PUBMATIC Q3 2023 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, 2023 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.

We delivered above expectations for both revenue and adjusted EBITDA. The upside in revenue was driven by an increase in monetized impressions across all formats. And once again, our durable model led to increased profitability, margin expansion and healthy free cash flow.

This quarter, we continued to add new logos and deepen existing publisher and buyer relationships. Total activity from SPO deals grew to an all-time high of 45%, aided partly by the launch of Activate. And customers and partners are seeing great results from our expanded solution suite.

This quarter highlights the momentum we're building in the business and fuels our growth expectations for the fourth quarter of mid-single digit year-over-year revenue growth.

I recently spent a week with customers and prospects at Advertising Week New York, and I've never been more energized about our long-term growth opportunities. Our customer interactions indicate that sell-side technology that sits closest to the publisher – and therefore to the consumer – is key to driving long-term, sustainable growth in the programmatic ad market. Several key trends are driving this, and we believe our buyer and publisher relationships are strengthening as a result.

First, buyers are embracing programmatic advertising to automate the purchase of high value connected TV and video ad inventory. Sell-side technology companies like PubMatic enable this access at scale across the open internet.

Second, consumer privacy changes have resulted in increased global regulation and the looming deprecation of the third-party cookie. These trends have fueled tremendous innovation across the industry, and many new solutions are best leveraged when the technology sits closer to the consumer and publisher. At PubMatic, we are the technology platform at the point of consumer consent.

And lastly, as our industry matures, there has been an ongoing imperative for greater control over the digital advertising supply chain and increased efficiency across the ecosystem. These trends are forcing publishers and buyers to re-evaluate and re-construct their supply chains to meet their evolving needs. PubMatic is a key technology partner in this process. Our success stems from our owned and operated infrastructure that provides greater control over the supply chain and we believe is more efficient than alternatives in the market. This need is a driving force in our development of Activate.

Since our inception, we have prided ourselves on our ability to anticipate market trends and build for the future. I'm extremely proud of the team and the new bar they have set for product development and speed to market. Our pace of innovation has accelerated and engineering productivity has increased over the course of the year. Fueled in part by generative AI, we have and continue to accelerate software development, automate software testing, and optimize code within our infrastructure. As a result, we released two major software products this year, Activate and Convert, with ongoing feature releases already in the works. We also added a record number of impressions processed with an annual year-over-year reduction in capex by 70%.

Our durable financial model allows us to invest for future growth even amidst a challenging economic environment. We believe this model – alongside our innovative vision for how the ecosystem is evolving, our expanding product suite, and our differentiated infrastructure – uniquely position PubMatic to gain market share.

I'd like to spend some time today talking about how our innovative solutions are driving deeper customer engagement in key areas of industry growth and set the stage for market share gains ahead.

SUPPLY PATH OPTIMIZATION & ACTIVATE

In May, we launched Activate to seamlessly connect buyers and publishers for premium CTV and online video monetization, which represents a $65B dollar TAM expansion controlled from the sell-side. Six months in, we are already seeing a tremendous response from buyers and publishers with an active pipeline of more than 50 advertisers, agencies, and campaigns.

Most recently, we launched Activate in the Asia Pacific region with partners including dentsu APAC, iQIYI, KINESSO India (a unit of IPG), Madison Digital, and Wishmedia. Central to our conversations around Activate is the need to simplify the digital advertising supply chain and drive greater efficiency.

This was a driving force for one of our launch partners, global confectionary and pet care company Mars. Mars, a top 30 global advertiser, is innovating its supply chain for digital advertising with a particular focus on increasing efficiency in order to increase return on ad spend and lower its carbon footprint. Mars sees Supply Path Optimization and Activate as key drivers of their strategy, particularly for high value growth formats such as CTV and online video. Mars exceeded their campaign objectives with their initial campaign tests in Q2 and Q3 resulting in measurable ROI improvements. As a result, Mars is significantly expanding its use of Activate to more products and ad campaigns. I think Ron Amram, Sr. Director of Global Media at Mars, explained it best when he said, and I quote, “We are excited about our growing partnership with PubMatic. Mars is committed to creating efficiency and sustainability in our advertising supply chain, and Activate helps us get closer to the publisher, and consumers, which contributes to the overall growth of our business.”

Agency holding companies are also seeing success with Activate. One global agency expanded its SPO relationship to include the use of Activate in order to drive better campaign performance, particularly for CTV, on behalf of their client. With the structural efficiencies and real-time supply optimization benefits of Activate, the agency was able to exceed the client’s cost per user acquisition target by over 20%, and it has since expanded its use of Activate to more campaigns and more accounts across their client portfolio.

With the incremental though still early benefit of Activate, SPO as a share of activity has grown significantly to 45% in Q3 as both agencies and major brands sign strategic deals to grow their businesses with PubMatic. I’m particularly excited about this metric, as it highlights the upside growth potential inherent in our business. First, buyers continue to consolidate ad spend across a smaller number of platforms. When the ad market returns to robust growth, we believe PubMatic should disproportionally benefit, and so should our publishers. And second, SPO activity comes from some of the largest ad buyers and agencies in the world. These are typically multi-year, sticky partnerships. At almost 50% of total activity on the platform, we’ve reached another inflection point of sizeable, durable scale and growth.

CONNECTED TV, ONLINE VIDEO & PRIVATE MARKETPLACES

This increased buyer activity strengthens and expands our publisher relationships. Through our SPO offerings, premium publishers can access ad budgets from brands they had been unable to reach previously.

We are particularly excited about the growth potential in CTV, where PMP and programmatic guaranteed transactions are most prevalent. Local Now, an ad-supported streaming service owned by The Weather Channel that delivers local, geofenced content, wanted a technology partner that has proven expertise in CTV PMP and programmatic guaranteed deals, alongside unique advertiser demand. With PubMatic, Local Now was able to optimize data available to buyers, curate and package their inventory and audiences, and leverage our extensive SPO relationships, resulting in a more than tripling of their CTV revenue via PubMatic.

The benefits that Local Now gained are not unique. We’ve seen significant growth in our PMP business over the past year, with nearly a third of our revenue now coming from these transaction types, up nearly 10 percentage points year-over-year.

Much of this growth is coming from CTV, as we continue to acquire new streaming publishers at a rapid pace as they look to secure ad dollars shifting from linear TV to CTV.

We’re also expanding technology partnerships across the ecosystem. Just last month we announced an expanded partnership with leading Connected TV advertising platform FreeWheel, a Comcast company, creating a direct path for buyers to access a broad set of CTV inventory via Activate. We expect this expanded partnership to increase CTV revenue flowing through Activate.

COMMERCE MEDIA & CONVERT

Our focus on the fastest growing segments of the industry led us to further expand our technology into commerce media, a natural expansion given our existing customer base. We estimate that Convert grows our addressable market by $10 billion and includes monetization of both onsite and offsite media.

While it remains early days with Convert, there is strong market recognition for the need for an integrated platform that addresses core use cases from sponsored listings to audience extension to deal ID generation. For large commerce businesses, they can seamlessly manage inventory and consumer data in one system that brands can access, and lower operating costs. Partly driven by the success of existing customers, our pipeline of Convert opportunities has jumped 40% in just the past three months.

The expanding opportunities for Convert supplement our strong existing business with retailers who leverage our products to drive monetization. For example, Zulily, the online superstore for moms, is using PubMatic to manage their onsite inventory, embracing our OpenWrap header bidding wrapper to maximize monetization from their inventory. Other commerce sites leverage PubMatic for offsite audience extension through Connect.

ADDRESSABILITY, POST-COOKIES & CONNECT

As privacy regulation continues to increase around the world with the consumer at the center of how their data is used to deliver relevant advertising to them, through Connect we have developed and scaled a portfolio of approaches to help publishers and ad buyers move beyond the limitations of anonymous targeting solutions such as third-party cookies or Apple's IDFA. As the primary programmatic advertising platform at the intersection of the consumer and the publisher, we sit at the nexus of consumer consent, which we believe is a long-term structural advantage.

In many cases, Connect's offerings are superior to the cookie. They provide for consumer privacy and choice as well as deliver increased ROI for advertisers. As the timeline for third-party cookie deprecation potentially draws nearer, we are seeing increasing adoption of our solutions.

Already, nearly three quarters of impressions on our platform have alternative targeting signals attached other than the cookie and we are confident that the remaining quarter will transition as well. Regardless, there is no shortage of impressions for buyers to transact on within our platform, with hundreds of billions of daily ad impressions with alternative targeting signals available.

We are now integrated with 29 alternative IDs with a varying mix depending on the country. These IDs drive increased ROI for advertisers as well as an increase in publisher revenue and CPMs. For example, Philo, the leading entertainment-focused TV streaming service, implemented Trade Desk Unified ID 2.0 on our platform in Q3 and saw an almost doubling of revenue as a result of buyers' ability to deliver more relevant ads to the consumer.

We have also scaled Connect to support dozens of global data providers, further extending privacy-safe, targetable data available for buyers. The end result is again, higher ROI for the buyer and incremental revenue for our publishers. For example, Audigent utilizes Connect to offer buyers premium, multi-publisher curated data sets to meet advertisers' goals across CTV, online video, mobile and display inventory at scale. And in an industry-first, buyers now have access to Experian's unique commerce media targeting capabilities, including data such as spending models, property data, automotive audiences, and shopping preferences. PubMatic is the first and only SSP with direct access to this data in both the United Kingdom and United States.

Lastly, we are actively working with Google to test the Privacy Sandbox APIs, specifically Topics and Protected Audience, which allow for targeting user cohorts and aim for providing relevant advertising to those users while safeguarding their privacy.

As digital advertising evolves from cookies to various privacy safe approaches, we will continue to further scale Connect and provide buyers with the targetable audiences and media that they are looking for.

CONCLUSION

The role of sell-side technology and in particular PubMatic has never been more compelling as publishers look for unbiased technology partnerships to help them drive growth, and buyers seek to simplify their technology stacks to become more efficient and to navigate privacy changes. As a result, we are seeing increased interest and adoption of our technology across our product suite.

The third quarter marks strong execution and our steadfast focus on innovation, strengthening customer relationships and driving operational efficiencies. This momentum positions us well for growth opportunities ahead and sets the foundation for the fourth quarter and what we believe will be an inflection point for growth.

I'll now hand it over to Steve for the financial details.

CFO REMARKS

Thank you Rajeev and welcome everyone.

Q3 revenue was $63.7 million, and adjusted EBITDA was $18.2 million, or 29% margin, both above guidance.

We exceeded our revenue expectations for the quarter by selling more video and display impressions than projected.

We also continued to execute against our key operating priorities this year, which sets us up well going into 2024.

We converted the majority of our revenue beat into incremental profit dollars which highlights our ability to expand margins. Our capex optimization and working capital efficiency resulted in $17.2 million in free cash flow, the highest quarterly level in nearly two years.

REVENUE

Turning to the revenue details, we saw solid improvements for both video and display revenues as the quarter progressed. We drove an incremental 10% monetized impressions above expectations for the combined August and September periods. And CPMs were relatively stable from July onwards. These positive factors helped us offset a challenging July and allowed us to substantially close the gap to our prior year revenues.

Omnichannel video revenues came in better than expected and grew sequentially from Q2 by 7%. While down approximately (4)% year-over-year due to the soft July, we saw monetized impressions accelerate sequentially through the quarter. As a percent of total revenue, omnichannel video revenues increased to 33%.

Display revenues were 67% of total revenue and declined less than anticipated at (4)% year-over-year. Revenues improved sequentially through quarter driven by incremental impressions sold.

These display results were particularly notable as we managed through Yahoo's technology transition related to its own and operated inventory, which is predominantly desktop display. Yahoo has now shut down its sell-side platform. We anticipate it will take several quarters for us to ramp up Yahoo monetization as they migrate their inventory to a new technology stack. In Q3, our revenues excluding Yahoo owned and operating inventory grew in the low single digit percentages on a year-over-year basis.

Over the last several years, Yahoo's proportion of our total revenue has declined as we have expanded and diversified our customer base and increased our revenue mix towards faster growing video formats. In the third quarter, Yahoo's revenues represented less than 5% of our total revenues. On a trailing twelve-month basis, Yahoo revenue represented 9% of total revenue.

In terms of ad vertical trends, we saw improving growth through the quarter for the majority of our top 10 ad verticals. We saw double digit growth for the Automotive, Food & Drink, Travel, Technology and Business verticals. Shopping increased sequentially by about 10% from Q2 but remained below prior year levels. Overall, our top 10 ad verticals grew 8% year-over-year in aggregate.

OPERATIONAL STRENGTH

We continued to drive efficiency and optimization of our infrastructure that contributed to our strong financial results. On a year-over-year basis we have increased our impression capacity by over 20%, through software optimizations with limited capex. We anticipate expanding our gross margin in the future as a result of these efforts. On a trailing twelve-month basis, our cost of revenue per million impressions processed declined by 9%.

OPERATING EXPENSES

Q3 GAAP operating expenses were $38.2 million or approximately 15% year-over-year increase.

NET INCOME

GAAP net income was $1.8 million, or $0.03 per diluted share.

Non-GAAP net income, which adjusts for unrealized loss on equity investments, stock-based compensation expense, and related adjustments for income taxes was $7.6 million, or $0.14 per diluted share.

BALANCE SHEET AND CASH

Turning to cash, we ended the quarter with $171 million in cash and marketable securities, and no debt. We generated $23.8 million in cash from operations and $17.2 million in free cash flow.

Our priority is to drive shareholder value. Our healthy and consistent cash generation fuels innovation for long-term growth and allows for strategic capital allocation.

As of October 31, we have repurchased 3.3 million shares of our Class A common stock for $46.6 million in cash. We have $28.4 million remaining in the repurchase program.

FINANCIAL OUTLOOK

Turning to our outlook.

Our Q4 has started out on solid footing with our October revenues growing both sequentially and year-over-year in the single digit percentage range driven by increased monetized impressions. Importantly both omnichannel video and display revenues were up year-over-year. In terms of ad spend by vertical, the majority of the top 10 verticals improved sequentially through October.

Nevertheless, given current macroeconomic and geopolitical conditions we remain cautious on brand advertising spend and accordingly have broadened our Q4 outlook range. Our outlook assumes that CPMs remain stable and general market conditions do not significantly deteriorate.

Q4 revenue is anticipated to be $76 to $80 million, or approximately 5% year-over-year growth at the midpoint, which includes the impact from the Yahoo transition referenced earlier.

For the full year, we expect revenue to be approximately $261 million at the midpoint.

In terms of Q4 costs, we expect to continue to benefit from our long-term focus on efficiency and improving productivity of our infrastructure and team. We anticipate that our Q4 cost of revenue will be similar to Q3's level. We anticipate that our operating expenses will increase from Q3 in the low single digit percentage range as we continue to invest in our platform and people for long-term growth.

Given our revenue outlook and optimized cost structure, we expect Q4 adjusted EBITDA to be in the range of $32 to $35 million or approximately 43% margin at the midpoint. For the full year, we expect adjusted EBITDA to be in the range of $71 to $74 million or approximately 28% margin at the midpoint. This full year adjusted EBITDA range includes $5.7 million of bad debt expense related to the bankruptcy of an ad buyer in Q2.

We anticipate our full year capex to be in the $10 to $13 million range, approximately 70% lower than 2022.

IN CLOSING

In summary, we believe we have built a resilient and durable business. Strategic investments we've made are beginning to deliver results. We also continue to make progress on the three operating priorities that I outlined last quarter.

1. Generate significant free cash flow.Through the first nine months of 2023, we have delivered more than 85% of 2022's full year level;

2. Position ourselves for revenue acceleration as ad spend and CPMs stabilize. This year we have focused on building deeper relationships with publishers and ad buyers, increasing our supply path optimization relationships, and expanding our TAM by over $75 billion with our Activate and Convert product launches. We've also optimized our infrastructure to increase capacity and grow monetized impressions. This focus led to our out-performance in Q3 and, we believe, has created an inflection point in terms of revenue growth; and

3. Establish a new level of efficiency in our cost structure that will lead to margin expansion in 2024 and beyond as we continue to scale higher value formats like CTV and online video.

In conclusion, we are proud of our team's ability to execute our operating plan and excited about our growth momentum as we close out the year.

With that, I'll turn the call over to Stacie for Q&A.