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Earnings Call
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Presentation

Operator

Good morning. My name is Chris and I'll be your conference operator today. At this time, I'd like to welcome everyone to the Fubo Q1 2023 Earnings Call. [Operator Instructions]

Thank you. Alison Sternberg, SVP of Investor Relations. You may begin.

Alison Sternberg
Senior Vice President of Investor Relations

Thank you for joining us to discuss Fubo's first quarter 2023. With me today is David Gandler, Co-Founder and CEO of Fubo; and John Janedis, CFO of Fubo. Full details of our results and additional management commentary are available in our earnings release and letter to shareholders, which can be found on the investor relations section of our website at ir.fubo.tv.

Before we begin, let me quickly review the format of today's presentation. David is going to start with some brief remarks on the quarter and full year and Fubo strategy, and John will cover the financials and guidance. Then I'm going to turn the call over to the analyst for Q&A. Before we begin, I would like to remind everyone that the following discussion may contain forward-looking statements within the meaning of the federal securities laws, including but not limited to, statements regarding our financial condition, anticipated financial performance, anticipated cash requirements, and our ATM program, our business strategy and plans, consumer behavior and expectations regarding profitability. These forward-looking statements are subject to certain risks, uncertainties and assumptions.

Important factors that could cause actual results to differ materially from forward-looking statements include those discussed in our annual report on Form 10-K for the year ended December 31, 2022, and other filings with the SEC. These statements reflect our current expectations based on our beliefs, assumptions, and information currently available to us. Although, we believe these expectations are reasonable, we undertake no obligation to revise any statements to reflect changes that occur after this call. Except this otherwise noted, the results and guidance we are presenting today are on a continuing operations basis, excluding the historical results of our former gaming segment, which are accounted for as discontinued operations.

During the call, we also refer to non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are also available in our Q1 2023 earnings shareholder letter, which is available on our website at ir.fubo.tv.

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

David Gandler
Co-Founder, CEO & Director

Thank you, Alison, and good morning everyone. I'm pleased to update you on Fubo's strong first quarter results. Fubo's North American streaming business exceeded guidance, posting double-digit year-over-year growth in total revenue and paid subscribers. We closed the quarter with $316.5 million in revenue, up 34% year-over-year and 1,285,000 subscribers up 22% year-over-year.

Our Rest of World business, which includes our French streaming service Molotov also posted double-digit growth in total revenue and paid subscribers during the quarter. We delivered a healthy $7.8 million in revenue up over 40% year-over-year, and 379,000 paid subscribers up 24% year-over-year.

Our North American ad sales business delivered $22.5 million in Q1 revenue remaining flat year-over-year, despite continued pressure on the advertising market. We expect a reacceleration of growth in the second quarter. We announced at our 2022 Investor Day that we are targeting positive cash flow in 2025, and I'm very pleased to report that we continue to meaningfully advance toward that goal.
In the first quarter, we reduced our adjusted EBITDA loss by $36 million year-over-year and improved free cash flow by $40 million year-over-year. This is our largest absolute dollar improvement in a profitability metric, since we’ve been a publicly traded company and represents a key milestone. From a cash usage perspective, we anticipate continued significant year-over-year improvement in 2023, similar to our seasonal trajectory in 2022.

Fubo continues to focus on efficiently allocating capital through a measured and disciplined approach, in particular, on controlling cash usage. We believe that our current cash balance of $364.8 million is sufficient to fund our operating plan until we achieve positive cash flow in 2025. During the quarter, we raised $117.2 million in net proceeds from our at-the-market program, of which $106.1 million settled in the first quarter. And based on our current outlook, we have no further plans to sell under the ATM program.

Customers continue to demonstrate their preference for Fubo's content aggregation model delivered through a premium user experience, all through a single app. Our growing market share coupled with the over 100 hours users spend on our platform every month on average support, why Fubo ranks #1 in customer satisfaction among live TV Streaming Providers by J.D. Power.

Turning to content, we're continuing to double down on our brand proposition by adding more sports. Fubo is now the streaming leader in professional baseball coverage strengthened by our expanded partnership with Major League Baseball. This is the same popular content that was recently dropped by a competing virtual MVPD and underscores Fubo's solid differentiation for sports fans. We're also continuing to make smart investments with our product with one eye towards delivering a personalized product experience for every customer. Fubo's proprietary tech stack has enabled us to continuously push the boundaries of live TV streaming. We were the first virtual MVPD to launch 4K and MultiView, and we did both years ahead of our peers.

Continuing to set the standard for innovation in our industry, we are harnessing our proprietary AI and computer vision technology acquired through the 2021 purchase of Edisn.ai. We plan to transform how users engage with streaming video and traditional DVR. We look forward to sharing more details in the coming months. With our sports first differentiation and premium user experience optimized for live sports and TV comes pricing power.

In early Q1, as a result of recent content additions, we raised prices on our channel plans. These increases had negligible churn impact supporting our thesis that consumers will pay more for a premium service and underscoring our brand and value proposition. In closing, we had a stronger than expected first quarter growing double digits. Despite ongoing challenges in the marketplace, we continue to invest in custom experiences and engagement levers with the ultimate goal of optimizing monetization, and our focus is always on our path to profitability.

We believe our track record the momentum we continue to see across our key operational metrics and the strength of our balance sheet clearly demonstrate our continued advancement towards our 2025 positive cash flow goal.

I will now turn the call over to John Janedis, CFO to discuss our financial results in greater detail. John?

**John Janedis**

*CFO & Principal Accounting Officer*

Thank you, David, and good morning everyone. Our first quarter results reflect market progress against many of our goals and key operating metrics. More importantly, we expect this trend to continue.

Total revenue for the quarter increased 34% to a record $324.4 million, driven by 34% revenue growth across North America and 41% revenue growth from Rest of World. Our top line growth continues to be driven by healthy increases in subscribers, including a 22% increase in North America's subscribers to 1.285 million, along with a 24% increase in Rest of World subscribers to 379,000.
We are pleased with our progress on the modernization front with North America ARPU expansion of 8% to $76.79. And despite the headwinds across overall advertising budgets, we were able to deliver $22.5 million in advertising revenue across North America remaining relatively flat year-over-year.

We're also pleased with the progress we have made on the operating and cost out of the business, including a positive gross profit and a 1,075 basis point improvement in gross margin versus Q1 2022. This resulted in a net loss of $83.4 million, a $45 million reduction year-over-year, and a net loss margin of negative 26% favorably compared to a negative 53% net loss margin in the prior year period. This led to a first quarter 2023 loss per share of $0.37 compared to a loss of $0.81 in the first quarter of 2022.

First quarter adjusted EBITDA loss improved to a loss of $58.9 million compared to a loss of $95.3 million in the first quarter of 2022 and adjusted EBITDA margin was minus 18.2%, an improvement from minus 39.3% in the prior year period. This resulted in an adjusted EPS loss of $0.27, an improvement compared to an adjusted EPS loss of $0.62 in Q1 2022.

Turning to our path to profitability, we are pleased with our ongoing effort to identify efficiencies and maximize leverage across each operating expense category. For example, we demonstrated greater leverage over our subscriber-related expenses, which decreased from 101% to 93% of revenue in Q1 2023 versus the prior year period. We expect this year-over-year trend to continue as we work towards meaningfully growing subscribers, optimizing our pricing and further improving our mix of premium plans.

Turning to cash flow, we were pleased to improve free cash flow by $40 million year-over-year. Accordingly, our expectation continues to be that both adjusted EBITDA and free cash flow will improve on a year-over-year basis, as we believe 2022 represented peak losses for our business. As it relates to our balance sheet, we ended the quarter with $364.8 million of cash, cash equivalents and restricted cash.

During the quarter, we raised $117.2 million in net proceeds from or at-the-market or ATM program, $106.1 million of which settled in Q1 and the remainder settled in Q2. From a capital structure standpoint, we remain highly disciplined in our investments and deployment of cash, while also affording Fubo, the financial flexibility to fund measured and disciplined growth initiatives. Importantly, given our cash position and planned expense and investments, we are confident that our cash balance is sufficient to achieve positive cash flow in 2025, based on our current operating plan.

Moving to guidance, we are guiding North America’s second quarter 2023 subscribers of 1.12 million to 1.14 million, representing at 19% year-over-year growth at the midpoint, and we expect revenue of $292.5 million to $297.5 million, representing 36% year-over-year growth at the midpoint. For the full year 2023, we are raising our previous guidance for North America and now expect full year 2023 subscribers of 1.55 million to 1.57 million, representing 8% year-over-year growth at the midpoint and full year 2023 revenue of $1,235 million to $1,265 million, representing 27% year-over-year growth at the midpoint.

For Rest of World, our Q2 2023 guidance projects 377,500 to 382,500 subscribers representing 10% year-over-year growth at the midpoint and revenue of $6.9 million to $7.9 million, representing 27% year-over-year growth at the midpoint. Our full year 2023 Rest of World guidance projects 395,000 to 415,000 subscribers representing a 4% year-over-year decline in the midpoint and revenue of $28.6 million to $32.6 million, representing 26% year-over-year growth at the midpoint.

Note that the fourth quarter 2022 subscriber number was impacted by the World Cup. Our Q2 2023 guidance reflects our ongoing emphasis on expanding ARPU and improving unit economics with revenue growing and more than 3x forecast the subscriber growth. In summary, our performance in the quarter reflects our continued focus on the unit economics of our streaming business, margin expansion, gross profit and cash usage, and we are very pleased with our recent results and remain confident in our ability to our goal of positive cash flow in 2025.

With that, I would now like to turn the call over to the operator for the question-and-answer session. Operator?
Question and Answer

Operator

[Operator Instructions] Our first question is from Laura Martin with Needham.

Laura Anne Martin  
*Needham & Company, LLC, Research Division*

Great numbers, you guys. David, let's start with the price increase. You guys did sort of an aggressive price increase in January, can you talk about up-to-date what's going on with the churn? Because your sub numbers are excellent, I would have expected churn to be higher.

David Gandler  
*Co-Founder, CEO & Director*

Yes. Well, first of all, thank you very much, Laura. I look forward to seeing you in a couple of weeks. I think that one of the things that we're really focused on during the last earnings call was the fact that we did -- we had 2 price ups. We had the $5 price up. And then in addition, there was the -- I would say, I think it was within 30 days or 35 days, we had an additional increase of $12. And so going into the earnings call without really understanding sort of the fate of the RSNs, we had a sense of what would happen. We were a little bit more conservative. But I think the 2 cohorts that we were most concerned about that we mentioned on the last call was the World Cup cohort and the NFL cohort, which typically we would have expected them to churn off significantly at a greater pace. But I think the fact that we did have the RSNs allowed us to give an option to those people to stay on the platform. And so from that respect, the crossover into the RSNs was actually much stronger than we anticipated, and that resulted in stronger subscriber additions.

John Janedis  
*CFO & Principal Accounting Officer*

Laura, maybe I'd add a couple of things as well. This is John. For Q1 year-over-year, we saw churn up very modestly. So to David's point, it was up less than 100 basis points, but we thought it actually could have track a little bit higher. And for 2Q, we obviously -- we're always looking at a tail potentially in terms of a churn impact, call it, a couple of months or a quarter or 2 out. And what I can say, as of now at least is that, quarter-to-date churn is actually down year-over-year.

Laura Anne Martin  
*Needham & Company, LLC, Research Division*

Okay. Very helpful. And I won't ask my advertising question, but I will. Let's follow-up on your RSN comment, can you tell us now, I know you guys paid a lot of money for those. And can you tell us what's going on with all these headlines we're reading about teams pulling out of the RSN? Can you tell us, what's the status of your rights and your payment obligations if the RSN bundle falls apart from a rights point of view?

David Gandler  
*Co-Founder, CEO & Director*

Good question. So first of all, we've had a set of RSNs now, I think, for the last few years. We've had the greatest number of independent RSNs as well. And so as we've seen in other regions, such as Boston and NESN, many of these services are either have a direct-to-consumer service or planning to launch a direct-to-consumer service. It hasn't really impacted us to the same degree. And I think folks just need to remember that these markets are very small. And it's very difficult to generate a significant amount of money in small markets. And so I think that our relationship continues to strengthen with not only Diamond Sports with individual teams, as you saw, what we did with Boston Red Sox, I'm sure there are other deals that are on the way. But we don't see that there's really any impact.
As it relates to the deal that we have in place right now, obviously, I can’t talk about the deal itself, but there are provisions in there that allow us to reduce payments should certain events occur. So from that perspective, we’ve been very happy with our relationship and Major League Baseball has also done a great job. I think the one other thing that’s really worked in our favor is the change in rules, particularly around pitching. The pitching clock and sort of all of these things combined have led to some strong results. But the last thing I’ll say, in terms of the price ups, I think the goal that we had initially was to reduce the cost of entry and create attractive user economics. And given what we’ve been able to deliver from a free cash flow improvement that really we’ve achieved the goal that we’ve set out for.

Operator

The next question is from Shweta Khajuria with Evercore ISI.

Shweta R. Khajuria  
*Evercore ISI Institutional Equities, Research Division*

Could you please talk about just the overall demand trends? And I’m referring specifically to Connected TV advertising demand trends. I know it was flat year-over-year, despite what we are hearing in the environment. But we -- it’s also the new front season. So what have you heard? What is top of mind for people and anything in particular that jumps out, whether it is specific categories or verticals that you can call out?

John Janedis  
*CFO & Principal Accounting Officer*

Yes. Sure, Shweta. I’ll start with that. So when we look at our Q1 results, to your point, we came at about flat on ad revenue. From a monthly perspective, let me just talk you through that, and then I’ll also go through 2Q in some of the categories. March was better than February, which is better than January. And I’d say, if I sort of give you some of the numbers around that, January was down slightly, February, call it, flattish, and then March was up a bit, maybe call it, mid-singles. And then we’re seeing further acceleration now into April and 2Q. And so far, April, I think finished up in the double digits. So we’re encouraged by what we’re seeing in terms of some of the trends.

From a category perspective, I would say, in the first quarter, we saw strength in financials, CPG, travel and competitive. And then on the software side, we saw some weakness in pharma, auto and retail. And then for the second quarter, call it, a month in visibility a bit limited. But as of now, we’re seeing strength in retail, pharma, travel, CPG and QSR, and then, as you may expect a little bit of weakness in financials and insurance, and then also in the telecom space. One thing on the new fronts, you would ask also. I would say look, it’s obviously still early. I’d say encouraging from when I talk to our ad sales team. And so we’ve added a lot of initial dialogue and incoming from agencies, but nothing to report yet. I’m sure we’ll have more on the second quarter call.

Operator

The next question is from Darren Aftahi with ROTH MKM.

Darren Paul Aftahi  
*ROTH MKM Partners, LLC, Research Division*

Following upon advertising, can you kind of speak to your direct ad sales efforts kind of progress there? What is direct in like Q1 as a percentage of total mix?

David Gandler  
*Co-Founder, CEO & Director*

Yes. Well, this is an area that we said we’re going to be focused on. And so we started building out the team. It’s still relatively small and direct. This is why I’m excited about the advertising business. It’s still a dramatically small component of our overall advertising sales. I’m not going to give a number, but it’s extremely small, which gives me a lot of comfort in our ability to continue to drive revenue. There’s a few factors in that that are also going to be quite helpful. We’ve seen ad avails increased by about 30% year-
over-year despite viewership trends that are relatively flat as said in my opening comments that we're over 100 hours of viewing.

So that -- and that comes from, again, adding more RSNs. So we're diluting the number of hours, people watching on broadcast towards hours watching the RSNs and that is creating more inventory given the fact we don't have inventory and the broadcast nets. The other component, which is really working in our favor is, the fast channels. As you know, we have a 50% split in most cases with our fast channel partners, which is more than twice the amount of inventory we get from the cable nets. And that viewership despite being sub-5% is providing upwards of 7% or 8% in terms of avail. So there's a lot of opportunity there.

We just presented yesterday, I think, it was no -- sorry, May 3, at the new fronts and there's a lot of buzz, a lot of interest in our capabilities. And we're very focused on continuing to develop those and ensure that our sales team will be out in market with strong products and sponsorship opportunities. But still very early, in that process, which is why given where our numbers are today, I'm very comfortable that we'll continue to see growth, not only from now but through 2025, ensuring we achieve our profitability targets.

John Janedis  
CFO & Principal Accounting Officer

Okay. And Darren, I would just add one thing on that. In terms of direct as a percentage, just pure direct, that number as a year-over-year growth percentage was triple digits. And I'd say, we would assume that that number trends to the double digits over the next say, couple of quarters or beyond into 2024.

David Gandler  
Co-Founder, CEO & Director

Yes. And just so everyone understands the importance of that is that CPMs are typically between 20% and 50% above programmatic CPM. So it's a very important component for us going forward in an area of focus.

Darren Paul Aftahi  
ROTH MKM Partners, LLC, Research Division

If I could follow-up, one more thing on content costs, I know you guys have been pretty focused on reducing this and looking at line items by line items and ROIs. I guess, can I -- where are we in that game of evaluation, what inning and I guess how much more wood is there to chop on your SRE KPI?

David Gandler  
Co-Founder, CEO & Director

Well, Darren, that's a great question. I think look, again, I keep wanting -- I'm going to start talking more about history of Fubo, because it is a very telling story of what we could potentially do. You've seen us drop content in the past and continue to grow our market share. We are going to continue to make some very bold moves. And going into 2025, we feel that there's a lot of room there, on that SRE line. As you know, we've improved that line from 101% of revenue to now 93%. We're going to continue to focus on that. We think there's some good wood to chop there. And we're starting to see deals where we're getting volume discounts as well.

Given the trend in cable, coupled with the complexity of achieving profitability in streaming. We think this is the right space that we're in. Similar to theatrical, where a lot of the major media companies have decided that, they didn't want to be in theatrical. They wanted to go right to streaming and now back to theatrical. There's a tremendous amount of value created for media partners with a product like ours. So we're very confident that we'll be able to have some sort of positive impact between now and our profitability target. We're very focused.

Operator

[Operator Instructions] The next question is from Nicholas Zangler with Stephens.
Dean Sublett  
*Stephens Inc., Research Division*

This is Dean on for Nick. Congrats on the quarter. We were just noticing in the new fronts and emphasis on interactive ads, shoppable ads on CTV platforms, contextual targeting. Could you just remind us or give any color around the roadmap for unique ad units on Fubo or maybe just what the appetite is?

David Gandler  
*Co-Founder, CEO & Director*

Yes. So obviously, we're looking at this very closely. A lot of this stuff is really early stages and isn't scalable. But right now, we're focused on a couple of elements. One is, we realized the value of display advertising in the platform, which we have -- right now, we're just serving sort of internal messages. But when we look at Roku and the sellout levels of Roku's display ads versus video, it seems to us to be quite appealing as sort of the next opportunity for us, which by the way doesn't impact any of our video inventory nor does it require incremental video viewership. So that's an area, we'll focus first. And then obviously, we're also focused on data integrations and then potentially selling our data, obviously on an anonymized basis.

But beyond that, I think we're going to begin to leverage our computer vision technology with our acquisition of Eds.n.ai, where we'll look to read what's available on screen, what people are watching on a frame-by-frame basis, and then be able to pull in advertisers that believe that it's contextually relevant. We think that that will probably have a greater impact in terms of brand value and direct sales of products. And so we'll be focused there, I think before shoppable ads. The problem with live TV and shoppable ads is that you'd have to stop the stream in order for somebody to interact with the video. I'm not sure that that's a very good experience.

But throughout my career at ad sales, I've seen a lot of different products and second screen opportunities that looked really cool, but really didn't perform for advertisers. We're very lucky we have a very strong marketing team here. So as we think about our advertising capabilities, we typically talk through opportunities with our marketing team to make sure that we're going to create value for advertising partners. So you'll see from us over the next 6 to 12 months sort of a greater move into being able to provide a greater breadth of ad products and better packaging to drive sales and brand awareness for our brand partners.

Operator

We have no further questions by phone. I'll turn it over to Alison Sternberg.

Alison Sternberg  
*Senior Vice President of Investor Relations*

Thank you, Operator. As of last quarter, we're going to take a handful of questions that came in through our Say Technologies portal from investors. And David, I'm going to address these to you. I actually think that they're related both of these questions, so I'm going to combine them into one, which is, what are your plans for long-term growth? And sort of related to that, can you discuss any new product launches or updates that are on the horizon?

David Gandler  
*Co-Founder, CEO & Director*

Yes. These are questions we think about, I would say, daily. The first and most important thing is that we have set a goal for ourselves to be breakeven in 2025. That is our ultimate goal. The second goal tied to that is that we need to reduce our cash burn. And so areas that we're -- I would say, in the short-term, are looking at, one is, we're continuing to work through our unified platform, which we've talked about, I think now on several calls. That unified platform is very important because it provides the foundation to be able to scale a business out globally at some point.

Again, we are not planning to do that. At the moment, we're acutely focused on hitting our profitability target. But in the short-term, what you'll see is, you'll see fresh apps sometime in the fall that's tied to
that unified platform and that's all driven by new backend infrastructure and a new design system. So we're very excited about that. And obviously that would also help our French business, Molotov shortly after we've launched here in the United States.

From an AI perspective, we're starting to sync data and our first opportunity will be syncing our FanView data with what's on screen. It sounds relatively simple, but think about having multiple data sources coming in and either your video is behind or the data is behind and you want to make sure those are coming in for a better -- at the same time for a better consumer experience. We're also working on instant highlights. So think about condensed games within your DVR, where we'll be leveraging all of our AI opportunities there. And then as part of that when you're watching games, you might also receive some type of alert that there's a game that's on that might also have some very compelling moments to watch. And those will also be part of your DVR instant highlight opportunities. You could just go into that view and actually see different plays and all that obviously is powered by our own AI platform, which we've been working on now for about 8 to 12 months.

And then one of the other pieces we're working on, in the short-term is our on-prem data center, where we're moving all of our video processing from the cloud to our own data center and that's going to happen in Q2. Very important move for us because it sort of solves many problems. The first problem is one cost. So we believe that there will be material savings over the next several years. And then on the consumer side, think of this as our ability to have greater control over our video quality, potentially latency, just as well as just a higher fidelity product. So all of those things are in the short-term.

Looking way forward, again, don't hold me to this, I hope the product team is not paying close attention to what I'm saying, but we're going to double down on improving our core product. Again, it's one, we don't have the most performance platform, which as you know, right now we ranked #1 for Customer Satisfaction in the Live TV Streaming category by J.D. Power. And so we really focused on fluidity, higher quality, performance. And then I think right after that, again, this is not a 5-year plan, sort of, I would say in the next year or so, our advanced DVR.

So Instant Highlights is sort of something that's coming out, I would say, very soon. But we believe that the upgrade that we will provide over the next 1.5 years is probably the greatest upgrade that anyone has seen since the advent of the cloud DVR. I know that's saying a lot, but it's going to be a pretty powerful tool that will index your whole DVR. It will allow us to index actors, teams, and plays, and all kinds of things, companies, if you're following companies like Fubo or other companies in your portfolio, that'll give you a chance. And then obviously, deeper personalization, leveraging our AI to improve our recommendations and discoveries.

So we have a lot going on and I guess if you want to just throw something out even further, I don't think we can deny conversational UI as something that is on our minds. But again, all of this is sort of further out. But our goal is to continue to set the standard for innovation in our industry as we have with 4K, MultiView, and a number of other features that I think are extremely exciting. So all great things as long as you focus on profitability I think to come.

**Alison Sternberg**

*Senior Vice President of Investor Relations*

Thank you, David. Over to you, Operator.

**Operator**

Thank you. Ladies and gentlemen, this will conclude today's conference call. Thank you for participating. You may now disconnect.