

PUBMATIC Q2 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 August 8th, 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 continued to deliver strong growth in key secular areas. Revenue from omnichannel video which includes CTV, mobile and desktop devices, grew 19% over Q2 last year. Mobile app grew even faster. Driving this was significant growth in monetized impressions. We expanded existing customers and partners such as Haleon, Omnicom Media Group, and Mars, and we signed new marquee customers like Roku and Disney+ Hotstar.

Looking beyond these rapid growth areas, our revenue in the quarter was impacted by some macro softness and a large DSP buyer on our platform that changed their bidding approach, as mentioned on our call in May. We now expect activity

from this buyer to stabilize in the coming months. Importantly, the growth we've delivered outside of this one buyer highlights the momentum we're seeing in the rest of the business.

The programmatic market is rapidly maturing as content creators and media buyers build out their ad tech stacks, and I'm confident that the solutions we offer today, and the investments we are making in supply path optimization, CTV, commerce media, audience targeting and performance marketing will drive long-term, profitable revenue growth.

GROWING PROGRAMMATIC ADVERTISING OPPORTUNITY

It's no coincidence that content creators and buyers are investing in these same areas to scale and grow their businesses. As inventory expands and ad budgets shift to digital, there's a fundamental shift toward programmatic. To better illustrate this, we need only look at some of the key outcomes of the recently concluded Upfronts. With the growing onslaught of streaming inventory now available, the market is maturing, bringing CTV prices down and attracting a greater share of advertisers' media budgets as they see higher ROI from this channel. We are benefiting from this lift. In the second quarter, CTV growth accelerated significantly in both monetized impressions and revenue growth. Adding to the opportunity, many of the biggest names in streaming like Netflix, Disney, NBC, and Roku are opening up programmatic access to their premium inventory, and many of them are leveraging PubMatic technology to do so.

Programmatic is also reshaping ad buying across the open internet. We have seen an accelerated pace of conversations with walled gardens and social companies as they seek access to unique ad budgets and premium inventory available via PubMatic's platform.

For example, PubMatic has expanded its work with Amazon Ads to include enhanced API integrations that provide streamlined access to PubMatic's SSP inventory and participation in the Certified Supply Exchange Program, which enables advertisers using the Amazon DSP to create unique deals to reach Amazon audiences on PubMatic inventory.

VALUE OF SELL-SIDE TECHNOLOGY

None of these major industry shifts would be possible without the use of sell-side technology. PubMatic enables content creators to have full control and transparency to bring their inventory to market. Our solutions facilitate data-driven targeting across their supply, create liquidity for their inventory, and ultimately drive yield in conjunction with their insertion order-based direct sales. We also offer scaled access to ad budgets. In many cases, we are signing new publishers because of our strong media buyer relationships built over many years via supply path optimization.

SUPPLY PATH OPTIMIZATION & ACTIVATE GROWTH

While early investments with agency holding companies continue to deliver growth in SPO, we are also seeing tremendous success with independent agencies and direct brands.

Haleon, the consumer health company with a portfolio of household name brands including Advil, Tums, and Centrum, is on a journey to optimize the quality of their media while reducing the carbon footprint of their media buying operations. To solve these challenges, they needed to get closer to the publisher and directly control their media supply chain. They selected PubMatic to create a global marketplace that meets Haleon's inventory quality targets, resulting in a significant increase in the number of impressions won while improving the environmental sustainability and effectiveness of their campaigns.

Underpinning the growth in SPO activity is Activate. Omnicom Media Group in the Netherlands recently expanded their SPO relationship to include Activate. With Activate, PubMatic offers OMG curated marketplaces for scaled access to multi-publisher deals as well as direct access to premium inventory.

The greatest testament to the strength of Activate is the impressive results clients are seeing. When Mars Petcare was seeking to build awareness and consideration for Greenies pet treats, they and their agency GroupM tapped Activate to

create an optimized path to premium CTV supply. Key to enabling this is Activate's ability to make the entire digital advertising supply chain more efficient by reducing the overhead caused by using multiple technology platforms for each ad impression.

Jonathan Tuttle, associate director of media for Mars Pet Nutrition North America, explained that leveraging Activate to go direct to media supply was a game changer for the brand, allowing them to invest more of their budget in working media. In his own words, "One of the primary goals of our media at Mars is to drive business efficiencies through new and innovative approaches to the way we buy and deliver our media. We were able to accomplish this in spades by leveraging PubMatic Activate." Ultimately, Mars exceeded their sales lift goal by 20% and exceeded incremental sales goals by 126%.

CONNECTED TV & STREAMING MEDIA GROWTH

The greenfield opportunities we see for Activate are amplified by the growing trends in programmatic advertising across streaming media. These trends mirror what we are seeing across our business with our rapidly growing CTV publisher footprint, many of which are scheduled to go live in the second half of 2024.

We recently onboarded Disney+ Hotstar, India's streaming platform offering a wide range of content across Indian and international titles, as a preferred SSP. This summer has seen a boon of live sports content coming to streaming devices, with the Olympic Games in Paris, the T20 global cricket tournament, Copa America and the Euros all occurring within a few weeks span. On top of that, the active political cycle is bringing more eyeballs to streaming media. With premier publisher relationships and media buyers already on our platform, we are participating in these CTV consumption tailwinds.

Additionally, I'm excited to share that we recently integrated into Roku's newly announced Roku Exchange providing advertisers with access to their highly engaged audiences across premium live and on-demand programming. PubMatic brings the strength of our SPO relationships as well as unique budgets from Activate to maximize demand for Roku's streaming ad inventory.

As I mentioned last quarter, we believe we are in the early stages of a new CTV and online video flywheel for growth.

MOBILE APP GROWTH

Adding to this momentum is an increase in mobile app, which is the vast majority of mobile ad spend. Our mobile app revenue grew over 20% for the third straight quarter, nearly double 2024's expected year-over-year market growth rate of 13%.

PubMatic has a decade of experience providing mobile solutions, empowering app developers and providing buyers with a more efficient and controlled path to deliver ad experiences on mobile devices. Together, these have resulted in mobile app market share gains. Major apps like Dwango, Newsbreak and Talkatone are seeing success through their integrations with our tech.

We see mobile app as a key differentiator for PubMatic amongst our peer set; we are one of the only omnichannel SSPs to have a scaled SDK footprint integrated directly into publishers' apps. This provides us with increased performance along with greater control of the ad experience for the end user as we render the ad in the mobile device.

Programmatic mobile app advertising is nearing an inflection point of growth. All of the major mediation layers, including AppLovin, Google AdMob, and Unity, are moving away from waterfall auctions to embrace unified auction technology. This is exactly what our OpenWrap software is built to enable. OpenWrap SDK showed strong growth, doubling in revenue from a year ago.

All of this opens up ad opportunities for more buyers, including performance-oriented brand buyers looking to drive outcomes and ROI within mobile app environments. Our existing SPO relationships provide us with direct access to advertiser and agency budgets to fill this inventory and take advantage of this growing opportunity.

This is one of the reasons Roblox chose to partner with PubMatic. Together, we are implementing programmatic media buying with select buyers and expect to expand access to more buyers later this year.

COMMERCE MEDIA GROWTH

Targeted investments in commerce media are adding significant long-term opportunity and contributing to growth. Our technology enables commerce companies to build their ad businesses by unlocking the value of their shopper data and ad inventory both onsite and offsite.

The commerce media market is growing faster than any other form of digital advertising. Our conversations with retailers and transactional commerce companies have accelerated over the past few months as we continue to scale our commercial and engineering teams dedicated to this line of business. We have an active pipeline of over 100 commerce media companies in every region and one consistent theme has emerged – commerce media networks are increasingly in the market for leading SSP technology like PubMatic's.

Leading retail media companies Instacart and Klarna, which we announced in early Q2, are expected to launch later this year.

Ridesharing apps also represent a huge opportunity; for example, Uber's advertising business is on pace to exceed a billion dollars this year. We see this as a growing customer segment for PubMatic, and in Q2 we signed Rapido, an Indian ride-hailing service for 10 million people across 120 cities. Rapido selected PubMatic initially for our monetization and unified auction technology with the opportunity to expand to onsite and offsite audience monetization as they evolve their commerce media offering.

I couldn't be more excited about the breadth of opportunities ahead of us in commerce media. We see this line of business as a natural extension of our omnichannel platform.

CONCLUSION

As a sell-side technology leader, we continue to invest and innovate, unlocking new avenues for growth. As digital advertising becomes increasingly programmatic, both media buyers and content owners are choosing to build their advertising businesses on our platform, with several large, exciting partnerships set to launch over the coming months. Our product portfolio supports the key secular growth drivers across the industry – supply path optimization, CTV, mobile app, commerce media and addressability.

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

CFO REMARKS

Thank you, Rajeev, and welcome everyone.

Revenue grew 6% over Q2 last year, which was lower than expected largely due to the changes made by one large DSP buyer in late May. This impact was approximately \$2 million dollars, primarily in desktop display. Late quarter weakness in several ad verticals represented an additional \$1 million shortfall.

Based on the timing of the DSP changes, our software optimizations will continue through Q3. In the coming months, we expect activity from this buyer to stabilize. Note, this was the last major DSP to make this shift to exclusively first price auctions and nearly all impressions on our platform are now transacted via this bidding approach.

The majority of our business delivered strong results which helped partially offset this impact. Excluding this DSP buyer, our business in aggregate grew nearly 10% year-over-year. Our omnichannel video, mobile, and emerging revenue products all grew well above our expectations. This outcome highlights the value of our diverse, omnichannel platform and productive multi-year investments in key secular growth areas.

Looking at the quarterly highlights:

- Ad buyers are consolidating spend on our platform. SPO activity, which drives greater visibility and incremental margin, was over 50%;
- Monetized impressions across all formats and channels grew 12% over last year and overall CPMs were stable year-over-year. Q2 was the fourth quarter in a row where our total monetized impressions grew in double-digit percentages year-over-year;
- Emerging revenue streams, comprised of new products like Activate and growing data partnerships and enterprise software integrations, almost doubled year-over-year and contributed 2 percentage points of growth;
- We added 25% incremental gross impression capacity on our platform year-over-year while at the same time, lowered the trailing twelve month cost of revenue per million impressions by 14% driven by ongoing software optimization. Our cost management and productivity improvements allowed us to keep our GAAP cost of revenue flat year-over-year;
- Gross Profit was \$42.1 million, an increase of 10% year-over-year; and
- Adjusted EBITDA was \$21 million, or 31% margin.

Overall, the positive results we're seeing in the growth areas of our business, and the advertising ecosystem's accelerating shift towards programmatic platforms, position us well for long term, profitable growth.

REVENUE

Breaking Q2 down by format and channel:

We saw continued secular growth above market rates for omnichannel video revenue, which includes CTV, mobile and desktop devices, which grew 19% over Q2 last year, driven by an increase in monetized impressions of over 50%. CTV monetized impressions nearly doubled over last year.

Our mobile app business, across video and display, continued to perform strongly and grew over 20% year-over-year for the third quarter in a row. Total mobile, inclusive of web, app, video and display increased 12% year-over-year. We expect continued growth in mobile as we ramp up our partnerships with Roblox and others.

Display faced the largest year-over-year headwind from the combined DSP change and the Yahoo business challenges that emerged in Q3 last year. Despite these challenges, display increased 2% year-over-year. Excluding the DSP change and Yahoo impacts, display revenues exceeded expectations and increased 21% year-over-year. For reference, the year-over-year decline in Yahoo revenues in Q2 was approximately \$2 million. Beginning this Q3 we will have lapped the step down in the Yahoo business.

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

We also expanded our existing publisher revenues on a trailing twelve-month basis with net dollar-based retention at 108%. Excluding Yahoo, net dollar-based retention was 117%.

Looking at growth in ad spend, six of our top 10 ad verticals, in aggregate, grew above 20% year-over-year: Shopping, Business, Food & Drink, Personal Finance, Health & Fitness and Style & Fashion. At the same time, we saw a notable slowdown in other verticals: Technology & Computing, Automotive, Travel, and Arts & Entertainment. Overall the top ten ad verticals combined increased by 18% over Q2 last year.

Our long-term relationships with buyers continued to expand as activity from SPO climbed to over 50% of total activity on our platform. Underscoring the long-term strategic value and stickiness of these relationships, the trailing 12-month net spend retention rate from SPO partners with at least three years of spending on our platform was 120%.

2024 OPERATING PRIORITIES

In February, I outlined our key operating priorities to lay the foundation for delivering multi-year accelerated revenue growth and incremental margin expansion. I'm happy to share that we have made significant progress on these priorities.

First, we continue to invest in supply path optimization – adding buyer-focused sales team members to address the large greenfield opportunity within SPO from independent agencies and direct brands. We're also focused on creating additional value for publishers and buyers by expanding the breadth of our emerging products such as OpenWrap, an important solution as we differentiate in mobile.

We have also responded proactively to Google's change in plans to keep third-party cookies, and are selectively reallocating resources from Google's Privacy Sandbox to other growth areas of the business. For example, we are reallocating resources to Connect and our data targeting efforts to take advantage of the rise in performance media and commerce media. We are confident that the use of alternative targeting solutions will continue to increase as buyers seek higher ROI and publishers seek incremental ways to increase monetization leveraging their valuable data assets.

Second, we remain focused on optimizing our infrastructure and making prudent investments in capex to keep pace with the success we have had in increasing monetized impressions, while improving our margins, and unlocking dollars to fund new products. Two thirds of the incremental capacity we added in Q2 was the direct result of software optimization as opposed to capex.

Our team is driving tangible cost savings, while optimizing via software and AI to deliver incremental efficiencies across our owned and operated infrastructure. For example, our engineers are continuously deploying software revisions that improve the throughput of our ad servers. Because we own and operate our own infrastructure, we are able to customize our infrastructure to process high volumes of ad impressions while minimizing our hardware and operating costs. These savings allow us to make investments to drive revenue growth while delivering strong margins.

OPERATING EXPENSES

Moving down the P&L.

GAAP operating expenses in Q2 were \$46.1 million, lower than Q1 and a 2% increase over the prior year. Note, last year's Q2 included \$5.7 million in expense related to the bankruptcy of one of our DSP partners. Our opex reflects both prudent cost management and targeted investments in technology and sales. Across these two areas combined we have increased full time employees by 17% year-over-year.

NET INCOME & ADJUSTED EBITDA

Q2 GAAP net income was \$2.0 million or 4 cents per diluted share.

Adjusted EBITDA was \$21 million, or 31%, and included other income related to our work to build and test integrations with the Google Privacy Sandbox. This income was received, in part, to offset Privacy Sandbox development costs we already incurred during the first six months of 2024.

BALANCE SHEET & CASH

We have a strong balance sheet that supports our long-term capital allocation strategy. We ended the quarter with \$166 million in cash and marketable securities and zero debt.

Year to date through July 31, 2024, we re—purchased 2 million shares of Class A common stock for \$41 million in cash. Since the inception of our repurchase program in February 2023, we have bought back a total of 6 million shares for \$100 million. We have \$75 million remaining in our repurchase program authorized through December 31, 2025.

We generated \$12 million in net cash provided by operating activities and delivered approximately \$7 million in free cash flow. Note, over the next couple of quarters we expect an increase in DSOs as our accounts receivable mix changes as the result of the bidding changes made by one of our large DSPs. We view this 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 adjusting our full year outlook based on our latest assessment of the DSP bidding change and recent macro trends.

First, the timing of the DSP bidding change in late May prevented us from offsetting the impact in the quarter. This impact was approximately \$2 million. Because we operate in a real time environment, our planned software changes could not be tested at scale until the DSP made its change. Given the complexity of these changes, optimization efforts have continued into the third quarter. Related to this change, we are reducing our full year revenue outlook by \$5 million comprised of the \$2 million impact in Q2 plus an estimated \$3 million impact in the second half of the year. We expect activity from this buyer to stabilize in the coming months.

Second, we are also factoring into our full year revenue guidance an estimated \$5 million impact related to macro softness based on the trends we saw in several ad verticals in Q2. \$1 million of this impact occurred in Q2 and we are estimating an additional \$4 million impact over the second half.

Despite these two factors, we are encouraged by the rapid growth we're seeing in key, secular areas of the business, notably omnichannel video and mobile app. Emerging revenue is also building momentum, growing sequentially quarter over quarter. We also see upside in Q4 from several major customers newly integrated or soon to be integrated onto our platform. In addition, political spend and recent upfront deals with a growing mix of programmatic ad spend will command greater proportions of ad budgets in the second half of the year.

For Q3 revenue, we expect \$65 to \$67 million, or approximately 4% year-over-year growth at the midpoint. For the full year, we expect revenue to be between \$288 and \$292 million, or 9% year-over-year growth at the midpoint.

In terms of costs, we expect GAAP cost of revenue to increase sequentially each quarter in the low single-digit percentages.

We also expect GAAP operating expenses to increase sequentially in the low single-digit percentages – for both Q3 and Q4 - as we continue to invest for long-term growth.

With our revenue guidance and expected cost structure, which is largely fixed in the near term by design, we expect Q3 adjusted EBITDA to be between \$15 and \$17 million or approximately 24% margin at the midpoint.

For the full year, we expect adjusted EBITDA to be between \$87 and \$91 million, or approximately 31% margin at the midpoint.

Our full year capex projections remain in line with our prior expectations of \$16 to \$18 million, with a bias to the higher end of the range as we take advantage of continued strong growth in omnichannel video and mobile app impressions. Most of our capex will be made in Q3.

In terms of Q3 and Q4 free cash flow, the timing of this capex and earlier referenced change in DSOs, our free cash flow will be somewhat lower in the short term but revert back to historical trends next year.

IN CLOSING

In closing, Q2 demonstrated our ability to deliver strong growth in key secular areas of the business while achieving robust profitability. Looking ahead, our strong financial profile and proven, durable business model positions us well to manage through the current environment and take advantage of the significant opportunities ahead in programmatic advertising.

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