IAS Q2 2022 Prepared Remarks

Jonathan Schaffer, VP, IR

Thank you. Good afternoon, and welcome to the IAS 2022 Second Quarter Financial Results Conference Call. I'm joined today by Lisa Utzschneider, CEO, and Joe Pergola, CFO.

Before we begin, please note that today's call contains forward-looking statements. We refer you to the company's filings with the SEC for more details about important risks and uncertainties that could cause actual results to differ materially from our expectations.

On today's call, we will also refer to non-GAAP measures. A reconciliation of non-GAAP measures to the most directly comparable GAAP measures is contained in today's earnings release available on the company's IR site: investors.integralads.com. 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 second quarter earnings call. We delivered strong revenue growth of 34% to $100.3 million dollars with an adjusted EBITDA margin of 31%. We also achieved net income profitability for the second consecutive quarter.

I am proud of our team for generating new wins in the quarter including Red Bull, Tim Hortons, Sherwin Williams, and WestJet. We're also excited that LinkedIn selected IAS to provide global ad verification services for their paid media marketing campaigns. This marquee win came after extensive technology due diligence against a competitor. It also represents the next step in our global strategic partnership with LinkedIn and parent company Microsoft. Lastly, 7Stars, a leading independent agency in the U.K., switched from a direct competitor to IAS based on our efficiency tools and engagement plan.

While we are revising our full-year outlook to reflect global macroeconomic headwinds, today's results exceeded expectations for the quarter. We continue to launch differentiated products that have accelerated our product roadmap to address marketers' evolving needs in a dynamic and fast-paced market.

Our second quarter performance reflects IAS's standing as a leader in digital media quality, including core ad verification measurement of viewability, fraud, and brand safety. We have also successfully broadened our scope beyond verification. We are benefiting from a sizable and increasing contribution from our pre-bid activation and post-bid measurement solutions in programmatic contextual, social media, and CTV.

- In **programmatic**, Context Control, our contextual avoidance and targeting solution, represented 45% of programmatic revenue in the second quarter and drove a 51% increase in total programmatic revenue. Context Control is based on our differentiated contextual intelligence technology. Context Control is available in all major DSPs and global markets in 32 languages. 86 of our top 100 accounts now use Context Control for avoidance with continued momentum. In addition to the strong adoption in the U.S., we've also seen significant growth of contextual avoidance in EMEA and APAC, ahead of expectations. In July we expanded our DSP partnerships for contextual targeting and avoidance with Zeta Global and Teads, as well as CTV fraud pre-bid with Zeta Global. Also within programmatic, we launched our Quality Sync Pre-bid solution with Xandr's Invest DSP, a Microsoft subsidiary.

- In **social media**, our TikTok pre-bid brand safety solution classifies video, image, audio, and text in TikTok's feed according to GARM standards. In May, we launched our post-bid viewability and fraud measurement solution for TikTok which is seeing strong customer adoption, with over 100 campaigns currently underway. IAS offers combined video-level pre-bid brand safety in TikTok plus viewability and IVT measurement globally. Our technology for TikTok is scalable and portable to other platforms. We are soon launching in beta our post-bid brand safety and suitability solution in Twitter's live feed. We expect social media to be a more meaningful contributor to revenue beginning in 2023, as we partner with the leading social media platforms.

- **In CTV,** IAS provides marketers and publishers with CTV capabilities for media quality measurement, transparent reporting, and contextual solutions. We've recently integrated these capabilities into Publica to help publishers optimize their inventory. In the second quarter, we entered into an agreement with Hearst Television to provide them with our server-side ad insertion (SSAI) product. Our SSAI essentially stitches a marketer's creative right into the publisher's content stream to make for a seamless viewing experience. To further drive synergies and efficiencies across the combined IAS and Publica CTV assets, we've fully integrated publisher sales under the leadership of a new CRO at Publica. For marketers, we continue to build on our solutions by providing new ways to target transparent & GARM brand safe inventory, filter out unmeasurable non-compliant traffic, and measure CTV video ad performance.

We're thrilled to highlight our growth and expansion into audio and gaming with Spotify, Pandora and Anzu. Marketers see tremendous opportunity to tap into higher user adoption of these platforms. In audio, we recently announced the first-ever global partnership with Spotify to establish a third-party post-bid brand safety solution for podcast advertisers. In July, we announced with Pandora the launch of a post-bid verification product for audio measurement and IVT. In gaming, we recently announced our partnership with Israeli-based Anzu, an in-game advertising leader. Through this partnership, IAS enables marketers to monitor the quality of their in-game media investments in mobile gaming environments. We're tremendously excited to lead the innovation in audio and gaming on behalf of marketers and look forward to updating you on our progress.

We continue to expand our global reach. International revenue represented 31% of total revenue for the second quarter. Building on our leading presence in EMEA and APAC that was established over 8 years ago, we are investing in emerging markets including LatAm and Southeast Asia. We recently announced four new senior appointments to our customer success team in APAC to add commercial expertise and to grow our customer base in the region. We consistently hear from marketers that they choose to partner with IAS, in part because of the high level of service we provide in local markets. On last quarter's call, we announced the appointment of Yannis Dosios to the newly created position of Global Chief Commercial Officer. Yannis has been tasked with driving greater alignment between sales, marketing, and product globally. Yannis is off to a strong start since joining in May, and international growth is a top priority.

One of our core values at IAS is customer obsession. We understand that the last mile of execution matters to customers – how we show up for our customers, our integrity in building enterprise partnerships with brands and platforms, our investments in service in local markets, as well as our ability to set clear expectations and deliver differentiated products on time.

We continue to invest in research, insights, and attention metrics to demonstrate the value of investing in high quality media. We process massive amounts of differentiated data related to ad events every day. There are three data sets that we leverage that are differentiated from our competitors - transparency, cost, and performance. We are connecting the dots between media quality, cost of media, and business outcomes. By layering these unique findings with our advanced contextual targeting solutions, our customers are able to make smarter decisions that lead to better outcomes and better ROI. In a recent study we launched in partnership with HP, we found that contextually relevant environments drove higher attention and outcomes. When HP's ads ran on contextually relevant pages, it led to +3% higher attention and +14% higher purchase intent. According to internal data from June, we found that Quality Impressions that are in-view and brand safe drove a +423% uplift in conversion rate when compared against flagged impressions.

Earlier this week, we announced the expansion of our integration with Mediaocean. Agency and brand media buyers using IAS's Signal dashboard and Prisma, Mediaocean's buyer workflow, can automate campaign creation and benefit from increased efficiencies. As part of the integration, brands and advertisers who use Prisma, IAS, and Google Campaign Manager 360 will be able to link campaigns and enable auto-tagging via Google seamlessly. As a substantial portion of IAS's customers use Mediaocean, we believe this expansion of capabilities will have an immediate impact on campaign and workflow efficiency for ad buyers across the globe.

At IAS, we are executing on our business plan, launching differentiated products, and innovating for the future. We achieved strong results in the second quarter. However, we experienced softness in some verticals beginning late in the second quarter across geographies related to macroeconomic conditions. We've also experienced delayed starts on recent wins and longer sales cycles on prospective new business related to the current climate. This is consistent with what other companies have discussed recently, and we expect these conditions to continue for the remainder of the year. As a result, we are revising our full-year financial outlook.

We believe our model is well-suited to navigate this challenging period. We expect to exceed the Rule of 50 for 2022 with continued growth and profitability at scale. We expect to achieve full-year revenue growth of approximately 24% and we are maintaining full-year adjusted EBITDA margin levels at approximately 31% based on the midpoints of our revised forecast.

Despite the current market challenges, we remain excited about our long-term vision. We're still early in our journey, and we're just getting started. And with that, I'll turn it over to Joe to review the financials.

Joe Pergola, CFO

Thanks Lisa. We delivered strong revenue growth and profitability in the second quarter.

As a reminder, IAS partners closely with our advertisers and publishers to build multi-year, minimum impression commitments, as well as fixed fee agreements independent of the media rate. We command premium CPM rates for our solutions including: Context Control, video, and CTV products.

Total revenue increased 34% to $100.3 million dollars, ahead of our prior guidance of $97 to $99 million dollars. Coupled with our more recent wins, we benefited from our loyal customer base across key verticals including CPG, Retail/QSR, and Finance.

Programmatic revenue for the second quarter grew 51% year-over-year. Programmatic represented 57% of total revenue from advertisers. The strong performance in Programmatic was attributable primarily to continued adoption of Context Control, most notably our contextual avoidance solutions with increased penetration internationally. Context Control represented 45% of total Programmatic revenue in the second quarter, up from 41% in the first quarter of 2022.

Our Advertiser Direct revenue, which includes open web and social platforms, increased 4% year-over-year. We continue to see impression volumes shift from the open web, where display impressions were lower, to social platforms with increased video adoption. Video commands a pricing premium and accounted for 48% of total Advertiser Direct revenue, up from 45% in the first quarter of 2022. Social accounted for 43% of Advertiser Direct revenue in the period, up from 40% in the first quarter.

On a combined basis, total revenue from advertisers, including Advertiser Direct and Programmatic revenue, represented 84% of our second quarter revenue.

Supply side revenue from publishers increased to $15.8 million dollars, that includes Publica which is tracking according to plan. Total supply side revenue represented 16% of our second quarter revenue, consistent with the 2022 first quarter.

We continue to grow our leading global market presence. International revenue increased 7% in the quarter and represented 31% of total revenue. Our current revenue mix between Americas and rest-of-world reflects results for Publica which has been U.S.-focused to date. We continue to leverage our successful international go-to-market engine and global presence to expand Publica's reach. While our international markets continued to grow, softer demand in Advertiser Direct also impacted geographic mix for the period. Total revenue for the Americas was $68.7 million dollars, up 51%; EMEA and APAC increased to $23.6 million dollars and $8.0 million dollars, respectively.

Gross margin was 82% compared to 83% last year and slightly ahead of Q1 gross margin of 81%.

Operating expenses excluding stock-based compensation grew 25% versus our top-line growth of 34%, reflecting our efficient operating model. Total operating expenses for the second quarter of 2022 reflects increased year-over-year sales and marketing costs as we returned to more normal business activity and continued hiring with 100 new employees added in the period, as well as higher G&A expenses related to public company costs. We will continue to prioritize our recruiting efforts based on our business needs.

Stock-based compensation expense for the period was $10.7 million dollars, in line with our prior expectation of $10 to $11 million dollars.

Moving on to profitability and performance metrics:

- Adjusted EBITDA for the second quarter, which excludes stock-based comp and other one-time items, increased 23% year-over-year to $31.6 million dollars, at a 31% margin.
- We achieved net income for the quarter of $2.0 million dollars, or $0.01 cent per share. This marks our second consecutive quarter of net income profitability. We believe adjusted EBITDA remains the best measure of profitability for the company.
- Our second quarter net revenue retention, or NRR, was 121%, reflecting continued growth in spend of our top customers.
- Total advertising customers grew 6% year-over-year to 2,135 advertisers.
- Our total number of large advertising customers with annual revenue over $200,000 dollars was 173, which reflects several large advertising customers that fell just below the $200,000 dollar trailing-12-month threshold.

In terms of our financial condition, we ended the second quarter with cash and equivalents of $77.4 million dollars compared to $73.2 million dollars at December 31st. During the quarter, we reduced our long-term debt by $10 million dollars, lowering our interest expense.

As Lisa discussed, we are revising our full-year guidance to reflect macroeconomic headwinds. However, IAS remains well positioned as a growing, profitable industry leader operating at scale. We still expect to maintain adjusted EBITDA margins consistent with our prior outlook, and we expect to exceed the Rule of 50 for the full year.

- For the third quarter ending September 30, 2022, we expect total revenue in the range of $99 million to $101 million dollars.
- Adjusted EBITDA for the third quarter is expected in the range of $28 million to $30 million dollars.
- For the full year 2022, we now expect total revenue in the range of $398 million to $402 million dollars.
- Adjusted EBITDA for 2022 is now expected in the range of $120 million to $124 million dollars.
- We continue to expect Publica to represent approximately 8% of our total forecasted revenue for the full year.
- We currently expect the rate of year-over-year revenue growth to decelerate as we move into the fourth quarter. This relates to the cumulative effect of our revised expectations for the third quarter based on the factors Lisa outlined including softness in brand marketer spend in some

verticals, delayed starts on recent wins and longer sales cycles on prospective new business.

A few additional modeling points:

- Beginning in the second quarter, the impact from foreign currency exchange is now excluded from adjusted EBITDA. In the second quarter, we had a gain of approximately $500,000 dollars related to foreign currency exchange. As global currencies, including the Euro and the pound, continue to depreciate against the dollar, we expect a significant negative impact in the coming quarters from foreign exchange based on our international presence.
- Stock-based compensation expense for the third quarter of 2022 is expected in the range of $13.5 million to $15 million dollars. Full-year stock-based compensation expense is expected in the range of $46 to $50 million dollars. Based on current expectations, we expect dilution to remain at low single digit levels for the year.
- Shares outstanding for the third quarter are expected in the range of approximately 156 million to 157 million. We expect full year shares outstanding in the range of 156.5 million to 157.5 million.

I would now like to turn the call back over to Lisa.

Lisa Utzschneider, CEO

Thanks Joe. As this is Joe's last call with IAS, let me take this opportunity to once again thank him for all of his contributions to the company and wish him the best moving forward. We are well underway in our CFO search and look forward to updating you on our progress. In addition, we are delighted to welcome Thomas Joseph to IAS as our Chief Technology Officer. Thomas brings over two decades of tech-industry leadership with Sirius XM and Pandora as well as with Microsoft. He has extensive experience working in media, advertising and emerging platforms including gaming. As CTO, Thomas will lead our tech innovation including our long-term vision for both new and existing products.

Joe and I are now ready to take your questions. Operator?