Q2 2025 Prepared Remarks

Jessica Kourakos, Head of Investor Relations

Thank you, and good morning everyone. And welcome to Taboola's second quarter 2025 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 today. Let me start by saying that I'm happy with our Q2 performance and the momentum we are seeing since exiting the quarter. We delivered a strong second quarter, beating the high end of our guidance across all key metrics. Buying back about 12% of the company in just the first half of the year, reflecting our confidence in the business and our long-term vision. As a result, we're raising full-year guidance across the board and are continuing to aggressively buy back shares. We're also seeing exciting early traction with Realize, our new performance advertising platform. We truly believe we're just getting started.

Before we go deeper on the quarter and our outlook, I want to quickly remind everyone who we are, the opportunity we are going after, and why we believe we can win.

Taboola is one of the largest performance advertising platforms on the open web. Our platform, Realize, helps businesses of all sizes get leads and grow sales. It operates similar to Google Ads, or Meta Ads, offering a simple to use platform, powered by AI. The key difference is that while Google reaches users in search, and Meta in social, Realize engages 600 million people every day across the open web, on publisher sites like Yahoo, NBC, ESPN, USA Today, Apple News, Samsung and others, driving those people to action.

Our competitive advantage lies in our AI and first-party data, drawn from what people actually read about, versus what people idealize of themselves in social media —giving advertisers authentic insights into user intent and high-performing outcomes.

In 2025, we expect nearly $2 billion in Gross Revenue, and approximately $700 million in ex-TAC Gross Profit, which is what we keep after we pay our partners - and a key metric for our business. We expect to generate over $200 million in Adjusted EBITDA at a 30% margin, with strong free cash flow. As search and social advertisers are maxing out and can't get more growth, advertisers are looking for scalable, performance-driven alternatives. Taboola is uniquely positioned to take share in what we estimate is a $55 billion opportunity and lead that shift across the Open Web.

With that, we can turn to our second quarter results. Our second quarter Revenues, ex-TAC Gross Profit, and Adjusted EBITDA all came in above the high end of our guidance range. For the second quarter, we reported:

- Revenues of $465 million, representing growth of 9% year-over-year;
- ex-TAC Gross Profit of $172 million, 15% higher than last year;

- Adjusted EBITDA of $45 million, 21% higher than last year with margins expanding significantly;
- And finally, Free Cash Flow of $34 million grew 31% year-over-year, allowing us to buy back about $100 million worth of stock in the quarter.

In addition, we are pleased to announce that our Board has approved an incremental $200 million to our share repurchase program, reflecting our confidence in the long-term value of the business.

Moving to our quarterly highlights. As we discussed at our Investor Day, accelerating ex-TAC Gross Profit is our North Star because it ultimately fuels our strong profitability and free cash flow generation. When you look at the 15% growth we saw in ex-TAC this quarter, it was primarily driven by three things. First, we saw nearly 9% growth in the number of Scaled Advertisers which are those spending over $100K in the last twelve months. This means they see good returns with Taboola and are likely to stick around. Revenue from Scaled Advertisers represents the vast majority of our revenue. Second, the average revenue per Scaled Advertiser rose about 2% versus last year. The third was an easier comparison in the first half given Yahoo was fully ramped by the end of the second quarter..

As we shared last quarter, our top priority for accelerating growth is the success of Realize, our new performance ad platform. Realize expands our reach beyond native advertising into the broader performance market, across display and social, unlocking new opportunities for growth.

This expansion is important as it not only allows us to capture larger budgets from existing advertisers but also work with new advertisers and agencies who have never bought native before. While it's still early days and not yet material financially, we're encouraged by the momentum we're seeing as 650 advertisers have already tested our new display and social capabilities since the February launch.

Let me share a few Q2 examples that showcase the kind of performance advertisers are already seeing with Realize.

One good example is a company in the aviation space that never worked with us before. With Realize, they tried our new display capability which means they could import their display creatives into Realize, they shared their performance objective, and we were able to beat their performance goal by 34% and maximize travel bookings on their platform. This success led to increased spend with us, which is exactly what you want to see in these types of cases.

Another example I like is in the real estate space. One of our existing advertisers, who has bought native advertising from us for 2 years now, was interested in finding new ways to grow. Their goal was to drive more local awareness to their modular homes in specific locations around the country. While their native spend was growing, with Realize new capabilities by importing their vertical display campaigns, they were able to see stronger overall conversion rates. This improved their return on ad spend and as a result, they grew their display budget by 65%, and are still growing.

These are just a few examples, but they're consistent with what we're seeing more broadly in our early tests with customers. Realize is helping advertisers drive better performance outcomes at scale on the Open Web, which we believe will translate into incremental dollars being spent on our network. And we're just getting started.

Now moving to our unique supply initiatives. While attracting more ad spend for Taboola and our existing publisher partners is our main priority, we're also hard at work adding incredible new Open Web partners who have unique supply and data that performance advertisers really want. Taboola News is a great example of unique supply and is seeing double digit growth. Advertisers love Taboola News because it gives them a way to reach consumers before they enter social media or browse the web, at high intent, high impact moments and it delivers strong performance in return.

Another point of strength that is worth noting as it relates to our publisher partners is the minimal effect we're experiencing from LLM-driven changes in search dynamics.

There are two key factors that help minimize the impact on Taboola as well as our publisher partners.

First, we're fortunate that the vast majority of our publisher partners are top-tier enterprises including names like ESPN, USA Today, CNBC, and Nexstar, who benefit from strong brand recognition and loyal audiences. As a result, they enjoy substantial direct traffic, with search traffic typically accounting for just 30% to 40% of their total.

Second, a significant portion of our revenue comes from Open Web platform partnerships such as Yahoo, Microsoft, Apple, and Samsung, which receive little to no search traffic to begin with.

These two pillars of our supply base have helped our publishers stay strong as well as us maintaining a blended search traffic share of around 5%. To date, we have not seen a material impact from recent changes in the search market driven by LLM. Performance remains stable, with year-to-date effects limited to the mid-single digits.

In summary, when I look at the Open Web, I see a major opportunity for the market and for us. Advertisers need alternatives to search and social in all parts of the Open Web. Companies like The Trade Desk have done a great job capturing top-of-funnel video and CTV campaigns, and AppLovin has excelled in the app ecosystem. There is a massive opportunity to become the performance advertising company for everything else like mobile, desktop, OEMs, messaging apps, and more. That's exactly what we're focused on and Realize is the key to unlocking our true potential in this market.

I'm so proud of our teams for the way we're executing in the first half. From launching Realize, and getting existing and new clients to try it out. As we are getting more budgets, it means we're able to generate even more revenue for our partners, making our share of wallet greater.

We're seeing a lot of good momentum. We beat our second quarter guidance. We're raising our full year guidance. We're generating meaningful cash flow, which allows us to invest in the business and buy a lot of shares back.

With that, I'll hand it over to Steve to walk you through our Q2 results and outlook in more detail.

Steve Walker, CFO

Thanks, Adam, and good morning, everyone. As Adam mentioned, we had a strong first half of the year. In the second quarter we reported results above the high-end of our guidance across all key metrics.

Second quarter Revenues reached $465.5 million, representing 8.7% year-over-year growth. Our revenue growth this quarter was driven by an 8.5% year-over-year increase in the number of Scaled Advertisers, coupled with a 1.8% year-over-year increase in Average Revenue per Scaled Advertiser. This reflects strong execution on both acquiring new advertisers and deepening relationships with existing ones. While these two metrics can sometimes move in opposite directions as newer advertisers typically start at lower spend levels, this quarter saw broad-based strength across both, which is a positive signal for the health and momentum of our business. As I have said in the past, I am particularly encouraged by the growth in the number of advertisers, because they are essentially the "fuel" for our future growth.

Ex-TAC Gross Profit reached $172.1 million, representing 15.1% year-over-year growth. This included a 45 basis point tailwind from foreign exchange rates. Growth was primarily driven by higher advertiser spend, margin expansion on certain digital publishers, and strong contributions from Taboola News and Bidded Supply. The growth rate also benefitted from a favorable comparison to last year due to the onboarding of Yahoo advertisers.

Gross profit for the quarter was $135.6 million, primarily benefiting from strong ex-TAC Gross Profit growth. As mentioned last quarter, Gross Profit also benefited from reductions in our Other Cost of Revenues driven by lower server and network infrastructure costs, some of which came from a reduction in depreciation expenses related to our servers due to a reassessment of their useful life.

Our Net loss was $4.3 million, with Non-GAAP Net Income coming in positive at $30.2 million. Adjusted EBITDA for the quarter was $45.2 million, reflecting 21.3% year-over-year growth. Our Adjusted EBITDA margin was 26.2%, which improved by 130 basis points versus Q2 2024. This improvement reflects our healthy year-over-year ex-TAC growth, along with strong cost discipline that we exercised in 2024 and the first half of 2025.

In terms of cash generation, we had $47.4 million in operating cash flow in the second quarter and Free Cash Flow of $34.2 million which is over 30% higher than the same quarter last year. Our Free Cash Flow benefited significantly from a couple of factors, primarily higher Adjusted EBITDA margins and strong management of our working capital. Our Free Cash Flow conversion from Adjusted EBITDA has been over 70% over the last 4 and the last 8 quarters, which we are very happy about. Looking forward, while we continue to expect to convert Free Cash Flow from Adjusted EBITDA at a 50% to 60% rate over any typical trailing 8 quarter period, I would expect to remain at the higher end of that range.

Turning to the balance sheet, we remain in a strong financial position. We ended the second quarter with a net cash balance of $27.2 million. Cash and cash equivalents totaled $115.2 million, which more than offset our long-term debt of $88 million. As a reminder, earlier this year we secured a new $270 million revolving credit facility, allowing us to fully repay our prior long-term loan while maintaining over $180 million in available capacity as of June 30. This facility also allowed us to reduce our interest expense by $1.2 million in the second quarter. With this facility, we can operate with a lower cash balance while preserving access to significant liquidity.

Regarding share repurchases, we continue to believe share repurchases are one of the most compelling uses of capital. In the second quarter we repurchased approximately 32 million shares at an average price of $3.13, for a total consideration of $100.1 million. Through July, we've repurchased an additional 3.1 million shares at an average price of $3.59 for a total of $11.0 million.

In July, our Board authorized an incremental $200 million, bringing our total authorization as of August 1st to approximately $285M. During the first half of the year, as Adam stated, we bought back nearly 12% of our total shares outstanding, shrinking our shares outstanding from about 337 million at the end of 2024 to about 297 million at the end of Q2 2025.

Moving to guidance, for the third quarter 2025, we are raising our guidance and expect Revenues to be between $461 and $469 million, Gross Profit to be between $127 and $133 million, ex-TAC Gross Profit to be $166 to $172 million, Adjusted EBITDA to range from $43 to $48 million and Non-GAAP Net Income to be $29 to $34 million.

For the full year, we are raising our guidance across the board. We now expect Revenues to be between $1.86 and $1.89 billion, Gross Profit to be between $541 and $555 million, ex-TAC Gross Profit to be $689 to $703 million, Adjusted EBITDA to be $208 to $214 million, and Non-GAAP Net Income to be $138 to $144 million.

This guidance reflects a strong first half of the year and continued momentum across our business entering the second half. When you are comparing each of the quarters this year to the same quarter last year, you must keep in mind the onboarding of Yahoo, which ramped in the first half of 2024 and impacted quarterly comparisons. As a result, we believe the full year projected growth rate of 3 to 5%, which normalizes for these dynamics, is the best representation of the true growth of our core business. Investors should anticipate growth rates similar to this year for the time being, as we focus on returning to consistent double-digit growth.

In summary, we're pleased to report a strong first half of the year, with results exceeding the high end of our guidance and giving us the confidence to raise our full-year outlook. With clear momentum across the growth initiatives we outlined at Investor Day and a significant runway ahead, we believe we are well-positioned to continue delivering meaningful value for our shareholders over the long term.

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