IAS Q3 2024 Prepared Remarks

Jonathan Schaffer, SVP, IR

Thank you. Good afternoon, and welcome to the IAS 2024 third quarter financial results conference call. I'm joined today by Lisa Utzschneider, CEO, and Tania Secor, CFO.

Before we begin, please note that today's call and prepared remarks contain forward-looking statements. We refer you to the company's filings with the SEC, posted on our investor relations site at https://investors.integralads.com/financials/sec-filings for more details about important risks and uncertainties that could cause actual results to differ materially from our expectations.

We will also refer to non-GAAP measures on today's call. A reconciliation of non-GAAP measures to the most directly comparable GAAP measures is contained in today's earnings release available on our investor relations site, https://investors.integralads.com/financials. All financial comparisons, unless noted otherwise, are based on the prior-year period.

With these formalities out of the way, I'd now like to turn the call over to our CEO, Lisa Utzschneider. Lisa, you may begin.

Lisa Utzschneider, CEO

Thank you Jonathan. Welcome everyone to our 2024 third quarter call. We reported a double-digit increase in total revenue for the quarter with growth across our optimization, measurement, and publisher businesses. We also advanced our technology and product innovation, expanded platform partnerships including our first-to-market Meta optimization solution, won new customers including from Oracle, and announced strategic, senior-level hires.

While we made significant progress towards positioning IAS for long-term sustainable performance, our third quarter revenue growth of 11% was limited by a slowdown in volume growth in the near-term, most notably in CPG and retail. As a result, we are taking a prudent approach to our fourth quarter and full-year outlook and expect fourth quarter revenue growth of 11% consistent with the third quarter. The fourth quarter is expected to represent approximately 28% of full year 2024 revenue, on par with last year's fourth quarter contribution.

We exceeded our adjusted EBITDA expectations for the third quarter by diligently managing our costs. We reported a record third quarter adjusted EBITDA margin of 38% which we expect to maintain in the fourth quarter.

IAS is a market leader based on our differentiated technology, including our suite of AI-backed products, and our ability to deliver greater ROI and efficiency to brands on their advertising spend. In recent months, we have enhanced our executive leadership, platform partnerships, and product offerings to drive long-term growth.

In September, we welcomed Marc Grabowski to IAS as Chief Operating Officer and Srishti Gupta as Chief Product Officer. The addition of Marc and Srishti to our leadership team strengthens our customer-first approach and advances our product development to meet the future needs of our customers and partners. Marc and Srishti's visionary leadership furthers IAS's commitment to customer obsession and superior product development.

Marc brings extensive global leadership experience across the demand and supply sides of the advertising industry, spanning both enterprise and mid-market. He joined IAS from Oracle Advertising where he led their global commercial organization for Oracle's advertising products including Moat, Datalogix, BlueKai, and Grapeshot. He also brings senior-level leadership experience at Criteo, Persio, and Yahoo!. As COO, Marc leads our commercial organization encompassing global revenue, customer success, and marketing.

Srishti has a proven track record of launching ad measurement and optimization products at global scale. At Amazon, Srishti spearheaded the creation of cross-channel measurement and optimization products. She also brings additional measurement experience from her tenure with IRI, now Circana, where she built products from the ground up. Most recently, she served as Chief Product Officer at Rokt, an e-commerce technology company, where she ensured a highly relevant experience across billions of e-commerce transactions. At IAS, Srishti leads our global product team, go-to-market initiatives, product marketing, and research and insights.

Marc and Srishti have hit the ground running spending time with our customers, identifying opportunities to advance our go-to-market capabilities, and positioning IAS for success in 2025.

We continue to maintain a strong pace of new business momentum, including greenfield opportunities with major global brands as well as signed partnerships with advertisers, publishers, and platforms previously with Oracle. We won more than 75 new Oracle customers since June representing a 72% win rate on Oracle opportunities in which we participated. We have hired over 30 former Oracle employees which we believe gives us an advantage in securing and onboarding Oracle customers. New Oracle wins include brands such as Peacock, Heineken, and Emirates, platforms such as The Trade Desk, Quantcast, Nextdoor, Kargo, and Pandora, and publishers such as Dow Jones, Bloomberg, NASCAR, Conde Nast, and TripleLift. Let me provide some additional color on some of these recent wins:

Peacock switched from Oracle Moat to IAS as part of the Moat deprecation, taking advantage of the seamless integration with auto-tagging and our CTV offerings.

Heineken selected IAS as their exclusive global strategic partner, replacing Oracle Moat. IAS was awarded the opportunity based on our robust Total Visibility solution, which delivers transparency into media quality and cost across the programmatic supply chain, along with our full suite of core measurement solutions, including Quality Attention and sustainability.

Emirates, the global airline based in Dubai, chose IAS as their global measurement and optimization provider following a competitive process. IAS won the Emirates opportunity based on our superior coverage, industry-leading CTV offerings, the strength of our product roadmap, commitment to technology innovation, and personal in-market service.

In addition, we expanded our relationships with existing customers as part of several recent contract renewals:

Volvo Cars renewed and expanded its global relationship with IAS. The expanded partnership includes post-bid Total Media Quality (TMQ) across social platforms, Total Visibility, and made-for-advertising reporting, as well as pre-bid brand safety, invalid traffic, and contextual avoidance.

Opella, previously Sanofi CHC, a multinational healthcare company, renewed and expanded its global agreement with IAS. Our agreement with Opella now includes TMQ, attention, and sustainability measurement.

Verizon recently expanded its relationship with IAS to include contextual avoidance across its business lines in the U.S. IAS's Context Control suite helps protect the Verizon brand across its programmatic channels. Verizon has been a valued IAS customer since 2016 and was most recently an early adopter of our Total Media Quality product on major social platforms.

IAS is a trusted partner to brands as they embrace an omnichannel marketing strategy. TMQ, our AI-driven multimedia classification technology for social live feeds, continues to drive measurement performance.

We have extended our TMQ capabilities on both new and existing platforms. With Meta, we are now supporting 6 additional languages for brand safety and suitability measurement for a total of 34 languages in over 100 countries. We recently expanded our TMQ offering on TikTok to include viewability, invalid traffic and brand safety and suitability measurement across several new ad placements. These include TikTok's Profile Feed, Following Feed, Search Feed, and TikTok Lite. We are also expanding TMQ for TikTok, Vertical Sensitivity, and Category Exclusions controls coverage to 75+ markets by the end of 2024. In addition, we are live with TMQ on new platforms including first-to-market with Snap, Pinterest, and Reddit scheduled to launch by the end of this year.

At IAS, we lead with customer obsession. The voice of the customer informs everything we do. We build products based on customers' needs in areas that can drive accelerated revenue growth.

Heading into this year's U.S. elections, marketers asked us to enhance our TMQ measurement offering to include misinformation detection in social media feeds. Previously available only on the open web, we launched our misinformation detection capabilities on TikTok and Meta in April in advance of the general election and several months ahead of our nearest competitor. In September, we announced the launch of brand safety and suitability reporting for misinformation on YouTube.

Pre-bid optimization in social media is another emerging area where we are meeting customer demand with industry-leading innovation. Using our pre-bid social products, brands can now optimize their ad placements, customize their suitability settings, eliminate waste, and increase ROI. The pre-bid solutions are integrated within our full optimization suite so customers can apply their open web preferences seamlessly within social environments.

Our differentiated classification technology has accelerated the roll out of our pre-bid optimization offering across the major social platforms. We were delighted that Meta selected IAS as their initial partner for the testing of our pre-bid optimization solutions on Meta. Our third-party content block listing solution for ads on Facebook and Instagram Feed and Reels offers global advertisers the ability to automatically avoid placing ads next to unsuitable content for their brands, as aligned to industry standards. This launch closes the loop from pre-bid optimization to post-bid measurement on Meta.

The launch of pre-bid optimization on Meta in October follows earlier pre-bid integrations with TikTok, LinkedIn, and X. Last month, we announced that we are currently in alpha testing in partnership with TikTok for our new video-level exclusion list solution as we extend the reach of our pre-bid offerings on the platform.

Pre-bid optimization more than doubles the size of our social opportunity and builds on our post-bid social media measurement revenue which accounted for 22% of total revenue in the third quarter and over $100 million dollars in annual revenue.

Last week, we announced the launch of IAS Curation on Google Ad Manager. With IAS Curation, advertisers can now consolidate bidding on high quality inventory and precisely target contextually relevant content to drive efficiency for their ad buys. This launch is the latest expansion of IAS's long standing partnership with Google. IAS is currently the only verification provider supported in Google's Curation launch.

Last month, we announced the expansion of our Quality Attention post-bid measurement product to publishers and sell-side platforms. Leveraging our ML-backed models, Quality Attention weighs metrics into an actionable attention score, which publishers and SSPs can use to take advantage of their best performing inventory.

In CTV, we are investing in all layers of the stack, including device, publisher, and delivery with the goal of unlocking a projected $40 billion dollar ad spend market by 2027 according to eMarketer. Our core customers are accessing the full suite of our Publica products which allows us to drive even greater optimization across demand sources. We have introduced new product features to increase bidding competition in ad auctions. Publica recently won the prestigious Video Week Award for Best CTV App Innovation, showcasing our superior technology and the commitment of our global team.

Throughout 2024, we have also pursued strategic partnership discussions with prominent data providers, aiming to enrich our first party media quality signals. We expect these collaborations will allow us to measure campaign outcomes at a deeper level, while expanding IAS's monetization potential. Our goal is to enable advertisers to leverage IAS's data with trusted third-party datasets and optimize their campaigns to meet key performance objectives. This initiative underscores our commitment to providing measurable value and high-quality insights, and we look forward to building on our progress in 2025.

To conclude, we delivered growth and profitability well above the Rule of 40 and we're taking steps to improve business performance. We have strengthened our senior leadership team with recent C-level appointments, and we are winning new revenue opportunities including Oracle's former advertising customers. As highlighted by our first-to-market pre-bid optimization solution on Meta, we are leading with product innovation informed by the voice of the customer. We expect to benefit from these initiatives with a focus on delivering double-digit revenue growth in 2025.

And with that, I'll turn the call over to Tania to review the financials and then we'll take your questions.

Tania Secor, CFO

Thanks Lisa and welcome everyone.

We reported 11% revenue growth for the third quarter with gains across our optimization, measurement, and publisher businesses. In addition, we reported record profitability with an adjusted EBITDA margin of 38%.

As Lisa noted, advertiser revenue growth for the quarter was limited by a slowdown in volume growth in the near-term, most notably in CPG and retail. We attribute this to budget cuts and delays in digital media spending in these verticals in the second half of the quarter. In addition, while we're seeing healthy adoption of several new products launched this year, we experienced lower-than-anticipated monetization in the period.

Total revenue in the third quarter increased 11% to $133.5 million dollars.

Optimization revenue grew 7% to $61.1 million dollars in the third quarter. Optimization revenue growth in the period reflects increased adoption of our Context Control avoidance offerings, including Quality Sync and made-for-advertising.

Measurement revenue increased 11% to $52.9 million dollars in the third quarter. Measurement growth was driven primarily by increased adoption of our premium TMQ offering across the global social platforms. Social media revenue grew 21% and represented 55% of measurement revenue, up from 53% in the second quarter of 2024. Social media revenue represented 22% of total revenue in the third quarter. Open web revenue, which represented 45% of measurement revenue, was consistent with the prior year period. Video grew 15% in the third quarter as a result of the growth of social media and accounted for 56% of measurement revenue.

Total revenue from advertisers, which includes both optimization and measurement, represented 85% of total revenue in the third quarter.

Publisher revenue increased 26% to $19.5 million dollars, ahead of our growth expectations for the third quarter. We scaled new products in Publica, particularly with our large OEM partners, and saw some benefit from political spend. Non-CTV IAS publisher revenue also increased in the period. Publisher revenue represented 15% of total third quarter revenue.

We believe our extensive global footprint continues to be a competitive differentiator. International growth of 11% benefited from adoption of our social media products, including TMQ, as well as the contribution from new logos. 31% of our total revenue in the third quarter, or

$41 million dollars, came from outside of the Americas. In addition, 44% of measurement revenue was from outside of the Americas.

Gross profit margin for the third quarter was 80%, up from 79% in the prior-year period. Gross margin performance reflects improved optimization of our hosting costs.

Sales and marketing, technology and development, and general and administrative expenses combined increased 4% year-over-year. We continue to make strategic hires including new Oracle talent, while closely managing costs. Stock-based compensation expense for the period was $16.4 million dollars, in-line with our prior outlook of $16 to $17 million dollars.

Adjusted EBITDA for the third quarter, which excludes stock-based compensation and one-time items, was $50.6 million dollars, above our prior outlook of $48 to $50 million dollars. Adjusted EBITDA margin increased to 38% from 34% last year. Higher gross profit margin, increased capitalization of internally developed software, and greater operating expense efficiencies contributed to our strong adjusted EBITDA margin in the third quarter.

Net income for the third quarter was $16.1 million dollars, or 10 cents per share, compared to a $13.7 million dollar loss in the third quarter of 2023. The net loss in the prior-year period was driven by the timing of our income tax provision related to stock-based compensation from the return target options expensed in the second quarter of 2023.

Moving to our performance metrics:

- Our third quarter net revenue retention, or NRR, was 108% which reflects the trend of our overall advertising revenue growth rate for the trailing 12-month period.
- The total number of large advertising customers, which includes both mid-tier and top-tier clients with annual revenue over $200,000 dollars, grew to 232 compared to 219 last year.
- Revenue from large advertising customers was 85% of total advertising revenue on a trailing 12- month basis.

We continue to generate strong cash flows and maintain a healthy balance sheet with cash and cash equivalents at the end of the third quarter of $57 million dollars. During the quarter, we reduced our long-term debt by $30 million dollars to $65 million dollars. As a result, our net debt at the end of the third quarter was $8 million dollars.

Turning to guidance:

- For the fourth quarter ending December 31, 2024, we expect total revenue in the range of $148 to $150 million dollars, or 11% year-over-year growth at the midpoint.
- Our fourth quarter revenue outlook assumes the continuation of lower volume growth in the near-term, most notably in CPG and retail. We have also factored in lower-than-anticipated monetization of new products in the fourth quarter. In addition, at the start of the quarter, we were impacted by softening brand spend leading up to the U.S. elections. Our fourth quarter outlook includes the anticipated contribution of the new Oracle wins discussed earlier.
- Adjusted EBITDA for the fourth quarter is expected in the range of $55 to $57 million dollars, or a 38% margin at the midpoint.
- For the full year 2024, we are updating our revenue outlook to $525 to $527 million dollars, or 11% year-over-year growth at the midpoint.
- We are increasing our full-year adjusted EBITDA outlook to $185 to $187 million dollars, or a 35% margin at the midpoint.

A few additional modeling points:

- As a result of our strong gross margin performance, we now expect to achieve the upper end of our full-year gross margin target of 77% to 79%.
- Fourth quarter stock-based compensation expense is expected in the range of $15 to $16 million dollars and $62 to $63 million dollars for the full year.
- We expect weighted average shares outstanding for the fourth quarter in the range of 162 to 163 million shares and 160.5 to 161.5 million shares for the full year.

As we move into 2025, we will continue to focus on profitable growth. While we are not providing 2025 guidance today, we are planning for double-digit revenue growth in 2025, and we are expecting moderate growth in Q1, with a ramp through the year. We expect to benefit from the scaling of products launched in 2024 as well as the adoption of pre-bid optimization in social media, along with the full-year contribution from recently won Oracle business.

We will continue to invest in differentiated products in 2025 while managing our costs and maintaining strong profitability. We are targeting full-year adjusted EBITDA margin in 2025 similar to the forecasted margin of our 2024 outlook which will keep us well above the Rule of 40 for the fifth consecutive year since IPO.

And with that, Lisa and I are now ready to take your questions. Operator?