PUBMATIC FY AND Q4 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 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 26th, 2024 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 a terrific fourth quarter with results that significantly exceeded our expectations on both the top and bottom line. Revenue growth accelerated to 14% over Q4 last year, which drove strong profit and cash generation. This inflection point in our growth was fueled by innovation investments we made over the past few years, and particularly in 2023. I'm extremely proud of our entire team for their hard work, dedication, and outstanding execution.

We saw year-over-year growth in the quarter for both omnichannel video and display. And I am particularly excited about the contribution and growth of emerging revenue streams, which now represent a low-single digit share of total revenue and I anticipate will expand significantly over the course of this year.

Our results more than offset a sizable headwind from Yahoo as they shuttered their SSP business earlier in 2023 and continue to transition their technology for owned and operated inventory. Excluding Yahoo, year-over-year revenue growth in the fourth quarter accelerated to 19%. Recall we had a similar revenue headwind from Yahoo in Q3, making Q4 the second consecutive quarter of accelerating revenue growth when excluding Yahoo. This highlights the strength of our platform, the value we deliver to publishers and buyers, and the increasing importance of sell-side technology across the ecosystem.

Investments we've made over the last few years are gaining momentum and are becoming meaningful growth drivers. They've allowed us to expand our customer relationships and deepen technology integrations on the back of a growing product portfolio. We have built a flexible, integrated platform that meets the needs of buyers, sellers, retailers, and data providers across the digital advertising supply chain while delivering superior efficiency.

As a result, we believe we are at the early stages of a period of significant multi-year revenue growth and market share expansion. On top of that, there are several major tailwinds that we expect to benefit from: shifts in ad budgets to CTV and commerce media, continued industry consolidation, as well as external forecasts pointing to a stable and constructive ad spend environment.

With a focus on increasing shareholder value, we intend to drive market share gains, expand margins and generate strong cash flow. Underpinning this are a number of efficiency initiatives we implemented this past year across the business. In addition, we anticipate a 15-20% increase in engineering productivity in 2024 driven by the use of generative AI at multiple points in the software development and release process. These efficiencies, along with our expected revenue growth and strong financial profile, give us the ability to reinvest back into the business in sales and engineering for market share gains while simultaneously expanding our share repurchase program.

CONNECT & POST-COOKIE SOLUTIONS

We have significantly ramped Connect, our audience addressability platform for a variety of privacy compliant, post-cookie solutions.

Over the last few months, we have seen a marked increase in activity on post-cookie solutions as buyers and publishers prepare for the end of third-party cookies. Just in Q4 alone, the number of revenue-generating Connect customers increased by 20% from Q3 to over 100. We are also seeing more publishers adopt alternative signals, with over 80% of impressions on our platform now having these signals available to buyers. Even more compelling, alternative identifiers provide more relevant, higher ROI ads to consumers. Our analysis across more than 600 billion ad impressions processed daily by PubMatic concluded that when alternative IDs are present, publisher revenue increased by 16%.

There is a tremendous opportunity in front of us for the Open Internet to take share from walled gardens. As the Open Internet scales up alternative signals, which drive increased advertiser performance, combined with its inherent advantages of professionally created content relative to the walled gardens' user generated content, the Open Internet will be structurally more attractive to advertisers.

For instance, we are collaborating closely with GroupM on a market leading, privacy-compliant, first-party data solution developed by Resolve, a Choreograph company specializing in distributed computing and federated learning applications for the ad tech industry. This partnership empowers advertisers to enhance their ad campaigns' targeting capabilities without transferring any personal data outside of their native environment. PubMatic works alongside publishers to provide consumer cohorts based on customized next-generation large language models for each of GroupM's clients. Ad transactions are then facilitated on the PubMatic platform against these cohorts to deliver highly relevant ads and improve advertiser ROI.

We are also working closely with Google, the UK Competition Markets Authority, and Interactive Advertising Bureau's Tech Lab on the Privacy Sandbox initiative. As part of the Google Market Testing Grants program, we are now facilitating end-to-end transactions with Privacy Sandbox APIs between multiple publishers and Demand Side Platforms.

Given our success and the increased market activity in advanced addressability solutions, we plan to grow our engineering team focused on this area as well as our Connect go-to-market team by several dozen people in 2024.

SUPPLY PATH OPTIMIZATION & ACTIVATE

The deprecation of third-party cookies is driving more buyers to lean into sell-side technology partnerships. As a result of this and other trends, Supply Path Optimization continues to be a major growth driver for us as we add new SPO relationships and expand existing ones. We have been investing in SPO technology and partnerships for five years and ended 2023 with a high watermark of over 45% of total activity coming from SPO. This is nearly double where we were just a few years ago.

We see a significant greenfield opportunity ahead, even beyond our initial goal of 50% of total activity. A recent study by the Association of National Advertisers identified that only one-third of advertisers have engaged in SPO and that the average advertiser is working with 15-20 SSPs. The study also actively advocates for advertisers – in addition to large agencies – to engage in SPO, consolidating activity with a handful of preferred technology providers to drive increased efficiency, transparency, and operational simplicity.

SPO is also gaining momentum among independent agencies, unlocking additional opportunities for growth. We recently launched a partnership with Wpromote, an independent marketing agency managing clients like Intuit QuickBooks, Peacock, Spanx, and TransUnion. Through our SPO partnership, we will provide supply chain efficiencies that enable them to solve complex challenges for their brand clients with a performance-rooted approach to media. Wpromote's head of programmatic and video, Skyler McGill, noted, "Through our preferred partnership with PubMatic, Wpromote's clients will be able to more efficiently and transparently access curated CTV and video inventory to drive business outcomes and create unique competitive advantages."

Our SPO opportunity is further boosted by Activate, which is continuing to scale in both pipeline and revenue. We have an active pipeline of over 75 advertisers, agencies, and campaigns. This pipeline is up by over 25% compared to the previous quarter. Earlier this month we officially launched Activate in Japan, partnering with nearly a dozen leading CTV publishers in the region, including Asahi Television Broadcasting Corporation, Fuji Television, Nippon Television Network, and Tokyo Broadcasting System Television. Premium streaming companies around the world are embracing Activate as buyers seek more efficient, programmatic access to their inventory to drive measurable business outcomes.

For example, a prominent luxury retailer in the U.S. wanted to drive brand awareness across channels with a focus on video and CTV during the holiday shopping season. With Activate, their agency was able to reach their niche target audience across PubMatic's premium omnichannel video inventory, driving efficiencies across cost, operations and scale, ultimately achieving or exceeding each campaign KPI. As we continue to drive strong ROI for clients, I am excited to tap into the nearly $65B expansion of our total addressable market that Activate represents.

Together, SPO and Activate delivered strong, profitable revenue growth in 2023. I continue to see tremendous opportunity ahead of us as buyers engage more closely and strategically with sell-side technology providers like PubMatic. We plan to expand our buyer-focused sales and customer success teams by 50% in 2024 in order to capture this opportunity and accelerate growth.

OMNICHANNEL VIDEO: CONNECTED TV & ONLINE VIDEO

Our growth trends with buyers also mirror the momentum we are seeing with publishers, particularly around high-value CTV and online video formats. Omnichannel video revenue growth accelerated in the fourth quarter.

We have 271 premium CTV publishers monetizing on the platform, up 27% over 2022, and we continue to have a robust pipeline of opportunity as we head into 2024. Most recently we added Sling TV and Vevo as they seek access to the unique and differentiated demand we offer through our SPO and Activate relationships. Equally important, our strong SPO relationships are driving increased premium content to our platform, creating a network effect. For example, driven by buyer interest, we recently signed a deal with DISH Media to provide buyers with access to premium programming on Sling TV, including their broad range of live sports content. With major global sporting events like the Paris Summer Olympic Games and Copa America in the U.S. this year, we are excited to provide advertisers transparent, signal-enhanced access to this valuable CTV inventory.

We believe an interoperable approach is the only sustainable way to manage the anticipated growth in programmatic CTV advertising, particularly as newer entrants contribute to a rapid increase in CTV inventory and corresponding increases in ad dollars across the ecosystem. In 2023 we deepened engagement with CTV ad server providers like Freewheel. And most recently, we expanded our relationship with a top three DSP partner by integrating their CTV demand onto our platform. The anticipated surge in buyer demand will bring increased ad dollars and monetization opportunities for streaming content providers on PubMatic.

Our strong SPO relationships have also been instrumental in growing the size of our one-to-one private marketplace business, whereby publishers choose our platform to transact deals they sell directly to ad buyers. As publishers get familiar with the ease of use and benefits of our platform, they are increasingly using our software to run their one-to-one deals. Overall, revenue from one-to-one deals grew more than 50% year-over-year in 2023.

INNOVATION UNLOCKS EMERGING REVENUE STREAMS

Our strong Q4 results were built upon a foundation of sustained innovation that has been core to PubMatic's DNA since our inception. In no year was this more evident than in 2023. Last year, we increased software releases by 60% year-over-year, including delivering two of our biggest product launches ever with Activate and Convert. Not only did these launches mark an innovation milestone for our company, but also reinforced our position as one of the leading independent technology providers across the digital advertising ecosystem.

We have spent the past few years scaling our product development to extend the value of our core SSP platform beyond ad monetization services. We offer wrapper software to large publishers with OpenWrap, solutions like Activate for buyers, post-cookie targeting with Connect, and commerce media with Convert, each adding new revenue streams in addition to the core SSP revenue we generate on ad impressions flowing through our platform. These solutions increase customer stickiness with more touchpoints and software integrations. They enrich the data flowing through our platform, making us more valuable to our clients. And they provide us with clear points of differentiation.

Collectively, these solutions have unlocked emerging revenue streams for our business and now drive meaningful revenue generation and growth on top of our core SSP revenue. We expect these solutions to contribute mid-single digit percentages of revenue in 2024, more than doubling year-over-year.

PERFORMANCE ADVERTISING

The changing dynamics of the industry and the evolving digital advertising supply chain are also ushering in a new era for the Open Internet. Historically, performance advertising has been the domain of walled gardens. Now, driven by the increase in first party and identity data, further fueled by the rise of commerce media, as well as buyers' ongoing focus on efficiency, we see a long-term opportunity to drive ROI and outcomes-based advertising on the Open Internet.

We see PubMatic as the platform best positioned to take advantage of this new opportunity. With the closed-loop reporting and valuable commerce data available through Convert, coupled with the efficiency and end-to-end control that Activate provides and the enhanced sell-side data now available via Connect, we have the foundational building blocks in place to deliver performance advertising solutions that rival the walled gardens.

While it's still early, we will increase our investment in product development and machine learning engineers to build new performance-based solutions.

CONCLUSION

As I predicted last quarter, Q4 was a clear inflection point up for revenue growth. Our strong performance highlights the value of our integrated platform and our customer-centric approach to growth. As buyers continue to consolidate spend on our platform and take advantage of the growing solution suite we offer, our publishers benefit from stronger monetization and greater utilization of our technology across our software products.

I see tremendous opportunity ahead of us in 2024 and beyond to grow our market share and deliver shareholder value. We plan to expand our headcount by over 150 people this year to take advantage of the revenue growth opportunities ahead of us. These investments will pay off partially in 2024 and more fully in 2025. With our focus on efficiency and our robust business model, we anticipate expanding margins in 2024.

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

CFO REMARKS

Thank you Rajeev, and welcome everyone.

We ended the year with outstanding results across our business with fourth quarter revenue accelerating to 14% year-over-year and 33% sequentially vs. Q3. There were several factors that drove this growth inflection point:

1) We increased the total number of impressions monetized across all formats and channels by an impressive 29% over Q4 last year;
2) Both omnichannel video and display revenues increased year-over-year;
3) We achieved robust growth in every geographic region; and
4) Our emerging revenue streams like Activate and OpenWrap added approximately three percentage points of growth in the quarter compared to Q4 2022.

These results are particularly notable given the revenue headwinds in our business from Yahoo that we commented on last quarter. Our revenue growth excluding Yahoo's owned and operated inventory in the fourth quarter grew 19% over Q4 last year and grew 8% for the full year vs 2022.

Along with our revenue acceleration, we continued our long-track record of profitability with adjusted EBITDA margin of 46%, and we generated the highest quarterly and full year free cash flow in the company's history at nearly $20 million for Q4 and $52.8 million for the full year.

These notable results once again highlight our robust business model, our operational excellence, and our ability to grow our core business while simultaneously investing in our technology and products for revenue growth acceleration.

REVENUE

Breaking Q4 down by format and channel, which includes Yahoo unless otherwise called out:

Omnichannel video revenue grew sequentially 31% from Q3 and 7% year-over-year. These results were powered by a 30% plus increase in monetized impressions which offset year-over-year CPM declines. As a reminder, on a year-over-year basis, video CPMs declined in early 2023 but were relatively stable from August onwards.

Display returned to growth for the first time this year, delivering a strong year-over-year growth at 9%. Mobile display led the way at over 20% year-over-year growth. Excluding Yahoo, total mobile and desktop display revenue grew 27% in the fourth quarter.

On a regional basis, every region grew double-digit percentages in Q4.

Looking at ad spend by category, we saw notable recovery in the shopping vertical which returned to year-over-year growth for the first time in 2023. The business, technology and personal finance categories in aggregate grew over 30%. Overall, the top ten ad verticals combined increased by 26% over Q4 last year.

EXECUTED ON 2023 OPERATING PRIORITIES

Our excellent fourth quarter results were driven by on-going innovation over many years and our focus on the operating priorities that I outlined a year ago. Collectively, we expect this rigor will accelerate revenues in 2024, while delivering expanded strong margins and healthy cash flows.

To recap, our first priority was to deepen our relationships with our publishers and buyers to be well positioned for when the ad spend environment stabilizes. We did this through technology innovation on the PubMatic platform and partnership development.

- In 2023 we increased the number of high value video impressions we monetized on behalf of our customers by over 30%. With a focus on capacity optimization and targeted capex investments, our rate of acceleration increased as the year progressed.
- We increased activity from supply path optimization to over 45% of total, up from approximately 34% at the end of 2022.
- We maintained high rates of net spend retention from SPO buyers and very low churn underscoring the stickiness of these relationships. The net spend retention rate from SPO partners with at least three years of spending was 120%.
- We added 151 publishers in 2023, which includes premium CTV inventory and transactional commerce brands.
- And perhaps one of the most exciting things we accomplished in 2023 was the ramp up of our emerging revenue streams through new products, incremental data connections and sticky software integrations.

Our second operating priority was to drive free cash flow generation. Coupled with our durable model, we were disciplined in capital allocation and on-going investments.

- We delivered $52.8 million in free cash flow, a 38% increase over 2022. Over the last three years, we've generated over $140 million of free cash flow, which has provided us the flexibility to continually invest, accelerate growth, and differentiate our product offerings.

And third, we focused on establishing a new level of efficiency in our cost structure. Our owned and operated infrastructure provides tremendous leverage in our business.

- On the back of capex investment in 2021 and 2022, our focus in 2023 was on driving increased optimization. These efforts resulted in more than 20% additional capacity on our platform while allowing us to reduce capex by more than 70% versus 2022. In addition, our efforts delivered an 8% reduction in cost of revenue per impression processed.

- We also drove efficiencies across our product and engineering teams – supported by generative AI and through our highly efficient and productive development organization in India.
- We launched and scaled a mid-market customer success team in India to deliver outstanding account management with greater focus and efficiency.
- Through the combination of improved engineering productivity and cost efficiency efforts we have improved our cost base by over $20 million.

OPERATING EXPENSES

Full year GAAP operating expenses were $165.7 million, a 23% increase over 2022 reflecting investments across the business. Included in this total is $5.7 million of bad debt expense related to the bankruptcy of one of our buyers in Q2.

NET INCOME

Extending our long track record of standout financial performance, 2023 marked our 8th straight year of GAAP net income and 11th straight year of positive adjusted EBITDA.

Full year GAAP net income was $8.9 million or $0.16 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 $32.0 million or $0.57 per diluted share.

BALANCE SHEET AND CASH

We ended 2023 with $175.3 million in cash and marketable securities and zero debt.

During the year, we used our significant free cash flow for growth investments and we repurchased shares as planned. As of December 31st, we had repurchased 4 million shares of our Class A common stock for $59 million in cash and we reduced our fully diluted weighted average shares outstanding. We had approximately $16 million remaining from our prior authorization at the end of the year.

Consistent with our long term capital allocation strategy, supported by our healthy balance sheet and strong cash generation, we plan to continue our capital allocation strategy of first investing for growth, and second, returning capital to shareholders. Accordingly, the Board of Directors has authorized the repurchase of up to an additional $100 million of the Company’s Class A common stock through the end of 2025 on top of the remaining funds from our prior authorization.

OPERATING PRIORITIES

Turning to 2024, we are seeing a more constructive ad spend environment and are planning for accelerated year-over-year revenue growth and incremental margin expansion. This means investing in areas where we see the highest returns, while driving further efficiencies across the business.

Key incremental investment areas include innovation and go to market resources:

- We plan to add more engineers to drive our post-cookie solutions and develop new revenue opportunities such as performance advertising;
- We plan to increase our buyer focused sales and customer success team by 50% to accelerate growth in SPO and Activate; and
- We plan to hire more salespeople to focus on growing our emerging revenue streams coming from our enterprise grade OpenWrap software, post-cookie targeting with Connect, and commerce media with Convert.

Overall, we expect to add more than 150 net new team members this year.

In addition, we expect to increase capex by several million dollars over 2023 levels to support the growth of our new products.

And finally, we anticipate we will achieve further productivity gains through the use of AI, and continued cost efficiencies by focusing on capacity and infrastructure optimization.

FINANCIAL OUTLOOK

Based on our successful long-term track record of maximizing the return of our growth investments, we are confident that our 2024 operating plan will help us accelerate our revenue growth to over 10% this year, which includes the Yahoo headwind referenced earlier. Excluding Yahoo, this growth translates to over 12% year-over-year growth. At the same time, we anticipate expanding our adjusted EBITDA margin and generating positive cash from operations in line with 2023.

Turning to Q1, with the tailwind from our strong finish to the year, we are starting 2024 on solid footing. January trends were excellent with double digit percentage increase in monetized impressions on a year-over-year basis. CPMs were in line with seasonal expectations, and emerging revenue streams continued to grow.

Notably, omnichannel video revenues were up double-digit percentages year-over-year and display revenues also increased year-over-year.

Based on these recent trends, we anticipate Q1 2024 revenue to be in the range of $61 to $63 million or 12% year-over-year growth at the midpoint and 17% growth excluding Yahoo.

In terms of costs, GAAP cost of revenue in Q1 is expected to be approximately $26 million. Over the coming quarters, as a function of continued proactive steps on productivity and cost-saving measures, we anticipate keeping sequential quarter over quarter cost increases in the low single digit percentages.

We expect Q1 GAAP opex to increase approximately $5 million vs Q4. This increase absorbs the Q4 run rate of expense, global annual cost of living adjustments that are effective in Q1, plus an additional cost related to our January global sales conference. With our focused investments for growth, we anticipate that opex will increase sequentially in the low single digit percentages, Q2 onwards.

Given our revenue guidance and our cost structure, which is largely fixed in the near term by design, we expect our Q1 adjusted EBITDA to be between $10 and $12 million or approximately 18% margin at the midpoint. As a reminder, historically our first quarter is impacted by prior year investments that are carried forward during a period of low seasonal ad spend.

We expect profitability to improve as the year progresses driven by our continued focus on productivity improvements, cost efficiencies and typical seasonal increases in ad spend.

For the full year, we expect adjusted EBITDA margin to be approximately 30%.

We expect capex to be $16 to $18 million for the full year.

IN CLOSING

Over many years we have developed a successful playbook to drive sustained innovation and operational excellence. This gives us the confidence to incrementally invest for future growth, while continuing to deliver robust profitability and cash flow.

As one of the largest, independent sell side technology providers, I am very excited about our prospects in 2024 and the trajectory we are on for sustained double-digit growth this year and beyond.

With that I will turn the call over to Stacie for questions.