Q2 2024 Prepared Remarks

Jessica Kourakos, Head of Investor Relations

Thank you, and good morning everyone. And welcome to Taboola's second quarter 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.

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.

Q2 was another strong quarter, beating guidance on both ex-TAC and Adj. EBITDA and with meaningful cash flow conversion.

We saw:

- ex-TAC grow 21% vs last year to $150M
- Adjusted EBITDA of $37M, growing 138%

- Free Cash Flow was over $26M in Q2, and growing 237% and demonstrating 70% conversion from Adj. EBITDA

Not only does this year represent meaningful growth versus last year - it shows our growth rates are accelerating, which is great to see. This is a clear result of our investment in AI, the unique data we have access to, and the laser-focus we have on our strategy and execution.

Similar to last quarter, over 100% of our free cash flow was spent on share buybacks, representing our continued commitment to shareholder returns and the confidence in our long-term strategy.

With a strong first half of the year …, 2024 is shaping up to be a transformational year for Taboola. As a result, we are reiterating our 2024 guidance for ex-TAC, Adjusted EBITDA and Free Cash Flow which continues to project meaningful, accelerated growth in 2024 versus last year. To put things in perspective:

- ex-TAC is growing 25% versus last year to $667M
- Adj. EBITDA of over $200M, growing approximately 2x 2023, and
- Over $100M Free Cash Flow which is also 2x 2023 levels.

2024 continues to be an important year for us, as we progress towards building one of the most scalable companies in the Open Web. It's also setting a strong foundation for 2025 and onwards.

When looking at our <u>core business</u>, we have 2 main focus areas for the remainder of 2024:

1. Ramping ad budgets now that Apple and Taboola Select are launched, and Yahoo's advertiser migration is complete…. The second priority is →
2. Making advertisers successful, by improving retention rates and growing NDR spend which in return - help us grow our yield.

<u>Last quarter</u>, I talked about our focus on driving performance advertising and we've had clear momentum here, which is reflected in our results and guidance with ex-TAC growth rates improving in Q2 and in Q3.

This growth is driven by our focus on premium advertising as a company, while driving results. With the **rollout of Taboola Select** across our top publishers, **Apple now launched**, and optimizing our performance on **Yahoo** - we see a big opportunity focusing on quality moving forward, and bringing those budgets into the open web at scale. Our initiatives to attract tier 1 brands and agencies showed strong growth year over year …and accounted for 25% of revenue in Q2.

Just this past quarter we secured commitments from major advertisers in financial services, health and wellness, as well as online publishers which represent multi-millions in ad spend. Additionally -- our demand out of China has more than doubled versus the prior year, and shows great traction in the region.

Our investments in AI to drive advertiser success are a big part of our momentum. **Maximize Conversions**, our first AI-powered bidding technology, continues to make significant strides, with adoption now approaching 70% of our revenue, up approximately 10 points from where it was in Q1.

Thousands of advertisers are using Max Conversions today and we saw a massive sequential increase of over 100% in the number of advertiser campaigns using this technology. Our efforts are concentrated on enhancing retention rates and increasing budget allocations (also known as NDR). We continue to see promising results from advertisers transitioning to Max Conversions, with double-digit NDR growth reported for those who have adopted the platform compared to those who have not. It's exciting to see more and more advertisers adopting our AI as most of our revenue is performance driven, which means we don't need to wine & dine people to use our tech - They try it out. If it works they stick around … and if not, they stop using it.

Looking ahead we continue to focus on advancing our AI models …. leveraging our unique data …to identify and match users with advertisers, driving results at scale.

This type of performance we're seeing with our advertisers is exactly what the industry needs. … You see, in the open web - there is no scalable bridge for advertisers to reach the open web with a focus on performance… And we're hard at work, making it happen.

More about AI … and without saying too much … I can tell you that we have a new generative AI offering coming to market soon - we call her **"Abby"**. This product is VERY impressive. Abby is laser focused on driving advertiser success and addresses **a key friction-point for advertisers**. We plan to officially introduce Abby in the third quarter, and I suspect …. you will be amazed by what you'll see. Stay tuned for updates on this one.

Now I know you're all thinking about **Yahoo**, so let me give you an update. I'm happy to say we're done migrating Yahoo's advertisers and we're hard at work growing budgets into the second half of the year.

We keep seeing good performance from advertisers who have migrated, as demonstrated in one case study featured in our shareholder letter, where a leading hotel group took advantage of Taboola on Yahoo and saw 77% lower CPA than their target goal and 36% lower CPA than the next-best-performing channel. Another great example of our performance on Yahoo is evident in our work with a global technology company that achieved a 130% increase in impressions at a 28% lower CPM year-over-year when compared to similar campaigns.

As we increasingly prove our performance with tier 1 brands and agencies, invest in premium experiences for advertisers with the addition of Apple, Tabola Select, Yahoo and more - it allows us to grow ad budgets across the Taboola network overall. As a reminder - advertiser success drives yield growth which bolsters our competitive advantage, as well as our profitability.

Turning now to our **growth engines** - Taboola News, eCommerce and our bidder. Our product innovation and commercial wins continue to drive good momentum, and it shows in our financial results.

In Q2, we signed a significant, exclusive and global **Taboola News** OEM partnership. This new deal will expand our reach into all global markets, featuring multiple touch points for users to discover news they may like. Our product team is focused on testing new video experiences as well various new utilities such as weather, sports and others. These enhancements resulted in over 20% increase in time spent on the Taboola News platform compared to Q1 2024.

Moving to **eCommerce,** we delivered another strong quarter. This success is driven by outstanding advertiser revenue retention in our core markets and the expansion into new high-growth advertising channels and international markets. We're now also seeing growth with creators across various social platforms, coming to us with a desire to review products they're passionate about and drive performance to our merchants. We call that "Shop..Your…Likes.", It is showing amazing potential and it is already contributing to our growth. This early success positions us well to keep growing eCommerce in the years ahead.

Moving to our Bidding product which is where we USE our unique data, AI, and direct advertiser relationships to bid on supply that is not exclusively ours.

We had a number of exciting developments in Q2. After successfully collaborating with Microsoft for several years now, I'm happy to say that we renewed our partnership and are excited to expand our bidder technology to capitalize on emerging supply opportunities. Our efforts are now focused on integrating with high-traffic platforms such as Outlook, Casual Games, and Microsoft 365. By extending our technology to these new areas, we aim to enhance our advertising capabilities and deliver even more targeted and effective campaigns across Microsoft's diverse ecosystem.

In summary, 2024 is shaping up to be a transformational year for Taboola, with:
- A strong Q2, beating guidance on both ex-TAC and Adj. EBITDA
- Reiterating our 2024 guidance for ex-TAC, Adjusted EBITDA and Free Cash Flow; and
- Accelerating growth metrics in Q2 and for the year

There is a lot of good momentum in the advertising industry. I believe this market will reach a trillion dollars in years to come, with more and more companies around the world looking to tap into advertising in a big way – Utility apps, streamers, OEMs, and more. While many companies would want to sell to top brands, it's not easy, and many would "want a friend" like Taboola to access tens of thousands of advertisers, drive performance to them, and build a meaningful advertising business. We have the size, the tech, the salesforce, and the experience to support many of them. I often think of it like "Advertising In a Box," or "Advertising as a Service" which we can do a lot more over the next 5-10 years as we partner with many great companies.

There is a lot of good work ahead of us. It's a big step up financially and strategically, and we're ready.

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

Steve Walker, CFO

Thanks, Adam, and good morning, everyone. As Adam mentioned, we've had a strong first half of the year and are well-positioned to continue this momentum into the second half.

Let's dive into the details of our financial performance.

Q2 results were strong and showed accelerating growth across all key metrics. Revenue of $428.2 million grew 29% year over year and Ex-TAC Gross Profit of $149.5 million grew 21% year over year. Ex-TAC growth in Q2 was primarily driven by an increase in advertiser spend particularly with tier 1 premium advertisers and growth in the availability of premium supply through our platform.

Net loss was $4.3 million, with Non-GAAP Net Income coming in positive at $23.0 million. Adjusted EBITDA for the quarter of $37.2 million was up 138% year over year and reflected a 25% Adjusted EBITDA margin. Free Cash Flow of $26.2 million benefited from the stronger than projected Adjusted EBITDA.

Q2 Operating expenses of $122.4 million were essentially flat with the year ago period, demonstrating our strong focus on cost discipline. Headcount increases were primarily limited to the growth areas of our business. With ongoing expense discipline and strong growth expectations, we continue to expect to approach our long-term Adjusted EBITDA margin target of 30% in 2024.

The GAAP Net Loss for Q2 of $4.3 million narrowed significantly from $31.3 million for Q2 2023. Q2 2024 GAAP Net Loss included Amortization of intangibles of $15.8 million, Share-Based Compensation expenses of $15.7 million, and Holdback Compensation expenses related to the Connexity acquisition of $2.6 million. Excluding those items, our Non-GAAP Net Income of $23.0 million exceeded the high end of our guidance range for the quarter.

In terms of cash generation, we had approximately $38.8 million in operating cash flow in Q2 and Free Cash Flow of $26.2 million. This includes net publisher prepayments, which contributed $23.6 million to cash flow, and interest payments on our long-term debt, which used $3.7 million.

Turning to the balance sheet, our net cash balance remains robust. We ended Q2 with a net cash position of $29.5 million, even after share repurchases. Cash and cash equivalents totaled $182.2 million, remaining above our long-term loan balance of $152.7 million.

Regarding share repurchases, we bought back $26.7 million of shares in Q2. We still have $66 million remaining under our previously announced $100 million repurchase plan. Our goal remains to at least offset dilution and maintain our share count compared to Q1 2023 levels.

At the end of Q2 2024, our issued and outstanding shares were down by 2.7 million shares compared to the end of Q1 2023. For future cash use, we continue to prioritize share buybacks given current valuations, though we will also consider paying down long-term debt if additional cash becomes available.

Now turning to the future. I'm confident in the ongoing trends within our business and the capabilities of our team to sustain strong and accelerated growth. We've had a solid start to the year and we're optimistic about the opportunities that lie ahead.

Our guidance reflects strong expectations for Q3 and the remainder of the year. We continue to expect yield growth to turn positive in 2024 as we continue to ramp advertising spend due to our advertiser success initiatives and as contextual data increases due to our increased scale.

With a strong first half and continued optimism for the year, we are reaffirming our annual guidance for Gross Profit, ex-TAC Gross Profit, Adjusted EBITDA, and Non-GAAP Net Income.

As previously stated, Gross Profit is projected to be between $535 and $555 million and ex-TAC Gross Profit is expected to be in the $656 to $679 million range. That ex-TAC guidance reflects a 25% increase year over year at the midpoint. Our Adjusted EBITDA guidance remains over $200 million, and we expect Free Cash Flow to exceed $100 million—representing roughly a doubling of both metrics compared to 2023. We anticipate Non-GAAP Net Income of $84 to $104 million for the year.

We are updating our Revenue expectations to $1.735 to $1.765 billion, representing a 22% growth at the midpoint. This is primarily due to a test we will be conducting as part of our ongoing collaboration with Yahoo. Specifically, we will be testing some new ad formats on a portion of Yahoo's inventory to see how they perform for advertisers and how much further financial growth we can generate. During this test period, that revenue will be recognized as a TAC offset rather than Revenue. Therefore our ex-TAC will remain approximately the same, but our Revenue will be reduced. As I have said many times in the past, ex-TAC is the metric on which we focus and measure ourselves and this change does not affect our expected 25% year over year increase in ex-TAC. I would also note that there will be no change to Adjusted EBITDA, Free Cash Flow or any other key metrics as a result of this test.

For the third quarter, we are issuing the following guidance… We expect Revenues to be between $416 and $446 million, Gross Profit from $129 to $139 million, ex-TAC Gross Profit from

$159 to $169 million, Adjusted EBITDA from $42 to $52 million, and Non-GAAP Net Income from $20 to $30 million.

In conclusion, we are confident in our ability to expand and scale our business while adhering to a disciplined and balanced spending strategy. Our focus is on improving efficiency and profitability, even as we continue to invest in our growth. We believe that our ongoing investments in technology will yield long-term benefits for our publishers and advertisers, which will show up in our financial performance and therefore benefit shareholders. Our momentum is stronger than ever, with key milestones including the completion of Yahoo's advertiser migration, our ongoing partnership with Apple, and a major new OEM deal for Taboola News. This progress brings us closer to becoming a "must buy" for advertisers looking to engage with consumers around the world on the Open Web.

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