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Q2 2021 Viant Technology Inc Earnings Call

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PRESENTATION

Operator

Hello, everyone, and welcome to Viant's Second Quarter 2021 Earnings Call. My name is Kelcey and I will be your moderator today. Before I hand the call over to the Viant team, I'd like to go over just a few housekeeping notes for the program. As a reminder, this webinar is being recorded. (Operator Instructions)

We thank you for your attendance today, and I will now turn things over to Nicole Borsje. Please go ahead, Nicole.

Nicole Borsje ***The Blueshirt Group, LLC - MD of IR***

Great. Thank you, Kelcey. Good afternoon, and welcome to Viant Technologies' Second Quarter 2021 Financial Results Conference Call. On the call today are Tim Vanderhook, Co-Founder and Chief Executive Officer; Chris Vanderhook, Co-Founder and Chief Operating Officer; and Larry Madden, Viant'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 statements 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 press release issued today as well as the risks and uncertainties described in our annual report on Form 10-K 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 our earnings press release issued today and in our filings with the SEC. I would also like to point out that we posted a presentation to our Investor Relations website to provide supplemental financial highlights on the quarter.

I would now like to turn the call over to Tim Vanderhook, Co-Founder and Chief Executive Officer of Viant. Tim?

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

Thank you, Nicole, and thank you, everyone, for joining today's call. I am pleased to report that Viant delivered a strong second quarter. Our growth was driven by advertisers and agencies continuing to adopt our differentiated technology and software to execute their advertising campaigns. Consumers, content owners and advertisers continue to grow their interest in and use of the Connected TV channel, and we expect to continue to benefit from the secular growth over the long term. We had strong performance across a number of key metrics, starting with Connected TV, which grew 105% in the quarter, representing 41% of contribution ex TAC. CTV is not only our fastest-growing channel but also our largest channel by any metric as we continue to build on our decade of experience in this area.

On the customer front, we had a great quarter. We continued to expand our reach, adding 22 active customers to bring our total to 288 at the end of Q2 2021. You may recall during our last earnings call that we announced a large software release called WWC, or world without cookies. I am very encouraged by the early signs of success. It is driving a better user experience for our customers and substantial advertising performance improvements across many key advertiser metrics. Chris will provide more details on our progress here later in the call.

We exceeded the high end of our guidance for revenue, contribution ex TAC and adjusted EBITDA. We are excited to see our momentum building and are raising our guidance for the year.

With that, I'll hand the call over to Larry for more financial detail.

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

Thanks, Tim, and thank you, everyone, for joining us today. We are certainly encouraged by our strong performance in Q2, which I believe is a testament to the traction our software is gaining in the market today. This afternoon, I'll be discussing some of the highlights of our Q2 performance as well as some of the key financial and operational drivers during the quarter. And I also will be reviewing our current expectations for Q3 and the full year 2021.

Before I get into the numbers, I'd like to briefly cover a few housekeeping items. As Nicole mentioned and in an effort to provide additional details around our performance, we have posted supplemental financial slides to our Investor Relations website to accompany today's presentation. Additionally, in order to comply with SEC disclosure requirements, what was previously referred to as revenue ex TAC, will now be referred to as contribution ex TAC. There's been no change in how this is calculated. It is purely a name change. And finally, we have adjusted how we will be reporting on certain key metrics, namely around customer verticals, channels and formats. Previously, we reported on these metrics based on platform spend. However, given that we do not disclose total platform spend and in an effort to provide a more meaningful disclosure, we will now report on these metrics in terms of contribution ex TAC. This change in approach does not materially change the trends versus the prior methodology.

Okay. So with that, let me discuss some key financial and operational highlights for the quarter. In Q2, we delivered results above the high end of our previously issued guidance across all key metrics. At a high level, we more than doubled our CTV business in the quarter and had a solid recovery across our travel and retail customer verticals. Our continued investment in our team and technology is also beginning to pay dividends, as evidenced by our solid increase in active customers in the quarter.

For the quarter, total platform spend increased 58% versus last year. GAAP revenue for the quarter was $50.4 million, an increase of 66% compared to Q2 of 2020; and contribution ex TAC was $32.2 million for the quarter, an increase of 61% year-over-year. As Tim said, one of the biggest drivers of our growth is our continued momentum in CTV. Contribution ex TAC from CTV grew 105% in Q2 and represented 41% of total contribution ex TAC during the quarter. We also saw solid growth across all other channels in the quarter, including streaming audio, digital out-of-home and linear TV. In total, contribution ex TAC from channels other than CTV grew 40% during the quarter. We expect CTV to continue to be a strong contributor to our growth going forward as our advertising software continues to gain market share across this growing and important channel. In terms of ad formats, video grew 67% in Q2 and represented 69% of total contribution ex TAC in the quarter.

With respect to our customer verticals, as I said, we began to see a recovery in Q2 across certain COVID-impacted verticals. Contribution ex TAC across our retail, travel and automotive verticals grew 48% in Q2, driven by growth across our travel and retail verticals, with automotive still experiencing weakness as a result of the global chip shortage. Retail, travel and auto represented 27% of contribution ex TAC in Q2. Non-COVID-impacted verticals also continued to perform well during the quarter, with contribution ex TAC increasing 66% during the quarter and representing 73% of total contribution ex TAC. Our CPG, health care and entertainment verticals, in particular, continued to perform exceptionally well during the quarter. In Q2, growth across our percentage of spend pricing model also continued to outpace growth across our fixed price and subscription pricing offerings, which highlights Viant's continued strength with its agency customers.

On the customer front, the number of active customers and the average contribution ex TAC per active customer saw a strong momentum in the quarter. At the end of Q2, we had 288 active customers compared to 266 at the end of Q1, representing an increase of 8% during the period. Average contribution ex TAC per active customer at the end of Q2 totaled $438,000 versus $428,000 at the end of Q1 2021. As we continue to ramp our sales and technology investment in 2021 and beyond, we expect further momentum around new customer acquisitions, which ultimately will serve as another engine to fuel growth going forward.

Turning now briefly to operating expenses. Given the significant stock-based compensation expense flowing through our numbers beginning in Q1 of this year, I will be discussing operating expenses on a non-GAAP basis, excluding the impact of stock-based compensation. Total operating expenses, excluding stock-based compensation, totaled $44.7 million in the quarter, an increase of 48% versus the prior year and 18% higher than Q1. We continue to invest in our people and technology to drive growth in the quarters ahead. Through the end of the second quarter, we had increased our total head count by over 21% in the past 12 months. Despite a competitive labor market, we continue to attract extremely qualified candidates. At the same time, we continue to invest aggressively in automation to further drive operational efficiencies throughout the company. We believe our focused approach on balancing our investment in growth while also driving operational efficiencies in the business will ultimately drive profitability and revenue growth for many years to come.

Adjusted EBITDA for the quarter was $8.3 million compared to $2.8 million in Q2 of last year, representing a year-over-year increase of 203%. Our adjusted EBITDA margin as a percentage of contribution ex TAC was 26% in the quarter compared to 14% in the same period in 2020. As we continue to scale the business, our mid- to long-term targeted adjusted EBITDA margin as a percentage of contribution ex TAC remains at 35%.

We also use the metric of non-GAAP net income, which represents net income excluding stock-based comp. And for Q2 of 2021, it also excludes a nonoperating gain of $6.1 million relating to the forgiveness of our PPP loan from 2020. For the quarter, non-GAAP net income totaled $5.2 million versus a de minimis loss of $30,000 last year. Non-GAAP earnings per diluted share of Class A common stock totaled $0.06 for the quarter.

From a cash flow perspective, we generated $8.8 million of net cash from operating activities for the quarter compared to $8 million in Q2 of last year, and we ended the quarter with $252.3 million in cash. 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.

In terms of share count, we expect Class A common share count to increase to approximately 13.5 million by the end of Q3 and 14 million by the end of the year, primarily as a result of RSUs vesting in the second half of 2021.

And finally, I'll now turn to our outlook for the remainder of 2021. 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. As we think about guidance, we are taking a pragmatic approach for the second half of 2021, given the increasing uncertainty associated with the significant recent uptick in COVID cases throughout the U.S. That being said, we are increasing our full year guidance for 2021 based on what we know today.

For the third quarter of 2021, we expect GAAP revenue in the range of $48 million to $50 million, which represents year-over-year growth of approximately 19% to 24%; contribution ex TAC in the range of $32.5 million to $33.5 million, which represents year-over-year growth of approximately 16% to 20%; and adjusted EBITDA in the range of $4 million to $5 million or a margin as a percentage of contribution ex TAC of 12% to 15%.

And for the full year 2021, we now expect GAAP revenue in the range of $205 million to $210 million, which represents year-over-year growth of approximately 24% to 27%; contribution ex TAC in the range of $137 million to $142 million, which represents year-over-year growth of approximately 24% to 28%; and adjusted EBITDA in the range of $29 million to $32 million or a margin as a percentage of contribution ex TAC of 21% to 23%. Excluding U.S. political spend that we benefited from in 2020, our projected growth rates in 2021 for both revenue and contribution ex TAC would be approximately 50 basis points higher for Q3, 2% higher for Q4 and 1% higher for the full year 2020 on a year-over-year basis.

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

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

Thanks, Larry. Our approach to building the business has not changed. We remain focused on revenue growth, and we will continue to invest aggressively in our technology and Viant's go-to-market plan given the enormous opportunity we see ahead of us.

This brings me to our significant software release called WWC, or a world without cookies. Let me first provide some context. Advertisers and agencies are continuing to have a difficult time forecasting, buying and measuring their advertising in channels like Connected TV, streaming audio and mobile phones where cookies don't exist or only exists a small percentage of the time. We believe our world without cookies release solves for these important and emerging trends. We announced our private beta testing program to customers in June, which provided early access to our new digital experience across our Adelphic DSP. WWC enables advertisers to pull the plug on third-party cookies completely and provides a number of substantial advantages to the customers using it right now.

I'd like to take the time to highlight some of those advantages. Number one, onboarding. With this release, we've grown our leadership position in onboarding customer first-party data. WWC provides customers with even more ways to utilize their first-party data, including onboarding physical addresses directly into the DSP. This is in addition to the already available options of onboarding customer e-mail addresses or other digital identifiers that we've had enabled for years.

Number two, user experience. We've unified our Household ID throughout our software, from onboarding to audience planning, inventory forecasting, frequency capping, reporting and attribution. We've received a lot of positive feedback from our clients on the new user experience and have also received valuable feedback on areas to drive further enhancements. I do want to just take this moment to thank our customers who participated in the private beta for all of their great feedback.

Number three, scale. Our Household ID is already available across nearly 80% of all available ad opportunities managed by our software. This means that marketers can immediately reach more than 115 million addressable U.S. households that make up more than 250 million addressable consumers in cookie-less environments. Our idea is empowering customers with improved precision and control over the reach and frequency of their advertising campaigns. Gone are the days of showing the same CTV ad over and over to consumers.

Number four, measurement. We believe WWC is delivering incredible and superior results for marketers. During our private beta period, our clients saw an average increase of new customer acquisitions by over 200%. In addition, clients told us that they were able to better plan and control the frequency of their ads, which led to less waste and ultimately allocate more money to reaching new potential customers. We saw, on average, a 40% increase in total reach with beta clients who are utilizing our Household ID versus the cookie. We are very encouraged by these initial results, and our clients are now able to readily see the benefits of operating in a world without cookies.

All of that said, WWC is really about delivering a better experience for consumers right now. If we can help content owners better manage frequency in cookie-less environments like Connected TV, then we are creating a better consumer experience when streaming the content that they love. On the back of this, we can enable brands to be relevant while driving their business outcomes. Given the success of the WWC private beta, this week, we moved to our open beta phase of the release, which will allow more customers to adopt our new user experience and ultimately drive better advertising performance. We're also planning a customer event in September to release more exciting details on our WWC software release. More to come on that later. We believe that the continued improvement of our people-based software and increased investment in sales and marketing will continue to propel new customer wins and increase revenues in the quarters and years ahead.

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

Thank you very much, Chris. The digital ad market is booming, Viant is winning in connected television, and we're executing ahead of our plan and we expect a strong second half of the year. I want to thank you for your attention today and your interest in Viant.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from Maria Ripps with Canaccord.

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

All right. I just wanted to ask about your customer additions this quarter. It seems like you added way more customers than we expected at least. Can you just talk about what type of customers you added? Are those customers from larger agencies, mid-market agencies, client direct, et cetera? And then I have a quick follow-up.

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

Yes. Just a little bit on that. We had a great quarter in customer additions, no doubt. If I had to characterize where they came from, predominantly agencies. We did have some client direct ones in there who don't use agencies, but predominantly, those were agencies. And those were -- most of those were net new customers that haven't been on the platform.

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

Got it. And is there anything to highlight in terms of specific verticals for this newer cohort of clients? And then secondly, do you expect average spend per customer for this cohort to be maybe on par with your prior cohorts over time?

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

We -- just on the second part, I'll say we do expect them to trend similarly. The longer they're on platform, we expect their contribution ex-TAC to look similar to clients who've been on for a longer period of time. So we expect them to trend in that same direction. What was the first part of your question again, Maria?

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

Verticals of new customers.

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

Larry, do you have any data on that?

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

No.

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

Yes. Let me just add. In general, just most of those being their agencies, I would expect that they follow the similar trends that we highlighted earlier in terms of the way the customers broke out in terms of their percentage of contribution ex TAC.

Operator

(Operator Instructions) We'll now move on to Laura Martin with Needham.

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

Okay. Great numbers, you guys. Another beat and raised quarter. So congratulations. So I'm going to ask Larry a hard one, but I'm going to start with -- on the CTV, do you find that the customers you're adding are coming to you because of CTV because your CTV growth is like nearly 3x your non-CTV growth? Is that the kind of customer you're attracting? Or is it you're seeing existing customers adding more CTV in their weighting of revenue for you guys?

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

I'll start and if anyone else wants to add. I think customers come to us for cookie-less environments. CTV happens to be the most exciting cookie-less environment. Certainly, where there's competitive DSPs on that advertiser's vendor list, we see them sticking with that cookie-based DSP in the mobile and desktop channel, and they're testing the cookie-less solutions in the Connected TV channel. We continue to benefit from that in attracting new customers, and I'll leave the rest for Larry.

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

Okay. My second question on for Larry is -- okay, I don't get it. So I have 40% of the revenue growing at 100%, and 60% of the revenue growing at 40%, and yet your guidance for next quarter is 20%. So what is it that's slowing down at the speed of light right now 4 weeks into this current quarter that you're -- that the momentum is stopping?

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

It's a good question, Laura. Thank you. So we certainly are encouraged by what we saw in Q2, especially with our retail and travel customers coming back. As I mentioned, automotive is still being impacted pretty heavily. That being said, we're certainly keeping a close eye on what is happening today in the U.S. as the Delta variant continues to surge. I would say this. Our guidance takes into consideration what we know today. While we've increased guidance, we have taken a somewhat conservative view due to the uncertainty caused by the rising COVID cases. It's not -- the other thing I would point out is certainly, Q2 of this year in terms of growth rates had an easy comp relative to Q2 of last year. But we feel really good about the second half. We're being cautious relative to what's going on with COVID right now. And certainly, we'll do our best to beat these numbers. But in terms of what we're comfortable with putting out today, you saw the percentages.

Operator

(Operator Instructions) We'll move on to Andrew Boone with JMP.

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

Given the strength in CTV, can you talk about moving customers onto other ad formats? Like it seems to me like that's the tip of the spear in terms of bringing customers on and very differentiated. But how do you guys get spend more broadly across more budgets? Is that the right way to think about that?

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

Absolutely. The business model, in a sense, is you need to increase the investment of a client, and the way you do that is by getting more and more channels on board. We've obviously invested and we believe we're in more channels than any of the competitive platforms. But our easy area right now is -- to hit is CTV and we're definitely hitting in that area, as you can see. I think we started to have a bit of a rebalancing in terms of getting more clients into multiple channels. And I think you saw that with the bounce back in mobile and desktop. I think that will continue. I also think that digital out-of-home is another exciting area. Audio is as well, and I think that those are going to continue to grow. So the other piece I'll say is measurement drives a lot of this. We're driving great results right now for our clients, or I should say they're seeing great results by way of our measurement solutions in CTV and other cookie-less areas. So I think it's just naturally they're going to diversify their spending into more and more of these channels.

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

I would just add to that, Andrew. I think it's customer comfort with the platform. There's lots of dollars at stake in customer acquisition strategies that they're running through cookie-based DSPs. And I think it's just getting to that comfort level that they can operate in these cookie-less environments in the same way with the same precision and measurement capabilities they have before.

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

That makes total sense. And then just with WWC now out and kind of customers testing it live, can you just talk about the competitive set in terms of just the differentiation between you and other DSPs are on the market? How far apart do you feel like that is from a product set?

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

Well, I think a lot of the industry participants have moved to closer to where Viant is today. What we invented in 2015 and brought to market was people-based. Not everyone calls it that, but if you look at the identifiers they're using, almost all of the industry has coalesced that these people-based identifiers are the way forward. I think we have a wide gap where our competitors are launching onboarding for the first time in their platform. We've expanded and grown our moat and onboarding from one type of identifier to many.

So we added physical address onboarding all through a self-service user interface for our customers. So I think at this point, where our competitors are trying to fix problems that they have in their software, we're trying to expand our lead on the features and functionalities. We're bringing those same marketers.

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

And also just one other point, Andrew, is around measurement. I think we do extremely well with clients that are attracted to our platform because of the measurement capabilities that we've long offered, things like in-store sales as opposed to just e-commerce sales. Being able to link that to ad exposure is huge. It's something we've done for many years. Our integrations in that area in terms of the amount of companies we're integrated with to enable brands, to be able to bring those sales receipts in, that also creates another big moat. So we feel great -- we've always felt great about our positioning, but we know we have a long product cycle lead there.

Operator

And there are no further questions. Tim, Chris or Larry, do you have any closing comments?

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

No. I just do want to thank the Viant team for a great quarter of execution for all of you. We appreciate you so much. And thank you to our customers who continue to work with us and challenge us in bringing forward new solutions to their problems. Thanks very much, and we'll see you next quarter.

Operator

And again, that does conclude today's earnings call. You may now disconnect.