



Kubient, Inc.

Second Quarter 2020 Earnings Conference Call

September 23, 2020

C O R P O R A T E P A R T I C I P A N T S

Paul Roberts, *Founder, Chairman and Chief Strategy Officer*

Josh Weiss, *Chief Financial Officer*

Peter Bordes, *Chief Executive Officer*

P R E S E N T A T I O N

Operator

Good afternoon, and welcome to Kubient's Second Quarter 2020 Earnings Conference Call.

Joining us today for today's call are Kubient's Chief Executive Officer, Peter Bordes; Founder, Chairman and Chief Strategy Officer, Paul Roberts; and Chief Financial Officer, Josh Weiss. Following their remarks, we will open the call for your questions.

Before we get started, I need to alert you to our Safe Harbor statement under the Securities Litigation Reform Act of 1995. During this call, we will be making forward-looking statements, including statements related to future events or to our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Listeners should not place undue reliance on forward-looking statements since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could, and likely will, materially affect actual results, levels of activity, performance or achievements. Any forward-looking statement reflects our current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. These statements are subject to known and unknown risks, uncertainties and assumptions that could cause actual results to differ materially from those projected or implied during the call.

Furthermore, listeners are referred to the documents filed by Kubient, Inc. with the SEC, including our Registration Statement on Form S-1/A, filed with the SEC on August 11, 2020, with the understanding that our actual future results may be materially different from what we expect, which include these and certain other important risk factors. We qualify all of our forward-looking statements by these cautionary statements.

Also note that the forward-looking statements on this call are based on information available to us as of today's date. Except as required by law, we assume no obligation to publicly update or revise these forward-looking statements for any reason, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

Now, I would like to turn the call over to Mr. Paul Roberts. Sir, please proceed.

Paul Roberts

Thank you, Operator, and good afternoon, everyone. We appreciate you taking the time to join Kubient's first earnings call.

After the market close, we issued a press release with our results for the second quarter and six months ended June 30, 2020, a copy of which is in the Investor Relations section of our website.

This is an incredibly exciting time in our Company's history. As I'm sure most of you already know, Kubient became a publicly traded company listed on the NASDAQ on August 11. We have received an immense amount of investor support and we are truly thrilled for this next chapter of our growth story. We're looking forward to the new opportunities being NASDAQ-listed provides us, by having access to greater depth of resources and a much larger and more diversified shareholder base.

To begin, I'd like to share a bit more about Kubient, particularly for those of you that may not be too familiar with who we are, why we exist, and what our vision is for the future. The continuous digital transformation and evolution that has been happening within our industry has created a tremendous amount of fragmentation, resulting in a hyper inefficient and ineffective advertisement purchasing process. This is where Kubient comes into the equation. Our mission at Kubient is to transform digital advertising to audience-based marketing. To put it simply, we create efficiency and greater liquidity in the digital advertising ecosystem.

To give you a brief overview of the field we play in, digital advertising is a marketplace that is akin to the stock market. On one side, there are the sellers of digital advertising, which are called publishers. These are websites, mobile apps, or any platform with an audience an advertiser is interested in reaching. On the other side of the transaction, there are buyers of digital advertising, which are called advertisers. These are brands, advertising agencies, or companies that have a message they want a certain audience to see or hear.

To give you an example using the current inefficient process, if an advertiser wanted to buy an advertisement, they would typically have to go through five to nine vendors that act as a middleman in order to get their ad placed. However, with Kubient, we have created a marketplace, or a single point of entry called the Audience Cloud that allows both advertisers and publishers to connect and transact in the most efficient way possible, giving advertisers a greater ROI and publishers more net revenue.

In addition to our core Audience business, we have a number of new growth areas such as our AI-fraud prevention solution KAI, as well as our entrance into the digital out-of-home market, which our CEO Peter Bordes will discuss shortly. He will also explain why Kubient is at an inflection point in the digital advertising universe and some of the strategic initiatives and objectives we are looking to execute against. Our goal by the end of today's call is that you will have a much better understanding of what our business looks like today and the amazing opportunity on the horizon.

However, before I do, I'd like to hand it over to our CFO Josh Weiss, who will be walking us through our financial results for the first quarter as well as the specific tie to our initial public offering. Josh?

Josh Weiss

Thanks, Paul, and thank you to all who are joining us for today's call. Now, to our financial results for the second quarter and six months ended June 30, 2020.

Net revenue for the second quarter increased 88% to \$92,000 compared to \$49,000 in the equivalent quarter in 2019. The increase in net revenue for the quarter was primarily from one customer, partially offset by a decrease from another customer during the period.

Net revenue for the six months ended June 30, 2020 increased to \$1.5 million from \$106,000 in the same period last year. The increase in net revenue was primarily due to \$1.3 million of revenue received from two customers beta testing KAI in the first quarter of 2020.

Turning to our expenses, total operating expenses increased 20% in Q2 2020 to \$1.2 million from \$1 million in the same quarterly period last year. The increase in operating expense was primarily due to higher technology expenses, offset by a decrease in general and administrative expenses.

Total operating expenses for the six months ended June 30, 2020 increased 52% to \$2.4 million from \$1.5 million in the same period last year. The increase in total operating expenses was primarily due to higher technology expenses and general and administrative expenses.

We recorded a GAAP net loss in Q2 of \$1.5 million, or \$0.42 net loss per share, compared to a net loss of \$1.1 million, or \$0.32 net loss per share in the equivalent quarter in 2019.

GAAP net loss for the six months ended June 30, 2020 totaled \$1.6 million, or \$0.43 net loss per share, compared to a net loss of \$1.6 million, or \$0.44 net loss per share in the same period a year ago.

Let's now discuss the balance sheet.

As of June 30, 2020, we had cash and cash equivalents of \$45,000. As of August 14, 2020, after giving effect to the sale of units in our IPO and the gross proceeds of approximately \$12.5 million and net proceeds of approximately \$10.7 million received therefrom, we had \$11 million in cash and cash equivalents, \$435,000 of debt and 7.6 million common shares outstanding.

That concludes my financial summary. For a more detailed analysis, please reference our 10-Q, which we plan to file this week.

I will now turn the call over to Peter, who will discuss some of our major operational updates and provide a general outlook for our business. Peter?

Peter Bordes

Thanks, Josh.

To more fully appreciate the size of the market we are in, I want to share an intriguing stat. In 2019, \$333 billion dollars was spent on digital advertising, which accounted for 50.1% of total media ad spend and marked the first time—this is a critical stat—that the digital ad spend surpassed traditional ad spend. eMarketer projects that the digital ad spend market is now going to reach over \$518 billion dollars by 2023.

Additionally, to better understand the magnitude of the problems that are on hand, in 2019 advertisers lost \$42 billion dollars to ad fraud. Now, if you think that's a lot, that number is currently projected to grow to \$100 billion dollars by 2023. For even more context, the Department of Homeland Security now predicts that if ad fraud grows to \$100 billion, it will be one of the top five largest crimes globally, up there with drug trafficking, human trafficking, and firearms smuggling. Furthermore, there are several additional problems in our industry, such as fragmentation, which Paul mentioned earlier; latency, or the delayed or

loading wait times, and waste, which happens when advertisements aren't efficiently processed and end up not being seen by an audience participant.

As you can clearly see, our industry is facing some serious challenging problems. This is where Kubient comes in. We have developed proprietary and patent-pending technology that has been developed to combat each and every major problem that plagues the digital advertising ecosystem. Kubient's Audience Cloud provides both advertisers and publishers an efficient platform that optimizes the supply chain, enables advertisers to spend much more effectively, and empowers publishers to make more money and value through audiences, and prevents ad fraud, all in real-time.

Speaking of ad fraud, I'd like to talk a bit about KAI, or Kubient Artificial Intelligence. KAI is our AI-powered ad fraud tool that prevents real-time fraud in the standard 300 millisecond window before an advertiser spends their budget. Our machine learning, fraud detection and prevention tool has the ability to get smarter and smarter and smarter, and is our solution to address the \$42 billion dollar ad fraud problem we currently face today.

Now that you have had a better understanding of our business, I would like to share a brief overview of this calendar year.

To begin, our team was able to achieve promising operational and financial results in the first quarter of 2020. As Josh mentioned, we generated \$1.3 million of net revenue from successful beta tests with two large enterprise clients for our high-margin KAI fraud detection platform.

The results from the two beta clients indicated that KAI was identifying and preventing approximately 30% more digital ad fraud than the clients' current partners. The testing validated our platform's ability to ingest large amounts of data, which was then analyzed by our proprietary machine learning technology, and we learned that our platform is capable of processing hundreds of millions of rows of data in real-time and, as a result, we gathered a tremendous amount of data that will lead to additional improvements of our technology going forward.

Though we had a strong Q1, we, like many other companies, were impacted by the COVID-19 issues we face globally. More specifically, in the second quarter, we witnessed several of our customers and prospects significantly decreasing their advertising budgets during the peak of the pandemic. In response, we took a number of steps to maintain their business relationships by reducing the closing price for certain advertiser and customers, keeping our publisher customers' price levels at a rate that allowed them to meet their revenue goals, and providing extended payment terms to certain customers. Fortunately, we have begun to see a slow but steady return of advertising budgets to their base amounts in the third quarter as companies are beginning to adapt their businesses to the current operating environment.

Nevertheless, despite the headwinds, we were able to obtain several prominent achievements. We increased our ad impression opportunities by over 213% compared to the prior quarter; the total number is forecasted to double again by the end of this year, demonstrating our progress monetizing and scaling our business. Additionally, at the end of the second quarter, we verified and fingerprinted over 994 million unique devices at the end of the second quarter, which is a 74% sequential increase compared to the prior quarter. The numbers speak for themselves and truly are a testament to the breadth and robustness of our technology.

We recently joined the DPAA, the Digital Place-based Advertising Association, which is a prestigious community of advertising thought leaders that are revolutionizing the digital out-of-home industry. We look forward to collaborating with the DPAA team in enhancing our programmatic digital out-of-home initiative and have already started to see net results from our team members of that community.

Finally, the most recent win I would like to talk about is our strategic partnership with Zoox Smart Data, which we announced earlier this week. The partnership will allow advertisers to buy with vetted first party, consumer-provided audience data, resulting in more efficient spend and maximum value with premium audiences. This is the first adtech infrastructure and marketplace partnership and enables real-time bidding programmatic access to and from demand platforms, brands and agencies. It also positions Kubient as the direct marketplace for Zoox's supply partners, which include Choice Hotels, the New York City MTA Transit System, and major international airports. Our synergistic partnerships will grow an audience of over 100 million WiFi users annually to nearly 1 billion users in the next 18 months. As you can see, we have accomplished impressive achievements so far, and remain focused on finding novel and innovative ways to grow Kubient's brand, technology and footprint.

Going forward, as the industry rebounds from the effects of COVID-19, we have been strategic in positioning ourselves for long-term success. In an effort to further diversify our revenue streams and expand our product offering, we will be implementing a SaaS model around KAI, called KAI Light. We've received a number of requests from our partners who are looking at leveraging our fraud prevention tools within their own ecosystem. With KAI Light, our partners will be able to take an application of our fraud prevention tool and run it locally within their platform.

Next, as one of the fastest growing segments of the online advertising industry space, we plan to further enhance our programmatic digital out-of-home tool. In light of our recent collaboration with the DPAA, we are exploring a multitude of options to disrupt and capitalize on the growing digital out-of-home space.

In order to better capitalize on the opportunities in front of us, such as digital out-of-home and others, we need to build a sales function that can meet the increased demand from our high-caliber base of publishers. More specifically, we intend to have our sales team focus on the other side of the equation, by growing the interest and demand from advertisers in order to maximize publisher inventory slots.

Along that line, we are on the search for a seasoned Chief Revenue Officer that can lead our sales team and drive better integration and alignment between all revenue-related functions within the business.

In conjunction with the growing of our sales infrastructure, we are also looking at opportunities to expand our business internationally. We understand that advertising is ubiquitous worldwide, and we intend to capture as much of the global market share and opportunity as possible.

Lastly, we are constantly on the lookout for certain M&A opportunities that would best help Kubient grow.

As we wrap up the third quarter and head towards the end of the year, we remain focused on transforming the multi-billion-dollar global advertising industry by enabling a highly efficient and liquid marketplace for both advertisers and publishers alike.

That concludes my prepared remarks. Thank you all for your time this afternoon. We look forward to updating you on our progress going forward. We're now ready to open the call for your questions.

Operator, please prepare the appropriate instructions.

Operator

At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For

participants using speaker equipment, it may be necessary for you to pick up your handset before pressing the star key. One moment while we poll for questions.

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This concludes the Company's question-and-answer session. If you would like to report any other questions, you may email that at kubient@gatewayir.com.

I'd now like to turn the call over to Mr. Bordes for his closing remarks.

Peter Bordes

Great. Thank you very much. I just want to take this time to thank everyone. We're extremely grateful for all of our shareholders, employees, business partners and everyone in our extended community who've been so incredibly supportive on our journey, getting here to the public markets and beyond. We're looking forward to being able to update you on our next call, and we have a lot in store going forward as we continue our journey on as a public entity. We're looking forward to all of our continuing dialogs with everyone, so, thank you very, very much for participating today. Operator?

Operator

Thank you for joining us today for Kubient's Second Quarter 2020 Earnings Conference Call. You may disconnect your lines at this time and have a great rest of your evening.