IAS Q1 2024 Prepared Remarks

Jonathan Schaffer, SVP, IR

Thank you. Good afternoon, and welcome to the IAS 2024 first quarter 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

Thank you, Jonathan. Welcome everyone to our 2024 first quarter call. Revenue and adjusted EBITDA for the first quarter exceeded our prior expectations. Revenue grew 8% to $114.5 million dollars, ahead of our prior outlook of $111 to $113 million dollars. Adjusted EBITDA was $33.1 million dollars at a 29% adjusted EBITDA margin. As we moved through the first quarter, we benefited from increased advertiser demand for our industry-leading products, particularly in social media. Our first quarter performance includes the previously discussed factors within measurement and optimization that we anticipated. We expect favorable demand trends for our products in the second quarter, and we are increasing our full-year outlook.

On today's call, I'll address the importance of data integrity and our trusted AI-backed technology, the strong momentum in social media across platforms, our robust product pipeline in both measurement and optimization, and several high-growth opportunities that we continue to prioritize.

Marketers trust IAS to protect, measure, inform, and optimize their brand campaigns. Their trust is based on the accuracy and reliability of our data. Data integrity is critical and inherent in all the reporting and insights we provide in every aspect of our business. Data science is at the heart of our business strategy. Our AI systems enable models that deliver classifications and analytics at greater speed that are scalable with extremely high precision - this in turn helps deliver the most actionable data to our clients. In a recent IAS study, our AI technology delivered up to 74% more accurate brand suitability measurement across social media platforms when compared to other providers' solutions.

While IAS is focused on harnessing the power of AI, we are committed to doing it responsibly. We are investing in explainable AI which ensures that our customers can trust our models. The accuracy, reliability and integrity of our data is anchored in our AI innovation as well as in our critical role as an independent third-party provider. This allows us to maximize the value we offer all while maintaining and growing the trust customers have in IAS.

A few weeks ago, I presented at TikTok's second annual Beyond Brand Safety Summit along with TikTok's Head of Global Ad Tech Partnerships and Brand Innovation Product Lead. TikTok selected IAS as the only third-party measurement partner to speak at the event highlighting the essential role IAS plays in supporting TikTok's advertisers. Our leading partnership with TikTok, as well as our recently announced exclusive first-to-market partnerships with X and Snap demonstrate the trust major platforms place in IAS which fuels our innovation.

At IAS, we lead with customer obsession. Putting the customer first and ensuring we're at the forefront of innovation has resulted in a highly sticky customer base with an average tenure of 8 plus years for our top 100 marketers. We have increased wallet share with our large customers as a result of organic volume growth, upsell/cross-sell of new products, expansion into new global markets and channels, as well as land-and-expand within existing customer brand portfolios. Since 2019, we've seen a 55% increase in average annual spend in year two of new contracts based on our advertiser customer data. We're pleased to have secured several recent wins and renewal expansions across industry verticals including CPG, telecommunications, automotive, and financial services.

We have also proven our ability to grow with our customers as they shift advertising budgets to capture the explosive growth of social media, including short-form video. Social media measurement revenue represented 21% of total revenue and grew 40% in the first quarter due to the rapid adoption of our Total Media Quality (TMQ) product suite.

IAS is leading in social media with integrations across the major social platforms including Meta, YouTube, and TikTok. IAS has also established industry-first partnerships with X and Snap further validating the superiority of our social media offerings:

- With Meta, we've achieved strong adoption of our AI-driven TMQ brand safety and suitability measurement product across Facebook and Instagram Feed and Reels. Total volume of impressions on Meta increased more than 50% in the first quarter since brand safety and suitability measurement launched on February 5th. We're delighted to announce that we've expanded availability of our brand safety and suitability measurement on Meta to include 21 new languages for a total of 28 supported languages. In April, we also expanded to include our GARM-aligned misinformation measurement to meet growing advertiser demand ahead of the upcoming U.S. elections.
- With TikTok, we expanded our global industry-leading brand safety and suitability measurement to 12 GARM categories and 15 Vertical Sensitivity/Category Exclusion segments in April. We added 11 countries for total coverage of over 60 countries. We also expanded our measurement ease- of-activation with Automated Suitability Profiles and enhanced reporting capabilities, validating that our customers' ads are appearing in brand suitable environments.
- With YouTube, we earned MRC accreditation in March for our integrated third-party calculation and reporting of YouTube video viewability for desktop and mobile including web and app using Google's Ads Data Hub for Measurement Partners.
- In February, IAS launched its exclusive prebid product with X, providing the opportunity for U.S. advertisers to opt-in to activate pre-bid IAS Optimization for X on the Vertical Video product. IAS classifies 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. Our relationship with X is based on trust and transparency with a foundation built on the accuracy of our data.
- In March, IAS announced a first-to-market partnership on Snap to provide AI-driven brand safety and suitability measurement for advertisers. By integrating our TMQ product suite, advertisers on Snap will have access to increased transparency across their Snapchat campaigns. We're currently in development and expect to go live later this year. This announcement expands our partnership with Snap which dates back to 2018 in which IAS launched viewability and IVT measurement.

We are prioritizing offerings in measurement and optimization that drive superior results and ROI for our customers in an increasingly cookie-free world:

- We are expanding the reach of our Quality Sync product to new DSPs, which simplifies activation for our pre-bid optimization products. QSP revenue more than tripled year-over-year in the first quarter.
- In the first quarter, we increased adoption of our Total Visibility product. Total Visibility enables customers to connect performance metrics, such as conversions and sales lift, supply path, and cost of media to IAS's media quality metrics.
- In April, IAS expanded our MFA AI-driven solution to GA after an extensive beta that spanned over 100 campaigns. Our MFA solution is the first to measure and optimize against both MFA and Ad Clutter sites to drive maximum efficacy across the programmatic buying process.
- Our Quality Attention solution went live in early January and has experienced significant growth in active customers since launch. Our differentiated approach unifies media quality and eye tracking with machine learning to deliver proven results for advertisers. Higher attention drives better sales performance. In a recent study in partnership with NCSolutions on behalf of a major CPG client, we found that impressions with higher attention scores drove an increase of 157% in incremental sales versus impressions with lower attention scores.
- Ahead of this year's U.S. elections, IAS is helping protect brands by enabling them to identify and avoid misinformation using a combination of AI-backed technology and human detection. IAS has been combating misinformation on the open web since 2021 in partnership with the Global Disinformation Index (GDI) and aligned with GARM standards. We've significantly enhanced our misinformation offering to include TMQ in leading social platforms.

During the quarter, we realized double-digit revenue growth with our mid-tier clients. We have established new partnerships with mid-tier DSPs including two in the important pharmaceutical sector. We also signed five mid-tier agencies as their preferred or exclusive partners.

Lastly, we continue to invest in high-growth opportunities including CTV, retail media, and gaming:

- During the quarter, Publica by IAS partnered with CNN & Turner Sports in EMEA. Both publisher partners use Publica by IAS's unified ad auction solution to increase yield and guarantee the best viewing experience for users.
- We are delighted to announce that Cam Miille will be joining IAS as Chief Revenue Officer at Publica. With over 12 years in sales leadership roles at Freewheel and OpenX, Cam possesses deep knowledge of the CTV and publisher landscapes. We look forward to welcoming Cam to the team.
- In April, IAS received accreditation for filtration of sophisticated invalid traffic in CTV environments as applied to video impressions, viewable impressions and viewability related

metrics. Our latest MRC accreditations demonstrate our continuing commitment to transparency and to the MRC process. In the last 12 months, we've achieved 10 third-party certifications/accreditations, including 4 from the MRC.

- In April, IAS was one of the first companies to receive TrustArc's TRUSTe Responsible AI certification, demonstrating our commitment and alignment with the highest standards of AI governance. The certification validates that our practices for the development and deployment of AI systems are secure, fair and transparent.
- In retail media, IAS is a leader in independent verification with coverage for viewability, IVT, and brand safety with the top retail media networks. In the first quarter, volume from retail media networks grew 88%.
- Last week, IAS announced a first-to-market integration with Roblox to provide 3D in-game viewability and invalid traffic measurement in the immersive environment. Advertisers can access best-in-class third-party measurement to verify that their immersive in-game advertisements on Roblox are driving engagement with real users.

To conclude, first quarter results exceeded our prior outlook and we expect accelerated growth in the second quarter. As previously discussed, we expect the measurement contract renewals to be net revenue positive in 2024. In addition, new products and recent customer wins along with other contributing factors, reinforce our confidence in our increased full-year outlook.

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 were pleased to see increasing business momentum as we moved through the first quarter and into the second quarter. We expect to benefit from multiple growth drivers in the second half of the year that I will discuss. As a result, we are raising our full-year outlook.

Total revenue in the first quarter increased 8% to $114.5 million dollars, ahead of our prior outlook of $111 to $113 million dollars. Increasing social media spend by marketers was the main driver of our better-than-expected performance in the period.

Total revenue from advertisers, which includes optimization and measurement revenue, increased 8% in the first quarter and represented 86% of total revenue for the period.

Optimization revenue grew 3% to $52.5 million dollars in the first quarter. Optimization revenue growth in the first quarter reflects the implementation of previously negotiated pricing by one optimization client as discussed on our last call as well as softer demand, particularly in auto and T&E. Additionally, on a comparable basis, last year's first quarter benefited from strong seasonal campaign performance as well as from carryover campaigns from the 2022 World Cup. We expect the growth rate in optimization to more than double in the second quarter from first quarter levels based on improving demand trends as well as the anticipated contribution from recent new logo wins.

Measurement revenue increased 14% to $46.3 million dollars in the first quarter. Measurement growth in the first quarter reflects strong demand for our social media products, including our premium-priced TMQ offering. Social media revenue grew 40% in the first quarter with strength across platforms, including Meta following the launch of TMQ as well as YouTube and TikTok. Meta volumes overall increased more than 50% following the TMQ launch in early February, and we expect a similar rate of growth of Meta volumes for the balance of the year. Advertisers on Meta represent more than 40% of our social media revenue today. Social media revenue represented 21% of total revenue in the first quarter, compared to 18% in the fourth quarter of 2023. Social media revenue represented 52% of total measurement revenue, with the balance being open web which saw lower demand as marketers shift spend to social. As a result of the strong growth in social media, video grew 27% in the first quarter. Video accounted for 53% of measurement revenue, up from 47% in the first quarter of 2023. Measurement performance in the first quarter also included the expected impact of the previously discussed contract renewals.

Publisher revenue increased 10% to $15.8 million dollars in the first quarter. Publisher revenue reflects continued adoption of our Publica solutions by large OEM partners, partially offset by the performance of our non-CTV supply side businesses. Publisher revenue represented 14% of total first quarter revenue.

Looking at our revenue performance by region, revenue in the Americas increased 6%. International revenue, excluding the Americas, increased 13% year-over-year and benefited from growth in social media spend, including TMQ, in both EMEA and APAC. While international revenue represented 31% of total revenue, 42% of measurement revenue came from outside of the Americas.

Gross profit margin for the first quarter was 77%, in-line with our full-year margin target of 77-79%. 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 14% year-over-year, which includes the impact of higher stock-based compensation expense. We continue to invest in the long-term growth of IAS with particular focus in the areas of engineering, data science, and sales. We continue to capitalize internally developed software related to new product development and long-term investments in our technology. Stock-based compensation expense for the period was $15.7 million dollars in-line with our prior expectation of $14 to $16 million dollars.

Adjusted EBITDA for the first quarter, which excludes stock-based compensation and one-time items, was $33.1 million dollars at a 29% margin, ahead of our prior outlook of $28 to $30 million dollars primarily driven by the higher-than-expected revenue. Net loss for the first quarter was $1.3 million dollars, or $0.01 cent per share.

Turning to our performance metrics:

- Our first quarter net revenue retention, or NRR, was 113% which reflects the trend of our overall growth rate for the period.
- The total number of large advertising customers, which includes both mid-tier and top-tier clients with annual revenue over $200,000 dollars, increased to 227, up 11% compared to 204 last year and up sequentially from 222 in the fourth quarter of 2023.
- Revenue from large advertising customers was 85% of total advertising revenue at the end of the period, up from 84% at the end of the first quarter of 2023.

The profitable nature of our business model results in strong free cash flow which enables us to lower our debt and provides us with financial flexibility to invest in the long-term growth of the business. We maintain a healthy balance sheet with cash and cash equivalents at the end of the first quarter of $83.9 million dollars. During the quarter, we reduced our long-term debt by $30 million dollars to $125 million dollars. As a result, our net debt at the end of the first quarter was $41 million dollars.

Turning to guidance:

- For the second quarter ending June 30, 2024, we expect total revenue in the range of $125 to $127 million dollars, or 11% year-over-year growth at the midpoint.
- Adjusted EBITDA for the second quarter is expected in the range of $37 to $39 million dollars, or a 30% margin at the midpoint.
- For the full year 2024, we are increasing our revenue outlook to $533 to $541 million dollars, or 13% year-over-year growth at the midpoint, versus the prior range of $530 to $540 million dollars.
- We are raising our full-year adjusted EBITDA range to $174 to $180 million dollars, or a 33% margin at the midpoint, versus the prior range of $171 to $179 million dollars.

A few additional modeling points:

- Our gross profit margin outlook remains unchanged in the range of 77% to 79% for the full year which reflects higher hosting costs related to our video offerings.
- Second quarter stock-based compensation expense is expected in the range of $15 to $17 million dollars. Full-year 2024 stock-based compensation expense is expected in the range of $63 to $66 million dollars, lower than our prior expectation of $72 to $76 million dollars.
- We expect weighted average shares outstanding for the second quarter in the range of 160 to 161 million shares and 160 to 162 million shares for the full year.

We are pleased to introduce a positive outlook for the second quarter with continued growth in measurement driven by strong customer adoption of our social media offerings. The optimization growth rate year-over-year is expected to more than double in the second quarter from the first quarter. Publisher revenue in the second quarter is expected to include double-digit growth in Publica consistent with Publica's strong first quarter performance.

As we move into the back half of the year, we expect accelerated growth driven by our robust product pipeline including the ongoing TMQ rollout across social platforms, the scaling of our recently launched MFA and attention products, Quality Sync expansion, the contribution from new logo wins, and higher volumes from the recent measurement renewals. In addition, we expect profitable growth with expanded adjusted EBITDA margins as we move through the year, while investing in the growth of the business and reducing debt.

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