Q3 2024 Prepared Remarks

Jessica Kourakos, Head of Investor Relations

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

Good morning everyone and thank you all for joining us.

Q3 was another strong quarter, beating our guidance mid-point for Revenues, ex-TAC Gross Profit, and Adjusted EBITDA. With this strong quarter and the momentum we've seen for our run rate heading into Q4, we are reiterating our 2024 guidance for all metrics and raising our Free Cash Flow target to more than $105M, which represents more than 2 times the level of what we generated in 2023.

2024 continues to be a big year for us, as you can see 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. This includes making sure our technology is meeting advertisers' needs throughout the entire journey with Taboola.

As a reminder, Taboola's core business is helping advertisers reach consumers on publisher sites and driving performance while also helping publishers grow their audience, engagement, and revenue. As I look into the growth potential of our core business - there are 3 exciting opportunities that are worth noting.

First, the growth in publisher adoption of AI: Most publishers have yet to fully adopt AI in a meaningful way. Today, the average user reads about 1-2 pages per visit, which is way too little. With AI personalizing homepages and article pages, that number should grow and help drive engagement. This is a great opportunity and a differentiation for us, as more and more publishers use our Publisher Platform to go beyond just generating revenue, and drive personalization and engagement.

Second, we see growth in users visiting our publisher sites through the adoption of new distribution channels: Today most traffic to publishers comes from search and social. We're seeing OEMs and utility apps integrating news feeds to increase the engagement they have with their user base. And that leads to a rise in traffic to publishers, driven from those new sources of traffic like Taboola News, and others.

Third, we see growth in our ability to drive more 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 our advertisers. As our publisher network increasingly adopts AI like Homepage For You, Newsroom, and commerce widgets, our supply base becomes bigger and stronger. This is great for advertisers, and great for Taboola.

As you know, we're laser focused on making advertisers successful and growing our yield as a result. We believe Taboola's greatest opportunity for growth is by growing our advertiser base and getting more budgets from advertisers given our huge access to users .

It is very encouraging to see yield returning to growth this quarter. A lot of it is driven by investment in AI and advertiser-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. You can see a great example in our Shareholder Letter of how spending is ramping with a major Chinese e-commerce company as we prove how we can deliver strong performance for them at scale.

One thing that is unique this year is the learnings we've had about the opportunity to attract tier 1 advertisers to drive performance. It started with Microsoft years ago, and ramped meaningfully this year as we rolled out Yahoo and Apple. One of our initiatives to attract these tier 1 advertisers is called "Taboola Select." It is where tier 1 advertisers can work with us to not only be on premium publishers like CNBC, ESPN, USA Today and others, but also buy an experience that is even more premium, where they have 100 percent share of voice. A nice example of that is on Yahoo Homepage where you can see us rendering beautiful ads, that are on their own, surrounded by editorial recommendations. Tier 1 advertisers love that, it is premium and it performs.

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.

We've been working with Microsoft for nearly a decade now, and we feel good about how our expanded partnership is progressing this year. Our technical integration with Xandr is underway and we expect to onboard additional premium 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.

Speaking about Yahoo, our 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. This is very small now as we were very focused on Yahoo first, but it does represent an area of opportunity longer term for Taboola.

Finally, for 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.

These are all some reasons why we're excited about our core business, and the growth potential. Next, I want to move to growth drivers beyond our Core, focusing on Taboola News & e-Commerce.

For Taboola News in Q3 we announced the expansion of our partnership with Xiaomi, one of the world's leading smartphone brand 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 touch points on each device. In addition, last quarter we mentioned that we signed a new partnership with a top 10 global OEM and, while we haven't shared their name yet, I'm happy to say we started rolling it out in October.

I really like Taboola News as it's special access to users for our advertisers, but also creates a meaningful driver of traffic to our publishers. It's still small now, where we send about more than a million people a day to our publishers, but Taboola News as a new distribution channel to publishers can grow a lot.

Turning to e-Commerce. e-Commerce is a great place to be. We continue to witness impressive growth in new channels, especially 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 working with Taboola to drive higher customer acquisition and purchasing activity side by side to their spend in search and social today.

To wrap things up, I'm happy with our Q3 performance, beating our Revenues, ex-TAC and Adj. EBITDA guidance, reiterating our guide for the year, and raising our 2024 Free Cash Flow target.

We remain laser focused on driving demand and improving advertiser success. Our investment in AI with technologies like Abby, Maximize Conversion, 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 many new developments alongside our partners. So stay tuned for more.

Before I turn the call over to Steve, I want to take a moment to express my pride in our global team. With everything that is going on in the world, it's inspirational for me to witness Taboola employees' resilience, hard work and spirit. All of these efforts are showing up in our numbers, and in industry recognition, including a win at the Digiday Technology Awards for 'Best Native Advertising Platform' highlighting a Maximize Conversion case-study with Hyundai and Innocean. We were also named a finalist for the AdExchanger Awards in the category of 'Best Use of Technology by a Publisher' for our collaboration with The Independent.

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.

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 another strong quarter and we are well-positioned to build on this momentum in the fourth quarter. So let's dive into the details of our financial performance.

Q3 results were strong, showcasing continued growth across all key metrics. Revenues reached $433.0 million, reflecting a 20% year-over-year increase, while ex-TAC Gross Profit of $166.4 million grew by 30% year over year. This strong ex-TAC growth in Q3 was primarily driven by increased advertiser spending, particularly from tier 1 brands and agencies, and the addition of a significant amount of premium supply since Q3 of last year. As we have previously discussed, this new supply is coming from Yahoo, Apple and other premium publications.

Net loss was $6.5 million, with Non-GAAP Net Income coming in positive at $22.2 million. Note that Income Before Income Taxes was positive at approximately $3.5 million. We had a relatively high Income Tax Expense charge this quarter due to the timing of tax provisions. The volatility arises from a change in deferred tax expenses between quarters. In any case, there was no cash impact.

Adjusted EBITDA for the quarter of $47.9 million was up 110% year over year and reflected a 29% Adjusted EBITDA margin. Free Cash Flow of $42.9 million benefited from our growth in Adjusted EBITDA and favorable operating leverage with our new publishing partners. I would note that over the trailing 8 quarters, our conversion of Adjusted EBITDA to Free Cash Flow has been 60%, which is at the high end of our long-term expectations of a 50-60% conversion rate.

Q3 Operating expenses of $128.3 million were up approximately $9 million versus the year ago period. Headcount and cost increases were primarily limited to the growth areas of our business. Our improved year over year Adjusted EBITDA margin of almost 29% demonstrates our strong focus on cost discipline. With ongoing expense discipline and strong growth expectations, we continue to expect we will approach our long-term Adjusted EBITDA margin target of 30% for the full year.

The GAAP Net Loss for Q3 of $6.5 million narrowed significantly from $23.1 million for Q3 2023. This GAAP Net Loss included several non-cash items. It included $26.2 million of amortization of intangibles including the non-cash based Yahoo prepayment, the latter of which is listed as the Commercial agreement asset on our balance sheet. I would note that this is the first time we have taken a charge for the amortization of the Commercial Agreement Asset or Yahoo Prepayment, but you should expect to see continued amortization of that asset going forward. The GAAP Net Loss also included Share-Based Compensation expenses of $15.4 million, and Holdback Compensation expenses related to the Connexity acquisition of $1.8 million. Excluding those non-cash items, our Non-GAAP Net Income was $22.2 million and was within our guidance range for the quarter.

In terms of cash generation, we had approximately $49.8 million in operating cash flow in Q3 and Free Cash Flow of $42.9 million. This includes net publisher prepayments, which contributed $6.9 million to cash flow, and interest payments on our long-term debt, which used $3.8 million.

Turning to the balance sheet, our net cash balance remains very robust. We ended Q3 with a positive net cash position of $64.5 million. Cash and cash equivalents totaled $217.2 million, remaining above our long-term loan balance of $152.7 million.

Regarding share repurchases, we bought back $10.0 million of shares in Q3. We still have approximately $56 million remaining under our previously announced $100 million repurchase plan. As you know, when we originally announced our share buyback program, we set the goal to offset dilution and maintain share counts at the end of Q1 2023 levels. At the end of Q3 2024, our outstanding shares were down by 6.2 million shares compared to the end of Q1 2023, so we have exceeded that goal. While we continue to believe that share buybacks are the best use of cash given current share prices, we are constrained by Israeli regulations limiting shareholder ownership to 25% absent approval of an exception, which is close to Yahoo's current ownership stake. Given this constraint, our share buybacks will primarily be used to offset dilution, and we will also consider paying down long-term debt with our excess cash flow. As always, both the share repurchase program and the debt pay down are contingent upon the availability of sufficient working capital.

Looking ahead, I am optimistic about the trendlines of our business and our team's ability to drive sustained and accelerated growth. We've had three strong quarters in 2024 and I believe we will continue to build on our momentum as we close out the year.

Our guidance reflects strong expectations for the fourth quarter. We continue to ramp advertising spend due to our advertiser success initiatives and as contextual data increases due to our increased scale, which will continue to improve our monetization performance.

With three strong quarters behind us, we are reaffirming our annual guidance for Revenues, Gross Profit, ex-TAC Gross Profit, Adjusted EBITDA, and Non-GAAP Net Income. Revenues are projected to be between $1.735 billion and $1.765 billion, representing a 22% growth at the midpoint. 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. We continue to expect Adjusted EBITDA to be over $200 million. Given our strong performance year to date, we are raising our Free Cash Flow target to over $105 million. These targets for Adjusted EBITDA and Free Cash Flow represent roughly a doubling of both metrics compared to 2023. Finally, we anticipate Non-GAAP Net Income of $84 to $104 million for the year.

For the fourth quarter, we are issuing the following guidance – we expect Revenues to be between $460 and $490 million, Gross Profit from $180 to $196 million, ex-TAC Gross Profit from $205 to $221 million, Adjusted EBITDA from $83 to $99 million, and Non-GAAP Net Income from $37 to $53 million.

In summary, we are confident in our ability to grow and scale our business while maintaining a disciplined and balanced approach to spending. Our emphasis is on enhancing efficiency and profitability, even as we continue to invest in our growth. We believe that our strategic investments in technology will deliver long-term advantages, which will positively impact our financial performance and benefit our shareholders. You saw our announcement of Abby last month, which is a great example of how investments in technology can help our customers and make us more productive as a business. Our momentum is very strong heading into Q4 and you can see that reflected in our accelerating year over year growth rates. This momentum, strong growth and advancements to our technology bring us closer to becoming a “must buy” for advertisers seeking to connect with consumers worldwide on the Open Web.

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