Taboola

Q4 2024 Prepared Remarks

Jessica Kourakos, Head of Investor Relations

Thank you, and good morning everyone. And welcome to Taboola's fourth quarter and full year 2024 earnings conference call. I'm here with Adam Singolda, Taboola's Founder and CEO, and Steve Walker, Taboola's CFO. The company issued earnings materials today before the market and they are available in the Investors section of Taboola's website.

Now, I'll quickly cover the safe harbor. Certain statements today, including our expectations for future periods are forward-looking statements. They are not facts and are subject to material risks and uncertainties described in our SEC filings. These statements are based on currently available information and we undertake no duty to update them, except as required by law. Today's discussion is also subject to the forward-looking statement limitations in the earnings press release. Future events could differ materially and adversely from those anticipated.

During this call, we will use terms defined in the earnings release and refer to non-GAAP financial measures. For definitions and reconciliations to GAAP, please refer to the non-GAAP tables in the earnings release posted on our website.

Before I turn the call over to Adam, in an effort to avoid duplicative material and cut down time for those reviewing our quarterly results, we are no longer issuing a shareholder letter. and are providing all relevant quarterly updates in our SEC filings, earnings press releases ,prepared remarks and investor presentations. This step was taken in response to feedback we received and we hope is helpful as we continue to make improvements to our materials and disclosures.

With that, I'll turn the call over to Adam.

Adam Singolda, Founder & CEO

Thanks, Jessica. Good morning everyone and thank you all for joining us today.

Before we dive into the details, here's what I'm going to cover on today's call: 2024 was a record year—we exceeded expectations, generating nearly 50% more free cash flow than planned, and we're launching a $200 million expansion to our buyback as a result. Our 2025 guidance reflects single-digit growth, which is below both our historical rates and long-term ambitions. We've always spoken about owning the entire performance advertising market beyond search and social, and we're making a major announcement today—one that is great for our business, and what we believe will bring us back to double-digit growth. Most importantly, as you know Taboola is an execution machine and as usual, we plan to deliver.

A quick refresher on us. Taboola helps businesses grow by placing ads across the open web—on publisher sites, mobile apps, and device makers (also known as OEMs) - delivering exceptional returns. This is referred to as "Performance Advertising." Advertisers like Babbel, eToro and Hyundai trust us to drive sales, while nearly 11,000 publishers, including NBCNews, Disney, Yahoo, and Apple, rely on us for monetization and audience growth. Our scale is significant - we reach 600 million people every single day, gaining real-time insight into what people read and buy. This gives us unique "pulse of the internet" data which alongside our AI - is our competitive advantage and helps our advertiser clients achieve exceptional returns on their advertising spend. With 650 engineers refining our AI and 700 global sales people connecting with advertisers and publishers, our scale and impact are unmatched.

Turning now to our results, 2024 was a record year for Taboola. For the full year, we achieved ex-TAC Gross Profit of $667 million, representing 25% growth versus the prior year, and Adjusted EBITDA of $201 million, which is more than double our results from last year. In addition, we delivered $149 million in Free Cash Flow, which significantly exceeded our original FCF minimum target of $100 million by 49% and represented growth of nearly 3 times our FCF as compared to the prior year.

These accomplishments are driven by our highly differentiated performance technology and 1st party data that allow us to drive value for both advertisers and publishers. 2024 was a busy ... busy year - we integrated partners such as Yahoo and Apple and onboarded enterprise advertisers such as Samsung, CITI, Verizon and others.

To reflect our confidence in our future, we're adding $200 million to our buyback authorization, on top of the approximately $40 million remaining from prior authorization. This reinforces our commitment to balancing growth and cash generation, ensuring long-term shareholder value while continuing to invest in our product expansion.

For 2025, we're guiding for 2% ex-TAC Gross Profit and 2% Adjusted EBITDA growth, maintaining a 30% EBITDA margin. While I'm incredibly proud of our team and our 2024 performance, I recognize that our projected single-digit growth is below both our historical rates and long-term ambitions. This year is about laying the groundwork for accelerated growth ahead. We will be laser focused on scaling our demand, further investing in our AI efforts, and strengthening our partnerships.

Now the reason we're growing ex-TAC slower than usual is unrelated to us attracting supply partners such as publishers, mobile apps or OEMS - nobody does that better than us. The main gating-factor to our near-term growth is scaling native advertising demand quickly enough to best utilize the supply we have. While we always spoke about our vision to be the leader in performance advertising for the open web, and not just bottom of article native advertising, it became clear to us towards the end of 2024 that the native market alone just isn't big enough for us to fuel our ambitious growth plans.

This realization was reinforced by the behavior of advertisers we absorbed from our Yahoo partnership. While advertisers such as Verizon, Samsung, CITI and many others use our technology to spend hundreds of millions of dollars on homepage and mail on Yahoo and get exceptional returns, they spent less than $15 million on "bottom of article" native ads across the rest of our network. This is not what we expected. While most advertisers indeed want to get outcomes through performance advertising, and this is where the market is going - most prefer using standard display ads and display placements … and not something they referred to as niche like native advertising.

You see, I once believed native would overtake display, given banners often provide a poor experience. But as we scaled revenue 9 times from $200 million in 2014 to $1.8 billion in 2024, I realized now that I was wrong. The issue isn't the banner format. In fact, with the right data and technology, display ads can perform just as well as native or Meta. I can also tell you, after interviewing nearly 100 advertisers in Q4, it is clear to me now that most advertisers see native as too niche. They're not looking to learn a different format—they want to use their existing social creatives and their existing display creatives to drive results at scale.

As I look at our journey, not only did we build the largest business in the native advertising market, with this insight, we're able to shape our next phase of our growth - which involves meeting advertisers where they are and expanding beyond native to capture the full performance market opportunity. And it's a big one.

Let's expand about our evolution from Native to being the leader in "everything performance" beyond search and social. Taking a step back - Advertisers want and need a dedicated solution for performance advertising — very much separate from the solution they need to drive "top of the funnel" branding objectives. The idea of a "full-funnel" solution that is really great at everything, both top of the funnel branding as well as performance advertising - is just a myth. No one can be the best at all parts of the funnel. Even excelling in one is not easy. This is our opportunity. In 2025, we're making deliberate investments to leverage our existing first party data, AI and publisher relationships to expand our market opportunity and establish ourselves as the leading performance ad specialist. We see a $55 billion opportunity for us to go after, improving the value advertisers currently get from performance advertising on DSPs, AdTech and some social campaigns. This is our TAM.

The opportunity for us exists for 3 main reasons: **First**, many DSPs have pivoted to Connected TV also known as CTV, prioritizing branding over performance. Advertisers don't use DSPs the same way they use performance advertising channels like Meta because they serve different goals. Let's be real—no one … is scanning a QR code from a TV ad to open a bank account - advertisers need performance advertising partners to accomplish this goal, not DSPs which are great for top of the funnel. **Second**, the AdTech landscape is crowded and complex – Advertisers want scale and results without the headache of navigating a fragmented ecosystem. And **third**, social platforms have limitations…. While social companies deliver strong early performance, as advertisers spend more, audience fatigue sets in, …costs go up …and effectiveness declines. While social channels are good for performance advertising for the most part, there is a big opportunity here to help advertisers shift budgets from social and get better return on investments. These challenges - DSPs becoming CTV which is less relevant for performance advertising, Ad Tech being fragmented and social having diminishing returns - create a massive opportunity—one that we're uniquely positioned to solve.

Looking at the supply side. Publishers are feeling the pressure too. Native advertising is strong, but it's just not strong enough to drive the revenue growth publishers deserve. At the same time, programmatic revenue is in fast decline as DSPs have shifted to become CTV companies which is less relevant for most publishers, and walled garden platforms have shifted budgets to their own owned and operated sites. As a result, there is less performance advertising "spend" flowing to publishers as there used to be, and we think we can fix this.

Now, this is where it gets exciting..... Taking advantage of our unique assets as a company - our first-party data, our AI such as Max Conversions or Abby, and unmatched supply partnerships - we can go beyond "bottom of article", beyond Native, and win a much ... much larger share of wallet from new and existing customers. Starting today, we're focused on one thing -- delivering performance outcomes—regardless of format, regardless of placement, or supply type.

We call our new advertising platform "Realize"— our new performance advertising platform built to drive results beyond search and social. Beyond native. No limitations.

Realize is a major step forward for Taboola and a key pillar of our growth strategy. It expands our market opportunity, unlocks new revenue streams, brings a lot more advertisers into our ecosystem, and drives long-term growth.

Today's announcement reminds me in many ways of Amazon's transformation in 2000, when they expanded beyond books into the broader e-commerce ecosystem. Selling books was a great business, but Amazon saw a bigger opportunity—their users and retailers wanted more. For us, native advertising is our books—a strong market we've proven we can lead. But just like Amazon, we can do more. By expanding beyond native, we're unlocking new opportunities for our advertisers, for our publishers, harnessing the full power of our data, supply, and technology.

In summary, there are 3 reasons why we can win this market that you should take from this call:

1. **First, this is an adjacent expansion for us.** We're expanding beyond native into the entire performance advertising space which is a natural next step for us. Thousands of advertisers already buy from Taboola with the goal of getting performance outcomes. We have 700 sales people all over the world trained on selling performance to advertisers, and our publishers are used to relying on us bringing performance budgets. With Realize, we'll provide a similar value but a lot more of it.
2. **The second reason why we can win this market is our unique assets and scale.** At Taboola, data is everything. Our President & COO has a sign on his wall: "In God we trust. All others must bring data." Now, with the richest first-party data in the market, and with our global distribution - we are uniquely positioned to build the first ever performance focused advertising company outside of search and social. I strongly believe that with the AI revolution already happening, those who own data and distribution will prevail - and we have both.

3. **Third, and perhaps the most important, is our culture.** I just returned from APAC and EMEA, and now I'm with our sales team here in the U.S. The energy is unstoppable. It's incredible for me to be part of this team, where our people are eager to get out there, call advertisers, call publishers, and grow. You can copy anything, but you can never copy the way a group of passionate people work together and execute towards a vision. We were not first in nearly anything we did, but became the biggest - and now, we're ready to win again. We're not just making news with this announcement today, we're making history in our industry.

In closing, I'm so proud of our team, and our Q4 and full-year 2024 results. Two years ago, we set ambitious targets—and we delivered. Now, we have everything we need to take an even bigger step forward: unique first party data, unmatched distribution, and cutting-edge AI.

Looking ahead, we've set our guidance in a conservative way, ensuring the flexibility to invest, grow, and outperform. We look forward to sharing more at our Investor Day on March 26 in New York City.

This is our moment. Thank you for your trust and support. With that, I'll pass it to Steve to walk you through our results and outlook.

Steve Walker, CFO

Thanks, Adam, and good morning, everyone. As Adam mentioned, we are pleased to close out the year with a strong fourth quarter while meeting our expectations for the full year.

2024 was a year of accelerated growth and a record year financially. I will start by reviewing our results for the fourth quarter and full year 2024 and then move onto guidance for the first quarter and full year 2025.

Revenues in the fourth quarter reached $491.0 million and for the full year increased to $1.77 billion.

Ex-TAC Gross Profit in the fourth quarter was $212.7 million, growing 26% year over year. Q4 ex-TAC gross margin of approximately 43% reflects the marginal benefit from the testing on certain Yahoo supply that we referenced earlier this year and is currently winding down as expected, as well as typical Q4 seasonality. For the full year, ex-TAC Gross Profit increased 25% to $667.5 million. This strong growth was broad based and was driven by a number of factors, including strong growth in our enterprise advertiser business, onboarding of Yahoo, strong growth in eCommerce, and of course our investment in AI. Excluding the impact of the Yahoo deal, we estimate Taboola grew over 10% on an ex-TAC Gross Profit basis in 2024.

Fourth quarter Adjusted EBITDA was $92.3 million, growing 84% year over year. For the full year, Adjusted EBITDA grew 104% to $200.9 million. I would note that this reflects a 30.1% Adjusted EBITDA margin, which is back above our target margin of over 30%. This improvement reflects both the benefit of our 25% year over year growth in ex-TAC, along with strong cost discipline that we maintained in 2024. As we had said previously, a majority of the investments that were necessary to onboard Yahoo and support the growth in 2024 were made in 2023 and those investments are now paying off.

In the fourth quarter, Net Income was $33.1 million, with Non-GAAP Net Income coming in positive at $73.3 million. For the full year, Net Loss was $3.8 million, with Non-GAAP Net Income coming in positive at $122.4 million. Note that Income Before Income Taxes was positive at approximately $13.9 million.

Regarding cash generation, operating cash flow for Q4 amounted to $61.9 million, with Free Cash Flow reaching $51.9 million. This includes net publisher prepayments, which contributed $6.8 million to cash flow, and interest payments on long-term debt of $3.3 million. For the full year, operating cash flow amounted to $184.3 million and Free Cash Flow was $149.2 million, eclipsing our original target of $100 million plus for the year by a good margin. For the full year 2024, we are pleased that our Free Cash Flow conversion from Adjusted EBITDA was 74.2%. If you look back at the last 8 quarters, which is the way we tend to look at Free Cash Flow conversion rates, it was 67.2%. In 2024, our Free Cash Flow benefited significantly from a couple of factors. First and foremost was improved profitability – our net losses decreased from $(82.0) million in 2023 to $(3.8) million in 2024. Second, we managed working capital effectively, which contributed approximately $12 million to Free Cash Flow. While we are encouraged with what we are seeing in our Free Cash Flow conversion, we think it's prudent for now to continue to expect us to convert Free Cash Flow from Adjusted EBITDA at a 50% to 60% rate over any typical trailing 8 quarter period. As we gain scale, I would hope to remain at the higher end of that range.

Turning to the balance sheet, we remain in a strong financial position, ending 2024 with a robust net cash balance of $103.9 million. Cash and cash equivalents totaled $226.6 million, exceeding our long-term loan balance of $122.7 million. Note that we voluntarily prepaid another $30 million of our long-term debt in Q4 2024.

As Adam highlighted, we are pleased to announce the Board has approved incremental authority of up to $200 million for our share repurchase program, bringing our current total authorization to approximately $240 million. During the course of the fourth quarter we repurchased approximately 2.8 million shares at an average share price of $3.57.

As I've mentioned before, our buybacks are temporarily constrained by Israeli regulations, which prevent Yahoo from exceeding 25% ownership without an exemption or regulatory approval. We continue to work diligently on resolving that restriction.

In the meantime, I'm pleased to share that while Yahoo prefers not to sell at current share prices, they have agreed to sell pro rata as we buy in the market. Conceptually, this means that for every 100 shares we buy back, we will buy 75 shares from the open market and 25 shares from Yahoo. In any case, all 100 shares reduce the overall share count. This allows Taboola to move forward with a more aggressive share buyback strategy while keeping Yahoo's ownership just under 25%.

Given our ability to generate cash and our current share price, we believe that deploying additional capital toward share repurchases is the best use of our cash at this time. This move underscores our commitment to returning value to shareholders and supporting long-term growth.

Looking forward, I recognize that the guidance we have given falls short of our long-term growth ambitions, but at the same time we recognize that we need to give our new product direction time to gain traction. I believe the guidance we lay out today gives us the flexibility to invest in our growth initiatives and sets us up for success in the future. As Adam mentioned, our goal is to work to exceed these targets throughout the year.

For the first quarter 2025, we expect Revenues to be between $407 to $427 million, Gross Profit from $109 to $115 million, ex-TAC Gross Profit from $142 to $148 million, Adjusted EBITDA from $22 to $26 million and Non-GAAP Net Income from $2 to $6 million.

For the full year 2025, we expect we expect Revenues to be between $1.84 to $1.89 billion, Gross Profit from $536 to $552 million, ex-TAC Gross Profit from $674 to $690 million, Adjusted EBITDA from $201 to $209 million and Non-GAAP Net Income from $122 to $128 million.

I also want to talk about a new metric that you will see in our financial reporting. As we have discussed previously, the key to our growth from this point forward is growing advertiser demand on our platform. The introduction of Realize is a key initiative in this regard. In order to help investors track our progress, we will be disclosing two new metrics: Scaled Advertisers and Average Revenue per Scaled Advertiser. A Scaled Advertiser is defined as any advertiser that spent over $100,000 on our network in the trailing year period. Obviously Average Revenue per Scaled Advertiser is the average spent across all of those Scaled Advertisers. We believe these metrics help track the progress of our initiatives to drive more spend on our network because these Scaled Advertisers make up approximately 85% of the revenue of our company and growing both the number of Scaled Advertisers and the Average Revenue per Scaled Advertiser will grow our overall business. As we go forward, you will hear us referencing these figures to help you understand where growth is coming from.

We plan to share additional information around our long term growth as well as these new KPIs during our Investor Day on March 26th in New York City.

In summary, we are pleased with our fourth quarter and full year 2024 results. We are confident in our broadened strategy, our team's ability to execute and the guidance we laid out today. I'm excited about the launch of Realize and believe that it can help us grow faster as this initiative gains traction.