IAS Q4 2022 Prepared Remarks

Jonathan Schaffer, VP, IR

Thank you. Good afternoon, and welcome to the IAS 2022 Fourth Quarter and Full Year 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 investors.integralads.com, 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, investors.integralads.com/financial-information/sec-filings. 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

Thanks Jonathan, and welcome everyone to our 2022 fourth quarter and full year call. We reported a strong fourth quarter with revenue growth of 15% at a 34% adjusted EBITDA margin. Revenue of $117.4 million dollars exceeded our forecast of $111 to $113 million dollars. For the full year, revenue grew 26% to $408.3 million dollars at a 31% adjusted EBITDA margin. Today's results demonstrate our ability to deliver profitable growth at greater scale.

I am proud of the entire IAS team for what we accomplished together in 2022. By prioritizing technology and product innovation, superior customer service, and deep partner integrations, we ended the year with positive business momentum heading into 2023.

Let me start with a few highlights from 2022:

- We invested in our platform partnerships and product expansion in programmatic, social, and connected TV. We signed 12 new global partnerships, broadening our measurement capabilities and reach to benefit our marketers.
- In 2022, we won several large multi-year deals including JP Morgan Chase, LinkedIn, Progressive, and Kimberly-Clark. Today, we are excited to announce several new competitive wins that reinforce our standing in the market as a leading provider and formidable competitor. Ford, Hershey, Bel and Kering selected IAS after extensive tech and product due diligence versus other competitors. As these are major global wins with marquee brands, we'd like to walk you through why they chose to partner with IAS:
    - Ford selected IAS as their global ad verification partner. We expect to expand our coverage with Ford from 17 to over 50 markets, including the U.S. which had been serviced by an incumbent provider. We are proud that our robust brand safety technology continues to attract new customers.

    - Hershey chose IAS based on our differentiated CTV technology, campaign automation, and high standard of service.
    - Bel, a world leader in branded cheese including Babybel, and a major player in the healthy snacking segment, awarded IAS with a global deal. Bel was impressed by IAS's measurement capabilities, our integrations with the leading tech partners, and our superior customer service.
    - Kering, a major worldwide luxury group with notable brands such as Gucci and Yves Saint Laurent, signed a global deal with IAS in the first quarter of 2023. We clinched this win as a result of our leadership in the luxury vertical, superior technology, integrations with Google, and exceptional client support.
- Our enhanced go-to-market strategy under our new Chief Commercial Officer is yielding returns as highlighted by these global brand wins.
- We are the leading global provider of digital media quality with the largest international footprint. In 2022, we expanded our global presence in markets including India, Indonesia, South Korea, Taiwan, Vietnam, Denmark, and Norway. We recently opened a new office in Dublin, Ireland focused on engineering and technical services.
- Lastly, we enhanced our senior leadership team with key appointments including Tania Secor as CFO who joins us today. We increased our employee count to 835, up 10% year-over-year. At the same time, we realigned our resources to drive greater efficiencies.

Now let's review some of the key growth drivers of our business including programmatic, social, and CTV.

In programmatic, contextual and non-contextual revenue increased in the quarter. Context Control contributed approximately $86 million dollars to total revenue in 2022.

Marketers value our solutions to avoid inappropriate content and target high performing content to maximize engagement with consumers. They are also prioritizing efficiency and automation in the current environment. As a result, marketers are shifting budgets to programmatic and relying on IAS to drive higher return on their ad spend. Our Quality Sync pre-bid product, which is integrated with large DSPs including The Trade Desk, enables partners to leverage our contextual tools in an efficient way. In addition, Total Visibility, our quality path optimization solution, helps customers increase efficiency and improve ROI in their programmatic ad spend.

Our attention metrics help marketers optimize their buying decisions based on placement and media partner at the campaign level. Our research conducted in 2022 demonstrates that there is a 180% lift in return on ad spend for in-view ads versus not-in-view. In addition, we found that there's a 171% increase in conversions for impressions with time-in-view greater than 15 seconds.

In social media, we are accelerating growth based on our advanced multimedia classification, or MMC, technology and platform expansions. As a reminder, our MMC technology powers content-level brand safety solutions at scale; it maps frame by frame, video-level data to the Global Alliance for Responsible Media, or GARM brand safety categories:

- Our TikTok offering includes a full end-to-end measurement suite in TikTok's For You feed. We're driving customer adoption of our TikTok offering with active post-bid campaigns up 54% in the fourth quarter compared to the third quarter. In 2023, we aim to scale marketer demand for our TikTok solutions and expand availability into over 20 additional markets.

- IAS is excited to join the TikTok Marketing Partners Program as a badged measurement partner for their new Brand Safety & Suitability specialty. IAS was chosen thanks to our record of wins on TikTok and meeting their highest standard of measurement solutions. As a badged partner, IAS brings marketers a comprehensive set of media quality solutions to manage their advertising campaigns on TikTok.
- With Meta, we're excited to continue our partnership and value their commitment to implementing suitability controls and verification for Feed.
- With Twitter, we announced our expansion into third-party brand safety and suitability measurement in the U.S. With Tweet-level analysis, advertisers can better understand the content that appears adjacent to their ads on Twitter's feed. This significant advancement now provides Twitter advertisers with reporting that is aligned with GARM brand safety and suitability risk levels. For broader analytics, advertisers can access campaign-level reporting for overall metrics.

In CTV, we are leading with innovation and scale. We ensure trust, performance, and control to both buyers and sellers.

We were delighted to announce that Netflix selected IAS as a transparency partner for their ad-supported plan. We look forward to partnering with Netflix to provide viewability and invalid traffic verification of Netflix inventory.

By the end of 2023, 78% of CTV video ad spending in the U.S. is expected to be bought programmatically according to eMarketer. IAS is enabling marketers to increase their programmatic buying in CTV without sacrificing media quality.

For CTV publishers, Publica provides yield through unified auctions, inventory management and ad stitching that enables CTV content and ads to be delivered in a seamless stream. Publica was recently named Best Video Ad Server in the *AdWeek Readers Choice Awards.* Publica is now making it possible for publishers to access IAS insights within the Publica UI. This enables streaming publishers to optimize their inventory around the trusted IAS metrics the buy side uses to inform their ad buying practices. This feedback loop of IAS data facilitates the buying and selling of CTV inventory at scale.

For marketers, we offer a single platform to verify, optimize, and measure addressable TV. IAS has created private marketplaces with over 90 publishers in 2022 to ensure greater transparency and access to higher quality CTV media.

Marketers and publishers depend on our solutions to ensure their digital media quality needs are met.

Retail media is an exciting opportunity for marketers and represented over $44 billion dollars in total ad spend in the U.S. in 2022 according to eMarketer. We provide measurement solutions in retail media across 9 out of the top 10 largest networks. Measurement represents the starting point for IAS in retail media. We look forward to helping marketers fully realize the ROI potential in this high growth medium.

In emerging channels, we continue to make progress with Spotify in audio, launching the industry's first third-party brand safety and suitability reporting tool for podcasts.

In gaming, IAS announced its first-to-market partnership with Gadsme, a premium in-game advertising platform. IAS will verify Gadsme's ad inventory globally and provide marketers with third-party viewability and invalid traffic reporting.

Our products have never been more relevant as marketers lean into our differentiated solutions. IAS enables safe content to thrive which results in greater efficiency and return on ad spend for marketers and increased yield and optimization for publishers.

Our model is highly differentiated as our pricing is independent of the media rate and negotiated eCPMS directly with marketers. We're a volume-based model and not immune to volatility in ad spend; however, the essential nature of our solutions provides us with some level of insulation.

Building on our accomplishments in 2022, we plan to continue to innovate further on behalf of our customers with data as the foundation. Under the leadership of our new CTO, we are enhancing our tech stack for greater scale and the ability to access, process, and analyze data to fuel superior results for marketers. This will enable us to support future growth and innovation in high-growth areas.

In conclusion, we made tremendous strides in 2022 to position IAS for long-term success. We strengthened our leadership team, invested in high-growth areas, and solidified our partnerships. We are thrilled to extend our market presence with recent logo wins which highlights the success of our new go-to-market strategy. I am excited to unleash the potential of IAS in 2023 and beyond. We are geared up and ready to go.

Thanks to everyone on today's call for your ongoing support. I'll now turn it over to Tania. We are thrilled to have her on the team and she is making a tremendous impact already. Tania?

Tania Secor, CFO

Thanks Lisa. I am delighted to speak with all of you on my first earnings call as CFO of IAS. Since joining, I've focused on getting to know what is a very impressive team, learning the products, and executing on my responsibilities as CFO. I'm excited to partner with the leadership team to bring IAS's operating plan to the next level. That requires focus and discipline in prioritizing IAS's multiple growth levers and investments to drive durable, profitable growth.

I bring a strong competitive drive and believe IAS has an incredible opportunity to win in a large and growing market. IAS represents a great fit given my background in both media and technology. Having spent the past five years at The Interpublic Group Companies, a top 5 advertising holding company, I bring a deep understanding of the media landscape that has enabled me to ramp quickly. IAS has a strong customer value proposition and plays a mission-critical role in protecting and amplifying brands and maximizing return on ad spend.

Now let's turn to the financial results for the fourth quarter.

Total revenue increased 15% year-over-year to $117.4 million dollars and exceeded our upwardly revised guidance of $111 to $113 million dollars. Higher-than-expected revenue was across all of our offerings. In both the advertiser direct and programmatic segments, we saw improvement in automotive and tech/telco, as well as a stronger-than-expected contribution from World Cup advertising campaigns. Higher-than-expected supply-side revenue was driven by continued demand for Publica's CTV offerings. The fourth quarter is our seasonally largest quarter for revenue and reflects all organic growth for the first time since the completion of the Publica acquisition in the third quarter of

2021. For the full year, total revenue increased 26% year-over-year to $408.3 million dollars. 2022 revenue included a full-year contribution from Publica versus 2021 which only included a partial year from Publica.

Programmatic revenue for the fourth quarter grew 30% year-over-year to $55.1 million dollars. Programmatic growth was primarily attributable to continued adoption of Context Control, including our contextual avoidance solutions. Context Control represented 47% of total programmatic revenue in the fourth quarter, compared to 45% in the third quarter of 2022 and 38% in the fourth quarter of 2021. Non-contextual programmatic revenue grew 17% year-over-year in the fourth quarter. Programmatic reached 55% of total revenue from advertisers in the quarter versus 49% in the prior year period.

Advertiser direct revenue, which includes open web and social platforms, increased 2% year-over-year to $44.7 million dollars. Video, which commands a pricing premium to display, accounted for 47% of total advertiser direct revenue consistent with the third quarter of 2022. We expect video to continue to grow at a faster pace than display. Social media represented 42% of advertiser direct revenue in the period compared to 44% in the third quarter. This slight decline was a result of a stronger contribution from open web. On a combined basis, total revenue from advertisers, including advertiser direct and programmatic revenue, represented 85% of fourth quarter revenue.

Supply side revenue from publishers increased to $17.6 million dollars, including revenue from Publica. We are pleased that Publica's revenue contribution of $34 million dollars in 2022 slightly exceeded our 8% target for the year. As Publica has been fully integrated, we will no longer be breaking out its contribution moving forward. Total supply side revenue represented 15% of total fourth quarter revenue.

We continue to grow our leading global market presence. International revenue, excluding the Americas, increased 6% and represented 32% of total revenue in the fourth quarter. Our international business includes a lower mix of programmatic revenue, consistent with the industry.

Gross profit margin for the fourth quarter was 81% compared to 84% in the prior year period, primarily reflecting increased hosting fees to support our premium offerings. For the full year, gross profit margin was 81% as expected.

Sales and marketing, technology and development, and general and administrative expenses combined, increased 16% in the fourth quarter compared to the prior year period. This increase was primarily due to higher stock-based compensation expense and restructuring charges, partially offset by compensation savings in December related to the restructuring. In the fourth quarter, we incurred $5.3 million dollars of restructuring and related charges due to the termination of approximately 120 employees in December. This was consistent with our prior expectation of $5 to $7 million dollars. These expenses are excluded from adjusted EBITDA. Stock-based compensation expense for the period was $11.6 million dollars compared to our prior expectation of $12 to $13 million dollars.

Turning to profitability and performance metrics:

- Adjusted EBITDA for the fourth quarter, which excludes stock-based compensation and one-time items, increased 20% year-over-year to $40.0 million dollars. Adjusted EBITDA margin was 34% compared to the 33% midpoint of our prior guidance, due to stronger revenue in the fourth quarter.

- Foreign exchange, which is excluded from adjusted EBITDA, was a loss of $1.2 million dollars in the quarter, down significantly from the third quarter loss of $4.1 million dollars.
- Net income for the fourth quarter was $11.5 million dollars, or $0.07 cents per share. We achieved net income profitability in every quarter of 2022. We believe adjusted EBITDA remains the best measure of profitability for the company.
- Fourth quarter net revenue retention, or NRR, was 118% reflecting our ability to grow with our customers.
- Total advertising customers increased to 2,103 versus 2,073 last year.
- Total number of large advertising customers with annual revenue over $200,000 dollars increased to 199 compared to 183 last year.

We ended the year with a strengthened financial position. Cash generated from operations and after investments in 2022 was used to decrease long-term debt by $20 million dollars, repurchase $24 million dollars worth of IAS stock at a cost of $7.68 per share in the third quarter, and increase our cash balance by $14 million dollars. Cash and cash equivalents at year-end were $87 million dollars and debt was $223 million dollars. In terms of capital allocation, our strong cash flows and balance sheet capacity provide us with significant financial flexibility to invest in the business, both organically and via strategic acquisitions.

As we look to 2023, we are monitoring the evolving digital media trends. While we continue to navigate the current macroeconomic environment, we believe we are well positioned to grow faster than the industry based on the value our products provide:

- For the first quarter ending March 31, 2023, we expect total revenue in the range of $102 to $104 million dollars.
- Adjusted EBITDA for the first quarter is expected in the range of $29 to $31 million dollars.
- For the full year 2023, we expect total revenue in the range of $453 to $463 million dollars.
- Adjusted EBITDA for 2023 is expected in the range of $141 to $149 million dollars.

A few additional modeling points:

- For the full year 2023, we expect gross profit margin of approximately 78 to 80%, reflecting investment in our data infrastructure and increased hosting costs. We expect to optimize the gross profit margin of these offerings as we scale over time.
- At the midpoint of our guidance, we expect adjusted EBITDA margin expansion in 2023. We expect increased operating leverage in 2023 as operating expenses, excluding stock-based compensation and one-time items, are expected to grow at a slower rate than revenue. This is due primarily to the December 2022 restructuring and our focus on efficiency and productivity.
- First quarter stock-based compensation expense is expected in the range of $11 to $13 million dollars. Full-year stock-based compensation expense is expected in the range of $62 to $66 million dollars. The increase compared to 2022 primarily reflects the incremental expense due to the second year of our annual RSU program.
- We expect weighted average shares outstanding for the first quarter in the range of 154 to 155 million shares, and for the full year, 155 to 157 million shares.

We're very pleased with our fourth quarter performance, and we're off to a strong start in the first quarter of 2023. We see tremendous opportunity for IAS's products globally and continued demand for our differentiated offerings with several exciting new wins. We will continue to invest in tech innovation to enhance our value proposition for marketers and publishers. We will also maintain fiscal discipline to optimize our resources and deliver efficiencies in a dynamic environment.

I’m excited to be part of the IAS team, and I look forward to engaging with all of you.