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WBTV.OQ - Q4 2024 Webtoon Entertainment Inc Earnings Call

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**Matthew Cost** *Morgan Stanley - Analyst*

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## PRESENTATION

### Operator

Thank you for standing by.

My name is Dustin, and I will be your conference operator today.

At this time, I would like to welcome everyone to the Webtoon Entertainment fourth-quarter and full year 2024 earnings call.

(Operator Instructions)

At this time, I would now like to turn the call over to Soohwan Kim, Vice President of Investor Relations.

Mr. Kim, please go ahead.

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**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, 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 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 us 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 - Chief Executive Officer, Chairman of the Board*

Thank you, everyone, for joining us today.

I'll make a few brief comments on our performance, and then David will provide more detail on our results and outlook. For my full thoughts on the year and our path forward, please refer to the shareholder letter posted on our Investor Relations website.

2024 was an important year for Webtoon. We became a public company, marking the beginning of an exciting new chapter in our history, and our creators and IP continued to grow their influence all over the world.

I am pleased to share that we reported strong results for year 2024 with record annual revenue and profitability. Revenue of \$1.35 billion grew 5% on a reported basis and 13% on a constant currency basis. While we reported a net loss of \$153 million, mostly due to non-cash expenses, we reported record adjusted EBITDA of \$67.9 million, an increase of more than 600% compared to 2023. We believe these results demonstrate that our strategy and flywheel are working. I'd like to share a few highlights from 2024, starting with the progress of our business in Japan. By leveraging our leading position in Korea and our successful and differentiated cross-border strategy, we've been able to take the top position in Japan for the second half of 2024, as measured by revenue in the non-game app market. After successfully exporting a number of our hit Korean content to Japan, including stories like "Teenage Mercenary," we are now focused on building a powerful local creator ecosystem in the market. In January, we invested in No. 9, a Japanese studio that has produced titles such as our global hit "Savior of Divine Blood," which was LINE MANGA's first local webcomic to become a breakout hit both in and outside of Japan. Our investment in No. 9 will boost our content pipeline in Japan, the company's largest geography and the fastest-growing market. Further, our INDIES amateur platform in Japan is helping us discover local creators and maintain our pipeline of fresh, new content. "Senpai is an Otokonoko" was discovered through INDIES and was developed into a successful Crunchyroll anime series in 2024. With its continued popularity, this title has since been adapted into a new animated feature film by Aniplex.

Our incredible success in Japan is evidence of the power of our strategy. We are taking similar actions at various stages in the US and the other key markets, investing in content studios and creators to build our global content pipeline.

Finishing up with IP adaptations, we had a number of successful launches in Q4, and we are off to a great start in 2025. Three examples of this include: First, "Jeongnyeon: The Star Is Born" in Korea was ranked sixth in Disney+ Global TV show category in November.

Second, over the US Thanksgiving weekend, we launched "Sideline: The QB and Me." The project was an instant hit, reaching number one on Tubi in the US and Canada, drawing the biggest number of viewers of any title on Tubi in its first seven days. Its success has already led to a green light for a sequel.

And finally, in January, "The Trauma Code: Heroes on Call" debuted on Netflix as a global streaming hit, spending four weeks in the streamer's Top 10 Non-English Category. We've intentionally built our Global IP and Creator Ecosystem to develop titles that can find a variety of audiences across formats. We believe these successes will continue to drive new users to our platform as viewers seek out the original source material for these adaptations. In conclusion, our success in 2024 was driven by our passionate and dedicated community of creators and users who continue to create, share and enjoy stories on our platform. I also want to thank our employees for their continued commitment to our company and our mission.

Looking to 2025, I remain confident in our ability to continue driving innovation with both new initiatives to grow our business and ecosystem as we continue to democratize storytelling by bringing comics and new form of visual storytelling to the creator economy.

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

David, please go ahead.

**David Lee** - *Webtoon Entertainment Inc - Chief Operating Officer, Chief Financial Officer, Board Member*

Thank you, JK, and thank you, everyone, for joining us.

I'm going to focus my commentary on the fourth quarter 2024 results compared to the prior year, unless otherwise noted.

During the fourth quarter, we grew revenue 10.4% on a constant currency basis, with growth across all revenue streams. Our reported revenue was up 5.6% year-over-year, as a result of strength in Paid Content and Advertising, partially offset by our exposure to weaker foreign currencies.

As we executed on our cross-border content distribution strategies, we also gained greater leverage on our gross profit, which expanded 45 basis points year-over-year. If you adjust for the eBookJapan marketing expenses, which moved from marketing to cost of revenue during the quarter, gross margin expanded by 147 basis points. On a sequential basis, gross margin declined due to a sales mix shift to certain studio and performance-based ad businesses, both of which have higher revenue share ratios. Net loss was \$102.6 million in the quarter compared to a loss of \$95.3 million in the year prior, driven by higher general and administrative expenses due to public company costs and higher marketing expense.

Adjusted EBITDA was negative \$3.5 million in the quarter compared to a positive \$10.4 million in the same quarter of 2023. We were primarily impacted by increases in actuarial losses on retiree benefits, a non-cash, non-operating expense as a result of a third-party evaluation, as well as the effects of currency translation and lower gross profit in Korea due to a shift in revenue mix. Actuarial losses had an impact of approximately \$6 million to adjusted EBITDA in the fourth quarter. As a result, our adjusted loss per share for the quarter was \$0.03 compared to adjusted earnings per share of \$0.09 in the prior year.

Turning to operational health. Total company MAU was down roughly 3.7% in the quarter. On our last call, we shared our efforts to focus on driving app users who are more engaged and present better monetization opportunities. While app MAU decreased slightly by 1.5% overall, we saw a 6.7% increase in webcomic app MAU when we remove the impact of webnovel users. This growth was led by increases across important English-speaking markets, as well as other key countries like France and Thailand. As mentioned last quarter, we continue to see pressure on Rest of World MAU due to a government ban on Wattpad in one country. While we're working closely with that government to get the ban lifted, the fourth quarter included the impact of a full three months of the ban, accounting for two-thirds of the MAU decline in Rest of World. Although webcomics tend to generate higher revenue and profitability than webnovels, which we believe is an indication of our acceptance in Rest of World, webnovels are still an important piece of our IP strategy as the format's lower barrier to entry allows even more creators to showcase their stories on our platform. Wattpad remains the global leading platform for webnovels, and we are focused on returning the platform to growth and profitability.

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 10.9% revenue growth on a constant currency basis year-over-year. For the full year, we posted 12.6% revenue growth on a constant currency basis. This was driven by our ongoing strength in Japan, which continued to show double-digit growth, as well as successful monetization efforts in Korea and the Rest of the World. Additionally, ARPPU growth on a constant currency basis of 12.4% in the quarter and 13.7% for the full year represents success in driving paying user engagement as we continue to improve our recommendation models and users increase their propensity to spend on the content they love. While we have seen MAU declines in Korea and Rest of World due to decreases in web users, coupled with the continuing Wattpad ban I just mentioned, we've been able to post solid revenue growth with strong ARPPU growth.

Advertising posted 27.4% revenue growth in the fourth quarter on a constant currency basis year-over-year. This strong performance was driven by double-digit growth in Korea and Japan. In Korea, we saw increased ad sales from both NAVER and other partners as the strength of our offering continues to draw interest from partners. Japan's growth was driven by higher year-over-year MAU for LINE Manga and eBook Japan. During Q4, we introduced rewarded video ads to eBooks Japan as we continue to make improvements on that platform. For the full year, we posted 19.8% advertising revenue growth on a constant currency basis.

Finally, our IP Adaptation business saw revenue decline 6.9% year-over-year on a constant currency basis in Q4, driven by declines in Korea and Rest of World, partially offset by growth in Japan. For the full year, IP Adaptation revenue was up 6.7% on a constant currency basis. While the pipeline of entertainment projects in Korea remains strong, we experienced a prolonged delay in project timing in Q4. In 2025 and beyond, we are

excited to bring our latest studio N projects to market and believe our IP Adaptation strategy continues to support brand awareness globally, driving traffic to our platforms.

Now I'd like to look at our results in the context of core geographies. In Korea, during the fourth quarter, our revenue grew 6.6% year-over-year on a constant currency basis, primarily driven by growth in Paid Content and Advertising revenue. We continued to see benefits from the rollout of our AI recommendation engine from Q2, and we also saw balanced growth in ad sales from NAVER and other partners. For the full year, we posted 0.5% revenue decline on a constant currency basis. During the fourth quarter, MAU of 24.5 million decreased 0.5%, MPU of 3.6 million declined 8.6% and our paying ratio of 14.5% was down 129 basis points compared to the fourth quarter of 2023. As we reported when we preannounced results a few weeks ago, we experienced some short-term engagement impacts from the political turbulence in Korea that occurred during the fourth quarter. That said, ARPPU on a constant currency basis was up a solid 16.3% compared to the fourth quarter of 2023, representing the strong relationship we have with our existing users.

As we mentioned previously, our AI-driven personalized recommendation model, which was fully rolled out in June of 2024, continues to improve home tab recommendations. During the fourth quarter, we saw the number of weekly episodes viewed per user increased 2%.

Moving to Japan. For the quarter, Japan posted revenue growth on a constant currency basis of 18.9%. This was driven by significant growth in each of our revenue streams. LINE Manga is now firmly on top of the market in Japan as SensorTower data shows that we topped the non-game app market by revenue in Japan for both the fourth quarter and the second half of 2024. For the full year, we posted 25.8% revenue growth on a constant currency basis, and Japan now represents nearly half of our total revenue. Compared to Q4 2023, Japan's MAU of 22.1 million increased 6.6%, MPU of 2.3 million grew 15% and paying ratio of 10.3% was up 75 basis points. Engagement with paid users deepened with fourth quarter ARPPU of \$22, growing 2% year-over-year on a constant currency basis as we launched 164 new original titles during the quarter. As JK talked about our localization efforts in Japan earlier, we're particularly pleased to note that local Japanese title launches made up the majority of our launches in the quarter.

In the Rest of the World, we saw revenue decline 3.3% year-over-year on a constant currency basis, driven by declines in Paid Content and IP Adaptations in the quarter, partially offset by growth in Advertising. For the full year, we posted 14.9% revenue growth on a constant currency basis.

While fourth quarter MAU and MPU declined 6.1% and 3.3% year-over-year respectively, paying ratio of 1.4% stayed consistent year-over-year. ARPPU of \$6.90 grew 2% year-over-year on a constant currency basis.

Turning to profitability. Gross profit for the quarter was \$82.3 million compared to \$76.4 million in the prior year, representing growth of 7.7%. This resulted in a gross margin of 23.3%, which expanded 45 basis points compared to the prior year. Starting in Q4, part of eBookJapan's marketing expense was moved from marketing to cost of revenue, amounting to an impact of \$3.6 million. Excluding this reclassification, gross profit would have been \$85.9 million, or an increase of 12% from the prior year, approximately 24.3% of revenue. Gross margin declined sequentially due to a sales mix shift to certain studio and performance-based ads businesses, both of which have higher revenue share ratio. While there were some temporary mix shifts that impacted gross profit in the short term, we expect to increase our gross margin over time as we increase our Paid Content in markets outside of Korea.

Adjusted EBITDA loss for the quarter was \$3.5 million, compared to a profit of \$10.4 million in the prior year. Actuarial losses on retiree benefits, a non-cash non-operating expense based on a third-party evaluation had an impact of approximately \$6 million to adjusted EBITDA in the fourth quarter.

On the cost side. Total G&A expenses for the quarter were \$77.8 million as compared to \$55.1 million in the prior year quarter, primarily as a result of public company costs. Interest income in the fourth quarter was \$6 million compared to \$0.7 million in the prior year, and other loss was \$6.2 million compared to \$20.8 million in the prior year period.

Income tax expense of \$4.1 million in the quarter compared to a benefit of \$7.5 million in the prior year. Depreciation and amortization was \$12.1 million compared to \$10.4 million in the prior year. Net loss of \$102.6 million was primarily driven by higher general and administrative expenses

due to public company costs, higher marketing and higher impairment losses on goodwill, which were primarily related to our webnovel businesses. As a result, GAAP loss per share was \$0.72 compared to a loss per share of \$0.62 in the prior year period. Adjusted loss per share was \$0.03 in the quarter compared to adjusted earnings per share of \$0.09 in the prior year period.

For the first quarter of 2025, we expect to deliver revenue growth in the range of 1.7% to 4.8% on a constant currency basis. This represents revenue in the range of \$318 million to \$328 million. This guidance is based on current FX rates rather than FX rates from the end of Q4 2024. As we have discussed previously, we will face FX headwinds in the first quarter and the first half of this year as rates were more favorable in the first half of 2024. We continue to experience delays with IP Adaptation in Korea despite a strong slate. We are also investing in our infrastructure ahead of product improvements, which will occur in the back half of 2025. We anticipate first quarter adjusted EBITDA in the range of \$0.5 million to \$5.5 million, representing an adjusted EBITDA margin in the range of 0.2% to 1.7%. In addition to revenue factors I just referenced, we expect to maintain our strategic investment in marketing to drive future growth. We also have additional public company expenses this quarter that we did not have in the year ago quarter as a private company.

While we are not providing full year guidance, we continue to believe in the fundamental health of our long-term strategy, underpinned by our powerful flywheel of creators, content and users. Over the long term, our goal is to generate profitable, constant currency revenue growth.

In closing, I'm pleased with the progress we made in our first year as a public company. While there's still much work to be done, we're encouraged by positive signs we see in key regions like the English-speaking markets and France, and we look forward to executing our strategy in 2025.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Mark Mahaney, Evercore.

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### Mark Mahaney - Evercore - Analyst

I'll ask two questions, please. First, the strength that you're seeing in Japan, just talk about the sustainability of that as embedded in your March quarter guidance and maybe for the full year.

And the second question really has to do with the full year. You've got a lot of puts and takes. The anniversary of the Wattpad, the outage, however you want to say that. The strength in Japan, you've got MAU issues that should stabilize.

There are a lot of puts and takes. How should we think about the growth and the profitability levels just directionally post the March quarter?

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### David Lee - Webtoon Entertainment Inc - Chief Operating Officer, Chief Financial Officer, Board Member

Thanks, Mark.

It's a great question and one that I really do want to answer. I want to first be clear, we are extremely confident in the fundamental business we have, the flywheel that JK has created and the rocket ship that is Japan, we continue to be very bullish on.

That said, I wanted to be clear on some of the discrete issues that are reflected in the Q1 guidance and try to be helpful for you as you think about your model thereafter.

Remember, this guidance we provided for Q1 did have a few very specific discrete items that I think are specific only to Q1. One of the key ones is that we talked about a great IP slate in Korea. We gave examples of Trauma Code, Jeongnyeon: The Star is Born.

And in the US even, we talked about a great film on Tubi called Sidelined : The Quarterback and Me. So while the fundamental health of the IP slate is strong, the sequence of timing in Q1 is a factor on your compare to previous quarter.

Similarly, within the Q1 guide, while we maintain our investment in marketing because we're really bullish on the user opportunity we see, particularly as we mentioned in English-speaking countries and abroad, we still post or suggest that we are going to guide towards a positive EBITDA range.

Importantly, the sequence of product development, JK founded this company on technology and product innovation. And he's been very specific both in the shareholder letter, as well as his commentary today that a large portion of it is sequenced towards the back half of the year.

And what we discussed, whether it's highlights, the ability to unlock entire series, this improvement in the way in which we engage with users on the home landing page, these are significant, but they affect the remainder of the year.

And so when I think about our fundamental business, while we are only guiding a quarter out, we've talked about not just our target, but our confidence in how we've demonstrated previous strong profitable growth. And I encourage you to think about the business mid- to long term with that confidence.

That said, we want to make sure we're very clear on Q1. One other point, Mark, which is important. We previously guided on an FX basis based on the last day of the previous quarter, but we have seen unprecedented change in the rate of the Korean won versus the USD.

And some investors had trouble tracking what we based our guidance on, though we'd like to be transparent to what the current FX for a given period might be. So just be clear that in the guide for Q1, position to a current rate.

A current rate that one could argue is at a historic weakness for local currency relative to the USD. But I wanted to make sure that was also clear in your model.

Your second question was specific to Japan. I would just say, in short, whether you want to look at the 165 new original titles that launched, most of which were locally created or the fact that we're rated as number one revenue, LINE Manga is outside of mobile games, we feel very strongly that we've built a rocket ship in Japan, and we're excited about it.

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## Operator

Eric Sheridan, Goldman Sachs.

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## Eric Sheridan - Goldman Sachs - Analyst

I want to come back to some of the things you highlighted in the shareholder letter with respect to investments in users and creators. Can you go a little bit deeper in terms of how usability and elements of giving users new onboarding experiences can continue to drive increases in user engagement and maybe a little bit of a quantification of what you might be seeing in rate of change from an engagement?

And second part of it would be just, you talked about exploring new formats to increase engagements. I mean how should we be thinking about what that might mean either in investments you need to make or again, what it might mean in terms of lift on engagement or conversion of traffic?

**David Lee** - *Webtoon Entertainment Inc - Chief Operating Officer, Chief Financial Officer, Board Member*

Thanks, Eric. Another great question.

First, on overall levels of investment relative to EBITDA performance, I want to reiterate that in the guide for Q1, as well as in our strategic commentary in JK's letter, we are already making investments in the periods reported and in the guidance, both in marketing and in product innovation.

And clear, we're going to post or we promise to post positive adjusted EBITDA. So I would not want you to read our comments on investment to be at the expense of our fundamental profitability.

That said, I wanted to highlight specifically what JK mentioned in product, and then we can talk about marketing because the innovation of our content flywheel with our creators, product is key. And he was very specific. We talked about in January how we revamped the onboarding experience for new users, showing them preference.

We talked in Korea about this AI-based personalization engine that while launched in June, continues to show a 2% sequential increase in new titles read. We actually provided some additional color commentary you may not have seen before regarding how we're testing this trailer style promotional video called Highlights.

And then we're even talking about different business model options, which include unlocking the entire series for a completed title. These are not insignificant and ones that we have been testing in some cases for some time. All of these will pay off, we believe, post the Q1 guidance period, which is part of the reason why our resources are focused on long-term value creation throughout the Q1 period.

So we remain very confident in that. With regard to marketing, I have always said, JK has always said as well that we will invest for the long-term business health. Our investments in marketing, we do not expect nor desire for them to show up one quarter out.

The investments in marketing show up in greater engagement in Rest of World, where we see already ARPPU increasing significantly as more and more English-speaking or English reading customers engage more with our content.

So I would think of the marketing as being a longer-term payoff. But product is real. It shows up in the everyday experience of consumers, which will likely be in the back half, second half of the year. That's how I think about the sequence of those investments.

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**Operator**

(Operator Instructions)

Benjamin Black, Deutsche Bank.

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**Benjamin Black** - *Deutsche Bank - Analyst*

As a follow-up on the AI recommendation engine in Korea. I know you mentioned that it drove sort of a 2% increase in engagement per user. So it's really great to hear sort of more about your learnings here. How big of a lift could AI-driven recommendations become?

And sort of generally speaking, how should we think about user growth in the near to mid-term? And then the second question is you mentioned the political disruption in Korea. Can you just talk about how MAU and payer trends have progressed so far this year?

**David Lee** - *Webtoon Entertainment Inc - Chief Operating Officer, Chief Financial Officer, Board Member*

First, with regard to the AI personalization engine. The reason why we talk about it in relation to our experience in Korea, as you know, Korea is an extremely robust market. When you have 50% household engagement and there's a habituation well in place with strong ARPPU as we release more content, and that's why crossover IP is so powerful in Korea.

As we release more content, any impact we can have on presenting users what they want to potentially read, just given the depth of the content and the amount of habituation, we think is critical for long-term growth.

We're not providing guidance specific to any one of our new product releases, but we have talked about how we are focused on webcomic app MAU growth. We specifically highlighted a new metric for you in the spirit of transparency around a 6.7% increase.

And while we highlighted it, and we talked about strength abroad, this will become something I promise we will talk to you all about more and more because it's that app MAU growth, particularly for webtoons or webcomics, where you will see the benefit of product innovation show up in Paid Content revenue.

Our webnovel business, critical for our crossover IP is more for the scale of our Advertising business, where we really see Paid Content strength and the heart of which is in Korea and Japan today is really around those product innovations.

So I can't provide you more specific metrics today, but I wanted to inform strategically why we're beginning to disclose more and more of this metric called webcomic app MAU.

As for commentary with regard to January, I would trust the guide that we've given you for Q1, which do include, we mentioned these issues that we faced starting in Q4, this political turbulence. We also said that our guide reflected the fact that while we believe those issues have resolved, our Q1 guide reflects our best estimate today on the performance in the first three months.

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**Operator**

Doug Anmuth, JPMorgan.

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**Unidentified Participant**

This is Tayb on for Doug.

Just a follow-up on your 1Q guide. You talked about some of the discrete issues like the IP slate and your commitment to EBITDA breakeven. And also some of the issues that, like the political unrest in Korea that happened in 4Q, but it's flowing into 1Q.

Like when you were to look at the magnitude of the impact across those items, like what do you think is the bigger driver? And is the IP slate being pushed out also affecting some of the organic traffic acquisition that you might have been assuming for in Korea and other regions?

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**David Lee** - *Webtoon Entertainment Inc - Chief Operating Officer, Chief Financial Officer, Board Member*

Well, one way I can answer that is to point you to a longer period than a quarter. So when you look at our overall penetration of revenue from an IP standpoint versus paid content, you'll note that it's actually a relatively small percent of total revenue.

And I can send you the specific numbers. I think we disclose it primarily at a total company level. So I wouldn't read the IP slate delay as being an annual or persistent mid- to long-term issue. It can affect a quarter, and that is because of how much of a great organic lift it can provide.

If you think about what we have talked about in previous periods, like Marry My Husband, which was a phenomenon globally that started actually as a webnovel then a webcomic, and then crossed over to Amazon Prime as a global hit in Q1 of 2024.

That hit had lifted engagement and usership globally across our business and had some revenue impact in that quarter, just as an example of something I can discuss outside of the guide period. I do not -- I would -- I think the strength of our IP slate is significantly important as a source of strength overall.

It's just in a given quarter, it may have an impact. The other thing I would emphasize is we are not a whale-dependent business. We do not see a single hit move the Paid Content engine. But if a slate that includes more than one or two projects shifts by a month or two, it would affect our short-term quarterly guide.

Long term, though, I want to be clear, we feel like our IP slate is a source of increasing strength. Hope that answers that question.

And then with regard to the short-term impact on some of the other issues, again, we can only point you to the guide. We have said that we don't think these issues, for example, the political turmoil in Korea persist beyond the guided period.

But it is something that we do want to include as a reason for our Q4 performance, as well as our Q1 guide.

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#### **Unidentified Participant**

And as a quick follow-up on the IP Adaptation delay, could you explain what's causing that delay? And what's your strategy when like projects get pushed out? Do they just all kind of fall into future quarters, meaning like do they have to compete against each other or does the pipeline kind of move back together with the current state moving back?

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#### **David Lee - Webtoon Entertainment Inc - Chief Operating Officer, Chief Financial Officer, Board Member**

Yeah. So first, we are not -- we never like to depend on the short-term timing of a given IP crossover. We rejoice when they reach market and drive engagement with our users. But we're not managing to a short-term schedule. That's why we would much rather have them come to market in the best organic way because we know that they organically lift our core Paid Content engine very well.

So as a result, we don't seek to manage the short-term schedule. We seek to ensure the maximum success of the slate at the lowest cost. Because remember, we have the advantage of not having to deploy massive amounts of studio dollars.

We have these hits that cross over to feature-length film and other forms of crossover IP that then benefits our paid platform. So rather, for me, this is an IR disclosure issue, where I want to be clear on the timing and impact on future results rather than seek to short-term manage when they come out.

We're also not at a scale yet with this business where we need to worry about cannibalization or one affecting another. These crossover hits, we think they're pretty significant, but they don't compete for share of mind when they come out.

They have a fairly diverse source of content. And the timing of them, remember, this is not our primary business. The timing of them benefit the core Paid Content platform for us.

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#### **Operator**

Matthew Cost, Morgan Stanley.

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**Matthew Cost** - *Morgan Stanley - Analyst*

I want to ask about Advertising. It's shown a really nice acceleration in the past couple of quarters. I believe '25 is a year where maybe you saw an opportunity to show that Advertising business really inflect maybe even as early as kind of the first half year.

So I guess now that we're almost two months into the year, how is Advertising scaling? Where are you tracking versus where you hoped to be? And what initiatives would you call out as needle moving on the ad side? And then I have one follow-up.

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**David Lee** - *Webtoon Entertainment Inc - Chief Operating Officer, Chief Financial Officer, Board Member*

Thanks, Matt. Advertising continues to be a strength. On a constant currency basis, just underlining the 27.4% increase. And while we didn't disclose it by region, when I peel back internally and look at Japan versus Korea versus Rest of World, I'm seeing growth in the Q4 period constant currency in all markets.

Remember, we've talked about how advertising is a nascent opportunity in markets like English-speaking markets and Rest of World and Japan, where we feel like we have a fair amount of room to run, not having a robust direct ad sales force yet, for example, in North America.

So I think it's early days. And we're really pleased with the continued quarter-to-quarter growth we see on a constant currency basis.

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**Matthew Cost** - *Morgan Stanley - Analyst*

And then just following up on the app MAU number. So if I understand it correctly, the total app MAU number declined a bit year-on-year. But if you back out webnovel users, webcomic app MAUs were up almost 7%. So I guess part one is like is that accurate?

And then part two, is the impact on webnovel users, is there -- is that a result of some specific changes that you've made to the experience of webnovel users? Is that something that will continue as a headwind? How should we think about that from here?

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**David Lee** - *Webtoon Entertainment Inc - Chief Operating Officer, Chief Financial Officer, Board Member*

Well, first, on the accuracy of your interpretation, yes, 6.7% growth in the Q4 period when we look at webcomic MAU, that excludes webnovels. An example of that would be our Wattpad business. First, let me explain why we're disclosing this.

Wattpad is an important business for us, but it is not a business that is as driven by Paid Content as it is by other business models. And it's a source of crossover IP given its scale. In fact, when we talk about *Sidelined: The Quarterback and Me* and other feature-length films, many of the examples that we've mentioned in the past actually come from great content generated by users on the webnovel Wattpad platform. So we value it.

But when we talk about this metric that grew 6.7%, we're trying to more precisely show you where the Paid Content engine will go because the Paid Content engine is driven by product improvement and where we monetize on a paid content basis, and that is more so from our global webcomic business than, for example, our webnovel business.

So that's the reason why we are pointing you towards that number. The other reason we're pointing you towards that number is I want to be transparent about what we've disclosed in total MAU from Wattpad. Our total MAU declined in Q4, and we pointed specifically to one country that banned Wattpad, which actually drove two-thirds of the total Rest of World MAU decline, just one country's embargo that we saw the full quarter impact in Q4.

So part of the reason why we're trying to be transparent is sometimes we worry that when we show these total MAU numbers, we're not helpful to the investors on where this big product innovation is going and what metric on a non-GAAP basis, it's more tied to.

We're just at the beginning of providing more disclosure on this, but that's the primary reason why we shared it in this release.

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**Operator**

Andrew Marok, Raymond James.

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**Andrew Marok - Raymond James - Analyst**

Maybe one on kind of the supply side of the equation here. Maybe more as it relates to Paid Content rather than IP Adaptations. But if you could just talk about kind of your level of comfort and your level of -- or your evaluation of the new content that's kind of come online, both in terms of the quantity, as well as kind of the cohort behavior of how that's monetizing versus your expectations?

And any commentary about the breadth or geo mix of those things that we can use for our models as we're looking into '25?

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**David Lee - Webtoon Entertainment Inc - Chief Operating Officer, Chief Financial Officer, Board Member**

I think while there could be quarterly slips in a market like Korea where we are so dominant, we feel strongly that our content engine in every market is robust. The market that we provided the most disclosure where I think you want to spend time in your model is Japan.

We talk about not just the sheer growth being the number one app outside of mobile gaming for LINE Manga, but we specifically called out 164 new original launches, the most of which are local. This is very important.

When JK creates flywheels, they export globally. But when they are created locally, those creators have now the ability not just to publish in the language of origin in Japanese, for example, but they have the power like Savior of Divine Blood to reach audiences outside of their original market.

And the reason why that's important is sometimes folks look at our business and they think the source of content can only come from one country for the consumption of one country. When in reality, we've proven there's a global consumption for content despite where the origin market is.

And so Japan is going to, I believe, be a robust long-term source of content, not just for Japan, but giving those local Japanese creators access to the Rest of World and Korea helps them and it helps our business. So I think you should think of these local sources of content as having a global outlet.

With regard to the Rest of the World and Korea, we didn't provide too much commentary in this release because it was a year-end release. But JK intentionally spent time on the crossover IP slate because I think it's a very powerful low-cost way that we do marketing.

When a creator has an unexpected hit that hits feature-length film, like the ones we've mentioned in this release, it naturally lifts the platform.

And I think that's a testament to the power of the flywheel we have. It's at scale and it's growing. So for the mid- to long term, we feel very good. I think we're just trying to be very transparent on the Q1 guide to establish a practice of ensuring that we are providing as much information for what we know about, which is this quarter.

But the mid to long term is bright, particularly as a source of content from creators.

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**Operator**

Seeing as there are no more questions in the queue, that concludes our question-and-answer session. I would now like to turn the call back over to the Webtoon Entertainment team for closing remarks.

**David Lee** - *Webtoon Entertainment Inc - Chief Operating Officer, Chief Financial Officer, Board Member*

Thank you very much, and we look forward to meeting you over the current period and then providing new results at the end of Q1. Bye-bye.

**Operator**

The meeting has now concluded. Thank you all for joining. You may now disconnect.

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