Q4 2023 Earnings Call

Thank you, and good morning everyone. And welcome to Taboola's fourth quarter and fiscal 2023 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.

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

Adam Singolda Prepared Remarks:

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

Before we talk about the business, I want to start with a word about our people. I've always said that a company's true innovation is its culture and people, and I'm so proud of the tremendous resilience displayed by our nearly 2,000 Taboolars during the war in Israel.

Their resilience is what's driving our progress in reaching new users, delivering engaging experiences in the Open Web, improving our effectiveness at monetization and driving yield.

We have real momentum coming into this year, and it shows in our Q4 results and strong 2024 financial guidance.

Turning first to our quarterly results, we had a strong end to 2023.

- Q4 ex-TAC of $168.5M, growing 6% vs 2023 Q4
- Q4 Adjusted EBITDA of $50.1M .. a significant beat to the high end of our guidance by $18M, representing over 30% Adjusted EBITDA margin.

- Free Cash Flow in Q4 was $10.5M, bringing our 2023 FCF to $52.2M … representing 3x growth over 2022 and a 50% conversion to EBITDA which is our desired stated goal

2024 is set up to be a record year for Taboola across all key measures: Revenue, ex-TAC Gross Profit, Adjusted EBITDA and Free Cash Flow …

- On the revenue front, we're back to fast growth.
- Revenue is growing 33% to nearly $2B this year.
- ex-TAC is growing 25% to $670M.
- We're reiterating our Adjusted EBITDA guidance of over $200M, which is 2x 2023
- And we're re-iterating our Free Cash Flow guidance of over $100M, also nearly 2x of 2023

On the business front, there is a lot of good momentum.

- 2024 is benefiting from fast adoption of our AI offerings, and we assume yield expansion this year after two years of softness.
- Yahoo is ramping up, already crossing the $100M in Q1 with a great trust and collaboration between our teams.
- And since we signed our partnership with Yahoo …many investors have asked us what is next? What will be the next Yahoo-type partnership? …
- I'm happy to say that another iconic consumer brand has just chosen Taboola as its partner of choice to help them grow their advertising business. I hope to share more about this new partnership very soon.

On the back of our business momentum, strong balance sheet, and commitment to shareholder returns - we're announcing a new share buyback authorization of $100M, which represents approximately 6% of our current market cap.

2023 was going to be an investment year for growth. We're investing more than $100M a year in R&D and AI to bring users and advertisers the same amazing experience they have when they interact with search and social platforms. Everyday, we're getting closer to the size of X, Pinterest, Snap and others in revenue and ad spend, and we're paving our way to becoming the very first "must buy" platform for the Open Web.

As I reflect on our journey … 10 years ago we generated just over **$200M** in revenue ….I remember it like it was yesterday. This year, 10 years later, we're approaching **$2B**.

Looking ahead, I see two key themes that will allow us to achieve our financial transformation in 2024:

The first one is -- reaching and engaging users in the Open Web. With the addition of Yahoo and now another iconic consumer brand, we have a lot of momentum.

The second one is -- how well we can monetize our time with consumers. Specifically - growth in performance advertising and AI to drive yield.

So let's expand into both these areas.

Starting with how we reach users on the open web.

We're seeing great momentum of publishers choosing Taboola on the back of our technology investments. We are so much "more than just money" to publishers, as we empower the entire publisher organization - the editorial team, subscription team, audience team, monetization team and more. Publisher win rates continue to improve, with terrific new publisher partners joining the Taboola family from around the globe, including A360 Media, Postmedia, Times Internet, and Nine Entertainment. We renewed and expanded our scope with existing publishers, including NBC News, McClatchy, Editoria Globo, Prisa, Ynet and more.

In the industry, we're seeing a shift of great consumer companies getting into advertising in a bigger way. This includes Disney, Amazon, Netflix, DoorDash, Uber, Walmart and more where to some - advertising is already one of the most profitable lines of business they have. I expect that Fortune 500 CEOs will increasingly be asked to present their advertising strategy and that the advertising industry will get to become a trillion dollars in years to come. This is just the beginning.

Now, while I believe most would try to sell directly to big brands, many would consider partnering with a technology company like Taboola to reach tens to hundreds of thousands of mid-funnel performance advertisers. We have an opportunity to **become the advertising engine of choice to the Open Web. We call it "advertising in a box."**

Signing strategic partnerships with publishers and big consumer platforms gives Taboola another way to reach users and access new premium advertisers. We've seen it already with Yahoo as incredible brands are starting to spend and these are the best of the best out there - names like Samsung, Verizon, Hulu, Hilton Hotels, Southwest Airlines, Citibank and many others.

On the Yahoo front, I can tell you we just had an executive offsite with Yahoo leadership and we're focused on executing our plans this year and into 2025. Our biggest priority is demand migration of Yahoo Omnichannel advertisers. I'm happy to tell you we're seeing good results and we recently shared a case study of a large advertiser seeing 3x in lead volume at 24% lower cost. To share some of Yahoo's good progress, we expect Q1 revenue to cross the $100M which is fast ramping.

Beyond working with publishers, we also reach users as part of Taboola News as we bring our publishers' content to Android Devices. Taboola News had a spectacular year in 2023 with revenue growing to over $100M. It's still in early stages with a lot of work ahead of us …yet we expect another strong year for Taboola News in 2024. This is because device manufacturers all around the world continue to seek differentiated offerings that delight users with personalized experiences.

Beyond publishers, and Taboola News, we're also reaching users with our Header Bidder. We're continuing to take advantage of our direct demand, unique data and AI to bid on inventory that is not exclusively ours. Microsoft continues to be our largest Bidder partner and we expect to expand our scope across our network of publishers in 2024. Microsoft made some changes to its ad tech platform in Q4 that impacted all ad tech partners they work with, including us. This had a single digit millions of dollars impact in Q4 and a small impact to 2024, which is already included in our guidance.

Switching to the second driver of revenue growth: how we monetize time with consumers, essentially how we grow yield.

Yield represents the revenue we can generate per user. For comparison, we estimate Meta makes ~$200 revenue per user a year in the US, Snap makes ~$33, and we make about $3-4 per user per year.

While I think Taboola is among the best in the Open Web when it comes to monetizing user attention, you can imagine how much runway we have to improve, and how much better the Open Web can do. When we win, the Open Web wins.

The Open Web is about an $80B market because it uses low yield monetization capabilities such as display banners, text ads, interstitials and more.. On top of that, only in the Open Web, advertisers are asked to bid using "CPC," or "CPM" which companies like Google or Meta don't do.

Now, there are 3 ways Taboola will grow yield

1) Data - this is where code on page, being bigger and getting a large volume of clicks from the network makes us better at driving conversions to advertisers faster
2) AI - deep learning is really hard to do. We've been at it for years, and this is a key element as it relates to "matchmaking" between users and information.
3) Advertisers - we have 15-20k advertisers. Google/Meta have 10M. Bringing more advertisers means better diversity and personalization to offer users the ad they may like.

We're seeing great momentum for Maximize Conversions, our advanced AI-bidding technology. Advertisers are seeing up to 50% boost in conversions while maintaining their Cost Per Acquisition (or CPA), as well as some advertisers are seeing reduced CPA by nearly 20%.

Let's give an example …. if you sold 10 flower bouquets with Taboola, and it cost you $30 to get a single customer, you can now sell the same 10 bouquets at a cost of $24 per customer …. or sell up to 15 bouquets at the same $30 cost to acquire that customer. That's selling a lot more flowers and saving more … which is great :-)

As more advertisers adopt our AI and Max Conversions -- we expect improved retention, essentially lower churn … as well as increase in Net Dollar Retention (NDR), which means advertisers are able to spend more with us over time.

In Q4 we launched Generative AI Ad Maker, helping advertisers kick off a campaign faster. For self service advertisers, 1 in 4 new creatives are being generated using our new Generative AI.

In 2024, we're focused on enhancing our data integration with Yahoo, continuing adoption and improvement of Maximize Conversions, and launching a new Maximize ROAS optimization product called … Maximize Revenue. Maximize Revenue is a way for advertisers that have direct value associated with conversions, like in eCommerce to optimize their desired return on investment.

I'm happy to say that with this momentum, where already 50% of our revenue is driven by advertisers who adopted Max Conversions, and our exciting roadmap - we're back to yield growth this year.

Another segment of advertisers that is helping us drive yield growth and seeing momentum is eCommerce. In 2023, we've benefited from the combined firepower of Connexity, Skimlinks and Taboola. We launched Turnkey Commerce, which is where we partner with publishers to establish or expand their commerce business. This is in high demand - we essentially create the commerce content, drive traffic to it and monetize it, all powered by Taboola.

I'm very … happy to say at the end of 2023, we signed an agreement with The Associated Press, one of the largest and most trusted news publishers in the world, to power its new ecommerce destination using Taboola Turnkey Commerce.

eCommerce represents approximately 20% of ex-TAC, its premium revenue, and we continue to see it as an important growth driver for Taboola in the years to come.

As I'm wrapping up my part, I would be remiss in not acknowledging that our industry is facing tectonic changes this year, like cookie deprecation, GenAI and the need for performance advertising in times of recession and market softness. And we.. are..(so).. ready.

We have more "code on page" than anyone, we understand intent with users clicking on Taboola tens of billions of times a year, and if history is a proxy for the future, we did well when Apple deprecated cookies.

In summary, we are coming in strong into 2024 with exciting partnerships, fast revenue growth and a strong EBITDA & Free Cash Flow profile. We're announcing a new $100M buy back authorization, and after two years of yield being soft - we're back to growth as our clients adopt AI faster than any product developed since I started Taboola.

With that, let me pass the call over to Steve to review our financials and outlook in more detail.

Stephen Walker Prepared Remarks:

Thanks Adam and good morning everyone. As Adam mentioned, we had a strong end to 2023.

Our Q4 Revenues were approximately $420 million and grew 13% year over year, accelerating from Q3 levels. ex-TAC Gross Profit was $169 million, which represented growth of 6% year over year. ex-TAC growth was driven by double-digit growth in advertising spend and included a small contribution from Yahoo in the quarter. These positive factors were partially offset by margin compression due to the ad rate declines in 2022, which have since stabilized in 2023.

Net Income was $3.7 million and Non-GAAP Net Income was $31.4 million. Adjusted EBITDA was $50.1 million, representing a 30% Adjusted EBITDA margin. Year over year, Adjusted EBITDA was down, which was due primarily to higher expenses related to the onboarding of Yahoo supply that were not in the year-ago period. Operating expenses excluding Yahoo would have been relatively flat year over year, reflecting strong cost discipline in 2023, which we plan to continue into 2024.

For the full year of 2023, we finished with over $1.4 billion in Revenue, $536 million in ex-TAC Gross Profit and $99 million in Adjusted EBITDA. We had a Net Loss of $82 million and Non-GAAP Net Income of $33 million. We also generated $52 million of Free Cash Flow in 2023, which was up 181% versus 2022.

Free Cash Flow benefited from the stronger than forecasted Adjusted EBITDA, which reflects the cost controls mentioned previously, partially offset by the expenses related to the onboarding of Yahoo inventory in the period. Free Cash Flow in Q4 would have been even stronger if not for the timing of some payables and capital expenditures that we mentioned were delayed last quarter.

As Adam said, our strong Revenue and ex-TAC Gross Profit performance was driven by strength in our eCommerce, Bidding and Taboola News businesses, as well as the initial contributions from Yahoo and relatively stable yields in our core business.

eCommerce had double-digit growth in 2023, driven by strong growth in advertising budgets from some of our largest retail advertisers, as well as strong momentum in Europe. In addition, we are seeing great success ramping Taboola's Feeds and now Yahoo, as supply sources for our retail advertisers. In fact, Taboola's Feed supply has become a top 10 traffic source globally for these advertisers. As we have stated previously, Taboola News grew very quickly and exceeded $100 million in Revenues in 2023. In total, eCommerce, Taboola News and Header Bidding now represents approximately 30% of our ex-TAC Gross Profit. This is exciting because each represents very valuable forms of supply that are valued by high quality advertisers.

Our teams have achieved accelerating revenue and ex-TAC performance while improving cost efficiency, indicated by our strong Adjusted EBITDA margin exiting 2023.

Operating expenses were $489 million in 2023, up $11 million year over year as a result of the costs incurred to onboard the significant inventory we are gaining with the addition of Yahoo. Excluding Yahoo, as I mentioned earlier, operating expenses were essentially flat with the prior year. Our headcount is down approximately 2.5% from its peak in July of 2022. With our ongoing expense discipline and our strong growth expectations, we expect that in 2024, we will approach our long-term Adjusted EBITDA margin target of 30%.

GAAP Net Loss for 2023 of $82 million included Amortization of intangibles of $63.9 million, Share-Based Compensation expenses of $53.7 million and Holdback Compensation expenses related to the Connexity acquisition of $10.6 million, all of which were excluded from Non-GAAP Net Income. Our Non-GAAP Net Income of $32.6 million was above the high end of our guidance range.

In terms of cash generation, we had approximately $84.4 million in operating cash flow in 2023 and Free Cash Flow of $52.2 million. This includes net publisher prepayments, which were a source of cash of $19.7 million, and interest payments on our long term debt, which were a use of cash of $18.5 million. As I have highlighted in previous quarters, I would note that net publisher prepayments were a source of cash for the full year, due to the fact that new prepayments were lower than the amortization of historical prepayments.

Let's turn to the balance sheet. You can see that our net cash balance remains healthy. Our net cash position of $36.2 million remained positive at the end of Q4 even after share repurchases. Cash and cash equivalents plus our Short-term investments decreased from $250.7 million at the end of Q3 to $181.8 million at the end of Q4. This reflected a $50 million pre-payment of our debt and $32 million used for share buyback activity in Q4. Cash and cash equivalents and Short-term investments remained above our debt principal balance of $142.2 million.

Speaking of our share repurchases, I would also like to provide an update on our share buyback and debt repayment programs. The share buyback program was initiated on June 1 and, as of December 30th, we had repurchased over 15 million shares at an average share price of $3.62, for total repurchases of $55.1 million. The average repurchase price of $3.62 represented a return of approximately 30% based on our closing price on Monday.

Today, we are also announcing a new share buyback authorization of $100 million that replaces our former buyback plan, which was largely exhausted. We are fortunate enough to be able to fund our organic growth investments from our operating cash flow. Given that, we believe that at current valuations, the best use of our Free Cash Flow is to **buyback shares**. To the extent that we have additional cash to deploy, we intend to **pay down our long-term debt.** We did this in October of 2023, in fact, when we voluntarily prepaid another $50 million of our long-term debt, bringing the total debt that we have voluntarily prepaid to $141 million.

As always, both the share repurchase program and the debt pay down are contingent upon the availability of sufficient working capital. As an Israeli company we are also required to obtain Israeli court approval for share repurchases. Also of note, we will be filing a general purpose shelf in the coming days. We consider it good corporate hygiene for a company at our stage to have a general purpose shelf on file. Given we believe our stock is a great value at current levels and have announced a new buyback authorization today, we obviously do not intend to issue new shares at this time. I just wanted to make sure that was clear.

Now let me shift to our forward looking guidance.

As Adam mentioned earlier, in the last 12 months, we invested in technology that advanced our eCommerce and Taboola News offerings, successfully launched Maximize Conversions, and onboarded all of Yahoo's global native supply onto the Taboola network. 2023 was a year in which we invested heavily in these initiatives, sometimes in advance of revenue. As we look ahead, we see the following tailwinds driving outsized growth in our business through 2025.

First, we expect the Yahoo advertiser migration to be materially complete by Q3 2024 and to continue ramping into 2025. Second, we expect yield growth to turn positive in 2024. Third, we expect a phased onboarding of the supply from our new iconic consumer brand partner in 2024 and 2025. Lastly, we expect further yield gains over time as the volume of our contextual data increases with the addition of Yahoo and other supply to our network, which will further enhance yield.

As a result, we are initiating guidance for 2024 that includes strong top line growth and improving profitability. We expect Revenue of $1.89 to $1.94 billion, which represents growth of 33% at the midpoint. We expect Gross Profit of $535 to $555 million and ex-TAC Gross Profit of $656 to $679 million. That ex-TAC is up roughly 25% year over year at the midpoint. We are reiterating our 2024 Adjusted EBITDA guidance of over $200 million and Free Cash Flow expectation of over $100 million. I will note that the Adjusted EBITDA guidance represents a doubling of that metric versus 2023. Finally, we are expecting Non-GAAP Net Income of $84 to $104 million in 2024.

We continue to be very excited by the addition of Yahoo to our business. Adam mentioned earlier, we feel good about the progress with Yahoo and expect revenue on Yahoo to exceed $100 million in Q1. For competitive purposes and due to the fact that Yahoo supply has been fully integrated into our broader publisher network, we will treat disclosures around Yahoo similarly to how we treat other major publishers on our network on a going forward basis.

Finally, we are introducing Q1 2024 guidance. This quarter, we expect Revenues of $387 to $413 million, Gross Profit of $94 to $106 million, ex-TAC Gross Profit of $123 to $135 million, Adjusted EBITDA of $10 to $17 million, and Non-GAAP Net Income of negative $15 to negative $3 million.

Let me finish by saying that we are happy with our fourth quarter performance and excited about the step change growth we are expecting in our business in 2024. The growth investments we have made in 2023, the additional scale that Yahoo is bringing, and the additional supply we will be onboarding as part of a new partnership with an iconic consumer brand is accelerating our journey towards becoming a “must buy” for advertisers looking to reach consumers in the Open Web.

With that let me pass it back to Adam for some closing remarks.

Adam Singolda Summary Remarks:

Thanks, Steve.

I’ve never been more bullish about Taboola.

I’m so proud of our Taboolars’ dedication, and passion, making us a high performing company through the most difficult of times.

We’re coming in strong into 2024, making it a record year for us. Revenue is growing 33% to $2B, ExTac is growing 25% to nearly $670M, EBITDA is doubling to over $200M, FCF is nearly doubling to over $100M, and on the back of these numbers we’re announcing an authorization of $100M buyback, essentially looking to buy back 6% of our company.

As I mentioned, our industry is changing … with companies like Netflix, Disney, Uber, Doordash, Amazon and more expanding their advertising initiatives, I suspect we are at the beginning of an exciting “Ad Mania.” Taboola has a chance at becoming the partner of choice to many of them.

As I said at the beginning of our call … In addition to Yahoo, I’m incredibly excited to have just signed another iconic consumer brand that validates Taboola’s “Advertising in a Box” value proposition.

Our vision is to be the recommendation engine for the Open Web, and build the first multi-billion dollar gateway for advertisers to reach publishers, OEMs and apps outside of walled gardens.

Today is a good day for us, and I’m excited to get 2024 going.

To everyone, thank you for being part of our journey.

With that, let’s open it up to questions … operator?

Summary for earning call