Q2 2026 Prepared Remarks

Aadam Anwar, Head of Investor Relations

Thank you, and good morning everyone. Welcome to Taboola's second quarter 2026 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 market open 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, Founder & CEO

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

The second quarter was another important step forward for Taboola. We continued to execute and delivered results above our guidance across our key metrics despite dealing with two headwinds during the quarter. The first was a Google policy change that deprecated our Explore More product and the second was our decision to remove low-quality publishers that were not delivering value for advertisers. Despite those two headwinds, I'm happy with our ability to beat our key metrics, accelerate growth, and repurchase a lot of shares.

More importantly, we had some large, strategic wins that demonstrate meaningful progress against our long-term vision. We expect these new wins to gradually begin contributing to our ex-TAC in the fourth quarter, and to ramp more considerably in 2027. These tailwinds give us the confidence to raise our full-year ex-TAC guidance to 9%.

What gives me confidence isn't just the financials - it's the validation we got this quarter that our strategy is working. We're continuing to offer advertisers a viable option beyond search and social, while investing in our tech to drive advertiser success and strengthening our relationships with some of the world's leading publishers. Together, these reinforce our confidence in our path toward sustainable double-digit ex-TAC growth.

Before getting into more detail, let me remind everyone who we are and how we compete. Taboola is one of the largest performance advertising companies outside of search and social, referred to as the openweb. Similar to how Google and Meta understand intent within their own platforms, Taboola understands intent across the billions of consumers who read, watch, and engage with trusted OEMs, apps and publishers across the open web. We then convert these signals into profitable and measurable outcomes for advertisers. That proprietary intent data, and the AI-driven conversion machine we've built - that's Taboola.

In a world where AI is evolving so quickly, I believe the winners will be those with either unique data that LLMs can't get or access to unique supply and distribution. Taboola has both.

Turning now to two strategic milestones that further validate our Realize strategy.

First, we expect to announce a first-of-its-kind expansion with one of our large existing publisher partners, a premier media and entertainment company. This marks an important evolution for us, expanding our role from monetizing individual bottom-of-article placements to monetizing everything, including display, vertical formats, native, and more. To put the opportunity into perspective, we estimate that display advertising alone on this publisher represents roughly two to three times the revenue of the traditional native placements we've historically monetized.

This is important for three reasons:

First, it's validation of our Realize product and strategy, built with the purpose to expand wallet share within our publishers by moving beyond native ads to handle their full suite of ad placement needs.

Second, we believe it will demonstrate how publishers can move away from relying on multiple ad-tech providers and now consolidate it all into a single partner. By doing this, publishers can reduce complexity, lower operational burden, improve efficiency and drive stronger revenue outcomes.

Lastly, this will create an opportunity for our advertisers to take advantage of even more premium supply and we expect this to be a model for how things can be done with other publishers going forward.

This partnership demonstrates that publishers increasingly value partners that can combine AI, proprietary data and advertiser demand to drive better monetization. At the same time, we continue to see strong validation of our strategy through our ability to win some of the world's leading publishers.

A great example is FOX News, one of the top five publishers in the U.S. We've already built a strong relationship with FOX Local, FOX Sports and FOX Weather, and the addition of FOX News represents a substantial growth opportunity and a significant expansion of our partnership across the FOX ecosystem. We believe this win reflects the investments we've made in Realize and our continued focus on helping premium publishers like FOX generate more value through performance advertising and AI. We're encouraged by this highly competitive win and believe it further validates our ability to continue taking share in the performance advertising market.

Moving beyond our business wins, we've continued investing in our technology, particularly Realize, our performance advertising platform, driving greater scale, better signals, and stronger performance for advertisers.

We believe the future of advertising will increasingly be powered by AI, moving from manual campaign management to intelligent systems that understand advertisers' goals, make decisions, and continuously optimize performance. That's the vision behind Realize+, our AI-powered optimization framework that brings to the Open Web the kind of automation advertisers have come to expect from solutions like Google's Performance Max and Meta's Advantage+.

Since launching Realize+ beta, more than 300 advertisers have already adopted the platform and we're seeing encouraging early results as advertisers use AI to improve campaign efficiency and performance.

We also believe AI will fundamentally change how advertisers interact with advertising platforms, particularly holding companies, agencies and large advertisers. That's why we built our MCP and Claude integrations, which enable advertisers and agencies to plan, launch and optimize campaigns through natural language conversations with AI. While still early, we're encouraged by the momentum, with a few million dollars of advertiser spend already flowing through the integration.

We believe these investments position us well to lead the next generation of performance advertising and create more value for advertisers across the Open Web.

To wrap things up, we continued to execute across the business and raised our full-year ex-TAC guidance. Importantly, we also delivered strategic wins that demonstrate progress against our long-term vision.

We're also allocating capital with discipline. In the second quarter, we repurchased approximately 9 million shares for $41 million, continuing to return the majority of our Free Cash Flow through buybacks. We've repurchased approximately 20% of our outstanding shares since the beginning of 2025, while maintaining the right balance between investing for growth and returning capital to shareholders.

As we look ahead, we're excited about the momentum we're building. The actions we've taken and the initiatives we're putting in place are positioning us well for the back half of the year and into 2027. We're building a stronger, more durable business and are excited about the path ahead as we continue building the leading performance advertising platform for the open web.

With that, I'll hand it over to Steve.

Steve Walker, CFO

Thanks, Adam, and good morning, everyone. We're pleased with our performance in the second quarter. We continued to execute against our strategy and delivered results above our guidance across our key metrics.

In the second quarter, Revenues grew 2% year over year to $476.8 million. Revenue was below our guidance this quarter primarily as a result of two factors. The first was our continuing effort to optimize supply quality. As part of our ongoing focus on improving the quality and performance of our publisher network, we took a more aggressive approach in the second quarter by exiting publisher relationships that did not meet our standards for advertiser success. Because this should improve advertiser success across our network, we believe this will improve long-term revenue, despite the negative impact on 2026 Revenues. The second factor relates to the impact from Google's policy changes that affected our Explore More feature, as Adam described earlier. This feature enabled users to discover additional sponsored content from a publisher's site after they click the back button. However, Google's policy does not allow for such products anymore.

Despite these headwinds, I was happy to see that the number of Scaled Advertisers on our network grew 2% year over year, though we did see an impact from the headwinds on our Average Revenue per Scaled Advertiser, which remained relatively flat.

Ex-TAC Gross Profit increased 12% year over year to $192.4 million in the second quarter. Growth in ex-TAC Gross Profit outpaced the growth in Revenues due to a combination of factors. First, given the reduction in supply due to our network cleanup and the deprecation of ExploreMore, we saw an increase in ad rates, which drives higher ex-TAC margins. Second, we had a shift in the mix of our business towards higher margin areas, partially driven by those same clean-up efforts. Our strong ex-TAC growth also reflects the continued scaling of Realize, along with strong contributions from Taboola News. I would note that if it were not for Google's policy change that affected our ExploreMore feature, we would have exceeded the high end of our ex-TAC Gross Profit guidance.

Gross Profit for the quarter was $139.5 million, up 3% year-over-year. Growth in ex-TAC Gross Profit contributed to this growth. This growth was partially offset by a one time, non-cash write down of approximately $12 million related to certain publisher prepayments that we no longer expect to recoup, which obviously does not impact the long-term economics of our business.

Net Income for the quarter was $4.3 million, with Non-GAAP Net Income coming in at $41.3 million. Adjusted EBITDA for the quarter was $55.5 million, which was above the high end of our guidance and represented a margin of 29%. This reflects our ongoing discipline in expense management while continuing to invest in strategic priorities to support our long-term growth.

Foreign exchange continues to be a headwind in 2026. On a constant currency basis, FX represented roughly a $7.5 million headwind to second quarter Adjusted EBITDA. Excluding this impact, Adjusted EBITDA would have been approximately $63 million, which would have represented an Adjusted EBITDA margin of 33%. We expect FX to remain a headwind for the remainder of 2026.

In terms of cash generation, we had $31.3 million in operating cash flow in the second quarter and Free Cash Flow of $17.3 million. We continue to expect to sustainably convert free cash flow from Adjusted EBITDA at a 60% to 70% rate over any typical four-quarter period.

Turning to the balance sheet, we remain in a strong financial position. We ended the first quarter with a net cash balance of $61.1 million. Cash and cash equivalents totaled $133.1 million, which more than offset our long-term debt of $72 million. As of June 30, we had approximately $198 million of available liquidity under our $270 million revolving credit facility.

In the second quarter, we repurchased approximately 9.4 million shares at an average price of $4.42, for total consideration of $41.4 million. We have approximately $114 million remaining under our authorization and continue to view share repurchases as a compelling use of the majority of our free cash flow.

Moving to guidance, for the third quarter, we expect Revenues to be between $460 and $473 million, Gross Profit to be between $148 and $152 million, ex-TAC Gross Profit to be $184 to $190 million, Adjusted EBITDA to range from $51.5 to $56.5 million and Non-GAAP Net Income to be $38 to $42 million.

Reflecting continued momentum across the business, we are increasing our full-year outlook for ex-TAC Gross Profit and Adjusted EBITDA while also updating our Revenue, Gross Profit and Non-GAAP Net Income guidance.

We now expect Revenue of $1.93 billion to $1.96 billion and Gross Profit of $605 million to $615 million. Importantly, we are raising our ex-TAC Gross Profit guidance by $7 million at the midpoint, to $772 million to $783 million, and raising Adjusted EBITDA guidance by $3 million at the midpoint, to $228 million to $240 million. We expect Non-GAAP Net Income to be between $168 million and $176 million.

Our updated Revenue guidance incorporates forward looking effects of the Revenue impacts from our publisher network cleanup and the deprecation of our Explore More product due to Google's policy changes. I would also note that while there has been significant public discussion about the reduction of display ad impressions at Open Web publishers, our guidance reflects the impact of these user behavior changes. Our raised ex-TAC Gross Profit guidance is notable given that our outlook now incorporates the impact of the deprecation of Explore More, which was expected to contribute over $20 million of ex-TAC in the second half of 2026.

In summary, we continue to make meaningful progress against our strategic priorities. This quarter, I was particularly excited about the strengthening of our publisher network. Adding Fox News demonstrates the continued strength and growth of our network of exclusive supply. Our soon to be announced expansion with one of our larger existing publishers to full-page monetization is a significant validation of our Realize strategy and our expansion beyond native advertising. While we are in the early stages of many of these initiatives, we are encouraged by the momentum we're seeing and believe our disciplined execution reinforces our confidence in returning to sustainable double-digit growth.

With that, let's move to Q&A. Operator, can you please open the line for questions.