

Tremor International Second Quarter and H1 2021 Earnings Call

Thursday, August 19, 2021

Operator

Welcome to Tremor International's Second Quarter and H1 2021 Conference Call. At this time, participants are in a listen-only mode, with a question and answer session to follow at the end of the presentation. This conference call is being recorded and a replay of today's call will be made available on the Investor Relations section of Tremor's website and will remain posted there for the next 30 days.

I will now hand the call over to Todd Fromer, Principal and President at KCSA, for introductions and the reading of the Safe Harbor statement.

Please go ahead.

P2 – Introduction to Speakers and Safe Harbor Statement

Thank you, operator. Good morning everyone and welcome to Tremor International's Second Quarter and H1 2021 Results Conference Call. With us on today's call are Ofer Druker, Tremor's Chief Executive Officer and Sagi Niri, Chief Financial Officer.

This morning, we issued a press release which you can access a copy of on our website at investors.tremorinternational.com.

During today's conference call, we may make "forward-looking" statements. All statements other than statements of historical fact could be deemed as forward-looking. We advise caution in reliance on forward-looking statements. These statements include, without limitation, projections about our future financial results and future business; and statements concerning the expected development, performance, and market share or competitive performance relating to products or services. All forward-looking statements are based on information available to us as of the date of this call. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results to differ materially from those implied by these forward-looking statements, including unexpected changes in our business. More detailed information about these risk factors, and additional risk factors, are set forth in our filings with the U.S. Securities and Exchange Commission, including, but not limited to, those risks and uncertainties listed in the section entitled "Risk Factors," in our Registration Statement on Form

F-1. Tremor does not intend to update or alter its forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Additionally, the company's press release and management statements during this conference call will include discussions of certain measures and financial information in IFRS and non-IFRS terms. We refer you to the company's press release for additional details, including definitions of non-IFRS items and reconciliations of IFRS to non-IFRS results

At this time, it is my pleasure to introduce Ofer Druker, CEO of Tremor International.

Ofer, please go ahead.

P3- introduction of the main results

Thank you, Todd and welcome to everyone for joining today's earnings webcast.

As this is our first major communication since listing on the NASDAQ on June 22nd, before reviewing the highlights of our second quarter and first half of 2021 results, I'd like to talk briefly about who we are, the market in which we operate and how we have positioned the business for future growth. Afterwards, our Chief Financial Officer, Sagi Niri, will review the highlights of our Q2 financial results. Following that, we'll be happy to take your questions

Before getting into the details, Tremor delivered amazing Q2 results that, when combined with Q1, represent great progress and testament to the success of our strategy driven by our end-to-end platform, with a focus on Video, Data and Connected TV.

For the three months that ended June 30, 2021, we generated Contribution ex-TAC of USD \$74mm compared to USD \$28.5mm in Q2 2020 and (160% growth) Adjusted EBITDA of USD \$37mm, compared to USD \$1.2mm in Q2 2020 (29x times growth). And for the six months that ended June 30, 2021, we generated Contribution ex-tac of USD \$137mm compared to USD \$61mm in H1 2020 (125% growth) and adjusted EBITDA of USD \$65mm, compared to USD \$1.8mm during the same period last year (35x times growth). Our CTV revenues grew 280% in Q2 2021 vs. Q2 2020 and grew 249% in H

1 2021 vs H1 2020.

Central to this performance is the strength of our end-to-end technology and business platform. Later in this presentation, I will also touch upon the progress we achieved in CTV, which is also a key performance driver for Tremor.

We also achieved a 46% EBITDA margin in Q2 2021 on a reported revenue basis, and a 51% margin on net revenue, which is higher than the median of our direct peers.

Finally, 92% of our net revenue in Q2 2021 was generated in the US, highlighting Tremor's strength in our most important market, but also showing the upside potential we have to expand our global footprint. I am proud to say that Tremor is recognized by the industry as a leading Video and Connected TV-focused ad tech platform. For the second quarter of 2021, Video and Connected TV comprised 82% of our Revenue ex-TAC. Please note that for accounting purposes, we report Contribution ex-TAC, but we view this as our Net Revenue.

P4- Our Mission

Four years ago, we set a vision and plan to transform Tremor into a unique market-leading company, focused on video, Data and CTV, delivered through a full end-to-end tech platform. Capitalizing on our collective expertise and experience integrating companies, we hand-picked and acquired companies that were committed to investing in these areas and connected them to create a powerful platform.

Successfully completing three major acquisitions in about three years, we have created what we believe is one of the leading end-to-end technology and business platforms offering video, data and CTV. We further believe that owning an end-to-end platform – comprised of our demand-side platform, supply-side platform and data management platform – gives us a competitive advantage in the marketplace. The success of this forward-looking initiative is the driving force behind the strong growth and financial results we reported earlier today.

The high level of success we achieved completing the integration of Unruly, our last acquisition in (January 2020) -about a year ago, has translated into strong organic growth and profitability.

It's worth touching upon the fact that although COVID-19 proved particularly challenging in the first half of 2020, it also served as an opportunity for Tremor to focus our vision and accelerate our strategy, and ultimately, to evolve.

We have built and positioned Tremor to achieve success for the long-term, supported by favorable, fundamental changes occurring within the advertising industry, which we believe will provide us with a long runway to grow over the coming years.

P5- Our Core Strengths & Differentiation

Now let's look at our core strengths and differentiation.

Our core differentiation is grounded in our end-to-end business platform, which has validated our approach, and is fueling our growth and profitability.

Brands have increasingly become more sophisticated as to how they reach their target audiences, while simultaneously seeking to simplify the execution of their campaigns.

Tremor directly addresses this need by providing a flexible solution to address the increased complexity of the industry.

With many years of product development, experience, and knowledge, we have established credibility in the market for our best-in-class Video and CTV capabilities. This level of experience is unique in the industry and is respected by our clients.

P6- Key Ecosystem Trends Driving Our Growth

The key trends driving our growth include:

- The shift of advertising budgets from broadcast and cable TV to digital platforms
- Growth in usage of Video advertising formats
- The importance of leveraging Data together with significant scale and reach to deliver amazing audience targeting benefits and capabilities to our advertisers
- The growth in CTV

- Market trends such as supply-path optimization and the increased emphasis on consumer privacy (around cookies)

P7- Key Ecosystem Trends Driving Our Growth – Video

Video is the fastest growing format in the U.S. market in terms of ad spend and is viewed as the most engaging format by advertisers.

We have an established track record of Video capabilities and expertise, resulting in almost 200% growth in our Video segment year over year, which was significantly higher than the CAGR achieved by the industry.

P8- Key Ecosystem Trends Driving Our Growth – Mobile & CTV

We are also focused on the fastest growing channels by device – CTV and mobile, which collectively account for 79% of our net revenue, and 86% of our programmatic net revenue.

Our CTV and Mobile growth have significantly outpaced the industry, at 167% year over year, compared to 20% for CTV and 12% for Mobile in the U.S.

P9- Key Ecosystem Trends Driving Our Growth – CTV

As the fastest growing advertising medium by ad spend, CTV represents a tremendous growth opportunity for Tremor.

Currently, there is an anomaly between ad-spend on CTV – which remains lower relative to other digital advertising channels and the extremely high viewership and engagement from consumers who are consuming content through CTV daily.

We expect that ad spend will catchup to the “eyeballs” and advertisers will continue allocating meaningful portions of their budgets to CTV, which will benefit Tremor, as CTV represents 28% of our revenue and continues to increase.

P10 The importance of Data

Tremor works with premium and well-known brands that have global reach and a large addressable digital ad spend. Our revenue is widely spread across a variety of verticals, including entertainment, CPG, finance, restaurants, travel, health and many more.

Our emphasis on data is being supported by our ability to layer data through our proprietary DMP and our unique partnerships with data providers. This enables our advertisers to target their audience with precision through the growing emphasis on CTV, where we offer strong reach through the growing number of our partnerships.

P11- Business wins

We continue to partner closely with top brands in our industry and are proud of these strong, global partnerships.

Two partnership highlights from Q2 include our integration with LiveRamp that will help connect marketer demand to high-quality publisher inventory across channels, while fortifying data-driven customer insights for improved activation and measurement, and our launch of in-house TV retargeting which will help our advertiser partners increase their audience reach.

Finally, our in-house Creative Studio, Tr.ly (pronounced “Truly”), continues to be a differentiator for Tremor International, with some of the world's top brands leaning into our bespoke solutions. In Q2 alone, 175 different brands ran over 800 million impressions of Tr.ly custom creative through Tremor Video and Unruly’s platforms and we sold \$18M in custom creative in Q2.

P12- Financial Summary

With those introductory comments complete, it is my pleasure to turn the call over to Sagi to review our financial results.

Moving to Sagi N

Thank you Ofer, and thank you, everyone, for joining us today. We are certainly encouraged to see our momentum building as we move ahead of the first half of 2021. Today, 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. Tremor International achieved another outstanding record quarter in Q2, with revenue and adjusted EBITDA propelled by organic revenue growth. In Q2 2021, we've completed an exciting dual listing process resulting in an equity raise with investor endorsement in Tremor bringing the total gross proceeds of our offering to approximately \$147.9 million before underwriters discounts and fees.

P13- Key Financial Highlights

For the quarter ended June 30, 2021, Tremor generated \$74mm in net revenue (the key metric we focus on in evaluating revenue performance), an increase of 159% year over year, significantly stronger than the digital ad industry's growth.

Our CTV revenues grew 280% in Q2 2021 vs. Q2 2020 and are poised to continue their strong momentum as increasingly more business is being transacted through programmatic platforms. During the same period, our video revenues grew almost 200%, which again was much faster than the forecasted CAGR for Video advertising.

As a result of running an efficient business, we achieved adjusted EBITDA of \$37mm in Q2 2021 and \$65mm in H1 2021, or adjusted EBITDA margin of 51% and 47% out of Net Revenue, respectively.

P14- Strong and Solid Performance Over Time

Our net revenue grew 155% in Q2 year over year, and came in at \$74mm for Q2 2021 (Verses \$29mm in Q2'2020) all of which was organic growth.

We continue to consistently generate meaningfully positive EBITDA while investing in the critical areas of our business that can drive our future growth

We have been generating positive EBITDA since (2014) and ended Q2 2021 and H1 2021 with \$37mm and \$65mm, respectively, representing again, a 51% and 47% margin on net revenue, respectively.

We saw very strong year-over-year momentum in Q2 and H1 2021, which increased our EBITDA by 29 times and 35 times, respectively, compared to the same periods in 2020 underpinned by:

1. Enhanced fulfillment of our omni-channel product offering.
2. The full integration of the Unruly business offering and relations into Tremor.
3. Utilization of our economy of scale and efficiencies through our cutting-edge tech platform allowing us to translate the majority of the growth directly into the bottom line.

P15- Adoption of Next-Generation Media Has Driven Robust Increases in Platform Utilization

Our early entrance into CTV, coupled with the enhancements we made to our offering during the pandemic, resulted in 280% year over year CTV revenue growth in Q2 2021.

Our Video net revenue increased 199%, from \$20mm in Q2 2020 to \$61mm in Q2 2021, and was driven by our video capabilities and focus.

Even though there is seasonality in the industry, we experienced significant growth in the first half of 2021, during which we exceeded market expectations and proved that our strategy is working.

P16- Industry Leading Margin Profile

We believe we have a competitive advantage from our omni-channel end-to-end platform versus one-dimensional solutions.

Tremor's structure of running its own data centers alongside cloud based computing, allows us to deliver consistent performance, guaranteed quality, and massive cost efficiency.

We have an efficient and profitable business model, with high efficiency around operating costs leading to maximum operating leverage, economies of scale and strong productivity.

Among our ad-tech peers, Tremor has one of the highest margins and operational profitability, resulting in a 46% adjusted EBITDA margin in Q2 2021 on a reported revenue basis (and 51% on a net revenue basis).

P17 – Delivering cash flow

Turning to our cash flow, we generated net cash from operating activities of \$57 million for Q2.2021 versus \$7 million in Q2.2020, uplift of ~700%

We ended the quarter with cash and cash equivalents of \$275 million, up over \$172 million from the prior quarter (which with disregarding net proceed of our offering grew \$54 million in the quarter).

By 31st of July we had 314M\$ cash and cash equivalents with no debt.

We also experienced 99% free cash flow conversion during the quarter.

Non-IFRS diluted earnings per share of class A common stock is \$0.23 for the quarter versus \$0.02 loss on Q2 2020.

P18 – Q3.21 financial outlook

And finally, I'll now turn to our outlook. For the third quarter of 2021, we expect net revenue to be at least \$75 million, which represents year-over-year growth of approximately 50% and adjusted EBITDA to be approximately \$37 million which represents year-over-year growth of approximately 85% and expected Adjusted EBITDA margin of 49% as a percentage of net revenue.

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.

With my remarks completed, I'll turn the call back to Ofer.

P19- Tremor Investment Highlights

Thank you Sagi.

To summarize...

Tremor operates in the fastest growing segment of digital advertising, an eco-system consisting of Video, CTV and usage of data. These fast-growing areas of digital advertising account for 81% of our revenues.

We created an end-to-end tech platform that addresses the opportunities in the market, mainly around- the simplicity clients are looking for, usage of data and a supply path optimization.

Our success has been proven out by the strength of our operational growth and financial performance.

Our focus on CTV is evident, as CTV represents approximately 28% of our Net revenues and is expected to be a driving force in our growth going forward and in our product road map.

The combination of our strong tech platform, areas of activity and discipline provide an excellent roadmap for our continued operational and financial success.

We strongly believe that we have a lot of room to grow and remain confident for the future.

Operator, we'll now open the call to investor questions.