Q1 2024 Earnings Call

Thank you, and good morning everyone. And welcome to Taboola's first 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 Prepared Remarks:

Thanks Jessica. Good morning everyone and thank you all for joining us.

We had a strong start with Q1 results above the high end of our guidance range across all metrics:

- Ex-TAC of $139M grew 20% vs last year.
- Adjusted EBITDA of $23M grew more than 100%.
- Free Cash Flow was nearly $27M in Q1, and also more than doubled last year.
- All metrics beat the high end of our guidance range and are on track to meet our full year 2024 guidance.

I'm also encouraged to see that our growth rates are accelerating compared to last year.

Looking at our use of cash -- over 100% of our Free Cash Flow in Q1 was spent on share buybacks, demonstrating our strong commitment to shareholder returns and confidence in our long-term strategy and ability to execute.

With a strong Q1 and Q2 guidance showing double-digit growth versus the same time last year, we are reiterating our 2024 guidance, which projects accelerated growth on every metric, and making 2024 … a record year for us ….

- Revenues growing 33% to nearly $2B
- ex-TAC growing 25% to almost $670M
- Adj. EBITDA of over $200M, growing approximately 2x 2023, and
- $100M+ Free Cash Flow which is also 2x 2023 levels.

When looking at our core business, our main focus is: first, making our advertisers successful, and, in return, growing our yield year over year, and the second and big focus for us this year - ramping Yahoo.

Starting with our initiatives driving advertiser success, I just came back from an offsite where a lot of what we talked about is our goal to expand our initiatives to make Taboola a company recognized for quality across all fronts - delivering premium experiences to users and publishers, while attracting tier 1 performance advertisers. As I wrote in my shareholder letter, I'm happy to report that we just crossed the 20% mark of our revenue being driven by top brands and agencies, and it's growing fast. We think there is a big upside here in many ways… more than I've imagined in the past. You will hear me speak about it a lot more this year and onwards as I think this can be material to our partners and to us driving yields even faster.

Let me share a bit more on this. We've recently launched "Taboola Select" as a way for premium performance advertisers to reach our top ~15% of publishers (Yahoo, Apple, NBC, Disney, etc.) with a premium standalone ad experience. Big brands are willing to pay a premium for it, while focused exclusively on performance. This is Not a "branding play." …. We're not looking for top of the funnel budgets here, but to enable big performance budgets to go beyond social/search to the open web and Taboola's new offering. Between Taboola Select, our Yahoo partnership, our Apple partnership, and the success of tier 1 advertisers, such as Hulu, Citi, Verizon - we hope to differentiate ourselves in the marketplace, and help drive yields even faster.

Our biggest R&D and product investment is making advertisers successful. I'm happy to share that Maximize Conversions adoption continues to grow and is now almost 60% of our revenue. We're focused on improving our retention rates, and increasing budgets also known as NDR. We're seeing encouraging results from advertisers migrating to Max Conversions/AI, including double digit growth in NDR for advertisers who have migrated to Max Conversions versus ones who have not. On improving retention rates, our main work here is to reduce "cold start" by training our AI models, and taking advantage of our massive amount of 1st party data and clickstreams to look for similar past advertisers, and bring that knowhow front and center.

Switching gears to our second top priority this year, ramping Yahoo. We are on track to complete the migration by mid year as planned, and we continue to make progress migrating Yahoo's tier 1 omnichannel advertisers to Taboola and we've achieved our goal in Q1 to exceed $100M in revenue on Yahoo supply. While there is still a lot of work to be done, we couldn't be more pleased with our partnership with Yahoo, the work between our leaderships, and the encouraging performance advertisers are seeing when using Taboola's technology. One recent success story was with one of the world's largest personal finance software companies where the ad performance was so strong that they increased their budget more than 2x over the course of the campaign and are now one of the largest advertisers on the Taboola network. If there was ever a proof that AI matters, this is a good example of it.

We spoke last quarter about our relationship with Apple. I'm happy to share that it has now expanded to new markets. Previously, Apple had selected us to monetize Apple News and Apple Stocks as an Authorized Reseller, starting in Australia and Canada …..and just recently, we expanded our role to serve as an Authorized Reseller for Apple News and Apple Stocks in the US and UK markets. I couldn't be more proud of the Taboola team supporting our efforts here. We have a lot to learn as we onboard this amazing new partnership, and I remain confident that Apple will become one of our most important partners.

Turning now to our growth engines - Taboola News, eCommerce and our bidder. Overall, product innovation and commercial wins continue to drive our momentum here.

Our key investment for Taboola News is getting more vertical videos/reels-type content onto it, similar to what you're seeing on Instagram, or Snap and we're seeing great user engagement. In addition we're introducing various utilities users may like to engage with, such as Weather, Gaming, and more. Our ambition here is that over the next few years, people spend over 20 minutes a day with us, or as my product team refers to it -- we have a chance to become the "main dish."

On the eCommerce front, we had a great quarter, growing solid double digits and exceeding our expectations, again. We launched Associated Press new eCommerce site powered by Taboola. It looks beautiful, you should check it out - it's called AP Buyline, and it gives people a chance to check product reviews and make decisions that matter to them, leveraging the trust of AP and our relationships with retailers. We also recently integrated with Amazon's DSP to allow Amazon sellers to extend their budgets into Taboola … as an example - let's say you have a store on Amazon and you want to reach buyers in the open web - you can now extend your reach using Amazon DSP on the Taboola open web network of publishers.

Our header bidder is still small, but the potential here over time is to integrate across our thousands of publishers, including Yahoo into their display stack, which is an opportunity that can be quite meaningful.

We are extremely excited by the prospects of our "Taboola growth engines" and their ability to create synergies with our core business over the long term.

In summary, we are coming in strong into 2024, exceeding our high end of guidance across all key metrics, expecting double digit growth in Q2 over last year, while reiterating our 2024 guidance making this year a record year for us.

Our revenue growth is accelerating, while having a strong EBITDA of over $200M, and over $100M of Free Cash Flow.

We’re continuing our $100M buy back authorization, and we’re laser focused this year on advertiser success which should result in yield growth .. And ramping up Yahoo.

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

Stephen Walker Prepared Remarks:

Thanks Adam and good morning everyone. As Adam mentioned, we had a strong start to 2024.

Our Q1 Revenues were approximately $414 million and grew 26% year over year, accelerating from Q4 levels. ex-TAC Gross Profit was $139 million, which represented growth of 20% year over year. ex-TAC growth was driven by double-digit growth in advertising spend as we onboarded Yahoo advertisers and saw the benefit of having Yahoo supply available through our platform, as well as by accelerating growth in our eCommerce business. In addition, we saw double-digit growth in our premium brand and agency demand spend, which included strong organic growth as well as the transitioning of advertising spend from Yahoo's platform to Taboola.

One note on our financials that is new this quarter. On each of our financial statements in our 10-Q, you will note related party callouts. For instance, on our income statement, you will see that we call out related party revenue and traffic acquisition cost. As you might guess, those related party numbers are for Yahoo. The traffic acquisition cost disclosure is relatively simple - this is the revenue share we pay to Yahoo and it flows through to payables on the balance sheet and change of payables in the cash flow statement. The related party revenue is not quite as simple to understand. There are three types of advertisers spending on Yahoo supply. First, there are what we have historically called Omnichannel advertisers. These are advertisers that buy multiple advertising formats through the Yahoo DSP - display, video and native. They are still billed and collected by Yahoo, but all of the native revenue is spent on the Taboola platform, so they are recognized by Taboola as revenue and appear as related party revenue. The second type of advertiser is an advertiser that historically was only spending on native through Yahoo - no display, video or other formats - and has now been transitioned to Taboola. These advertisers do not appear in related party revenue because they are now billed and collected directly by Taboola, so they are not the customer of a related party. The last type of advertiser is an advertiser that had not historically spent through the Yahoo platform but is now spending on Yahoo supply through the Taboola platform. These are historical Taboola customers or new customers that we have brought on. They also do not appear in related party revenue since they are billed and collected by Taboola. I will note that there is a small amount of other revenue in the related party disclosure that is either from other related parties - companies related to Yahoo - or other advertisers that spend through Yahoo on Taboola but not through the DSP. However, these are a very small part of the related party revenue. I will also note that the related party revenue also flows through to the balance sheet in the receivables line and into the cash flow statement in the change of receivables. I hope that helps explain what is in the related party disclosures.

Now back to our regularly scheduled programming. In Q1, our net loss was $26.2 million and our Non-GAAP Net Income was positive $3.8 million. Adjusted EBITDA was $23.5 million, representing a 17% Adjusted EBITDA margin. Year over year, Adjusted EBITDA was down, which was due primarily to higher expenses related to the onboarding of Yahoo supply that were not in the year-ago period and which preceded the full benefit of Yahoo advertiser transitions.

Free Cash Flow benefited from the stronger than forecasted Adjusted EBITDA, partially offset by the expenses related to the onboarding of Yahoo.

We are very happy that our teams drove accelerating revenue and ex-TAC performance in Q1. Through the remainder of the year, we expect improving cost efficiency, especially as the revenue from Yahoo advertiser transitions catch up with associated costs, which will drive margin expansion.

Operating expenses were $127 million in Q1, up $9 million year over year as a result of the costs incurred to onboard the significant inventory we are gaining with the addition of Yahoo. We continue to focus on cost discipline. Despite the hiring required to support onboarding Yahoo, our headcount is still roughly flat relative to its peak in July of 2022. With this ongoing expense discipline and our strong growth expectations, we continue to expect that in 2024, we will approach our long-term Adjusted EBITDA margin target of 30%.

GAAP Net Loss for Q1 of $26.2 million included Amortization of intangibles of $15.9 million, Share-Based Compensation expenses of $13.8 million and Holdback Compensation expenses related to the Connexity acquisition of $2.6 million, all of which were excluded from Non-GAAP Net Income. Our Non-GAAP Net Income of $3.8 million was above the high end of our guidance range.

In terms of cash generation, we had approximately $32.4 million in operating cash flow in Q1 and Free Cash Flow of $26.8 million. This includes net publisher prepayments, which were a source of cash of $7.3 million, and interest payments on our long term debt, which were a use of cash of $3.6 million. As I have highlighted in previous quarters, I would note that net publisher prepayments were a source of cash this quarter, due to the fact that new prepayments were lower than the amortization of historical prepayments.

Let’s turn to the balance sheet. You can see that our net cash balance remains healthy. Our net cash position of $35.5 million remained positive at the end of Q1 even after share repurchases. Cash and cash equivalents plus our Short-term investments were $181.0 million at the end of Q1. Cash and cash equivalents and Short-term investments remained above our long-term loan balance of $145.5 million.

Speaking of our share repurchases, we repurchased $28 million of shares in Q1. We still have $92 million of authorizations under our previously announced $100 million expansion of our repurchase plan. When we initiated our buyback program, we stated that our intent was to at least offset any dilution and maintain our issued and outstanding shares at end of Q1 2023 levels. You can see that we have exceeded that goal, as our issued and outstanding shares at the end of Q1 2024 were lower than the end of Q1 2023 by almost 5 million shares. In terms of future use of cash, we continue to be able to fund our organic growth investments from our operating cash flow. As we said last quarter, we believe that at current valuations, the best use of our Free Cash Flow is to buyback shares. To the extent that we have additional cash to deploy, we will consider paying down our long-term debt.

As always, both share repurchases and early retirement of debt are contingent upon the availability of sufficient working capital. I am also happy to report that the process in Israel for share repurchases has been updated for Israeli companies, like Taboola, with securities listed outside Israel. Under the new process, we must post a notice on our website that we intend to buyback shares and if no creditors object within 30 days we can begin the buybacks.The process still requires our Board to conclude that we meet a financial strength test as specified in the rules. So going forward, you may see us post notices of our intention to buyback shares to our investor page.

Now let me shift to our forward looking guidance.

Two important expectations are included in this guidance. First, while there is significant work left to be done, we expect the Yahoo advertiser migration to be complete by the middle of this year and we will continue ramping into 2025. Second, we expect yield growth to turn positive in 2024 as the volume of our contextual data increases with the addition of Yahoo and other supply to our network and our investments in performance advertising bear fruit.

As I mentioned, we are very happy with the strong start to 2024 and we are re-iterating guidance for 2024. This guidance implies strong top line growth and improving profitability. We expect Revenue of $1.89 to $1.94 billion, which represents growth of 33% at the midpoint. We expect Gross Profit of $535 to $555 million and ex-TAC Gross Profit of $656 to $679 million. That ex-TAC is up roughly 25% year over year at the midpoint. We are reiterating our 2024 Adjusted EBITDA guidance of over $200 million and Free Cash Flow expectation of over $100 million. I will note that the Adjusted EBITDA and Free Cash Flow guidance represents roughly a doubling of both metrics versus 2023. Finally, we are expecting Non-GAAP Net Income of $84 to $104 million in 2024.

We are also introducing Q2 2024 guidance. This quarter, we expect Revenues of $410 to $440 million, Gross Profit of $110 to $120 million, ex-TAC Gross Profit of $140 to $150 million, Adjusted EBITDA of $20 to $30 million, and Non-GAAP Net Income of zero to positive $10 million.

Let me finish by saying that we are very happy with our first quarter performance. Our growth is accelerating in 2024 and I'm looking forward to the step change we are expecting in our financials in 2024. The growth investments we have made in 2023, the additional scale that Yahoo is bringing, and the additional supply we will be onboarding as part of a new partnership with Apple is accelerating our journey towards becoming a "must buy" for advertisers looking to reach consumers in the Open Web.

With that let me pass it back to Adam for some closing remarks.

Adam Singolda Summary Remarks:

Thanks, Steve.

In summary, it's great to see our business momentum and growth rates accelerating – it's an exciting time for us here at Taboola, seeing our investments panning out.

- Starting with our financials, we started 2024 strong with a beat above our high end of guidance across all metrics. Our growth rates are accelerating which is good to see. In Q2 we're guiding for double digit growth vs Q2 of last year, and 2024 is a record year for us overall, with nearly $2B in revenue, north of $200M of EBITDA, and over $100M of Free Cash Flow.
- We're executing on our buy back program which demonstrates our confidence in our ability to execute and create shareholder value.

When looking at the business - our top two priorities this year are making advertisers successful and ramping Yahoo.

- On advertiser success - Max Conversion is a "hit" with advertisers. After 6 months, it is at almost 60% adoption, and advertisers who adopted it are generating double digit higher NDRs. We're also focusing on attracting premium advertisers with Taboola Select, accessing our top 15% of our network including Yahoo, Disney, Apple, NBC and others.
- On Yahoo, we are on track to complete the migration by mid year as planned and crossed $100M in Q1 as we thought

Beyond that, we're seeing great momentum overall:

- Our relationship with Apple is now expanding to the US and UK, beyond Canada and Australia.
- Our growth engines: eCommerce, Taboola News and header bidding are showing strong momentum and becoming more and more synergetic to our core business - making our publisher and advertiser business stronger.

I'm excited to be exactly where we are, we know what we need to do, we have an incredible team all around the world working hard to build the very first "must buy" advertising company for the open web.

Thank you all for being part of our journey.

With that, let's open it up to questions … operator?

Post Q&A

Summary for earning call

Thanks for joining us on the call today. We are very happy with our strong start to the year. The key things to take away from the call today are:

- Q1 showed great momentum in the business, beating high end of guidance, reiterating 2024 which makes it a record year for us
- Our growth rates are accelerating
- Top two priorities are advertiser success and ramping Yahoo. Both are doing well.
- Apple News is now expanding - last quarter it was in the Australia and Canada, now it's US and UK as well
- Lots of work to do but very happy with the strong momentum we have seen so far.

Hope to see you all soon.