IAS Q4 2023 Prepared Remarks

Jonathan Schaffer, SVP, IR

Thank you. Good afternoon, and welcome to the IAS 2023 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 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

Thanks Jonathan and welcome everyone to our 2023 fourth quarter and year-end call. We delivered strong fourth quarter performance ahead of expectations. Revenue grew 14% to $134.3 million dollars at a 35% adjusted EBITDA margin. Full-year 2023 revenue increased 16% to $474.4 million dollars at a 34% adjusted EBITDA margin.

Throughout the year, we advanced our commitment to providing the industry's most actionable data and driving superior results for our customers. Our teams focused on maximizing ROI with AI-driven measurement and optimization solutions for our customers with industry-leading products. Brands trust IAS to safeguard and scale their businesses across all digital channels. We drove media performance through AI/ML and data transparency to ensure our customers realize lasting value for their businesses while anticipating rapid changes in the industry.

Before we look ahead to 2024, I'd like to share a few highlights from 2023 that position IAS for long-term, durable growth.

- In 2023, IAS signed over 20 global partnerships with major tech providers including TikTok, Meta, YouTube, X, Criteo, Instacart, Uber, Netflix, Samsung and Vizio.
- Our products are built on a foundation of data science and AI. In 2023, we expanded availability of our Total Media Quality, or TMQ product to meet the explosive growth of social media, including short-form video. We launched new products like Quality Attention and Made for Advertising. We also enhanced our Total Visibility offering for improved optimization of marketer spend.
- IAS's global presence is a key differentiator. In 2023, we expanded our international coverage with 40% of our new hires outside of the Americas and opened operations in four key APAC

markets: Hong Kong, Taiwan, Thailand and Vietnam. We recently announced partnerships with Moj and ShareChat, an Indian social networking platform, to deploy measurement solutions for advertisers on the platforms.

- Our international presence helped clinch several new global customer wins and renewals in 2023 including Kering, Canva, BT, Singapore Airlines, Panasonic, L'Oreal, LG Electronics, Singtel, Maruti Suzuki, BMW, Ferrero, and Mars. In the fourth quarter, we secured additional wins and major renewals that reinforce IAS's standing as a leader in the market.
    - We won the following three deals from an incumbent provider:
        - Airbnb switched to IAS as its global verification partner. Airbnb chose IAS based on our robust technological innovation, commitment to customer service including precision billing, distinct product advantages, and superior platform integrations.
        - A major telecom provider selected IAS as their verification and brand safety partner across all digital investment channels in the U.S. They chose IAS based on our tech, innovation, and service. IAS is a leader in the telecom vertical, working with the top three telecom providers in the U.S.
        - A large insurance carrier switched to IAS for measurement and optimization exclusively based on our innovative solutions and trusted support team.
    - We also secured two exclusive global partnership expansions:
        - Volkswagen Group renewed and expanded its exclusive global partnership with IAS across all of its brands for both measurement and optimization solutions. The renewal agreement has been expanded to include additional products including Total Visibility, sustainability measurement, and advanced CTV measurement.
        - IAS expanded its partnership with Shiseido, the Japanese multinational cosmetics company, as its exclusive global verification provider. IAS built on its partnership with Shiseido in EMEA and APAC to include the U.S. which had been serviced by an incumbent provider.
- In 2023, we made several senior hires with specialized experience to further IAS's growth in optimization and data science. In November, Kumaresh Singh joined IAS from Meta as Senior Vice President of Data Science to build highly scalable software systems. We plan to grow our data science team to represent 30% of R&D headcount by year end.
- We achieved several MRC accreditations in 2023 including the industry's first MRC accreditation for CTV viewability. Recently, IAS received continuing accreditation from the MRC for Meta, including impressions and two-second video viewability data for Facebook Feed and Instagram Feed and Stories.
- In the fourth quarter, IAS released its first corporate responsibility report, outlining the tangible progress the company is making to strengthen its environmental, social, and governance initiatives. The report highlights our commitment to innovation and ethical practices, exceptional customer service, and ensuring IAS is a great place to work for our employees.

Turning to 2024, I'd like to review our product roadmap priorities. First, we are investing to capture the explosive growth of social media, including short-form video in the live feed. Second, we are evolving our products to support marketing outcomes. Third, we are innovating to make our products easier to activate to drive campaign usage and diversify our customer mix. Lastly, AI is an essential part of our product vision and we are investing in data science. Let's review these priorities in more detail.

As an unbiased, independent third-party provider, we are delivering solutions to help marketers measure and optimize performance in dynamic, user-generated social environments. We are expanding availability and increasing adoption of our highly differentiated TMQ product to reach social media users globally.

TMQ is activated in the live feeds of the four major social platforms today to meet high marketer demand:

- With Meta, we were delighted to announce earlier this month the availability of our AI-driven TMQ brand safety and suitability measurement product across Facebook and Instagram Feed and Reels. IAS's new post-bid brand safety and suitability expansion with Meta gives advertisers increased transparency into whether their campaigns are appearing next to safe and suitable content. We expect to ramp adoption throughout 2024 and into 2025.
- We've seen healthy adoption of our TMQ product in TikTok. In 2023, the number of active post-bid campaigns increased over 350% and the number of tracked ads increased over 550%. In November, IAS expanded its TMQ product for TikTok to 21 new countries for a total of over 50 markets.
- In December, IAS expanded our YouTube TMQ product capabilities. IAS now offers our brand safety and suitability measurement product to advertisers for YouTube Shorts inventory as part of its existing Total Media Quality for YouTube product suite.
- On February 1st, IAS expanded its partnership with X for all U.S. advertisers. IAS classifies all vertical video ad adjacencies for brand safety and suitability aligned to the GARM framework, giving advertisers maximum control over where their ads appear on the X vertical video feed. Additionally, we are expanding our post-bid brand safety and suitability measurement solution currently in GA in the U.S. to other countries in Q1.

We are also continuing to evolve TMQ to offer marketers more choice into how content is classified with more categories, including misinformation ahead of this year's U.S. elections.

Regarding outcomes, we are focused on driving superior results for marketers with products only IAS offers including Total Visibility, MFA, and attention.

- IAS's unique Total Visibility product enables customers to connect performance metrics, such as conversions and sales lift, supply path, and cost of media to IAS's media quality metrics including viewability, context, attention, and brand suitability. Total Visibility is now integrated with Yahoo's DSP, expanding our coverage and providing greater insights into the total supply path.
- In the fourth quarter, IAS announced its new Made for Advertising, or MFA, site detection and avoidance solution backed by AI. Our differentiated approach to MFA considers both the quality of the ad environment and characteristics of the traffic source, meeting the specific preferences of each marketer.
- In January, IAS announced that our Quality Attention solution is now available in GA. Our differentiated attention product is the only solution available that uses advanced machine learning, actionable data from Lumen Research's eye-tracking technology, and a variety of signals obtained as part of IAS's core technology to weigh into a single attention score.

Publica by IAS continues to be recognized as a market-leading CTV ad server. In 2023, the team won five awards including being named by Digiday as the Best Video Ad Server. Univision, Foxtel, and Hallmark are the latest streaming publishers to implement Publica by IAS to help them grow their advertising revenue and improve their viewers' streaming experiences.

Publica by IAS also announced support of Open Path from The Trade Desk. Along with the direct DSP integrations carried out in 2023 from platforms such as Yahoo, Publica now empowers publishers to curate their optimal demand paths to maximize programmatic CTV advertising revenue.

Our business today is weighted towards a loyal base of large advertising customers with an average tenure of over 8 years for our top 100 marketers. At the end of the fourth quarter, we had 222 large advertising customers with annual spend of at least $200,000 dollars per year. Revenue from these large advertising customers represented 87% of our total advertising revenue for the trailing twelve-month period. We are seeing more competitive pricing in measurement on a select group of large contract renewals in exchange for increased volume commitments and multi-year exclusive agreements. We have factored this dynamic into our growth outlook for 2024.

We continue to diversify our customer mix and grow our presence with mid-tier, performance-based marketers. On the product side, we are enabling adoption and activation through new capabilities. Since integrating Quality Sync into major DSPs including The Trade Desk, we’ve seen the number of Quality Sync impressions increase threefold since the beginning of 2023.

We have also implemented an enhanced go-to-market strategy for mid-tier clients. We have partnered with independent agencies and vertical-specific DSPs and launched new contextual segments. We have also hired several new programmatic sales specialists. In January, Parker Bohlen joined IAS from Amazon as Senior Vice President Global Optimization Sales.

In 2024, we believe generative AI will accelerate product development and drive greater efficiencies. We are leveraging AI to help marketers identify higher quality media with greater transparency into their advertising buys. AI already powers our TMQ, attention, and MFA offerings. We are moving towards the launch of a real-time data platform in the first half of 2024 as discussed at our analyst and investor day last year.

We also expect that cookie deprecation will increase demand for our solutions. Our technology is focused on the “what” and the “where” of the media event, rather than on the “who.” As marketers lose the ability to measure and target campaigns with third-party cookies, we believe IAS can fill those gaps using more context and introducing new metrics like attention.

Our full-year 2024 revenue outlook calls for double-digit top-line growth and solid profitability. We expect to benefit from increased product availability of TMQ and Quality Sync and the launch of new products including Quality Attention and MFA as well as emerging opportunities such as retail media. As a result of these new products, new logo wins, expanding wallet share with existing clients, and second half events including the Olympics and the U.S. elections, we expect to ramp performance as we move through the year.

We’re coming off a strong fourth quarter and positive full-year 2023 performance highlighted by 16% revenue growth at a 34% adjusted EBITDA margin. As we look to the future, we are investing to capture an exciting opportunity across several fast-growing channels.

We value the trust marketers place in IAS to protect, measure, inform and optimize their brand campaigns. By leveraging our differentiated data to ensure that our insights power outcomes, we elevate the quality of digital media across the digital ecosystem. We are ensuring access to higher quality media and driving higher ROI for our brand and publisher partners which is at the heart of the IAS value proposition.

I'd like to thank all of our customers, partners, employees, and shareholders for their commitment and support and look forward to updating you on our progress.

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're pleased to report positive fourth quarter and full-year results that exceeded expectations for both revenue and profitability. Our performance was driven by double-digit gains in our measurement and optimization businesses in both the fourth quarter and full year. We also delivered a 35% adjusted EBITDA margin in the fourth quarter while reducing indebtedness and investing for long-term growth.

Total revenue in the fourth quarter increased 14% to $134.3 million dollars, ahead of our prior outlook of $130 to $132 million dollars. For the full year 2023, total revenue increased 16% to $474.4 million dollars.

Total revenue from advertisers, which includes optimization and measurement revenue, increased 16% in the fourth quarter and represented 87% of total revenue for the period. Strength in CPG was attributable to new logo wins in prior periods, and retail benefited from the holiday season.

Optimization revenue grew 16% to $63.6 million dollars in the fourth quarter. Optimization revenue benefited from double-digit growth of Context Control driven by our previously announced enhanced integration with Amazon Ads as well as increased client adoption of Quality Sync across our DSP partners.

Measurement revenue increased 18% to $52.6 million dollars in the fourth quarter. Social media measurement revenue represented 49% of total measurement revenue, with the balance being open web which was up modestly in the fourth quarter. Social media revenue represented 18% of total revenue in the fourth quarter, compared to 16% in the prior-year period. We realized 37% growth in social media due to the rapid adoption of our TMQ product. The majority of the growth of social media measurement revenue in the fourth quarter was from short-form video including Meta Reels, TikTok, and YouTube Shorts. As a result of the strong growth in social media, video grew 40% in the fourth quarter. Video accounted for 55% of measurement revenue, up from 47% in the fourth quarter of 2022.

Publisher revenue increased 2% to $18.1 million dollars in the fourth quarter. Publisher revenue reflects modest growth in both Publica and in our non-CTV supply side businesses. Publisher revenue represented 13% of total fourth quarter revenue.

International revenue, excluding the Americas, increased 16% year-over-year. International revenue increased on the strength of continued adoption of our TMQ social media product and recent wins in

EMEA and APAC. While international revenue represented 32% of total revenue in the fourth quarter, 46% of total measurement revenue came from outside of the Americas.

Gross profit margin for the fourth quarter and full year 2023 was 79%, in-line with our full-year margin target of 78-80%. Gross margin performance reflects investment in data infrastructure and increased hosting costs compared to the prior year.

Sales and marketing, technology and development, and general and administrative expenses combined increased 2% year-over-year as a result of increased efficiency and productivity through streamlined operations. In addition, the year-over-year comparison reflects the impact of the restructuring charge in the fourth quarter of 2022.

Adjusted EBITDA for the fourth quarter, which excludes stock-based compensation and one-time items, increased 19% year-over-year to $47.5 million dollars at a 35% margin, ahead of our prior outlook for the period. Adjusted EBITDA for the full year 2023 increased 26% year-over-year to $159.5 million dollars at a 34% margin. Net income for the fourth quarter was $10.2 million dollars, or $0.06 cents per basic and diluted share. This compares to net income of $11.5 million dollars or $0.07 cents per basic and diluted share in the fourth quarter of 2022.

Turning to our performance metrics:

- Our fourth quarter net revenue retention, or NRR, of 116% was unchanged from the third quarter of 2023 due to strong product adoption from existing clients.
- The total number of large advertising customers, which includes both mid- and top-tier clients with annual revenue over $200,000 dollars, increased to 222, up 12% compared to 199 last year and up sequentially from 219 in the third quarter of 2023.
- Revenue from large advertising customers was 87% of total advertising revenue at the end of the period, up from 85% at the end of the third quarter of 2023 and up from 84% at the end of the fourth quarter of 2022.

We maintain a healthy balance sheet with strong cash flow conversion that enables us to lower our debt and provides us with financial flexibility to invest in the long-term growth of the business. Cash and cash equivalents at the end of the fourth quarter were $125 million dollars. During the quarter, we reduced our long-term debt by $20 million dollars to $155 million dollars. In 2023, we reduced indebtedness by a total of $70 million dollars. As a result, our net debt at the end of 2023 was $30 million dollars or 0.2x trailing twelve month adjusted EBITDA.

Turning to guidance:

- For the first quarter ending March 31, 2024, we expect total revenue in the range of $111 to $113 million dollars, a 6% year-over-year growth rate at the midpoint.
- Adjusted EBITDA for the first quarter is expected in the range of $28 to $30 million dollars, or a 26% margin at the midpoint of the range.
- For the full year 2024, we expect total revenue in the range of $530 to $540 million dollars, a 13% year-over-year growth rate at the midpoint.
- Adjusted EBITDA for the full year 2024 is expected in the range of $171 to $179 million dollars, or a 33% margin at the midpoint of the range.

As Lisa referenced earlier, our first quarter outlook reflects more competitive pricing in measurement on a select group of large contract renewals in exchange for increased volume commitments and multi-year exclusive agreements. We have also factored into our Q1 outlook the implementation of previously negotiated pricing by one optimization account. We expect to ramp revenue growth from first quarter levels as we move through the year driven by robust new product launches in 2024 including Meta brand safety as well as the ongoing adoption of our social media products, the expansion of our Quality Sync product, and the roll out of our attention and MFA offerings. We have also factored into our outlook the anticipated contribution from upcoming major events in the second half of the year including the summer Olympics and the U.S. elections.

We are managing costs to match this anticipated revenue ramp in 2024, and we expect quarterly adjusted EBITDA margins in 2024 to increase as we move through the year. We expect gross profit margin in the range of 77% to 79% for the full year which reflects ongoing investments in our premium offerings which include higher hosting costs. We expect slightly slower growth in our operating expenses relative to revenue growth in 2024, as we maintain expense discipline and continue to invest in growth initiatives.

First quarter stock-based compensation expense is expected in the range of $14 to $16 million dollars. Full-year 2024 stock-based compensation expense is expected in the range of $72 to $76 million dollars. We expect weighted average shares outstanding for the first quarter in the range of 159 to 160 million shares and 160 to 162 million shares for the full year.

To conclude, we plan to grow revenue at a double-digit rate for the full year 2024 as we launch new products and expand our market reach. We will continue to maintain healthy adjusted EBITDA margins while delivering superior value to our customers with an expanded portfolio of highly sophisticated solutions.

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