IAS Q1 2022 Prepared Remarks

Jonathan Schaffer, VP, IR

Thank you. Good afternoon, and welcome to the IAS 2022 First 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.

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. Our first quarter results exceeded our expectations for the period. And despite the global macroeconomic and geopolitical climate, we are providing positive financial guidance for the rest of the year.

We are executing on our growth strategy, investing in differentiated technology, and accelerating our product roadmap and time-to-market with targeted acquisitions. We’re also creating value for our customers through our focus on customer obsession and innovation which is fueling our growth.

Our solutions have never been more relevant. Marketers rely on IAS to protect and amplify their brands across a digital media landscape that is rapidly evolving and increasingly difficult to navigate. As the massive digital advertising market continues to grow at double-digit rates, IAS ensures that our customers’ advertising creative is viewable, by a human, in brand safe, brand suitable environments, and in the desired geographies. Increasingly, marketers are also looking to IAS for contextual targeting and campaign optimization.

According to eMarketer, today’s global digital advertising market, excluding search, has grown to over $300 billion dollars. As a leading digital media quality company, we offer ROI solutions to help marketers invest in high quality media and drive greater returns and efficiencies on their digital advertising spend. We empower marketers with first-to-market, high quality, differentiated products. We bring deep integrations with major platform partners that drive innovation, and we are leading the way in promising channels like social media and CTV.

During the first quarter, we realized growth across our business highlighted by a 53% increase in programmatic revenue.

- Total revenue for the quarter grew 33% to $89.2 million dollars
- Adjusted EBITDA reached $24.8 million dollars at a 28% margin
- We also achieved net income profitability for the period of $1.2 million dollars, or $0.01 per share.

Overall demand trends remain positive, despite macroeconomic uncertainty, as reflected in our outlook for the second quarter and full year. We have a high degree of visibility into customer demand for IAS's products based on where we operate within the ecosystem. Our global sales team has closed impressive customer wins in recent weeks with marquee brands including Progressive, JP Morgan Chase, and Activision Blizzard to name a few.

Before I dive into the quarter in more detail, I wanted to share with you two organizational changes. As you saw in today's earnings release, Joe will be leaving IAS to pursue new opportunities. He will remain as CFO through the reporting of our second quarter results and the filing of our 10-Q in August to ensure a smooth transition of his responsibilities. We have begun a search for a new CFO and have engaged an executive search firm to assist with our efforts.

Joe has been a valued member of our senior leadership team since joining IAS in 2019. He brought financial structure and discipline to IAS as we transformed the company. He then led the finance team through our IPO and first year as a public company. On behalf of the board, management, and the entire IAS team, I'd like to personally thank Joe for his leadership, counsel, and commitment to ensuring the company's success. We have a strong finance team with a deep bench that gives us a great foundation to support our future growth.

In addition, I'm excited to announce today that Yannis Dosios has joined IAS this week in the newly created role of Chief Commercial Officer. Yannis will be responsible for leading our sales and marketing efforts. Yannis brings extensive operational experience both in startups and large tech companies, including Twitter and Yahoo. He has a proven track record of driving growth by closely aligning sales, marketing, and product teams. He approaches businesses through a customer and commercial lens. Having worked with Yannis for nearly three years at Yahoo, I've personally seen his ability to accelerate businesses, particularly in the programmatic space. We are thrilled to have Yannis join the team.

Turning now to our recent business performance in more detail. I'd like to provide an update on our four growth pillars including programmatic, social media, CTV, and international.

<u>Programmatic</u>

Let's start with programmatic which, for the first time, represented more than 50% of our advertising revenue in the period.

During the quarter, we generated strong demand for our Context Control solutions. Context Control represented 41% of programmatic revenue, up from 38% in the fourth quarter of 2021.

Context Control includes both avoidance and targeting solutions. We currently have over 400 contextual avoidance and targeting segments of highly relevant content.

Our contextual avoidance solution represents the vast majority of Context Control revenue to date. Our avoidance solution enables marketers to identify content unsafe and unsuitable for their brands as defined by GARM, the Global Alliance for Responsible Media.

In March alone, we had 64 net new contextual avoidance activations.

80 of our top 100 accounts now use Context Control for avoidance, up from 76 of our top 100 accounts last quarter. Beyond the top 100, we are also seeing increased customer penetration and adoption which represents a significant opportunity for future expansion.

The increased adoption of Context Control for avoidance uniquely positions IAS in the contextual targeting arena as well. Marketers value a single, integrated solution, which reduces complexity.

We are introducing new ROI tools within contextual targeting to enable marketers to better plan their campaigns and seamlessly optimize and activate targeting segments. These tools calculate reach, simplify activations within DSPs, and track segment performance.

Lastly, within programmatic, we made enhancements to Total Visibility, our Quality Path Optimization, or QPO solution which helps marketers optimize media spend and drive campaign outcomes. We introduced a dashboard in our Signal user interface to provide marketers with a unified view of their global campaigns. The free version of the Total Visibility dashboard within Signal offers insight into how much spend was wasted on unviewable, unsafe, and fraudulent impressions. It also provides quality CPM, or qCPM, which helps marketers understand both the quality of media they are buying and the cost efficiency at which it is being purchased. Marketers can then access premium services to optimize campaigns based on supply path view and quality/financial metrics.

As an example, we conducted a study with Visa EMEA to demonstrate the value of our QPO solution. Visa wanted to develop a strategy to reduce waste and increase spend in working media by determining the most efficient buying paths. IAS monitored spend in over 18 European markets. Through IAS quality path optimization including redirection of spend away from low performing SSPs and domains and comparing private marketplaces to open market buys, Visa significantly improved efficiency and increased campaign ROI.

Social

In social media, we are driving technology innovation for a growing number of platforms.

Following the consumer shift to a digital-first lifestyle, user adoption of social media has reached unprecedented levels. In our Social Media Ad Receptivity Report from February, we found that social media ad spend is projected to reach $82B dollars in the U.S. by 2023, and 96% of consumers currently use at least one social media platform.

We’re very pleased to expand our partnership with TikTok into new markets and products:

- Our pre-bid, in-feed brand safety targeting solution for TikTok classifies video, image, audio, and text in the live feed of TikTok consistent with GARM categories. Previously, we launched our TikTok pre-bid brand safety solution in the U.S., Germany, and France. TikTok and IAS are also expanding pre-bid brand safety to additional markets, including Australia and the U.K.
- In addition, we were thrilled to announce earlier this week the launch of the global GA for measurement of TikTok viewability and invalid traffic, or IVT. This will allow marketers to understand the performance of their ads within the TikTok platform.
- By partnering with IAS, marketers have access to an increasingly comprehensive set of solutions to manage their campaigns on TikTok.

Marketers go where the users are. At a recent investor event, Ron Amram, Senior Director of Global Media at Mars, the home of countless and beloved consumer brands, and a highly valued IAS customer, said, “TikTok is a fast-growing platform at massive scale already. They're highly engaging, their advertising inventory works, and there's a strong targeting measurement capability.”

The technology we built in-house for TikTok is scalable and portable to other platforms by promoting open industry standards for measurement and accessing content in mobile apps - a first of its kind integration at this scale.

In the next few months, we will launch in beta our post-bid brand safety measurement solution for Twitter. This product addresses the need for marketers to better understand the user generated content, or “tweets,” displayed adjacent to their ads in Twitter feed - further demonstrating IAS’s strengths in classifying multimedia content prevalent on social platforms.

On our last earnings call, we discussed our acquisition of AI video platform, Context. Context accelerates our existing multimedia classification capabilities. Their technology enables us to go beyond standard frameworks especially in video-rich environments - such as social platforms and CTV. Our first integration using the combined platform will become available in the coming months.

<u>CTV</u>

Moving to CTV where we remain at the forefront of innovation.

We acquired Publica nine months ago and are very excited about our progress to date. Publica added video publisher and SSP integrations, a unified ad auction, ad stitcher and an ad server to our tool kit. The combination of IAS’s buy-side data and Publica’s access to vast amounts of CTV data on the supply-side has enabled us to innovate faster and provide unprecedented transparency into the CTV market. That’s a win for marketers, publishers, and viewers.

We are delivering greater transparency in CTV so that marketers are comfortable shifting spend from traditional linear TV. In the first quarter, we began offering insights to marketers on where CTV ads run based on the device, app, channel, and content including genre, category, and rating. We continue to add more publishers who are partnering with us to share this data and bring transparency. IAS is the first to release show-level CTV brand safety based on GARM guidelines, providing marketers with critical insights. We are also helping CTV publishers better optimize and monetize their inventory.

Publica has closed several exciting wins recently. DirectTV is using Publica's unified ad auction to help capture more budgets that have shifted to programmatic channels. Publica announced an agreement with Hearst Television to provide server-side ad insertion, or SSAI, and unified auction services. In addition, Future Today, the leader in ad-supported streaming, and Molotov TV, the leading over-the-top platform in France, are live with Publica for SSAI.

During the quarter, we integrated our CTV pre-bid fraud solution within Yahoo DSP. Marketers who access CTV inventory via Yahoo DSP will have protection against fraudulent traffic with access to fraud-filtering pre-bid segments. Yahoo represents the third major DSP to date to integrate our CTV pre-bid fraud solution.

Additionally, IAS was selected as an NBCUniversal Certified Measurement Partner. IAS is now certified for audience verification, enabling us to provide marketers granular media quality measurement across NBCUniversal's platform.

We continue to invest in building our CTV capabilities for long-term success. In April, we announced the appointment of Sean Galligan as Chief Revenue Officer at Publica. Sean brings extensive publisher and advertising technology experience that will be instrumental as we extend Publica's leading market position globally.

<u>International</u>

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

The trend with marketers has been to partner with one verification provider globally across multiple markets, channels, and products.

International revenue represented 32% of revenue in the first quarter.

In EMEA, where we maintain a market-leading presence, the tragic war in Ukraine led some marketers to pull back initially on their campaigns as they reallocated spend and adjusted creative. However, we saw demand return in EMEA and has since stabilized.

We have no full-time employees in Ukraine or Russia and do not recognize revenue in either country. We stand with all people who have been impacted by this conflict, including our IAS colleagues with loved ones in Ukraine.

The prolonged global supply chain delays and resulting chip shortage impacted campaign spend in Q1 for a handful of customers, particularly in EMEA, in the tech/telco and automotive verticals where IAS is the dominant provider. We expect any future impact from supply chain delays to be limited to these select customers which has been factored into our outlook for the year.

We have taken steps to extend our leading presence in key international markets, including EMEA, with investments in senior management and talent. Earlier this year, we welcomed Csaba Szabo as our new head of EMEA, and over 15% of our new hires in Q1 were in EMEA. Under Csaba's leadership, we are accelerating our expansion in European markets including Denmark and Norway.

We're also expanding our international presence in new and existing markets in APAC including India, Indonesia, South Korea, Taiwan and Vietnam where first-mover advantage is key. These are markets reliant on demand primarily from global marketers as well as from local brands. We are investing in resources to serve these markets. We've made 13 new hires in APAC since the beginning of the year including a new head of the South Korean market who joined us in April.

Additionally, our investments in agency partnerships at the local level have enabled us to expand customer relationships into new countries in Europe such as Latvia and Estonia.

Beyond our four growth pillars, we are extending our media quality solutions into emerging formats such as audio. Last month, we launched a measurement beta for audio ad measurement and IVT for post-bid verification that works with all OM SDK compliant platforms. The OM SDK is an open, standard framework initially developed by IAS, and now implemented widely across the industry for measurement applications.

At IAS, we pride ourselves on being customer obsessed. We incorporated customer feedback into the latest reporting enhancements to our IAS Signal reporting platform. We now offer a much-desired, first to market, unified view of a marketer's global campaigns in Signal. By aggregating campaigns at a global, regional, national or local level, marketers can evaluate campaign performance based on custom filters and optimize outcomes tailored to their most important KPIs.

And with that, I'll turn it over to Joe to review the financials.

Joe Pergola, CFO

Thanks Lisa, and thank you for your kind words. It's been a privilege to work with the leadership team and everyone at IAS since joining. I'm incredibly proud of what we've accomplished together over the last few years. I've enjoyed building and leading a finance organization that was ready to excel as a public company and has demonstrated its ability to do just that. After ensuring a smooth transition over the next few months, I look forward to the next phase of my professional career.

Turning to the quarter, we delivered strong first quarter results which set the stage for positive full-year performance.

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.

Our results for the first quarter include the contribution from Publica, acquired in the third quarter of 2021. Total revenue increased 33% to $89.2 million dollars, ahead of our prior guidance of $85 to $87 million dollars. We saw strong contributions from marketing customers including Disney, Walmart, American Express, T-Mobile, and H&R Block.

Programmatic revenue for the first quarter grew 53% year-over-year. Programmatic revenue surpassed Advertiser Direct revenue for the first time, representing 54% of total revenue from advertisers. We expect this trend to continue moving forward, with programmatic revenue representing the majority of total revenue from advertisers.

Context Control represented 41% of total Programmatic revenue, up from 38% in the 2021 fourth quarter, driven by continued adoption of our contextual avoidance solutions.

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

Our Advertiser Direct revenue, which includes open web and social platforms, increased 6% 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 45% of total Advertiser Direct revenue, unchanged from the 2021 fourth quarter despite what is typically a seasonally slower period in Q1.

Social accounted for 40% of Advertiser Direct revenue in the period, also consistent with the fourth quarter.

Supply side revenue from publishers increased to $14.1 million dollars, which includes Publica. Total supply side revenue represented 16% of our first quarter revenue.

We continue to grow our leading global market presence. International revenue increased 11% in the quarter and represented 32% of total revenue. As anticipated, our current revenue mix between Americas and rest-of-world reflects Publica which has been U.S.-focused to date. We are working to leverage our existing global footprint to expand Publica’s presence internationally.

In addition, international revenue for the period reflects the impact of the conflict in Ukraine as well as the impact of supply chain delays in the automotive and tech/telco verticals on select customers, particularly in EMEA.

Breaking down our revenue for the quarter by geography – Total revenue for the Americas was $60.6 million dollars, up 47%; EMEA was $21.7 million dollars, up 14%; and APAC was $7.0 million dollars, up 3%.

Gross profit margin was 81% compared to 83% last year reflecting increased hosting fees and other costs as we scale the business.

Non-GAAP operating expenses, which excludes stock-based compensation expenses and other items for comparability, grew 22% versus our top-line growth of 33%, reflecting our efficient operating model as well as lower costs due to COVID. Total operating expenses for the first quarter of 2022 reflects favorable T&E and facilities expense. Stock-based compensation expense for the period was $8.1 million dollars.

Moving on to profitability and performance metrics:

- Adjusted EBITDA for the first quarter, which excludes stock-based comp and other one-time items, increased 32% year-over-year to $24.8 million dollars, at a 28% margin.
- The combination of top-line growth and strong adjusted EBITDA margin performance enabled us to, once again, reach the Rule of 60 for the period.
- Net income for the quarter was $1.2 million dollars, or $0.01 per share. Net income reflects lower interest expense as a result of reduction of long-term debt, and our debt refinancing at a lower interest rate. We're pleased to achieve net income profitability in the period for the first time as a public company. We will continue to focus on profitable growth based on our efficient operating model. We believe adjusted EBITDA remains the best measure of profitability for the company.
- Our first quarter net revenue retention, or NRR, was 126%, reflecting our ability to meet the growing needs of our customers with value-added solutions.
- We did not experience any churn in our top 100 customers in the quarter.
- Total advertising customers grew 11% year-over-year to 2,104 advertisers.
- Our total number of large advertising customers with annual revenue over $200,000 dollars increased 7% year-over-year to 184.

In terms of our financial condition, we ended the first quarter with cash and equivalents of $82.3 million dollars compared to $73.2 million dollars at December 31st.

Turning to our guidance, for the second quarter ending June 30, 2022, we expect total revenue in the range of $97 million to $99 million dollars.

Adjusted EBITDA for the second quarter is expected in the range of $29 million to $31 million dollars.

For the full year 2022, we are increasing the midpoint of our guidance for revenue and adjusted EBITDA to reflect our strong Q1 performance and positive business outlook.

We now expect total revenue for the full year in the range of $418 million to $424 million dollars.

Adjusted EBITDA for 2022 is now expected in the range of $129 million to $135 million dollars.

Publica's revenue contribution in the first quarter keeps us on track to realize our expectation for Publica to represent approximately 8% of our total forecasted revenue for the full year.

A few additional modeling points:

- We expect Q2 and full year gross margins at similar levels to Q1, as we continue scaling the business to accommodate our growth.
- We expect adjusted EBITDA margin expansion throughout the year, as we move into our busiest seasonal periods.
- Stock-based compensation expense for the second quarter of 2022 is expected in the range of $10 million to $11 million dollars. Full year stock-based compensation expense is now expected in the range of $42 to $45 million dollars.
- Shares outstanding for the second quarter are expected in the range of approximately 155.0 million to 156.0 million. We continue to expect full year shares outstanding in the range of 155.6 to 156.6 million.

In conclusion, we're off to a strong start and expect overall positive demand trends to continue throughout the year.

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

Lisa Utzschneider, CEO

I'd like to thank everyone on today's call for their ongoing support. I'd also like to express my gratitude to the entire team at IAS for their hard work and commitment. Our employees are the engine of our growth, and we're proud to be recognized by Comparably as one of the 'Best Places to Work in 2022' in the New York Metropolitan Area along with Comparably recognition of IAS for 'Best Marketing Teams 2022'.

We look forward to executing on our strategy and reporting on our progress.

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