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## CORPORATE PARTICIPANTS

**David L. Day** *Magnite, Inc. - CFO*

**Michael G. Barrett** *Magnite, Inc. - President, CEO & Director*

**Nick Kormeluk** *Magnite, Inc. - VP of IR & Head of Global Real Estate*

## CONFERENCE CALL PARTICIPANTS

**Daniel Louis Kurnos** *The Benchmark Company, LLC, Research Division - MD & Senior Equity Analyst*

**Daniel Paul Day** *B. Riley Securities, Inc., Research Division - Senior Equity Research Analyst*

**Jason Michael Kreyer** *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

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

**Matthew John Swanson** *RBC Capital Markets, Research Division - Associate VP*

**Nicholas Todd Zangler** *Stephens Inc., Research Division - Analyst*

**Shweta R. Khajuria** *Evercore ISI Institutional Equities, Research Division - Analyst*

**Shyam Vasant Patil** *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

**Timothy Wilson Nollen** *Macquarie Research - Senior Media Analyst*

## PRESENTATION

**Operator**

Good afternoon, and welcome to the Magnite Third Quarter 2023 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Nick Kormeluk of Investor Relations. Please go ahead.

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**Nick Kormeluk** - *Magnite, Inc. - VP of IR & Head of Global Real Estate*

Thank you, operator, and good afternoon, everyone. Welcome to Magnite's Third Quarter 2023 Earnings Conference Call. As a reminder, this call is being recorded. Joining me on the call today are Michael Barrett, CEO; David Day, our CFO.

I would like to point out that we have posted financial highlight slides on our Investor Relations website to accompany today's presentation.

Before we get started, I will remind you that our prepared remarks and answers to questions will include information that may be considered to be forward-looking statements, including, but not limited to, statements concerning our anticipated financial performance and strategic objectives, including the potential impacts of macroeconomic factors on our business.

These statements are not guarantees of future performance. They reflect our current views with respect to future events and are based on assumptions and estimates and subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements.

A discussion of these and other risks, uncertainties and assumptions is set forth in the company's periodic reports filed with the SEC including our third quarter 2023 report on Form 10-Q and our 2022 annual report on Form 10-K. We undertake no obligation to update forward-looking statements or relevant risks.

Our commentary today will include non-GAAP financial measures, including contribution ex-TAC or less traffic acquisition costs, adjusted EBITDA and non-GAAP income per share. Reconciliations between GAAP and non-GAAP metrics for our reported results can be found in our earnings press release and in the financial highlights deck that is posted on our Investor Relations website.

At times, in response to your questions, we may offer additional metrics to provide greater insights into the dynamics of our business. Please be advised that this additional detail may be onetime in nature and that we may or may not provide an update on the future of these metrics. I encourage you to visit our Investor Relations website to access our press release, financial highlights deck, periodic SEC reports and the webcast replay of today's call to learn more about Magnite.

I will now turn the call over to Michael. Please go ahead, Michael.

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**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Thank you, Nick. I'm happy to report results for Q3 that exceeded our top line guidance for total CTV and DV+ contribution ex-TAC, while delivering strong profitability and free cash flow. Our DV+ business performed very well, delivering contribution ex-TAC growth of 12% despite a depressed CPM market. Moreover, in CTV, we continue to grow our market share with ad spend growing over 20% year-over-year, exceeding industry growth estimates. We were pleased with our execution in the quarter as we continue to solidify our position as the leading independent player in CTV.

And as product mix shifts stabilize and macro ad spend returns to normal, we believe our CTV contribution ex-TAC growth will, over time, approach our ad spend growth. In this respect, it's important to remember that we are still in the early days of programmatic CTV. Marquee publishers are just now ramping AVOD and their inventory is limited and in high demand by advertisers.

With this dynamic, pubs generally refer to sell programmatic deals through their direct sales teams. The good news is they are using our technology to execute those transactions. However, as we've explained previously, the programmatic direct business carries a lower take rate versus when we sell the inventory and layer on more services.

We believe that as programmatic CTV scales, buyers will want to purchase the majority of their CTV programmatically using advanced data targeting within biddable environments, a process that can't be executed using a direct sales team. This evolution will attract a significantly broader advertiser base, increased ad spend, a more competitive CPM environment, and better ROI and COGS for both buyers and sellers.

We had some noteworthy customer wins this quarter, announcing that we'd be powering the Disney+ biddable marketplace via Magnite streaming as well as an expansion in our partnership with Paramount Advertising. Buyers now have access to all of Paramount's combined streaming offerings including their IQ program through Magnite.

We're also encouraged by the fact that a lot of the growth in our CTV business is being enabled to advanced integrations with our ad server, SpringServe. As you know, ad serving puts us one step closer to the publisher and creates a stickier relationship. With SpringServe our platform is more deeply embedded within the client workflow and becomes a central technology in their overall monetization strategy.

The stickiness of the software and development we provide in CTV is far different than a typical SSP model. We are clearly growing share, as shown by our ad spend growth above 20%. And this is the result of working with nearly every scale media owner outside of the world gardens. These clients have continually expanded their relationship with us, both vertically and horizontally. I'll offer 2 examples. One is a market-leading streamer and media company that started using us in a small part of their U.S. business for workflow and directly sold campaigns.

Now that partner has expanded our services to additional streaming platforms to other countries and now uses us to access biddable programmatic demand through the Magnite SSP. Another example is a market-leading TV OEM that started with us in ad serving. They now use us as their SSP and demand engine as well as a source of incremental revenue to our new CTV tiles products.

This same partner also leverages our audience capabilities to sell in package its first-party data on both its direct properties and through audience extension. These examples are common across our top partners, and we have continually shown that as our partners grow their CTV businesses so do the ways in which they utilize our services.

Despite a soft start to Q4 largely driven by macro conditions, we believe we are uniquely positioned to capitalize on the inevitable market turnaround. I'll briefly touch on just a few other things that make me the most excited for 2024. Accelerated supply path optimization with our agency partners, particularly in our curated and often exclusive marketplaces. Consolidated spend on our platform leads to more publisher supply and enhance margins.

ClearLine. Our recently launched buy-side tool is off to a strong start and with additional features and functionality planned for the coming quarters, we expect continued momentum and adoption. If you recall, ClearLine is built to capture linear TV dollars that aren't currently in the CTV ecosystem, a TAM of enormous proportion and planned innovation across our audience tools, SpringServe ad server, Magnite Streaming and DV+ platforms.

With our CTV platform integration behind us, we can now focus exclusively on new innovative products supporting our unrivaled omnichannel offering and new and existing customer expansion, although Magnite works with every publisher across the DV+ and CTV landscape. We have tremendous opportunities to grow our existing business and capture new entrants in fast-growing and dynamic markets like CTV.

In summary, there is a lot to be excited about. Our business, our people, our customers and our partners. I've never felt better about our strategic position and ability to grow long term. We have made the right investments and it's time to put our heads down, work hard and deliver. We are in a great position to capture an outsized portion of market growth when it inflects by executing and being the best at what we do.

With that, I'll turn the call over to David for more details on the financials. David?

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**David L. Day** - *Magnite, Inc. - CFO*

Thanks, Michael. Total revenue for Q3 was $150 million, up 3% from Q3 of 2022. Contribution ex-TAC was $133 million, up 4%. CTV contribution ex-TAC was $52 million, down 6% from $56 million last year. DV+ contribution ex-TAC was $81 million, an increase from $72 million or 12% compared to last year. Both of these exceeded the high end of our guidance ranges.

Our contribution ex-TAC mix for Q3 was 39% CTV, 41% mobile and 20% desktop. Geographically, our international results outpaced our U.S. results led by our DV+ business with new publisher wins and overall volume growth. From a vertical perspective, travel was our strongest performing category while weaker performing categories included retail, financial services and media and entertainment related to doctors and rider strikes.

CTV contribution ex-TAC was negatively impacted by expected softness in managed service and by the mix shift. As a reminder, tough political comps from last year negatively impacted Q3 CTV contribution ex-TAC results by roughly 3%. DV+ continued to be an area of strength with 12% growth in the quarter.

We continue to innovate in and are excited with the launch of native ad formats across DV+, allowing programmatic demand to target key publishers that offer native formats. We expect to continue to bring new products to DV+ that will enable our publishers to better monetize their supply.

Total operating expenses, which includes cost of revenue for the third quarter were $168 million, similar to the $167 million in the same period last year. Operating expenses for the third quarter this year includes the final $8 million of noncash accelerated amortization resulting from our platform consolidation.

Adjusted EBITDA operating expense was $93 million at the midpoint of our guidance range. Adjusted EBITDA operating expense for the third quarter of last year was $83 million. The year-over-year increase resulted from higher data center and bandwidth costs as well as higher payroll-related expenses. Net loss was $17 million for the quarter compared to a net loss for the third quarter of 2022 of $24 million. Adjusted EBITDA was $40 million and adjusted EBITDA margin was 30% for the quarter.

Please note, we calculate adjusted EBITDA margin as a percentage of contribution ex-TAC. GAAP loss for basic and diluted share was $0.13 for the third quarter of 2023 compared to a loss of $0.18 for the third quarter of 2022. Non-GAAP earnings per share in the third quarter of 2023 was $0.12 compared to $0.18 reported last year.

The reconciliations to non-GAAP income and non-GAAP earnings per share are included with our Q3 results press release. There were 137 million weighted average basic and diluted shares outstanding for the third quarter of 2023. Fully diluted weighted average shares utilized for non-GAAP earnings per share were 146 million for the third quarter.

Capital expenditures, including both purchases of property and equipment and capitalized internal use software development costs were $8 million for the quarter. Operating cash flow, which we define as adjusted EBITDA less CapEx, was $32 million for the quarter. Our net interest expense for the quarter was $8 million.

During the third quarter, we purchased and retired $34 million in face value of our convertible notes using $30 million in cash, resulting in a discount of 14%. Our total par value convertible notes repurchased through the third quarter was approximately $125 million, reducing our total convertible note debt balance from $400 million to $275 million.

We have $70 million remaining under our current program for either the repurchase of common shares or convertible debt. Our cash balance at the end of Q3 was $311 million, an increase from $266 million at the end of last quarter. We're very pleased that we reached our initial net leverage target of less than 2x with 1.8x at the end of Q3.

We expect to generate significantly increased seasonal free cash flow in Q4. We will continue to evaluate the best use of our cash as it relates to debt reduction and share repurchases. I'll now share our expectations for the fourth quarter and some high-level thoughts for 2024. For the fourth quarter, we expect contribution ex-TAC to be in the range of $158 million to $162 million. We expect contribution ex-TAC attributable to CTV to be in the range of $61 million to $63 million.

As a reminder, political comps create a roughly 6% headwind in Q4 of 2023. We expect contribution ex-TAC attributable to DV+ to be in the range of $97 million to $99 million. We expect adjusted EBITDA operating expenses to be between $94 million and $96 million, which implies adjusted EBITDA margin of approximately 41% for Q4 at the midpoint.

Looking ahead to 2024, we expect strong continued ad spend growth, particularly in CTV, total contribution ex-TAC to grow in the high digits -- high single digits with CTV to grow faster than DV+, adjusted EBITDA margin expansion of 50 to 100 basis points at this level of revenue growth, double-digit percentage growth of adjusted EBITDA with even higher growth in free cash flow and total CapEx to be in the mid-$40 million range, including property, plant and equipment and capitalized software.

It's worth noting that our guidance reflects some uncertainty in the macro environment, in particular, the potential impact from the Mid-east conflict. Overall, the company's performance for the third quarter was better than our expectations. I'm especially pleased that even with a soft macro and with the negative impact of the current CTV revenue mix shift that we've been experiencing, we've been able to continue to generate such strong cash flows.

As a result of those cash flows this past year, we're able to retire over 30% of our outstanding converts well before their maturity and achieved our initial net leverage ratio target of less than 2x. I'm confident that our greater than market share ad spend growth in CTV will continue. I'm also confident that we'll continue to expand our CTV partner relationships, leading to CTV revenue growth and closing the gap with our ad spend growth.

We continue to have significant opportunities ahead of us, and we are uniquely positioned to leverage our capabilities as the leading independent omnichannel SSP.

With that, let's open the line for Q&A.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from Jason Kreyer with Craig-Hallum.

**Jason Michael Kreyer** - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Michael, can you just step back and maybe just talk about what you see as the evolution of the connected TV transaction model for the industry? And just kind of curious on what you think -- how that migrates from the programmatic execution that seems to be dominating more of that spend today and how that maybe evolves into a more biddable environment on the road?

**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Yes. Sure, Jason. Great question. Yes, here's how we look at the market. We're very, very early stages. I mean if you looked at our leading CTV revenue publishers on the Magnite platform 2 years ago, none of them would be the top guys that we're talking about today, the plus services, the broadcasters, et cetera, and they were highly specialized CTV-first players. And it's not surprising that the types of advertisers that the bigger services are talking to right now are their legacy linear advertisers.

And it's not surprising that they've sold to them direct their whole existence in that they'll want to continue that method in working with those advertisers. I think we're starting to see, and you can see it with services that have been around for some time, take a look at Hulu.

You're starting to see this openness to biddable just largely because the buyers are wanting that to occur and they want to use more data targeting and they want to use more audience definition that may be coming from the buy side, not just the sell side.

So I think that you have that occurring with that cohort of advertisers, the desire to do more automated, to do more data targeting, to do advanced biddable environments. But in addition, we really do believe that if all of this is just about converting a couple of hundred broadcast advertisers over to CTV, we've really missed the big picture.

And the big picture is 10,000 new advertisers coming in, right? Advertisers that right now, predominantly advertise in social video environments. And they're going to -- with the increasing targeting and the hyper targeting and the advanced functionality and features that you're going to find with the shoppable ads that are coming out that you're going to find -- that they're going to find this to be a very performing environment, and they're always going to want to be in a biddable environment. And these are the types of advertisers that a direct sales team from a large broadcaster. They're not going to hire people to go call on them.

So that's where we feel as though programmatic comes into play beautifully. And lastly, all sports will be streamed, they're already most of the contracts are. In-sports is ideal for a programmatic environment, time outs over time, et cetera, programmatic is ideally suited to fill those kinds of ad gaps there. So we really think that you're going to see a maturation in the CTV environment in the not-too-distant future. where it's much more of the programmatic that we're accustomed to in the DV+ side of the business. With one exception, they're not going to be using 20 SSPs. It's going to be a Winner Take Most, and we think we're perfectly positioned for that position.

**Jason Michael Kreyer** - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

I wanted to just follow up on managed service. See if you can give any color on how that progressed through Q3, if there's any indications on how that's going in Q4? And then maybe along with that, just I think some of that spend perhaps has been impacted by some of the strikes that are going on. And so I'm curious if that will continue to pressure spend in that category or if there's any signs that, that could be alleviated?

**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Yes. I'll let David give a similar, but I would say, Jason, in general, no surprises there. It's behaving as we thought it would. Managed service is impervious to macro headwinds. And I would say that we're not the only company citing a Q4 that's a bit weaker than we had anticipated going into Q4 perhaps.

And so managed service is not an outlier there. I don't know, David, if you have any more details to share.

**David L. Day** - *Magnite, Inc. - CFO*

No, that's right. It's stabilized. And I think what's important is we've tried to take a very cautious approach in our guidance for Q4.

**Operator**

The next question is from Shyam Patil with Susquehanna.

**Shyam Vasant Patil** - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

I had a couple of questions. You guys talked about high single-digit growth next year with CTV growing faster than DV+, applying, I think, low double-digit growth for CTV. Can you maybe just talk a little bit about just what would be the upside factor for CTV in that scenario?

And then how you see the Hollywood strikes potentially impacting CTV next year as well? And then just a follow-up, Michael, in your prepared remarks, you talked about the new platform and that enabling new products, new offerings. Can you just talk a little bit about some specifics there? And any kind of timing on when those might be launched and potentially start contributing to revenue.

**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Yes, sure. I'll take the latter first, and then I'll let David talk about the upside factors related to CTV. Yes. No, I think we'll be able to, throughout 2024 roll out some of the innovation that's occurring.

I mean I think the general theme is you're going to see a tighter stitching of the SpringServe ad server with the programmatic platform that Magnite Streaming is. We have multiple clients that use both of them and making it more of a harmonious experience for the -- our client end user, I think, is a big goal, and that's just not aesthetic that will lead to better monetization for publishers, but that's more of a 2024 discussion, and we'll certainly be keeping everyone abreast of developments on a quarterly basis. And David, perhaps you want to talk about CTV for next year and upside factors.

**David L. Day** - *Magnite, Inc. - CFO*

Yes, sure. And yes, I think what would be helpful is to talk about that would be just set a little background on our perspective for 2024 from a little higher level. We're giving this guidance for 2024. We certainly don't have the same degree of confidence or visibility in 2024 as we do in Q4 just because of the time lag. But we thought it would be super helpful to share some of our thinking around what our financial profile would look like, what our margin would look like and so forth.

And so with that in mind, our 2024 revenue guidance certainly reflects caution around the macro, caution in our managed service business, modest expectations from the presidential year. And so if I think about upside from a CTV perspective, certainly, I think if the macro turns around, that certainly pushes more dollars into some of our longer tail, higher take rate channels in CTV. There could be upside from the presidential election as well. So overall, we've just tried to take a very cautious approach with a focus on giving some visibility around our cost structure.

**Operator**

The next question is from Dan Kurnos with the Benchmark Company.

**Daniel Louis Kurnos** - *The Benchmark Company, LLC, Research Division - MD & Senior Equity Analyst*

Michael, I mean, you talked about kind of the tighter stitching of SpringServe with ad -- with the SSP and you spend a bunch of time talking about sort of Winner Take Most. I know that -- we saw that sort of streams press release with Yahoo! DSP full integration with the SSP and the ad server in addition to Trade Desk through their OpenPath solution.

And so I know FreeWheel has been kind of pursuing that. It feels like -- I want to call it golden handcuffs in a way, but it feels like an opportunity to gain ad share through kind of direct integrations. Is that sort of what you're talking about? And can you kind of maybe give a little bit more color on the thought process or economics behind those deals?

**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Yes, Dan, we thought it was a great development. I mean, obviously, it's not a huge regulatory trend. Some of the type DSPs wanting to get direct to publishers in DV+ with an OpenPath product like the Trade Desk has, there is a prebid adapter that makes it possible to be able to plug into multiple publishers. In the CTV world, there really isn't that equivalent.

And so we saw an opportunity because of SpringServe and its connections with every major publisher out there in the CTV world, to use -- to enable those connections through SpringServe. So we retain kind of the economics of that connection while some of the largest DSPs are able to have a direct pipe and pitch their clients and the efficacy of that direct pipe. It should be noted that we have seen only increased spend with someone like the Trade Desk post OpenPath through their normal channel through the prebid header bidder.

So we think that this is all accretive for our publishers. Our publishers wanted access to these different dollars because it's been explained to us and to marketers that these are kind of different budgets that if the publisher doesn't connect with the DSP in this fashion, they're going to be out that revenue and so we are delighted to be able to help our publishers capture this revenue for them. At the same time, we kind of retain our economics.

And yes, I think, Dan, it's part of the Winner Take Most. You're not going to see ahead of bidding world where they need 10 SSPs to be able to run a unified auction. Even when things become biddable for the vast majority of the publishers is going to be an invite-only auction run by 1 or 1.5 SSPs. And we think we're in a terrific position to walk with our clients as that progresses.

**Daniel Louis Kurnos** - *The Benchmark Company, LLC, Research Division - MD & Senior Equity Analyst*

Got it. That's helpful. And I know international is kind of tricky ground right now given both the macro and the conflicts out there. But I mean there's some data out there that suggests you guys took some 10 points of share sequentially in EMEA. And I'm just kind of curious how you're thinking about kind of planting the seeds and continuing to grow kind of ex U.S. from here?

**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Yes. And I'll let David talk to some of the specifics, but I was just over there last week, and the team is on fire in London. Some of it -- there was quite depressed comps given we're several years now into the Ukraine war and some of that has worked its way through the system in terms of CPM pricing.

But we definitely invested in that marketplace. And we -- when you look at Telaria, post -- pre acquisition -- merger with Rubicon now Magnite in SpotX, it was kind of a market that neither one were playing in.

And so now you have this legacy Rubicon team being able to take these new shiny tools in their toolkit out to market. And I think that largely explains why you're seeing an acceleration of success there. David, I don't know if you have anything else to add?

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**David L. Day** - *Magnite, Inc. - CFO*

I think you've covered it. A couple of specific initiatives. We took over from a reseller in the Nordics. We've opened an office in Sweden. We're seeing some nice progress there. We've opened up an office in India. So we're also making some modest investments globally that we're excited about and should have greater payoffs in the future.

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**Operator**

The next question comes from Laura Martin with Needham.

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

So my favorite chart is -- my favorite chart is this net leverage chart where in 2 years, you've gone from 6x leverage to 1.8x. So I know you hit your goal early of being at 2x. My question is, do you want to stop here? Are you going to keep delevering? Are you going to 0 leverage? Or are you going to do sort of like stay here and then use your capital to buy in shares. Can you tell me how low that leverage, what you're aiming for, for the net leverage now that you're under the 2x.

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**David L. Day** - *Magnite, Inc. - CFO*

Yes, Laura, I think -- yes, it is great. We're super excited to achieve that initial goal. I think in the current economic environment, 1x might be the new 2x. And so I think we do have aspirations, I think to lower that somewhat. We don't necessarily have a 0x. There's some benefit -- cost of capital benefit to having some debt out there.

So I think we'll continue to lower that to some degree, but it won't be -- we won't have the same urgency around it that we've had in the past.

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

Okay. That's super helpful. And I have 10 more, but I'm going to sort of take it into 2. So upfronts were really weak for my traditional media companies. And so what I'm wondering is it a weak upfront where people didn't commit to as much -- everyone didn't commit to as much in the upfront is good for you because that frees up more money and scatter that you guys have an option on, and I'm going to tie it into this Amazon ads to your question. So Amazon, as you know, on January 1, is going to start adding ads sort of against your willingness, the consumer pays an extra $3 a month to not have that. Is that good for you? Or is that bad for you since Amazon sort of a log guarded, does that take share away from you? So sort of those 2 things. They aren't really related, but I didn't want to ask 3 questions.

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**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Yes. So on the first one, I think in a normal marketplace, the assumption that advertisers withholding from the upfronts committed dollars in having dollars that they have at their leisure, they can go in to the spot market. That probably would be a net benefit for streaming and for Magnite. I think that what you're seeing is the lousy upfront necessarily wasn't folks reserving dollars or spot, it was folks not having dollars to commit because of the macros. So I think it was a lousy upfront across the board. That said, programmatically, it's such a big role front and center with all the upfront presentations that I think that distinction between upfront being bad for streaming and spot being good is starting to very blur. So let's just see how that plays out when the ad spend engine kicks back in from a macro standpoint.

Amazon ad tier I think that they're going to -- in a market like this with the muted spend world, those dollars are going to be firstly fought for. And it's possible that those dollars come at the expense of Paramount or a Disney or an NBC Universal. But I do think that, generally speaking, if you look at it in a slightly longer time frame, having another AVOD mass global service out there is nothing but good for Magnite. The whole idea that you can't be successful in this environment without having an ad tier at scale is just music to our ears.

So we think in the longer term, it's going to be fine. And Amazon isn't exactly completely out of reach for us. We're able to work with them when partners like a Disney distribute programming on an Amazon, we're able to take their share that they get from an ad sales standpoint and help them monetize it. So on the margins we can work with Amazon.

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**Operator**

The next question comes from Nick Zangler with Stephens.

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**Nicholas Todd Zangler** - *Stephens Inc., Research Division - Analyst*

Good to see the upside for the quarter. Just curious on -- last quarter, as you pointed to 3Q, you called out managed service, you called out the mix shift to premium services, and you called out soft M&E spend as I guess, pressure points in CTV for 3Q. And I think it was in that order. Curious on the guide for 4Q, down 4%. Are these the same pressure points? And is it again in that same order? .

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**David L. Day** - *Magnite, Inc. - CFO*

Yes. I think Yes. I think it's -- I mean, we're -- so let me -- I think it's an interesting dynamic in Q3 to Q4 in CTV first to call out.

The midpoint of our guide, as you mentioned, 4% down in Q4 versus a 6% down actual in Q3. If you take out the political comps from 2022, we had a 3% impact in Q3 and actually a 6% impact in Q4. And so if you factor those out, the CTV growth goes from sort of an adjusted 3% down in Q3 to actually a 2% up in Q4 on kind of an apples-to-apples taking out that comp basis. And so the comps masked, I think, a little bit of the actual growth and acceleration that we're seeing in that CTV business. And as far as drivers, I think the -- yes, I think all of those drivers in about the same order are fairly accurate.

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**Nicholas Todd Zangler** - *Stephens Inc., Research Division - Analyst*

Got it. Helpful. And then obviously, Hulu goes to Disney, and this was pretty much expected. I'd imagine maybe just a relief in general, so it doesn't go to Comcast, but any benefit that you could point to that you might see as Hulu gets fully brought in by Disney going forward?

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**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Yes, Nick, I think it's -- you're right. We anticipated Hulu to stay in the Disney family. And I think that it's more business as usual than that presenting a huge opportunity. But again, having a service that large and the idea that there possibly could extend the brand globally, and this is just my conjecture. I have no inside information as it relates to Disney, but there's upside to the extension of the Hulu footprint and the bundling of it with other properties that could lead to more ad opportunities for us.

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**Nicholas Todd Zangler** - *Stephens Inc., Research Division - Analyst*

Great. Good luck going forward.

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**Operator**

The next question is from Shweta Khajuria with Evercore ISI.

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**Shweta R. Khajuria** - *Evercore ISI Institutional Equities, Research Division - Analyst*

Okay. Let me try one for Michael, please. Michael, what do you think would drive the inflection. Is there a flection point that you think could drive the gap between ad spend and revenue narrower? And what would that be? What should we be looking out for that gives you confidence that outside of macro, all else equal, this is what's going to help narrow that gap?

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**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Yes. I think, Shweta, macro definitely plays a role as we kind of had said, especially last quarter that this kind of product mix shift wouldn't be nearly as severe in a normal spend environment. Because media plans will be more diversified. There'd be a lot more CTV native first publications, OEMs on the buy.

And they use that different product than, say, a direct sold programmatic by one of the plus services. So -- so I think that macro helps for sure. But I do think that it's a buyer intention. In an environment when spending is down, every dollar can bring with it so much more cloud from an agency standpoint and they universally have spoke to us, spoke to our partners and the publishers about a desire to do much more biddable, much more data targeting and much more programmatic.

And so I think that it's just -- again, the buyers have a lot of cloud in the market where dollars are in short supply to go around. And I think that, that's probably an inflection point, Shweta, that's in the near and not-too-distant future.

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**Shweta R. Khajuria** - *Evercore ISI Institutional Equities, Research Division - Analyst*

Sorry, let me follow up on that. If that's the case, why would you not be seeing that happening today?

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**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Well, keep in mind, upfronts are just now being placed, right? And you have this paucity of content that -- because of the strikes. So I think in terms of -- again, it's another kind of macro challenge, but a lot of those dollars are on pause right now.

So they've talked about to be executed programmatically, but there's not really any home to put them in to execute programmatically. So I think that, that's part of the lag, if that makes sense, Shweta.

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**Operator**

The next question is from Matt Swanson with RBC Capital Markets.

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**Matthew John Swanson** - *RBC Capital Markets, Research Division - Associate VP*

It kind of touches on point that we've heard quite a bit here. But I guess when you're thinking about the FY '24 guidance framework around CTV growth, can you just kind of help us think about what your assumptions are for take rates in '24?

Like, is it assumed no change? Does it assume lower? Does it assume higher as we're kind of trying to think of that 2 variable model with that and the volume growth, which remains really strong.

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**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Do you want to handle that, David?

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**David L. Day** - *Magnite, Inc. - CFO*

Yes, sure. Yes. No, I think it assumes, again, some of these -- the mix shifts that we're seeing we continue to expect very robust growth in these premium channels. And so I think overall take rates as an average, will decline somewhat. But the rate of ad spend growth is significant.

We see great momentum there. And as we see -- and so as we move through the year, and then particularly as we get the presidential -- the 2022 comps behind us and into 2024, you'll see that will lead us to the kind of -- as was mentioned earlier, probably low to mid-single -- low to mid double-digit growth in CTV. In other words, the CTV growth as we guided to, is higher than DV+, and our average is high single digits, you'll see something with a double-digit growth in CTV next year.

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**Matthew John Swanson** - *RBC Capital Markets, Research Division - Associate VP*

Yes, that's helpful. And then the context when you're giving on the adjusted EBITDA margins, I know that you pointed out to say specifically at those revenue numbers. You always seem to get a lot of leverage and do deliver that upside to the top line. Can you just help us think a little bit about that? Like are there a bunch of other investment opportunities that you'd like to go after if revenue growth ends up being better than expected? Or do you think we should expect to kind of see that drop straight to leverage?

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**David L. Day** - *Magnite, Inc. - CFO*

I think you'll see if we have greater top line growth, I think you'll see a more of that drop to the bottom line. There are a few investments on the margin that we would make. But we're making all the most important investments that we need, and that is embedded in this model. I think the other thing I'd like to call out is -- and I think we briefly mentioned it last quarter, but we will have a onetime event in Q1.

We're bringing the whole company together that has cost of $4 million plus. And that actually -- it's a super important event for us. We see a lot of value in it. That will lower margins in Q1, but it also represents almost 100 basis points of margin as you look at our profile next year. And so we do that onetime event. And so the core business, we're still seeing nice flow-through even at the lower top line growth rates than what we think we'll have in the future.

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**Operator**

The next question is from Dan Day with B. Riley FBR.

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**Daniel Paul Day** - *B. Riley Securities, Inc., Research Division - Senior Equity Research Analyst*

Michael, I wanted to come back to the point you made earlier on live sports. I agree, it feels like we're at a tipping point there, especially 2024 potential direct-to-consumer ESPN. You've got this live sports accelerator product out there. Just wondering how active the pipeline is for new business there. And whether that's a significant piece of the business at all today immaterial? Or how much of a revenue driver you think that can be in 2024.

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**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

In 2024, it's a tricky one, right? Because all of the services aren't made available just yet. We think it will be a contributor. There's no question. There's a little bit of a disconnect right now between piping the programmatic dollars into that environment. If you think about a way the DSPs work, generally speaking, they pace campaigns over an X period of time and they try to balance it, right, so that you're not firing off, if it's the $1 million campaign, no one wants to spend $1 million on day 1. You want to spread over the period of time.

Sports is completely different, right? It's a huge spike on a Saturday afternoon, and it's gone. And if you miss that opportunity. So there's tweaking of the algorithms that have to work but everyone is hard at work making it work better. I think from a consumer experience, if you watch sports streaming, you understand what I'm saying here, you see one more just billboard that says, will we return to programming soon, you're going to pull your hair out. So yes, I think it's a huge opportunity. I think it's one of those areas where there's much more openness from a publisher standpoint -- from a premium publisher standpoint to engage with programmatic because it just makes so much sense.

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**Daniel Paul Day** - *B. Riley Securities, Inc., Research Division - Senior Equity Research Analyst*

And then just another 1 on the DV+ just the strength there, 12% growth, is that all mostly volume-driven? What's happening with CPMs on the DV+ side? Is it a plus or minus right now?

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**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Yes, it's -- go ahead, David.

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**David L. Day** - *Magnite, Inc. - CFO*

You were going to say the same thing. Yes. CPMs are still depressed. And so it's on the volume side.

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**Daniel Paul Day** - *B. Riley Securities, Inc., Research Division - Senior Equity Research Analyst*

Okay. So volume better than the growth offset by maintenance on CPM. That's what's going on.

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**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Selling more units at a lower volume -- at a lower price, yes.

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**Operator**

The next question is from Tim Nollen with Macquarie.

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**Timothy Wilson Nollen** - *Macquarie Research - Senior Media Analyst*

I apologize in advance, I joined the call a little bit late. So I hope this question wasn't answered but most of my others already have been. I was curious about this news about the Disney campaign manager using its own ad server for automated insertion orders.

I'm just curious, if you could remind us what role is your -- are you playing with Disney? So Disney wide, you've got Disney+, you've got Hulu, of course, and ESPN Plus. Can you just remind us what you're doing in terms of being the SSP for Disney. If Disney uses its own ad server, if that somehow pushes you to the side if that is negative for you in any way? And lastly, on that point, it seems like the campaign manager using its own ad server is targeting local audiences, somewhere maybe that's not kind of your game anyway. So I know it's kind of a lot of points in there. I hope you could just clarify for me.

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**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Yes. Tim, good question. I'll answer to the degree that I can in terms of working with Disney and some of the restrictions in talking about it. But the simple fact is the ad server, generally speaking, is out of touch for us even if it's SpringServe, right? If a publisher sells a campaign directly, and it's delivered by the ad server unless it's SpringServe, we don't kind of participate in those economics. Now if a publisher sells a deal directly, but it's a programmatic deal, that's when we interact. And so if anything is done programmatically within the Disney Empire, Magnite has a role in that.

But direct sold, and I think what you're referring to is they were talking about a self-service tool that they have launched to try to get those local dollars, right? That's probably a step beyond our purview anyway, like our managed service business isn't necessarily a local, local business. It's oftentimes you refer to kind of a Tier 2 where you're talking about not just the car dealer, but you're talking about the car dealer with multiple locations in a region, that's kind of more what we're focused upon. And so it's not necessarily cannibalistic of our advertising efforts in that area.

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**Timothy Wilson Nollen** - *Macquarie Research - Senior Media Analyst*

Okay. That's something I was hoping you were going to say is that it's more of a local effort, so it's not really your thing. Okay. Could I ask one related question, this news -- and I'm sorry, again, if this was already asked, but -- if you discussed this already in the prepared remarks. But this news several weeks ago about FreeWheel and you integrating more with FreeWheel.

I'm just curious if you could just give us a bit more color on any kind of advances you might be making with other publishers in terms of getting SpringServe a bit more integrated into their businesses? I know you're not going to overtake FreeWheel, but kind of chipping away at the business in some way, if you could provide a bit more color on that, please?

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**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Yes. So Tim, as we talked about the ideas in terms of replacement, it's to provide publishers with an alternative to state-of-the-art -- with state-of-the-art programmatic tools with using an ad server that was born for streaming and a platform that was born for streaming. And it's had quite a bit of success and uptake. So FreeWheel -- a connection to FreeWheel just helps that piece of it. It used to be a little (inaudible) if you were a publisher, you used FreeWheel as your ad server, you wanted to use Magnite for your programmatic efforts there was a bit of stitching together that fell on the publisher that created extra workload.

Now what you're dealing with is just kind of the seamless integration that allows for a publisher that uses FreeWheel to choose to use Magnite as their programmatic partner with not having to lift a finger because it's already integrated. So we have high hopes for that. Certainly, from a buyer standpoint, buyers that are creating these marketplaces on Magnite Streaming are excited about that because it gives them access to all the publishers that may not be using a SpringServe ad server. So yes, we think it's a great deal for both companies. We've been talking with them for quite some time and happy we're able to get it to the hoop.

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**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Michael Barrett for any closing remarks.

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**Michael G. Barrett** - *Magnite, Inc. - President, CEO & Director*

Thank you, Debbie. I would like to thank the Magnite team for their diligent effort required to deliver another strong quarter. I really like the business that we built and how well we're positioned in both CTV and DV+. We remain hard at work delivering solid financial results, building more tech, growing share and working vigorously with our partners to prepare for the growth that we all know lies ahead. We look forward to speaking with many of you at our upcoming investor events. Macquarie will host our post-Q3 meetings tomorrow.

We have a busy conference schedule in November. We'll be attending the Stephens conference in Nashville on November 14 and 15, the RBC Conference in New York on the 15th of November, the Craig-Hallum Conference in New York on November 16. And the Macquarie International Conference in Sydney on November 29 and 30. We will be hosting an Evercore Bus Tour Meeting at our office in New York on November 29. Nick will be participating in the Wolf Research Conference in New York on December 7 and marketing in San Francisco on December 20. And a little further out, we will be participating in the Needham Conference in New York on January 18.

Thank you again for joining, and have a great evening.

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**Operator**

Thank you for attending today's presentation. You may now disconnect.

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