Taboola

Q3 2024 and FY 2024 Key Highlights
<u>Q3 Financials</u> - Beat on Revenues, ex-TAC, and Adj. EBITDA; $97M YTD FCF already approaching FY 2024 target of $100M+ - <u>Q3 2024 Results:</u> Revenues $433M, Gross profit $133M, ex-TAC Gross Profit $166M, Net loss $6M, Non-GAAP Net Income $22M, Adj. EBITDA $48M, Free Cash Flow $43M - <u>Strong YoY growth:</u> Revenues +20%, ex-TAC +30%, Adj. EBITDA +110%, FCF +88% - <u>Strong Free Cash Flow conversion:</u> 89% conversion from Adj. EBITDA **<u>Reiterating 2024 Revenues, ex-TAC, Adj. EBITDA guidance; Growth rates accelerate across all metrics; Raising 2024 FCF Target to $105M+</u>** - <u>Q4 guidance:</u> $475M in Revenues (+13% YoY), $188M Gross profit (+36% YoY), $213M ex-TAC Gross Profit (+26% YoY), $91M Adj. EBITDA (+82% YoY)* - <u>Reiterating 2024 guidance</u>: $1,750M Revenues (+22% YoY), $667M ex-TAC Gross Profit (+25% YoY), $200M+ Adj. EBITDA (2x+ YoY; ~30% margin)* - <u>Raising 2024 FCF target</u> from $100M+ FCF (2x+ YoY) to $105M+ **Business highlights - Yield growth turns positive in Q3 driven by growth in ad spend; met our internal Q3 Yahoo advertiser spend targets** - Released Abby, advanced GenAI ad assistant, allowing advertisers to "talk" to Taboola and successfully launch ads in minutes - Max Conversions adoption of ~70%; +1,500 advertisers QoQ; # of campaigns +36% QoQ - Tier 1 brand & agency spend very strong led by auto, e-commerce, and finance verticals - Another quarter when ad spend out of China is up 2x vs last year - Apple News/Stocks seeing significant commercial traction - Sept # advertisers 2x vs July - Taboola News - Xiaomi expands partnership to more global markets and across more touchpoints per device * References midpoints of guidance ranges.

Dear Shareholder,

We are pleased to report that Q3 was another strong quarter for Taboola where we beat our guidance mid-point for Revenues, ex-TAC Gross Profit, and Adjusted EBITDA. Q3 Revenues of $433M grew 20% vs. last year, ex-TAC Gross Profit of $166M grew 30%, and Adjusted EBITDA of $48M grew 110%. Q3 FCF of $43M showed very strong conversion from Adjusted EBITDA.

With three quarters under our belt, and the run rate we are pacing at heading into Q4, we are reiterating our 2024 guidance for all metrics. We expect Revenues to grow 22% to $1,750M, ex-TAC Gross Profit growing 25% to $667M, Adjusted EBITDA of over $200M growing approximately 2x 2023.

Additionally - with YTD Free Cash Flow already reaching almost $100M and essentially meeting our target for the full year, we are raising our Free Cash Flow target to over $105M for 2024, which represents 2x+ the level we generated in 2023.

2024 continues to be a huge year for us which is evident in our financial performance and our return to positive yield growth in Q3. As we look towards the future, our aim is to continue executing and building out our offering to delight both our advertiser and publisher partners. Given the strength of our supply, much of our focus will continue to be on growing the number of advertisers and their spend with us and ensuring our technology is meeting their needs through the entire journey with Taboola. We plan to host an Investor Day early next year where we'll share our 2025 and long term roadmap for publishers, advertisers, and OEMs.

Guidance Summary Shows Accelerated Growth in 2024 Across All Key Measures

	Q4 2024 Guidance		FY 2024 Guidance	
	Q3 2024	**YoY % Growth**	**FY 2024**	**YoY % Growth**
	(Unaudited; dollars in millions)			
Revenues	$460 - $490	13%	$1,735 - $1,765	22%
Gross profit	$180 - $196	36%	$535 - $555	28%
ex-TAC Gross Profit	$205 - $221	26%	$656 - $679	25%
Adjusted EBITDA*	$83 - $99	82%	$200+	103%
Non-GAAP Net Income (Loss)	$37 - $53	43%	$84 - $104	188%

All percent changes are year over year based on the midpoint of the guidance.

Core Business - Our Advertisers & Publishers

Our core business matches advertisers with users on publishers sites in the premium open web.
I'm very excited about the growth potential of publishers in the open web for the following reasons:

- **AI**: Most publishers have yet to adopt AI in a meaningful way. Today, the average user reads 1-2 pages per visit, which is way too little. AI would increase engagement by personalizing homepages and article pages, resulting in that number increasing. This is a great opportunity for us as more publishers use our publisher platform to drive personalization and engagement.

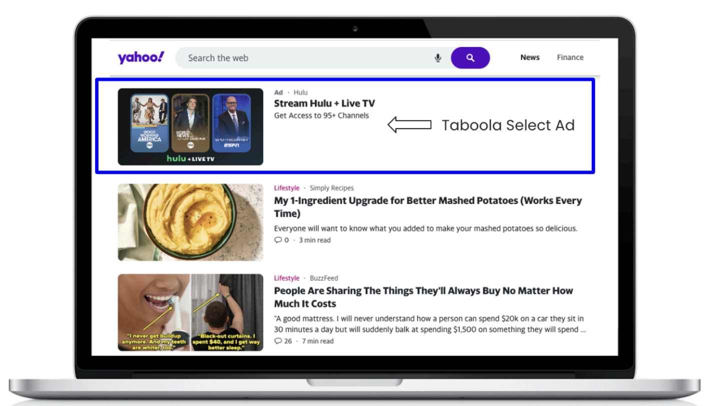
- **New distribution channels**: Today most traffic to publishers comes from search and social. As we're seeing OEMs and utility apps integrating news feeds to increase the engagement they have with their user base, we will see a rise in traffic to publishers coming from new sources of traffic like Taboola News, and others.
- **Revenue per user**: Publishers are looking to diversify their revenue streams and take advantage of the editorial clout and trust they have, which social networks don't. This includes things like e-Commerce, subscriptions, and more.

Our long term exclusive agreements are a significant competitive advantage for Taboola and provide a predictable base of high quality inventory for advertisers. As our publisher network increasingly adopts AI (e.g. Homepage4You, Newsroom, commerce widgets, etc.) our supply base becomes bigger and stronger - which is great for advertisers, and great for Taboola.

As I mentioned, this is very encouraging to see yield returning to growth this quarter. A lot of it is driven by ad spend growing globally. We are continuing to make strides growing ad spend in important international markets like China where we saw advertisers grow their global spend with us by 2x vs last year - this is the second quarter in a row where we're seeing this trend - check out our latest case study with a major Chinese e-commerce company.

<u>Attracting premium advertisers / budgets - "Taboola Select"</u>

As we rolled out Yahoo and Apple this year, alongside our partnership with Microsoft from years ago, we learned that there is a big opportunity when we render Taboola in a premium experience, mostly designed to be a 100% share of voice, surrounded by organic content recommendations and editorial content. Look at Yahoo homepage as an example you can see, Taboola ads are "on their own."



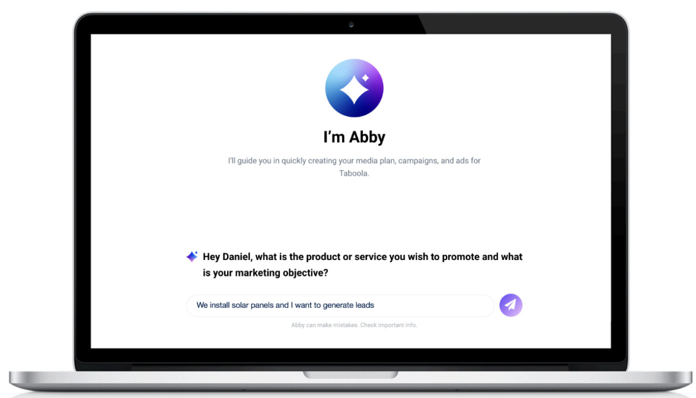
To get premium budgets directly, through the DSP and agency partnerships we have - we launched "Taboola Select" in Q2. Taboola Select is designed to deliver performance outcomes for Tier 1 brands at scale within a highly curated ecosystem of the most premium, editorial publishers in the internet - delivering a premium experience. We're seeing good traction with major car manufacturers, health insurance carriers, and food chains. We also partnered with Jounce Media to certify that Taboola Select is free of Made-for-Advertising (MFA) sites, reinforcing our commitment to creating brand safe environments for advertisers.

I mentioned Microsoft, Yahoo and Apple being big contributors to our learning to attract tier 1 advertisers. Let me share a bit more about how we're doing with those.

- **Microsoft:** We feel good about how our expanded Microsoft partnership is progressing. Our technical integration with Xandr is under way and we expect to onboard additional inventory by the end of Q4, growing Microsoft even further from where it is now. We are particularly excited about onboarding Outlook Mail inventory, as we'll now provide our advertisers with access to two of the largest email providers in the world - Yahoo Mail and Outlook Mail. This has the potential to drive more adoption with performance advertisers specifically focused on email marketing.
- **Yahoo:** Sales focus to expand ad budgets on Yahoo with tier 1 advertisers is progressing well. The test of new formats is progressing as expected and showing good results for both Yahoo and Taboola. We continue to expect the test to be concluded in Q1, and are currently working with Yahoo on growing OMNI advertiser spend on the rest of the Taboola network (which is very small now, but represents an area of opportunity longer term).
- **Apple**: Our focus on sales enablement is seeing significant traction, with over 2X+ growth in the number of advertisers spending on Apple inventory in Q3 when comparing July to September.

<u>Our Technology & AI Advancements</u>

As many of you know, we are laser focused on driving advertiser success. As a part of this initiative we **introduced Abby**, an advanced AI assistant for advertisers that offers a conversational approach to building and launching every aspect of their campaigns – budgeting, targeting, creative, and more. This is a big advancement in automating our onboarding process, leveraging our advanced AI technology (like our generative AI Admaker and Max Conversions for bidding), as well as advancing our self service initiative.



To understand the potential Abby has, it can drive three key long-term benefits for Taboola:

1. Higher spend per advertiser customer (by reducing churn and increasing Net Dollar Retention),
2. Lower total cost to service advertiser customers (by allowing more advertisers to use self-service and by improving productivity of existing account managers),
3. Potential to make self-serve meaningful in size. With this ability to serve more advertisers of all sizes more scalably than ever before.

Advertisers regardless of their advertising background are now able to work with Taboola Ads in a much more efficient and easier to navigate manner.

Maximize Conversion continues to gain traction with advertisers. In the quarter, we added over 1500 new advertisers using our AI-powered bidder, Maximize Conversion, on Taboola, reflecting total adoption of ~70%. Advertisers using Maximize Conversion continue to drive double-digit growth in spend/usage, with the number of campaigns growing significantly +36% QoQ. As we said during the launch of Abby in early October, Maximize Conversion is Abby's default bidding technology which should continue to advance its usage over the long term.

We believe all these initiatives will benefit our advertisers with a faster, easier and more successful experience as we continue to scale our business profitably.

Beyond our Core - Taboola News & e-Commerce

Taboola News

In Q3 we announced the expansion of our partnership with Xiaomi, one of the world's leading smartphone brands, for an additional four years. This renewed agreement goes beyond our original collaboration, allowing us to enhance our presence in new markets and with more touchpoints on each device. As part of this partnership, we will continue to deliver tailored recommendations on Xiaomi smartphones, focusing on features such as lockscreens and web browsers. Our efforts will extend across regions where Xiaomi operates, including EMEA, APAC, and LATAM, further strengthening our commitment to providing valuable content to users worldwide. In addition, last quarter we mentioned that we signed a new partnership with a top 10 global OEM and, while we're not able to share its name yet, I'm happy to say we started rolling it out in October.

e-Commerce

eCommerce is a great place to be. We continue to witness impressive growth in new channels, particularly in social commerce, accessed through our ShopYourLikes creator offering - this is where people with social influence can come to us, pick up a product they are passionate about and create content. This content is authentic, retailers love it, and they get paid when they drive conversions. In addition, a good amount of the strong growth we are seeing in China ad spend this quarter is coming from big e-commerce companies seeing a lot of value in our offerings that drive higher customer acquisition and purchasing activity and complement what they are doing on search and social today.

In Summary

I'm happy with our Q3 performance, beating our Revenues, ex-TAC and Adj. EBITDA guidance and raising our 2024 Free Cash Flow target.

As we approach the end of the year, we anticipate another strong fourth quarter. We are confident in our strategy of building the largest scale performance advertising company in the open web outside of the walled gardens.

We remain laser focused on driving demand and improving advertiser success. Technologies like Abby, Maximize Conversions, and Ad Maker are central to our efforts, and we are excited to announce even more innovations in the near future.

We're going to have an Investor Day early next year, which is where we intend to share many new developments alongside our partners. Stay tuned for more.

I want to take a moment to express my pride in our team around the world. Their hard work is shown in our numbers, and in industry recognition, including a win at the Digiday Technology Awards for 'Best Native Advertising Platform' with our Maximize Conversions case study featuring Hyundai and Innocean. Additionally, we were honored to be named a finalist for the AdExchanger Awards in the category of 'Best Use of Technology by a Publisher' for our collaboration with The Independent.

As you can imagine, I'm spending a lot of time in Israel with our teams who are demonstrating remarkable resilience, delivering new products, advancing advertiser budgets and winning awards. This is huge. 2024 is a big year for us, and I'm so proud of our execution, leading into a strong Q4. We are looking forward to delivering on our guidance, and having a very strong close to the year.
Thanks, as always, for your support and being part of our journey. Only the beginning.

Kind regards,
-- Adam Singolda
Founder & CEO, Taboola

***About Non-GAAP Financial Information**

This letter includes ex-TAC Gross Profit, Adjusted EBITDA, Free Cash Flow and Non-GAAP Net Income (Loss), which are non-GAAP financial measures. These non-GAAP financial measures are not measures of financial performance in accordance with GAAP and may exclude items that are significant in understanding and assessing the Company's financial results. Therefore, these measures should not be considered in isolation or as an alternative to revenues, gross profit,net income (loss), cash flows from operations or other measures of profitability, liquidity or performance under GAAP. You should be aware that the Company's presentation of these measures may not be comparable to similarly-titled measures used by other companies.

The Company believes non-GAAP financial measures provide useful information to management and investors regarding future financial and business trends relating to the Company. The Company believes that the use of these measures provides an additional tool for investors to use in evaluating operating results and trends and in comparing the Company's financial measures with other similar companies, many of which present similar non-GAAP financial measures to investors. Non-GAAP financial measures are subject to inherent limitations because they reflect the exercise of judgments by management about which items are excluded or included in calculating them. Please refer to the appendix at the end of this letter for reconciliations to the most directly comparable measures in accordance with GAAP.

Note Regarding Forward-Looking Statements

Certain statements in this letter are forward-looking statements. Forward-looking statements generally relate to future events including future financial or operating performance of Taboola.com Ltd. (the "Company"). In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expect", "guidance", "intend", "will", "estimate", "anticipate", "believe", "predict", "target", "potential" or "continue", or the negatives of these terms or variations of them or similar terminology. Such forward-looking statements are subject to risks, uncertainties, and other factors which could cause actual results to differ materially from those expressed or implied by such forward looking statements.

These forward-looking statements are based upon estimates and assumptions that, while considered reasonable by the Company and its management, are inherently uncertain. Uncertainties and risk factors that could affect the Company's future performance and cause results to differ from the forward-looking statements in this shareholder letter include, but are not limited to: the Company's ability to grow and manage growth profitably, maintain relationships with customers and retain its management and key employees; changes in applicable laws or regulations; the Company's estimates of expenses and profitability and underlying assumptions with respect to accounting presentations and purchase price and other adjustments; the extent to which we will buyback any of our Ordinary shares pursuant to authority granted by the Company's Board of Directors, which may depend upon market and economic conditions, other business opportunities and priorities, satisfying required conditions under the Israeli Companies Law and the Companies Regulations or other factors;

the ability to generate or achieve the increase in Adjusted EBITDA and Free Cash Flow in 2024 or our expected revenue run-rate now that the Yahoo integration is live, in each case to the levels assumed in this shareholder letter or at all; ability to attract new digital properties and advertisers; ability to meet minimum guarantee requirements in contracts with digital properties; intense competition in the digital advertising space, including with competitors who have significantly more resources; ability to grow and scale the Company's ad and content platform through new relationships with advertisers and digital properties; ability to secure high quality content from digital properties; ability to maintain relationships with current advertiser and digital property partners; ability to prioritize investments to improve profitability and free cash flow; ability to make continued investments in the Company's AI-powered technology platform; the need to attract, train and retain highly-skilled technical workforce; changes in the regulation of, or market practice with respect to, "third party cookies" and its impact on digital advertising; continued engagement by users who interact with the Company's platform on various digital properties; reliance on a limited number of partners for a significant portion of the Company's revenue; changes in laws and regulations related to privacy, data protection, advertising regulation, competition and other areas related to digital advertising; ability to enforce, protect and maintain intellectual property rights; risks related to the fact that we are incorporated in Israel and governed by Israeli law; the potential impacts of the war in Israel to the Company's operations; and other risks and uncertainties set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 under Part 1, Item 1A "Risk Factors" and in the Company's subsequent filings with the Securities and Exchange Commission.

Nothing in this letter should be regarded as a representation by any person that the forward-looking statements set forth herein will be achieved or that any of the contemplated results of such forward-looking statements will be achieved. You should not place undue reliance on these forward-looking statements, which speak only as of the date they were made. The Company undertakes no duty to update these forward-looking statements except as may be required by law.

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APPENDIX: Non-GAAP Reconciliation

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023 (UNAUDITED)

The following table provides a reconciliation of revenues to ex-TAC Gross Profit.

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	(dollars in thousands)			
Revenues	**$ 433,012**	**$ 360,221**	**$ 1,275,180**	**$ 1,019,911**
Traffic acquisition cost (1)	267,997	231,786	821,737	652,602
Other cost of revenues	32,138	27,776	96,835	80,001
Gross profit	$ 132,877	$ 100,659	$ 356,608	$ 287,308
Add back: Other cost of revenues and amortization (1)	33,528	27,776	98,225	80,001
ex-TAC Gross Profit	**$ 166,405**	**$ 128,435**	**$ 454,833**	**$ 367,309**

[1] The three and nine months ended September 30, 2024 included $1,390 initial amortization expense of the non-cash based Commercial agreement asset.

The following table provides a reconciliation of net income (loss) to Adjusted EBITDA.

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	(dollars in thousands)			
Net loss	**$ (6,454)**	**$ (23,136)**	**$ (36,903)**	**$ (85,763)**
Adjusted to exclude the following:				
Finance expenses, net	1,106	4,402	3,740	11,383
Income tax expenses	9,906	—	11,857	1,848
Depreciation and amortization (1)	26,183	25,316	77,366	70,709
Share-based compensation expenses	15,423	13,605	44,838	41,022
Holdback compensation expenses (2)	1,763	2,646	7,054	7,846
Other costs (3)	—	—	695	1,571
Adjusted EBITDA	**$ 47,927**	**$ 22,833**	**$ 108,647**	**$ 48,616**

[1] The three and nine months ended September 30, 2024 included $1,390 initial amortization expense of the non-cash based Commercial agreement asset.

[2] Represents share-based compensation due to holdback of Ordinary shares issuable under compensatory arrangements relating to Connexity acquisition.

[3] The nine months ended September 30, 2024 and September 30, 2023 included one-time professional service costs and one-time costs related to the Commercial agreement, respectively.

The following table provides a reconciliation of net income (loss) to Non-GAAP Net Income (loss).

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	(dollars in thousands)			
Net loss	**$ (6,454)**	**$ (23,136)**	**$ (36,903)**	**$ (85,763)**
Amortization (1)	16,474	15,980	48,163	47,911
Share-based compensation expenses	15,423	13,605	44,838	41,022
Holdback compensation expenses (2)	1,763	2,646	7,054	7,846
Other costs (3)	—	—	695	1,571
Revaluation of Warrants	(737)	241	(4,624)	(733)
Foreign currency exchange rate losses (gains) (4)	(738)	859	650	625
Income tax effects	(3,520)	(3,491)	(10,820)	(11,282)
Non-GAAP Net Income	**$ 22,211**	**$ 6,704**	**$ 49,053**	**$ 1,197**

[1] The three and nine months ended September 30, 2024 included $1,390 initial amortization expense of the non-cash based Commercial agreement asset.

[2] Represents share-based compensation due to holdback of Ordinary shares issuable under compensatory arrangements relating to Connexity acquisition.

[3] The nine months ended September 30, 2024 and September 30, 2023 included one-time professional service costs and one-time costs related to the Commercial agreement, respectively.

[4] Represents foreign currency exchange rate gains or losses related to the remeasurement of monetary assets and liabilities to the Company's functional currency using exchange rates in effect at the end of the reporting period.

The following table provides a reconciliation of net cash provided by operating activities to Free Cash Flow.

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
	(dollars in thousands)			
Net cash provided by operating activities	**$ 49,772**	**$ 32,459**	**$ 122,396**	**$ 61,581**
Purchases of property and equipment, including capitalized internal-use software	(6,908)	(9,661)	(25,130)	(19,839)
Free Cash Flow	**$ 42,864**	**$ 22,798**	**$ 97,266**	**$ 41,742**

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APPENDIX: Non-GAAP Guidance Reconciliation

RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES FOR Q4 2024 AND FULL YEAR 2024 GUIDANCE

(Unaudited)

The following table provides a reconciliation of projected Gross profit to ex-TAC Gross Profit.

	Q4 2024 Guidance	FY 2024 Guidance
	Unaudited	
	(dollars in millions)	
Revenues	\$460 - \$490	\$1,735 - \$1,765
Traffic acquisition cost	(\$255) - (\$269)	(\$1,079) - (\$1,086)
Other cost of revenues	(\$25) - (\$25)	(\$121) - (\$124)
Gross profit	\$180 - \$196	\$535 - \$555
Add back: Other cost of revenues	(\$25) - (\$25)	(\$121) - (\$124)
ex-TAC Gross Profit	\$205 - \$221	\$656 - \$679

Although we provide a projection for Free Cash Flow, we are not able to provide a projection for net cash provided by operating activities, the most directly comparable GAAP measure. Certain elements of net cash provided by operating activities, including taxes and timing of collections and payments, are not predictable therefore projecting an accurate forecast is difficult. As a result, it is impractical for us to provide projections on net cash provided by operating activities or to reconcile our Free Cash Flow projections without unreasonable efforts. Consequently, no disclosure of projected net cash provided by operating activities is included. For the same reasons, we are unable to address the probable significance of the unavailable information.