IAS Q2 2024 Prepared Remarks

Jonathan Schaffer, SVP, IR

Thank you. Good afternoon, and welcome to the IAS 2024 second quarter financial results conference call. I'm joined today by Lisa Utzschneider, CEO, and Tania Secor, CFO.

Before we begin, please note that today's call and prepared remarks contain forward-looking statements. We refer you to the company's filings with the SEC, posted on our investor relations site at https://investors.integralads.com/financials/sec-filings for more details about important risks and uncertainties that could cause actual results to differ materially from our expectations.

We will also refer to non-GAAP measures on today's call. A reconciliation of non-GAAP measures to the most directly comparable GAAP measures is contained in today's earnings release available on our investor relations site, https://investors.integralads.com/financials. All financial comparisons, unless noted otherwise, are based on the prior-year period.

With these formalities out of the way, I'd now like to turn the call over to our CEO, Lisa Utzschneider. Lisa, you may begin.

Lisa Utzschneider, CEO

Thank you, Jonathan. Welcome everyone to our 2024 second quarter call. I'm excited to discuss our strong second quarter results and increased outlook for the full year. On today's call, I'll review several growth drivers of our business including: key global customer wins, new and enhanced partnerships, our robust product pipeline, and the opportunity to pursue additional logo wins following Oracle's announcement to exit the advertising business.

We extended our positive business momentum and exceeded our revenue and adjusted EBITDA guidance for the second quarter. Total revenue increased 14% to $129.0 million dollars, ahead of our prior outlook of $125 to $127 million dollars. We reported double-digit growth across all of our businesses in the second quarter including optimization growth up 11%, measurement growth up 17%, and publisher growth up 12%. Adjusted EBITDA increased to $46.2 million dollars at a 36% adjusted EBITDA margin.

Once again, we are raising our full-year financial outlook to reflect our second quarter outperformance and our expectations for a strong second half of the year. We now expect 2024 revenue growth of 14% at the midpoint with an adjusted EBITDA margin of 34%, well above the Rule of 40. Our increased outlook for 2024 includes continued adoption of our leading social media offerings, the anticipated benefit from recently launched products, and the contribution from new logo wins.

Marketers partner with IAS based on our leading AI-backed technology that delivers actionable data to drive superior results. They value our customer service which includes the industry's largest global footprint with 31% of our revenue coming from outside of the Americas. International revenue has grown faster than overall revenue for the third consecutive quarter, driven by strong adoption of our social media offerings.

We are excited to announce two recent major global brand wins in the important telecommunications vertical: Orange, the largest telecommunications provider in France, selected IAS as its new partner over an incumbent provider. We were awarded this opportunity based on our differentiated products as well as our quality of service. Telefonica, a Spanish multinational telecommunications company, selected IAS as one of its global strategic partners for both measurement and optimization solutions. Telefonica chose IAS based on our technology, innovation, and service.

In addition, existing customers are growing with IAS. As discussed on last quarter's call, we've seen a 55% increase in average annual spend in year two of new contracts since 2019 based on our advertiser customer data.

Stellantis, a leading global automaker, renewed and expanded its partnership with IAS. IAS is now the preferred global verification provider to Stellantis, growing our partnership beyond EMEA. Our demonstrated product superiority helped secure this renewal and expansion.

Perfetti Van Melle, one of the world's largest manufacturers and distributors of confectionery and chewing gum, has expanded its exclusive global verification partnership with IAS beyond EMEA to include the U.S. as well. Perfetti extended its partnership with IAS for several reasons including the strength of our video measurement products.

IAS leads with innovation and trust. We prioritize our roadmap of highly advanced products and platform integrations informed by our close customer partnerships. Year-to-date, we've launched several AI-backed products to provide marketers with additional assurance and insight into the safety and efficacy of their advertising spend. By leaning into our deep technology assets, we are maintaining a high bar for product velocity and flexibility that is resonating with our customers and platform partners. We also remain steadfast in our commitment to the highest standards for the quality and accuracy of our products and our commitment to adhere to stringent principles and guidelines for the responsible use of AI.

In June, we announced the availability of the industry's first deepfake detection offering. Currently in Beta testing, the new offering is expected to help advertisers avoid running adjacent to deepfake content and to further verify the safety and suitability of their digital media investments through trusted and safe AI-powered technology. We were delighted to pull forward availability of deepfake detection to the first half of 2024 to meet high customer demand ahead of the Olympics and U.S. elections.

Made for Advertising (MFA) represents a major industry challenge for marketers seeking to avoid web pages created solely to serve ads and clutter sites with high ad density and high ad-to-content ratio as they can lead to lower performance. Since launching our MFA ad-driven product in general availability in the second quarter, we are seeing 100% month-over-month growth in usage. As marketers seek to maximize their return on their digital ad investments across channels, we are extending our reach through new and enhanced platform and partner integrations.

Social media represents a massive and sustainable market opportunity, and we have only just begun to scratch the surface. Social media increased to 53% of measurement revenue and 22% of total revenue in the second quarter. We believe our Total Media Quality (TMQ) product suite provides marketers with unparalleled granularity and insights.

Recently, we announced new platform partnerships with Pinterest, Reddit, and Snap. We've also built on our existing integrations with platform partners including Meta, YouTube, and TikTok which offer our TMQ product suite.

We continue to invest in our pre-bid optimization products in social media including GARM (Global Alliance for Responsible Media). We currently provide pre-bid solutions across several of the largest social platforms, including X, where IAS was selected to be the first-to-market based on our leading AI capabilities and our TMQ product offering.

In June, IAS expanded its brand safety and suitability measurement product for YouTube to include reporting for Performance Max and Demand Gen campaigns on Google Ads. Performance Max is Google's campaign type that enables advertisers to access all Google Ads inventory through a single, unified campaign. Demand Gen is a new Google ad solution that helps advertisers find and convert consumers with immersive, relevant, and visual creatives that grab attention and spur action in the right moment.

During the second quarter, we expanded our global reporting and insights now available for Amazon DSP media buys. Through a server-to-server integration on Amazon DSP, advertisers will now have access to measurement coverage for campaigns across Amazon custom audiences and Twitch inventory. IAS's solutions available to advertisers in Amazon DSP include viewability, IVT, and brand safety and suitability.

IAS continues to lead the global market in CTV. We offer top-tier products including granular measurement solutions at the content and channel level, optimization solutions for ad fraud protection, and MRC-accredited measurement metrics. Our CTV investments are yielding significant results with the majority of our clients using CTV optimization solutions showing exceptional IVT pass rates. Additionally, Publica has introduced Creative Quality Assurance, which automatically adjusts ad creatives to meet the specific requirements of various CTV channels and apps. This innovation is designed to eliminate advertiser blind spots and enhances programmatic effectiveness, leading to greater reach and scale for advertisers, and improved yield management for publishers.

In June, Oracle announced they were exiting the advertising business at the end of September. I've highlighted several IAS customer wins in recent quarters where we displaced incumbent providers, including Oracle. Following Oracle's announcement, we are pursuing this unprecedented opportunity with ingenuity and resources at scale to offer our industry-leading capabilities and capture potential incremental revenue. We are currently involved with dozens of RFPs, and we are working closely with potential large and mid-size partners on transition planning, including onboarding, integration, and support. We are addressing their needs with our products, tech, talent, and reputation for high integrity with a history of strong partnerships across the digital ecosystem.

We have welcomed more than 20 Oracle advertising employees to IAS since June. These new hires enhance our capabilities across functions in addition to bringing relevant experience with some of the largest platforms, publishers, and brands.

Our pursuit of the Oracle business is another example of one of our core values at IAS: our bias for action. We are doing what's right not only for IAS but for clients, partners, and the industry at large. The feedback we've received has been overwhelmingly positive, including at the Cannes Lions Festival of Creativity where we hosted over 200 meetings and panel discussions.

Before closing, I would like to welcome Bob Lord as a new member of IAS's expanded Board of Directors. Bob is a highly regarded technology leader with a wealth of experience in technology, digital media, data science, and enterprise SaaS. He currently serves as the Chief Executive Officer of RWL Advisory, LLC, a consulting and advisory services firm, and his career includes senior-level roles at IBM, AOL, and Razorfish. We are excited to welcome Bob and expand our Board to include another industry expert as we continue to innovate and drive forward the future of media measurement and optimization.

In conclusion, we reported another positive quarter of innovation and execution. The investments we're making in technology are leading to higher customer engagement and increased demand for our products. Now that we're halfway through the year, we have greater visibility and even higher confidence in raising our full-year outlook. Our focus is on driving growth and continuing the momentum we've established. We have several tailwinds in our favor including strong social media adoption, our robust product pipeline, new logo wins, and the opportunity to pursue additional revenue following Oracle's exit. We intend to deliver sustainable, profitable growth, and we look forward to keeping you updated on our progress.

And with that, I'll turn the call over to Tania to review the financials and then we'll take your questions.

Tania Secor, CFO

Thanks Lisa and welcome everyone. We are delighted to report total revenue growth of 14% for the second quarter with double-digit gains across our optimization, measurement, and publisher businesses. We are also raising our full-year guidance to reflect our positive second quarter performance and strong outlook for the second half of the year. We expect to drive accelerated revenue growth as we move through 2024 with third quarter growth of 15% at the midpoint of our guidance.

Total revenue in the second quarter increased 14% to $129.0 million dollars, exceeding our prior outlook of $125 to $127 million dollars. Our stronger-than-expected performance benefited from measurement growth of 17%, optimization growth of 11%, and publisher growth of 12% in the period.

Total revenue from advertisers, which includes optimization and measurement revenue, increased 14% in the second quarter and represented 86% of total revenue for the period.

Drilling down further, optimization revenue grew to $58.5 million dollars in the second quarter. Optimization growth of 11% significantly exceeded our prior expectation of more than doubling the first quarter growth rate. Optimization growth in the second quarter reflects strong performance across verticals including CPG and finance, the contribution from recent new logo wins, and increased demand for our premium-priced optimization products. During the quarter, Quality Sync revenue increased approximately 3x versus the prior year period. We expect further acceleration in our optimization growth rate in the third and fourth quarters as we move through the year due to customer adoption of our recently launched products, ongoing Quality Sync expansion, and new logos.

Measurement revenue increased 17% to $52.7 million dollars in the second quarter. Social media revenue grew 34% in the second quarter with strength across platforms, including TMQ on Meta, YouTube, and TikTok. Meta volumes benefited from strong overall growth in the second quarter. Meta was our largest and fastest growing platform sequentially from the first quarter as a result of the launch of TMQ on Meta in February. Social media represented 22% of total revenue in the second quarter, compared to 21% in the first quarter of 2024 and 18% in the second quarter of 2023. Social media revenue represented 53% of total measurement revenue, with the balance being open web which increased modestly in the second quarter. As a result of the strong growth in social media, video grew 22% in the second quarter. Video accounted for 53% of measurement revenue, up from 50% in the second quarter of 2023. From a vertical perspective, CPG and retail were strong contributors to measurement revenue in the period.

Publisher revenue increased 12% to $17.8 million dollars in the second quarter. Publisher revenue reflects continued adoption of our Publica solutions by large OEM partners, partially offset by the performance of our non-CTV supply side business. Publica revenue increased more than 20% in the second quarter. Publisher revenue represented 14% of total second quarter revenue.

We continue to invest in global market expansion and talent to extend our leading international presence. 31% of our total revenue in the second quarter, or $40 million dollars, was from outside of the Americas. In addition, 43% of measurement revenue was from outside of the Americas. International growth of 16% benefited from growth in social media spend, including TMQ, in both EMEA and APAC as well as the contribution from new logos. During the quarter, revenue in the Americas increased 13%.

Gross profit margin for the second quarter was 79%, at the upper end of our full-year gross margin target of 77-79%.

Sales and marketing, technology and development, and general and administrative expenses combined decreased 23% year-over-year, primarily as a result of $23.5 million dollars of stock-based compensation expense related to return-target options recognized in the second quarter of 2023. Stock-based compensation expense for the period was $15.0 million dollars, at the low end of our prior outlook of $15 to $17 million dollars.

Adjusted EBITDA for the second quarter, which excludes stock-based compensation and one-time items, was $46.2 million dollars at a 36% margin, ahead of our prior outlook of $37 to $39 million dollars. This was driven primarily by higher-than-expected revenue and improved operating efficiencies. We continue to capitalize internally developed software related to new product development which contributed to adjusted EBITDA in the quarter. Net income for the second quarter was $7.7 million dollars, or $0.05 cents per share, unchanged from the prior-year period. Net income for the second quarter of 2023 includes the one-time charge of $23.5 million dollars related to return-target options as well as an income tax benefit of $29.1 million dollars in the prior-year period.

Moving to our performance metrics:

- Our second quarter net revenue retention, or NRR, was 112% on a trailing twelve month basis.
- The total number of large advertising customers, which includes both mid-tier and top-tier clients with annual revenue over $200,000 dollars, increased to 232, up 12% compared to 208 last year and up sequentially from 227 in the first quarter of 2024. The increase year-over-year was driven primarily by growth in mid-tier advertisers with annual spend between $200,000 dollars and $1 million dollars.
- Revenue from large advertising customers was 85% of total advertising revenue at the end of the period, up from 84% at the end of the second quarter of 2023.

We continue to generate strong cash flows and maintain a healthy balance sheet with cash and cash equivalents at the end of the second quarter of $71 million dollars. During the quarter, we reduced our long-term debt by $30 million dollars to $95 million dollars. As a result, our net debt at the end of the second quarter was $24 million dollars.

Turning to guidance:

- For the third quarter ending September 30, 2024, we expect total revenue in the range of $137 to $139 million dollars, or 15% year-over-year growth at the midpoint.
- Adjusted EBITDA for the third quarter is expected in the range of $48 to $50 million dollars, or a 36% margin at the midpoint.
- For the full year 2024, we are raising the midpoint of our revenue outlook by $4 million dollars. We now expect full year revenue of $538 to $544 million dollars, or 14% year-over-year growth at the midpoint, versus the prior range of $533 to $541 million dollars.
- We are raising our full-year adjusted EBITDA guidance to $180 to $184 million dollars, or a 34% margin at the midpoint, versus the prior range of $174 to $180 million dollars at a 33% margin.

As Lisa discussed, we are actively pursuing the Oracle opportunity following their decision to exit the advertising business. We have already won several Oracle deals that we expect to contribute in the fourth quarter and factored into our full year guide. We will include any additional wins in our future quarterly financial guidance.

A few additional modeling points:

- Our gross profit margin outlook remains unchanged in the range of 77% to 79% for the full year which reflects higher hosting costs related to our video offerings.
- Third quarter stock-based compensation expense is expected in the range of $16 to $17 million dollars. Full-year 2024 stock-based compensation expense is expected in the range of $63 to $65 million dollars, compared to our prior expectation of $63 to $66 million dollars.
- We expect weighted average shares outstanding for the third quarter in the range of 161 to 162 million shares and 160 to 162 million shares for the full year.

To conclude, our second quarter results reinforce our confidence in the financial goals we've set for the full year. We are pleased to raise our 2024 revenue growth outlook to 14% at the midpoint and adjusted EBITDA margin to 34% at the midpoint. As a result, we expect to exceed the Rule of 40 for the third consecutive year since our IPO. With a strong balance sheet, low debt, and healthy cash flow, we are investing in strategic initiatives to drive sustainable growth.

Lisa and I are now ready to take your questions. Operator?