



Roblox Corporation

Q2 2021 Earnings Call

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C O R P O R A T E P A R T I C I P A N T S

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C O N F E R E N C E C A L L P A R T I C I P A N T S

David Karnovsky, *J.P. Morgan*

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Brandon Ross, *LightShed Partners*

P R E S E N T A T I O N

Operator

Welcome to the Roblox Corporation Q2 2021 Earnings Call.

Please be advised that today's call is being recorded.

I'll now hand the conference over to Anna Yen, head of investor relations. Please go ahead

Anna Yen

Good morning, everyone and thank you for joining our Q&A session to discuss Roblox' second quarter 2021 results. With me today is Roblox' CEO, David Baszucki; and CFO, Mike Guthrie.

Before we start, I want to remind everybody that yesterday, after market close, we published a shareholder letter, earnings results, and supplemental materials on our investor relations website at ir.roblox.com. Since the letter provides a lot of details, we'll make some brief opening remarks and reserve the rest of the time for your questions.

For webcast participants, please note the question icon at the bottom of your screen where you can type in your question. We'll do our best to take as many as possible.

On today's call, we may be making forward-looking statements, including, but not limited to, statements about our future financial performance, growth rates and business and investment strategy and plan, development of new technologies, investment in and payments to developers, our ability to bring new brands, music, and recording artists to the platform, investments in international growth, the development of the metaverse, the outcome of any litigation and the success of and plans for recent acquisitions. Any statement that refers to expectations, projections, or other characterizations of future events, including financial projections, future market conditions, or the impact of COVID on our business and on the economy as a whole, is a forward-looking statement and based on assumptions today.

Actual results may differ materially from those expressed in these forward-looking statements and we make no obligations to update our disclosures. For more information about factors that may cause actual results to differ materially from forward-looking statements, please refer to the press release we issued yesterday as well as risks described in our filings with the SEC, including in our quarterly report on Form 10-Q filed for the fiscal quarter ended March 30, 2021, and other filings and reports we make with the SEC from time to time. We will also discuss certain non-GAAP financial measures. These measures should not be considered in isolation from or as a substitute for financial information prepared in accordance with GAAP.

Reconciliations between GAAP and non-GAAP metrics for our reported results can be found in our press release issued yesterday as well as in our supplemental slides, copies of which can be found on our Investors Relations website. Finally, this call is being webcast and will be archived on our website shortly after. With that, I'll turn the call over to David.

David Baszucki

We're going to start with Mike Guthrie, CFO and then I'll chime in later. Just before we hand it over to Mike, welcome, everyone, to our Q2 call. I'm reaching out to everyone out there and your families in the midst of a lingering COVID situation. We hope you are all doing well. It's been an amazing quarter for us. A year ago, we were in the midst of lockdown. It's the first quarter when we started to see a little light at the end of the tunnel. We're extremely proud and excited with our results.

Mike is going to kick it off and then I'll follow up with some comments.

Mike Guthrie

Thanks, Dave. Good morning, everyone. Yesterday, we published both Q2 numbers and we also published key metrics for the month of July. So, you can see how we're doing as we start the third quarter. Just so everyone understands, we'll also be publishing August metrics in the first to second week of September. So, look for those as a bit of an update in the quarter in Q3. Second thing I want to go over is still bookings versus revenue.

We completely understand that it's confusing. Bookings, the best way to think about bookings is the value of Roblox virtual currency that's purchased within the quarter. Then revenue is taking into account the deferred revenue as a result of those bookings. We recognize our bookings generally over a 23-month period, which is the average life of a payer and those numbers can change due to the life of a payer will change over time and we'll adjust our deferrals as a result of that.

We've seen certain things in the press comparing our revenue number to our bookings number and it causes a little bit of confusion. We certainly understand. But just for clarity, bookings in the quarter were \$665.5 million and revenue, GAAP revenue, was \$450—sorry, \$454.1 million and that was up about 127% year-over-year. The bookings number was up 35% year-over-year. So anyway, sometimes in the analyst models, people call it bookings and sometimes people are referring to it as revenue.

I believe—if I look at all the models, I believe what the analysts' mean is bookings in all of their models. Again, some of them refer to it as revenue. If there's any confusion, feel free to ask questions on the call and we'll go through with everybody. The other thing we want to just get out is that when people were going through their models, we had a \$52 million accrual in the quarter for a litigation settlement with new labels, some of the labels, and publishers in the music industry. So, if you're doing Adjusted EBITDA or cash flow numbers, just make sure that you understand that accrual is in there and we believe that's onetime in nature.

So, I just want to make sure that, that is properly accounted for in your model. So, if there's any questions, feel free to ask us about that. Overall, we ended the second quarter in a really stronger, lapping COVID, obviously, this quarter, continuing to grow the business and really started off Q3 strong with July. So, looking forward to talking more. Before we jump into questions, I'm going to turn it back to Dave.

David Baszucki

Yes, just a couple of highlights. Looking at our core user base. We're once again very proud with our 29% DAU growth year-on-year, specifically because we've been lapping that since the lockdown quarter in Q2 a year ago. Jumping to a bit of the vision we shared with all of you over the last six to nine months about the future growth vectors for Roblox, one thing we're really excited about is our 13 (inaudible) growth. We have passed having the majority of people on our platform beat 13 and over as opposed to 13 and under, which is a huge benchmark for us.

In Q2, we saw 46% 13 and up DAU growth year-on-year, which is a great (inaudible) for where we're going. Internationally, in Q2, second big thing, part of our vision of really bringing the whole world together, we saw 42% DAU growth outside of the U.S. and Canada, which we think is spectacular. We've also seen, in response to this, a broadening and acceleration of the diversity of content on our platform, which has been very satisfying as well. In Q2 last year, 58% of the Roblox were coming from the top 10 experiences. That curve has flattened a bit as we had a wider array of content and that number is now 37% in Q2 of this year.

So, lots of fun stuff. Looking forward to diving in with your questions and we'll turn it back to Anna.

Anna Yen

Great. Actually, I'll turn it over to the Operator. Operator, you want to start taking questions?

Operator

Our first question comes from the line of Alexia Quadrani with J.P. Morgan.

David Karnovsky

Hi. This is David Karnovsky on for Alexia. I guess I'll start with the Guided acquisition. Dave, can you maybe discuss how you plan to integrate their platform with Roblox? Do you see Roblox users on Guided communities now? If so, how do you see that impacting their overall experience? Then, how do you plan to maintain support in a sort of a non-Roblox communities that are on Guided? Thanks.

David Baszucki

Yes. This really goes to a bit of our vision here. when we speak about Roblox, we are an immersive 3D metaverse platform company. There are complimentary product categories. Guilded is in one. We might call it the social communication and community platform area and we're really interested in the way these types of products work together. We see our—people who play Roblox use various apps sometimes to hop from place to place and communicate outside of those apps even though, internally, we simultaneously are hard at work on immersive spatial audio for people who are in 3D.

Guilded—we came across an amazing team. They're also extremely innovative in a lot of their ideas and what they're building in this area of social communication platform. It gives us the opportunity, in an open way, to experiment with the various ways these classes of applications work together. More to come on that in the future, with future announcements. But, it really gives us this opportunity to experiment with APIs and how these products work together.

David Karnovsky

Okay. Then I was just hoping you could expand on your shareholder letter commentary around Roblox in China so far. What did we learn? How are users engaging the experiences there relative to what you might have seen in other launch markets? Just as a follow-on, how do you kind of evaluate the current or future regulatory risk in the market? Thank you.

David Baszucki

Yes. We have a couple of things. We've started to see that we hoped to see and one is with this vision of a worldwide platform, that simultaneously is compliant with local customs and regulations and things like that, we've seen a few things. One is we started to see amazing content come out of China and started to hit the worldwide platform. Livetopia coming out of China and it's one of the top 12 experiences on Roblox, which is amazing. We've also seen a very great success with a lot of the U.S. global content going into China, which is also a bilateral network effect.

We're really excited about the traction we've seen in China with respect to just the initial user growth. Especially in China, education is so important, both learning to code, learning to create, that we think there's amazing opportunities there to adapt and be beneficial there.

I just saw some stats in South Korea, which shows how well our platform is working in that. The top 10 experiences in South Korea are somewhat different than the top 10 in the U.S. There's a lot of overlap with some of the very top U.S. experiences, but we can also see South Korea-created experiences merging into that top 10. It's our system is working. We're seeing both cultural affinity mixed with global hits.

We're very excited with the growth we've seen in China so far. It's been really gratifying to be live there on both iOS and Android, coupled with our partner, Tencent, and a government license. I think great opportunity and, at the same time, consistent with our values, we take a very long view in China.

David Karnovsky

Thank you.

Operator

Your next question comes from the line of Brian Nowak with Morgan Stanley.

Brian Nowak

Thanks for taking my question. I have two. The first one is—so in the second quarter, it looks like U.S. and Europe DAUs were down quarter over quarter. Just talk to us about sort of what you're seeing in July and August in U.S. and Europe DAUs and sort of some of the drivers of that DAU decline.

Then secondly, kind of a bigger picture one on the competition for developers, specifically the highest-quality developers. Dave, maybe talk to us about how you think about continuing to bring on and retain the highest-quality developers for the ecosystem. In particular, now that you have some other social networks with large budgets and capability to invest to build a metaverse potentially offering developers even higher take rates or higher, better economics, etc.

Mike Guthrie

Okay Mike. First, on DAUs in U.S. and Canada. Year-over-year, in Q2, they were up about 5%. I think you're referring to engagement, which was down year-over-year. So, first of all, largest market, most users, to begin with. I think, in the second quarter, it's pretty clear that, as we have referenced and anticipated when we went public and we talked about the only guidance we've ever given, we expected that during the second quarter. So, our modeling assumption was that COVID would go away during the second quarter and then we would return to normal curve on sign-ups and retention, conversion, and monetization. That's very similar to what happened in the second quarter.

By the end of the second quarter, in June, there was a lot of "reopening", especially in the U.S. and Canada, and United Kingdom. Some of that's reflected in engagement, though, substantially higher than it was in 2019 on a year-over-year basis, flat to slightly down. Then now, in July, it looks like some of those trends are reversing themselves. So, the overall growth in the quarter was definitely driven by Asia Pacific and rest of world, which includes things like South America and Eastern Europe. So anyway, so I think that's just to make sure that we get the trends exactly right.

David Baszucki

Yes. Then this is Dave chiming in on the take rate and just a little bit of our vision going forward. For 15 years, we've been building this platform and we've been supporting that with three major tenets. One is driving innovation, really participating in inventing and shepherding in the metaverse in an innovative way. What's got us here so far is many, many innovations. We have to keep having those in the pipeline and we're trying to scale that linearly as we grow our employee base. Last year, at this time, we had 750 employees. We're over 1,200 this year at the same time.

The second thing is, historically, we've been a metaverse pure-play for the last 15 years. Everything we do piles into making our platform better. We iterate that with 14 groups every single day shipping new and interesting functionality.

Third, we're in a really unique position with a foundation of stability and safety and learning and we're growing from there. We think that's a very positive place for people to come together of all ages and it's a great foundation to build a really big company on.

On the take rates, in Q2, we (inaudible) our engagement-based payouts. As you can see this, I think we announced \$29 million to devs in Q2. So that's on a great track. In general, we much prefer money going to creators systemically as part of the self-service UGC architecture as opposed to any hand-given, grant-type program. That number is going to keep going up.

You can also see with how much cash we're generating when we look at bookings, cash flow-type accounting, there's a lot of room there. We're not making any announcements on the increases to our

developer rate. But generally, we want to maximize the amount we're using for our employees and for our creativity, as well as what's flowing to our developers, and more to come there without any future announcements.

Brian Nowak

Got it. Just to clarify that Mike, from modeling perspective. So, the July DAU trends you're seeing, are you saying you're seeing U.S. and Europe DAUs up quarter-over-quarter, or is that more driven by rest of world? Just so we can understand the modeling.

Mike Guthrie

I'll double-check, Brian. I think it's driven by all regions.

Brian Nowak

Okay. Great. Thanks.

Operator

Your next question comes from the line of Mike Ng with Goldman Sachs.

Mike Ng

Hey, good morning. Thanks so much for the question. You guys have made a ton of progress in diversifying your experiences and aging up your user base. I was just wondering if you could talk about a few of the drivers that have led to that and how that strengthens the durability of the business.

Then as a quick follow-up, I was just wondering if you could preview some of the takeaways that the investment community get from your investor day later this year. Thank you.

David Baszucki

Yes, this is Dave. I think what we're going to be showing at our investor day is as much transparency as we can with respect to both what we're shipping right now as well as our future vision and, hopefully, give a glimpse into the architecture of the company and the architecture we built to drive innovation. So, look forward to some coverage, hopefully, of the whole product stack, going all the way from our apps on multiple platforms to our game engine, to our developer tooling, to our—the technology we use to make experiences run all around the world, all the way into our platform and infra, which allows us to run at high performance and high reliability at low cost. We're hoping to show as much of this as we can and hint at the vision in all of these areas without, at the same time, announcing any public ship dates.

So great stuff. Aging up is something that we talk about. We're actually in the middle of it and we've been talking about it for three or four years. A lot of the visionary stuff we put in place three or four years ago is what's been driving this position now. We are over 50% of the people on our platform are over 13. That includes often personalized search and discovery. It includes increasing immersion of our 3D engine. It includes also a lot of things that we've spoken about that haven't quite shipped now.

We've given highlights that our avatar system has a lot of opportunity and is going to go a full UGC, which will radically increase the diversity of the types of avatars on our platform, which is super exciting. We've given hints that, over time, we would expect, maybe for those of you more familiar with the movie industry, not R rated, but PG, maybe PG 13-type similarities in some of the experiences we do. We've

also been very, very hard at work with the philosophy that we're building a unified platform that is both safe, civil, and educational for six-year old's, while simultaneously very interesting for 22-year old's. That goes all the way from our branding to the performance of our app, to the way people find content, to the way we match-make people. So, it's actually something we're right in the middle of.

The amount of white space in the 13 and upmarket relative to our TAM is enormous because we've got to where we are, very heavily on a very small sliver of the world population, nine through 12-year old's. So, we think a lot of these early signs for 13 and up bodes well for us.

Operator

Our next question will come from the line of Matthew Thornton with Truist Securities.

Anthony Duplisea

This is Anthony Duplisea on for Matt. Thanks for taking the question, guys. I wanted to ask about content extensions outside of gaming experiences. You talked about how the pipeline is evolving with music, arts, and labels. Are there any—is there any momentum with TV studios, networks, and online learning companies? Then how and when could these content extensions start to have an impact on financials? Thanks.

David Baszucki

Yes. So, I love that you brought up online learning. It's starts internally. We have a very big vision around education on the Roblox platform. It goes, as you—I think, Mike hinted at, way beyond learning computer science. It goes into learning all topics that goes on to learning about history immersively, all the way to learning about physics by jumping into a physics experiment. So, we are hard at work on kind of an educational vertical segment and more to come on that within Roblox.

Really, when we think about the metaverse and what Roblox is, we do think of it as a utility, where there's going to be a lot of use cases that we can't even imagine right now. The Gucci Garden's experience, really, for us, was really interesting. It's not really a concert. It's not really a game. It's almost like going to MoMA and going to an art installation. It's really the first Roblox experience my father really liked and just the ability to go around and see what's going on there.

That couples with Netflix as Stranger Things experience on Roblox, which is much more around letting fans participate in an experience immersively rather than watching it. Then that jumps to our vision and our hopes for the future of music, where, for artists and musicians today who are very creative and need to support their careers, it's primarily live concerts or recorded right now. Those live concerts are wonderful and they're immersive, but it's hard to get more than 20,000 people or 50,000 people into a live concert.

Whereas with the Zara Larsson Launch Party, for example, we've been able to go well over 4 million and those numbers go higher. So, we're very optimistic about the future, where musicians can use immersive 3D with live participation that feels very different than watching video. It's with other people. We're very optimistic as it's the third monetization area for musicians to interact with their fans.

Mike Guthrie

Anthony, I'll just want to point out that in things like Gucci Garden, those are monetizing today in very traditional ways. There's a purchase of virtual goods. There was a store at the launch point of Gucci Garden and (inaudible) with users who purchased millions of dollars of virtual items. So today, there are

traditional forms of monetization. In the future, we obviously can imagine different things that we can do with the brand to expand that and with the developer community as well.

Anthony Duplisea

Of course. Thanks again.

Operator

Your next question comes from the line of Drew Crum with Stifel.

Drew Crum

Okay, thanks. Good morning guys. Mike, wonder if you could drill down a little bit further on the monetization of the app DAU metric that you disclosed. It seemed to flatten out in 2Q. Can you discuss some of the puts and takes on that metric?

Then Dave, just to circle back on the brand partnerships and music experiences. Can you talk about any observations you've made in terms of how that's impacted new user growth and what you've seen in terms of retention/engagement trends for that cohort? Thanks.

Mike Guthrie

Hey Drew. Three thoughts on monetization. One is, as we talked earlier, there was a clear broadening of content on Roblox over the last year as more experiences are part of the monetization engine. Some of those experiences are early on in their curves of learning actually how to monetize, and so it's not unusual.

A lot of things in Roblox you can model through with experience curves. So, as some of these experiences are on the platform for longer periods of time, the developers will learn better how to monetize and users will be more engaged and they will want to monetize better. So, that's one.

The second thing is geographic diversification in our base. So obviously, when you look at growth in Asia Pacific and other parts of the world, again, some of those parts of the world are similar to slightly lower GDP per capita. So, you might have lower monetization in those parts of the world because you also have early payer cohorts. So, those payer cohorts, as they get older, what we've seen over many, many years on Roblox is payer cohorts tend to increase cumulative bookings quarter after quarter after quarter.

We still have—if we go back to 2016 and look at Q1 2016 payer cohorts and the cumulative bookings of that payer cohort is continuing to grow at a very consistent and healthy rate. So, some of these new users and new geos are early in their—as payer cohorts and they're early and maturing and over time, they will increase cumulative bookings and bookings overall.

My third comment on monetization is simply just be careful when you're comparing ratios. We do think that we can have very strong bookings and very strong user growth and app DAU can go down. It's just a ratio. If your users are growing faster than your bookings, that would lead you to understand that, in the future, you've got some really powerful tailwinds around bookings, but the users might just be growing faster right now.

Similarly, if you look at just July, hours of engagement were really strong, 3.8 billion hours. Quite honestly, it was a big number. It was probably more than we expected to come out. So, if I happen to be looking at bookings per hour, I might look at that number as having gone down in July. I can tell you,

we're very happy with bookings and we're very happy with hours. So, when you get to the ratio, you just might have a little bit of movement back and forth. So, it's not just the ratios. We should just be careful and make sure we deconstruct that into the growth in the numerator and growth in denominator.

But overall, I think all of those things are weighing in Drew. Thanks.

David Baszucki

Yes. Hey, this is Dave, just following up on the brand partnerships. Really excited about the brand partnerships. At the same time, our core growth is driven primarily virally well beyond the size of the user traffic we're getting from those brand partnerships. That is organic word-of-mouth growth, people talking to friends coming to the platform, being referred by friends. I think we have a bit of a vision, starting all the way from our foundation, that Roblox, ultimately, is a platform that people will use every day to play, to work, to learn together, to communicate together, to be together as a utility when they can't be together in person. Some music and concerts are an exciting way of possibly bringing people to the platform. But the retention comes from staying with friends and socializing with friends and playing with friends following that.

So, I don't—it might be a little controversial. We don't need music events to grow this business enormously large. We don't factor in them as a traffic source. The business is growing organically, but they are a wonderful thing on top of our core organic growth. I think, ultimately, there's a vision where these concerts and experiences will be more and more self-service. We're really focused on building the tools and technology. So, just like games and experiences, concerts are built by a wide network of intermediaries. We also have a vision, ultimately, that they're going on all the time, just as a play is going on all the time right now.

Operator

Your next question will come from the line of Brandon Ross with LightShed Partners.

Brandon Ross

Hi. Good morning. Thanks for taking the questions. I have a big picture one to start. One of the more interesting parts of earnings this quarter was when Zuck said that Facebook is now a metaverse company. I wanted to get your perspective on how you think the broader metaverse will play out in the future. Do you see a distributed metaverse like the broad Internet, or one dominated by a few key platforms like social media? Do you think companies like Facebook will have a real place in the metaverse or do you think metaverse-native companies will be the only real winners?

David Baszucki

Yes, that's a wonderful question. It goes to what we've been doing for 15 years. I'll start with a couple of comments, just big picture comments. The technology is very complex. The technology to support, ultimately, a 50,000-person concert, where we all feel like we're there, we can talk to our friends next to us. We can wave across the stadium, it feels totally realistic, the audio is awesome and there's 50,000 people doing that, that's a huge technological challenge. Side by—so that technological challenge, I just want to put that out there, in that it's very exciting that there's so much work to do. We're pretty far into this. If we look back to Second Life on their dot-com (phon) this started a long time ago.

So, there's a lot of fun stuff to do. Our focus for the last 15 years has been on innovation and invention and really shepherding in where we feel the metaverse is going to go, whether it's when we had four people, right now, we have 1,200 people. That will continue. There's a wonderful focusing effect for a

company like ours when we're only working on one thing. Everything we do piles into making this single platform better and better.

So, we do have this Roblox benefit of extreme focus, with now 1,200 people in that growing. The other thing that we believe but long term for a metaverse utility, it must be a civil and safe platform that welcomes six-year olds and, at the same time, welcomes 30-year olds who are working together.

This is very complicated. This takes—I think it's much easier to start from that civility and safety foundation and then open up the freedom than to try to reel it back in and go the other direction. So, we really think that's a wonderful opportunity for us as well.

I think, as far as openness, we're signaling that with our acquisition of Guilded right now. We do think the various components that people might create and use as part of their metaverse experience, including the way a social community, communication app interacts with an immersive 3D spatial audio apps, is very interesting. We think there's amazing opportunity for creativity on that integration.

So, those are a few hints at how we view—what we're doing for the last 15 years and what we'll do for the next 15 years.

Brandon Ross

Maybe just a follow-up on Guilded. I saw that voice and video are a big part of that. I wanted to ask, as you move from more text-based communication to integrating voice and video for communications, from—how much harder of a problem is that from a safety perspective? How prepared are you for the explosion of those forms of communications on Roblox?

David Baszucki

We take it—it's really our top priority. So, stability, safety, whether it goes to how we build through text, whether it goes to thousands now of live human moderators out in the field, whether it goes to the ML that we use to filter, it's always been our top priority. Doing this for voice and video, ultimately, is very complex. It's something we take very seriously. But we will come at it from that safe foundation that we've always had.

On the audio side, to clarify, I believe that there's two classes of audio. What Guilded does is, think of it as team audio. It's the audio, maybe like a phone call, really, that groups of players use as they hop around various experiences.

I think we've—in our Guilded announcement, we haven't done anything with Guilded to say they will still not keep working with other platforms as well. There's a lot of people from many, many gaming communities on the Guilded platform. Simultaneously, we have a vision of metaverse audio. It's what we shared with you. It's what we do at our company holiday party. It's what we've been prototyping internally, which is really true 3D immersive audio. We think these are going to complement each other in a wonderful way.

Brandon Ross

Thank you.

Operator

We'll now take questions from the webcast audience.

Anna Yen

Okay. So, the first one is from BTIG. Can we talk about the trends, particularly usage and spending trends, between the over 13 and under 13 audience?

David Baszucki

I'll kick that one over to Mike.

Mike Guthrie

Yes, they're incredibly similar is the short answer. If you share engagement and monetization in whether under 13 or over 13 is actually quite similar.

Anna Yen

The follow-up to that was, just curious if we're seeing partnership with Gucci helps stimulate demand for avatar personalization.

David Baszucki

This is a really great, big question. The demand is everywhere. When people participate in an immersive 3D environment, it's so important. We all want it. Our younger players want it. Our older players want it. Everyone wants to represent themselves in the metaverse in a way they feel proud of and they feel comfortable with. When we look at how we work in the real world, I was very picky today on what shirt I picked out, what shoes I wore, how I cut my hair.

This all applies in the digital world as well. It goes to body, clothing, hair or makeup, accessory, glasses, everything. So, building a system where we can have a vibrant market where people can mix and match, where clothing items work on any avatar, where people can have anybody they want and any face they want, is super important to us. As well, it's really been part of Roblox since we started and there's amazing opportunity there.

Anna Yen

Right. We've got a lot of questions coming in about China, particularly what is our response to the government's comments on the gaming piece?

David Baszucki

Yes. We're—one of the reasons that Tencent and Roblox was so excited about going into China, it's how focused parents and kids are in China on education, and how focused they are on learning to code, on participating in creation. That thread, it's been very, very powerful to us. The other thread that has been very powerful to us is, country by country, we're building a distributed worldwide platform that is policy-aware in software and the rules and regulations of any country. If a country has a certain set of laws, we will all abide by them. Our developers are also very understanding that the content they create will, country by country, either be applicable or not.

We have a very long-term view in China. A lot of the play on Roblox is both educational as well as social. It goes way beyond gaming. So, our response is really no response. It's to keep doing exactly what we've been doing. We have a 10-year vision there. We know it's going to be big and interesting. We're in this

unique position with our Tencent partnership, our government license, live on iOS, live on Android and bilateral network effects, a great global content going into China as well as great China content starting to hit the world market. So, our response is to keep doing what we've been doing.

Anna Yen

Okay. Great. The next one comes from on Twitter. Can we provide color on the trajectory of expenses versus bookings growth over the next couple of years? Obviously, there's going to be some catch-up in building the platform, but any insight into the trend?

Mike Guthrie

So, we've been really clear in our discussions around investments that we have a real focus. The first is hiring the best engineers in the world and attracting them and great product professionals to Roblox. We will continue to focus on that. The company is (inaudible) focused on recruiting and growing. We're around about 1,300 employees today, which is fantastic. But our ambitions require a significantly larger group of professionals working in the company.

The second thing is to increase investment in the creator community and the (inaudible) community on Roblox and continue to share a greater percentage of the economics with them over time. Both of those, in effect, are (inaudible) back into faster and more prolific product releases, which tends to drive more content, which tends to drive higher bookings.

So generally, we view our business as having the kinds of cash flow margins where our ability to invest is relatively unconstrained and we're very fortunate to be in that situation. We produce a lot of operating cash flow. Even though we continue to invest in the infrastructure around the world on Roblox, things like data centers in India that we talked about in the letter, we've still been able to, over the long run, generate a lot of free cash flow.

So, we have the ability to invest more aggressively because, ultimately, what we're interested in is a billion users, not high 40 million daily active users, potentially a billion hours of engagement every day on the platform, not—obviously, a much smaller number today. So, we'll continue to invest at heavy rates. We believe, ultimately, the bookings will support that. But we do have a lot of flexibility in terms of margin and we view that as really fortunate. It's a fortunate outcome of our business model. Ultimately, we're trying to get to our end goals of growth and scale as quickly as we can. So, those are the major areas that we'll be investing in.

David Baszucki

Yes. This is Dave chiming in and (inaudible) out what Mike said there. Kudos to our core platform and infrastructure teams who have built such an amazingly high-performance, low-cost, high-reliability network around the world. We've got over 24 edge data centers now. We've got four in China. We've got three primary zones. It's really—that is all money that we're able to funnel back to employee growth and our developer ecosystem.

Anna Yen

Okay. So, the next question talks about July, great July month. Can we talk about the underlying drivers of the performance? Also, specifically, how—maybe give some color on August and September of last year, that the trends were given and the seasonal impact of back-to-school in terms of DAU bookings and monetization?

Mike Guthrie

Yes. Just to take the second question first. It's seasonality in this business, the typical seasonality would be through summer peak is July. August, people start flowing back to school and in September, it is back-to-school. So sequentially, typically, August is lower than July and September is back-to-school time.

If I were—I would look very carefully at year-over-year growth rates in this business now. We're starting to come back to a more normal seasonality, which means, I think, that year-over-year data is insightful. I think we're also comparing into a (inaudible) expectation and belief and certainly, that's been in our financial expectations, is that, notwithstanding Delta variant, schools are opening in September, offices are reopening. That's what we all hoped for, personally and that's what we're expecting. So, I think those normal curves are—will prevail in the third quarter and in the fourth quarter.

Again, typical seasonality. We've talked about this before, is that October, there's usually a pickup from September and November. Eventually, you get to start of the holiday. The pickup in December is always very outsized in terms of that month. That's—it hasn't changed and that's very normal and we've talked about that before. I think that's what we'll see in the back half of this year.

The question on what do we attribute to trends in July? We were very happy to report monthly metrics. It's a great way for everyone to keep up with the business. Trends don't change very much month-to-month. We have been—I've been the CFO of the company for going on four years and we've been talking about international growth and aging up the platform and making those investments for the entire—my entire year at the Company. We're making progress on those from my entirety of the Company. I think what you saw in July, possibly, there's been, there's a little bit of, a little bit of COVID impact between June and July, where things were definitely opening up in June, and July, maybe it's a little more questionable. On the other hand, there are so many other trends that are going on inside the business that, I think, drive the growth and performance, that it's hard to just segregate one of those.

Again, much more content on the platform, a diversity of content on the platform, users growing really fast in places like Asia Pacific and rest of the world, some new payers coming onto the platform. So, we're early in the payer codes. There's just a lot of different things, I think, that are—that feed into the numbers. I just always caution people month to month, I'm not sure that the trends changed dramatically. Unless there's a really big macro shock, you should believe that we're doing the same things to grow the platform with an incredibly long-term perspective.

Anna Yen

Okay. Can we talk about the investment strategy in more detail? Are we investing enough on the creator side to differentiate Roblox studio relative to Unity, Unreal and other game engines?

David Baszucki

Yes. I want to highlight and then I'll kick it over to Mike. Once again, our belief in systemwide investments, which means it's self-service, we have two ways that our developer community builds their business. The first is on the Roblox economy. The second up on engagement-based payouts. We are really proud with what the engagement-based payout system has done in that, over time, more and more developers down ranking 1,000 plus are starting to make a living on our platform without even thinking about it. This goes to hobbyists or new developers. So, we really focus on the depth of that pipeline and getting people successful early on so they can make a decision to jump onto the platform.

We increased those in Q2. There's a lot of room to turn those knobs, even though we're not announcing anything, as we look at where our cash is right now. We would always prefer to turn those knobs rather

than doing manual-by-hand-type investment programs. Our top developers now, whether they're organic on the Roblox platform, or outside companies like the companies that are coming on the platform to build experiences, it's getting (inaudible) serious business. Tens of millions of dollars a year, larger and larger teams of VC-backed teams.

So, I think you can see, say, the future for us will continue to be UGC and, really, system-based and there's a lot of room there. I think that the amount we paid out to our (inaudible) over the last two years is up by about 5x and that will continue. Then, Mike, I don't—would you like to add on to that?

Mike Guthrie

No. I think in the first half of the year, it's about just under \$249 million. We talked a little bit about where we hope that would be on our last call. Obviously, it's on track.

It's (inaudible) again, we really remain (inaudible) focused on our investments, infrastructure, talent inside the company, and the developer community. Outside of that, actually, we're really careful about making an investment. We really are quite focused. The only other significant investments that you're going to see in our numbers in the—probably in the back half of the year will be a little bit around tending improvements because we're growing quickly and we need more space. That's a good thing. We've got one great campus in San Mateo. It's very, very well located. So, we'll make some investments there, but we're incredibly careful about where we put our capital.

I think we are in a really privileged space, because this business, over the 15 years that it's been in existence, has—most of the cash that you see on the balance sheet is generated by the business. So, that gives us the flexibility to continue to invest at high rates. Historically, those investments have proven to be productive in terms of growing the top line of the business. It's been a really great match in terms of the financial model, but we'll continue to do those things.

Anna Yen

Okay. I'm going to take two more. Quick one, fraudulent credit card usage accounted for 5% of bookings. Has it been a persistent problem? (Audio interference) How are we planning on (inaudible).

Mike Guthrie

(Inaudible) numbers have bounced around a little bit, but I don't—I wouldn't assume that you're going to see that number kicking up and causing us any significant issues. But we're focused on it, absolutely. We're laser-focused on making sure that fraud is as low as it possibly could be.

Anna Yen

Okay. Then the last question is on developers. Can we talk about the traction we're seeing with new developers, professional studios, and higher-quality content coming in Roblox?

David Baszucki

Yes, this is Dave. I'll chime in. So, I think Livetopia is a great example. It's out of the team in Shanghai and they broke into the top 12. We have this vision, both the current people on our platform are right now growing into studios that are competitive with any external studio. As the top 5, 10, 20 teams on Roblox are big, they're talented, they're out recruiting on university through a programming talent. So, they stand side-by-side and we're really proud that we've grown these internal studios.

At the same time, external studios, whether they're VC-backed, whether they're backed by other larger studios, we're seeing those as well. So great traction. China, Shanghai studio breaking into the top 12 on Roblox. (Inaudible)

Anna Yen

Okay. Great. I think that's all the time we have for today. We'll hand it back over to David.

David Baszucki

Yes. Just circling back, wishing you, your friends, your families, the Roblox community a hopeful and safe emergence from this COVID situation. Thank you for all your support.

Anna Yen

Great. Operator?

Operator

Thank you, ladies and gentlemen. This concludes today's conference call. You may now disconnect.