PUBMATIC Q3 2024 EARNINGS CALL: PREPARED REMARKS

SAFE HARBOR

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

I would like to remind participants that during this call, management will make forward-looking statements, including without limitation, statements regarding our future performance, market opportunity, growth strategy and financial outlook.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and future conditions. These forward-looking statements are subject to inherent risks, uncertainties and changes in circumstances that are difficult to predict. You can find more information about these risks, uncertainties and other factors in our reports filed from time to time with the Securities and Exchange Commission and are available at investors.pubmatic.com, including our most recent Form 10-K and any subsequent filings on Forms 10-Q or 8-K.

Our actual results may differ materially from those contemplated by the forward-looking statements. We caution you therefore against relying on any of these forward-looking statements. All information discussed today is as of November 12th, 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

Thanks Stacie and welcome everyone.

Our third quarter results exceeded expectations on both the top and bottom line. Revenue in the quarter grew 13% year-over-year. Clients continue to build their advertising businesses on our platform, and we are becoming more embedded into clients' tech stacks and more integrated across the ecosystem.

CONNECTED TV & POLITICAL ADVERTISING DRIVE OUTPERFORMANCE

Over the last few months, driven by the strength and scale of our CTV solutions as well as the depth of our expertise, we capitalized on the surge of political advertising demand. In just a few short years, we have organically scaled our CTV business, and we now work with 70% of the top 30 streaming publishers. Even as we further penetrate the head of this market, where the bulk of consumers are spending their time, we also have tremendous opportunity to expand our existing streamer relationships. On average, CTV monetized impression volume was up over 100% year-over-year for the third straight quarter, as we have reached a critical mass of streaming inventory to meet the surge in ad demand on our platform.

Included in this surge was greater than expected activity from political advertising, which was heavily focused on CTV. Certainly, the increase in streaming inventory on our platform drove growth in this category but more impactful is our ability to quickly build new products that drive incremental growth. In Q3, we launched new tools to help unlock streaming inventory in order to better capitalize on political ad budgets. For context, many publishers typically block political ads altogether as a way to protect the user experience from unwanted political issues or candidates. But this is a blunt strategy and leaves money on the table. We developed a better approach for streamers utilizing generative AI technology.

Our solution classifies each ad on granular criteria such as political party, federal, state orlocal candidate or issue, sentiment, and more. As a result, more than 250 incremental publishers and streamers that have historically blocked political ads chose to open their inventory to PubMatic for political campaigns that meet their user experience criteria. This enabled us to scale political spend on our platform much faster than we expected as buyers were able to reach the audiences they were targeting while content creators maintained control over their inventory. Further, political buyers were able to leverage Connect to curate rich political data sets on PubMatic inventory for targeted, higher ROI advertising.

This underlying gen AI technology will have ongoing applications as we leverage it in other ad sensitive categories or markets such as language and sentiment detection. Looking forward, we'll continue to build solutions that unlock inventory and increase monetization.

This includes our recently launched CTV Marketplace, which offers real-time inventory curation along numerous dimensions, built on sell-side technology. With a simple opt-in, streamers can unlock more value from their inventory while making it easier for buyers to access premium content and targeted audiences. For example, ad buyers specifically looking to reach sports fans can leverage our off-the-shelf and easy to buy live sports inventory. DIRECTV Advertising and Roku are already leveraging PubMatic's CTV Marketplace with positive feedback from both publishers and buyers. As this CTV Marketplace grows, we believe it will create stickiness for our CTV business.

We continue to onboard new streamers, growing our streaming customer count by 13% year-over-year, to over 280. For example, we recently signed Xumo, a joint venture between Comcast and Charter that offers streaming devices and services to tens of millions of customers per month. Through this partnership, PubMatic will bring demand from our SPO relationships across their content portfolio, including Xumo Stream Box, Xumo TV and its FAST app Xumo Play.

TECHNOLOGY, WORKFLOW AND DATA FUEL DIFFERENTIATED SOLUTION AND LONG-TERM GROWTH IN SPO

Also aiding our growth are agencies and advertisers that increasingly consolidate buying on PubMatic. Half of our activity is from SPO as buyers move more ad spend to our platform due to our growing technology, workflow, and data capabilities. Major agency holding companies have moved and are in the process of moving direct buys on behalf of their clients to our platform to capitalize on their supply path optimization relationships with us, including through Activate.

Earlier this year, dentsu launched Merkury for Media, which is a centralized data, media activation, and creative execution platform that is being rolled out across its agencies. We are thrilled to partner with dentsu on this transformative initiative as PubMatic technology is being integrated at the center of Merkury for Media. PubMatic's Connect will increase audience reach and cost efficiency, particularly within CTV and streaming. Activate will provide end-to-end cookieless digital media activation and measurement at scale.

Our platform sits at the intersection of data, commerce media, SPO, omnichannel inventory and global scale. Our innovative technology and differentiated approach are what enable us to scale with our clients and partners as they build integrated digital ad businesses. It's also why clients and partners choose PubMatic.

STRONG & GROWING FOOTHOLD IN THE MOBILE APP MARKET

PubMatic's SSP is one of the only omnichannel platforms with a scaled SDK footprint which seamlessly integrates directly into publishers' apps. This key differentiator was just one of the reasons that one of the largest global mobile mediation platforms expanded their partnership with us; we are now a certified bidder and exchange partner, making it easier for app developers to integrate our solution with the click of a button, streamlining access to PubMatic's valuable advertising demand that app publishers have historically struggled to access at scale. The partnership expansion brings more than 80,000 global app developers into our sales funnel, creating a significant growth opportunity for us.

Our mobile app business grew over 20% year-over-year for the fourth consecutive quarter. Our strong foothold in this market positions us well for continued growth. Per Magna's forecasts, $58B in mobile app ad spend is expected to flow through the Open Internet this year.

CUSTOMERS CHOOSE PUBMATIC TO EXPAND AD BUSINESSES; DRIVES GROWTH IN EMERGING REVENUE STREAMS AND EXPANDS TAM

The value of our comprehensive, integrated platform offers multiple new revenue streams and TAM expansion opportunities, like commerce media. As retailers and transactional commerce companies lean into advertising as a major revenue and profit driver, they are realizing their need for SSP technology.

For example, PubMatic's integrated platform allows Western Union to scale its advertising initiatives more effectively. Originally integrated to support onsite monetization, we have recently expanded our partnership as they launched their Western Union Media Network earlier this year. Using Convert, Western Union will leverage our offsite media solutions - applying insights from their 115 million annual consumer money transfer transactions in the U.S. across PubMatic's premium inventory. This gives them the power to manage their monetization strategy via a single, unified tech stack, streamline operations, and enhance efficiency. At the same time, the publishers integrated into our SSP benefit from unique ad budgets only available on the PubMatic platform when Western Union data is applied. The added value customers receive through solutions like Convert also creates incremental revenue opportunities – such as data and SSP fees - for PubMatic.

Another vector for our long-term growth includes social media companies entering the open internet arena, as they expand their ad businesses outside of their own walled gardens. To do this, they need solutions to help them monetize their audiences, curate their inventory and access open internet ad budgets. Signaling a strategic focus, many of these companies have hired programmatic leaders with industry expertise and are partnering with PubMatic to help them build and scale.

We are particularly excited to launch advertising with X, formerly known as Twitter, which serves more than 335 million users. Historically, X had only accessed social media ad budgets. They selected PubMatic as an SSP partner, opening up their traditionally closed ecosystem to tap into the $26 billion in open internet native display and video ad spend.

CONTINUED INVESTMENT IN TECHNOLOGY INNOVATION AND AI FOR MULTI-YEAR REVENUE GROWTH

PubMatic is able to build differentiated solutions across these customer segments because of the strength of our integrated platform and our consistent track record of organic innovation. Over the last two years, we've been successfully adopting generative AI technology across our software development, testing, and release process. We estimate a 10-15% increase in engineering productivity so far this year with more gains to come.

What's even more exciting is that we are also leveraging new AI capabilities in customer-facing solutions to drive higher revenue.

In Q3, we hosted our first AI-focused Hackathon, where internal teams take two days to ideate and innovate around the clock. An annual tradition since 2014, this was our largest Hackathon to date; more than a third of our global employee base participated across 90 teams. One-third of the submissions incorporated AI and machine learning. The idea-creation and collaboration were inspiring, highlighting PubMatic's deep commitment to innovation and technology.

The AI-based creative classification tool that helped publishers monetize political ad budgets across our CTV inventory came from our Hackathon. I'm particularly pleased with how quickly we were able to launch it in our live environment in time for this year's election cycle. Looking ahead, we have a number of additional customer-facing applications on the horizon related to reporting, private marketplace deals, and workflow.

IMPORTANCE OF SELL-SIDE TECHNOLOGY WIDELY RECOGNIZED; PUBMATIC NAMED AN SSP LEADER

I recently spent time at Advertising Week in New York, where conversations were centered around the need for end-to-end supply chain control, transparency, efficiency, effectiveness, and privacy. We'll continue to innovate and invest in key growth areas to drive greater value across the ecosystem. As publishers, buyers and data partners build and scale their ad businesses, they must address the complex needs of the evolving ecosystem, with sell-side technology becoming a critical component.

The growing importance of sell-side technology has led Forrester to address the SSP category for the first time in more than a decade. I couldn't be more proud of our team's vision and their accomplishments. PubMatic was recognized as an SSP leader in The Forrester Wave, achieving the highest possible scores in the criteria of programmatic auctions, publisher protections, commerce media, and innovation.

Our platform provides a foundation for innovation and expansion for many of our clients across the ecosystem, including publishers, app developers, agencies and commerce media platforms. Plus, the strength of our leading SSP is driving new entrants to the open internet sector to select PubMatic as their tech partner.

These trends have resulted in significant growth in key secular areas of the business and I'm excited by the large opportunity in front of us as content creators and buyers alike choose PubMatic to scale their ad businesses.

I'll now turn the call over to Steve for the financials.

CFO REMARKS

Thank you, Rajeev, and welcome everyone.

Revenue grew 13% over Q3 last year, above expectations, driven by strong growth in CTV. In addition, we successfully monetized more inventory against a strong political ad buying cycle. Even more exciting, our business grew 17% year-over-year, excluding political advertising and the large DSP buyer that I called out earlier this year.

Highlighting our differentiated infrastructure approach, gross profit increased at an even faster pace. Due to the combination of cost management, productivity improvements and an increasing proportion of high value impressions like CTV, gross profit was up 23% year-over-year.

Other important call outs in the quarter:

- We increased monetized impressions across all formats and channels with the fastest growth coming from omnichannel video impressions at nearly 50% growth year-over-year. With the growing mix of video, our overall platform CPM also increased.
- In addition, emerging revenue streams more than doubled year-over-year and contributed an incremental 3 percentage points of year-over-year growth.

Our Q3 performance underscores the value of our diverse, omnichannel platform and the significant impact of our strategic multi-year investments in key secular growth areas. It also demonstrates the strength of our durable model and our ability to deliver profitable growth. We delivered adjusted EBITDA of $18.5 million, or 26% margin – ahead of expectations.

REVENUE

Breaking down Q3 by format and channel:

We saw continued secular growth above market rates for omnichannel video revenue, which grew 25% over Q3 last year, an acceleration from last quarter's 19% growth. The share of omnichannel video revenue to total revenue hit an all-time high of 36% in the quarter. Notably, CTV monetized impressions more than doubled over last year.

Our mobile app business continued to perform strongly and grew over 20% year-over-year for the fourth quarter in a row.

Our display revenues across both mobile and desktop channels grew 9% year-over-year.

We saw strong organic growth as our existing publisher revenues on a trailing twelve-month basis continued to grow with net dollar-based retention at 112%.

SPO represented approximately 50% of total activity on our platform. Underscoring the long-term strategic value and stickiness of these relationships, the trailing twelve-month net spend retention rate from SPO partners with at least three years of spending on our platform was 113%.

Across the globe, all regions grew in the third quarter.

Looking at growth in ad spend, the top ten ad verticals inclusive of political increased by 20% year-over-year. Among the four verticals that I commented on last quarter, we saw some recovery in Travel and Arts and Entertainment, while Technology and Automotive remained soft.

2024 OPERATING PRIORITIES

Shifting to our operating priorities, we continue to make significant progress. As a reminder, our priorities are focused on delivering multi-year revenue growth and incremental margin expansion.

First, we continue to invest in areas where we see the highest revenue growth opportunities.

- We have added over 100 team members in sales and technology since Q3 of last year. As a result of our innovation and focused sales efforts we have reached critical mass in our CTV business and are seeing strong CTV growth as buyers and publishers are making us a preferred partner.
- We are also investing in supply path optimization to address the large greenfield opportunities from independent agencies and direct brands. We have filled the majority of the buyer focused sales positions we had planned to hire this year. As these team members ramp, we expect increased productivity that will position us well for continued growth in 2025.
- And, our investment in people and technology to drive emerging revenues is paying off. As I mentioned, emerging revenue streams contributed 3 percentage points of growth in Q3 and is on track to be 4-5% of total revenue in Q4. We are at the early stages in the adoption cycle of these products, and looking ahead we anticipate that these innovative solutions will continue adding meaningful incremental revenue and profitable growth in 2025 and beyond.

Second, we continue to prioritize efficiency and operational excellence by optimizing our infrastructure and making prudent investments in capex. As a result, we have increased capacity on our platform, while improving margins and unlocking dollars to fund new products.

- We added 20% incremental gross impression capacity on our platform year-over-year.
- At the same time, software optimization initiatives led to lower unit costs. The cost of revenue per million impressions was down 18% on a trailing twelve-month basis. This productivity contributed to the 23% gross profit increase year-over-year, which was an acceleration over Q2's growth of 10%.

Overall, the progress we have made against our operating priorities has allowed us to return value to shareholders through our expanded share repurchase program. For example, we increased the pace of repurchases in Q3 to $29.0 million and bought back 1.8 million shares or 3.3% of fully diluted shares outstanding.

OPERATING EXPENSES

Moving down the P&L.

Q3 GAAP operating expenses were $47.6 million or 3% sequential increase from Q2 as we made targeted investments in technology and sales team members.

NET INCOME & ADJUSTED EBITDA

Q3 GAAP net loss was $(0.9) million or loss of $(0.02) cents per diluted share.

Adjusted EBITDA was $18.5 million, or 26% margin.

CASH & CAPITAL ALLOCATION

Moving to cash and our capital allocation.

We have a healthy balance sheet and generated positive cash flow which supports our long-term capital allocation strategy. We believe a strong capital structure and effective capital allocation plan will help us deliver long-term shareholder value. We ended the quarter with $140.4 million in cash and marketable securities and zero debt.

Since the inception of our repurchase program in February 2023 through the end of Q3, we have bought back 7.6 million Class A common shares for $124.1 million. As of the end of the third quarter, we had $50.9 million remaining in our repurchase program authorized through December 31, 2025.

In Q3, we generated $19.1 million in net cash provided by operating activities.

Free cash flow in the quarter was $2.9 million and was impacted by the two items I called out last quarter.

One, the timing of our capex investments which peaked in Q3. And two, the increase in DSOs resulting from a change in our receivables mix associated with the auction changes made by one of our large DSPs. We view this DSO change as a short-term phenomenon that will work its way through our working capital by mid next year.

FINANCIAL OUTLOOK

Now turning to our outlook.

We are pleased with the growth we're seeing, particularly from secular growth drivers, and we remain cautiously optimistic as we head into the peak holiday season. In October, omnichannel video revenues grew in the double-digit percentages and political advertising continued its strong momentum. As we had expected, spending from the large DSP we called out earlier this year was steady, though as a reminder, at a reduced level year-over-year.

In terms of Q4 holiday spending, trends were muted leading up to the election. Taking all of these factors into account, we expect revenue in the fourth quarter to be in the range of $86 to $90 million.

On an apples for apples basis, excluding political advertising and the DSP buyer, the implied year-over-year revenue growth in the fourth quarter is over 15%. As a reminder, we will lap the DSP impact at mid-year 2025.

For the full year, we have raised our revenue guidance to be between $292 and $296 million, or 10% year-over-year growth at the midpoint, including the negative impact from the DSP buyer.

In terms of costs, we expect Q4 GAAP costs to increase sequentially in the low single-digit percentages.

With our revenue guidance and targeted investments associated with our operating plan we expect Q4 adjusted EBITDA to be between $34 and $37 million or approximately 40% margin at the midpoint.

For the full year, we expect adjusted EBITDA to be between $89 and $92 million, or approximately 31% margin at the midpoint.

IN CLOSING

In summary, we are pleased with our Q3 results and the growth we're seeing across the business especially in CTV. Our investments in the secular growth areas of video and mobile are showing excellent results and we are building the pipeline for further incremental growth in the future with our emerging revenue products.

Heading into 2025, the combination of our strong financial health, momentum in the fastest growing areas of programmatic advertising, and our differentiated, scaled technology platform, give me confidence that we are well positioned to deliver significant value to our customers and shareholders.

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