Q3 2024 Earnings Call Script

Tejal

Good afternoon and welcome to DoubleVerify's third-quarter 2024 earnings conference call. With us today are Mark Zagorski, CEO, and Nicola Allais, CFO. Today's press release and this call may contain forward-looking statements that are subject to inherent risks, uncertainties, and changes, and reflect our current expectations and information currently available to us, and our actual results could differ materially. For more information, please refer to the risk factors in our recent SEC filings, including our Form 10-Q and our annual report or Form 10-K.

In addition, our discussion today will include references to certain supplemental non-GAAP financial measures and should be considered in addition to, and not as a substitute for, our GAAP results. Reconciliations to the most comparable GAAP measures are available in today's earnings press release, which is available on our investor relations website at ir.doubleverify.com. Also, during the call today, we'll be referring to the slide deck posted on our website. With that, I'll turn it over to Mark.

Mark:

Thanks, Tejal, and thank you all for joining us today. In the third quarter, we drove robust expansion, scaling our solutions across a wide range of social, CTV, and retail media platforms, alongside recording our largest-ever global market share wins in a single quarter. Our solid execution this quarter sets the foundation for DV's long-term growth while momentum in our core business continues to build.

In the third quarter, we grew revenue by **18%**, up from **17%** in Q2, with double-digit growth across all three revenue lines —activation, measurement, and supply-side. We achieved a standout **83%** gross margin and a **35%** adjusted EBITDA margin, with the latter marking our highest profitability for any Q3 on record. And we grew our net cash from operating activities by over **50%** to **$55** million in the third quarter, underscoring the strength and efficiency of our operations. We continue to show robust growth and are exceptionally profitable, all while setting the stage for a stronger market share position in the years ahead.

We've driven strong revenue growth despite facing several headwinds this year. To recap, **six** large customers scaled back on ad spend that had our most premium products attached to it. In addition, we saw ad dollars incrementally shift from open exchange programmatic to walled gardens, where our activation solutions aren't yet available. And, although we have positive momentum around launching a number of social activation tools in 2025 —notably across Meta's newsfeed— the timing of when pre-bid social solutions will launch to connect with our measurement solutions has created a near-term impact on overall social growth expectations. Additionally, the industry has seen brand spending soften ahead of the election as political dollars crowd out ad spend and there is uncertainty around how quickly traditional ad spending rebounds after the elections.

We have tackled these challenges head-on. We've zeroed in on signing and scaling major new advertiser wins like Pepsi, Haleon, Uber, and General Motors, We upsold Scibids AI to nearly **50** DV customers, and expanded this powerful differentiator into entirely new channels like social. We drove the adoption of our core solutions across fast-growing environments such as retail media and CTV and fueled diversified growth across all three revenue lines. Simply put, we adapted and are continuing to do so. We're staying laser-focused on market dynamics to proactively position DV for future growth opportunities, building for where the market is headed, not just where it is today.

When Oracle announced the shutdown of Moat and Grapeshot by September 30th this year, we seized the opportunity. Our team mobilized, and we locked in key wins with industry giants like **P&G** and category leaders such as **BlackRock, Charter Communications, Inspire Brands, Kellogg,** and **Dish Network**, ultimately winning **70%** of the RFPs we pursued from former Moat advertisers over the second, third, and fourth quarter to date.

In addition to advertisers, we also won critical platform and publisher deals, positioning DV's tech to become essential across the entire ad ecosystem and generating significant new and recurring revenue from our supply-side business. We secured strategic partnerships with platforms including **Criteo**, **The Trade Desk**, **Magnite,** and **Pubmatic** alongside top-tier publishers, including **Activision Blizzard**, **Telegraph**, **Euronews**, **The Economist**, and **The NY Times**.

These partnerships, along with numerous other key wins this quarter —such as significant wins from non-Oracle competitors, including **Microsoft** and a leading consumer health brand— serve as explicit endorsements of our leadership and innovation, positioning DV as the industry's gold standard and the essential currency across its most influential players. Our overall Q3 win rate remained above **80%**, with **38%** of wins being competitive steals and **62%** being greenfield wins.

For each of these leading brands, platforms, and publishers, selecting DV wasn't just about filling a gap; it was about setting a new standard. DV wins because we don't just sell products—we are trusted to solve real challenges. Our powerful combination of measurement, activation, and optimization, powered by Scibids AI, is breaking new ground in media effectiveness and aligns perfectly with where performance-driven advertisers are headed. Our innovation leadership, strength in social activation —from YouTube pre-bid to the upcoming Meta solutions— and our programmatic expertise are all reasons why the ecosystem chooses DV. And, as the trusted partner delivering results at scale and fueling future success, our recent slate of wins will only strengthen DV's leadership across the board.

In the third quarter, we accelerated growth in ABS and Activation through new customer ramp-ups and strategic upsells to our existing customers. In addition, we expanded our measurement and activation solutions across social, CTV, and retail media platforms, strategically closing gaps where platforms were ready for our technology. Let's dive into the progress we've made across all key media environments—Social, CTV, Retail Media Networks, and the Open Web.

Beginning with Social, we grew our social measurement revenue by **21%** year-over-year in Q3. Since launching our brand safety and suitability measurement solution on Meta earlier this year, we've achieved significant traction, onboarding approximately **60** new advertisers, including **9** Top 100 advertisers, who had not previously activated DV on Meta—a promising start. However, we have much more room to grow. While suitability scores offer a valuable benchmark across platforms, the true power of measurement data lies in its ability to drive smarter, more strategic decisions before a campaign even launches. As I noted previously, advertisers are looking for pre-bid activation solutions on social platforms to unlock the full potential of their measurement data and drive maximum performance—and that's precisely where we're headed.

I am excited to announce the early 2025 launch of our content-level, pre-bid avoidance on Meta Feeds and Reels. This will better empower advertisers to prevent ads from appearing alongside unsuitable content in real-time. In addition, it integrates DV's pre-bid controls with our post-bid measurement tools, delivering a seamless, closed-loop solution that optimizes media performance. With pre-bid avoidance, advertisers gain unparalleled control over where their ads appear, safeguarding brand integrity and driving better media outcomes across dynamic social media platforms such as Facebook and Instagram.

We've also introduced a new Video Exclusion List solution on TikTok, allowing advertisers to tailor exclusions based on vertical sensitivity and specific brand needs. We expect this activation solution to be available to all advertisers by the first half of 2025.

On social measurement, we've expanded our post-bid brand suitability measurement on Meta and TikTok by adding reporting on Inflammatory Politics & News. Powered by our DV Universal Content Intelligence™, this enhancement addresses unreliable or unsubstantiated information, deepfakes, and inflammatory political rhetoric. Additionally, we've expanded brand safety and suitability measurement on Meta to include five new languages, increasing our coverage to over 100 countries. We also have continued to expand our measurement coverage on TikTok, now supporting Profile, Following, and Search Feeds, as well as TikTok Lite, alongside existing coverage on the For You Page and expanded language coverage to Arabic and Tagalog-speaking markets.

Building on the momentum from our successful launch of brand safety and suitability solutions on Reddit and Pinterest last quarter, we've announced expanding our brand safety and suitability measurement to Snap, further strengthening our presence across all major social platforms. Our independent social measurement solutions ensure that campaigns are brand-safe, viewable, and fraud-free, with comprehensive safety and suitability coverage now available across the entire social media landscape.

We're thrilled to announce the expansion of our viewability and fraud measurement solutions to LinkedIn's owned and operated video inventory, now available across all markets. The expansion of DoubleVerify solutions on LinkedIn provides advertisers with enhanced capabilities and unique insights. This expanded collaboration validates our leadership in media quality and reinforces our commitment to ensuring advertisers can trust the integrity of their campaigns

Gaming, audio and retail media were also expansion wins for DV as we announced a partnership with Roblox to build 3D in-experience viewability and invalid traffic measurement in an integration that will cover immersive ads across both image and video formats and we extended our viewability and fraud measurement solutions to Spotify's video campaigns through Spotify Ads Manager and Instacart's display and shoppable display ads.

Speaking of Retail Media Networks, our supply-side Retail Media solution grew nearly **40%** year-over-year, contributing to our overall supply-side growth rate of **30%** year-over-year. Led by our partnerships with leading retail media platforms, our global reach and connectivity in retail media continues to expand. DV's measurement tags are now accepted on **112** key global retail media networks and sites, including **15** of the top retail media platforms and **97** major retailers.

Shifting to CTV, we grew our Q3 CTV measurement volumes by nearly **60%** year-over-year, driven by YouTube CTV, Amazon, and Roku. DV's growth potential in CTV is massive because fraud and transparency remain critical challenges for advertisers. Fraud, in particular, is a growing challenge—the number of CTV fraud schemes and variants surged by **58%** last year, and have nearly quadrupled since 2020. We are protecting CTV ad spend and ensuring verified CTV platforms are not ensnared in fraud schemes that attack direct deals.

On the transparency front, many CTV impressions—especially from OTT suppliers—lack app-level data. Compared to the clear visibility in Linear TV and other digital platforms, the contrast is striking. And just like with fraud, direct CTV buys aren't immune to suitability risks. Many publishers use extension networks, pushing campaigns beyond their own inventory and into open marketplaces with minimal protections. While this may help scale or reduce costs, it often results in ads being placed on unsafe or inappropriate content.

We're expanding our fraud and viewability measurement across CTV buys, including Netflix's programmatic channels, providing transparency across all their buying platforms globally. In addition, we are pioneering content-level transparency on a major CTV platform, where our direct CTV impressions grew **90%** year-over-year in Q3—driven by the robust demand for our upcoming, differentiated solution.

Finally, looking at the open web, we're seeing growth across all our activation solutions, including ABS. We believe that the future of open web programmatic will be shaped by customers seeking to optimize both protection and performance, like one of our leading CPG brands, which recently leveraged DV's fraud and viewability solutions in combination with Scibids to double its unique reach and improve its qCPM—its proxy for ROAS—by **52%**. As of today, **15** of DV's top 100 customers are already leveraging Scibids, and since the acquisition, we've successfully upsold Scibids to nearly **50** DV customers. With this strong momentum, we're on pace to deliver $**100** million in revenue from Scibids by 2028.

Turning to open web measurement, DV Authentic Attention increased measurement impression volumes by approximately **300%** year over year in the third quarter, with more than **300** advertisers using DV Authentic Attention this year.

Across all media environments, including the open web, advertisers are focused on reaching the right audiences to drive performance—and news platforms consistently attract those valuable, engaged audiences. We're committed to building solutions that offer both full brand protection and a strong ROI, enabling advertisers to leverage the unique strengths of news environments confidently and effectively. In October, we launched the DoubleVerify News Accelerator, the industry's only broad-scale effort to address the growing need for advertisers to connect with engaged news audiences while avoiding brand suitability risks tied to unpredictable content. As part of the initiative, we have launched new contextual news products, built the sector's most advanced suitability and sentiment controls, and created enhanced analytics tools to enable advertisers to optimize settings to ensure they can invest in brand-suitable news. DV's News Accelerator is a true commitment to supporting a vibrant open web that empowers brands to reach relevant audiences effectively in an ever-evolving news landscape.

Before I close, let's take a moment to look ahead at DV's future. Over the last few years, we've been evolving DV from a company known for protection to one that drives both protection and performance—a shift reflected in our focus on delivering new performance solutions like DV Authentic Attention and Scibids AI. These innovations highlight our commitment to build solutions that go beyond verification alone, empowering advertisers with tools and data that deliver quality results. We believe we're uniquely positioned to help advertisers both protect and perform, and we aim to unlock even greater value for our customers as we expand our performance solutions in the coming quarters.

This year, the industry's shift toward outcome-driven platforms, especially social media, has accelerated the demand for performance-based solutions. Make no mistake: real performance starts with protection. Without it, ad spend is wasted on fraudulent, non-viewable impressions or placements that don't align with brand objectives. DV is uniquely positioned to integrate protection and media quality requirements with performance and media efficacy objectives, creating powerful solutions that today's advertisers demand. While this transition may have a near-term impact on core growth as we unify protection with performance on social media, our innovative solutions, including DV Authentic Attention and Scibids AI, continue to gain momentum to support long term growth. We're at the forefront of delivering both media quality and measurable impact, setting the stage for DV's continued growth and leadership in an outcomes-focused future.

DV's focus remains on solving the most pressing brand protection and performance challenges in the digital ad ecosystem. Whether it's leading in social activation with innovations like Meta's pre-bid avoidance and TikTok's Video Exclusion List or attacking fraud and transparency issues in CTV, DV is setting the standard for the future of digital advertising. Our core value proposition resonates with the largest advertisers on the planet and they have entrusted us with ensuring their ad spend delivers quality results. Our proven ability to take on the industry's biggest issues with the industry's biggest marketers makes DV a compelling long-term growth business that is well-positioned to drive sustained shareholder value for years to come.

With that, let me turn the call over to Nicola.

Nicola

Thank you, Mark, and good afternoon, everyone. Our third-quarter results reflect sustained momentum, marked by strong revenue growth, solid profitability, and robust cash flow from operations. We delivered double-digit growth across all three revenue lines - **activation, measurement,** and **supply side** - underscoring the strength of DV's value proposition to advertisers, platforms, and publishers.

In the third quarter, we delivered total revenue of approximately **$170** million, reflecting an **18%** year-over-year increase, up from **17%** revenue growth in Q2. Year-to-date revenue through the third quarter grew **16%.** Our slow-starting group of retail and CPG advertisers performed in line with our expectations in the third quarter, and our outlook for this cohort remains stable and unchanged.

Advertiser revenue grew **17%** in the third quarter, driven by increased volumes. Media Transactions Measured, or MTMs, rose **22%** year over year, while Measured Transaction Fees, or MTFs, declined **4%** year over year driven by product and geographic mix.. Looking ahead, we expect MTFs to reflect the continued impact of a greater shift towards measurement and international impressions as we expand globally, as well as the near term impact of major new global brand wins, in particular Oracle accounts, which were initially closed at competitive rates.

Activation revenue grew **18%** compared to the prior year. All four activation solution groupings - ABS, Core Programmatic, Social Activation, and Scibids - contributed to third-quarter growth. ABS, which accounted for **53%** of activation revenue, grew **14%** year-over-year, driven by new logo activations, upsells to existing customers, and expanded usage among current users. Moreover, **68%** of our Top 500 customers have now activated ABS in Q3, up from **65%** in Q2, demonstrating the continued adoption of this premium product. Core programmatic solutions, Scibids AI, and social activation solutions also delivered solid year-over-year gains.

Turning to Measurement, revenue grew **14%**, primarily driven by a **21%** increase in social measurement revenue, which accounted for **48%** of total measurement revenue in the third quarter. International measurement revenue rose **16%**, driven by new and existing customers expanding across Social, CTV, and the open web. Overall, international revenue accounted for **29%** of total measurement revenue in the third quarter.

Finally, Supply-side revenue grew **30%** in the third quarter, driven by growth on existing platforms - particularly retail media platforms such as Amazon - and new platform partnerships, with limited revenue contribution in the quarter from the recently won Oracle platform and publisher partnerships.

Moving to expenses, cost of revenue grew **11%,** primarily due to growth in Activation revenue, which increased partner costs from revenue-sharing arrangements. These were partially offset by cost savings from continued improved efficiencies in video classification. In Q3, we achieved an **83%** margin on revenue less cost of sales - in Q4, we expect to sustain this margin toward the higher end of our projected **80%** to **82%** range.

Research and development expenses increased driven by ongoing investments in AI and machine learning engineering talent - a direct investment in DV's future growth and innovation. Sales and Marketing expenses increased driven by continued investments in technical programmatic analysts to support new product launches, such as Scibids. General and administrative expenses were in line sequentially and compared to the prior year as we effectively leveraged our growing scale.

Adjusted EBITDA of $**60** million in the third quarter represented a **35%** margin and was ahead of expectations due to higher efficiencies in cost of revenue and lower operating expenses. We delivered net cash from operations of approximately $**55** million in the quarter, up from $**36** million in Q3 2023, primarily due to solid cash collections. Capital expenditures were approximately **$6** million in the quarter as compared to approximately **$5** million in Q3 2023.

In the third quarter, we repurchased **1.3** million shares of DV common stock for **$25** million. This follows a repurchase of **1.4** million shares for $**25** million in the second quarter. After the third quarter ended, we repurchased an additional **1.5** million shares for $**25** million, bringing total repurchases to **4.1** million shares for **75.0** million through November 6. As of November 6, $**75** million is available and authorized under the initial Repurchase Program.

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Today, we are announcing a new $**200** million authorization for further share repurchases, providing a total of $**275** million currently authorized and available for share repurchases. Our share repurchase program demonstrates our confidence in DV's long-term growth prospects. Our strategic approach to further share repurchases considers economic cost, general business and market conditions, and other capital priorities, including investing in our core business for sustained long-term growth, and pursuing acquisitions that accelerate our product roadmap and market expansion.

In the first nine months of 2024, we delivered net cash from operations of approximately $**122** million compared to approximately **$68** million in the same period in the prior year. Capital expenditures were approximately $**20** million compared to approximately $**12** million in the first nine months of 2023.

We ended the third quarter with approximately $**363** million in cash and short-term investments. Finally, in August, we secured a new $**200** million senior secured revolving credit facility with a five-year term, replacing the previous facility.

Now, turning to guidance, we are updating our Q4 outlook to reflect a few key market dynamics this quarter. First, brand spending has softened in the lead-up to the elections as political dollars have crowded out traditional ad spend. For the remainder of this quarter, there is uncertainty around how quickly brand spending rebounds after the elections. Additionally, while the adoption of our measurement solutions on Meta's platforms is progressing, it is ramping at a more gradual pace than we anticipated, with some advertisers now awaiting the rollout of our pre-bid capabilities to adopt both measurement and activation.

As a result, we expect fourth-quarter revenue to range between **$194** and $**200** million, representing a **14%** revenue growth at the midpoint. We expect fourth-quarter adjusted EBITDA to range between **$73** and $**79** million, reflecting a **39%** margin at the midpoint and demonstrating the strong operating leverage in our business despite some revenue friction in the quarter. For the fourth quarter, we expect stock-based compensation to range between **$22** and $**25** million and weighted-average diluted shares outstanding to range between **169** and **173** million shares.

For full-year 2024, we expect revenue to range between $**660** and **$666** million, which represents a **16%** year-over-year growth at the midpoint. We expect Adjusted EBITDA to range between $**218** and **$224** million, which represents a **33%** margin at the midpoint, up from the previous **31%**.

While we are not providing guidance for 2025 today, we are navigating several dynamics that will shape our outlook for the year ahead. The anticipated launch of our pre-bid social solutions in the first half of next year is a key development that we expect will drive increased adoption of social measurement and activation on Meta. Until the adoption of this new solution ramps, we expect moderate social measurement revenue growth, especially given the strong **47%** growth rate we achieved in the first half of 2024. Additionally, with this year's performance from the cohort of six retail and CPG advertisers meeting our lowered expectations, we anticipate limited year-over-year growth from this group, which is likely to weigh on our total 2025 growth rate. Finally, Oracle's exit was a unique opportunity to secure a major enterprise client like P&G for the long term. While we won these clients on the strength of our solutions and technology, we also had to remain competitive on price. As a result, the full revenue impact of these opportunities will materialize over a longer period of time, typically between one to three years of onboarding, through our ability to upsell our social and activation solutions.

The digital ad ecosystem continues to evolve and we're evolving too. We are building new partnerships in high-growth sectors where ad dollars are shifting, and we are expanding our solutions from protection to a combined focus on protection and performance. During this transition period, we expect to maintain a double-digit revenue growth rate, with next year serving as a pivotal stage in our business as we continue to strategically invest in areas to re-accelerate DV's long-term growth.

To conclude, we delivered solid third-quarter and year-to-date revenue growth and profitability and have made significant progress across our business. DV's financial profile is both compelling and resilient. DV is highly profitable, maintaining gross margins above 80% and adjusted EBITDA margins above 30%. We continue to generate significant cash, with $122 million in net operating cash generated in the first nine months of 2024. And our balance sheet is in excellent shape, with $363 million in cash and short-term investments and zero long-term debt.

And with that, we will open the line for questions. Operator, please go ahead.