PubMatic

PUBMATIC Q4 AND FY 2024 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 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 and are available at investors.pubmatic.com, including our most recent Form 10-K and any subsequent filings on Forms 10-Q or 8-K.

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 February 27th, 2025 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, Non-GAAP Net Income and Free Cash Flow. 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.

2024 was a year of solid revenue growth and margin expansion, driven by strength in CTV, new products and revenue streams, and marquee customers choosing PubMatic to build and scale their ad businesses. Revenue growth for the year more than doubled, growing 9% over 2023. We delivered expanded Adjusted EBITDA margins of 32%, and we returned to a rule of 40 company. This marks our fourth of the last five years that we exceeded this benchmark.

These results include a significant headwind in desktop display, which started in May of 2024 related to a single DSP partner. In the fourth quarter, the impact from this buyer delivered a softer than anticipated seasonal uptick.

Looking beyond this isolated impact, we delivered strong underlying growth in all other areas of the business. We also benefited from significant strength in political ad spend. Excluding revenue from this DSP and political advertising, Q4 revenue was up 16% year-over-year. And I'm particularly pleased with the scale of our CTV business, which represented 20% of our Q4 revenue, more than doubling its share of our business versus the prior year. I want to thank the entire team for their hard work and relentless focus on our strategy.

As I look ahead to 2025, we are a materially different company than we were just a few years ago. Our mix of business has changed, and our platform has expanded beyond core SSP technology. A sizeable share of our revenue and growth are now driven by high consumer engagement channels such as CTV, mobile app and commerce media. We now serve four key customer segments: publishers, media buyers, commerce media networks, and curators or data providers. As we deliver value and expand usage with each customer segment, the value proposition of our platform to other segments increases, creating a flywheel that accelerates revenue growth and increases profitability.

For example, unique demand via our Supply Path Optimization deals and Activate solution with dentsu, GroupM and Mars attracts premium publisher inventory from streamers like Roku, TCL, and Dish TV, and mobile apps like Audiomob, Freeplay and Soundcloud to our platform. Our combined strength of supply and demand attracts high-value data providers like Experian, NCSolutions and Proximic by Comscore, and commerce media companies like Instacart and Western Union, who want to grow their ad businesses. These rich and compelling data sets in turn attract more buyers seeking higher return on ad spend in the open internet. And the cycle repeats.

As a result, we have a strong, growing footprint across the ecosystem. Key to this is our multi-year investment in product innovation in our SSP and OpenWrap wrapper solution for publishers, in Supply Path Optimization and Activate for media buyers, in Connect for curators and data providers, and Convert for commerce media networks. These products have expanded our end customer base, and more than doubled our total addressable market to over $120 billion since the time of our IPO four years ago.

In addition, early adoption and prioritization of generative AI throughout our business has led to continued innovation, increased productivity and greater operational excellence. This focus is already delivering compelling products, with tremendous opportunities in three major areas: optimizing and accelerating many internal functions to drive profitability, improving our customer-facing products and features to drive more usage and therefore revenue, and building entirely new capabilities that weren't possible before.

I will go deeper on the value we bring to each customer segment as well as our generative AI strategy.

PUBLISHERS & STREAMING MEDIA COMPANIES

Let's start with publishers. Connected TV and streaming was our fastest growing publisher segment in 2024, with growth exceeding our expectations in the second half of the year as we continued to add top-tier broadcasters and streaming platforms like Roku, Dish Media, Disney+ Hotstar and Xumo. We also added important streamers like Vevo and Fremantle who own valuable content and audiences that are important to ad buyers.

Propelled by the surge of political ad dollars, revenue from omnichannel video reached a high-water mark of more than 40% in Q4, of which half was CTV.

Our platform is rapidly gaining CTV market share as CTV increasingly shifts from insertion order-based buying to programmatic. We continue to onboard new streamers and now work with 80% of the top 30 globally, up from 70% a quarter ago. Our robust product capabilities and datasets create sticky customer engagement whereby streamers are increasingly using our platform to setup and execute their direct sold programmatic deals.

In the second half of 2024, we launched a CTV Marketplace which aggregates like inventory across our platform, offering buyers specific inventory categories like Gen Z or Hispanic audiences. As a result, our streaming partners are accessing incremental ad demand.

This is especially true in the fast-growing, live sports category, and why leading TV manufacturer and streaming content provider TCL chose PubMatic. Our CTV Marketplace integrates TCL's viewership data and premium inventory with our privacy-safe targeting solution. According to Jeremy Straight, TCL Ads' VP and Global General Manager, the partnership "allows advertisers to leverage TCL's premium inventory, including our ad-supported TCL tv+ app that brings a variety of broadcast sports content and channels to over 24 million viewers, to connect with this valuable audience in a more targeted and effective way." With live sports as a leading catalyst for our continued CTV growth, I'm excited to scale this partnership and leverage our Supply Path Optimization relationships to help TCL grow its digital ad business.

Mobile app also provides significant opportunity for publishers and app developers to participate in the open internet advertising ecosystem. For the full year, our mobile app business grew 16% year-over-year, driven by our OpenWrap SDK, a leading mobile mediation solution that integrates into mobile apps and provides access to programmatic open internet ad demand. With our recently announced mobile partnerships starting to ramp up, including our recent expansion into social media with X, we have over 900 mobile app publishers on platform. Given this large opportunity in front of us and our leading SDK solution, we believe this channel will continue to grow in the double digits.

MEDIA BUYERS (AGENCIES, ADVERTISERS & DEMAND SIDE PLATFORMS)

The scale and quality of our premium publishers, combined with our robust technology solutions, are attracting more advertisers and agencies to consolidate their buying on PubMatic. We crossed a major milestone in 2024 with more than half of the activity on our platform, 53%, transacted via Supply Path Optimization. This is up from a third of activity just two years ago, driven by both new media buyers on platform and expanding customers via multi-year strategic partnerships.

We have a strong partnership with IPG Mediabrands, who leverages our sell-side technology to enhance advertiser ROI. By customizing PubMatic's algorithms, they have improved CPMs and win rates for clients. And most recently, utilizing Activate has optimized workflows and has improved IPG's ability to meet client performance goals. As a result, our partnership with IPG Mediabrands has seen significant growth over the past five years. I'm excited to continue to partner and innovate alongside IPG Mediabrands to deliver more value for its agencies and their clients.

Activate continues to fuel growth across our platform as clients seek greater control and transparency across their advertising supply chains. In addition, Activate delivers valuable efficiency gains, with an average decrease in CPMs of 13%. This translates to significant cost savings for media buyers and an increase in working media dollars that flow back to our publishers.

Activate is growing rapidly as a result, with significant long-term potential. All six global agency holding companies now spend ad budgets on Activate, with several, like IPG and dentsu, using our platform as a central technology in their own proprietary media buying solutions. 2024 was a breakout year as we grew the number of Activate customers by nearly 6X versus the prior year.

COMMERCE MEDIA NETWORKS

Retail and commerce media have emerged as pivotal components of the advertising landscape, offering inventory and audience data to brands seeking more impactful and measurable ways to engage consumers at the point of purchase. We continued to scale our commerce media business last year, as buyers sought to reach high-intent consumers and apply valuable transaction insights across the open internet. Similarly, leading commerce media networks like Instacart, Dollar General and Western Union chose to make their data and audiences available on PubMatic, where they can grow their offsite media business while controlling access to their data.

Our commerce media platform, Convert, also enables customers to manage their mix of onsite and offsite media across multiple channels and formats, including CTV, online video, mobile app and display.

Intuit, for example, chose PubMatic to help power their SMB MediaLabs, a first-of-its-kind media network focused solely on small and medium-sized businesses. Through this integration, Intuit makes 36 million identifiers available to advertisers while keeping the underlying customer data secure on Intuit's platform. As a result, advertisers can execute more effective business-to-business marketing campaigns across the open internet.

DATA PARTNERS & CURATORS

Much of the success we have seen across our offsite commerce media business is built off of multi-year investments in Connect—which is now a leading platform for data partners and curators to integrate first party data, package inventory, sell to and optimize outcomes for their buyers. Importantly, sell-side curation with first party data is now a critical need for open internet ad buyers. First, it drives greater efficiency, scale and transparency. Second, data owners gain increased control of their valuable audience data and therefore grow their participation in the open internet. And third, sell side curation eliminates the need for third party cookies, and closes the performance gap that advertisers typically see between walled gardens and the open internet. As curation evolves, we believe it will expand buying activity in the open internet as buyers seek premium, brand safe inventory.

Strategically, the growth of Connect diversifies our revenues. These integrations generate incremental revenue from data fees, while also increasing the value of ad impressions. We now have 190 data sets available for buyers on PubMatic. Now scaled, Connect shifts buying activity away from third party cookies to higher ROI, data driven impressions – and fuels growth across our platform.

GENERATIVE AI

I'm extremely proud of the team and all the hard work that goes into building revenue generating products like Activate, Convert and Connect. And now, with scaled adoption of generative AI across our engineering team, we have achieved several key milestones. In 2024, we increased engineering productivity by over 15%, by applying generative AI technology to our software development, testing and release processes.

More recently, we applied gen AI technology to customer-facing products and features that drive more usage and therefore revenue. Last quarter I talked about our solution for political advertising, which unlocked millions of dollars in political ad spend.

Just last month, we launched PubMatic Assistant, a gen AI powered reporting tool that allows publishers to request any report or data using simple plain language text queries. As a result, publishers can streamline analytics, enhance productivity and unlock new growth opportunities by uncovering insights in big data. This is a powerful tool that removes barriers to adoption and drives increased platform usage.

Looking ahead, gen AI will continue to play an important role in our strategic development. We expect to release a steady cadence of exciting capabilities over the next several quarters, with a particular focus on solutions that will automate and streamline processes, drive greater monetization and ad performance, and fuel revenue growth.

CONCLUSION

As I wrap up, I want to leave you with three final thoughts.

First, our underlying business is strong. We delivered 16% year-over-year revenue growth in the fourth quarter excluding the DSP impact and benefit from political ad spend. This was well ahead of our internal expectations. Additionally, we crossed an exciting milestone as CTV continues to scale and becomes a larger share of our revenue, at 20% in Q4. And I'd be remiss not to mention our focus on live sports, curation, and commerce media. Investments in these areas diversify our revenue, increase exposure to secular growth areas and provide a long runway for growth. With continued momentum across all of these areas, we are targeting our underlying business to grow 15%+ year over year in 2025.

Second, our multi-year investments are delivering profitable growth, and just as importantly, incremental value to our customers. As a leading provider of sell side technology, we will continue to innovate and strengthen our competitive moat.

And third, there is an inherent shift in the digital supply chain – where greater value is now placed on the supply side, at the source of first party data. The future of the digital supply chain includes data curation, ad performance and increased efficiency. We have a strong foundation on the supply side and are a trusted strategic partner to many of the world's leading publishers. The investments we've made put us at the forefront of this shift and I couldn't be more proud of the business we are today and the opportunities that now lie ahead of us.

I'll now turn the call over to Steve to discuss the financials and our operating priorities.

CFO REMARKS

Thank you, Rajeev, and welcome everyone.

2024 marked an important inflection point in PubMatic's growth trajectory as a result of our focused strategy and multi-year investments. CTV, mobile app and our emerging revenues each hit a record share of total company revenue, and we achieved an all-time high of supply path optimization activity. This growth enabled us to offset a revenue headwind from a bidding change by one of our top DSP buyers that emerged mid-year.

Let me summarize our major 2024 accomplishments:

1. First, we delivered on our number one priority: to accelerate revenue growth. Total revenues grew 9%, more than double the rate in 2023, driven by increases in both monetized impressions and CPMs. Excluding the headwind of the DSP change and the tailwind of political advertising, full year revenue increased 11% year-on-year.
    - CTV revenue more than doubled in 2024 and in Q4 reached 20% of total revenue.
    - Mobile app increased 16% year-over-year and represented 20% of total revenue.
    - Emerging revenue streams doubled in 2024.
    - SPO increased 8 percentage points year-over-year and represented 53% of all platform activity.

2. Second, we significantly expanded our margins and increased Adjusted EBITDA by 23% year-over-year.
    - Gross margin increased by 250 basis points and our Adjusted EBITDA margin by 350 basis points.
    - We shifted our revenue mix to high engagement channels like CTV, mobile app and emerging revenues.
    - We further optimized our infrastructure, tightly managed our capex investments, and increased engineering efficiency with gen AI.

3. Third, we managed our working capital to fund our growth and execute our share repurchase program.
    - We delivered $73 million in operating cash flow and $35 million in free cash flow.
    - We repurchased 4.3 million shares in 2024 equating to an 8% reduction in fully diluted shares outstanding.
    - We finished the year with $141 million in cash and marketable securities and no debt.

These results, taken together, are clear proof points of the tremendous opportunities ahead of us. First, it is confirmation that our multi-year strategy to invest behind the most important secular growth areas is working. And second, it demonstrates we can deliver significant rates of profit and cash flow to fund our growth while steadily reducing our fully diluted weighted average shares outstanding.

REVENUE

Turning to our fourth quarter revenue results:

While total revenues were below our expectations, it was a breakout quarter for CTV. Strong year-over-year growth for CTV and political advertising helped offset the impact from weak holiday spending by the large DSP buyer that had changed its bidding approach mid-May. Based on long-term historical trends, Q4 holiday advertising typically increases in double-digit percentages vs. Q3. The rate of increase for this DSP was in the single digits and predominantly affected display formats.

Excluding revenues from this DSP buyer and the benefit from political advertising, our underlying business grew 16% and represented almost two thirds of total revenues. This underlying revenue growth demonstrates the continued secular mix shift in our business toward high-value, high-engagement formats and channels.

Omnichannel video in the quarter reached an all-time high of 43% of total revenues. This growth was powered by CTV which climbed to 20% of total revenue in the quarter, benefiting from our growing inventory scale, SPO relationships, and the uptick in political advertising.

Emerging revenues also continued their rapid growth in the fourth quarter, more than doubling year-over-year and rising to 6% of revenues. A particular standout in this category was Connect, our curation and data business which grew 140% year-over-year.

As called out, display was affected by the low holiday spend by the large DSP buyer and declined 8% year-over-year. Excluding this buyer, all other display revenues increased over 20% year-over-year.

OPERATING EXPENSES

Moving down the P&L.

Over the course of 2024, we aggressively managed our cost of revenue focusing on infrastructure optimization and leveraging prior capex investments. As a result, compared to 2023, we were able to keep our Q4 and full year costs increases at 3% and 2% respectively. At the same time, we increased gross impression capacity on our platform by 20% and reduced the cost of revenue per million impressions by 18%.

Operating expenses for the fourth quarter and the full year were $45.8 million and $186.3 million respectively. Over the course of the year, we made targeted investments in the secular growth areas which delivered the fastest growth rates for us. On a full year basis, operating expenses grew at half the rate as 2023, as we leveraged prior investments and gained higher productivity from new team members throughout 2024.

NET INCOME & ADJUSTED EBITDA

Q4 GAAP net income was $13.9 million or $0.26 cents per diluted share. Full-year net income was $12.5 million or $0.23 cents per diluted share.

Underscoring the benefit we are getting from higher value revenue streams, operational efficiency and cost leverage, our Q4 Adjusted EBITDA came in ahead of expectations at $37.6 million, or 44% margin. Full year Adjusted EBITDA was $92.3 million or 32% margin.

FOCUS ON CASH GENERATION

Turning to cash flow, a long-term focus for us. Since going public in December 2020, we have generated over $330 million in net cash provided by operating activities and $175 million in free cash flow.

In 2024 we generated $73.4 million in net cash provided by operating activities and free cash flow of $34.9 million.

As a reminder, beginning in Q3 we saw an increase in DSOs related to the DSP change. We anticipate that this DSO change will normalize mid 2025.

CASH & CAPITAL ALLOCATION

Moving to cash and our capital allocation.

We have a healthy balance sheet and generate positive cash flow which supports our long-term capital allocation strategy. We ended the quarter with $140.6 million in cash and marketable securities and zero debt.

Since the inception of our repurchase program in February 2023 through the end of Q4, we have bought back 8.3 million Class A common shares for $134.6 million. As of the end of the fourth quarter, we had $40.4 million remaining in our repurchase program authorized through December 31, 2025.

2025 OPERATING PRIORITIES AND OUTLOOK

Turning to 2025, we are confident that our growth strategies are on track and we are well positioned to execute them. Over the first half of 2025, as previously called out, we will be transitioning through the lower year-over-year spend levels by this DSP buyer until we lap it at the end of Q2. This headwind will predominantly affect the display portion of our business and accelerates our revenue shift towards the fastest growing secular categories of CTV, mobile app and our emerging revenues.

Outside of this near-term DSP headwind, our revenues are growing rapidly and we believe we are at an important inflection point. In Q3 and Q4 2024, our underlying business, excluding the DSP buyer and political, grew 17% and 16% respectively. This year we are targeting this portion of our business to grow 15%+ year-over-year.

To support this level of continued growth and deliver healthy margins we are adopting a two-pronged operating strategy.

1. First, we will leverage the investments made in sales and technology and selectively add specialists to support the fastest growing areas. In 2024, we achieved a material breakthrough in terms of scale and growth in high engagement channels, and we are on track to continue this momentum.

2. Second, we will significantly expand our usage of gen AI to drive efficiency and growth, including investment in customer-facing gen AI products as Rajeev outlined earlier.

We believe these investments will set us up for our next stage of growth later this year and next by expanding revenues with existing customers and targeting new customers and markets.

Turning to our financial outlook, the positive trends of 15%+ growth in our underlying business have continued quarter to date. At the same time, we are also seeing a continuation of the softer trends for the large DSP that emerged in the latter half of Q4. Accordingly, in developing our outlook we are taking a conservative stance with respect to this buyer and are assuming its current run rate will continue with limited upward seasonality in 2025.

With this in mind, we expect Q1 revenue to be in the range of $61 – $63 million factoring in the DSP headwind noted and double-digit percentage growth of our underlying business.

With our revenue outlook and predominantly fixed cost base, we are estimating our Q1 Adjusted EBITDA range to be $5 - $7 million. This outlook also includes a negative FX impact, predominately from euro and pound sterling expenses relative to a weakening dollar this quarter.

Turning to the balance of 2025, we are assuming a continuation of the latest run rates for this DSP and our underlying business grows 15%+. In terms of year-over-year comparisons, this implies that total company revenue in the first half of the year will be slightly down year-over-year in the low single digit percentages.

For the second half we anticipate total revenue will grow year-over-year in the high single digit percentages and factors in the tough comp from political. For reference, political advertising contributed approximately 6% of total revenue in 2024.

In terms of expenses, we are on track to continue driving operational efficiencies, productivity improvements and targeted investments to drive our secular growth.

We anticipate our cost of revenue to increase sequentially quarter to quarter in the low single digit percentages, similar to 2024. We are expecting that our cost leverage and continued mix shift towards high value formats will enable us to increase our full year gross margin rate.

With respect to opex, from Q2 onwards, we are targeting quarter-to-quarter sequential increases in the low single digit percentages.

In terms of Adjusted EBITDA, as we transition through the DSP impact, our first half margins will be slightly lower than historical levels, with second half margins more in line with historical trends. For the full year, we are anticipating the Adjusted EBITDA margin to be in the high 20% range, which includes several million dollar impact from FX.

Full year capex is projected to be similar to 2024's level of approximately $18 million, with most of our capex anticipated in Q3.

In terms of free cash flow, we anticipate it will be somewhat lower in the first half until we lap the mid-year change in DSP spending and then return to historical levels.

IN CLOSING

In closing, I want to take the opportunity to briefly summarize.

2025 will have some tough comps which obscures our underlying, healthy growth. The overall impact from one large DSP buyer has been significant, but it's isolated to one portion of our business—primarily desktop display.

We grew through this impact in 2024, and we expect to do the same in 2025. We will lap this change in just a few months and emerge with a larger share of our business coming from key secular growth drivers. We are confident in our ability to execute what is within our control and deliver on our growth strategy. And finally, we have a strong financial profile and a proven, durable model that delivers healthy margins, incremental leverage and cash flow – and we will manage the business through this priority lens.

I'll now turn the call over to Stacie for Q&A.