# PUBMATIC Q1 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 first quarter ended March 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, http://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 Annual Report on Form 10-K for the year ended December 31, 2020, which is on file with the Securities and Exchange Commission and is available at investors.pubmatic.com. Additional information will also be set forth in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2021.*

*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 May 13, 2021 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 and welcome everyone. We delivered another quarter of strong results, with performance on both the top and bottom lines above guidance, driven by multiple growth drivers, continued rapid innovation on our platform, and a distinct business model that addresses the large and rapidly growing global digital advertising market.

We had a great quarter, as we continued to increase our market share. Revenue in the quarter grew 54% year over year, totaling $43.6 million. Net income in the quarter was $4.9 million, or 11% profit margin, and Adjusted EBITDA was $14.5 million, or 33% EBITDA margin. Looking ahead, we believe we are well poised to continue gaining market share as a result of two primary factors: the multiple organic growth drivers we have in place across our business, as well as the economic re-opening in the US and in other markets around the world.

Consequently, we are raising our guidance for the full year. We now expect revenue growth of approximately 33% year over year, and Adjusted EBITDA margin of approximately 28%.

Underpinning our outstanding results is our owned and operated cloud infrastructure built specifically for digital advertising. This infrastructure-driven approach serves as a flywheel that allows us to grow top line revenue, leverage our largely fixed cost structure to drive profitability, and re-invest in innovation for our customers to again drive top line revenue. Let me further explain.

## PUBMATIC'S INFRASTRUCTURE ADVANTAGE

Digital advertising is unique in its real time and data intensive nature. This has never been more true with the rapid increase in impressions caused by header bidding and the rapid growth in media consumption driven by the pandemic – particularly in mobile, video, and CTV. We believe that an infrastructure driven approach to digital advertising creates outsized value. Being the best at efficiently collecting and analyzing data requires controlling all layers of the infrastructure stack - network, hardware, and software. Our approach provides us with several key benefits and a significant competitive moat compared to our peers.

First, we are able to generate superior outcomes for our customers, specifically increased revenue for our publishers and higher advertising ROI for media buyers. Alternatively, operating in public cloud infrastructure only allows for control of the software layer, which would limit our ability to generate superior customer outcomes.

Second, controlling all layers of the tech stack allows us to rapidly innovate, which benefits our customers who rely on us for best-in-class technology. We deploy new capabilities, features, and algorithm updates on a daily basis across our global infrastructure. In an evolving landscape, we believe our platform enables continuous innovation and future proofs our business, and that of our customers.

And third, by owning all layers of the infrastructure stack, we are well positioned to continuously drive down costs by becoming more efficient, a benefit to our customers and to us. We have a demonstrated track record of continuous reductions in our unit infrastructure costs, which enables us to deliver a healthy profit while also investing for long-term success.

Taken together, we believe our infrastructure-driven approach creates a significant competitive moat around our business. Our efficiency advantage allows us to be transparent with buyers, which in turn causes them to spend more on our platform. And as they spend more on our platform, our publishers benefit with increased revenue.

## MULTIPLE GROWTH DRIVERS

Even as our addressable market opportunity continues to grow, PubMatic is delivering outsized revenue growth. In 2020, PubMatic's revenue grew 31% over 2019, well above the digital advertising market's growth of 12%. We expect to deliver outsized revenue growth in 2021 as well, driven by the convergence of three key trends:

- The economic re-opening driving omnichannel growth in digital ad spend
- Continued growth and evolution of the connected TV and over-the-top streaming ad markets
- And continued ad spend consolidation by agencies and advertisers

Let me dig into each of these trends in more detail.

## ECONOMIC RE-OPENING BENEFITS PUBMATIC

Significant portions of the global economy, including the US, are set for rapid re-opening following the anticipated lifting of Covid-19 related lockdowns as people start to travel, seek entertainment, and dine out. With GDP on the rise, eMarketer is projecting growth in global digital advertising spend to accelerate from 13% in 2020 to 20% in 2021. Mobile advertising in particular is expected to grow 23% worldwide this year, and more than half our business is mobile.

Several verticals tied to the re-opening, such as Food & Drink as well as Style & Fashion, are rapidly growing ad spend on our platform. We expect several other verticals that have not yet accelerated to do so in the coming months. We expect these trends to create significant tailwinds for us in 2021. Our omnichannel platform is particularly well suited for the current environment as advertisers can reach consumers wherever they may be consuming media – at home, at the office, or out and about – as each geographic market we participate in evolves on its own re-opening path.

Furthermore, we maintain the belief that COVID-19 has pulled forward multiple years of consumer behavioral change, as people around the world are transitioning more offline activities to online. We anticipate that many of these consumer behavioral changes will stick, driving further long-term acceleration in digital advertising spend. As a leading provider of omnichannel advertising solutions, we are present where consumers are spending time – at home on a laptop or Connected TV, outside of the home on mobile devices, or at the office while working – making us more durable than point solutions.

## GROWTH IN OTT/CTV

Programmatic OTT and Connected TV is another area of rapid growth and innovation that positions PubMatic for continued market share gains. This global market was estimated by eMarketer to be $20 billion in 2020, growing at an 11% CAGR over the medium term. The faster growing portion of this market is programmatic CTV, estimated to be almost $7 billion dollars in the US in 2021, which equates to year over year growth of more than 50%.

This impressive growth rate suggests that the industry is early in the transition from linear TV to over the top streaming Connected TV devices. As a pioneer in programmatic CTV, we were one of the first to introduce a CTV header bidding product, enabling ad buyers to benefit from the same efficiencies they enjoy in other formats using unified auctions. More recently we have built particular strength in biddable and fixed price private marketplace deals as well as open market transactions.

There are many public examples of major content owners like Disney or NBC, and agencies like Omnicom and GroupM, speaking to the power and growth of biddable CTV. After almost a year in market, our OpenWrap OTT header bidding wrapper continues to gain momentum and ad buyers are seeing results. For example, a large advertiser ran a head-to-head test using our solution and another SSP's tag-based integration. Our solution outperformed across all relevant metrics, demonstrating significant advantages to CTV header bidding. We produced 40% more bid opportunities and 14 times higher total win rates than the tag integration. They also benefitted from more efficient CPMs due to transparent and dynamic bid opportunities as compared to fixed fee deals. These are the same types of benefits we have seen from header bidding in all other major ad formats.

We also recognize the importance of brand safety and control across all digital formats. We recently announced our fraud-free CTV program for ad buyers, which extends our existing, rigorous inventory review process to in-demand CTV inventory. We believe this will enable buyers to embrace the full potential of programmatic bidding and allow us to further accelerate our growth.

In the first quarter, we experienced strong sequential growth in our OTT/CTV business, growing 55% over Q4 2020, and monetized CTV inventory from over 80 publishers, including new publisher additions like Meredith Local Group and LocalNow.

These results provide us with a further tailwind for growth as ad buyers continue to shift toward automated, biddable buying of this high value inventory. As buyers make this shift, publishers are meeting their programmatic buying demands while generating increased revenue and delivering increased ROI to advertisers on our platform.

### SUPPLY PATH OPTIMIZATION RAMPS

The third growth driver fueling our market share gains is the consolidation of ad budgets onto fewer sell-side platforms for greater efficiency, innovation and transparency. This has been and continues to be a growth driver for our business. Under arrangements known broadly as Supply Path Optimization, or SPO agreements, we're able to capture a higher share of agency and advertiser ad spend, while better servicing our publisher customers and delivering increased ROI and innovative solutions to ad buyers.

A growing portion of our business comes from SPO deals. In the first quarter of 2021, we nearly doubled the share of ad spend on our platform that is via SPO agreements as compared to the first quarter of 2020. We are collaborating with major agencies such as Havas and Publicis Media Asia Pacific to provide a combination of custom data and workflow integrations, new product features and volume-based business benefits to their advertisers.

In March, we announced that GroupM selected PubMatic to be a global preferred SSP partner, with our publisher partners gaining access to unique, quality ad spend at scale from their broad portfolio of global advertisers. GroupM will gain programmatic advantages, given more efficient access to globally scaled, brand-safe inventory across OTT/CTV, mobile app, mobile web and desktop for video and display advertising. As consolidation continues across the industry, this partnership, and others like it, will help to ensure that we provide our publisher customers access to a growing share of ad spend from leading global brands.

### WELL POSITIONED TO BENEFIT FROM INDUSTRY CHANGES IN AUDIENCE ADDRESSABILITY

I'd like to turn now to a potential future growth driver that we are investing heavily behind. As the industry continues to evolve, we believe the disruption caused by rapid changes to audience addressability and the pending deprecation of the cookie and other anonymous identifiers will benefit PubMatic as the value proposition for the Open Internet grows relative to the walled gardens in the eyes of advertisers.

We have invested heavily behind this opportunity for several years and continue to do so. I'm pleased to share that today, the majority of revenue on our platform now has alternative identifiers to the third-party cookie and Apple IDFA, which underscores the leadership position we have taken in the addressability transition. Having alternative identifiers available at scale, in many cases identifiers that provide greater addressability than anonymous identifiers like the third-party cookie, provides an environment to drive even greater utilization of our infrastructure. We expect these identifiers to grow the share of spend in the Open Internet, and on our platform in particular.

We have achieved this milestone through long term investment in a portfolio of solutions that together meet the growing and evolving needs for audience addressability. Our Identity Hub solution, scaled to well over 175 publishers including Cox Automotive in the US and Time Out in the UK, allows them to seamlessly integrate, optimize, and manage multiple leading identity providers globally, such as LiveRamp Authenticated Traffic Solution and The Trade Desk Unified ID 2.0, along with a dozen others. Identity Hub is also now pre-integrated with our OpenWrap solution, one of the more widely used Prebid-based header bidding wrappers which has been deployed in 34 countries around the world. This solution creates more value for publishers with registered or subscribed users.

Our Audience Encore solution allows buyers to access high quality publisher first-party data to execute effective and privacy-safe advertising campaigns at scale. We have a variety of data partners in the retail, CPG, healthcare, automotive, and other industries. For example, we recently announced a partnership with Samba TV to integrate their extensive first-party Connected TV data to deliver TV audience targeting to omnichannel programmatic advertising buyers. This partnership allows European advertisers to reach audiences based on TV viewing behaviors and drive incremental reach by targeting audiences that are not exposed to linear TV advertising.

We are also investing in contextual solutions to improve advertising efficacy. And fourth, we are working with Google and the World Wide Web Consortium on Google's privacy sandbox proposals including FLoC.

Audience addressability is something that publishers need to solve for, and we understand that it will not be a one-size-fits-all approach. With our long-term investment in this area with a portfolio of solutions, we think we are well positioned to help our publisher and buyer customers find highly relevant audiences at scale and improve the efficacy of the Open Internet as compared to today.

### RAISING OUR OUTLOOK FOR 2021

Together, these trends are fueling growth across all segments of our customer base and all ad formats we serve. As a result, a corresponding increase in utilization of our infrastructure drives our profit growth and cash generation.

As we look forward to the rest of the year, we are confident in our strategic growth drivers and our ability to continue to gain market share. We outperformed in the first quarter. This, coupled with advertising dollars beginning to flow back into the ecosystem as global economies recover, gives us the confidence to raise our full year outlook.

### CONCLUSION

We are successfully executing against multiple organic growth drivers leading to strong growth and market share gains, and we expect that to strengthen as the economic re-opening in the US and elsewhere accelerates. Our continued success fuels our ambition for significant market share gains in the years ahead. We have a differentiated cloud infrastructure platform that allows us to drive strong customer retention while rapidly innovating to grow our addressable market of ad formats and devices. We have a proven ability to consistently drive profitable growth with strong cash flow, which we believe positions us well to keep innovating and delivering for our customers and our shareholders. And I see a lot of growth opportunities ahead of us, which I am excited about.

I'll now turn the call over to Steve Pantelick to walk through the detailed financials.

## CFO REMARKS

Thank you, Rajeev, and welcome everyone.

As you see from our reported numbers, PubMatic achieved outstanding financial results with first quarter revenue and Adjusted EBITDA above guidance - growing significantly compared to the prior year and importantly, growing organically faster than the market. At the same time, we continue to invest for future growth. We are expanding our solutions across platforms and formats, adding new customers, increasing the capacity of our infrastructure, and expanding our engineering and go-to-market teams. We believe these investments give us a powerful network effect with more visibility and scale, driving increased revenues from existing customers and operating a highly profitable platform that benefits our customers and us.

Revenue in the first quarter was $43.6 million, an increase of 54% over Q1 last year. Net income was $4.9 million, an increase of 444% over the prior year and Adjusted EBITDA was $14.5 million, 183% higher than Q1 2020. These top and bottom-line results reflect the strength of our platform and high profit flow through embedded in our business model.

Before I jump into the quarterly financials, I will recap the five key financial drivers that we believe will drive the long-term success of our business.

First, we have one of the few scaled global businesses in our highly fragmented industry that offers an omnichannel solution for publishers and buyers. Our specialized cloud infrastructure and local go to market presence is geographically distributed in all the major ad markets. This allows us to continue expanding across the world with existing and new customers both effectively and efficiently.

Second, the combination of our usage-based model and our ability to retain and grow revenues from existing customers provides a high degree of revenue stickiness and corresponding visibility.

Third, we have built a business that consistently delivers high gross margins.

Fourth, our business model embedded with durable structural advantages emanating from our owned and operated infrastructure and offshore R&D that enables us to cost effectively invest in technological innovation.

And lastly, we generate consistent cash flow, through rigorous working capital management and efficient capital expenditures.

Now turning to the highlights for Q1.

Our revenue growth was driven by broad strength across advertising verticals, demonstrating our ability to participate in the economic re-opening occurring in the US and other markets we participate in. Apart from the political and travel ad verticals, spending in nearly every vertical was 50% or higher vs. Q1 2020. Notably, through the first quarter we saw significant sequential improvements in such ad verticals as automotive, food & drink, and style & fashion as reopening trends emerged.

Ad spending was particularly strong in our mobile and omnichannel video channels as revenues grew 83% year over year. As a reminder, omnichannel video is the sum of online digital video plus OTT/CTV. In aggregate, our mobile plus omnichannel video revenues represented approximately 63% of our total revenues in the first quarter.

Looking at just the OTT/CTV format, we delivered 55% growth sequentially over Q4 2020 with the number of publishers monetizing inventory via OTT/CTV formats growing to over 80 in the first quarter. Since we first launched our header bidding solution for OTT/CTV mid 2020, we have seen rapid growth in revenues.

In the first quarter, we also saw continued recovery in our desktop business with revenue growth of 26% over Q1 of last year. Our Verizon Media Group revenues grew over 20% year over year and represented approximately 20% of our total revenues in the first quarter. As a reminder this concentration level is down from 2019 when VMG represented 28% of revenue.

We continued to benefit in the quarter from strong existing customer revenues. For the twelve months ending Q1 2021, net dollar-based retention was 130%, significantly up from the comparable period a year ago.

Another important long-term growth driver continues to be our Supply Path Optimization deals with advertisers and agencies. We have seen these relationships serve as a catalyst for buyers to consolidate ad dollars onto our platform with spending coming via SPO deals nearly doubling since Q1 2020.

To rapidly scale and take advantage of these growth opportunities, we continued to invest in increased platform capacity. As a result, we processed over 18 trillion impressions in the first quarter, double what we processed for the same period last year.

Turning to our Q1 gross margins, we delivered 72% margin, compared to 65% in the prior year. Our long-term strategy of owning and optimizing our purpose-built infrastructure enables us to reduce our unit costs. Illustrating this point, we successfully reduced our cost of revenue per million impressions processed by approximately 40% year over year. Once we have implemented our targeted capacity expansion at a point in time, we achieve leverage because our platform costs are largely fixed in the near term, typically a quarter out. When we exceed our revenue targets, as we did in Q1 2021, we benefit from high flow through to profit.

With respect to our Q1 operating expenses, the combination of increased headcount for growth, incremental public company costs and stock-based compensation, resulted in operating expenses of $24.7 million, up 43% year over year.

Net income in the first quarter was $4.9 million, up 444% year over year. It was 11% of revenue, substantially higher than the prior year net margin of 3%. Q1 Diluted EPS was $0.09

Adjusted EBITDA in Q1 was $14.5 million, or 33% of revenue, compared to 18% of revenue in the prior year primarily due to the high flow through from strong revenue ahead of plan and the cost leverage we achieved on our platform. To summarize: our strong quarterly performance was the result of several key drivers:

a) acceleration of mobile and omnichannel video driven by the increase in Open Internet activity globally;
b) strong spending across nearly all ad verticals;
c) increased revenues from existing customers supported by Supply Path Optimization agreements signed in 2019 and 2020; and
d) our targeted investments in people and platform capacity.

Turning to our cash flow, we generated net cash from operating activities of $12.7 million for Q1 2021. We ended Q1 2021 with cash, cash equivalents and marketable securities of $110 million.

Now, onto our Q2 and full year 2021 guidance. Overall, given our strong Q1 performance, latest trends in Q2, and increased visibility for the balance of the year, we are increasing our full year guidance for revenue and Adjusted EBITDA.

To set the context, we are experiencing favorable macroeconomic conditions. At a fundamental level, we believe that the total amount of time people spend online has accelerated faster than expected. Of course, it remains to be seen to what degree this current acceleration of online behaviors will continue and when the pandemic will end. Nevertheless, we are seeing the preliminary stages of a robust reopening in the US and in selected major ad markets around the world and we believe this trend will benefit PubMatic and its customers.

Currently, in Q2, we are seeing sequential progress compared to Q1. We anticipate an above average favorable year over year comparison as we will be lapping the early stages of the pandemic when advertising was significantly impacted last year. As referenced earlier, we see encouraging signs with respect to reopening tailwinds helping our revenues. Partially offsetting these positive trends is the impact from Apple's elimination of IDFA, which did not occur in Q1 as originally anticipated and is now rolling through the ecosystem. We have factored the IDFA impact into our guidance. Because we are an omnichannel platform, we are well positioned to partially offset this impact as advertisers shift to alternative high ROI formats and channels that we serve.

Looking at the full year, we are raising our prior guidance because of the solid momentum we're currently seeing. It is important to note, should inflation occur and CPMs increase for advertisers, our usage-based model allows us to participate in that revenue upside. That said, we remain prudent and keep a slightly conservative stance due to the combination of uncertainty around macroeconomic conditions and the reality that some parts of the world are still suffering from the worst effects of the pandemic.

Also keep in mind that year over year percentage comparisons in the second half of the year may appear less robust as we lap very strong growth that included one-time effects such as carryover spending from the first half of 2020 and Q4 political ad spend. On a two-year stack basis, ie. if we add our 2020 second half growth plus our guidance for second half 2021 the total two-year cumulative revenue growth is anticipated to be 67%.

On the investment side, for the remainder of the year, we plan to add more capacity and people than originally anticipated as we see new opportunities to drive our profitable growth. We also expect incremental costs related to the return to our offices around the globe and higher T&E as our team re-engages in person with customers. Overall, we expect our operating expenses on an absolute dollar basis to increase over the course of 2021.

In terms of specifics: for Q2 2021, we expect revenue between $45 and $46 million, a range of 70% to 75% year over year growth. We expect Adjusted EBITDA between $14 and $15 million, or above a 30% margin.

For the full year 2021: we are raising our revenue target by $15 million and now expect revenue between $195 and $200 million, or 31% to 34% year over year growth. We are also raising our Adjusted EBITDA target by $9 million and expect Adjusted EBITDA between $54 and $58 million or 27% to 29% margin. For the remaining three quarters of 2021, as a reminder, we are incurring new public company costs of approximately $6 million.

We are increasing our full year capital expenditures to capture the increased growth opportunities and make advance purchases to mitigate risk of chip shortages over the coming 9 months. As a result, we expect capex to be $23 million to $27 million. It should be noted we expect a significant amount of this accelerated capacity to largely come online in Q3 and consequently, there will be a short-term below trend Q3 gross margin due to higher depreciation costs but which will normalize over the succeeding several quarters. We don’t see this affecting our calendar year gross margin rate.

Overall, we expect to increase the total number of impressions processed in 2021 by over 60% compared to 2020.

In closing, we are pleased with our progress in the first quarter of 2021, but we are even more excited about the opportunities ahead of us for the remainder of this year. We are proactively taking advantage of the shift to identity in the Open Internet, growing our mobile and omnichannel video channels, expanding our SPO relationships, increasing revenues with existing publishers and adding publishers in existing and new geographic markets.

Our track record of driving profitable revenue growth and cash flows allows us to continue innovating and delivering for our customers and shareholders.

We believe we have the right platform and the right approach to be at the forefront of our industry. With that, I will turn the call over to the operator to open it up for questions.

Operator, you may now turn the call over to questions.