

IAS Q3 2022 Prepared Remarks

Jonathan Schaffer, VP, IR

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

As announced this afternoon via press release, Tania Secor has been appointed as CFO, effective December 5th. We look forward to Tania joining for our next earnings call. On today's call, Lisa will address high-level financial results in her comments. In addition, we have posted Lisa's prepared remarks along with a more detailed financial review on our investor relations site: investors.integralads.com. Anil Sukumaran, our Chief Accounting Officer, will also be available with Lisa during the Q&A session on today's call.

Please note that today's call and prepared remarks contain forward-looking statements. We refer you to the company's filings with the SEC, which are posted on our investor relations site at investors.integralads.com/financial-information/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. 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 at 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

Thanks Jonathan, and welcome everyone to our 2022 third quarter earnings call.

As mentioned, we've posted a detailed financial review on our IR site, but let me start with a few financial highlights.

- We reported a 28% increase in third quarter revenue year-over-year to \$101.3 million dollars, which compares favorably to our previously revised outlook of \$99 to \$101 million dollars. International represented 31% of third quarter revenue, unchanged from the second quarter.
- Gross profit margin was 81%.
- Adjusted EBITDA increased 19% year-over-year to \$30.1 million dollars at a 30% margin, as we exceeded the Rule of 50.
- We also reached net income profitability for the third consecutive quarter.

- As a result of our positive Q3 performance and current business trends, we are modestly increasing our previously revised full-year revenue outlook. We are also raising the midpoint of our revised full-year adjusted EBITDA range.

During the quarter, we delivered innovative and differentiated solutions to our customers that drove upsell and cross-sell opportunities. The adoption of Context Control, which includes both avoidance and targeting, is a great example of how we meet the evolving needs of our customers. Since launching Context Control in 2020, the business has grown to represent 45% of programmatic revenue in Q3 and more than \$80 million dollars in revenue expected in full year 2022. The tremendous growth of Context Control demonstrates our ability to develop and scale products that become meaningful revenue contributors over time.

New Context Control avoidance wins include Toyota in the U.S. and American Express in Italy. We're committed to providing coverage of Context Control globally and have expanded to 45 languages. In addition to further penetrating our top 100 customers, we see additional opportunities to grow the avoidance business in the midmarket as well as internationally where adoption is increasing.

Context Control targeting represents a large addressable market. We're activating, testing, and learning with new customer wins in the U.S. and EMEA across industry verticals including travel and entertainment, finance, consumer packaged goods, and tech/telco.

In social media, which continues to represent a dynamic and growing opportunity for IAS, we are making significant gains with our major platform partners.

IAS leads the market with the launch of a full end-to-end measurement suite in TikTok's live feed, including brand safety, brand suitability, viewability and invalid traffic, or IVT, detection. In October, we launched a post-bid measurement brand safety and suitability solution in TikTok. We are leveraging our 100% machine-learning multimedia classification technology for video, image, audio, and text enhanced by our Context acquisition. We can analyze content with greater granularity at the video and frame levels in the live feed, offering both pre-campaign targeting and campaign measurement solutions.

With Twitter, we plan to roll out our beta for our post-bid brand safety solution in the coming weeks.

The recent Netflix announcement further validates IAS's technology leadership in the important CTV market. We were delighted to announce that Netflix has selected IAS as a transparency partner to support their much anticipated ad-supported plan starting in Q1 2023. Our initial focus will be on viewability and IVT post-bid measurement.

We've established a leading market presence in CTV. Unlike linear TV's "one-size-fits-all" approach to advertising, CTV is an addressable and measurable medium, and we're building confidence and trust with marketers and publishers.

Our Publica business acquired last year is a leading solution to drive yield for streaming publishers. We provide superior technology while maintaining independence from the media selling business. We are

focused on maximizing revenue for our publisher clients across device manufacturers, broadcasters, and multichannel video programming distributors including Samsung, AMC, Fox, DirecTV, and Philo. We also deliver the best experience for the consumer by incorporating the video recognition technology acquired through the Context acquisition. By utilizing Context before an ad runs along with our server-side ad insertion stitching capabilities in the live stream, Publica ensures that the viewer has a positive experience without having to endure duplicative or repetitive ads, or in some cases offensive or mistargeted ads.

For marketers, Publica provides insights into which ads have been delivered in what content and to what audiences. We also enable buyers to easily activate campaigns programmatically across private marketplaces connecting them directly to the highest quality CTV inventory.

We are focused on delivering CTV solutions to provide content-level transparency, fraud detection, targeting of contextually relevant and suitable content, and ensuring that ads have been rendered while a TV is on. According to a recent study by GroupM and iSpot, 17% of impressions delivered through CTV streaming devices are delivered while TV screens are off. Our new OnScreen Completion Rate metric addresses this issue and validates if a TV was off while a device continued to stream, if an ad was fully rendered on screen, and if the ad played to completion.

Publica is on track to contribute approximately 8% of total revenue for the full year, or approximately \$32 million dollars.

We are also extending our capabilities into the fast-growing audio and gaming markets where advertisers are increasingly looking to our solutions.

In audio, we are partnering with Spotify to create the industry's first third-party brand safety and suitability reporting tool. At Advertising Week in New York, David Byrne, the Director of Global Advertising Brand Safety at Spotify, commented that "It's great to have a partner like IAS, and together, our responsibility is to make sure that advertisers feel safe, secure, and trust what we're bringing to them in the audio space." In Q3, we announced the launch of a post-bid verification product for audibility and IVT measurement. We're actively working to expand these capabilities to additional audio platforms.

In gaming, we've partnered with Israeli-based Anzu where we are in-market with viewability and IVT measurement solutions. We're looking to extend these capabilities beyond mobile in-app to other gaming environments including consoles, PCs, and desktops. We're also testing with other platform providers to expand our coverage within gaming.

We're delighted to announce that Kimberly-Clark selected IAS as their global ad verification and proactive brand safety prevention solution in a multi-year agreement at the end of the third quarter. This partnership with a major CPG company was secured after a head-to-head against other providers. We were awarded the opportunity based on the value of our solutions, our high standard of service and global support, and our insights-as-a-service approach. I couldn't be prouder of the team for this win.

We continue to strengthen our senior leadership team to help guide IAS in our next phase of growth. In May, we appointed Yannis Dosios to the newly created position of Chief Commercial Officer responsible for global sales and marketing. Under his leadership, Yannis is enhancing our go-to-market strategy across functions to bring best-in-class enterprise level sales and activations to our customers globally. International is a key differentiator for IAS as global marketers look to simplify and consolidate verification under one provider.

In August, we welcomed Thomas Joseph, or TJ, as our Chief Technology Officer. TJ brings a high degree of technical expertise and global enterprise experience with Microsoft. Most recently, he helped drive the Pandora integration at SiriusXM. TJ is already making an impact, aligning the engineering organization to support our product roadmap and long-term growth strategy.

Today, we are excited to announce another key addition to the senior leadership team: Tania Secor will be joining IAS as Chief Financial Officer. Based in New York, Tania is a highly accomplished finance leader with 25 years of financial leadership experience and a proven track record of building teams and scaling organizations for growth. Most recently, Tania was global CFO for R/GA and Reprise, Interpublic Group's digital innovation and digital media agencies, respectively. Her deep background in FP&A and capital markets, along with her relevant industry experience, make Tania a great fit for IAS. We look forward to Tania joining the team on December 5th and to introducing her to everyone.

Lastly, we're excited to support marketers' efforts to track and reduce their carbon footprint. We recently announced a partnership with U.K.-based Good-Loop, a purpose-led advertising platform that's moving the industry towards positive, climate-friendly advertising. We are working with Omnicom and Sanofi Aventis on pilot testing in Q4 with broader availability in 2023.

In closing, 2022 is shaping up to be another year of expanding capabilities and delivering revenue growth and profitability that exceed the Rule of 50. We continue to focus on driving efficiencies in our business and prudent expense management as reflected in our adjusted EBITDA outlook.

With the recent additions to our senior leadership team including today's announced CFO appointment, we are adapting and aligning our execution for the current environment. We are currently in the thick of planning for 2023, and we believe that we are setting the stage for long-term durable growth.

And with that, we are ready to take your questions. Operator?

Detailed Financial Commentary

IAS partners closely with our advertisers and publishers to build multi-year, minimum impression commitments, as well as blended cost per thousand impressions, or CPM, agreements independent of the media rate. We command premium CPM rates for our solutions including: Context Control, video, social platforms, and CTV products.

Total revenue increased 28% year-over-year to \$101.3 million dollars and compared favorably to our prior guidance of \$99 to \$101 million dollars.

Programmatic revenue for the third quarter grew 40% year-over-year. Programmatic represented 55% of total revenue from advertisers. Programmatic growth was attributable primarily to continued adoption of Context Control, most notably our contextual avoidance solutions. IAS realized continued penetration of Context Control among the top 100 accounts, growth in the domestic midmarket, and increased adoption internationally. Context Control represented 45% of total Programmatic revenue in the third quarter, up slightly from the second quarter.

Our Advertiser Direct revenue, which includes open web and social platforms, increased 13% year-over-year. We saw improved performance in the tech/telco, travel and entertainment, automotive, and CPG verticals. We continue to see impression volumes shift from the open web to social platforms with increased video adoption. Video commands a pricing premium and accounted for 47% of total Advertiser Direct revenue in the quarter, relatively unchanged from the second quarter of 2022. Social accounted for 44% of Advertiser Direct revenue in the period, up from 43% in the second quarter.

On a combined basis, total revenue from advertisers, including Advertiser Direct and Programmatic revenue, represented 85% of third quarter revenue.

Supply side revenue from publishers increased to \$15.3 million dollars, including revenue generated by Publica which is tracking according to plan for the full year. Total supply side revenue represented 15% of our third quarter revenue.

We continue to grow our leading global market presence. International revenue increased 10% in the quarter and represented 31% of total revenue in the third quarter, consistent with the 2022 second quarter. Our current revenue mix between Americas and rest-of-world reflects results for Publica which is primarily U.S. based. We continue to expand Publica's reach internationally by leveraging our global presence. Total revenue for the Americas was \$69.8 million dollars, up 39%; EMEA was \$23.1 million dollars, up 14%, and APAC was \$8.4 million dollars, essentially flat versus the prior year.

Gross profit margin was 81% compared to 82% in the prior year's period, primarily reflecting increased hosting fees and other costs as we scale the business.

Operating expenses excluding stock-based compensation grew 24% versus our top-line growth of 28%, reflecting our efficient operating model. Total operating expenses for the third quarter of 2022 reflects increased year-over-year sales and marketing costs as we returned to more normal business activity, the hiring of new employees in the period, as well as higher G&A expenses related to public company costs. Stock-based compensation expense for the period was \$14.2 million dollars, in line with our prior expectation of \$13.5 to \$15 million dollars.

Moving on to profitability and performance metrics:

- Adjusted EBITDA for the third quarter, which excludes stock-based comp and other one-time items, increased 19% year-over-year to \$30.1 million dollars, at a 30% margin.

- As expected, foreign exchange, which is excluded from adjusted EBITDA, was a loss of \$4.1 million in the quarter. We expect a negative impact from foreign exchange in the fourth quarter based on our international presence.
- We achieved net income for the quarter of \$0.8 million dollars, or \$0.00 cent per share. This marks our third consecutive quarter of net income profitability. We believe adjusted EBITDA remains the best measure of profitability for the company.
- Our third quarter net revenue retention, or NRR, was 120%, reflecting continued growth in spend of our top customers.
- Total advertising customers grew 5% year-over-year to 2,152 advertisers.
- Our total number of large advertising customers with annual revenue over \$200,000 dollars increased to 184 compared to 183 last year and up from 173 in the 2022 second quarter.

We ended the third quarter with cash and cash equivalents of \$73.6 million dollars compared to \$73.2 million dollars at December 31st, 2021. We generated \$24.4 million dollars in cash from operations during the quarter and repurchased 3,080,061 shares at a total cost of \$23.7 million dollars in an open market transaction.

We are modestly increasing our revised full-year outlook for revenue. In addition, we remain focused on profitable growth, and we are raising the midpoint of our revised full-year adjusted EBITDA range.

- For the fourth quarter ending December 31, 2022, we expect total revenue in the range of \$110 million to \$112 million dollars.
- Adjusted EBITDA for the fourth quarter is expected in the range of \$35 million to \$37 million dollars.
- For the full year 2022, we expect total revenue in the range of \$401 million to \$403 million dollars.
- Adjusted EBITDA for 2022 is expected in the range of \$122 million to \$124 million dollars.
- We continue to expect Publica to represent approximately 8% of our total forecasted revenue for the full year.

A few additional modeling points:

- For the full year 2022, we continue to expect gross profit margin of approximately 81% and adjusted EBITDA margin of approximately 31%.
- Stock-based compensation expense for the fourth quarter of 2022 is expected to be in the range of \$13.5 million to \$14.5 million dollars. Full-year stock-based compensation expense is expected to be in the range of \$46.5 to \$47.5 million dollars. Based on current expectations, we expect dilution to remain at low single digit levels for the year.
- Weighted average shares outstanding for the fourth quarter are expected to be in the range of approximately 153 million to 154 million. We expect full year weighted average shares outstanding to be in the range of 154 million to 155 million.