



Motorsport Games Reports Second Quarter 2023 Financial Results

August 21, 2023

MIAMI, Aug. 21, 2023 (GLOBE NEWSWIRE) -- [Motorsport Games Inc. \(NASDAQ: MSGM\)](#) ("[Motorsport Games](#)" or the "[Company](#)") today reported financial results for its second fiscal quarter ended June 30, 2023. The Company has also posted Q2 2023 earnings slides highlighting key milestones that occurred in the period, which are accessible on the Company's investor relations [website](#). All share data and share-based calculations set forth in this press release have been adjusted to reflect the Company's 1-for-10 reverse stock split completed on November 10, 2022 on a retroactive basis for the periods presented.

Stephen Hood, Chief Executive Officer of Motorsport Games, commented, "During these past few months since my return, we've entered a period of reflection and focused efforts on reestablishing a strong sense of teamwork. As a business, we've been dedicated to evaluating our opportunities alongside our current cost structure. This dedication has driven us to refine our operations, enhancing efficiency and reinforcing our commitment to delivering on our promises. I'm pleased to observe that even within this relatively short timeframe, we've made meaningful strides, with further progress yet to unfold. Launching an update to our legacy NASCAR Heat 5 title, which is on track to become our most downloaded content update, continuing to improve rFactor 2, our much-loved simulation platform, and making great strides on our online platform underpinned by our custom RaceControl technology demonstrates our progress through internal collaboration."

Hood added, "With the recent announcement of our dedicated Le Mans Ultimate title, which centers around the FIA World Endurance Championship and iconic 24 Hours of Le Mans event, we are excited about the anticipated release of this interesting and innovative title later this year."

Second Quarter 2023 Business Update

- **Announced "Le Mans Ultimate" – a brand-new game centered around the 24 Hours of Le Mans and FIA World Endurance Championship ("WEC") expected to release in December 2023:** The expected new title, which was designed using Studio 397's renowned technology, will for the first time allow users to experience the full FIA WEC grid of the exciting new Hypercar category along with GT machinery on the incredible calendar of race tracks.
- **Released the "Next Gen Car Update" for NASCAR Heat 5 as a purchasable DLC, allowing customers to experience the latest generation of stock cars on the ever-popular game across PlayStation, Xbox and PC:** This update allows customers for the first time to experience the Next Gen stock cars for the ever-popular NASCAR Heat 5 game, which continues the appeal of our legacy franchise.
- **Released key updates to rFactor 2, including the official FIA Formula E Gen3 car:** We continue to expand the roster for our renowned simulation platform with the only currently available official FIA Formula E car, which was also used by the series for their in-house managed "Formula E: Accelerate" esports championship. Other key updates to the software include key Artificial Intelligence (AI) driver updates as well as other well-received quality-of-life improvements.

Select Financial Highlights for the Three Months Ended June 30, 2023

The Company reported a net loss for the second quarter of 2023 ("2023") of \$8.2 million, or \$3.02 per share, compared to a net loss of \$7.5 million, or \$6.34, for the second quarter of 2022 ("2022"). The Company also reported an Adjusted EBITDA loss for 2023 of \$2.7 million, compared to an Adjusted EBITDA loss of \$6.0 million for the same period in the prior year.

The change in net loss was driven by the Company recognizing impairment losses of \$4.0 million in 2023, compared to \$0.1 million in impairment losses in 2022, which was partially offset by a \$2.2 million reduction in marketing, development and general & administrative spend, driven in part by actions taken by the Company as part of its previously announced 2022 Restructuring Program, as well as \$0.4 million in fair value gains from changes in the carrying value of certain liability classified warrants, and favorable foreign currency gains.

Revenue for 2023 was \$1.7 million compared to \$2.0 million for 2022, a reduction of \$0.3 million, or 13.4%. Less favorable pricing and lower volume of digital and mobile games sales, lower revenues earned through the development of third-party simulation platforms for third-parties, and lower revenues earned through esports sponsorships were the primary drivers for the reduction in revenues, which was partially offset by lower sales allowances and reserves in 2023 when compared to 2022.

Quarterly Financial Highlights

	Three Months Ended June 30,	
	2023	2022
Revenues	\$ 1,739,130	\$ 2,008,987
Cost of revenues	866,167	856,157
Gross profit	872,963	1,152,830
Total operating expenses	9,486,270	7,838,245

Motorsport Games Reports Q2 2023 Financial Results



Motorsport Games Reports Q2 2023 Financial Results

Loss from operations	(8,613,307)	(6,685,415)
Interest expense	(244,750)	(191,662)
Other (loss) income, net	657,175	(610,594)
Net loss	(8,200,882)	(7,487,671)
Less: Net loss attributable to non-controlling interest	(29,858)	(82,375)
Net loss attributable to Motorsport Games Inc.	\$ (8,171,024)	\$ (7,405,296)

Net loss attributable to Class A common stock per share:		
Basic and diluted	\$ (3.02)	\$ (6.34)

Weighted-average shares of Class A common stock outstanding:		
Basic and diluted	2,704,106	1,167,359

The following table provides a reconciliation from net loss to Adjusted EBITDA loss for 2023 and 2022, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net Loss	\$ (8,200,882)	\$ (7,487,671)	\$ (13,460,074)	\$ (23,454,716)
Interest expense, net	244,750	191,662	443,870	393,258
Depreciation and Amortization	508,874	489,829	1,011,231	1,067,343
EBITDA	\$ (7,447,258)	\$ (6,806,180)	\$ (12,004,973)	\$ (21,994,115)
Acquisition related expenses	231,607	463,065	285,357	464,315
Impairment of goodwill and intangible assets	4,004,627	149,048	4,004,627	9,428,370
Stock-based compensation	521,303	238,573	770,536	591,603
Adjusted EBITDA	\$ (2,689,721)	\$ (5,955,494)	\$ (6,944,453)	\$ (11,509,827)

Cash Flow and Liquidity

As of June 30, 2023, the Company had cash and cash equivalents of approximately \$2.0 million. During the six months ended June 30, 2023, the Company had negative cash flows from operations of approximately \$8.9 million, representing an average monthly net cash burn from operations of approximately \$1.5 million. While it has taken measures to reduce its costs, the Company expects to continue to have a net cash outflow from operations for the foreseeable future as it continues to develop its product portfolio and invest in developing new video game titles.

As of July 31, 2023, the Company's cash and cash equivalents has reduced further to \$1.4 million. Based on this cash and cash equivalents position, and the Company's average cash burn, the Company does not believe it has sufficient cash on hand to fund its operations for the remainder of fiscal year 2023 and that additional funding will be required in order to continue operations. In order to address its liquidity short fall, the Company is actively exploring several options, including, but not limited to: i) additional funding in the form of potential equity and/or debt financing arrangements or similar transactions; ii) strategic alternatives for its business, including, but not limited to, the sale or licensing of the Company's assets; and iii) further cost reduction and restructuring initiatives.

There can be no assurances that the Company will be able to secure additional liquidity through the means referenced above, nor can there be any assurances that the Company can sufficiently reduce costs and restructure its business to sufficiently lower its cash burn to sustainable levels and therefore meet its ongoing cash requirements. Further, other factors can impact the Company's liquidity position, including, but not limited to, the Company's level of sales and expenditures, as well as accounts receivable, sales allowances, prepaid manufacturing expenses and accrued expenses. For additional information regarding the Company's liquidity, see the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 to be filed with the Securities and Exchange Commission (the "SEC").

(1) Use of Non-GAAP Financial Measures

Adjusted EBITDA (the "Non-GAAP Measure") is not a financial measure defined by U.S. generally accepted accounting principles ("U.S. GAAP"). Reconciliations of the Non-GAAP Measure to net loss, its most directly comparable financial measure, calculated and presented in accordance with U.S. GAAP, are presented in the tables above.

Adjusted EBITDA, a measure used by management to assess the Company's operating performance, is defined as EBITDA, which is net loss plus interest expense, depreciation and amortization, less income tax benefit (if any), adjusted to exclude: (i) acquisition related expenses; (ii) stock-based compensation expenses; (iii) impairment of goodwill and intangible assets; and (iv) charges or gains resulting from non-recurring events, if any.

The Company uses the Non-GAAP Measure to manage its business and evaluate its financial performance, as Adjusted EBITDA eliminates items that affect comparability between periods that the Company believes are not representative of its core ongoing operating business. Additionally, management believes that using the Non-GAAP Measure is useful to its investors because it enhances investors' understanding and assessment of the Company's normalized operating performance and facilitates comparisons to prior periods and its competitors' results (who may define Adjusted EBITDA differently).

The Non-GAAP Measure is not a recognized term under U.S. GAAP and does not purport to be an alternative to revenue, income/loss from operations, net (loss) income, or cash flows from operations or as a measure of liquidity or any other performance measure derived in accordance with U.S. GAAP. Additionally, the Non-GAAP Measure is not intended to be a measure of free cash flows available for management's discretionary use, as

it does not consider certain cash requirements, such as interest payments, tax payments, working capital requirements and debt service requirements. The Non-GAAP Measure has limitations as an analytical tool, and investors should not consider it in isolation or as a substitute for the Company's results as reported under U.S. GAAP. Management compensates for the limitations of using the Non-GAAP Measure by using it to supplement U.S. GAAP results to provide a more complete understanding of the factors and trends affecting the business than would be presented by using only measures in accordance with U.S. GAAP. Because not all companies use identical calculations, the Non-GAAP Measure may not be comparable to other similarly titled measures of other companies.

Conference Call and Webcast Details

The Company will host a conference call and webcast at 5:00 p.m. ET today, August 21, 2023, to discuss its financial results. The live conference call can be accessed by dialing 1-877-407-0784 from the U.S. or 1-201-689-8560 internationally. Alternatively, participants may access the live webcast on the Motorsport Games Investor Relations website at <https://ir.motorsportgames.com> under "Events."

About Motorsport Games

Motorsport Games, a Motorsport Network company, is a leading racing game developer, publisher and esports ecosystem provider of official motorsport racing series throughout the world. Combining innovative and engaging video games with exciting esports competitions and content for racing fans and gamers, Motorsport Games strives to make the joy of racing accessible to everyone. The Company is the officially licensed video game developer and publisher for iconic motorsport racing series across PC, PlayStation, Xbox, Nintendo Switch and mobile, including NASCAR, INDYCAR, 24 Hours of Le Mans and the British Touring Car Championship ("BTCC"), as well as the industry leading rFactor 2 and KartKraft simulations. rFactor 2 also serves as the official sim racing platform of Formula E, while also powering F1 Arcade through a partnership with Kindred Concepts. Motorsport Games is an award-winning esports partner of choice for 24 Hours of Le Mans, Formula E, BTCC, the FIA World Rallycross Championship and the eNASCAR Heat Pro League, among others. Motorsport Games is building a virtual racing ecosystem where each product drives excitement, every esports event is an adventure and every story inspires.

Forward-Looking Statements

Certain statements in this press release, the related conference call and webcast which are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are provided pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any statements or information in this press release, the related conference call and webcast that are not statements or information of historical fact may be deemed forward-looking statements. Words such as "continue," "will," "may," "could," "should," "expect," "expected," "plans," "intend," "anticipate," "believe," "estimate," "predict," "potential," and similar expressions are intended to identify such forward-looking statements. These forward-looking statements include, but are not limited to, statements concerning: (i) the Company's future business, future results of operations and/or financial condition; (ii) new or planned products, features, events or other offerings and the anticipated timing of launching such products, features, events and offerings, including the anticipated release of the Company's Le Mans Ultimate game in December 2023; (iii) the expected future impact of implementing management strategies and the impact of other industry trends; (iv) the Company's expectation that it will continue to have a net cash outflow from operations for the foreseeable future as it continues to develop its product portfolio and invest in developing new video game titles; (v) the Company's expectations regarding its future technologies, such as RaceControl, and the anticipated benefits from such technologies; and (vi) the Company's liquidity and capital requirements, including, without limitation, the Company's ability to continue as a going concern, the Company's belief it will not have sufficient cash on hand to fund its operations for the remainder of 2023 based on the cash and cash equivalents available as of July 31, 2023 and the Company's average cash burn, the Company's belief that additional funding will be required in order to continue operations, and the Company's plans to address its liquidity short fall, including its exploration of several options, including, but not limited to: additional funding in the form of potential equity and/or debt financing arrangements or similar transactions; strategic alternatives for its business, including, but not limited to, the sale or licensing of the Company's assets; and further cost reduction and restructuring initiatives. All forward-looking statements involve significant risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements, many of which are generally outside of the Company's control and are difficult to predict. Examples of such risks and uncertainties include, but are not limited to: (i) difficulties, delays or less than expected results in achieving the Company's growth plans, objectives and expectations, such as due to decreased sales of the Company's products due to the disposition of key assets, further changes in the Company's product roadmap, the Company's inability to deliver new products for its various other licenses, a slower than anticipated economic recovery and/or the Company's inability, in whole or in part, to continue to execute its business strategies and plans, such as due to less than anticipated customer acceptance of its new game titles and/or less than anticipated benefits from its future technologies, the Company experiencing difficulties or the inability to launch its games as planned, less than anticipated performance of the games impacting customer acceptance and sales and/or greater than anticipated costs and expenses to develop and launch its games, including, without limitation, higher than expected labor costs and, in addition to the factors set forth in (ii) through (vi) below, the Company's continuing financial condition and ability to obtain additional debt and/or equity financing to meet its liquidity requirements, such as the going concern qualification on the Company's annual audited financial statements posing difficulties in obtaining new financing on terms acceptable to the Company, or at all; (ii) difficulties, delays in or unanticipated events that may impact the timing and scope of new or planned products, features, events or other offerings, such as due to difficulties and/or delays arising out of any resurgence of the ongoing and prolonged COVID-19 pandemic; (iii) less than expected benefits from implementing the Company's management strategies and/or adverse economic, market and geopolitical conditions that negatively impact industry trends, such as significant changes in the labor markets, an extended or higher than expected inflationary environment (such as the impact on consumer discretionary spending as a result of significant increases in energy and gas prices which have been increasing since early in 2020), a higher interest rate environment, tax increases impacting consumer discretionary spending and/or quantitative easing that results in higher interest rates that negatively impact consumers' discretionary spending, or adverse developments relating to the ongoing war between Russia and Ukraine; (iv) greater than anticipated negative operating cash flows such as due to higher than expected development costs, higher interest rates and/or higher inflation, or failure to achieve the expected savings under the Company's 2022 Restructuring Program and any further cost reduction and restructuring initiatives; (v) difficulties and/or delays in resolving the Company's liquidity and capital requirements due to reasons including, without limitation, difficulties in securing funding that is on commercially acceptable terms to the Company or at all, such as the Company's inability to complete in whole or in part any potential debt and/or equity financing transactions or similar transactions, any inability to achieve cost reductions, including, without limitation, those which the Company expects to achieve through the 2022 Restructuring Program and any further cost reduction and restructuring initiatives, as well as any inability to consummate one or more strategic alternatives for the Company's business, including, but not limited to, the sale or licensing of the Company's assets, and/or less than expected benefits resulting from any such strategic alternative; and/or (vi) difficulties, delays or the Company's inability to successfully complete the 2022 Restructuring Program and any further cost reduction and restructuring initiatives, in whole or in part, which could result in less than expected operating and financial benefits from such actions, as well as delays in

completing the 2022 Restructuring Program and any further cost reduction and restructuring initiatives, which could reduce the benefits realized from such activities; higher than anticipated restructuring charges and/or payments and/or changes in the expected timing of such charges and/or payments; and/or less than anticipated annualized cost reductions from the 2022 Restructuring Program and any further cost reduction and restructuring initiatives and/or changes in the timing of realizing such cost reductions, such as due to less than anticipated liquidity to fund such activities and/or more than expected costs to achieve the expected cost reductions. Factors other than those referred to above could also cause the Company's results to differ materially from expected results. Additional examples of such risks and uncertainties include, but are not limited to: (i) delays and higher than anticipated expenses related to the ongoing and prolonged COVID-19 pandemic, any resurgence of COVID-19 and the ongoing war between Russia and Ukraine; (ii) the Company's ability (or inability) to maintain existing, and to secure additional, licenses and other agreements with various racing series; (iii) the Company's ability to successfully manage and integrate any joint ventures, acquisitions of businesses, solutions or technologies; (iv) unanticipated operating costs, transaction costs and actual or contingent liabilities; (v) the ability to attract and retain qualified employees and key personnel; (vi) adverse effects of increased competition; (vii) changes in consumer behavior, including as a result of general economic factors, such as increased inflation, higher energy prices and higher interest rates; (viii) the Company's inability to protect its intellectual property; and/or (ix) local, industry and general business and economic conditions. Additional factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements can be found in the Company's filings with the Securities and Exchange Commission (the "SEC"), including its Annual Report on Form 10-K for the fiscal year ended December 31, 2022, its Quarterly Reports on Form 10-Q filed with the SEC during 2023, as well as in its subsequent filings with the SEC. The Company anticipates that subsequent events and developments may cause its plans, intentions and expectations to change. The Company assumes no obligation, and it specifically disclaims any intention or obligation, to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by law. Forward-looking statements speak only as of the date they are made and should not be relied upon as representing the Company's plans and expectations as of any subsequent date.

Website and Social Media Disclosure

Investors and others should note that we announce material financial information to our investors using our investor relations website (ir.motorsportgames.com), SEC filings, press releases, public conference calls and webcasts. We use these channels, as well as social media and blogs, to communicate with our investors and the public about our company and our products. It is possible that the information we post on our websites, social media and blogs could be deemed to be material information. Therefore, we encourage investors, the media and others interested in our company to review the information we post on the websites, social media channels and blogs, including the following (which list we will update from time to time on our investor relations website):

Websites	Social Media
motorsportgames.com	Twitter: @msportgames & @traxiongg
traxion.gg	Instagram: msportgames & traxiongg
motorsport.com	Facebook: Motorsport Games & traxiongg
	LinkedIn: Motorsport Games
	Twitch: traxiongg
	Reddit: traxiongg

The contents of these websites and social media channels are not part of, nor will they be incorporated by reference into, this press release.

Contacts:

Investors:
investors@motorsportgames.com

Media:
PR@motorsportgames.com

Appendix:

The following table provide a comparative summary of the Company's financial results for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues	\$ 1,739,130	\$ 2,008,987	\$ 3,468,485	\$ 5,330,776
Cost of revenues [1]	866,167	856,157	2,114,903	2,869,963
Gross profit	872,963	1,152,830	1,353,582	2,460,813
Operating expenses:				
Sales and marketing [2]	434,788	1,540,220	1,053,198	3,228,669
Development [3]	1,787,768	2,681,642	4,184,902	5,085,980
General and administrative [4]	3,154,233	3,349,610	5,933,343	6,772,763
Impairment of goodwill	-	-	-	4,788,268
Impairment of intangible assets	4,004,627	149,048	4,004,627	4,640,102
Depreciation and amortization	104,854	117,725	202,208	233,796
Total operating expenses	9,486,270	7,838,245	15,378,278	24,749,578
Loss from operations	(8,613,307)	(6,685,415)	(14,024,696)	(22,288,765)
Interest expense [5]	(244,750)	(191,662)	(443,870)	(393,258)

Other (loss) income, net	657,175	(610,594)	1,008,492	(772,693)
Net loss	<u>(8,200,882)</u>	<u>(7,487,671)</u>	<u>(13,460,074)</u>	<u>(23,454,716)</u>
Less: Net loss attributable to non-controlling interest	(29,858)	(82,375)	(188,103)	(911,803)
Net loss attributable to Motorsport Games Inc.	<u>\$ (8,171,024)</u>	<u>\$ (7,405,296)</u>	<u>\$ (13,271,971)</u>	<u>\$ (22,542,913)</u>
Net loss attributable to Class A common stock per share:				
Basic and diluted	\$ (3.02)	\$ (6.34)	\$ (5.42)	\$ (19.32)
Weighted-average shares of Class A common stock outstanding:				
Basic and diluted	2,704,106	1,167,359	2,448,131	1,167,087

A photo accompanying this announcement is available at <https://www.globenewswire.com/NewsRoom/AttachmentNg/35c2bcbe-45cc-4862-bada-6a709d73f32e>