PUBMATIC Q4 AND FY 2021 EARNINGS CALL: PREPARED REMARKS

SAFE HARBOR

Thank you, operator, and good afternoon, everyone.

Thank you for joining us on PubMatic's earnings call for the fourth quarter and year ended December 31, 2021. Joining me on the call are Rajeev Goel, co-founder and CEO; and Steve Pantelick, CFO.

Today's prepared remarks have been recorded after which Rajeev and Steve will host live Q&A.

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

Before we start, I would like to remind participants that during this call, management will make forward looking statements, including without limitation, statements regarding our future performance, 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 February 28, 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. 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. It's an exciting time at PubMatic as we continue to deliver an incredible combination of durable, high growth revenue and profitability. While we have grown significantly in the past year, I'm most excited about the number and magnitude of growth opportunities in front of us.

We delivered record fourth quarter organic revenue of $75.6 million, up 34%. We also delivered a strong Adjusted EBITDA margin of 51%, placing our performance over double the Rule of 40 benchmark for the fifth consecutive quarter. These results illustrate the value of our unique infrastructure-driven approach coupled with a usage-based software model that leads to an ability to grow our market share while delivering an incredible combination of growth and profitability.

For the full year, we delivered 53% organic revenue growth, a significant increase over 31% in 2020. We delivered 25% GAAP net income margin, or $56.6M, with adjusted EBITDA margin of 42%. Our profit margin demonstrates the leverage in our model and provides us with a strong foundation for continued investment and market share gains. We ended the year with a record $88.7 million generated in cash from operations.

GAINING SHARE VIA THE PUBMATIC FLYWHEEL

These results reflect PubMatic's significant share gains in a rapidly growing market.

In 2021, the digital advertising market grew 31%, almost double the pre-pandemic growth level, with double-digit spend increases expected again in 2022. Latest projections show that growth in digital advertising is not a pull-forward, but rather reflects permanent consumer behavior changes, in part due to the pandemic. For example, banking is predicted to move more online evidenced by the closure of a record 2,900 branches in the US last year. And grocery ecommerce is projected to grow over 17% annually over the next four years as consumers flock to online grocery shopping. These changes have increased our addressable market opportunity considerably.

PubMatic is committed to delivering the digital advertising supply chain of the future where both publishers and buyers can maximize value. As an independent technology company, focused on the best interests of publishers, we provide a platform that connects disparate parts of the ecosystem with robust audience addressability solutions and cross-screen targeting that power the open internet. And our infrastructure-driven approach is delivering superior outcomes and cost efficiencies that both our customers and we benefit from.

The more value our platform delivers, the more our customers use our technology. This generates more high-margin revenue for us, which we continuously re-invest in innovation and growth.

The competitive advantages we derive from our infrastructure, combined with our usage-based software model, are driving PubMatic's outsized growth rate well ahead of the market. At the time of our IPO we estimated our market share to be 2-3%. Updated industry data now estimates our market share to be 3-4% as of December 31, 2021. A shift in 1 percentage point over the course of a year is quite significant given the large and growing total addressable market and reflects the increasing value we are delivering to our customers. Over the long term, our objective is to grow our market share to 20% plus.

Our key growth drivers – supply path optimization, omnichannel formats and channels, audience addressability and global expansion – are driving increased usage of our platform and long-term growth opportunities.

SUPPLY PATH OPTIMIZATION

We pioneered Supply Path Optimization several years ago. Buyers are continuously looking for ways to optimize ad spend through robust targeting, direct technology integrations and workflows, and premium ad inventory across channels and formats. The investments we make in these areas create a long-term strategic partnership that aligns buyers' success with our success. The outcome is increased utilization of our platform with more predictable, sticky revenues. At the end of 2021, we grew the number of SPO partners by 44% over the prior year. In fact, over a quarter of activity on our platform is now via SPO agreements, up from approximately 10% at the beginning of 2020.

OMNICHANNEL

Our omnichannel approach enables us to match buyer needs to publisher inventory at scale, regardless of device or content type in-use by the consumer. This has proven particularly resilient during the pandemic and as Covid becomes endemic.

Further, high growth channels such as CTV/OTT have expanded our addressable market opportunity and contributed to market share gains. Although just launched in Q3 of 2020, we're seeing tremendous growth in our CTV business, with over 6X growth over Q4 2020. We continue to invest aggressively in scaling a transparent, programmatic marketplace for CTV/OTT while also expanding our capabilities in online video, mobile app, and mobile web.

AUDIENCE ADDRESSABILITY

A long-term strategic area that we continue to invest in is audience addressability. We have facilitated a growing and robust partner ecosystem on our platform that includes first party data owners, identity solution providers, and contextual data providers to deliver best in class solutions that increase addressability in privacy-safe ways.

Identity Hub is a software solution that allows publishers to seamlessly manage, integrate and configure a multitude of identity solutions, simplifying their workflows and allowing them to connect their valuable audiences with advertiser demand in a privacy-compliant way to drive increased ad revenue. Identity Hub is now broadly deployed across our publisher base. We recently partnered with LiveRamp to measure the impact of Identity Hub and LiveRamp's Authenticated Traffic Solution and found that publishers were able to more than double CPMs and triple fill rates in cookieless browsers like Safari and Firefox.

Audience Encore allows any first party data owner, whether it's a publisher, advertiser, agency, or data provider, to monetize and scale their audience data across our billions of daily ad impressions and generate an incremental high value revenue stream. We recently announced an extended partnership with Samba TV in Australia to bring first-party connected TV data to media buyers across our platform. The partnership helped media agency IPG Matterkind find and engage relevant audiences for a global streaming client's programmatic ad campaign.

We also recently enhanced our platform for contextual targeting, with greater access to and usage of contextual data across CTV, video, mobile app and web. As the use of contextual targeting increases, we are well positioned to support publishers' and buyers' needs to package and monetize contextually targeted impressions both in the open market and private marketplace deals.

We are starting to see momentum build as third-party cookies are deprecated, and we believe the growth in these areas will accelerate. Existing customers are already starting to expand use of our platform through our audience addressability solutions, and we're also seeing these solutions attract new customers to PubMatic.

It's worth noting that Google's recent announcement of the deprecation of Android Advertising ID in two years is expected to have minimal, if any, impact to our business. We know from prior experience that ad dollars shift to channels where buyers find success and high ROI. Because we're an omnichannel platform, we are able to fulfill ad buyers' needs with other channels such as CTV or mobile web. We saw this same dynamic on our platform when Apple eliminated IDFA with no impact. Second, we expect that our addressability solutions, such as first party data, contextual targeting, and our ongoing work with Google on Topics and Privacy Sandbox, will continue to make Android advertising ROI-positive for certain buyers.

NEW GEOGRAPHIES

We also continue to expand our platform into new geographies. Last year, we entered South Korea and opened offices in Madrid, Paris and Shanghai. Within China, we are focused on the non-Chinese audiences and inventory from Chinese app developers. Based on our experience and success internationally, we believe our international investments will develop into significant long term growth opportunities.

RETAIL MEDIA

Further expanding our addressable market is the large opportunity for retail media solutions, which represents over $140B in global media retail ad spend by 2024, which is comprised of on-site and offsite advertising. We already work with several dozen e-commerce companies as publishers, such as eBay and GAP Advertising, to monetize impressions across their properties. Additionally, e-commerce ad spending is a top five buyer vertical for us. As retailers increasingly prioritize media as a growth driver for their businesses, we see significant opportunity for PubMatic and we intend to invest behind this opportunity. Retail media plays to many of our strengths. As an SSP, we are close to the publisher, or e-retailer, and consumer. We have an omnichannel and global platform complete with a portfolio of addressability solutions including identity, first party data, and contextual solutions. And we have strong buyer relationships from SPO. Our focus is on helping retailers monetize their own media, extend their data offsite to monetize impressions from non-retail publishers, and to optimize ROI for buyers.

INVESTMENTS IN THE FUTURE

As a provider of specialized cloud infrastructure for digital advertising, innovation and efficiency are key differentiators that enable us to deliver customer value and expand platform usage.

This year, we intend to make substantial new investments based on where we see long term growth potential. These areas include our machine learning and data processing consistent with the evolving nature of addressability towards first party data, identity, and contextual targeting; tools for buyers to expand their Supply Path Optimization implementation on our platform; private marketplace and programmatic guaranteed capabilities for connected TV and online video transactions; and retail media capabilities. These are long term investments that we believe will payoff in increased customer value and market share gains over the next several years. At the same time, we intend to improve efficiency across the company, driving additional infrastructure cost reductions and automation which will allow us to ship software faster and increase the pace of innovation.

Given our decade-plus track record of profitable innovation, we plan to accelerate the growth of our engineering team in order to take advantage of the enormous number of growth opportunities in front of us. Our hiring plans call for doubling our engineering team over the next 12-18 months and we anticipate a record number of software releases as we expand the breadth and depth of our platform.

And lastly, we are expanding our Sales and Customer Success teams around the globe on both the publisher-focused and buyer-focused teams.

CONCLUDING REMARKS

In summary, our omnichannel and global platform drove significant share gains in a rapidly growing market. We were able to drive increased customer value through a combination of our infrastructure-driven approach to digital advertising, our usage-based software model, and aggressive investment in innovation. I'm incredibly proud of the entire team at PubMatic as we over-achieved virtually every goal we set for ourselves in 2021 and we enter 2022 in a strong position with many growth opportunities in front of us.

Let me now turn it over to our Chief Financial Officer, Steve Pantelick, to provide additional detail.

CFO REMARKS

Thank you, Rajeev, and welcome everyone.

The fourth quarter capped a superb year for PubMatic.

In our first full year as a public company, we achieved a powerful combination of standout financial results and organic market share gains while investing significantly in the future of our business. As a result of our omnichannel platform, global scale, well-established usage-based model, and outstanding team, we have built a highly productive and resilient company. These factors set us up well for strong results in 2022 and beyond.

In 2021, we delivered $227 million dollars in revenue, or year over year growth of 53%, almost double market growth.

Looking at our fourth quarter, revenue was a record $76 million, an increase of 34% year over year. This achievement is particularly impressive considering last year Q4's growth of 64%. Excluding Q4 2020 political spend, Q4 2021 revenue was up 40%.

For the sixth straight year we delivered positive GAAP Net Income, which was $57 million, a company record. Adjusted EBITDA was $96 million, or 42% margin, also both company records.

In Q4, our revenue growth combined with the significant leverage embedded in our platform helped us achieve net income of $28 million, or 37% net margin. Adjusted EBITDA was outstanding at $39 million, or 51% margin, an increase of 44% over last year's Q4.

REVENUE

Q4 revenue was strong across every region, format and channel. EMEA in particular grew strongly with 55% year-over-year growth. Overall, we have built a truly global business with the Americas at 63% of full year 2021 revenue, EMEA at 28% and APAC at 9%.

Ad spend on our platform is well diversified across more than 20 verticals. While we saw some headwinds related to Omicron in December which dampened peak ad spending related to in-person activities such as Food & Drink, strength across other verticals more than compensated. For example, Shopping grew 78%, and Technology grew 65%. The top 10 ad verticals, in aggregate, grew over 50% year over year.

As was the case throughout 2021, we saw minimal impact from the elimination of Apple's IDFA as advertisers shifted ad dollars to other high ROI formats and channels on our platform. It's also worth noting with respect to Google's recent announcement of the deprecation of Android Advertising ID in two years, we expect the impact to be negligible for the same reason.

During Q4, more than 60,000 advertisers placed ads programmatically via our platform. This scale combined with our real-time bidded marketplace delivers multiple bids per impression for our publishers' ad inventory powering our robust, resilient platform.

Revenues for our mobile and omnichannel video businesses grew 41% year-over-year and accounted for 67% of our total revenues in Q4. This growth was on top of the prior year's growth of more than 100%. Our CTV business, inclusive of OTT, grew more than 6 times over last year Q4. In the quarter, 167 publishers programmatically monetized CTV inventory, up from 154 publishers in Q3. Our total desktop business comprised of display and online video also performed well with revenue up 26% year over year on top of the prior year's 28% growth.

Favorable mix trends contributed to higher overall CPMs on our platform for Q4 and the full year on a year over year basis which is similar to what we saw in 2020.

Revenues related to Yahoo, formerly Verizon Media Group, across all formats and channels, grew more than 30% year over year and represented approximately 16% of our total revenues in the fourth quarter down from 25% of revenue in Q4 2019.

Supply Path Optimization relationships play an important role in terms of growth and revenue stickiness as advertisers and agencies expand usage of our platform. In Q4 we continued to sign new SPO deals, renew existing agreements and grow ad spending via these deals. Our multi-year success with SPO supports further investment behind this opportunity, and we are building more tools to allow buyers to interact with us to find the right audiences and media on our platform.

Q4 SPO represented over 25% of total ad spending in the quarter. As SPO activity becomes a larger share of our overall spend, we anticipate trends will increasingly exhibit seasonal patterns. All else being equal, SPO's share of total activity will generally be lowest in Q1 and then sequentially ramp up over the course of the year as agencies and advertisers execute their annual investment plans.

Our land and expand strategy drove incremental impressions from our existing publishers. In addition to our core platform offerings, products like OpenWrap, Identity Hub and Audience Encore provide upsell opportunities. As we expand our product footprint, customers increasingly rely on us for more innovation. We plan to expand our investments in these market leading products to further develop our data and monetization advantages.

An important indicator of publisher satisfaction and usage of our platform is net dollar-based retention. For full year 2021, this metric was outstanding at 149%, compared to 122% for 2020. It will naturally normalize and come down from this level once Q2 2020 results are no longer in the comparison set.

GROSS MARGIN

Our long-term strategy of owning and operating our infrastructure enables us to reduce our unit costs while improving customer outcomes.

For the full year 2021, we processed over 90 trillion impressions, nearly double the prior year. Since Q1 2020, we have reduced our cost of revenue per million impressions processed by nearly 50%. Our ability to drive operational efficiencies has translated into a significant competitive advantage for us which compounds over time.

To give you a sense of the magnitude of these savings, if our cost reduction had been 25%, or half the rate that we actually achieved, our 2021 cost of revenue would have been $20 million higher. We have reinvested these savings into growth initiatives and increased our profit and cash flow.

With the benefit of scale, increased usage of our platform, and our long-term focus on efficiency we achieved a 78% gross margin in the fourth quarter and 74% for the full year. As has been the case historically, there will be some quarter-to-quarter variability of our gross margins due to the timing of investments and seasonal ad spend. We anticipate continuing our full-year gross margins well ahead of pre-pandemic levels.

OPERATING EXPENSES

Moving on to operating expenses. In support of our growth goals, we successfully increased our global team by 30% in 2021 with the vast majority of hires in Technology and Development. As a mission-driven company with an employee-centric culture, we added outstanding new team members despite the challenges presented by the pandemic.

In Q4, the combination of increased headcount for growth, incremental public company costs and stock-based compensation, resulted in operating expenses of $31 million, up 36% year over year. Excluding stock-based compensation Q4 operating expenses increased 27%. On a full year basis, operating expenses increased 45% or $110 million. Excluding stock-based compensation, 2021's operating expenses were $96 million up 33% year-over-year.

NET INCOME AND ADJUSTED EBITDA

Rapid revenue growth, operational efficiencies, and ongoing benefits from investments in our business resulted in GAAP net income in the fourth quarter of $28 million and $57 million for the full year, more than double 2020's net income. Note, Q4 and full year 2021 included an unrealized gain on equity investments of approximately $5 million.

Q4 and full year 2021 GAAP diluted EPS was $0.50 and $1.00 respectively.

Non-GAAP net income, which adjusts for stock-based compensation, the unrealized gain on equity investments, and related income tax effects, was $27 million in Q4 and $65 million for full year 2021.

Non-GAAP diluted EPS for Q4 and full-year 2021 was $0.48 and $1.14, respectively.

BALANCE SHEET AND CASH

With respect to our cash generation, we stand out as one of the few technology companies that have demonstrated we can both grow rapidly and produce cash flow.

For the full year 2021, net cash provided by operating activities was $89 million and free cash flow was $49 million. We achieved these exceptional results after funding significant investments for future growth, comprised of $40 million in capex and capitalized software development costs and a 30% increase in our global team.

We ended the year in a very strong cash and liquidity position with cash, cash equivalents and marketable securities of $160 million, an increase of approximately 60% from year end 2020.

We have no debt on our balance sheet.

FINANCIAL OUTLOOK

Turning to our outlook.

As Rajeev outlined, we have numerous paths in 2022 to achieve our 25% revenue growth target while delivering strong profits and cash flow.

Over the past two years, we have bolstered our financial strength and increased our market share. In addition, the addressable market opportunity has grown due to permanent consumer behavior changes towards more online activity. These factors contribute to our growing confidence in our business.

For the full year 2022, we expect revenue between $282 and $286 million, representing 25% year over year growth at the mid-point. Based on the latest market growth projections, we anticipate continued market share gains. For Q1 2022, we anticipate revenue to be in the range of $53 to $55 million, or 25% year over year growth at the mid-point. As a reminder we had a very strong Q1 last year with 54% growth. On a two-year stacked basis, this translates to 79% growth for the two-year period.

Note, we are taking a slightly cautious stance on our guidance as the December Omicron overhang on selected ad verticals extended into early Q1.

Looking ahead, we are excited about the number and magnitude of growth opportunities in front of us. Accordingly, we are accelerating our investments in a number of areas. Our track record demonstrates that we are adept at identifying new investment areas and bringing them to fruition.

At the top of our list is stepped-up investment in our innovation growth engine. Over the next 12 to 18 months, we plan on doubling our technology organization with the majority of new hires to be added in our India technology center. For a frame of reference, over the last two years, we increased our India headcount by 80% and have already seen a terrific return on investment from these efforts.

We also plan to add key go-to-market team members across the globe to continue driving new product adoption and new market expansion. Our EMEA and APAC businesses are growing rapidly and are still in the early days of their growth, and therefore warrant investment now for long term market share gains.

On a full-year basis, we anticipate that operating expenses will increase at roughly a similar rate to the 2021 increase with some quarter-to-quarter variability as the year progresses based on timing of hiring and investments. Included in our estimate of expense growth are incremental operating costs related to new offices we are adding, office reopenings and significantly higher travel and entertainment expenses as our team re-engages in person with customers around the globe.

We estimate these incremental costs in the range of $6 to $8 million for the full year.

Overall, what is clear is that our business is emerging from the pandemic with structurally higher levels of profitability than prior to the pandemic. We anticipate our full-year gross margin to remain above its pre-pandemic level and our 2022 adjusted EBITDA margin to be nearly double its pre-pandemic level.

Given our revenue guidance, our planned level of investment, and incremental costs from reopening, we expect our full year Adjusted EBITDA between $101 and $106 million or approximately 36% to 37% margin. In line with earlier comments on expense phasing and typical seasonal ad spending levels, we expect Adjusted EBITDA in the first quarter between $14 and $16 million, or approximately 27% to 29% margin.

We anticipate capex to be $30 to $33 million for the full year. In 2022, the nature of our capex investment is changing, from primarily capacity-driven to an even mix of both capacity and capability-driven investment so we can process more data, execute more Private Marketplace deals, process more CTV and online video transactions, and continue to lead the market with respect to Supply Path Optimization.

In terms of projected impressions processed, we anticipate an increase of more than 50% versus 2021.

IN CLOSING

In closing, we are very proud of what we have accomplished in our first year as a public company, but we are even more excited about the opportunities ahead of us.

The sell side of the digital advertising ecosystem is rapidly consolidating, as evidenced by the recent announcement that GroupM has selected us as a partner to support the supply chain of the future and their GroupM Premium Marketplace. PubMatic is well positioned to capitalize on these trends with our global, omnichannel scale and our owned and operated infrastructure.

Today, we are in an outstanding financial shape, with our business engine delivering both significant profit and cash flow.

The critical building blocks of our business are all favorable:

- net dollar-based retention;
- format and channel mix; and
- CPM increases.

We will use these strengths to capture numerous growth opportunities with our existing customers, new customers, new markets and new products. We believe these factors together will help us drive market share gains in the years to come.

With that, I will turn the call over to Stacie.