PUBMATIC Q3 2022 EARNINGS CALL: PREPARED REMARKS

SAFE HARBOR

A copy of our press release can be found on our website at investors.pubmatic.com.

I would like to remind participants that during this call, management will make forward-looking statements, including without limitation, statements regarding our future performance, market opportunity, growth strategy and financial outlook.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. These forward-looking statements are subject to inherent risks, uncertainties and changes in circumstances that are difficult to predict. You can find more information about these risks, uncertainties and other factors in our reports filed from time to time with the Securities and Exchange Commission, including our most recent Form 10-K and any subsequent filings on Forms 10-Q or 8-K, which are on file with the Securities and Exchange Commission and are available at investors.pubmatic.com.

Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you therefore against relying on any of these forward-looking statements. All information discussed today is as of November 8th, 2022 and we do not intend, and undertake no obligation, to update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

In addition, today's discussion will include references to certain non-GAAP financial measures, including Adjusted EBITDA and Non-GAAP Net Income. These non-GAAP measures are presented for supplemental informational purposes only and should not be considered a substitute for financial information presented in accordance with GAAP. A reconciliation of these measures to the most directly comparable GAAP measures is available in our press release.

And now, I will turn the call over to Rajeev.

CEO REMARKS

Thank you, Stacie, and welcome everyone.

As we suspected, Q3 marked an inflection point with respect to a deteriorating economic environment. However, despite the impact on global ad spend, we delivered adjusted EBTIDA margins of 39% - above our expectations - and significant free cash flow, highlighting the durability and differentiation of the PubMatic business.

Year-over-year revenue growth in the quarter was lighter than we expected and more pronounced in the back half of the quarter, including in the US which is our largest market. On the bottom line, our single, omnichannel platform with fully owned and operated infrastructure gives us a high degree of operating agility to create leverage in our business and sustainable profitability.

Despite the near-term economic pressure, I am confident in the medium to long term outlook for PubMatic because of our ability to consolidate activity on our platform and grow our market share. Historically, we have seen that in times of economic stress, our ecosystem leans into deeper partnerships with technology leaders that provide innovation, efficiency, and automation. Our customers and prospects want to do more with fewer, trusted partners.

We are well positioned to continue to gain market share in this kind of an environment, even if absolute rates of growth are lower. Our high-margin profile is a distinct competitive advantage and allows for continued though selective investment. With that investment, we widen the competitive gap and further strengthen our market leadership with a focus on positioning ourselves well for the economic upswing that will inevitably return.

SELL SIDE TECHNOLOGY IS INCREASINGLY RELEVANT TO THE DIGITAL AD ECOSYSTEM

Our role in the ecosystem is only getting stronger. I co-founded PubMatic with the mission of delivering a more profitable digital advertising business to publishers so they can invest in the content experiences we all love. We've built our platform to help publishers monetize their inventory across ad formats and geographies, while providing the tools and levers to control how their inventory and audiences are accessed.

Today we partner with nearly 1,600 publishers, which provides the critical scale required by global ad buyers. Our growth and market leadership stems from years of investment and focus in both technology and strong customer relationships, which is difficult to replicate.

Today, as consumer privacy is increasingly important and third-party cookies are going away, sell-side technology is becoming even more critical to the digital advertising ecosystem. This is manifesting in a variety of ways, all of which strengthen PubMatic's long-term outlook.

THE OPEN INTERNET IS GAINING SHARE

There's no question that the Open Internet is gaining share of digital ad budgets at the expense of walled gardens, in part due to content quality and diversification. This, along with the shift to fast-growing video and Connected TV formats, is forcing buyers and publishers alike to seek greater transparency into and control over their advertising strategies, which independent technology providers like PubMatic are best positioned to provide.

AUDIENCE TARGETING MOVES TO THE SELL-SIDE

Finding target audiences and delivering relevant ads in a privacy-safe manner is evolving rapidly. The need for publishers to leverage their audience data at scale is increasingly moving to open and transparent sell side technology platforms like PubMatic, and coincides with our multi-year investment in PubMatic Connect. Without a technology partner like PubMatic, the majority of publishers will not be able to do this, which is becoming fundamental table stakes in commanding higher CPMs and monetizing premium inventory.

PubMatic Connect offers a variety of methods for buyers to find target audiences across our publisher base. Case study after case study shows that PubMatic Connect audiences provide greater ROI and longevity than cookie-based solutions. For example, Wunderkind ran a month-long test campaign using audiences sourced through PubMatic compared to various alternatives. Performance metrics showed audiences delivered via PubMatic Connect had response rates nearly 9 times those of alternative data used. Plus, PubMatic delivered impressive win rates and scale benefits. These performance benefits highlight the value that marketers see in moving their targeting efforts to the sell side, closer to the publisher and the consumer.

What's more, our strength in data activation and addressability is also unlocking growth opportunities in the fast-growing retail media market. As retailers are increasingly looking for incremental revenue opportunities, data monetization becomes an even more important aspect of their businesses. Kroger Precision Marketing, for example, works with PubMatic as a scalable technology provider to help their brand and agency clients to activate their retail data science in

CTV, video and display inventory. This also allows PubMatic's buyer and publisher customers to gain improved campaign performance and monetization opportunities using our sell side platform.

EXPANDING USAGE VIA SUPPLY PATH OPTIMIZATION

Agencies and advertisers are seeking greater control and efficiency of their ad budgets. Supply Path Optimization, or SPO, is a way for buyers to consolidate ad spend and gain greater control and efficiencies. We pioneered SPO several years ago, and it continues to grow as a share of our business. In Q3, over 30% of activity on the PubMatic platform was SPO related. We continue to expand SPO relationships, as we did with Havas Media Group North America in Q3, adding new capabilities, workflows and data integrations for buyers.

In September, we acquired Martin to bring more robust solutions to buyers and accelerate our SPO efforts. Martin brings robust measurement and reporting capabilities as well as workflow tools and is in direct response to what buyers are looking for. We have begun the integration process and we expect Martin to accelerate our product roadmap by up to 12 months. We expect the end result to be increased consolidation of ad budgets onto PubMatic.

THE RISE OF AUTOMATED CONNECTED TV GROWS THE PROGRAMMATIC OPPORTUNITY

Connected TV is moving from Insertion Orders to a programmatic approach. Both buyers and streaming content providers are leaning into the efficiency, measurability and scale that automation can provide. I expect the challenging economic environment will accelerate this shift. Advances in data-driven advertising technology, like Connect, will further fuel the growth of programmatic CTV. As automated buying of CTV becomes ubiquitous across the ecosystem, we are seeing more interest in programmatic buying or unified auctions.

As an omnichannel platform, we have been singularly focused on scaling this automated approach to CTV buying and selling. No surprise, the results are compelling. Finecast, a subsidiary of WPP focused on addressable TV buying, bought 10% more inventory when compared to non-programmatic approaches as a result of the application of data, automation, and the granular inventory access our platform provides. Advances in data-driven advertising technology, like Connect, will further fuel the growth of programmatic CTV.

We recently released a suite of enhanced capabilities for OpenWrap OTT, helping publishers drive more revenue and increase flexibility and control while also making it easier to extend their monetization strategies to CTV. Multicultural media company My Code saw benefits from managing all of their inventory types in one place, allowing them to compare, manage and optimize across platforms. Similarly, True Digital, a business unit of the leading telco conglomerate in Thailand, saw increased fill and higher eCPMs for their CTV inventory with OpenWrap OTT.

DUAL FOCUS ON REVENUE GROWTH AND PROFITABILITY

Stepping back, we've built a resilient software business that enables publishers and buyers to grow their businesses and compete effectively in the digital advertising ecosystem. Our platform is sticky, as our usage-based model drives high net dollar retention rates and increased ad spend from buyers. I have never been more confident in our business and the endless opportunities ahead.

We continue to move toward our long-term goal of 20% market share. Propelling us forward is our historical and long-term commitment to the dual objectives of revenue growth and profitability. Our strong profit margins and free cash flow generation give us the ability to invest in products and customer relationships even in today's down cycle when others may not.

Accordingly, in this environment, we are focused on two operating objectives:

First, continued investment in long term innovation. This unlocks incremental revenue opportunities today but more importantly should result in outsized gains when ad spending inevitably re-accelerates. Key areas of innovation include Supply Path Optimization accelerated by our acquisition and integration of Martin, CTV, Addressability, and Retail Media.

And second, we are focused on maximizing the efficiency of our capex and opex investments that have already been made. Over the last three years, we believe we have expanded our competitive moat as a result of significant capex investments in our infrastructure and impression processing capacity. We are now focused on optimizing our infrastructure and increasing utilization which will allow us to materially reduce next year's capex spend. On the opex front, we feel confident with the scale of our go to market teams in the near term, and will lower the rate of headcount growth with a bias towards selective hiring in engineering and innovation in order to be well positioned for when ad spend growth re-accelerates.

Our long track record of profitable growth and significant cash flows, coupled with our strong balance sheet and zero debt, gives us confidence that we will come out of the downturn stronger than most.

I'll now turn the call over to Steve Pantelick, our CFO, to walk through the financials.

CFO REMARKS

Thank you Rajeev and welcome everyone.

In Q3, we delivered outstanding profit and cash flows. Although revenue came in light due to global ad spend deceleration, we continued to gain market share. These operating results underscore the robustness of our business model, and our team's proven ability to navigate challenging macro conditions. Importantly, amidst these conditions, we made targeted investments for future growth and strengthened our financial position.

REVENUE

On revenues of $64.5 million, we achieved adjusted EBITDA of $25.3 million, a 39% margin. We generated $28.1 million in net cash from operating activities and $10.7 million in free cash flow.

It is clear from economic data across the globe that conditions have worsened over the last several months. In all likelihood some markets are already in a recession or soon will be. With this backdrop, I want to remind investors about several fundamental reasons why we are confident that we can continue to navigate through the current headwinds and be well positioned to accelerate our growth when the operating environment stabilizes.

First, our business is well diversified. Our omnichannel platform supports numerous programmatic ad channels and formats, enabling thousands of advertisers across 20+ verticals to reach the audiences they want.

With more than 60,000 advertisers purchasing our publishers' inventory in Q3, we saw spending in aggregate across the top 10 ad verticals increase approximately 19% year-over-year. The impact of our diversification was clearly demonstrated. Travel, Food & Drink and Business were each up over 40% year-over-year which helped offset softness in Shopping, Technology and Personal Finance.

Our Q3 omnichannel video business grew 45% year-over-year and represented 34% of revenues. This growth is particularly notable as it was on top of 80%+ growth in the prior year. These results were propelled by our CTV business which increased by over 150% year-over-year. This achievement marks the sixth straight quarter of 100%+ growth for CTV.

Display revenues declined 3% year-over-year. High levels of inflation, recession concerns, and rising costs of capital put pressure on consumers and advertisers. These factors particularly affected demand for the display format more than other formats. We saw a similar pattern in the depths of the pandemic, and based on our prior experience we anticipate that this format will return to growth.

Our total Q3 revenues grew 11% on top of prior year's 54% growth.

We believe we are outpacing market growth and gaining share based on the results of other public companies in our industry that have reported thus far this quarter.

PubMatic's US business grew double digits year-over-year but decelerated compared to Q2's growth. EMEA's growth slowed as anticipated. With the likelihood that difficult economic conditions will continue in the coming quarters, the durability and strength of our financial model is the second fundamental factor that gives us confidence we can successfully manage through this volatile period.

To begin with, we have built a business with a high degree of control over our unit economics. For example, through innovation and focus, we have been increasing our revenue mix towards high value channels and formats like mobile and video. We saw the benefit of this in Q3 with higher video CPMs offsetting lower display CPMs. Overall, our total company CPM was stable year-over-year.

OWNED & OPERATED INFRASTRUCTURE

In terms of unit costs, by owning and operating our infrastructure, we have multiple ways to optimize and drive down our unit costs. One important lever is having control over the magnitude and timing of infrastructure capex. Over the last two years we have strategically invested to grow our competitive moat and ensure we avoid supply chain disruptions. Since Q1 2021 we have more than doubled our ad processing capacity.

Looking ahead to 2023, we see many opportunities to optimize our infrastructure and expect to be able to significantly lower our capex. In aggregate, we anticipate these efforts will lead to higher gross margins and improved free cash flow margins as ad spending normalizes.

DURABLE GROWTH AND PROFITABILITY

Another area of strength comes from our usage based model which aligns incentives and leads to long-term relationships with the world's leading publishers and buyers. Innovation, customer focus and initiatives like supply path optimization helped us achieve strong net dollar-based retention. On a trailing twelve-month basis, our net dollar-dollar based retention was 120%.

PubMatic has consistently achieved high adjusted EBITDA margins and profits. Q3 was our 26th consecutive quarter of positive adjusted EBITDA.

BALANCE SHEET AND CASH

For 19 of the last 20 quarters, we have generated positive cash from operating activities every quarter, with the only exception being the pandemic quarter of Q2 2020.

For the trailing twelve-months through Q3, we generated approximately $96 million in cash from operations and $50 million in free cash flow which represented growth of 40% and 91%, respectively compared to the prior year period. At the end of Q3 we had no debt and $166 million in cash, cash equivalents, and marketable securities. Excluding our recent acquisition of Martin, our overall ending Q3 cash position would have been $194 million.

With our strong balance sheet and efficient business model we believe our position in the ecosystem will continue to grow via new and expanded customer relationships. We also anticipate being able to strategically invest in future growth opportunities where others may be constrained. Beyond our current balance sheet, we have enhanced our financial resources with a new $110 million undrawn, committed credit facility.

INVESTMENTS IN INNOVATION

The third fundamental factor that gives us confidence in our future is our proven innovation engine. We have built this competency over the last 16 years and have consistently invested in high ROI growth opportunities. We have a distinct advantage as a result of our development organization in India. In Q3, we increased our India-based headcount by 46% year-over-year compared to a global headcount increase of 29%, supporting further innovation and cost efficiency in 2023 and beyond.

One important area where we continue to innovate and lead is in supply path optimization. In Q3, SPO represented over 30% of activity on our platform. With our recent acquisition of Martin, we added key technical talent and new tools to fulfill buyer requests for more robust measurement and reporting capabilities.

In spite of top line headwinds that increased through the quarter, our Q3 adjusted EBITDA came in above expectations. We achieved this outcome because we have significant control over our cost structure and have been proactive over the last several months optimizing costs across the company while adjusting discretionary spending.

OPERATING EXPENSES

Operating expenses in the third quarter were $33.3 million, up 19% year-over-year, reflecting a combination of increased headcount for growth and stock-based compensation.

NET INCOME AND ADJUSTED EBITDA

Q3 GAAP net income was $3.3 million. Note, Q3 net income includes a non-cash impairment charge of $6.4 million related to an equity investment made several years ago.

Non-GAAP net income, which adjusts for unrealized (gain) or loss on equity investments, stock-based compensation expense, acquisition-related and other expenses, and related adjustments for income taxes, was $12.4 million or 19% of revenue.

Q3 diluted EPS was $0.06 and Non-GAAP diluted EPS was $0.22.

FINANCIAL OUTLOOK

Now, turning to Q4, the softness in advertising demand that began earlier in the year has continued. It is clear that advertisers are wrestling with the myriad of economic challenges and preparing their businesses for the likelihood of a global recession.

We expect these impacts to persist at least through the first quarter of 2023 and possibly longer. Nonetheless, based on the unique strengths of our business – our omnichannel platform, our financial strength, and our ability to continue making investments in innovation — we anticipate continuing to grow faster than the market.

Q4 headwinds include continued pressure on our display formats that will be disproportionately impacted by macro conditions. We also expect Q4 seasonality to be muted with lower than normal holiday ad spend. In terms of tailwinds, we anticipate our omnichannel video revenues will continue to grow and SPO activity to increase.

Given the range of macroeconomic pressures, we believe there could be a wider range of outcomes in Q4 than we typically see, especially as our Q4 revenue tends to be back-end weighted. Our revenue expectations for Q4 are $75 to $78 million. This guidance is consistent with the rate of year-over-year growth we have seen in the month of October.

As communicated last quarter, we proactively initiated cost saving measures to unlock several million dollars by the end of the year relative to our original planned expenses. This agile execution and our strong unit economics supports our high margin rate now and in the future. We expect Adjusted EBITDA between $33 and $36 million, or approximately 45% margin at the midpoint. Note included in our Q4 adjusted EBITDA expectations are the incremental operating costs of approximately one million dollars for our recent Martin acquisition.

Based on our Q4 revenue guidance, the implied full year revenue range is $257 to $260 million or 14% growth at the midpoint. With digital advertising projected to grow less than 10% in 2022, we are well positioned to continue to grow our market share.

Consistent with the revenue range and cost savings plans already in place, we anticipate our full year Adjusted EBITDA range to between $98 and $101 million, or 38% margin at the midpoint.

We anticipate capex between $34 and $36 million this year. Based on equipment availability and logistics, the bulk of our capex occurred in Q3 which reduced our period gross margin and our free cash flow.

With much of our multiyear capex investment plan completed, our team is now focused on optimizing these investments. We expect 2023 capex to be at least 50% lower than 2022 which will result in higher gross margins and improved free cash flow margins when macro conditions stabilize.

We also anticipate that our increasing mix of video and other high value formats will provide another tailwind to higher gross margins and improved free cash flow margins.

With regard to the strengthening of the US dollar, we anticipate the impact on our revenues to be neutral to positive because the transactions flowing through our platform are largely denominated in US dollars. On the expense side, we also expect the US dollar’s strength relative to the Indian rupee and UK British pound sterling to have a neutral to positive impact.

IN CLOSING

In closing, there are multiple reasons we are confident in our long-term prospects despite the difficult macro conditions dampening global ad spending.

Our business has structural advantages emanating from our owned and operated infrastructure and offshore R&D that enables us to expand our competitive moat and consistently invest in innovation on behalf of our publishers and buyers. We have numerous growth drivers and see a long runway of growth ahead of us as our TAM continues to grow.

We are consolidating the sell side as one of the few scaled, global omnichannel platforms. And our profitability gives us a high degree of agility to weather challenging economic conditions and invest in long-term market share gains.

With that, I will turn the call over to the operator to open it up for questions.