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PRESENTATION

Operator

Hello, everyone, and welcome to Viant's First Quarter 2021 Earnings Webinar. My name is Kelcey, and I will be your operator today.

Before I hand the call over to the Viant team, I would like to go over just a few housekeeping notes for the program. As a reminder, today's webinar is being recorded. (Operator Instructions)

We thank you for your attendance today. And I will now turn the webinar over to [Nicole Borja]. Please go ahead, Nicole.

Unidentified Company Representative

Thank you, Kelcey. Good afternoon, and welcome to the Viant Technology First Quarter 2021 Financial Results Conference Call. On today's call are Tim Vanderhook, Co-Founder and CEO, and Chris Vanderhook, Co-Founder and Chief Operating Officer; and Larry Madden, the company's Chief Financial Officer.

I'd like to remind you that we will make forward-looking statements on our call today that are based on assumptions and subject to future events, risks and uncertainties that could cause actual results to differ materially from those projected. We undertake no obligation to update these results, except as required by law.

For more information about factors that may cause actual results to differ materially from forward-looking statements and our entire safe harbor statement, please refer to the news release issued today as well as the risks and uncertainties described in our registration statement on Form S-1 related to our initial public offering and other filings with the SEC.

During today's call, we will also present both GAAP and non-GAAP financial measures. Additional disclosures regarding these non-GAAP measures, including a reconciliation of GAAP to non-GAAP measures are included in the news release we issued today and in our filings with the SEC.

I would now like to turn the call over to Tim Vanderhook. Tim?

Tim Vanderhook ***Viant Technology Inc. - Co-Founder, Chairman & CEO***

Thank you, [Nicole]. Good afternoon, everyone, and thank you for joining us today. We're excited to be reporting strong first quarter results that exceeded our prior guidance across the board. I will quickly touch on our financial performance in the quarter. And then since we are still in our first year as a public company and some of you are relatively new to Viant's story and positioning in the digital advertising market, I'll touch on Viant's strengths and value propositions. That way, we can discuss current market trends and finally, how we plan to continue driving growth in our business.

Here are the financial highlights for the quarter. Revenue in the first quarter totaled $40.1 million, an increase of 5% year-over-year. Adjusted EBITDA grew 51% to $4.9 million. Viant is continuing to see strong Connected Television growth, an increase of 66% year-over-year, and momentum in customer adoption has continued. Larry will cover the financials in more detail in a moment.

Viant has a massive and growing addressable market with several secular trends, providing us with significant runway for growth. We focus primarily on the $259 billion U.S. advertising market, which is expected to grow at a 12% CAGR through 2025 due to the increasing focus on digital advertising. More specifically, the U.S. programmatic advertising market is growing at a 21% CAGR and is expected to represent 48% of total U.S. media spend by 2022.

Additionally, the TV industry is undergoing significant disruption as Internet-enabled Connected Television has become the preferred vehicle for streaming video content. By 2024, 66% of the U.S. population is expected to be using Connected TV, which is resulting in a CTV ad spend to grow at a 25% CAGR and forecasted to be a $27 billion market in 2025. We believe these secular trends and the continued adoption of our people-based approach, our patented Internet-connected household identification and our scale and expertise in connected TV directly attributed to our strong Q1 results. And this gives us confidence to raise our outlook for the full year of 2021.

Taking a step back on the Viant story. We have a differentiated approach to the digital advertising industry as the early pioneers of people-based advertising, an approach of using real people rather than cookies that target and measure digital advertising. A key theme across all customer segments is that buying ads across these channels is inherently very complex, yet brands and agencies are aggressively committed to data-driven advertising. They're also under pressure to defend their spending and measure their return on investment.

Viant's software is the solution. Our self-service software, Adelphic, transforms workflows and opens into a whole new world of omnichannel opportunities, where the business ROI can be understood and proven. Adelphic has 3 key tightly integrated components: planning, where marketers build their audience segments using one of the greatest advantages of Adelphic, its people-based approach. This gives them a deterministic data matching process that offers insights on real-world identifiers versus cookies that do not represent actual people. A buying platform, where marketers are offered the highest breadth and depth of omnichannel advertising inventory available across the programmatic landscape. And finally, a data-driven measurement, where Adelphic delivers superior measurement of return on ad spend in a way other DSPs simply cannot.

We calm the noise around big tech changes such as cookies and IDFA with 2 unique solutions. First, our people-based identification data framework allows marketers to incorporate e-commerce measurement. But unlike other DSPs, marketers can also measure in-store sales channels, a key advantage of our software. Second is our patented process. Internet-connected household identification, otherwise known as the Viant household ID. This is a leading competitive advantage for us in a world without cookies.

I just want to take a moment to remind everybody that we filed a patent for our Internet-connected household identification so long ago that it happened during the same year Facebook had its IPO. We've anticipated the role of cookies diminishing for many, many years and built a product and solution for it. Household ID is the future-looking solution our customers are using right now, today. Viant's household ID is a key differentiator from e-mail-based ID solutions because it's anchored at the household, making it more privacy-friendly and sustainable.

Recent changes by Google and Apple only strengthen our competitive positioning as they are validating the need for a people-based approach to programmatic advertising. The entirety of the programmatic advertising ecosystem relies on a standardized framework, which is set by the Interactive Advertising Bureau, an independent organization that, among other things, develops industry standards for the digital advertising industry. This framework, as we look at it, is called the bid stream, which enables publishers and supply-side platforms to monetize their digital ad space by passing standard online identifiers to DSPs like us. Through this bid stream, Adelphic interacts with the vast majority of exchanges across millions of sites and apps.

This chart on the screen summarizes the presence of different digital identifiers based on data derived from Adelphic's bid stream from May 4 through May 11 of this year. As you can see, Viant's household ID is present 80% of the time in the bid stream during this period. Cookies are only present at 56% of the time because Google Chrome has yet to delete it. This number will drop close to 0 by year's end, and mobile IDs are currently at 20% of the bid stream.

Viant's household ID is scaled, agnostic to browser cookies and device ID changes and represents a huge tailwind for Viant. This is the reason why customers and partners are relying on us more and more. Chris will be discussing our road map for the future of household ID and a new partnership with FOX News Media later on the call. But this is why we see the household ID as a catalyst to Viant's growth.

Viant isn't just a company that is building for the challenges of today, we're a company that has always been planning for tomorrow. We have a long track record of developing next-generation advertising technology solutions, and we have the expertise to guide marketers through this ever-changing environment. Nowhere is that experience more apparent than in Connected Television.

Unlike most companies that are benefiting in the near term from Connected TV, we have streaming and Connected TV experience and technology that has been proven for more than a decade. More than 10 years ago, we founded Xumo, an ad-supported video-on-demand service which was sold to Comcast last year. During our IPO and on our last earnings call, we discussed the effectiveness of Viant's Connected TV solutions for marketers. The momentum is accelerating. New CTV partnerships announced during the quarter and our strong technology and product road map gives us conviction that we are just scratching the surface of what we can do in CTV.

I'll now turn it over to CFO, Larry Madden, who will discuss more about our market share gains, which are a testament to the strength of Viant's value proposition.

Lawrence J. Madden ***Viant Technology Inc. - CFO***

Thanks, Tim, and thank you, everyone, for joining us today. We are certainly encouraged to see our momentum building as we move through the first half of 2021. Today, I'll be discussing some of the highlights of our Q1 performance as well as some of the key financial and operational drivers during the quarter, and I will also be reviewing our current expectations for Q2 and the full year 2021.

At a high level, despite some continued COVID-related challenges with certain key customer verticals during the quarter, we remain optimistic as we saw solid growth in Q1 and delivered above the high end of our previously issued guidance across all key metrics. Q2 is also looking very strong, and we are encouraged by a solid increase in spending so far in Q2 across our retail and travel clients. We've increased our full year '21 guidance across all metrics, and we believe we are poised for an excellent Q2 and strong second half of 2021 as our investments in sales and marketing begin paying dividends and as the economy continues to rebound from the effects of the COVID pandemic.

With that, let me discuss some key financial and operational highlights for the quarter. Total spend in the first quarter grew 9% on a year-over-year basis. This growth was primarily driven by continued momentum in Connected TV spend, which grew 66% in Q1 and represented a remarkable 45% of total spending on our platform in the quarter. Overall, video-related spending on our platform, which includes CTV, represented over 67% of total spend on our platform in the quarter. We expect CTV to continue to be a strong contributor to our growth going forward as our expertise and industry-leading CTV solution continues to gain market share across this growing and important channel.

In terms of customer verticals, as we expected, Q1 continued to be negatively impacted by macroeconomic conditions related to the COVID pandemic. More specifically, our retail, automotive and travel customers continue to hold back budgets with total spend across these 3 important verticals down 25% in the quarter compared to Q1 of last year. And remember, as I previously indicated, these 3 customer verticals represented 43% of total spend on our platform in 2019 pre-COVID. Conversely, across all of the customer verticals, platform spend increased 31% during the quarter.

As travel, automotive and retail come back to more normalized levels as we move through 2021, we believe we are poised for accelerated growth in the coming quarters. We are already seeing early signs of recovery in Q2 with solid growth in spend with our retail and travel customers. Automotive remains weak at this point, but we believe as the current industry-wide chip shortage gets resolved, spending in auto will also pick up and contribute to a strong second half of 2021.

Now moving to our revenue performance for the quarter. GAAP revenue for the first quarter was $40.1 million, an increase of 5% compared to Q1 of 2020. Revenue ex TAC, the key metric we focus on in evaluating revenue performance, was $26.7 million for the quarter, an increase of 15% year-over-year. As a reminder, revenue ex TAC represents the net contribution after deducting all third-party media and data costs.

As I already mentioned, in Q1, our growth in both GAAP revenue and revenue ex TAC was largely driven by the significant increase in CTV-related spend on our platform. Additionally, growth across our percentage of spend pricing model continues to outpace growth across our fixed price and subscription price offerings. This highlights Viant's continued strength with its agency customers. As we've indicated, percentage of spend customers also have very high retention rates and typically increase their spend over time as they consolidate budgets on our platform.

Another set of metrics that we focus on are the number of active customers and the average revenue ex TAC per active customer. Customer additions and increased revenue ex TAC within our existing customer base are key metrics that we track to assess the momentum in our business. We define an active customer as any customer generating a minimum of $5,000 of revenue ex TAC over the prior 12-month period. At the end of Q1, we had 266 active customers compared to 264 at the end of 2020. Average revenue ex TAC per active customer at the end of Q1 totaled $428,000 versus $400,000 at the end of Q1 last year, an increase of 7%.

Since the COVID-related downturn we saw in Q2 of 2020, we have now seen 3 consecutive quarters of growth in both the number of active customers and the average revenue ex TAC generated per active customer. Our focus moving forward is to increase the number of active customers using our software while continuing to increase the revenue ex TAC generated per active customer. As we continue to ramp up our sales investment in 2021 and forward, we expect further momentum around new customer acquisitions, which ultimately will serve as another engine to fuel growth going forward.

Turning now to operating expenses. Given the significant stock-based compensation flowing through our numbers beginning in Q1, we intend to report operating expenses on a non-GAAP basis going forward, excluding the impact of stock-based compensation. Total operating expenses, excluding stock-based compensation, totaled $37.8 million in the quarter, essentially flat with the prior year period. This is particularly notable given that we have increased our head count by 17% over that same period. We continue to remain focused on balancing our investment in growth with driving operational efficiencies in the business, ultimately with the goal of driving profitability and revenue growth for many years to come.

In a moment, our Co-Founder and Chief Operating Officer, Chris Vanderhook, will share a little bit more color with you about recent headcount additions, but let me give you some high-level details. We ended the quarter with 321 employees, which represented an increase of roughly 10% since year-end, with a significant number of these new hires coming on the sales side. Our recruiting efforts continue to reap rewards as we are attracting extremely qualified candidates, including from some of the best tech companies out there.

Adjusted EBITDA for the quarter was $4.9 million compared to $3.2 million in Q1 of 2020, representing a year-over-year increase of 51%. Our adjusted EBITDA margin as a percentage of revenue ex TAC was 18% in the quarter compared to 14% in the same period last year. As we continue to scale the business, our mid- to long-term targeted adjusted EBITDA margins as a percentage of revenue ex TAC remain at 35%.

In terms of net income, we also intend to report and focus on the metric of non-GAAP net income, which represents net income excluding stock-based compensation. We believe this is a more appropriate metric by which to measure the operating performance of the business. For the quarter, non-GAAP net income totaled $2.2 million versus $329,000 last year, representing an increase of nearly 6x on a year-over-year basis. Non-GAAP earnings per share of Class A common stock totaled $0.01 for the quarter.

From a cash flow perspective, we generated $14.8 million of net cash from operating activities for the quarter compared to $3.5 million in Q1 of last year. We ended the quarter with $246.6 million in cash, which includes the $232.5 million of net proceeds generated from our IPO in February. We believe that our growth profile and healthy balance sheet positions us extremely well to take advantage of the rapidly growing market opportunity in front of us.

And finally, turning now to guidance. As Tim discussed, we feel great about our strong positioning in the market, and we are in the very early stages of capitalizing on the market opportunity for programmatic advertising in a cookieless world. As we think about guidance, we recognize that we are still early in the year, and there is a fair amount of uncertainty around advertising demand in some of our key end markets, including in our travel, retail and automotive customer segments. That being said, the early signs of recovery across 2 of our 3 COVID-impacted verticals in early Q2 gives us increased confidence in our overall 2021 performance.

With that background, for the second quarter of 2021, we expect GAAP revenue in the range of $45 million to $47 million, which represents year-over-year growth of approximately 48% to 54%. Revenue ex TAC in the range of $29.5 million to $30.5 million, which represents year-over-year growth of approximately 47% to 52%, and adjusted EBITDA in the range of $3.5 million to $4.5 million, or a margin as a percentage of revenue ex TAC of 12% to 15%.

For the full year 2020, we are raising our previously issued guidance, and we now expect GAAP revenue in the range of $200 million to $205 million, which represents year-over-year growth of approximately 21% to 24%. Revenue ex TAC in the range of $135 million to $140 million, which represents year-over-year growth of approximately 22% to 27%. And finally, adjusted EBITDA in the range of $24 million to $27 million or a margin as a percentage of revenue ex TAC of between 18% and 19%.

In summary, we believe we're uniquely positioned to meet the needs of advertisers and their agencies in a post-cookie world as our platform does not rely on browsers and identifiers. Couple that with our continued over-indexing across CTV, our increased sales and marketing investment and the beginnings of a return to normal across our retail and travel customers, we expect momentum to continue to build as we move through 2021.

With that, I will now turn the call over to Chris Vanderhook. Chris?

Chris Vanderhook ***Viant Technology Inc. - Co-Founder, COO, Secretary & Director***

Thank you, Larry. We continue to invest in the future, and we are focused on execution and growth within 3 primary categories: customer adoption; omnichannel partnerships; and investment in our technology. This is our third consecutive quarter of growth in customer spend in our software. Q2 is already starting off very strong, and we believe that trend will continue through the rest of the second quarter and into the second half of the year.

Our intention is to continue to accelerate that growth, which starts with an investment in people. In the past few weeks, we have announced several key hires, including the expansion of our C-suite with Chief People Officer, Kendra Angier, who will lead our -- who will lead Viant's People Strategy and Operations. She will propel our employee experience and help attract the best and brightest talent to the organization.

As Larry mentioned, we've increased our direct sales footprint, recruiting strong sales leadership with extensive experience and programmatic software sales, many of which are coming to us from across big tech and other leading technology companies. For example, we recently appointed David Fahey, a Google veteran, to the newly created role of Head of Agency Partnerships to drive the continued expansion of our ad agency holding company partnerships at Viant. We are excited about the prospects of our new team members and look forward to their contributions once they've had time to ramp up.

Next, I want to talk about some exciting product announcements and omnichannel partnerships that we believe will continue to enhance our customers' experience. In the last couple of weeks, we've announced a successful integration with DoubleVerify, which enhances our customers' ability to validate premium content in CTV. We've also announced another successful integration with Tru Optik's Data Marketplace, which enables rich CTV data available for targeting, all with the goal of delivering a superior return on ad spend in CTV.

In addition, today, we are announcing a partnership with TiVo, a technology-agnostic streaming company, which provides both programming and ad exposure data across millions of U.S. households for better audience targeting and measurement for both linear and Connected Television. I'm particularly excited about this partnership and look forward to our clients leveraging TiVo within our software for both their linear and Connected TV ad campaigns.

I now want to spend some time talking about our recent investments in technology. Later this quarter, we will be making a large software release called WWC, which stands for world without cookies. As you will recall, our household ID has been available to customers so they can easily test our people-based approach in cookieless environments like Connected Television. We've continued to grow spend with these customers as they continue to adopt our scaled household ID as the amount of cookieless ad impressions on the Internet continues to grow.

Our scaled household ID is now becoming the preferred choice by our customers. With the release of WWC and Adelphic, marketers are now empowered with enhanced capabilities to plan using our household ID against any data partner, supply channel, site or app.

We've always made it easy to buy using our household ID. But with this release, we will be enhancing our standard measurement reporting to more seamlessly incorporate conversions at the household versus the dying cookie. We are seeing that marketers are experiencing greater results in campaign performance when utilizing our scaled household ID versus relying on cookies or other upstart identifiers.

Recently, we completed a test for a customer who is a national pizza chain. They utilized our household ID when purchasing Connected Television. With our household ID, that customer was able to see how many exact households they reached and how many times each household was shown an ad. But more importantly, our household ID measured other devices in the household that actually went to our customers' website and placed an order for a pizza. We were able to show their true return on ad spend that was in excess of 160% in Connected Television, something that competing platforms just cannot do. This client has since increased their budgets by over 60% in Adelphic.

WWC will be the release that allows marketers to not skip a beat when the world is left without cookies. Our focus has been to provide a platform for marketers and their agencies that proves their return on ad spend, and our WWC release will ensure that for our customers. We are confident that this release will have an even bigger impact on improving our customers' campaign performance in Adelphic which should result in increased spending in our software.

In addition to WWC, this week, we also announced the release of our deals marketplace in Adelphic. This release allows for customers to seamlessly select from our deep roster of integrations with premium content owners across all channels and specifically within CTV. Marketers can leverage both their own direct deals negotiated with content owners in the upfront or have the flexibility to source new deals with premium content owners directly in our software.

And speaking of premium content owners, we are separately announcing a partnership with FOX News Media, which will be leveraging our software for better audience insights and measurement capabilities that will ultimately drive better results for their advertisers and increase monetization of their ad inventory in cookieless environments. The Viant household ID will be the currency with which we continue to expand this partnership and others like it going forward.

Lastly, as we continue to scale our business, we will need to increase our QPS, or queries per second, which is the total amount of ad impressions that our software receives. With the continued innovation in our mediator product, we are now seeing more than 4x the efficiency in QPS, up from 3x the efficiency we reported in the last quarter. We are confident that as Viant scales its business, we believe that we will do so at the lowest cost of technical infrastructure in the industry. I'm excited about the progress that we are making. With that, I'm going to pass it back to Tim.

Tim Vanderhook *Viant Technology Inc. - Co-Founder, Chairman & CEO*

Thanks, Chris. Viant is well positioned for future growth. There's an increase in consumer spend and trends in their digital consumption habits that are growing at fast rates and within new formats and channels. Alongside this dynamic, we're seeing advertising revenue growth projections increase. Marketers are embracing the ability to reach people in new and much more targeted and strategic ways.

Our vision, which we started more than 20 years ago, is finally coming to fruition. Brands and agencies are embracing our competitive advantages. They rely on Viant's people-based approach, household ID and our scale and expertise in Connected TV. We take the complexity, and most importantly, the anxiety out of advertising and ultimately, help brands and agencies maximize their return on investment.

We are very pleased with our start to 2021 and are excited to be raising guidance for the year. I want to thank you for your attention today and your interest in Viant. We look forward to building on our momentum in the quarters ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will take our first question from Laura Martin with Needham.

Laura Anne Martin ***Needham & Company, LLC, Research Division - Senior Research Analyst***

Can you guys see and hear me?

Operator

We can hear you, Laura.

Tim Vanderhook ***Viant Technology Inc. - Co-Founder, Chairman & CEO***

I can hear you.

Laura Anne Martin ***Needham & Company, LLC, Research Division - Senior Research Analyst***

Fantastic. Great. I'll just ask one and then a follow-up. So can you talk about universal ID? I understand that your household tech doesn't rely on cookies. But can you talk about whether you think universal ID will be successful and whether people-based solutions will work in the open web? And I understand how -- household ID is really great for CTV, I get that. But it does feel like there are uses for a personal ID in the open Internet that would drive faster growth for you guys outside of CTV. Could you talk about that?

Tim Vanderhook ***Viant Technology Inc. - Co-Founder, Chairman & CEO***

Yes. Thanks for the question. We'll get to your follow-up question right after that. Our competitors have taken an approach of a hash e-mail identifier as a replacement for the cookie. We've taken a different approach, which is a household ID in aggregating those users. And going back to the statistics we shared in the slide, this is all about scale. And so if we really look at where UID 2.0 is at today, we're at the ground stages, ground 0. It hasn't even really launched with any momentum. Versus our household ID, which has 80% scale, it's been in market for many years. And now with CTV coming in, in such a strong way, this ID is becoming kind of the de facto lead in the way forward because it's delivering on the scale marketers need.

One challenge that everyone talks about in this new way forward of a cookieless world is all around what's going to work for targeting. But there's an important other side of the vehicle, which is what works for measurement. Targeting an e-mail theoretically might work in terms of connecting a logged-in user on a website to enable audience segments. So data-driven advertising can still happen. I think one of the biggest ways and one of the biggest gaps that we see is, yes, a marketer can buy ads through unified ID, but can they actually measure the responses that are happening on their website? If you think of broad categories like automotive, many of these transactions aren't taking place online, it's simply key buying activities that are taking place on these marketers' website. The ability to measure those interactions on the advertisers' website and attribute them to which ad drove that is a key differentiator that the household ID brings relative to UID 2.0.

So let me just say this in layman's terms. If I show an ad on CNN and let's say that user is logged in, and I later come to the marketer's website and perform the key buying action, our software will actually report record and attribute that conversion to the appropriate app. Contrast that to UID 2.0 or any hash e-mail-based identifier where there's not a purchase with an e-mail attached, a marketer loses the visibility into that conversion and being able to decide which publisher, which ad message drove that conversion on the website.

So UID 2.0, everyone is focused on the targeting side. There is equally bigger challenges to the adoption when you look at marketers who would have to adopt this entire framework as well. And a lot of marketers aren't selling the actual product on their website.

Relative to a household ID, we are a frictionless system. We don't require publishers to stop and register on a website. We don't require marketers to include anything. Our system works seamlessly with the same pixels, same ad delivery, same programmatic setup that's currently in place today. And we've achieved a scale of 80%, which is now more, that is 80% is now bigger than 55% of cookies across the bid stream. So our household ID has far surpassed where cookies are today in the bid stream. And as more and more marketers understand our solution and the implementation, how it truly is frictionless, we think adoption towards our approach is going to be substantial.

Laura Anne Martin ***Needham & Company, LLC, Research Division - Senior Research Analyst***

Okay. And then, Larry, maybe my second follow-up question for you. My recollection from the IPO is that CTV was about 30% of your revenue. It's now 45% because it's growing 66%. But your overall revenue growth was only 5%. So can you talk about what's happening in the 70% of the business at the IPO date by -- not by ad vertical, like autos versus travel, but by what's happening in mobile, what's happening in display, what's shrinking in order for total revenue to be growing at 5%, but CTV revenue to be growing at 65%?

Lawrence J. Madden ***Viant Technology Inc. - CFO***

Great question, Laura. A couple of things I would say to that. So we are certainly seeing a trend of advertisers shifting dollars into CTV away from desktop and mobile, basically, as CTV generally provides a better ROI for these marketers. Our platform, in particular, works extremely well on CTV as we can provide, as Tim said, both the targeting and the true measurement. And we're benefiting from this trend, which is what you're seeing in significant increase in CTV.

Additionally, if you look at -- not to get into verticals, but in particular, retail, travel and automotive clients are typically much more direct response-oriented, which is typically more targeted at mobile and desktop. So the decline in these verticals in Q1, we did see modest declines in mobile and desktop during the quarter. That being said, we do expect that trend will reverse as these sectors improve in the coming quarters.

Operator

Our next question will come from Maria Ripps with Canaccord.

Maria Ripps ***Canaccord Genuity Corp., Research Division - Analyst***

Yes, can you hear me?

Tim Vanderhook ***Viant Technology Inc. - Co-Founder, Chairman & CEO***

Yes, we can.

Maria Ripps ***Canaccord Genuity Corp., Research Division - Analyst***

So congrats on strong results. And it's good to see you guys sort of raising your guidance, and I appreciate all the color there. But I guess at this point, how much visibility do you have around your full year outlook? And what are some puts and takes that could potentially impact it? And then I have a quick follow-up.

Tim Vanderhook ***Viant Technology Inc. - Co-Founder, Chairman & CEO***

Larry, do you want to take that?

Lawrence J. Madden ***Viant Technology Inc. - CFO***

Yes, I'll take the beginning of that. So certainly, with Q2, we have -- we're now in the middle of May. We have very good visibility. Obviously, there's still some work to be done there. I think in the back half, what we're seeing as a general matter is the planning cycles, with a lot of our marketers and agencies, have shortened. So while we're having the discussions and we're getting very positive feedback and commitments, we have less visibility kind of longer term, and this really was more came in play when COVID came through, and it's continuing through that we're seeing shorter planning cycles with that.

That being said, based on -- in terms of a lot of factors, in terms of the increase in sales investments, in terms of the momentum we're seeing in CTV, in terms of the verticals now starting to come back that have been heavily impacted by COVID, especially with travel and retail, we're seeing that right now in Q2, that gives us a lot of confidence in terms of going forward into the year in terms of what we can do in the second half.

Maria Ripps ***Canaccord Genuity Corp., Research Division - Analyst***

Great. And just to follow up sort of around your guidance. It seems like it implies a pretty strong profitability flow-through. Can you just maybe comment on what's driving that? Obviously, Q1 came in much stronger on (inaudible). And are there any changes sort of the pace -- to the pace of investment this year? Or is it just driven by revenue upside? And maybe more broadly, can you maybe sort of refresh us on your margin expansion philosophy over the next year or 2?

Lawrence J. Madden ***Viant Technology Inc. - CFO***

Yes. So the first part of that, certainly, we've increased the revenue, so that will flow through to EBITDA, hence, our higher guidance relative to EBITDA. The other things we're seeing, though, in terms of investment, we're on pace with what we thought we were doing. In terms of incremental headcount, we expect to be largely -- or the large majority of the way through our 2021 hiring plans by the end of Q2. So we're not pulling back in terms of investment. That's kind of in line with what we had originally expected.

But as we've always done, we are very focused on finding efficiencies in the business. Chris talked about the mediator product. That results in a huge efficiency and savings for us. And we continue to look at nonpersonnel areas where we can squeeze money out of our budget. So I think it's increased revenue, it's increased efficiency. It is not a lack of investment. We're continuing to drive forward with investing and growing the team and really getting most of that done by the second half -- sorry, by the end of Q2, such that we can truly benefit from that investment in the second half.

In terms of margin expansion, obviously, that will come with revenue growth. We will continue to invest as we are in 2021. We will continue to invest to take advantage of the opportunity going forward. But we think in the near -- in the mid to near term that we can, with investment, get that EBITDA margin as a percentage of revenue ex TAC up to 35%, which is what has been our plan since before we went IPO.

Operator

(Operator Instructions) And we'll move on to Aaron Kessler with Raymond James.

Aaron Michael Kessler ***Raymond James & Associates, Inc., Research Division - Senior Internet Analyst***

There you go. Great. A couple of questions. Maybe just on the direct cost as a percentage of revenues. I noticed those increased a bit sequentially. Can you just give us the reason behind that? I assume it was maybe a shift away from percentage spend? And then how should we think about that going forward?

And then two, just the pipeline. Just given, obviously, shift to a cookieless future, what are you starting to see from conversations with some of the agencies and direct clients? Are you starting to see that the pace of those conversations increase as we move it to a cookieless kind of future over the next year or so?

Lawrence J. Madden ***Viant Technology Inc. - CFO***

Thank you, Aaron. In terms of direct costs, I assume you're looking at platform operations.

Aaron Michael Kessler ***Raymond James & Associates, Inc., Research Division - Senior Internet Analyst***

Yes. Direct cost as a percentage, I think went up to about 33% of the GAAP revenues versus about 31% in Q4.

Lawrence J. Madden ***Viant Technology Inc. - CFO***

Yes. I mean part of that is -- there's a couple of things going on there. One is the increase in headcount, which on a year-over-year basis is up something like 17%. On a -- if you look at it on a quarter-over-quarter basis, our total -- well, let me restart that.

The first thing to be important to note is that we have 17 million plus of stock-based comp in our operating expenses in Q1. Hence, why we're pulling from a -- we're going to be talking a lot about non-GAAP OpEx which excludes that. If you look at operating expenses, excluding SBC, it's essentially flat with last year. So -- and that is despite the fact that we have made, over the last 12 months, pretty significant investment in additional head count. I'm not sure if that answers your question. I just want to make sure I got that right.

Aaron Michael Kessler ***Raymond James & Associates, Inc., Research Division - Senior Internet Analyst***

Yes. So I was just looking at the gap between, I think, the revenue ex TAC versus the GAAP revenues. It seems like the gap widened a little bit then more than we saw in the previous quarter.

Lawrence J. Madden ***Viant Technology Inc. - CFO***

Yes. That's -- a portion of that 17 million of stock-based comp is included in that number.

Aaron Michael Kessler ***Raymond James & Associates, Inc., Research Division - Senior Internet Analyst***

Okay. Got it. And then just maybe if you can comment on kind of the pace of conversations around kind of the cookieless future and what it means for the pipeline.

Chris Vanderhook ***Viant Technology Inc. - Co-Founder, COO, Secretary & Director***

Yes. So definitely, pace of conversations have definitely increased. It's in the news every day, whether it be changes in the ID ecosystem, whereas 6, 7 months ago, we were educating clients that this is happening, that you start to get ready for this. I think clients understand they have to be ready for this come year's end. So definitely, the pace is increasing, new customer -- or excuse me, new sales hires are kickstarting new conversations.

One other thing I want to point out, our WWC release, I think, is going to help us quite a bit. We essentially are more effectively embedding everything throughout the platform, really making our household ID apparent in all those areas and not just in the buying section. So I really think that, that is really going to increase customer adoption towards this -- come second half of the year.

We do -- we did previously say that we think the real payoff is going to be in 2022 when Google does delete cookies. But we are seeing a real interest in testing of the solutions. We -- our agency partners are leaning forward -- excuse me, they're leaning forward because they know they got to be ready. So we expect that pace to pick up even more as we go throughout the end of the year.

Operator

And our final question will come from Rocco Strauss.

Rocco Strauss ***Arete Research Services LLP - Analyst***

All right. I hope you can hear me. I have two, if I may. The first is on IDs again. I'm just curious to what extent your household ID is still driven off the old Myspace assets. And then more generally around Unified ID 2.0 or the commentary that you have given already. Is Viant, any kind of capacity kind of like using unified ID or planning to use it or contributing to that? That will be one question.

And then the other one is probably more a bit of an educational one here. I mean I guess if I'm using the midpoint of your fiscal year '21 guidance, it seems like you're monetizing at like a 67% take rate, which just seems quite high versus peers like Criteo or like The Trade Desk. So I guess it would be helpful if you could walk us through your inventory mix, your owned and operated versus like third-party as well as any kind of additional services within net revenue that may drive that take rate up.

Tim Vanderhook ***Viant Technology Inc. - Co-Founder, Chairman & CEO***

I'll leave Larry for -- Rocco, thanks for the questions. I'll take the first two. I'll leave Larry for the take rate question there. So is household ID driven off of Myspace data set? That answer is an emphatic no. Totally irrelevant from the Myspace data set and not used at all.

UID 2.0 Viant's plans. When Viant was -- when we changed our name to Viant in 2015, we launched people-based and kind of brought it to market under a programmatic platform, really the first one to do that. Our approach at the time was e-mail. So our ability to accept a hash e-mail identifier from a publisher, we've had since 2016. So The Trade Desk is rearchitecting their software for that basic concept there. But the issue with e-mail is that the publishers simply don't have that data point. So it's a false premise to say that every publisher available universally is going to be able to capture an e-mail and pass it through.

Certainly, if a hash e-mail identifier comes through a bid stream, we have the ability to bid on that hash e-mail identifier, just like anyone on the UID 2.0 framework. Prior to it being called UID 2.0, it was called IAB Project Rearc. It was an entire industry-wide effort, but The

Trade Desk has since renamed it to their own UID 2.0.

But what is it? If a publisher captures an e-mail address and sends it through, we have no problem bidding and buying off of that hash e-mail identifier. We just don't see it scaling past 20% to 30% of all available ad request given our history and experience in dealing with this important identifier for the past 6 years. It simply doesn't scale because publishers don't have the data point required.

The head of the Internet, the major media companies in Connected Television will likely be able to authenticate a large portion of their subscribers, paid subscribers. But we see the better identifier being this household identifier approach, which really aggregates all devices in a household and doesn't rely on that device for storage of it or any change that big tech does. So we believe that the household ID is the scale that all of our competitors will move to over the course of time, once the -- what's around the corner of the hash e-mail identifier. Larry, I'll leave it for you on the take rate as well.

Lawrence J. Madden ***Viant Technology Inc. - CFO***

Yes, Rocco, in terms of the take rate. So rev ex TAC as a percentage of GAAP revenue is not a take rate in our model. Spend is a number that is much higher than GAAP revenue. So the reason we show rev ex TAC is because we have different pricing models with different revenue accounting treatment. So our GAAP revenue represents spend on our fixed pricing option. But on our subscription and percentage of spend option, it represents spend after deducting media and data costs.

So it is not a spend number, it's a GAAP revenue number. But what we focus on is rev ex TAC because that essentially then takes out the media and data costs out of the fixed pricing option such that rev ex TAC normalizes the 3 different pricing options. It's all net of media and data costs. But it is not a take rate when you do rev ex TAC divided by GAAP revenue. You would have to do that divided by spend, but spend is not a metric that we disclose.

Operator

Then we'll take a question now from Andrew Boone.

Andrew M. Boone ***JMP Securities LLC, Research Division - Director & Equity Research Analyst***

I just wanted to touch base in terms of the sales force and ramping. And just any progress you guys can share in terms of getting that up in scale and kind of the client perception as you guys kind of have more feet on the street.

Tim Vanderhook ***Viant Technology Inc. - Co-Founder, Chairman & CEO***

Yes. I mean first and foremost, let's just talk about the quality of the candidates coming in from the pipeline. Viant really has, post its IPO, the product in the marketplace. I think everyone in the industry is recognizing the scale and accuracy that our ID brings in the frictionless nature that we can use the current ecosystem. And when you have that brand halo going on in the market, it attracts a huge level of talent, much higher quality of caliber of individuals coming on board to the team. We mentioned Kendra, the Chief People Officer. David Fahey, heading up our agency partnerships, came to us from Google. And I could go on and on and on about the great companies that these individuals have left to come join the Viant team. And really, it's because the product works and it's scaled today. And I think that's what's drawing it, the big talent here. I'll let you go.

Chris Vanderhook ***Viant Technology Inc. - Co-Founder, COO, Secretary & Director***

Yes. As far as the sales hires making headway there, we're well on our way there. I would expect that -- we're hopeful that we're going to hire the majority of those really by second half. So our plan is just to be well through that hiring plan through the second half. We want to make sure we're hiring the right people. But as Tim said, we're seeing absolutely great candidates across great technology companies coming our way.

One other point I want to note. I think obviously, we are a challenger brand. And I think both from people who are coming to work here, they understand the opportunity, and they want to make an impact. I think commercially, moving to the clients, I think clients like the challenger as well. They -- what we hear consistently is they don't want to just see more Google. They don't. So a company like us coming, I think, has been very refreshing for them.

We are having great conversations. A lot of times when you're getting great sales hires, you're also providing familiar faces for those clients. So we've seen that pay some dividends as well. It's still early. We're going to give them time to ramp up, but we're excited about what they're going to contribute in the back half of the year.

Andrew M. Boone ***JMP Securities LLC, Research Division - Director & Equity Research Analyst***

So just to clarify, and this may be more of a Larry question, but this is more of kind of a 2022 event as we start to see kind of that fully -- that sales capacity fully get up and scaled and running?

Lawrence J. Madden ***Viant Technology Inc. - CFO***

Certainly fully ramped. But we do expect, and we always had planned and that's why we were very aggressive in terms of trying to bring as many of them on in the first half of this year, so that we get some benefit in the second half of '21. But clearly, it is much more of a -- it will have a much more profound effect in 2022.

Tim Vanderhook ***Viant Technology Inc. - Co-Founder, Chairman & CEO***

Yes. And I mean really, just let's talk about which events matter the most. Google deleting the cookie from Chrome is going to be one of the biggest accelerators for our business. Because as of right now, our competitors can still rely on that cookie to execute their business day-to-day. When Google pulls that rug out and there is no cookie, we really get to see whose ID system really has the scale and the accuracy that marketers are looking for. We've got many, many years of experience in doing this and a clear patented process. So again, we focus all in bringing the team in and hiring. This is all getting ready for 2022 when Google Chrome actually pulls that cookie, and the QPS pipe goes from 55% of the cookie down to 0. And then we'll see what our competitors really have behind their software.

Operator

There are no further questions. Tim, Chris and Larry, I'll turn it back to you for the closing remarks.

Tim Vanderhook ***Viant Technology Inc. - Co-Founder, Chairman & CEO***

Thank you very much for everyone joining us today. Last thing I want to thank is our employees. We wouldn't be here without you, your dedication, effort level and tremendous level of brain power that you bring to work each and every day. I just want to say thank you for all of that, and we look forward to continuing to build the momentum in the future quarters to come. Thanks, everyone.

Lawrence J. Madden ***Viant Technology Inc. - CFO***

Thank you.

Operator

Thank you so much. And again, this does conclude today's webinar. We thank you all for your participation. You may now disconnect.