IAS Q4 2021 Prepared Remarks – FINAL

Jonathan Schaffer, VP, IR

Thank you. Good afternoon, and welcome to the IAS 2021 Fourth Quarter and Full Year 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.

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 to everyone joining today's call. I am delighted to share our strong fourth quarter and year-end results for our first year as a public company. We also introduced a positive financial outlook for the coming year.

Our fourth quarter results exceeded our prior guidance and capped off a tremendous year of growth and innovation for IAS. Our investments in our technology, people, customers, and partners set the stage for durable growth and performance in 2022 and beyond.

Throughout the fourth quarter and full year 2021, we extended our leadership position in digital media quality while advancing our capabilities to address high growth opportunities. Our focus remains on innovating for our customers to help drive business outcomes.

Many of the top global brands including Adidas, Danone, H&R Block, HP, Shopify, Sony, and Warner Media partner with IAS because they value the effective media quality solutions we provide.

Through our core verification solutions we ensure that marketers' ads are viewable, by real humans, in brand-safe, brand-suitable contexts, and within the desired campaign geographies. Because of IAS's deep integration across the digital ecosystem, we process a significant amount of data. We analyze over 100 billion web transactions and score over 1 billion web pages daily.

By leading with deep technology, we have expanded our capabilities to go beyond verification. We help marketers validate their media quality, optimize their advertising investments, and contextually target their campaigns with unmatched precision. Our holistic, end-to-end approach to media quality enables marketers to drive better outcomes with greater efficiency.

Before diving into our fourth quarter results and recent progress on our four growth pillars, I'd like to highlight some key accomplishments from 2021:

- We realized double-digit revenue gains for the full year across our business by expanding the depth and breadth of our solutions to help marketers drive outcomes. Highlights include the rapid adoption of Context Control, the launch of our pre-bid brand safety solution in the live feed of TikTok, and the growth of our CTV solutions.
- We strengthened our enterprise relationships and extended our market position as a trusted partner and technology innovator. I joined IAS three years ago with a tech leadership background at Microsoft, Amazon, and Yahoo. My focus at IAS has been on building enterprise-level relationships. Our strong net revenue retention rate was 128% for the fourth quarter and the average customer tenure of our top 100 accounts is now 6.9 years. Once again, we had zero churn in our top 100 customers in the quarter.
- During 2021 we successfully completed three acquisitions including Amino Payments, Publica, and Context. All three tech acquisitions have accelerated our product roadmap in important growth areas including contextual targeting, CTV, social media, and supply path optimization. IAS has a strong track record of making strategic acquisitions that are quickly integrated and monetized.
- We expanded our international footprint in 2021, launching our products in over 108 countries, which is a key differentiator for IAS. International revenue, including Publica, represented 34% of total revenue in the fourth quarter of 2021. Our strong international presence is critical as global marketers look to partner with one provider across geographies.
- We scaled our organization to meet heightened demand for our solutions. We ended the year with 760 employees.
- Lastly, we became a public company in 2021, raising net proceeds of approximately $275 million and providing us with currency and liquidity to grow our business and attract and retain top talent. Our IPO has also helped to increase visibility and awareness of IAS with marketers, publishers, and partners. We're excited about the opportunities that come with being a public company and look forward to continuing to share our value proposition with you.

Turning to our fourth quarter results, we exceeded our guidance for revenue and profitability in the period:

- Revenue grew 31% to $102.5 million
- Gross margin was 84%
- Adjusted EBITDA reached $33.4 million at a 33% margin

Consistent with our prior quarterly calls, I'd like to review the four key growth pillars that drove our performance in the fourth quarter. These include:

- Programmatic, including Context Control, our contextual avoidance and targeting solution
- Social media, where we are cracking the code in the live feed of social platforms
- CTV, where we are leveraging our acquired Publica talent and technology to provide marketers greater transparency and better monetization opportunities for publishers, and
- International, where we are extending our leadership position in both new and existing markets.

Programmatic

Let's start with programmatic which is benefiting from favorable industry trends.

The march towards a cookie-less future is a tailwind for our contextual business. Marketers recognize the need to transition from audience-based targeting reliant on consumer data and third-party cookies. They are also increasingly aware of the value of contextual-based avoidance and targeting in support of their campaign objectives and outcomes.

We offer marketers the ability to avoid and target content with greater precision and customization. Context Control, our contextual intelligence technology, uses natural language processing to accurately and scalably classify content based on semantic indicators such as its sentiment and emotional thematics, at the page-level. We then help marketers identify contextual adjacencies that will better drive campaign objectives while avoiding contexts that don't.

We offer more than 300 industry vertical, seasonal, topical, and audience proxy segments to help marketers engage with desired audiences via contextually relevant content. In the fourth quarter alone, we released 20 new segments including Luxury Goods and Travel Enthusiasts.

We continue to work with all of our demand side platform, or DSP, partners to drive awareness of our programmatic solutions, including our contextual targeting solutions. Context Control represents a higher CPM buy for our customers as we are delivering added value. The adoption rate for avoidance solutions has been very strong domestically with increasing traction internationally.

We continue to develop our capabilities to help marketers target desirable and highly relevant content. During the quarter we added 39 new contextual targeting customers.

For example, one of the top insurance providers in the U.S. uses IAS's contextual targeting segments across their "always-on" performance campaigns, to drive one of the lowest cost-per-quote metrics across their media plan. By using a combination of our contextual targeting segments, the provider is able to target content specifically about insurance. In addition, they gain expanded reach by targeting articles of interest for audiences looking to buy a car or home by targeting content such as vehicle buying tips and investment property advice.

The value proposition of Context Control comes down to driving quality outcomes for marketers such as improved performance and greater cost efficiencies. Recently, an agency partner conducted a head-to-head test between Context Control and traditional third-party audience targeting. The agency found that Context Control drove a 21% increase in click-through rate, a 36% improvement in cost-per-click, and a 19% lift in cost-per-action versus cookie-based audience solutions - these metrics indicate that Context Control was both more effective *and* more cost efficient than cookie-based audience targeting.

In addition, we're enhancing our Quality Path Optimization solutions and developing corresponding pre-bid segments, inclusive of a Quality CPM (qCPM) metric with new DSP integrations. QCPM helps marketers understand both the quality of media they are buying and the cost efficiency at which it is being purchased. We believe we are the only media quality company with the data to provide a view of both quality and cost for purposes of campaign optimization. In a recent case study, we found that utilizing our solutions helped marketers increase average quality spend by 20% resulting in significantly reduced campaign wastage.

Lastly, we are introducing a campaign sync solution for DSP integration to enable clients to mirror their post-bid and pre-bid settings with ease, further increasing campaign effectiveness.

Social

Turning to social media, we continue to drive technology innovation within live social feeds for a growing number of platforms.

Since the pandemic began, user adoption and consumer engagement across the major social platforms has exploded. Marketers, following the consumers, have fully embraced this shift in the media landscape and are demanding the same transparency in social feeds that are standard across the web.

Marketers are requiring their social media campaigns run next to brand safe, brand suitable content. In addition, they are requesting that social media platforms open their live feeds to IAS and other third-party providers. During the quarter, 60 new marketers activated IAS's social media verification solutions.

In 2021, we launched our in-feed brand safety solution for TikTok. Our pre-bid solution is 100% machine learning-based and classifies video, audio, and text according to GARM, the Global Alliance for Responsible Media, standards. It is currently available in the U.S., Germany, and France in three languages with more than 50 marketers. The feedback from marketers has been very positive, and we are working with TikTok to expand availability to additional markets in multiple languages.

Our pre-bid brand safety offering provides marketers like Disney, L'Oreal, Toyota, and Volkswagen on TikTok with the most robust solutions available.

We've also expanded our relationship with LinkedIn. After a successful beta in the fourth quarter with over 30 advertisers, LinkedIn is now integrated with our post-bid measurement solutions helping to enable viewability for in-feed video for LinkedIn owned-and-operated inventory. The integration unlocks more inventory for marketers to measure on LinkedIn and represents an important step in solidifying our relationship.

At the end of the fourth quarter, we acquired Paris-based Context. Context accelerates our existing multi-media classification technology capabilities with next generation AI, and enables us to go beyond GARM standards and other industry frameworks with greater granularity. For example, we'll have the ability for a brand to identify and avoid video content that portrays its logo in a negative light. Cross-channel applications of our enhanced classification capabilities will help marketers address quickly emerging challenges in video channels such as social and CTV. We also see an opportunity to enhance our text-based Context Control offering and provide video and image classification programmatically in the open web.

As part of the Context acquisition, we have integrated a top-notch team of more than 15 mathematicians, data scientists, and engineers in France and Poland who give us speed-to-market with new products and features as we integrate their tech into our own. We are delighted to welcome CEO Jack Habra and the entire Context team to IAS.

CTV

In the fourth quarter, we made further inroads in the fast-growing CTV market where we have differentiated products in place to continue to disrupt CTV.

We're very pleased with the ongoing integration of Publica, acquired last August. Publica has enabled us to extend our position in CTV with additional capabilities and relationships with top publishers including Samsung, MLB, and ViacomCBS, and more than 35 SSPs, or supply-side platforms. Publica exceeded our forecasted revenue for the fourth quarter, and we expect Publica to be a meaningful contributor to our growth story moving forward. In 2021, Digiday recognized Publica as the best CTV sell-side programmatic platform.

Our CTV strategy is focused on providing marketers with the same level of transparency they've come to expect in linear TV. IAS was first-to-market in CTV in 2019 with verification solutions including video ad play-to-completion and ad fraud detection. We launched six CTV releases in 2021 and continue to lead with solutions to increase transparency beyond just app and device data.

In the fourth quarter, we launched in beta the industry's first live media quality reporting for CTV. In January, we expanded our IAS Signal reporting platform and introduced a new CTV dashboard in free preview. Marketers can access advanced tools to manage media quality across CTV and make real-time optimization decisions. We now offer insights on where CTV ads run based on the device, app, channel, genre, content category, and rating. This level of clarity is a huge differentiator for IAS and illustrates our tech innovation in CTV with Publica.

CTV is a long-term opportunity. We believe that our focus on providing greater transparency and visibility for marketers will help with their decisioning around budget allocation and the shift from linear to CTV.

International

International represents our fourth growth pillar and is a key point of differentiation for IAS.

Where other providers have just started investing internationally, we have an established global presence built over the last eight years which provides us with a distinct first-mover advantage.

IAS provides global and regional support to over 2,000 active advertising customers in 108 countries. International represented 34% of our revenue in the fourth quarter. That number includes a full quarter of Publica's revenue which is almost exclusively in the U.S. We are expanding our global sales team with dedicated resources to address the massive greenfield opportunity in CTV with Publica, both in the U.S. and internationally.

We're extending our presence internationally, including in India, Indonesia, and South Korea, while continuing to invest in key markets across LatAm.

As IAS continues to grow, we are hiring and curating the best talent in the market.

In the fourth quarter, once again we hired over 100 people, our second consecutive quarter with over

100 new hires, excluding acquisitions. Hiring in the fourth quarter was across functions and throughout our global network. Nearly 20% of hires were in EMEA, the most we've ever had in a single quarter.

We ended the year with 760 employees with approximately 40% of our new employees, excluding acquisitions, in R&D.

In 2022 we have continued to expand our hiring efforts with 50 new hires in January.

I am also extremely proud that, alongside our rapid expansion and success working remotely, Built In named IAS a Best Place to Work in Chicago and in New York City.

In addition, IAS was named a Best Company for Diversity by Comparably and was recognized in The Human Rights Campaign Foundation's 2022 Corporate Equality Index as a Best Place to Work for LGBTQ+ Equality. Diversity, equity, and inclusion are incredibly important to IAS, and we believe in walking the walk. Our commitment starts at the top which includes a diverse board with majority female representation.

Before handing it over to Joe to review the financials, I'd like to outline some of our priorities for 2022:

Since our IPO, IAS has demonstrated an ability to deliver on the targets we set. We believe in consistency and execution, and we will strive to achieve results for our customers, and in turn, for our shareholders.

At our core we are a technology company. We are addressing a massive opportunity with market-leading solutions to delight our customers. In 2022, we will continue to develop innovative, unique, and differentiated technology that is disruptive across multiple platforms. Within our growth pillars, we will focus on:

- Delivering transparency and precision to programmatic, including contextual targeting
- Cracking the code for brand safety and suitability in the live feeds of social platforms with our enhanced video, image and audio classification capabilities
- Bringing increased transparency and inventory yield optimization to CTV, and
- Building on our industry-leading international presence in new and existing markets.
- As our suite of solutions has expanded to include both measurement and effectiveness, we will help marketers move closer to their goal of more efficient media buying to drive return on their advertising spend.
- In 2022, we will continue to take a strategic approach to enhancing our existing products and technology. We've demonstrated our success with our build/buy/partner approach, and we will continue to pursue external opportunities to complement our organic growth and accelerate our time-to-market and product roadmap.

I'd like to thank all of you on today's call for your ongoing support and interest. I'd also like to thank the entire IAS team for their dedication and commitment. We're pleased to have delivered another quarter of strong performance, and we're excited about our prospects in the coming year. And with that, I'll turn it over to Joe to review the financials.

Joe Pergola, CFO

Thanks Lisa, and welcome to everyone joining today's call. Our results for the fourth quarter and full year 2021 exceeded our prior expectations. I'm pleased to walk you through our performance and discuss our business momentum which is highlighted by our strong financial outlook for 2022.

As a reminder, IAS has an agile and scalable business model, focused on high revenue growth and margins. We have significant re-occurring revenue that provides us with visibility and predictability. We partner 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.

Turning to our results for the fourth quarter. Total revenue increased 31% to $102.5 million dollars compared to $78.3 million dollars in the prior year, and ahead of our prior guidance of $94 to $96 million dollars.

Expanding on our revenue performance, our Advertiser Direct revenue, which includes open web and social platforms, increased 7% year-over-year.

Key accounts included Coca-Cola, Disney, Samsung, and Nestle, among others.

Within Advertiser Direct, we continue to see volumes shift from open web to social platforms with increased video adoption. Video commands a pricing premium and accounted for 45% of total Advertiser Direct revenue, up from 42% in the 2021 third quarter.

Social accounted for almost 40% of Advertiser Direct revenue in the period.

We acquired Paris-based Context on December 31st in a cash and stock transaction valued at approximately $33 million, net of assumption of short-term debt. Context is expected to enhance our multi-media classification capabilities, particularly with video in social and CTV applications, but it is not expected to contribute materially to our financial performance on a stand-alone basis.

Our Programmatic revenue for the fourth quarter grew 43% year-over-year.

Context Control, our contextual avoidance and targeting solution, represented 38% of total Programmatic revenue, up from 36% in the 2021 third quarter. We're very pleased with the continued growth in Context Control. More than 70 of our top 100 accounts now use Context Control. We've seen strong customer uptake of Context Control in verticals including: travel and entertainment, CPG, retail/QSR, and finance.

We see tremendous opportunity to engage with our customers around Context Control for avoidance as well as contextual targeting solutions.

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

Supply side revenue from publishers increased to $16.2 million dollars, which includes a $7.5 million dollar contribution from Publica. Publica's contribution exceeded our prior outlook of $7 million dollars for the quarter. In total, Publica contributed $10.7 million dollars in revenue in the third and fourth quarters of 2021.

Total supply side revenue represented 16% of our fourth quarter revenue.

In 2022, we expect Publica to continue to add new clients and drive deeper integrations with key partners including Samsung and Philo.

We continue to increase our leading global market presence. International revenue grew 13% in the quarter and represented 34% of total revenue. Full year international revenue grew 29% and represented 37% of total revenue.

As anticipated, our current revenue mix between Americas and rest-of-world reflects the acquisition of Publica, which has been U.S.-focused to date. We see significant opportunity to leverage our existing global footprint to expand Publica's international reach.

Geographic revenue split for the fourth quarter, with growth across all regions, was as follows: for the Americas, total revenue for the quarter was $67.4 million dollars, up 43%; EMEA was $25.0 million dollars, up 9%; and APAC was $10.0 million dollars, up 24%.

Gross profit for the fourth quarter increased 31% to $86.1 million dollars, with an 84% gross margin comparable to the prior year period.

Non-GAAP operating expenses, which excludes stock-based compensation expenses and other items for comparability, increased at a rate below our top-line growth, reflecting our efficient operating model as well as lower costs due to COVID.

Total operating expenses for the fourth quarter of 2021 includes higher G&A costs related to hiring talent and professional fees to support our growth.

Stock-based compensation expense for the period was $9.1 million dollars. For the full year, stock-based compensation expense was $58.8 million dollars.

Moving on to our adjusted EBITDA and metrics:

- Adjusted EBITDA for the fourth quarter, which excludes stock-based comp and other one-time items, increased 22% year-over-year to $33.4 million dollars, or a 33% margin. The combination of top-line growth and strong adjusted EBITDA margin performance enabled us to reach the Rule of 60 for the period.
- Our fourth quarter net revenue retention, or NRR, was 128%, reflecting our ability to meet the growing needs of our clients with value-added solutions.
- We did not experience any churn in our top 100 customers in the quarter.
- Total advertising customers grew by 11% year-over-year to 2,073 advertisers.

- Our total number of large advertising customers with annual revenue over $200,000 dollars grew by 14% year-over-year to 183.
- Publisher count at quarter end was 137. Please note that we do not consider publisher count as a KPI and will disclose publisher count on an annual basis.

To summarize full year 2021 performance, total revenue increased 34% to $323.5 million dollars. Excluding Publica, total revenue increased 30% to $312.8 million dollars.

Gross margin for fiscal 2021 was $268.9 million dollars, a 34% increase. Gross profit margin was 83%.

Total operating expenses were $165.8 million dollars.

Adjusted EBITDA increased to $103.3 million dollars with an adjusted EBITDA margin of 32%.

In terms of our financial condition, we ended the fourth quarter with cash and equivalents of $73.2 million dollars compared to $51.7 million dollars at year-end 2020.

Based on current cash flows and our new credit facility, we believe we have ample access to capital to fuel our growth initiatives for the foreseeable future.

Turning to our guidance which includes Publica, for the first quarter ending March 31, 2022, we expect total revenue in the range of $85 million to $87 million dollars.

Adjusted EBITDA for Q1 in the range of $22 million to $24 million dollars.

For the full year ending December 31, 2022, we expect total revenue in the range of $416 million to $424 million dollars.

We anticipate Publica will represent approximately 8% of our total revenue for 2022.

Adjusted EBITDA for the full year is expected in the range of $127 million to $135 million dollars.

A few additional modeling points:

- Our business in 2022, including Publica, should follow typical seasonality, ramping from Q1 with Q4 being our biggest quarter.
- As a result of the increased contribution from Context Control, Programmatic is expected to surpass Advertiser Direct as the largest component of Total Advertiser revenue starting in the 2022 first quarter.
- Stock-based compensation expense for the first quarter of 2022 is expected in the range of $8.5 million to $9.5 million dollars; for the full year, stock-based compensation expense is expected in the range of $34 million to $38 million dollars.
- Shares outstanding for the first quarter is expected in the range of approximately 154.4 million to 155.4 million; for the full year, shares outstanding is expected in the range of 155.6 million to 156.6 million.
- As Lisa mentioned, we continue to hire at a record pace and expect adjusted EBITDA margins to reflect increased employee expenses in future quarters. We do expect adjusted EBITDA margins to increase throughout the year.

In conclusion, we're very pleased to close out the year with our strong fourth quarter performance. We expect our business momentum to continue as reflected in our positive 2022 outlook.

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