

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): May 4, 2021

SKILLZ INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-39243
(Commission
File Number)

46-2682070
(IRS Employer
Identification No.)

PO Box 445
San Francisco, California 94104
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(415) 762-0511**

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, par value \$0.0001 per share	SKLZ SKLZ.WS	NYSE NYSE
Warrants to purchase one share of Class A common stock, each at an exercise price of \$11.50 per share		

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02. Results of Operations and Financial Condition.

On May 4, 2021, Skillz Inc. issued a press release announcing its preliminary financial results for the first quarter ended March 31, 2021. A copy of the press release is attached hereto as Exhibit 99.1 and incorporated by reference herein. On May 4, 2021, Skillz Inc. also released a letter to stockholders relating to its results for the first quarter ended March 31, 2021. A copy of the letter is attached as Exhibit 99.2 hereto and incorporated herein by reference.

The information contained in Exhibit 99.1 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit Number	Description
99.1	Press Release, dated May 4, 2021
99.2	Stockholder Letter, dated May 4, 2021

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SKILLZ INC.

By: /s/ Charlotte Edelman

Name: Charlotte Edelman

Title: VP of Legal

Date: March 4, 2021

Skillz Reports Record Q1 Revenue and Raises 2021 Guidance

- First Quarter Revenue Hits \$84 Million, Up 92% Year-over-Year
 - Paying Monthly Active Users Grows 81% Year-over-Year
 - Raises Full Year 2021 Revenue Guidance to \$375 Million

SAN FRANCISCO – May 4, 2021 – Skillz Inc. (NYSE: SKLZ) (“Skillz” or the “Company”), the leading mobile games platform bringing fair competition to players worldwide, today announced financial results for the first quarter ended March 31, 2021.

“We are proud to report record-breaking first quarter results, giving us 21 consecutive quarters of revenue growth,” said Andrew Paradise, CEO and founder of Skillz. “Our performance and strong growth trajectory gave us the confidence to increase investment in Q1 and raise full year revenue guidance to \$375 million.”

First Quarter Financial Highlights

- Revenue grew to \$83.7 million during the first quarter of 2021, up 92% over the prior year.
- Gross profit grew to \$79.4 million during the first quarter of 2021, up 95% over the prior year.
- Gross margin was 95% during the first quarter of 2021, 100 basis points higher than the prior year.
- Net loss was \$53.6 million during the first quarter of 2021, compared with \$15.5 million in the prior year.
- Adjusted EBITDA was \$31.1 million during the first quarter of 2021, compared with \$14.6 million in the prior year.
- Gross Marketplace Volume¹ (GMV) grew to \$566.6 million during the first quarter of 2021, up 85% over the prior year.
- Cash on balance sheet of \$613 million and no debt at the end of first quarter 2021.

First Quarter Business Highlights

- Paying MAU reached 0.467 million with a 17% Paying to Playing MAU ratio which is 8x higher than the mobile gaming industry average² and highlights the platform’s powerful competitive advantage over in-app purchases.
- Launched developer progression, a feature that allows game developers to create in-game milestones for players, such as winning a reward for bowling perfect games. This enables developers to introduce new game design mechanics that enhance player retention and engagement.
- Expanded Android footprint, growing revenue from Android users 2x faster than iOS.

¹ Gross Marketplace Volume means the total entry fees paid by users for contests hosted on Skillz’s platform. Total entry fees include entry fees paid by end-users using cash deposits, prior cash winnings from end-users’ accounts that have not been withdrawn, and end-user incentives used to enter paid entry fee contests.

² Note: According to Wappier Gaming Apps, conversion rates were 1.6% to 2% in 2020.

Financial Outlook

The Company is increasing 2021 revenue guidance to \$375 million, which equates to 63% year-over-year growth.

Investor Conference Call and Webcast

The Company will host a conference call and webcast on Tuesday, May 4, 2021, at 5:00 pm Eastern Time. The conference call can be accessed by registering online at webcast registration, at which time registrants will receive dial-in information as well as a passcode and registrant ID. At the time of the call, participants will dial in using the numbers in the confirmation email and enter their passcode and ID, upon which they will enter the conference call.

Access to a live video-webcast of the discussion in listen-only mode will be available through the “Investors” section of the Skillz website at www.skillz.com. A replay of the webcast will be archived on the Company’s website.

About Skillz Inc.

Skillz is the leading mobile games platform that connects players in fair, fun, and meaningful competition. The Skillz platform helps developers build multi-million dollar franchises by enabling social competition in their games. Leveraging its patented technology, Skillz hosts billions of casual esports tournaments for millions of mobile players worldwide, and distributes millions in prizes each month. Skillz has earned recognition as one of Fast Company’s Most Innovative Companies, CNBC’s Disruptor 50, Forbes’ Next Billion-Dollar Startups, and the #1 fastest-growing company in America on the Inc. 5000. www.skillz.com

Use of Non-GAAP Financial Measures

In this press release, the Company includes Adjusted EBITDA which is a non-GAAP performance measure that the Company uses to supplement its results presented in accordance with U.S. GAAP. As required by the rules of the Securities and Exchange Commission (“SEC”), the Company has provided herein a reconciliation of the non-GAAP financial measure contained in this press release to the most directly comparable measure under GAAP. The Company’s management believes Adjusted EBITDA is useful in evaluating its operating performance and is a similar measure reported by publicly-listed U.S. competitors, and regularly used by security analysts, institutional investors, and other interested parties in analyzing operating performance and prospects. By providing this non-GAAP measure, the Company’s management intends to provide investors with a meaningful, consistent comparison of the Company’s profitability for the periods presented. Adjusted EBITDA is not intended to be a substitute for any U.S. GAAP financial measure and, as calculated, may not be comparable to other similarly titled measures of performance of other companies in other industries or within the same industry.

The Company defines and calculates Adjusted EBITDA as net loss before interest, other non-operating expense or income, provision for income taxes, and depreciation and amortization, and further adjusted for stock-based compensation and other special items determined by management, including, but not limited to, fair value adjustments for certain financial liabilities (including derivatives) associated with debt and equity transactions and impairment charges, as they are not indicative of business operations.

Forward-Looking Statements

This press release includes “forward-looking statements” within the meaning of the “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995. The Company’s actual results may differ from its expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Words such as “expect,” “estimate,” “project,” “budget,” “forecast,” “anticipate,” “intend,” “plan,” “may,” “will,” “could,” “should,” “believes,” “predicts,” “potential,” “continue,” and similar expressions (or the negative versions of such words or expressions) are intended to identify such forward-looking statements.

These forward-looking statements involve significant risks and uncertainties that could cause the Company’s actual results to differ materially from those discussed in the forward-looking statements. Most of these factors are outside of the Company’s control and are difficult to predict. Factors that may cause such differences include, but are not limited to, the ability of Skillz to: effectively compete in the global entertainment and gaming industries; attract and retain successful relationships with the third party developers that develop and update all of the games hosted on Skillz’s platform; comply with laws and regulations applicable to its business; and as well as other risks and uncertainties indicated from time to time in the Company’s SEC filings, including those under “Risk Factors” therein, which are available on the SEC’s website at www.sec.gov. Additional information will be made available in other filings that the Company makes from time to time with the SEC. In addition, any forward-looking statements contained in this press release are based on assumptions that the Company believes to be reasonable as of this date. The Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date of this press release or to reflect new information or the occurrence of unanticipated events, except as required by law.

Source: Skillz Inc.

Contacts:

Investors: ir@skillz.com

Media: skillz@methodcommunications.com

Skillz Inc.
Consolidated Statements of Operations
(Unaudited, in thousands, except share and per share amounts)

	Three months ended March 31,	
	2021	2020
Revenue	\$ 83,677	\$ 43,559
Costs and expenses:		
Cost of revenue	4,256	2,767
Research and development	7,282	4,366
Sales and marketing	96,323	46,825
General and administrative	27,284	4,833
Total costs and expenses	135,145	58,791
Loss from operations	(51,468)	(15,232)
Interest expense, net	(24)	(316)
Change in fair value of common stock warrant liabilities	(2,108)	—
Other income, net	50	51
Loss before income taxes	(53,550)	(15,497)
Provision for income taxes	42	25
Net loss	\$ (53,592)	\$ (15,522)
Net loss per share attributable to common stockholders – basic and diluted	\$ (0.15)	\$ (0.06)
Weighted average common shares outstanding – basic and diluted	356,818,954	278,348,903

Skillz Inc.
Consolidated Balance Sheets
(Unaudited, in thousands, except share and per share amounts)

	March 31, 2021	December 31, 2020 ¹
Assets		
Current assets:		
Cash and cash equivalents	\$ 612,578	\$ 262,728
Warrant exercise receivable	104,558	—
Prepaid expenses and other current assets	14,981	10,491
Total current assets	732,117	273,219
Property and equipment, net	5,398	5,292
Other long-term assets	3,908	3,910
Total assets	\$ 741,423	\$ 282,421
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 9,513	\$ 22,039
Accrued professional fees	725	5,699
Other current liabilities	29,860	19,618
Total current liabilities	40,098	47,356
Common stock warrant liabilities	112,378	178,232
Other long-term liabilities	36	46
Total liabilities	152,512	225,634
Commitments and contingencies		
Stockholders' equity:		
Preferred stock \$0.0001 par value; 10 million shares authorized — 0 issued and outstanding as of March 31, 2021 and December 31, 2020	—	—
Common stock \$0.0001 par value; 625 million shares authorized; Class A common stock — 500 million shares authorized; 326 million and 292 million shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively; Class B common stock — 125 million shares authorized; 70 million and 78 million shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively	39	37
Additional paid-in capital	880,779	295,065
Accumulated deficit	(291,907)	(238,315)
Total stockholders' equity	588,911	56,787
Total liabilities and stockholders' equity	\$ 741,423	\$ 282,421

(1) Amounts in this column are preliminary estimates and are subject to change as management completes the restatement of the Company's consolidated financial statements for the year ended December 31, 2020 required to reclassify its public warrants and private placement warrants as liabilities and record non-cash fair value adjustments into earnings to align with the guidance set forth by the Securities and Exchange Commission in the public statement entitled "Staff Statement on Accounting and Reporting Considerations for Warrants issued by Special Purpose Acquisition Companies," as further described in our Current Report on Form 8-K filed May 4, 2021. Our independent registered public accounting firm has not audited or reviewed these estimates.

Skillz Inc.
Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Three months ended March 31,	
	2021	2020
Operating Activities		
Net loss	\$ (53,592)	\$ (15,522)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	555	308
Stock-based compensation	10,945	357
Accretion of unamortized discount and amortization of issuance costs	9	171
Change in fair value of common stock warrant liabilities	2,108	—
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(4,499)	(2,290)
Accounts payable	(12,526)	2,109
Accrued professional fees	(851)	—
Other liabilities	10,332	5,758
Net cash used in operating activities	(47,519)	(9,109)
Investing Activities		
Purchases of property and equipment, including internal-use software	(659)	(860)
Net cash used in investing activities	(659)	(860)
Financing Activities		
Borrowings under debt agreements, net of issuance costs	—	(95)
Proceeds from issuance of common stock in follow-on offering, net of underwriting commissions, and offering costs	402,817	—
Payments made towards offering costs	(4,801)	—
Proceeds from exercise of stock options and issuance of common stock	12	241
Net cash provided by financing activities	398,028	146
Net change in cash, cash equivalents and restricted cash	349,850	(9,823)
Cash, cash equivalents and restricted cash – beginning of year	265,648	28,548
Cash, cash equivalents and restricted cash – end of year	\$ 615,498	\$ 18,725
Supplemental cash flow data:		
Cash paid during the period for:		
Interest	\$ 15	\$ 178
Noncash investing and financing activities:		
Deferred offering costs in accounts payable and accrued liabilities	\$ 678	\$ —
Warrant exercise receivable	\$ 104,558	\$ —

Skillz Inc.
Reconciliation of GAAP Net loss to Adjusted EBITDA
(Unaudited, in thousands)

	Three months ended March 31,	
	2021	2020
Net loss	\$ (53,592)	\$ (15,522)
Interest expense, net	24	316
Stock-based compensation	10,945	357
Change in fair value of common stock warrant liabilities ⁽²⁾	2,108	—
Provision for income taxes	42	25
Depreciation and amortization	555	308
Other non-operating costs (income)	(50)	(51)
One-time transaction related expenses ⁽¹⁾	8,839	—
Adjusted EBITDA	<u>\$ (31,129)</u>	<u>\$ (14,567)</u>

(1) For the three months ended March 31, 2021, amounts represent transaction expenses related to the follow-on offering.

(2) For the three month ended March 31, 2021, amounts represent the fair value adjustments related to the revaluation of liability classified warrants.

Skillz Inc.
Supplemental Financial Information
(Unaudited, in millions, except ARPU and ARPPU)

	Three months ended March 31,	
	2021	2020
Monthly active users ("MAUs") ⁽¹⁾	2.7	2.6
Average revenue per user ("ARPU") ⁽²⁾	\$ 10.35	\$ 5.57
Paying monthly active users ("pMAUs") ⁽³⁾	0.467	0.258
Average revenue per paying user ("ARPPU") ⁽⁴⁾	\$ 60	\$ 56
Gross marketplace volume ("GMV") ⁽⁵⁾	\$ 567	\$ 306

(1) "Monthly Active Users" or "MAUs" means the number of end-users who entered into a paid or free contest hosted on Skillz's platform at least once in a month, averaged over each month in the period.

(2) "Paying Monthly Active Users" or "pMAUs" means the number of end-users who entered into a paid contest hosted on Skillz's platform at least once in a month, averaged over each month in the period.

(3) "Average Revenue Per Monthly Active User" or "ARPU" means the average revenue in a given month divided by MAUs in that month, averaged over the period.

(4) "Average Revenue Per Paying Monthly Active User" or "ARPPU" means the average revenue in a given month divided by Paying MAUs in that month, averaged over the period.

(5) "GMV" or "Gross Marketplace Volume" means the total entry fees paid by users for contests hosted on Skillz's platform. Total entry fees include entry fees paid by end-users using cash deposits, prior cash winnings from end-users' accounts that have not been withdrawn, and end-user incentives used to enter paid entry fee contests.



Skillz Q1 2021 Stockholder Letter

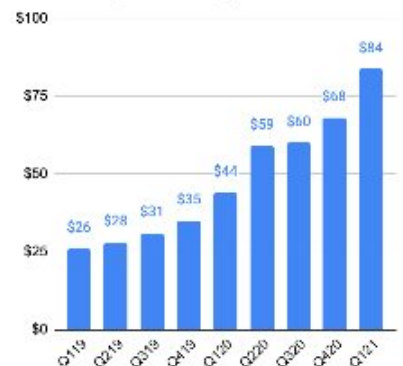
May 4, 2021

Fellow Stockholders,

Skillz Inc. (SKLZ) delivered strong Q1 performance across the business, achieving our 21st consecutive quarter of revenue growth. We generated 92% revenue growth year-over-year, driven in large part by 81% growth in Paying Monthly Active Users (MAU).

Given our continued momentum, we are proud to announce that we are raising our 2021 annual revenue guidance to \$375 million, representing 63% year-over-year growth. As we look ahead, we are particularly excited about continuing to expand our platform from our first successful categories of games to all game categories and are now seeing early validation on our multi-year investment in synchronous player technology. This next feature set will expand our content library to include games ranging from first person shooters to real time strategy. We currently have a handful of developers actively testing synchronous content on our platform, and the initial results are already promising.

Revenue (\$ Millions)



As we define the future of interactive entertainment, we continue to make game-changing investments across our business to capture the hundreds of billions of dollars in global market opportunity. Starting with an outstanding team who works tirelessly to pioneer new features for our developers and forge new partnerships with leading brands, our Skillzians and our culture are the engine that drive our success. We are truly thankful for all they do.

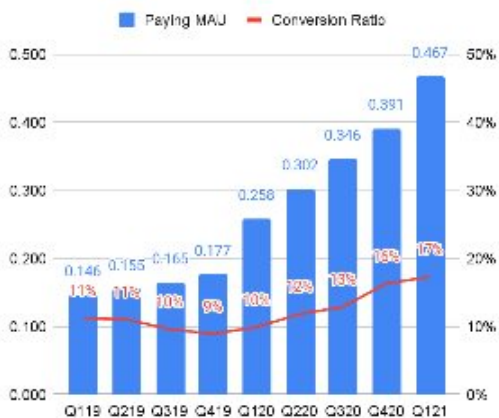
User Acquisition and Growth

Our Focus on Paying MAU

As mentioned above, our Paying MAU grew 81% year-over-year. Paying MAU describes our “subscriber base” and is perhaps the most important metric for our business. Paying MAU growth was driven by an increase in new paying users – which is a function of both the number of installs or downloads of games on our platform and the install-to-deposit rate. While new installs overall remained consistent with the prior year period, the quality of traffic and our ability to convert installs to payors increased substantially over the prior year quarter. We do not currently focus on MAU because monetizing non-paying users is a future opportunity. Today, Skillz generates nearly all its revenue from paying players, so this nuance is crucial to understanding our marketing strategy.

We optimize our return on marketing investment by acquiring players who convert to payors. Our ability to maximize returns is something we have honed over time, and it provides a significant competitive advantage in our market space. In Q1, we achieved a new high at 17% Paying MAU conversion ratio, exceeding the mobile gaming industry average by a factor of eight.¹ The other part of paying user optimization is average revenue per user (ARPU). We generate an ARPU with our content that outperforms the ARPU from well-established games from some of the leading public mobile gaming companies. In Q1, our ARPU reached a new high of \$10.35.

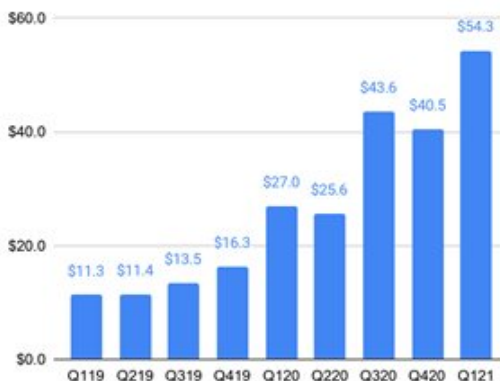
Paying MAU and Conversion Ratio (MM)



User Acquisition Efforts

User Acquisition Marketing is a key component of our Sales and Marketing strategy. User Acquisition programs bring new users to the platform and predominantly consist of media spend to acquire users from digital ad networks. Q1 is frequently one of the best times to purchase digital media impressions, so we typically invest more in Q1 User Acquisition than we do in Q2. This results in fewer new installs in the second quarter of each year relative to the first quarter and is part of our company's focus on maximizing return on marketing investment.

User Acquisition Marketing (MM)



As we discussed during our Q4 results, User Acquisition costs are still comparatively high versus prior years as a result of our revenue growth outpacing staffing against marketing infrastructure, particularly as the digital market became more crowded during COVID. We expect our increased investment in marketing infrastructure to drive User Acquisition costs down in the back half of 2021. Despite these near-term headwinds, we expect to maintain a long-term strategic advantage in User Acquisition thanks to the broad appeal of our content across demographics and our deep first-party player data. This unique data set becomes even more valuable based on the announced changes to iOS 14.5 that have gone into effect, which will result in the loss of data for ad networks. In a post-IDFA world, we can bring even more strategic value to our developers and ad network partners in the mobile gaming ecosystem.

¹ Note: According to Wappier Gaming Apps conversion rates were 1.6% to 2% in 2020.

Building the Skillz Brand

We have just started making investments in our marketing team to extend the reach of the Skillz brand to new demographics and geographies. To continue upleveling our brand and marketing efforts, we added our first ever Chief Marketing Officer, Tyler Williamson, who comes to Skillz from Beats Electronics LLC. We also hired other key positions, such as Head of Consumer Marketing and a Head of Communications, all bringing decades of experience to our marketing leadership.

In the coming quarters, we will continue to prioritize marketing and communications investments – including enhanced creative, content, and community – in order to draw more users and developers to the Skillz platform.

In addition to investing in brand building, we know it is crucial to protect what we have already built. We have 65 pending and issued patents covering our technologies. We have seen several copycats enter our market trying to replicate the success of our platform and the content of our developers. We have begun and will continue to vigorously defend Skillz intellectual property from theft by enforcing our patents and copyrights where we see infringement.

Activating Android

Skillz is the predominant mobile esports platform in the world, growing rapidly in a massive 2.7 billion gamer market. From the beginning, we have built Skillz to bring competition to mobile gaming, which has grown at 23% per year over the past five years. Mobile is the fastest-growing segment in gaming, and we are seeing that growth across both iOS and Android users. According to Statista, Android held over 70% share of the worldwide mobile operating system market.

We have been building out our Android footprint since 2018. There is a huge opportunity in the Android market and it is not monolithic. In Q1, we expanded our Android footprint, growing revenue from Android users 2x faster than iOS.

Driving the Future of Competition

Rewarding Milestones

We continue to build out our platform to provide both users and developers with a memorable and engaging experience. Based on feedback from our developer community, we recently launched a new set of developer progression features. These features allow game developers to create in-game milestones and recognition for players. “Bowling a Turkey” – three strikes in a row – is a great example of these kinds of in-game achievements. Progression enhances excitement and provides a boost, which players love to experience. This is especially valuable for “achiever” players – those who thrive when rewarded.

Our developers are excited for progression because it enables them to design game content that enhances retention and engagement which ultimately increases player lifetime value. We will continue to make investments that add greater depth to the gamer experience and allow our developers to flourish.

Supporting More Content

We have opened up our synchronous technology to a handful of developers on our platform to test what we have built. This technology is a key building block that will enable our platform to support real-time simultaneous gameplay (e.g. collision) which is a requirement for racing, fighting and shooting games. We are collecting feedback to refine the developer experience and product performance, and are encouraged by the early results. We believe synchronous game modes are an important part of the future of the industry and a potential step function for growth for our business.

As such, this is an area where we expect to increase our investment in order to support the new types of game content that our community wants to engage with. Ultimately, we will also be able to support real-time, multiplayer content genres, such as Battle Royale. We expect this to broaden the demographics of users on the platform, giving developers an opportunity to reach new gamers, enhance retention, increase lifetime value, and lower user acquisition cost.

Within the casual gaming market we serve today, we have a substantial opportunity to broaden the types of content on our platform. Last year, our top three games fell into the card and board game categories, which represent less than 10% of the entire casual games market. Our investment in developer marketing and services are paving the way to penetrating underrepresented casual categories, ranging from puzzle and word, to trivia and sports.

We are motivated to build a platform that fosters innovation among a vibrant community of developers who will build the entertainment experiences of the future.

US Casual Mobile Gaming Market

<small>(in Millions)</small>		
Genre	DAU	%
Card	16	6%
Board	8	3%
Sub-total	24	9%
Arcade	47	17%
Action	36	13%
Simulation	28	10%
Puzzle	27	10%
Racing	15	5%
Strategy	13	5%
Role Playing	13	5%
Sports	12	4%
Word	11	4%
Trivia	8	3%
Other Casual	41	15%
Sub-total	252	91%
Total US Market	276	100%

Source: Apptopia, Q1 2021

Brand Partnerships

We see a future where every brand has a companion game that can be used as another way to connect with current brand loyalists and acquire new ones. IP is a brand’s most valuable asset and we can provide a trusted experience through our platform to maximize brand extension

while maintaining control over one's brand. This offers a mutually beneficial environment where our user experience is enriched by brands and those brands are able to more fully engage with their audiences through interactive content.

There are multiple ways in which we can partner with brands that align with their goals and power engagement with their audience. This past quarter, we teamed up with the NFL to host a global game developer challenge that will give developers the opportunity to develop an NFL-themed mobile game. The winning game(s) will get the benefit of an NFL license and marketing support from both Skillz and the NFL. Through brand partnerships like this, we are able to create fun, new experiences for fans while introducing a brand to a new audience where they live – on mobile – as online and offline worlds converge. For Skillz, this not only results in a better experience for our end-users, it also drives brand-sponsored prizes, traffic or both to our platform.

International Expansion

International expansion offers a huge opportunity for growth, as more than 90% of our revenue comes from North America today. We remain on track to launch in India by the end of the year, with our patented and proprietary technology which offers players a fair and trusted experience serving as a core competitive advantage that we bring to the opportunity.

In preparation for the India launch, we're investing in localizing the product, including payments, which is critical to penetrating beyond the most affluent gamers in India. We will then turn our attention to content, scaling localized games, and building local partnerships to enhance user acquisition. We are taking a systematic approach to this process, so that it can be replicated as we expand to other international markets in 2022 and beyond.

Q1 Financial Results

Revenue

We achieved Q1 revenue of \$83.7 million, up 92% over the prior year. As mentioned earlier, this was powered by 81% growth in Paying MAU, which is our most important performance metric.

Our Paying MAU conversion ratio was 17%, improving from 10% in the prior year period.

Gross Profit

Our Q1 gross profit was \$79.4 million, up 95% year-over-year. This was 95% of revenue, compared to 94% in the prior year period.

Our gross margin increased due to the benefit of scale on our end-user support costs.

Research and Development

In Q1, Research and Development was \$7.3 million, up 67% over the prior year period. This was 9% of revenue, compared to 10% in the prior year period.

Our Research and Development expense consists primarily of headcount cost and related overhead for the team responsible for imagining the future of interactive media.

Sales and Marketing

In Q1, Sales and Marketing was \$96.3 million, up 106% over the prior year period. We invested in Sales and Marketing to drive growth and scale.

Engagement Marketing was \$36.0 million, up 110% over the prior year period, growing slightly faster than revenue. This was 43% of revenue, a 4 percentage points increase from 39% in the prior year period. This was driven by new marketing programs launched in Q3 2020. On a sequential basis, Engagement Marketing was lower by 5 percentage points from 48% of revenue in Q4 2020, as we optimized those new programs during the last quarter.

User Acquisition Marketing was \$54.3 million, up 101% over the prior year period. This was 65% of revenue, a 3 percentage points increase from 62% in the prior year period, driven by higher ad prices. On a sequential basis, User Acquisition Marketing was higher by 5 percentage points from 60% of revenue in Q4 2020. This was due to our typical Q1 User Acquisition Marketing spend boost to take advantage of seasonally advantageous ad prices.

General and Administrative

In Q1, General and Administrative was \$27.3 million. This amount includes \$16.5 million in stock-based compensation and non-recurring transaction-related expenses. Without stock-based compensation and non-recurring transaction-related expenses, General and Administrative was 13% of revenue, a 2 percentage points increase from 11% in the prior year period, driven by investment in headcount and public company costs. In Q1, we incurred approximately \$3.2 million in public company costs, primarily related to higher insurance, accounting, legal and filing expenses. If Q1 2020 General and Administrative had included the burden of public company costs described above, it would have represented 18% of revenue. This demonstrates that our operating infrastructure is scaling.

Net Loss

In Q1, Net Loss increased to \$53.6 million from \$15.5 million in the prior year period. The increase was primarily driven by higher stock-based compensation, other non-recurring items, and change in fair value of common stock warrant liabilities.

Adjusted EBITDA

Our Adjusted EBITDA was -\$31.1 million, \$16.6 million lower than the prior year period.

This was driven by our strategy to increase User Acquisition Marketing investment in order to accelerate penetration of the market. In Q1, User Acquisition Marketing was \$54.3 million, \$27.3 million higher than the prior year period. Accordingly, our Q1 Adjusted EBITDA before User Acquisition Marketing was \$23.1 million, up 86% over the prior year. We track Adjusted EBITDA before User Acquisition Marketing closely, as we believe it is indicative of the value of existing users on the system. We decide each month how much capital to reinvest in new user acquisition based on the ROI we expect to generate.

In Q1, Adjusted EBITDA before User Acquisition Marketing was 28% of revenue, which is the same as the prior year period due to the impact of public company costs. Including the burden of those costs, Adjusted EBITDA before User Acquisition Marketing in the prior year period would have been 21% of revenue. Putting this in context demonstrates that profitability is scaling year-over-year.

Balance Sheet

We ended the first quarter with \$613 million of cash and no debt. As of April 30, 2021, 9.5 million public warrants have been exercised, generating \$109.5 million of net proceeds to the company.

Outlook

Today we announced that we are raising our 2021 revenue guidance to \$375 million, which represents 63% growth on a year-over-year basis.

Closing

At Skillz, we are creating the future of competition for players, developers and brands around the world. As our vision marches forward to become our shared reality, we are proud to report strong earnings for Q1. This quarter marks 21 consecutive quarters of revenue growth and the strategic, foundational investments across our business that will capture the hundreds of billions of dollars at stake in the rapidly growing global mobile gaming market. Ending the quarter with a strong balance sheet to support these investments gives us the financial resources to advance one step closer to delivering *esports to everyone*.

Game on,

Andrew Paradise
Founder & CEO

Use of Non-GAAP Financial Measures

In this press release, the Company includes Adjusted EBITDA which is a non-GAAP performance measure that the Company uses to supplement its results presented in accordance with U.S. GAAP. As required by the rules of the Securities and Exchange Commission (“SEC”), the Company has provided herein a reconciliation of the non-GAAP financial measure contained in this press release to the most directly comparable measures under GAAP. The Company’s management believes Adjusted EBITDA is useful in evaluating its operating performance and is a similar measure reported by publicly-listed U.S. competitors, and regularly used by security analysts, institutional investors, and other interested parties in analyzing operating performance and prospects. By providing this non-GAAP measure, the Company’s management intends to provide investors with a meaningful, consistent comparison of the Company’s profitability for the periods presented. Adjusted EBITDA is not intended to be a substitute for any U.S. GAAP financial measure and, as calculated, may not be comparable to other similarly titled measures of performance of other companies in other industries or within the same industry.

The Company defines and calculates Adjusted EBITDA as net loss before interest, other non-operating expense or income, provision for income taxes, and depreciation and amortization, and further adjusted for stock-based compensation and other special items determined by management, including, but not limited to, fair value adjustments for certain financial liabilities (including derivatives) associated with debt and equity transactions and impairment charges, as they are not indicative of business operations.

Forward-Looking Statements

This press release includes “forward-looking statements” within the meaning of the “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995. The Company’s actual results may differ from its expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Words such as “expect,” “estimate,” “project,” “budget,” “forecast,” “anticipate,” “intend,” “plan,” “may,” “will,” “could,” “should,” “believes,” “predicts,” “potential,” “continue,” and similar expressions (or the negative versions of such words or expressions) are intended to identify such forward-looking statements.

These forward-looking statements involve significant risks and uncertainties that could cause the Company’s actual results to differ materially from those discussed in the forward-looking statements. Most of these factors are outside of the Company’s control and are difficult to predict. Factors that may cause such differences include, but are not limited to, the ability of Skillz to: realize the benefits expected from the business combination; effectively compete in the global entertainment and gaming industries; attract and retain successful relationships with the third party developers that develop and update all of the games hosted on Skillz’s platform; comply with laws and regulations applicable to its business; and as well as other risks and uncertainties indicated from time to time in the Company’s SEC filings, including those under

“Risk Factors” therein, which are available on the SEC’s website at www.sec.gov. Additional information will be made available in other filings that the Company makes from time to time with the SEC. In addition, any forward-looking statements contained in this press release are based on assumptions that the Company believes to be reasonable as of this date. The Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date of this press release or to reflect new information or the occurrence of unanticipated events, except as required by law.

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Source: Skillz Inc.

Skillz Inc.
Reconciliation of GAAP Net loss to Adjusted EBITDA
(Unaudited, in thousands)

	Three months ended March 31,	
	2021	2020
Net loss	\$ (53,592)	\$ (15,522)
Interest expense, net	24	316
Stock-based compensation	10,945	357
Change in fair value of common stock warrant liabilities ⁽²⁾	2,108	—
Provision for income taxes	42	25
Depreciation and amortization	555	308
Other non-operating costs (income)	(50)	(51)
One-time transaction related expenses ⁽¹⁾	8,839	—
Adjusted EBITDA	<u>\$ (31,129)</u>	<u>\$ (14,567)</u>

(1) For the three months ended March 31, 2021, amounts represent transaction expenses related to the follow-on offering.

(2) For the three month ended March 31, 2021, amounts represent the fair value adjustments related to the revaluation of liability classified warrants.