PUBMATIC Q1 2024 EARNINGS CALL: PREPARED REMARKS

SAFE HARBOR

A copy of our press release can be found on our website at investors.pubmatic.com.

I would like to remind participants that during this call, management will make forward-looking statements, including without limitation, statements regarding our future performance, market opportunity, growth strategy and financial outlook.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and future conditions. These forward-looking statements are subject to inherent risks, uncertainties and changes in circumstances that are difficult to predict. You can find more information about these risks, uncertainties and other factors in our reports filed from time to time with the Securities and Exchange Commission, including our most recent Form 10-K and any subsequent filings on Forms 10-Q or 8-K, which are on file with the Securities and Exchange Commission and are available at investors.pubmatic.com.

Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you therefore against relying on any of these forward-looking statements. All information discussed today is as of May 7th, 2024 and we do not intend, and undertake no obligation, to update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

In addition, today's discussion will include references to certain non-GAAP financial measures, including Adjusted EBITDA, Non-GAAP Net Income and Free Cash Flow. These non-GAAP measures are presented for supplemental informational purposes only and should not be considered a substitute for financial information presented in accordance with GAAP. A reconciliation of these measures to the most directly comparable GAAP measures is available in our press release.

And now, I will turn the call over to Rajeev.

CEO REMARKS

Thank you Stacie, and good afternoon everyone.

We delivered another outstanding quarter, which highlights the growing need for sell side technology for digital advertising, our strong customer relationships, and our breadth of solutions, resulting in growth across all formats and channels.

Revenue and profit significantly exceeded our expectations, marking multiple quarters of accelerating revenue growth. Revenue grew 20% over Q1 last year. Excluding revenue from Yahoo's owned and operated inventory, year-over-year revenue growth was 25%. Adjusted EBITDA margin was 23% and we generated over $16 million in free cash flow.

I'm incredibly proud of the team's hard work and focused execution, which has positioned us well for the growth opportunities that lie ahead. We've built an integrated platform that is flexible and efficient so we can meet the needs of a growing customer base as we expand our total addressable market. We see continued momentum in the business evidenced by adoption of new solutions and growth in customer count as clients across the ecosystem choose to build their ad businesses on PubMatic technology. With these strong results continuing into April, we are raising our full year guidance.

BUILDING THE SUPPLY CHAIN OF THE FUTURE

Adding to our confidence is the increasing importance of being positioned on the sell-side as the advertising ecosystem evolves.

The need for deep and specialized technology to monetize ad inventory and audiences is increasing at a rapid pace. New opportunities, including changing privacy regulations, the onslaught of new ad inventory from CTV and commerce media, and the increasing need for buyers to control how their ad budgets are deployed, are best addressed on the sell-side, which sits closest to the consumer.

PubMatic is unique. Our focus on our owned and operated infrastructure and strength in organic innovation results in robust technology that efficiently connects buyers and sellers. We've spent 17 years building differentiated solutions and our competitive moat continues to widen even as our logo list continues to grow. These advantages attract both advertisers and publishers to PubMatic, adding scale to the platform and fueling continued growth. Let me explain.

Advertisers are looking to gain scaled access to premium inventory, audiences, and data, which is primarily done through sell-side technology – whether they connect directly to us via Activate or via a demand side platform. Our owned and operated infrastructure provides an efficient, transparent, omnichannel, global, and privacy-forward solution while giving buyers granular capabilities to control how their ad budgets are deployed.

At the same time, premium publishers and data owners are using PubMatic to gain access to our scaled buyer demand, further amplified by Supply Path Optimization and Activate.

Moreover, our addressable market continues to grow as we attract new entrants to the digital advertising ecosystem, like leading streaming providers, commerce media participants, and now social media companies. The most recent example of this is Roblox.

When the global immersive platform was looking to enable programmatic ads for the first time, they tapped PubMatic to power this offering. Not only can PubMatic provide scaled access to premium brand advertising demand through our buy-side relationships, but we also understand the needs of content providers across web and app environments. As Roblox's VP of global partnerships, Stephanie Latham, explained, and I quote, "Partnering with PubMatic unlocks the opportunity for more advertisers to seamlessly engage this community through preferred content formats, like video, while providing advertiser controls around brand suitability."

More broadly, as cookie deprecation nears and privacy regulations increase around the world, the future of digital advertising resides in technology like PubMatic's, that sits closest to the publisher, and therefore the consumer. We have a unique opportunity to tap into the myriad of behavioral, demographic, identity, interest-based and contextual signals that publishers have access to – all while enabling media owners to maintain control of their data and access, a critical component as they build their ad tech stacks.

As we cross the 500-person mark in product management and engineering, we continue to focus on building solutions ahead of the trends that are playing out today – namely buyer spend consolidation via SPO, growth from connected TV, and expansion of commerce media. I'd like to walk through these growing areas and how we've differentiated ourselves in each.

CUSTOMER FOCUS ON EFFICIENCY

Our goal is to maximize content creators' access to programmatic advertising budgets. While we work with top DSPs on a global basis, we know that advertisers and agencies have tremendous influence over how and where their budgets are spent. With large ad budgets continuing to shift from linear to programmatic, SPO via Activate offers ad buyers a highly-efficient and fully-scaled solution that directly connects buyers with premium video inventory while reducing operational friction. Further, our approach focuses on both ad buyers' and content creators' interests. We deliver increased ROI that warrants higher CPMs, which elevates the value of the entire digital advertising ecosystem.

I couldn't be more pleased with the success we are seeing as we continue to expand customer engagement through new products and regions. Several of the top global agency holding companies are in the process of ramping up their adoption of Activate. We've also recently expanded Activate into Latin America.

Our comprehensive suite of buyer solutions is what makes our SPO offering so compelling. As a result, ad buying activity from SPO continues to drive growth across the PubMatic platform.

Our multi-year partnership with GroupM is just one example of how we are meeting the growing needs of buyers. We initially engaged with GroupM for SPO in 2019. Over time, we expanded the relationship from desktop display to mobile, online video, and ultimately connected TV. We further partnered to power their Premium Marketplace across Europe and Asia and most recently in the U.S. In 2023, we launched a comprehensive Private Marketplace Deal Library across multiple GroupM agencies which consolidates media buying onto approved inventory packages that meet their performance and quality standards. And just this past month, we announced a first-of-its-kind solution to deliver AI generated cohort-based audience models customized for each GroupM advertiser client. What's most interesting about this journey is that it can only be done with technology like PubMatic's that sits on the sell-side.

At the end of the first quarter, SPO activity increased to 50%, up four percentage points from the end of Q4. Our SPO activity is creating a growing moat and flywheel to attract new publishers who want access to the unique demand only available on PubMatic.

I anticipate that over the next several years, there is potential for SPO activity to be 75% of our total buyer activity. Driving this confidence are a few things:

1. The nature of our land and expand strategy. Our net spend retention rate from ad buyers with at least three years of spend reached 125%, which gives us high visibility into impression and revenue growth;
2. We are adding 50% more buyer-focused salespeople this year so that we can bring the same efficiencies and high ROIs to mid-tier agencies and large advertisers as they too embark on SPO initiatives; and
3. Total global digital ad spend is estimated to grow by 32% over the next four years to nearly $850 billion. We will disproportionally benefit as the industry continues to consolidate. The capital outlay needed, global scale requirements, and ongoing pace of innovation make it challenging for other platforms to compete and even harder for new entrants to emerge.

At the same time, publishers are also mandated to find increased efficiencies and greater monetization. Both of these objectives can be solved by shifting from in-house software to PubMatic solutions, which allows publishers to focus on their core competencies - creating content and connecting with consumers – while leaning on trusted experts like PubMatic to power more of their tech stack.

For example, OpenWrap, our header bidding wrapper solution across CTV, mobile app, and web environments, drives increased yield for publishers and streamlines their engineering and ad operations. Publishers like Realtor.com, Internet Brands, sports app LiveScore, and NPR are increasingly realizing the benefits of OpenWrap as we have more than doubled the number of paying customers year-over-year.

STREAMING MEDIA CONSUMPTION

This same mandate, to find increased efficiencies and greater monetization, holds true for streamers. Even the biggest names in CTV are opening up their inventory and data to access a greater proportion of ad budgets in order to drive growth. In fact, as an increasing share of CTV ad budgets move to programmatic transactions, top streamers are increasingly adopting PubMatic to support direct transactions with buyers via private marketplace or programmatic guaranteed auctions. Beyond the one-to-one direct access, our technology enables streamers to optimize yield across multiple bidders and improve impression-level data available to buyers that can drive higher yield.

Our strategy to penetrate CTV budgets is multi-pronged. First, our growth in SPO and Activate provides publishers with unique demand on the PubMatic platform not available elsewhere. This creates a catalyst for growth, allowing us to rapidly expand our CTV publisher base, which increased 15% year-over-year in Q1. Further, as publishers derive value from our platform, they are increasingly choosing to move more of their direct-sold deals to PubMatic, which is a significant portion of how CTV and online video is sold today.

The results of our strategy are clear. Last quarter, we added DISH Media and Vevo to our platform, and we most recently onboarded Virgin Media, one of the UK's premier entertainment and communications companies. Virgin Media selected PubMatic as one of only a few sell-side technology companies helping to power their free ad-supported TV (or FAST) offering because of our strength in SPO and private marketplaces.

We believe we are at the early stages of this new CTV and online video flywheel for growth, particularly as Activate begins to ramp.

COMMERCE MEDIA GROWTH

Convert, our commerce media platform, also benefits from the scale of premium inventory on our platform. This supply, coupled with the richness of our data capabilities, allows us to attract retail media budgets. Programmatic retail media expands our TAM by $10B in the fastest growing part of the market where ad buyers use retailers' unique data sets to deliver relevant, high performance ad campaigns. Further, this is a nascent market today with plenty of greenfield opportunity.

In addition, commerce media sites, with their trove of first-party data signals, stand to benefit the most as the third-party cookie is eliminated. As this transition unfolds and adoption of alternative signals increases, a more resilient supply chain will emerge delivering more relevant ads for consumers, better performance for advertisers, and superior monetization for content owners. We integrate directly with retailers and their data, positioning us well for growth in retail media.

We are already seeing strong interest in Convert from some of the largest commerce media platforms. Just a few weeks ago we announced a partnership with Instacart, allowing buyers to leverage Instacart's first-party retail media data to reach audiences across our expansive inventory. Equally important, because we sit primarily on the sell-side of the ecosystem, with direct access to scaled, omnichannel inventory, we are in a unique position to deliver offsite audience targeted campaigns in a privacy-compliant way.

As these large content creators embrace their advertising potential, they are also choosing PubMatic to power their on-site inventory. Klarna, the global payments company that boasts the world's fastest growing community of shoppers, recently partnered with PubMatic to monetize the native inventory on their app. They chose PubMatic because of the scale we provide so that any advertiser, regardless of their DSP, can reach Klarna's highly-engaged audience at the point of purchase for better campaign performance.

While still early days for Convert and our commerce media business, I'm excited about the breadth of opportunities ahead of us. Our strong agency and advertiser relationships driven by SPO and Activate, coupled with our strong portfolio of audience solutions, are gaining traction with commerce media companies.

OPPORTUNITY FOR THE OPEN INTERNET

Collectively, the driving forces of innovation and growth in our industry are creating a wealth of opportunity for the Open Internet. Buyers are looking to engage their audiences alongside brand-safe, professionally curated content, which the walled gardens do not provide.

I've had numerous conversations with key advertisers and media buyers at global ad agencies about how they are actively looking to move media buys out of walled gardens, but need the performance and ROI that they are accustomed to. I believe that the Open Internet has the potential to deliver performance consistent with walled gardens, especially after third-party cookies are deprecated and first-party data from CTV publishers and commerce media partners continues to scale.

CONCLUSION

In summary, we delivered an outstanding start to the year, with continued momentum into April. We've added new clients and established deeper relationships with content creators and buyers, and we are investing in the highest return areas of the business like Activate for SPO, Connect for data, and Convert for commerce media. As a result, we expect revenue growth to accelerate in 2024.

Our competitive moat is widening, as is the need for sell-side technology. Those that are looking to build their advertising businesses need three things: technology that carries them into the future and ensures control of inventory, data and buyer preferences; access to premium inventory and buyer demand; and an efficient, transparent path to execute direct programmatic transactions.

At PubMatic, we have global, omnichannel scale, a rich innovative product roadmap and the resources for ongoing investment. We have tremendous opportunity in front of us as we expand our addressable market and deliver real value to content creators, buyers and data partners.

I will now hand it over to Steve for the financial details.

CFO REMARKS

Thank you Rajeev, and welcome everyone.

We once again exceeded guidance on the top and bottom line, led by strong execution and continued momentum in our business. Several factors drove accelerated year-over-year revenue growth of 20%.

- Monetized impressions increased for every format and channel, in aggregate by 17%;
- CPMs were stable across formats and channels; and
- Emerging revenue streams, comprised of new products, data partnerships and enterprise software integrations, contributed approximately two percentage points of growth in the quarter, on track to double their contribution by the end of the year.

This strong out-performance also drove incremental margin expansion, with adjusted EBITDA margins of 23%, once again demonstrating the strength of our business model which is built on owned and operated infrastructure, innovation investments to deliver differentiated products, and operational excellence. Compared to Q1 last year, we doubled our adjusted EBITDA and tripled our free cash flow.

REVENUE

Breaking Q1 down by format and channel, which includes Yahoo unless otherwise called out:

Omnichannel video revenue from CTV, mobile and desktop devices grew 33% over Q1 last year, driven by an increase of monetized impressions by more than 50%. As we continue expanding our roster of new customers and growing our share of wallet with existing customers, we see a long runway of opportunity in this high value channel.

We also saw continued strength in display, most of which was via the mobile channel. Display revenue grew 10% over Q1 last year, led by a double-digit percentage increase in monetized impressions. Excluding Yahoo owned and operated inventory, display revenue grew 17% year-over-year.

On a global basis, every region grew double-digit percentages in the first quarter.

As mentioned in prior earnings calls, our results include the revenue headwind in our business from Yahoo. Excluding revenue from Yahoo’s owned and operated inventory, revenue grew significantly by 25% over Q1 last year. We anticipate this headwind diminishing in the second half.

We also added 99 publishers on a year-over-year basis, including premium CTV and transactional commerce brands.

And we grew our existing publisher revenues on a trailing twelve-month basis with net dollar-based retention at 106%. Excluding Yahoo, net dollar-based retention was 114%.

Looking at growth in ad spend, the top ten ad verticals combined increased by 20% compared to Q1 last year. Within this group, the majority of ad verticals grew nearly 30% year-over-year.

Our relationships with buyers continued to expand as activity from SPO climbed to 50% of total activity on our platform. Underscoring the long-term strategic value and stickiness of these relationships, the trailing 12-month net spend retention rate from SPO partners with at least three years of spending on our platform was 125%. As the share of SPO to total activity increases, we anticipate revenue visibility further improving and the proportion of high-margin revenue growing.

2024 OPERATING PRIORITIES

In February, I outlined our key operating priorities for delivering accelerated year-over-year revenue growth and incremental margin expansion. Consistent with our long-term track record, we remain focused on investing in high impact, high return projects while driving further efficiencies across the business.

First, we are executing our plan of adding over 150 net new team members this year to accelerate product innovation and go-to-market expansion.

- We are adding engineers to create incremental monetization opportunities for PubMatic as we generate both publisher revenue and data fees from our Connect transactions. Prior investments in this area have led to increased value creation for clients, resulting in the number of Connect customers more than doubling over the last 12 months. These investments are also focused on expanding our alternative data signals.
- Similarly, increased sales and engineering investments in OpenWrap have broadened our value proposition and the capabilities that we deliver. Our wrapper solution generates revenue via our core SSP revenue stream as well as -a software-based fee from all publisher revenue flowing through the wrapper.

- We've also expanded our buyer-focused sales team by nearly 20% year-over-year to accelerate growth in SPO and Activate. We expect this broader team will enable us to further penetrate large agencies and advertisers as well as bring on mid-tier buyers who are starting to embark on SPO initiatives. You'll recall that in February, I shared that our plan was to increase this SPO focused team by 50% over the course of 2024.

Second, we continue to make prudent investments in capex, with a focus on funding new products and efficiently increasing capacity on the platform. As previously communicated, we anticipate full year capex to be marginally higher than last year's level.

And third, our team is building on cost saving efforts from last year and optimizing via software and AI to deliver incremental efficiencies across our owned and operated infrastructure.

For the trailing 12 months, these efforts reduced our cost of revenue per million impressions processed by 10% compared to the comparable prior 12-month period.

OPERATING EXPENSES

Moving down the P&L. GAAP operating expenses in Q1 were in line with expectations at $46.8 million, an 11% increase over the prior year reflecting targeted investments across the business.

NET INCOME

Q1 GAAP net loss was $(2.5) million or $(0.05) net loss per diluted share. Non-GAAP net income, which adjusts for stock-based compensation expense, and related adjustments for income tax was $4.8 million or approximately $0.09 per diluted share.

BALANCE SHEET AND CASH

We have a strong balance sheet that supports our long term capital allocation strategy. We ended the quarter with $174 million in cash and marketable securities and zero debt.

Year to date through April 30, 2024, we repurchased 1.1 million shares of Class A common stock for $20.1 million in cash. Since the inception of our repurchase program in February 2023, we have repurchased a total of 5.1 million shares for $79.4 million. We have $95.6 million remaining in our repurchase program authorized through December 31, 2025.

We generated $24 million in net cash provided by operating activities and delivered $16 million in free cash flow, which was more than three times the free cash flow we generated in Q1 of last year.

FINANCIAL OUTLOOK

Now turning to our outlook.

In Q1, we saw terrific growth across our business and this momentum continued through April with revenues up double-digit percentages over last year. Both omnichannel video and display revenues in April increased over last year and the majority of our top 10 ad verticals grew over 20% year-over-year. We are also making steady progress on our 2024 operating priorities in terms of hiring for continued product innovation and go-to-market expansion that we believe will help accelerate year-over-year revenue growth.

These data points give us confidence in our underlying growth strategy and the effectiveness of the growth investments we are making.

Our Q2 and full year outlook also reflects an anticipated headwind as one of our top DSPs has informed us it is modifying its bidding methodology in Q2. This change had been made by other DSPs over the past several years. Nearly 100% of impressions on our platform will now be transacted via a similar bidding approach. Based on prior experience from similar DSP changes, we expect lower bid prices from this specific buyer to be partially offset by real-time competitive reactions by other DSPs. Further, we anticipate that our strong underlying growth across ad formats, channels, and regions, as well as growth of our emerging revenue streams, will help us offset this headwind throughout the year.

For Q2 revenue, we are projecting $69 to $71 million, or approximately 11% year-over-year growth at the midpoint.

For the full year, we expect revenue between $296 and $304 million, or 12% year-over-year growth at the midpoint.

In terms of costs, we expect GAAP cost of revenue to increase sequentially each quarter in the low single-digit percentages range.

We also expect Q2 GAAP opex and subsequent quarters to increase sequentially in the low single-digit percentages as we continue to invest for long-term growth.

With our revenue guidance and expected cost structure, which is largely fixed in the near term by design, we expect Q2 adjusted EBITDA to be between $17 and $19 million or approximately 26% margin at the midpoint.

For the full year, we expect adjusted EBITDA to be between $90 and $94 million, or approximately 31% margin at the midpoint.

We expect capex between $16 to $18 million for the full year.

IN CLOSING

In summary, we had a very strong start to the year, which continued into April. SPO relationships now account for 50% of activity on our platform, we added significant new customers, all regions grew double digit percentages, and new products are contributing to growth. Our results highlight the profitability and durability of our model as we focus on sustained innovation, go-to-market expansion and operational excellence.

As one of the largest, independent sell-side technology providers, I am very excited about our long-term growth opportunities and the trajectory we are on for sustained double-digit revenue growth this year and beyond.

With that I will turn the call over to Stacie for questions.