Taboola

Q1 2025 Prepared Remarks

Jessica Kourakos, Head of Investor Relations

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

Before we dive into the results, I want to quickly remind everyone how we see our market opportunity, who we are, and why we believe we can win.

There's a major shift in advertising toward performance to drive growth to your business. It's a results-driven approach focused on measurable outcomes, versus brand advertising which is mostly for awareness. While most advertisers buy ads on search and social for that need, many advertisers feel they've maxed out those channels. We estimate there is a $55B opportunity to serve advertisers' performance needs outside of search and social, in the open web — and that's our focus.

Taboola is a global leader in performance advertising, helping businesses grow across the open web. Our platform, Realize, connects thousands of advertisers to approximately 600 million daily users through premium publishers like Yahoo, Apple, and ESPN; top device manufacturers like Samsung and Xiaomi; and leading utility apps like Line. Our extensive first-party data and AI investments enable us to uniquely identify user intent by analyzing their reading habits and genuine interests. This is information we uniquely know and can package in a way that advertisers can act upon. This makes us a key growth engine for advertisers' side by side with search and social, and a trusted partner for publishers all around the world.

Taboola today has a bit over 2,000 employees globally with 700 salespeople and 650 engineers. Last year we generated about $1.8 billion in Revenues, over $200 million in Adjusted EBITDA and about $150 million in Free Cash Flow.

Now turning to our first quarter results. We're happy to start the year off strong with our first quarter revenue, ex-TAC Gross Profit, and Adjusted EBITDA all coming in above the high end of our guidance range. It's a clear reflection of solid execution, strong team focus, and the resilience of our model. For the first quarter we reported:

- Revenues of $427.5 million, representing growth of 3% year-over-year;
- ex-TAC Gross Profit of $151.7 million, 9% higher than last year;
- Adjusted EBITDA of $35.9 million, 53% higher than last year with margins expanding significantly;
- And Free Cash Flow of $36.1 million, growing 35% year-over-year.

While the macro environment is something we are tracking closely — we haven't seen a material impact to our business. We've seen about a 1% decrease in advertising spend related to the tariffs so far which is mainly China to us. This brings our China business to around 5% of total Q2 revenue as of now. At the same time, we're currently seeing positive trends in Taboola News, Bidded Supply, and other parts of the business.

These recent tailwinds, together with our strong performance in Q1 -- support our decision to reiterate our full-year 2025 guidance and continue aggressively buying back shares as part of our $200 million share buyback program.

Now let's turn to some highlights from the quarter.

In March, we hosted our Investor Day, where our management team — alongside several of our key advertiser and publisher partners — took a deep dive into the $55 billion market opportunity ahead of us and how we're positioning Taboola to capture share in the performance advertising space, particularly through our Realize platform. Roughly a third of the event was dedicated to partner panels, offering direct validation of our technology, data, and strategic direction. Our partners essentially echoed a clear message - that there's a real gap in the market that Taboola is uniquely positioned to fill as advertisers are maxed out on search and social channels. The market appreciates having a company of our scale that is laser-focused on performance, measurement, and outcomes — not trying to be everything to everyone, but offering a real alternative when it matters most.

Our management team is focused on tracking "net new" impacts from Realize which is incremental to us. We define it as a combination of -- new demand formats and budgets we previously couldn't access, along with -- new supply placements that open new opportunities for advertisers. While it's still early, initial results are promising, and we're excited to share continued progress as adoption increases and our capabilities expand.

At our Investor Day we laid out three focus areas to accelerate growth in our business. First, driving incremental ad spend through **Realize's** new capabilities. Second, focusing our **go-to-market strategy** on things such as verticalizing our sales organization as well as going after ideal customer profiles where we see better retention rates and lower churn rates. As part of our focus on growth, last quarter we introduced a new metric: Scaled Advertisers—defined as those spending over $100,000 annually. In Q1 - the number of Scaled Advertisers has grown by 9%, reaching 1,996, which is great to see. Third, going after **new supply partners** that have unique data our advertisers are looking for, which would help us drive incremental growth in advertising budgets.

Let me take this opportunity to highlight some of the progress we've made this past quarter

Starting with the launch of Realize. We officially launched Realize in Q1, marking a major step forward for Taboola. Realize leverages our core strengths — proprietary technology, unique data we have that others don't, and massive reach across the internet. Some of the new things Realize offers to our advertisers include:

- new ad formats, like vertical videos, social creatives and display. You can easily import your social and display creatives to Realize which advertisers really like.
- We have a new pricing model so advertisers can pay on a CPC even when buying display from us. Imagine an industry that for 30 years charged advertisers on impressions for display, and with Realize - for the first time you get the value of people seeing your ad, but you only pay us if a user actually clicked on it. This is big.
- We also launched a new Predictive Audiences solution that helps advertisers target users based on historical conversion data. Similar to "lookalike" modeling, this capability allows advertisers—like an insurance company that acquired 100 customers through Taboola—to efficiently find the next 100 by leveraging patterns from past conversions.
- Next, we're adding new display supply - which means that advertisers will be able to access all ad inventory on our publishers' sites, not just bottom of article

- And last but not least, we launched a whole new refresh to our user interface, so it feels like what advertisers are used to on the big platforms. And with Abby, our intelligent AI assistant, embedded into the Realize dashboard - advertisers have dedicated support with their campaigns every step of the way.

While Realize is only out for 2 months - all these new capabilities enable us to unlock performance advertising budgets that historically were out of reach. I am encouraged by the energy this new product has injected into our sales teams, the early reception we are seeing and the results from our initial advertisers like Babbel, Motley Fool and others. I'm confident Realize will play an increasingly meaningful role in driving our growth in the years to come.

Moving to onboarding unique supply and data. We're also seeing good momentum with top publisher partners adding Realize display inventory which is net new supply for our advertisers. Our focus is adding inventory that is differentiated and highly valued by advertisers because we have unique data, enabling us to drive better ROI. As an example -- we only bid on our own publishers where we have first party data and massive amounts of historic conversions which is an advantage, or another example is Taboola News and Utility apps where we have deep data integrations.
In the first quarter, we announced exciting expansions of our partnerships with Microsoft and Gannett - adding display inventory for Realize advertisers. We also signed an exclusive global partnership with LINE which is one of the largest messaging apps in Asia, allowing us to bring personalized content and ads to LINE users globally in new, engaging ways. This is the first utility app that has signed with Taboola News which is very exciting, and I believe utility apps will become a whole new wave of publishers for Taboola as everyone wants a piece of the advertising market.

In summary, we've kicked off the year with real momentum. The early signals from Realize to capture net new advertising budgets are exciting and reinforce the opportunity we see ahead. We're heads-down, doing the work on what matters most as we move through 2025 - and that is execution.

We are confident in the strength of our business and continue to take a prudent approach to the guidance we've provided. While we have not seen a material impact to the business from the macro environment, we're tracking it while making sure we prioritize cost discipline, and investment in our key growth initiatives. Our balance sheet is strong, we have access to a revolving credit facility, while generating healthy free cash flow. We continue to believe that the highest return on capital is through investing in our own growth, and we intend to continue being aggressive with share repurchases.

With that, I'll turn it over to Steve to walk you through our first-quarter results and outlook in more detail.

Steve Walker, CFO

Thanks, Adam, and good morning, everyone.

As Adam mentioned, we had a strong start to the year, and we are well-positioned to build on this momentum through the year. So, let's dive into the details of our financial performance.

In the first quarter we reported results above the high-end of our guidance range across all metrics. Revenues reached $427.5 million, representing 3% growth year-over year, while ex-TAC Gross Profit reached $151.7 million, representing 9% growth year-over-year, which included a 70-basis point headwind from FX.

Our Revenue growth was primarily driven by 9% growth in the number of Scaled Advertisers, which was partially offset by a 3% decline in the Average Revenue Per Scaled Advertisers, both measured on a year-over-year basis. As we said last quarter, we expect these two metrics to sometimes have an inverse correlation. As we successfully onboard new advertisers and grow them into Scaled Advertisers, it can sometimes pull down the average, as happened this quarter. However, the strong growth in the number of Scaled Advertisers is a good leading indicator for our business as it shows good traction bringing on new advertisers and scaling them over the last year. Having more advertisers fuels future growth as we can work with these advertisers to increase budgets over time.

First quarter revenue growth was broad based and included positive growth in our existing core native business. As we indicated last quarter, the format testing that we were doing with Yahoo on select supply wound down this quarter and is now fully completed. As in the past, there was a marginal reduction of first quarter revenue due to the way we were accounting for this test. Without this impact, first quarter revenue growth would have been approximately 5% year-over-year.

Ex-TAC Gross Profit growth was primarily driven by growth in overall revenue and advertising spend. Ex-TAC also benefited from margin expansion in our core Native business, as well as growth in Taboola News and our bidded supply, which includes Microsoft.

Gross Profit of $119.3 million primarily benefited from our ex-TAC Gross Profit growth. In addition, Gross Profit increased due to reductions in our Other Cost of Revenues driven by increased efficiencies in how we operate our servers and networking equipment. These were the result of investments we made in our software platform, as well as advances in hardware technology. The result was an increase in the estimated useful lives of our server and networking equipment from three years to six years, which allowed us to increase the amortization period commensurately.

This change took effect on January 1, 2025, and applies to all servers with a carrying value on our books as of that date, as well as to any servers purchased after January 1, 2025. This will primarily benefit our GAAP Gross Profit, since most of our server's depreciation are classified within Other Cost of Revenues, but the change will also have a smaller benefit to Operating Profit and Net Income since some equipment amortization expense hits operating expenses.

In terms of our profitability, our Net loss was $8.75 million, with Non-GAAP Net Income coming in positive at $25.0 million.

Adjusted EBITDA for the quarter was $35.9 million, reflecting 53% year-over-year growth. Our Adjusted EBITDA margin was 24%, which is a significant improvement over our 17% Adjusted EBITDA margin in Q1 2024. This improvement reflects the benefit of our 9% year-over-year growth in ex-TAC Gross Profit, along with strong cost discipline that we maintained in 2024 and into the first quarter of this year.

In terms of cash generation, we had $48.1 million in operating cash flow in the first quarter and Free Cash Flow of $36.1 million. Our Free Cash Flow benefited significantly from a couple of factors. First, Free Cash Flow benefited from our improved profitability. Our net losses decreased from $26.2 million in Q1 2024 to $8.75 million in Q1 2025. Second, Free Cash Flow benefitted from strong management of our working capital. Q1 Free Cash Flow also included a one-time benefit of approximately $11 million related to timing of the payments from the testing we did on certain Yahoo supply. 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 hope to remain at the higher end of that range.

Turning to the balance sheet, we remain in a strong financial position, ending the first quarter with a robust net cash balance of $89.7 million. Cash and cash equivalents totaled $216.2 million, which more than offset our long-term debt of $126.5 million. As announced in March, we proactively entered a new $270 million revolving credit facility, which was good timing given everything that has happened since. We used the proceeds to fully repay our prior long-term loan and still have over $140 million of excess capacity on the revolver.

This refinancing provides multiple benefits. First, the revolver has a lower interest rate, which will reduce our interest expenses. Second, the revolver will allow us to more proactively manage our working capital. Rather than have a fixed amount of debt outstanding each quarter, we will be able to draw upon and repay the revolver multiple times each quarter, which will reduce our average debt balance and further reduce our interest expenses. Together, these benefits are expected to reduce annual interest expense by $3 to $5 million. In addition, the revolver gives us the ability to operate in a more capital efficient way over time, as we will be able to operate with a lower cash balance while preserving access to significant liquidity. This puts us in a stronger position to navigate macro uncertainty and continue executing on our long-term strategy.

Regarding share repurchases, as we announced in our fourth quarter 2024 earnings call, our Board approved an incremental $200 million to our share repurchase program. Given our current share price, we believe share repurchases are the best use of capital to drive shareholder value. During the first quarter, we repurchased approximately 16.2 million shares at an average share price of $3.03 for total consideration of $49 million. Since the end of the first quarter, we have repurchased an additional 15.1 million shares at an average share price of $2.83 for a total consideration of $43 million.

At this point, we anticipate remaining aggressive in our share buyback program. Over the past year, our shares outstanding have declined from 338.6 million at the end of Q1 2024 to 324.5 million at the end of Q1 2025. This represents a decline of 4% of total shares outstanding.

Moving to guidance. For the second quarter 2025, we expect Revenues to be between $438 to $458 million, Gross Profit from $124 to $134 million, ex-TAC Gross Profit from $156 to $166 million, Adjusted EBITDA from $38 to $44 million and Non-GAAP Net Income from $26 to $32 million.

We are reiterating our guidance for the full year. We continue to expect Revenues to be between $1.84 to $1.89 billion, Gross Profit from $536 to $552 million, ex-TAC Gross Profit from $674 to $690 million, Adjusted EBITDA from $201 to $209 million and Non-GAAP Net Income from $122 to $128 million. While we had a strong Q1 and we are pleased with the momentum of our business, we do not think it would be prudent to raise guidance at this point in time given the level of macro uncertainty.

It is also important to note that due to the test we did with Yahoo and the implications that had on our revenue and ex-TAC, we expect 2H year-over-year revenue growth to be stronger than in the 1H. This is already factored into our guidance and will normalize beginning in Q1 2026.

In summary, we're pleased to report a strong first quarter, with results exceeding the high end of our guidance and that we are reaffirming our full-year outlook. With clear momentum behind the growth initiatives, we shared at Investor Day and a large runway of opportunity ahead, we believe we are well-positioned to drive 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.
