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PRESENTATION

Operator

Thank you for standing by. My name is [John]. I will be your conference operator today.

At this time, I would like to welcome everyone to the WEBTOON Entertainment first-quarter 2025 earnings call.

(Operator Instructions)

I would now like to turn the call over to Soohwan Kim, Vice President of Investor Relations. Mr. Kim, please go ahead.

Soothan Kim - *Webtoon Entertainment Inc - Senior Investor Relations Officer*

Good afternoon. Thank you for joining us.

Our remarks today will include forward-looking statements, including those regarding our future plans, objectives, and 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 annual report on Form 10-K.

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'll 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 and not as a substitute for GAAP measures.

Joining me today on the call are Junkoo Kim, Founder and CEO; David Lee, CFO and COO; and Yongsoo Kim, Chief Strategy Officer.

With that, I will now turn the call over to our Founder and CEO, Junkoo Kim.

Junkoo Kim - *Webtoon Entertainment Inc - Founder, Chief Executive Officer*

Thank you, everyone, for joining us today.

I'll make a few brief comments on our first quarter performance. And then, David will provide more detail on our results and outlook.

For my thoughts on the first quarter and our path forward, please refer to the shareholder letter posted on our Investor Relations website.

We reported strong first-quarter results, with revenue and adjusted EBITDA, both coming in at the top end of our guidance range as our flywheel of creators, content, and users continue to drive significant value.

Now, I'd like to share a few highlights from the first quarter.

We have grown our presence in Japan, which represented over 50% of our revenue in Q1. Japan grew all three businesses in this quarter, paid content, advertising, and IP adaptations. We are pleased to maintain our top position in Japan with LINE Manga ranking number 1 in overall app ranking chart for revenue, including the mobile games according to [Sensor] Tower.

We talked, last quarter, about how we initially exported Korean content to Japan to get started; but have since built our local creator ecosystem in the market. We are now taking our cross-border strategy one step further by taking Japanese content to other markets.

We have launched Oversummoned, Overpowered, and Over It! in the US and France, ranking in the top 10 of paid GMV for each respective country for the month ending March 31.

The Beloved Incompetent Stepmom was another Japanese title that performed well on our English language platform, ranking second in launch paid GMV.

Leveraging our learning from core market in Korea and Japan, we are making key investments in our English language platform. We have a number of initiatives from a new user onboarding experience to our revamp of the Home, Search, and New & Hot tabs, which form the core content discovery experience.

Even though it's in the early days, we are pleased to see users in our test group show a 9% increase in the number of episode read, compared to the control group. We look forward to bringing reformative titles like Sonic the Hedgehog and Fullmetal Alchemist to our platform this quarter, which we believe will help us expand our user base.

Finishing up with IP adaptation, our adaptations of our Spanish hit titled Mala Influencia recently launched on Netflix. As we discussed in the shareholder letter, we are pleased to continue building on our past Spanish language success.

We believe we have compelling content that resonates with audience around the globe and that IP adaptation will continue to drive new users to our platform.

Before I turn the call over to David, I want to acknowledge the recent uncertainty and volatility in the market.

While we are monitoring the market health of our users closely, we believe we have a resilient global business model that can withstand a potential downturn.

Our ARPU is around \$12 per month, which is not a large amount, especially for the entertainment value that we provide. This is also not a single subscription price but never made of many micro transactions.

Depends on the geographic market, fast pass typically cost \$0.50 to \$0.70 per episode, while the daily pass cost is \$0.30 to \$0.40 per episode. We also provide a large amount of free content and offer our users the option of reading episode for free by watching advertisement.

As a result, we believe we can continue to deliver great value to our users, regardless of the environment.

I'm pleased with the results we delivered this quarter and look forward to making continued strategic progress, as we move through the balance of the year.

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*

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

I'm going to focus my commentary on first-quarter 2025 results, compared to the comparable quarter in the prior year, unless otherwise noted.

During the first quarter, we grew revenue 5.3% on a constant currency basis, with growth across all revenue streams. Our reported revenue was roughly flat year over year.

We faced a tough comparison from Q1 last year, as there was an extra day in February, as well as increased traffic from a successful IP adaptation of *Marry My Husband* on Amazon Prime.

Net loss was \$22 million in the quarter, compared to net income of \$6.2 million in the year prior, driven by higher general and administrative expenses due to public company costs and higher marketing expenses.

Adjusted EBITDA was \$4.1 million in the quarter compared to \$22.2 million in the same quarter of 2024. As a result, our adjusted earnings per share for the quarter was \$0.03 compared to adjusted earnings per share of \$0.20 in the prior year.

Turning to operational health. Total company MAU was down 10.5% in the quarter, driven almost entirely by Rest of World.

As a reminder, Wattpad remains the largest contributor to Rest of World MAU.

A Wattpad security upgrade in January temporarily affected search engine indexing, causing a dip in search traffic and contributing to a drop in web MAU in February.

While we promptly addressed these settings, we expect to see the impact for another quarter. As we've discussed for the past two quarters, Wattpad also continues to be impacted by a government ban in one country. And we are actively working to address concerns expressed by the government.

While web novels may generate lower revenue and profitability, they serve as a valuable source of content as we convert popular titles like *Marry My Husband* to webcomics.

Web novels also have lower barriers of entry, allowing more creators to showcase their stories on our platform.

Millions of creators come to our platform to share their love of writing and storytelling with the world. Wattpad remains the leading global platform for web novels. And we are focused on driving growth over time. We continue to be focused on driving webcomic app users who are more engaged and present better monetization opportunities.

While app MAU decreased by 3.2% overall, we saw a 4.2% increase in webcomic app MAU, when we remove the impact of web novel users. This growth was led by increases across important English-speaking markets, as well as other key countries like France and Thailand.

We are particularly pleased to see 19% growth in English platform webcomic app MAU, ahead of product changes we are introducing in May. We believe these product changes will also drive better user engagement, as we make it easier for users to find new titles and read more episodes.

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 2.8% revenue growth on a constant currency basis year over year. This was driven by our ongoing strength in Japan, offset by declines in Korea and the Rest of World.

Additionally, ARPPU growth on a constant currency basis was 8.4% in the quarter, with an increase in all three regions. There's still a great deal of free content available before users get to the paywall. And we believe our ARPU still represents tremendous entertainment value for our users.

Advertising posted 13.6% revenue growth in the first quarter on a constant currency basis year over year. This strong performance was driven by double-digit constant currency revenue growth in Korea and Japan, offset by a decline in Rest of World revenue.

In Korea, this growth was the result of increased ad sales from NAVER, while ad sales from other partners were relatively consistent. Japan's growth was driven by achievement-based ads and pre-roll ads.

And in Rest of World, the decline was primarily driven by a decline in Wattpad revenue.

Finally, our IP adaptation business saw revenue increase 20.7% year over year on a constant currency basis in Q1, driven by double-digit revenue growth on a constant currency basis in Korea and triple-digit revenue growth on a constant currency basis in Japan, offset by a double-digit revenue decline on a constant currency basis in Rest of World.

Now, I'd like to look at our results in the context of core geographies.

In Korea, during the first quarter, our revenue grew 3.6% year over year on a constant currency basis, primarily driven by double-digit constant currency revenue growth in advertising and IP adaptations, offset by a single-digit constant currency decline in paid content.

Korea faced tough comps from last year as the Marry My Husband IP adaptation released on Amazon Prime drove increased traffic to our original web comic.

During the first quarter, MAU of 24.2 million decreased 10.3%. MPU of 3.4 million declined 10.6%. That said, we saw healthy 6.7% growth in the first quarter ARPU on a constant currency basis.

Our paying ratio of 14.2% was consistent with the prior year.

Starting January 1, 2025, NAVER adjusted their methodology for measuring MAU in Korea. Korea is the only region where NAVER serves as a source of our MAU data.

NAVER recently adjusted their methodology for identifying and counting web users for all their services. This change is only related to web MAU in Korea. There is no change in the app MAU numbers and MPU and ARPU are also unaffected.

All the other regions are reporting their metrics in the same way as previous quarters. Please see the table in our shareholder letter for a reconciliation with previously reported MAU.

Moving to Japan. For the quarter, Japan posted revenue growth on a constant currency basis of 9.4%. This was driven by all three revenue streams as we saw single-digit constant currency revenue growth in paid content, double-digit constant currency revenue growth in advertising and triple-digit constant currency revenue growth in IP adaptations.

As JK mentioned, we are pleased to be number1 on Japan's overall app ranking charts for revenue, including mobile games. Compared to Q1 2024, Japan's MAU of 21.9 million increased 3.7%. MPU of 2.2 million grew 5.2% and paying ratio of 10.3% was up 14 basis points year over year.

Engagement with paid users remains strong with first quarter ARPU of \$23 growing 3.5% year over year on a constant currency basis.

In the Rest of the World, we saw revenue decline 4% year over year on a constant currency basis in the quarter, driven by declines in paid content, advertising and IP adaptation.

While first-quarter MAU and MPU declined 12.9% and 5.9% year over year, respectively, paying ratio of 1.6% was up 12 basis points year over year.

ARPU of \$6.50 grew 3.5% year over year on a constant currency basis. We're making significant changes to our English language web comic app. And while it's early, we believe these changes have been well received by our users.

Turning to profitability. Gross profit for the quarter was \$71.6 million compared to \$82.4 million in the prior year. This resulted in a gross margin of 22% compared to 25.2% in the prior year.

There were one-time impacts from a larger SBC expense recognized in cost of revenue, as well as a true-up accrual for Japan creator revenue share from the prior year. In addition, free coin marketing expenses in Korea were moved from marketing to cost of revenue starting in Q1.

While these discrete items temporarily affect our reported progress on gross margin expansion, we believe our gross margin can improve over time as we execute on our cross-border content distribution strategies. Adjusted EBITDA for the quarter was \$4.1 million compared to \$22.2 million in the prior year, driven by higher general and administrative expenses due to public company costs and higher marketing expense.

On the cost side, total G&A expenses for the quarter were \$66.7 million as compared to \$48.7 million in the prior year quarter, primarily as a result of public company costs.

Interest income in the first quarter was \$5.1 million compared to \$1.2 million in the prior year, and other income was \$2.7 million compared to \$1.4 million in the prior year period. Income tax expense of \$2.5 million in the quarter compared to \$6.7 million in the prior year.

Depreciation and amortization was \$8.4 million compared to \$9 million in the prior year.

Net loss of \$22 million was primarily driven by higher general and administrative expenses due to public company costs and higher marketing expense. As a result, GAAP loss per share was \$0.17 compared to earnings per share of \$0.06 in the prior year period.

Adjusted earnings per share was \$0.03 in the quarter compared to adjusted earnings per share of \$0.20 in the prior year period.

Before I wrap up, I'd like to spend a few moments discussing our second quarter outlook.

For the second quarter of 2025, we expect to deliver revenue growth in the range of 2.2% to 5.2% on a constant currency basis. This represents anticipated revenue in the range of \$335 million to \$345 million. This guidance is based on current FX rates.

As we've discussed previously, we expect we will face FX headwinds in the first half of this year as rates were more favorable in the first half of 2024. Our infrastructure investments are proceeding on schedule as we prepare for anticipated product improvements in the back half of 2025.

We anticipate second-quarter adjusted EBITDA in the range of \$0.5 million to \$5.5 million, representing an adjusted EBITDA margin in the range of 0.1% to 1.6%. We expect to maintain our 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.

JK noted this earlier, but I would like to reiterate that we are monitoring the market health of our users closely and believe in the resilience of our business model regardless of the current macroeconomic uncertainty.

In addition to the free content our users can already enjoy, with or without ads, we believe we deliver a tremendous amount of entertainment value with flexible price points made up of many micro transactions.

In closing, we believe we are off to a great start to the year. While there remains a lot of work ahead of us, the first quarter laid a strong foundation to the year, and we have many anticipated developments we're encouraged about in 2025.

We remain focused on executing our strategy, underpinned by our powerful flywheel of creators, content, and users, which we believe will generate profitable growth over the long term.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Eric Sheridan, Goldman Sachs.

Eric Sheridan - *The Goldman Sachs Group, Inc. - Analyst*

Two, if I could. In terms of the user growth initiatives you have planned for the remainder of this year, can you talk through a little bit of what your key priorities are and how we should be thinking about that as an investment cadence putting pressure on margin for the remainder of this year and how to think about it as an output for user growth exiting the year? And then maybe I have a quick follow-up.

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

Thanks, Eric. It's a good question. Well, first, it's important to note that we have strong signs of great long-term growth in newer markets. So I think you probably noticed that for the first time, we are very happy to disclose that our English-speaking platform, our web comic app MAU, is up 19% as a function of our continued flow of content and product innovation, along with marketing.

Those three elements will continue to persist. And we think it's a good investment for the long term as we're seeing great signs of habituation in the form of average revenue per purchaser ARPU because this ARPU represents habituation, particularly in interesting markets that we've highlighted in the script, such as English-speaking markets, but we also noted France is an important market for us as well, along with our Spanish adaptations.

With regard to guidance and the impact on the P&L, you've seen that we only guide to Q2, but importantly, even as we persist in investments in infrastructure and marketing in the guided Q2 quarter, we still guide to a positive, consistent 0.5 to 5.5% positive adjusted EBITDA.

We believe that we can grow profitably and that these investments will actually pay off in the mid- to long term at a faster rate than what we would see in a given quarter. The underlying business we see we're increasingly more bullish on. And that is why we're making the investments with the strong product cadence in the back half.

Eric Sheridan - *The Goldman Sachs Group, Inc. - Analyst*

And then maybe just a follow-up to go a little bit deeper on how important you think local content is in local markets. I think in the prepared remarks, you gave the comment around Japan.

Just thinking through a little bit of dollars to invest or cadence of investments against potential impact in a market like that specifically.

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

It's a great question. Let me first answer your question on Japan, but I would love to highlight some of the Spanish IP adaptations as well as the announcement of great content with partners, which is a relatively new disclosure for our English-speaking platform.

First, in Japan, Japan is early days. We're very excited about the long-term growth prospect for us. Remember, we are now the number 1 consumer app, inclusive of mobile games. So we have a strong competitive position. We mentioned that key IP, local creator IP that we're building is enhanced by the fact that these creators can publish globally.

So the example of Oversummoned, Overpowered, and Over It!, which actually debuted in the US and in France from a local Japanese creator, we highlight that because it shows that we're the only platform in the world that JK created that can give local Japanese creators the ability to be strong in Japan, give our number 1 status, but also globally.

We also talked about how, beyond Japan, there were a number of IP adaptations. And you know, as we disclosed in Q1 of 2024, Marry my Husband was a sensation globally. It was Amazon Prime's hit even in North America, which we lapped this quarter. Well, the examples that we highlighted intentionally were not in the English language, there to show that we're strong in Spanish as well.

So JK mentioned Mala Influencia and Sigue Mi Voz, on Amazon Prime, Mala Influencia on Wattpad, this represents how even our web novelist creators, local to one market, can publish globally.

And then finally, I think if you look to the content we're offering on our platform in the English language, this is the first time we've spent a bit of our airtime to talk about our partnership with IDW Publishing, where

Sonic the Hedgehog and Godzilla, great franchises starting April 25, are now able to be offered here on our platform in English.

So for us, JK founded this company built on creators, creators who could publish locally and globally, and with our large consumer base. So it's critical for the economic growth of the business, but also the core strategic proposition of what it created.

Operator

Mark Mahaney, Evercore.

Mark Mahaney - *Evercore ISI - Analyst*

Okay. Two questions. On the Korea MAU decline year-over-year. I understand that there was a change in methodology by NAVER.

Do you have a separate opinion as to what's happening to your MAUs in that country? Or maybe better, what would be realistic expectations? Do you think you can continue to grow MAUs in Korea? Or are you kind of at mature levels? And then just give us an update, please, on advertising revenue in North America.

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

Thanks, Mark. First, on Korea, I need to make sure we all remember that Korea has such high penetration of its population that you will see movement in a given quarter on total MAU.

I think what's the most important metric for me for Korea, our most mature market, is the 3.6% constant currency revenue growth we saw. And that was not accidental. If you think about why that was the case, it was driven by our intent to grow constant currency ARPU, which at \$8.40 was up 6.7%.

We talked about the AI personalization engine. We talked about improved product. We talked about continuing our strong flow of content. These three areas of focus are showing up. They're showing up in constant currency revenue.

Now as for your question on what is the MAU growth potential, one of the reasons why we're so focused on describing web comic app MAU, which you saw on a global basis grew 4.2% is even in Korea, we think that our improvement in the product on the app will actually be a better predictor of long-term paid content revenue growth.

It's also important that independent of the MAU, you saw good performance across the board, across the company with regard to our advertising, which was your other question. Advertising on a constant currency basis was up 13.6%, and a part of that was from Korea, as we mentioned in our script.

Now, with regard to the question on North America advertising, I believe it continues to be early days. North America advertising is our largest advertising market potential, but we are still putting in place fundamental products, the backbone of it and the selling organization to benefit us in 2026 and beyond.

We're going to continue to deliver on strong growth and profit in the form of paid content and advertising. But I think North America is a proposition that's more mid- to long term, consistent with what we said to you during the IPO process. That being said, we're not in any way taking our foot off the gas.

We think it's a great opportunity, and we hope to be able to give you more tangible examples of our progress in North America over time.

Operator

Doug Anmuth, J.P. Morgan.

Unidentified Participant

Great. This is [Dae], on for Doug. I want to follow up on the global franchises and reformat launches. How does that affect your monetization? Because right now, paid content is monetized on unlocking new episodes. So wondering if the global franchises and reformat launches have that type of monetization capabilities built into it as well? And does that affect how your gross margins could look like over time as you get more of these franchises on the platform?

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

Thanks for your question. First, I wanted to note that global franchises are actually not a new phenomenon for this platform. So when we look back, when we look back even at cross collaborations, for example, in 2021 with BTS or the crossover IP is a form -- Marry my husband, when it crossed over to Amazon Prime, in some ways, is a form of IP outside of the core of our platform benefiting the core. And we made note of it that we lapped a pretty significant impact of that crossover IP as an example.

So when we talk about IDW, we talk about Godzilla. In the past, we had done collabs with, for example, the Batman franchise. This is not a new phenomenon for us. And we believe that the fresh addition of content continues to power the core paid content margin structure and business, meaning if we can create more and more content, even if it originates outside of our existing set of creators, it gives our creators a bigger audience as we attract more consumers.

And so the one thing I would also say is that there is a difference between us discovering an amateur creator on CANVAS and turning it into a WEBTOON original, which is clearly an important profit margin for us versus when we collaborate with an existing franchise. I don't want to make you believe that there is not a difference.

But being competitive in new markets like the one that we're building here in the U.S. means we need to be open to both, higher-margin US originals we create and really popular franchises that don't have access to our audience because we have this great Gen Z audience for them as well. I think both are very important for our structure of margin.

Unidentified Participant

Got it. And then following up on the U.S. market. You did talk about significant changes to the English app. So curious what the changes are? And is this more about tailoring your app to the U.S. market or English-speaking markets? Or is this more about bringing the learnings that you have from Korea and Japanese market to the English market?

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

We believe that we have the benefit of both advantages. Our global lessons learned, but tested to the local English-speaking audience is what's required for us to roll out product innovation. I'm going to describe some of it. It's quite extensive. It's probably the most extensive product rollout that I've been a part of since I joined less than two years ago. So for example, in our A/B testing, we saw very promising results to our local English audience. We saw A/B testing results of up to 9% increase on episodes read.

Now with regard to the origin of these product innovations, I want to go through each of them because they're significant, and they have benefited from lessons learned from our global product organization across the world. We installed in Q2 of 2024, a new leader. Our Chief Strategy Officer, Yongsoo Kim, benefiting from the lessons outside of just the U.S. applied to the U.S. took on the global leadership role of leading our global WEBTOON business.

So these four areas of new product innovation reflect that global kind of ability to find great product, but the ability to test it locally before we roll it out. It's everything from onboarding to the home tab, to the search tab, even a recurring new and hot feature that could benefit from us seeing different types of trailer style format. So it's quite extensive.

It's exciting, but you may not see, even though it's begun to hit the US-based platform, you may not see it at full scale towards the back end of this fiscal year but it's extensive. And again, it's the benefit of a global product organization, but carefully tested for our local consumers.

Operator

Matthew Cost, Morgan Stanley.

Matthew Cost - Morgan Stanley & Co LLC - Analyst

Maybe I'll start just with the security update to Wattpad that caused the search indexing issue. I guess could you just give a little more update -- a little more detail on what specifically was changed, what impact that's having, the amount of user impact it had on Rest of World for this quarter and then kind of where you are in the process of resolving it?

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

Thanks, Matt, for the question. First, I want to be clear. Wattpad is a very contained source of the majority, the vast majority of our rest of world total MAU declines. And yet, Wattpad is not a significant contributor to the paid content engine. So one of the reasons I just want to make sure we understand this, it's important from a source of IP standpoint. It's important from a potential of advertising business.

But the reason why I can begin to describe these two key issues, which were significant for the Wattpad business and have it not be a significant paid content issue is because the role of that business today is really to source IP and to provide advertising revenue.

With regard to your question, however, both the ban from one country as well as that security issue that we disclosed accounted for the majority of all of the Wattpad disruption we saw in the quarter. And remember, Wattpad was the primary contributor to total Rest of World MAU decline. So they were significant. Internally, we've talked about having remedying or seeking to remedy these problems.

We don't have an update on the country ban, but we believe that we've begun to address the security issue. And while they'll have persistent impact through the Q2 period and possibly a portion of Q3, we believe that we've identified the issues and are already at work to remedy them.

But I want to be clear, Wattpad in and of itself to total company performance was the most significant contributor to total MAU loss, particularly in Rest of World. And the 2 issues that we've identified, we believe we're on the mend on, but they were very significant in terms of total MAU impact.

Matthew Cost - *Morgan Stanley & Co LLC - Analyst*

Great. And then just following up on a couple of the prior questions. You've talked a lot about the early success you're seeing with the new onboarding, search and discovery, new and hot, which is great to hear. It sounds like most of those things won't be fully rolled out until the back half.

I think you mentioned in the prepared remarks something about some product changes coming in May. Is that just a further rollout and more expanded testing of those same features? Or are there other things on the road map that we should be aware of?

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

Well, first, I want to be clear that we're really only offering you financial guidance for the Q2 period. We want to be very transparent about how excited we are about the product rollout, not because it's the only items we're working on.

The company is constantly working on a portfolio of global product innovation. The ones we've highlighted are the ones that we know are rolling out in the back half of this year. But it's not the total limit of what our global product organization continues to test and work on.

Operator

Andrew Marok, Raymond James.

Andrew Marok - *Raymond James Financial, Inc. - Analyst*

Maybe expanding on that last question that was just asked on the onboarding process. It sounds like you made some good progress so far, but it sounds, again, like an ongoing sort of iterative piece of product.

So I guess, one, would you categorize maybe the heaviest lift as being done, and maybe what you're looking forward as more incremental? Or do you think that there is still some kind of fundamental improvements that can be made along the way? Then I have a follow-up.

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

Well, first, you did not hear us disclose a significant impact from the product innovation rollout. We specifically talked, JK and I, in our script, about how it would benefit later fiscal periods in the back half of the year. So I don't know that you should infer that the major impact of these product innovations are already in the results we've disclosed today.

The second is, I have said and I believe that these product innovations are significant, not incremental. And in terms of level of completeness, the ones that we've talked about, though significant, have been fully tested.

In fact, when we say in the script that we saw in certain A/B testing a 9% increase in episodes read, that's a very significant finding in an A/B test. I think it reflects the level of significance of the product update that we've talked through. And when we talk about rolling it out and we specify May, it means that we're not disclosing work yet to be done or that this is incremental.

This is a major product rollout that we are going forward with based on strong results. That's how I think we've characterized it. The other thing to point out is that parts of it have already begun to roll out. When we talk about May, we're talking about a nearly set rollout rate because we've been hard at work today.

So I don't want to lead you to believe that the results or the impact of the products are already in our numbers. But the strong results that we saw in March, that 9% increase in episodes read as well as the fact that we're going to see even more features in the pipeline possibly impacting the back half of 2025 means that we believe that we're in the beginning of a process, not at the end, and that is significant.

Andrew Marok - *Raymond James Financial, Inc. - Analyst*

Understood. And then maybe one more, if I could. We heard some rumblings from the U.S. presidential administration earlier in the week or maybe last week about potential tariffs on foreign-produced films, I guess. Is that having any impact to date? Or do you see that it has any impact on maybe the visibility or planning for your IP adaptations business?

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

It's a good question. Let me echo what JK and I both said. First, we're very clear-eyed about closely monitoring the health, in particular, of our consumers and creators through changes announced not just by the U.S. presidential administration, but globally.

That said, we do not see any impact by any announcements, particularly tariffs, on our core business with the exception of swings in reported FX rates on our results, but not on the core health of our business. In fact, when I recall my time in other consumer tech businesses like mobile gaming, I'm really grateful that JK created a business model that appears to me to be very resilient for the consumer and the creator.

There is so much free, evergreen, new, fresh content by design of the flywheel that arrives today, which does not demand a subscription. The vast majority, almost all of the 80% of paid content, is from micro payments, one fresh episode at a time. That is highly differentiated from almost any consumer platform I've seen.

So, we haven't seen any specific impact. I actually think we could be quite resilient compared to others. Our focus is just to keep our heads down, provide more and more great access to consumers for creators and great stories for consumers, and weather the storm, but we don't see an impact other than reported FX rates to date.

Operator

[Jeff Seiner], Deutsche Bank.

Unidentified Participant 2

Are you seeing a difference in the monetization levels in the app versus the web platform in the US for webcomics?

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

Thanks for your question. One of the reasons why we're so clear about the difference in disclosing that 19% increase in our English-speaking webcomic app MAU is that we monetize on the app. We do not monetize paid content on the web, period. And so it's a really important distinguish.

So when we talk about the overall Rest of World MAU declining driven by a web novel business, it's an important disclosure. But it is not one that is materially an indication of our future performance on paid content.

The app is also where our new product features are really focused. So it's not only where we monetize in a big market like English-speaking North America. It's also the beneficiary of this product rollout that we're discussing.

And that's why I really want investors to continue to focus on where they see growth in our future revenue and paid content, which to me is about the webcomic app business, which is why we're focused on disclosing that part of the business today.

Unidentified Participant

Got it. Got it. And then maybe you could talk a little bit about the engagement of comments around your licensed IP in the U.S. compared to sort of the other content on the platform. Are you seeing a benefit where licensed IP is driving new users to the platform? Or is it more driving engagement of your existing users?

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

Well, first, I think it clearly depends upon the actual platform. We have historical experience with great platforms that have the potential to drive user engagement, which increases.

But part of, I think, the attraction in our partners is that we have this strong penetration among Gen Z, and they're spending 30 to 60 minutes per day on average as users.

And so I don't know if I can categorically answer your question because I do think it depends on the IP that we're talking about. But we see great potential to be additive to our platform and to our partners, which is why we picked IDW, for example, and others that we will announce later to come.

Operator

And it seems that we have no further questions for today.

That concludes the question-and-answer session and today's conference call.

We thank you for your participation. You may now disconnect your lines. Have a pleasant day, everyone.

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