic core for JK and the team here, which is to ensure that we create the ecosystem of oftentimes hard-to-replicate content because they come to us uniquely as the market leader.

With regard to your second question, which I think is much more about how do we think about future growth than the flywheel. This quarter was very much in line with the exception of me not being able to predict the movement of a foreign currency like the yen or the Korean won.

This is why we always offer constant currency because we believe it's the most fair metric for a global business to really determine are you growing. And growing 11.1% as we mentioned, on a constant currency basis, overall, but importantly, noting that we're growing significantly in new markets like Japan and in the rest of the world make us pretty bullish.

So just as we talked about an example of content, when we -- when you refer back to our previous conversations on the flywheel, we feel we're on track. And we can go in further depth in our one-on-one as I want to make sure that I answer more specific questions down the road, but also give time to other analysts.

Operator

Matt Cost, Morgan Stanley.

Matthew Cost - Morgan Stanley - Analyst

I know you mentioned the growth rates of ads in Japan and North America in the quarter. Is there anything you can share around early learnings as you work to scale your direct ad business and your sales forces in these regions? That would be great.

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

That's a great question. Thank you, Matt. The first thing I want to highlight is just how early we are globally in our development. We call it almost a white-space opportunity in some of our commentary. So for example, when you think about the size of the global ad market and the geographies that we are nascent, even before we have to deal with macroeconomic trends the way many others do, we're so early that what you saw us talk about, these double digits, high double digits we said, in advertising growth in the rest of world.

And then specifically, we talked about in Japan, triple-digit growth in the quarter. And we also called out this pre-roll video is having double-digit growth.

The reason why we're emphasizing that is while we have a lot of, in this case, double and triple-digit growth in some of these larger ad markets, they're coming in the form of strategic products like pre-roll video, which, as you know, because it's video has a higher CPM. But as well, it deepens the habituation for the paid content model that you've heard us talk about, how people can reliably then engage more and more with these 120,000 new stories that emerge nearly every day.

So I would say, it's very early days. We did not provide commentary on, for example, needing to quickly build out an at-scale direct ad sales team yet in rest of world or North America, nor did we comment in Japan about the explicit growth we described in advertising was driven by a particular tactic. It reflects the fact that it's quite early in both cases.

I also want to highlight the reality of diversification away from relying upon NAVER in our largest developed advertising market of Korea. We made great progress, right, with the majority of our advertising partners no longer being reliant on our previous parent. But we will continue to have to make more progress. And so I do want to make sure I'm clear.

We are extremely excited about the larger, bigger opportunities in the market where we're nascent, but we're pretty sober, clear-eyed and transparent about the journey we're on in Korea. And as I mentioned in the previous question broadly, we feel we're on track holistically in the growth we're seeing in advertising.

Operator

Doug Anmuth, JPMorgan.

Douglas Anmuth - *JPMorgan - Analyst*

David, you talked about some increased investments in 3Q and I think particularly around adding users. So hoping you could just elaborate a little bit there, where that spend is going, and how we should think about timing on the returns there. So that's one.

And then two, if you could talk a little bit more about the product improvements. I think you talked about some delays in Korea. What's causing those delays? Are those issues addressed? And how should we think about the improvements in that market?

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

Well, first, we have done a fairly strong job at managing our bottom line through the first half of this year. As we disclosed on our performance in Q2, but as you may recall from our previous conversations through the IPO process, where we are today after the first half on, for example, adjusted EBITDA, reflects, I think, a pretty disciplined approach. And it gives me, as the new CFO, confidence in being able to begin to deploy some of what we've earned frankly, which is the strong performance of the bottom line into growing in the mid- to long term.

We do not think about advertising spend the way some other companies need to. We do not spend in the short term passively on top of funnel to drive short-term top-of-funnel growth. This is not a business that needs double-digit MAU growth to deliver double-digit growth in revenue, which we've been clear about on a constant currency basis.

But when you see the growth opportunity with consumers and creators in Japan, when you -- if you could see our opportunities in rest of world by country, we've highlighted France, but Canada is a great example. There are many examples in our broader expansion outside of our origin country not really warrant prudent spend. We believe the spend will return, but we are not planning for or need it to return in the short term to drive growth.

I think of this as an 18- to 24-month spend. And I think it actually pays greater dividends because remember, the content we create that gets exported across multiple geographies have an improved profitability once we make this investment to allow creators to have a greater audience.

So that's how we think about our investment. One, we have to earn it. We have to deliver against our bottom line within our business model and expectation. And two, we're going to spend it for the mid- to long term because we don't see the need to try to juice expectations of MAU growth, say, a quarter out.

We also think that on the product side, this AI-driven personalization engine is a potentially significant driver for both creators to make sure that their flow of new content is discovered. We have such strong numbers of creators, being able to allow users to find what they're looking for is core to the flywheel.

The delay was, while all of our product development, including this AI-driven product, is on track. We wanted to make sure that we deployed it in the most thoughtful way. And we're already seeing sequentially once we have, across many measures of the funnel, sequential improvement in the business.

This, we're excited about because this is a product and a development that can be deployed across geographies beyond what we deployed in the middle of Q2. We're not really providing more detail on all of the additional products that we have under development. But we wanted to highlight this one as an example of the whole portfolio being on track but still relatively early in impact, which is why you'll have to stay tuned for Q3 and beyond for this particular AI product to bear fruit.

Operator

Benjamin Black, Deutsche Bank.

Benjamin Black - Deutsche Bank - Analyst

Can you talk about the adoption of some of your AI content creation tools? How receptive are creators to them? And is that improving content velocity? And then secondly, can you talk about the (technical difficulty) broad base? How is that trending? Is there any way to sort of delineate Wattpad users from WEBTOON users?

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

Thank you, Benjamin. I appreciate the question, but the second question broke up a little bit. But let me start by trying to address your first. What's very unique about this company at WEBTOON is that it is fundamentally rooted in data, and we have long had our own AI technologists hard at work on behalf of our business model.

But to be clear, our approach is to enhance the productivity of our hard-working creators and to improve the user experience. This is one of the few examples where AI may actually improve human creativity, enable greater earnings for our human creators, and allow consumers to discover content faster.

Now, this, we've talked about in this quarter as a function of one example, this AI-driven personalization engine, but it shows up already every day. These are tools that we have in our data-driven toolkit to enable creators to be more productive.

If you go on to CANVAS, for example, our amateur-facing portfolio offering, you'll find that over many years, we perfected data and tools in order to give our creators the best chance to be productive or even in how we manage and fight piracy, which is a reality for any content or UGC-oriented company. We're very proud of how the data and the tools we have are already at work.

But in particular, we're noting this one that rolled out in mid-Q2 because we think it could have a significant impact in the paid content and the creator journey. Both the creator as well as the user can benefit from this example of our data and our AI.

Your second question was a little bit broken up, but I think it was with regard to the comments we made about our North America business and specifically Wattpad and the US WEBTOON business. In our commentary, I'll just underline it, if this is your inquiry, that we are relatively early days in, for example, combining the sales force to the benefit of demonstrating, as we mentioned in rest of world, pretty significant growth in advertising.

But it's quite early. We are very nascent in leveraging the combined force of the Wattpad and the WEBTOON business, but we're underway. And I would expect that you'll need to wait quarters to come before we're ready to provide you more substantive details on how those two business -- the two businesses together will power results.

However, we've long been clear that webnovels can become incredibly commercial webcomics that can benefit each other as we go forward in the paid content engine. This has been demonstrated in Korea for some time. And it's the reason why we're focused on rolling out that proven tactic in North America with Wattpad, our webnovel offering, and our US WEBTOON business.

Operator

(Operator Instructions) Andrew Marok, Raymond James.

Andrew Marok - Raymond James - Analyst

Maybe first, can we turn back to the ads business? So definitely understand the stress on the early stage of the ads business. But in that context, how are you feeling the winds of the ad industry blowing on to WEBTOON? Is it the case where you're likely less affected, given your significant

secular opportunity and format expansion? Or is there potentially exposure to advertisers contracting their spend onto fewer platforms during times of macro turbulence?

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

It's a great question. And we think of the growth ahead of us, this double-digit growth. Remember, for the first half of this fiscal year, we grew 13.3% on a constant currency basis in our ads. And the reason why I'm giving you 1H instead of just a quarter view is when I think about even our MAU and audience performance, looking at one quarter can be a little bit misleading in a content-driven business like ours.

And just to flag what we highlighted, the first half showed double-digit advertising growth in constant currency and was tied to the fact that our overall MAU for the first half was stable and positive. And the thing is this double-digit growth we've demonstrated, we believe, persists independent of the macro state of the broader ad industry because we're so nascent and early in the largest markets.

As you know, North America, markets that represent areas of growth for us, like we've mentioned France as a gateway to Europe, we're barely starting. And so when we're at scale, when we have a multibillion-dollar advertising business globally, the questions around a quarter or two volatility in the broader industry become more important.

The second point I'd make is we talk about pre-roll video product a lot. And it's because it's a quite differentiated product that enhances our paid content business, but it's also a wonderful opportunity for deeper engagement with other brands who are advertisers through direct sales.

It's not a commodity display ad. It's a higher-CPM product that pays off the unique content we have. That gives us a different position once we actually get to scale in the bigger global ad industry. That will be part of our conversation with regards to how the broader volatility may play out in programmatic that may be more commoditized.

But today, we don't have to worry about that. We have to worry about execution because we have so much growth ahead and we're still nascent in the ad business.

Andrew Marok - *Raymond James - Analyst*

Great. Really appreciate the color. And then maybe one more, if I could. We're seeing reports that access to Wattpad is being restricted in certain countries over content concerns. I guess the question is how often do you encounter these types of issues as you seek to expand your geo footprint?

And what kind of dialogues do you have to work past them? And is there any sense of the scale of the markets that might be affected, especially from the creator side?

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

Well, thanks for your question. Yes, we are aware, as you are, that Wattpad is not currently available in one particular country. And we, along with a number of other global technology companies, are working through that issue. It's important to note that we are not choosing to withdraw from any consumer opportunity market because of fear of a transitory issue perhaps with a regulatory body.

But I also now need to note that our exposure versus great other companies that are suffering through the same short-term speed bump in the country I'm referring to, we have minimal, de minimis exposure to some of the countries you're mentioning. That doesn't mean that we don't take it quite seriously.

We are learning from participating and taking very seriously these roadblocks as you've probably seen from some other companies that are reporting this week. But the impact to our business is so small that we have the benefit of learning from our other more developed global tech partners. And eventually, we will be in every country, I believe. But for now, we don't see a material impact to our paid content or advertising business.

Operator

Ladies and gentlemen, this concludes our Q&A session as well as WEBTOON's second-quarter 2024 earnings conference call. Thank you all for attending today's session. You may now disconnect.

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