

Transcript of



**Q1 2022 Earnings Call
May 6, 2022**

Presenters

- Brinlea Johnson - Investor Relations, The Blueshirt Group
- Zvika Netter - CEO & Co-Founder, Innovid
- Tanya Andreev-Kaspin - CFO, Innovid
- Tal Chalozin - CTO & Co-Founder, Innovid

Q&A Participants

- Andrew Boone - JMP Securities
- Shweta Khajuria - Evercore ISI
- Daniel Salmon - BMO Capital
- Laura Martin - Needham
- Shyam Patil - Susquehanna

Operator

Greetings. Welcome to the Innovid Q1 2022 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. Please note, this conference is being recorded.

I will now turn the conference over to your host, Brinlea Johnson, Innovid IR. Thank you. You may begin.

Brinlea Johnson, Investor Relations Thank you, operator, and everyone for joining us today. Welcome to Innovid's first quarter 2022 conference call. Before we begin, I would like to remind our listeners that certain information provided on this call may contain forward-looking statements, and the safe harbor statement contained in today's earnings release also pertains to this call. If you have not received a copy of the release, please direct yourself to the Investor Relations section of the Company's website.

Changes in our business, competitive landscape, technological or regulatory environment, and other factors could cause actual results to differ materially from those expressed by the forward-looking statements made today. Our historical results are not necessarily indicative of future performance. As such, we can give no assurance as to the accuracy of our forward-looking statements and assume no obligation to update them, except as required by law. Today we are joined by Zvika Netter, Innovid's Co-Founder and CEO, who will begin the call with a business update.

Then he will turn the call over to Tanya Andreev-Kaspin, Innovid's CFO, who will discuss the financials of the company. During the question-and-answer session, Tal Chalozin- Co-Founder and CTO will be joining as well. With that, I'd like to pass the call over to Zvika Netter. Zvika, please go ahead.

Zvika Netter, Co-founder and CEO

Thank you Brinlea, and good morning everyone. It's been an exciting two and a half months for us at Innovid since our last call and I'm looking forward to sharing today's update which expands upon our focus areas for continued growth and innovation.

Before jumping into the Innovid's business highlights, I would like to shed light on some of the tectonic shifts we are seeing in the broader television industry. The past decade in streaming has been marked by rapid expansion in subscription-based market share. Now, the increasingly fragmented and saturated streaming market has driven leading subscription-based services to embrace an ad-supported agenda. Amazon recently doubled down on its ad-supported streaming service relaunching it under the Freevee brand, and major streaming services such as Disney+ and even Netflix have been discussing adding advertising models for their services to attract additional subscribers and increase their revenue.

As more dollars shift from linear to CTV we believe advertising-supported streaming is on the cusp of even more rapid expansion. The number of ad-supported service subscribers has soared. According to Insider Intelligence, 129 million people used an ad-supported streaming service by the end of 2021. By 2025, that figure is projected to rise to 165 million users. Since our growth is in line with ad-supported CTV content growth, the future is bright.

Now on to the business highlights. We achieved strong gains in our business that is driven by the combination of increased CTV advertising volume and new customer wins - including one of the largest TV spenders in the US which I'll speak to shortly, increased adoption of personalization products, and the expansion of our measurement business through the strategic acquisition of TVSquared, an independent global measurement and attribution platform for converged TV.

We delivered outstanding performance in the first quarter of 2022, surpassing our expectations and our prior guidance. Our team was able to make significant progress against our goals despite the increased volatility in the macro-environment. Revenue increased by 44% year-over-year to \$25.9 million on an as-reported basis. 9% of the total quarterly reported revenue, or \$2.4 million, was attributed to TVSquared, following the acquisition closing on February 28, 2022.

Revenue for the quarter, when excluding TVSquared, increased by 30% year-over-year to \$23.4 million, above our stated expectations of 17% to 22% growth. Our net loss in the first quarter of 2022 was \$7.4 million and adjusted EBITDA was negative \$3 million, exceeding the expected range of negative \$3.5 million to negative \$4.5 million.

According to eMarketer, CTV advertising spend is expected to grow 33% in 2022 and our CTV business outpaced this growth rate in Q1. CTV revenue, excluding TVSquared, increased nearly 40% year-over-year, accounting for 47% of total quarterly revenue, up from 44% in Q1 2021.

Q1 was transformative to Innovid as we completed the strategic acquisition of TVSquared, expanding our measurement infrastructure to address the growing needs of marketers in today's converged TV marketplace. With TVSquared, our original emphasis on CTV has grown to encompass the broader converged TV landscape inclusive of linear TV and digital video in addition to connected TV.

I'll now expand on the strategic value and opportunity created by the combination of TVSquared.

The opportunity for converged TV advertising is enormous. Our clients, the world's largest advertisers, have told us they need more robust measurement to both justify investment and optimize for better business outcomes. Through TVSquared, we are unlocking measurement with a comprehensive view of TV advertising and audiences, built on the scale and automation of our independent global ad server and software solution.

Through the combination of Innovid and TVSquared's capabilities, we believe we are in a market-leading position to deliver value across the entire TV ecosystem and give advertisers exactly what they need. Our independence, which has long allowed us to integrate and connect across the advertising ecosystem, will continue to benefit our evolved measurement offering. Innovid's ability to partner across advertisers, agencies, publishers and MVPDs means we have the opportunity to support an ecosystem where all sides of the trade can win – arming the industry with unbiased, cross-platform analysis that drives greater transparency, accountability, and trust between buyers and sellers.

We believe Innovid's foundation in ad serving and creative optimization capabilities also gives our measurement solution a huge competitive edge through our ability to measure all impressions served through our platform and tie measurement and outcomes directly to creative optimization.

One month into the acquisition of TVSquared, we are already seeing positive signals of success. TVSquared revenue has progressed in line with our expectations, our joint go-to-market teams are primed for action. We are pleased to have consolidated our development teams into a single engineering global organization and integrated our ad serving data into the TVSquared measurement platform.

We are excited to provide our customers with a robust, scalable, independent platform to manage the increasingly complex and critical converged TV landscape. With our independent, currency-grade measurement platform, powered by a global ad server and backed by what I believe to be some of the most talented team in the industry, we believe we will make a profound impact on our clients and continue to innovate and grow in the CTV and broader converged TV market.

I'd now like to build on the update we provided in our last conference call and share more details on the current and future development of our business. Like last time, I will provide these updates within the context of our four key growth drivers which are: Volume Growth, Product Upsell, Geographic Coverage, and Client Base Retention and Expansion.

Let's begin with **Volume Growth**. Innovid continues to benefit from the movement of eyeballs and spending from linear TV to CTV. Our focus on CTV innovation is what we believe has allowed our CTV video ad serving and personalization impression volume growth of 36% year-over-year to surpass the market according to eMarketer data. We have continued to invest in industry-wide partnerships to bolster our CTV leadership position and are pleased to have expanded our long-standing partnership with NBCUniversal who named Innovid as a certified ad serving partner in their Certified Measurement Program in addition to selecting our

platform as the enabling infrastructure behind Peacock's new behavior-based sequential storytelling capabilities during Q1 of 2022.

As you may recall, we reported a 30.9% decline in year-over-year volume for the automotive category in Q4 of 21. I'm very happy to report that while we are seeing good signs of recovery in investment by the auto category to a similar level of spending that we saw in Q1 of 2021. As supply chain issues continue to resolve we remain optimistic about the future growth of the automotive category in terms of their TV spend.

Our second growth engine, **Product Upsell**, was fueled by growing adoption of personalized and interactive creative experiences. As previously mentioned, we also believe measurement will become a core driver of our product upsell strategy as we continue to integrate and expand the TVSquared offering into our platform.

Our third growth engine is **Geographic Expansion**. Our international revenue, measured as ads delivered outside of the US, grew 56% year-over-year in Q1 2022. The addition of TVSquared to our product portfolio is a critical step in expanding our international measurement footprint across 75+ markets in our purview. TVSquared introduces a host of international clients and partners to our portfolio while expanding our geographical footprint through the addition of a development center based out of Edinburgh, Scotland.

And last but definitely not least, **Expanding Our Client Base**. During Q1 of 2022 we onboarded many advertisers and publishers onto our platforms. I'm excited to share that this list also includes General Motors, one of the largest TV advertisers in the US, who has chosen Innovid to advance their video advertising efforts. Innovation is a core pillar of General Motor's forward-looking strategy, and we look forward to growing an evergreen partnership to innovate across converged TV opportunities.

When asked about the challenges Innovid solves for General Motors, David Spencer the Manager of Emerging Media and Partnerships at General Motors said, and I quote "As we began to evaluate our current set of partners, we realized the need for unbiased, independent solutions that don't compromise on scale. Partnering with Innovid allowed us to build a clearer path toward innovation within the Converged TV space as well as the opportunity to build advanced video solutions." End quote.

The continued support of our growing and loyal customer base is a strong signal of the strength of our underlying business.

On the identity front, we have not seen a material impact on our business from the ongoing updates around privacy, iOS changes, and IDFA, and do not anticipate a substantial impact at this point. We continue to help our customers manage identity through Innovid Key, our leading infrastructure approach to identity management.

In summary, the accelerating secular trends driving advertising-supported CTV viewership, and Innovid's market-leading infrastructure and personalization capabilities combined with our reinforced measurement offering and an expanding customer universe, are what we believe sets Innovid up for our next phase of growth. We are extremely optimistic about the future of Innovid.

I'll now turn it over to Tanya, who will go into greater detail regarding financial performance and expectations.

Tanya Andreev-Kaspin, CFO:

Thank you Zvika, and good morning everyone. Let me start with a review of our first-quarter results before discussing full-year outlook.

In the first quarter of 2022, revenue increased by 44% year-over-year to \$25.9 million on an as-reported basis. 9% of total quarterly revenue, \$2.4 million, was attributed to TVSquared, following the acquisition closing on February 28, 2022.

Revenue excluding TVSquared grew 30% year-over-year. CTV contributed 47% of this revenue, up from 44% in Q1 2021, demonstrating nearly 40% year-over-year growth. Mobile contributed 38% and desktop 15% of revenue and grew respectively 23% and 20% year-over-year when excluding TVSquared. We expect the growth in CTV to continue to be our primary revenue driver, and for the CTV segment to account for an increasing share of our revenue mix outside of our expanding converged TV measurement offering.

Speaking about video impressions volume: CTV accounted for 49% of all video impression volume served in Q1, 2022, up from 46% in Q1 2021, and grew 36% year-over-year. Mobile increased 22% year-over-year and accounted for 38%, and desktop increased 20% and accounted for 13% video impressions served by Innovid.

In terms of geographic breakdown, The U.S. is the main contributor to our revenue, accounting for 90% of total revenue and growing 42% year-over-year on an as-reported basis. Our revenue outside of the US, including the APAC, EMEA, and LATAM regions, currently represents 10% of total revenue, up from 9% in the first quarter of 2021. Our total international revenue grew 56% year-over-year on as reported basis. As part of our growth strategy, we aim to expand our global presence focusing on geographies poised for accelerated CTV growth.

Moving to costs: gross profit in the first quarter was \$19.5 million, a 38% year-over-year growth on an as-reported basis. After completing the acquisition this quarter, our gross margins remain high at 75%, demonstrating a slight decrease from gross margins of 79% in the first quarter of 2021. Cost of Revenue in the first quarter of 2022 has included \$0.4 million of intangible asset amortization related to TVSquared technology, a primary reason for a slight year-over-year decline.

Total operating expenses for Q1 were \$29.3 million. \$2.3 million in operating expenses were attributed to the inclusion of TVSquared operating results in the interim quarterly financials following the acquisition date. Approximately 38% of the increase in operating expenses compared to Q1 2021 was driven by stock-based compensation, one-time acquisition-related, and de-spac transaction-related expenses. As we continue to invest in S&M, R&D, and talent to support our long-term growth goals and value creation, our operating expenses, excluding stock-based compensation, de-spac transaction, and acquisition-related expenses, increased 66% year-over-year on an as-reported basis.

Net loss in the first quarter was \$(7.4) million or EPS of negative \$(0.06). From the acquisition date through March 31, 2022, operating losses attributable to TVSquared were \$1 million, inclusive of \$0.5 million of intangible asset amortization.

The total common stock outstanding as of March 31, 2022, was 132.1 million.

Adjusted EBITDA for the first quarter was negative \$3 million, representing a negative 12% adjusted EBITDA margin. A decrease in adjusted EBITDA from \$0.4 million in Q1 2021 was driven by an increase in R&D and sales and marketing operational expenses, as well as G&A expenses addressing the needs of the new public company. Following the acquisition of TVSquared, our core business model remains strong, with significant operating leverage and high gross margins.

Moving to our balance sheet. After the acquisition of TVSquared our cash and cash equivalents ending balance on March 31, 2022, was \$45.4 million, down from \$156.7 million as of December 31, 2021. The purchase price for the acquisition was \$100 million in cash from our balance sheet and 11.5 million shares of Innovid and 950 thousand fully vested stock options of the Company, subject to certain adjustments as defined in the Stock Purchase Agreement.

Finally, I'd like to go over our guidance. While in the first quarter of 2022 our business grew faster than we expected, the broader advertising market outlook in the current macro economical environment remains uncertain and we hope to see improved visibility as the year progresses.

For the second quarter of 2022, we expect revenue to be in the range of \$33 million to \$35 million, reflecting 44% to 53% year-over-year growth on an as-reported basis, and 18% to 25% year-over-year growth on the pro forma basis. We expect TVSquared's contribution to the quarterly revenue to exceed \$6 million. We expect adjusted EBITDA in the range of minus \$3.5 million to minus \$1.5 million. While we anticipate the ability to realize synergies from the TVSquared acquisition over time, we expect operating expenses to trend higher in the quarters following the acquisition and have reflected this in our second quarter EBITDA guidance.

For the full year of 2022, we are pleased to share that we are increasing our total expected revenue to be in the range of \$135 million to \$140 million, including TVSquared revenue. This guide reflects 50% to 55% year-over-year growth on an as-reported basis, and 24% to 29% year-over-year growth on a pro forma basis. We expect TVSquared's contribution to our annual revenue to exceed \$25 million.

We remain confident in the previously provided guidance and continue to expect adjusted EBITDA for the full year, excluding TVSquared, to remain positive.

With that, I'd like to hand the call back over to Zvika to take your questions.

Zvika Netter

Thank you Tanya. Before we open the line for questions, I would like to take this opportunity to thank you all for joining us on this call.

We started the year strong, energized, and with solid performance, despite uncertain macro-dynamics, and plan to continue to push forward, growing the Innovid business to the benefit of our customers and all TV viewers around the world. We are confident our expansion into the broader converged TV measurement market, through the acquisition of TVSquared and we expect it to further propel our growth.

Again, we thank you for your time. And with that, we will open the line for questions. Operator, please go ahead.

Operator

Thank you. 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 to pick up your handset before pressing the star keys.

Our first question comes from the line of Andrew Boone with JMP Securities. Please proceed with your question.

Andrew Boone

Good morning, and thanks for taking my questions. Just to start off, in terms of guidance, can you talk about the linearity within the quarter. Did you guys see any impact from the invasion of Ukraine that some of your other digital advertising peers have highlighted?

And then, secondly, as we think about the reopening and just consumption of CTV overall, can you talk about impressions per user? Are you seeing any change on the consumer side in terms of either watching less CTV and consuming less digital video? Anything there to help us try to understand whether there was any impact in terms of the reopening and consumption overall as it relates to impressions? Thanks so much.

Zvika Netter

Thanks, Andrew, and good morning. And again, thank you everybody. So, to the first quarter, sorry, the first question in terms of what we're seeing within the quarter, I mean, we're very excited that we started the year strong and above our expectations, actually. A lot of this has to do with the recovery in the auto industry and even in CPG. If you recall, we saw a drop in, before, I believe, just for the auto alone, of about 39 percent, sorry, 30.9 percent drop. And now as we reported, it's about flat year-over-year. So, it's equal to Q1 of 2021, which, while it's flat, it's a lot after the drop.

So, we're absolutely seeing recovery also in the CPG area. And we believe that to stay consistent, we cannot predict exactly how it evolved, but that causes us to be optimistic. And at the same time, there is still, as you alluded to, a lot of uncertainties coming from different macro dynamics, right? One is back to work and people spending more time at work and outside of home from one side, other economical and geopolitical forces.

So, there's no, just to explain, there's no specific, the way that Innovid revenue is driven is by the volume of ads, right? So, it's not necessarily directly connected to people spending more time or less time, in general. For example, if somebody spends more time or less time with Netflix, you will not see an impact on the advertising industry.

So, if anything, we're seeing more and more services like Disney+, even Netflix themselves, talking about opening it up. So, it's the availability of inventory, of the amount of ads that are available for advertisers to buy. And for that, we have a certain, pretty significant portion through our clients. So, the more inventory they buy, the more volume we generate and the more revenue.

So, I would say that the main thing that can impact, that impacts our revenue up or down is the level of spending in CTV. And as everybody on this call knows, that trend for moving budgets from linear to CTV is constantly going up and to the right. It's not shrinking. And we expect this to continue for at least 5 to 10 years until all the TV dollars will move into CTV.

Andrew Boone

And if I can sneak one more in, Tal, I know you were at the NewFronts this last week. Can you just talk about your conversations with advertisers and how they've kind of developed, I guess, over the last few years and whether there is any change in terms of how advertisers are viewing CTV? Thanks so much, guys.

Tal Chalozin

Thank you very much, Andrew. Thanks for the question. Yeah, so we were, first of all, we were very excited to take part in the IAB NewFront for the first time. We're not selling media, but we're obviously taking a bigger and bigger part in the CTV market, and specifically in the measurement side of it. So, that was our participation.

To your question about what do we hear from marketers, I feel like the main thing is that for many years, CTV was the emerging platform. And we're no longer in the place where CTV is an emerging one. It truly emerged. And marketers now look more than anything into a cross-media measurement platform. How do I look at everything holistically in order to quantify their spend? This is clearly the talk of the town. And we're, again, very excited with the TVSquared acquisition that we have a good answer for it.

Andrew Boone

Thanks so much.

Operator

Our next question comes from the line of Shweta Khajuria with Evercore ISI. Please proceed with your question.

Shweta Khajuria

Okay. Thank you. Two for me, please. First one is could you perhaps talk about the opportunity in measurement that you called out, you called that out as one of your growth drivers? Help us with where you are today. What will accelerate that launch and the adoption of your measurement offering, and how you compare with perhaps the competition that there is out there?

And the second one is fairly quick. You did address gross margin coming in light. Can you please repeat what drove that? Thank you.

Zvika Netter

Thank you, Shweta. Good morning. Thanks for joining. So, the, obviously, as you can see, we made a big bet on measurement. And it's not, we started two years ago investing in CTV measurement and insights. We hired a large team from Nielsen to do that.

A year ago, we came to the realization through our customers that what they are looking for is not just the future of television but all of television, what people refer to as converged TV measurement, which means not just looking at how CTV performed but actually, as I said earlier in Andrew's question, the money is moving from linear to CTV. And that's going to take 5, 10 years, whatever. Nobody knows exactly, but it's going to take a while.

But, for a very long time, people, our customers, the largest brands and advertisers in the world, are going to spend at the same time on linear and CTV, which is physically the same device on the same household, same audience, a lot of times same content but through different infrastructure.

So, the aha moment was we have to go in a way backwards and provide a solution both for linear and CTV in one single platform. And it was clear we cannot do this through our own development. We had to go out and acquire a company. That process started more than a year ago. And actually going public was part of financing. And we did it literally two days after the IPO. We signed a term sheet with TVSquared. And two and a half, three months later, we closed. And now, we're almost fully integrated also.

So, the opportunity obviously is immense. And as you mentioned, I would say in the first quarter of the year, if we add our acquisition of TVSquared, there is probably more than \$0.5 billion that went into investment in our acquisition and the future of TV measurement. So, we're not the only one that thinks there is a massive opportunity. I'm sure everybody here is aware of the kind of takeover of, over Nielsen by PE.

So, the concept of digitally delivering TV is dramatically disrupting how TV is being measured and, I believe, how TV will be paid for in the future. So, obviously, we're not the only ones that are seeing this. There's a lot of money flowing in that space. What's unique, why we believe we're set to succeed and win, is because we're not just coming at it from a measurement perspective. We also have the ad server, which is an extremely sticky product that actually provides the exhaust, all the data sets for CTV measurement.

And we have 100 percent control over that. And that's ours. We don't need to buy it from anybody else, we don't need to get it. We already have it. And with TVSquared, we acquired the linear data sets. We're putting this together now. And we believe we'll be in a full position, if not to be the number one, I don't think we'll be number one, I think there will be several players, definitely, we'll be one of the leading TV measurement, past and future, companies in the world. So, that's on the first one.

Tanya, you may want to take the gross margin question?

Tanya Andreev-Kaspin

Absolutely. I can address it, Zvika. Thank you. Our, first of all, as you could see, I did address the change in the gross margin previously. What it's, in Q1, our gross margin on a GAAP basis, so 75 percent. Following the

acquisition, it's important to keep in mind that our profitability profile and gross margins remain strong. We do see impact in Q1 specifically, perhaps we will see it down the road, impact on certain accounting, our measures own, the gross margin specifically mentioned is that the gross margin in Q1 following the acquisition included \$400,000 of intangible asset amortization related to TVSquared technology. And that's the primary reason for the decline that you are seeing in Q1.

Shweta Khajuria

Okay. Thanks, Zvika. Thanks, Tanya.

Operator

Our next question comes from the line of Dan Salmon with BMO Capital. Please proceed with your question.

Daniel Salmon

Okay, great. Good morning, everyone. I have two questions. First, Zvika, in your comments, you said IDFA restrictions, other privacy headwinds, not impacting you. Sorry, if I missed it if it was in there. But, does that include the loss of IP addresses? We'd see that moving out of the ecosystem more and more? Maybe just broadly, maybe expand a little bit on how IP address does or doesn't matter to Innovid and CTV advertising broadly.

And then, second, you closed on the TVSquared deal during the quarter. Zvika, you laid out the opportunity. You're pursuing that very clearly already and, as you said, many people pursuing measurement. Not to be a bummer, but I think it was the day following that that Nielsen filed a lawsuit against TVSquared for patent infringement. As always, with active litigation, you have a limited amount that you can comment specifically regarding it. But, could you tell us a little bit more about whether that was expected, whether it was a surprise? Anything you can add would be great. Thanks.

Zvika Netter

Yes. Tal, do you want to take the, Tal definitely, my Co-Founder and our CTO, is definitely the right person to talk about the IP addresses and anything else related to the infrastructure. And I'll take the patent question. Tal?

Tal Chalozin

Sure. Thanks, Zvika. Thank you, Dan, for the question. So, as Zvika noted in his prepared remarks, we don't see an impact of IDFA and cookie deprecation and other identity changes that is happening, or privacy changes that are happening right now, or at least we don't see any headwinds because of that.

To your question about IP address, we definitely use IP address in our product, specifically around measurement, less around the ad-server offering. However, a) we're in the early days of any changes that are happening on IP address. And we don't think that anybody is unique on that side, on the IP side. We're heavily working already, together with many companies in the industry, the Trade Desk, LiveRamp, and others, on an alternative solution. And we're, we think that we're leading the pack on a lot of the investment on alternative identifiers.

Zvika Netter

Okay. And on the, by the way, it's not a bummer, that question about, it's called life. And we got here dealing with life, and we'll get very far continuing dealing with life and definitely with competition. I believe, let me stick to the script first. We are at a very early stage in the process, just so everybody knows. As you are, somebody, Nielsen waited for the closing, and it was literally a day after the closing, after the announcement.

And to your question, no, to the best of our knowledge, this, something was brand-new, both to the TVSquared team and definitely to the Innovid team. We're at a very early stage in the process. And we do not believe that Nielsen actually will be successful. And we have been advised, I'm literally reading, right? We have several good grounds of challenging the validity of Nielsen's complaint and its alleged patent. Let's look at this as a, back to the, Innovid a significant contender on the measurement, on the future of TV measurement. I think that's part of the answer.

Daniel Salmon

Okay. Thank you, Zvika.

Zvika Netter

The combination of the leading ad server for CTV plus the TV data set, the measurement, combined together was very fast, and I'm talking months, a few months, we'll bring to market what I believe is the only converged measurement system connected with the ad server, creative optimization. All that to fit to each other is a very unique combination that I'm not aware at this point exists in the industry in a single stack.

Daniel Salmon

Maybe just one quick follow-up on that. Would you--.

Zvika Netter

Yeah, sure. By the way, we ended with, we finished the fact with our talk. So, we'd love to take questions.

Daniel Salmon

And so, just on that, would it be that you would see the new converged solution that you're able to roll out as something that would be directly competitive with Nielsen ONE?

Zvika Netter

We're not, while they may be focusing on us, we're not focusing on them. We are focusing on our customers, right? We have some of the largest TV spenders in the world. Now GM, General Motors, one of the largest TV spenders in the U.S. which I believe, by the way, was one of the, if not the largest one on the Google DoubleClick platform, switching to Innovid. So, there's a reason for that, even before measurement, right?

And I think that's the, that's where the opportunity comes in. We have more and more large, some I can name, some not, but 40 percent and growing from the top 200 advertisers that are in charge of 75 percent of the spend, right? So, if we do the math and fast forward, it's going to be a very significant part of, the TV spend in the U.S. is going to flow through the CTV side of things through our platform. That's a massive amount of data.

That is a function that does not exist in either, any of the contenders or measurement companies. They measure what happens over the air. They don't have the accuracy of delivering every single impression of TV advertising at this scale, for our clients, right? So, when you connect the two data sets, you're creating something that's very unique. And our focus, we were the first on interactive video and a lot of things for CTV.

So, it's less about replacing anything that somebody else has in market or plans to have in market, and it's more creating products that, our customers are literally designing for us. They're telling us, "This is what I need to get. Go and get it for me." So, we raised the money, we got it to them, we're putting it together, we're putting it in their hands. And if they like it, they'll buy more. We're not focusing on this or any other player. We want to lead the way ourselves.

Daniel Salmon

Very helpful. Thank you, both.

Zvika Netter

Thank you.

Operator

Our next question comes from the line of Laura Martin with Needham. Please proceed with your question.

Laura Martin

Hi, there. Good morning. I'd like to first follow up on an answer you gave to Shweta's measurement question. So, what you said is you bought TVSquared to get the database for linear because your clients for the next 5 to 10 years were going to be integrating CTV with linear. But, you also said that over time, you think that all linear comes to digital. So, by implication, does the acquisition you made of TVSquared become irrelevant over the 7- to 10-year frame because, really, we're moving to an all-digital world?

Zvika Netter

Like so, a) I'm not the person to, all the smart people on this call probably have a better thesis than I, than I do on the future of how fast it will take, right? I would hope, when we started Innovid, these past five years, we're 15 years later, then it's probably 10 percent, 15 percent. So, it's going to take a long time, which is good, 5, 10, 15, 20 years. So, I definitely believe linear television, broadcast television is here to stay for a long time.

But technically, yes, at some point in the future, like almost all voice calls over the world right now are transitioning to over IP, most of text is moving over IP. There's no reason in the world why any piece of video, including theatrical, will stay in an analog format like it is today. It will move to digital. So, from a theoretical and actual perspective, absolutely, we'll all move to digital. And I guess that's why some of the companies that have been built on, that have most of their revenue in the legacy world are very worried about the future, right?

But, and that is going to take a long, long time. So, the idea was that, you could almost think about it as a bridge. We're meeting our customers in the future in CTV, and saying, guys, we will still have 90 percent of

our budget on the other side. We need you to provide a solution for that to help us make this transition and make smart decisions. When, what should we move, how we should move, what's the impact of what we're moving? And so, that's the purpose of the acquisition.

Now, in terms of, it's not, we didn't just buy data. Actually, some of the data is also licensed in the market, so it's not the data as much as the analysis of the data and being able to put datasets together, understanding household data, we talked about IP, household IDs, connecting other datasets like demographics.

And the third piece which is extremely important is outcomes, right? So, the core business of TVSquared without Innovid was understanding television but then understanding outcomes and saying this was effective, and this was not effective. We have customers like, that we, like GoDaddy and Peleton, which are very performance-driven TV advertisers, which eventually I think, most, a lot of television will be a question about the ROI.

So, we're getting that, plus we're getting the outcome components that we're now implementing across linear and CTV. If you put this whole picture in your mind, this will allow our customers to make smart decisions about how fast to move the budget, what to buy where, when, which demographics, and to see what creative works, what creative doesn't work. That's, considering what's in market today, that's pretty futuristic. So I believe, I'm very confident in the ROI we're going to get on this acquisition.

Laura Martin

Okay, great. That's helpful. Could you just remind us of the political impact on your P&L in the second half of the year? How does political affect your revenue upside?

Zvika Netter

Historically, for Innovid, we're not focused on political. Actually, I wouldn't say that, the last elections, we pulled back slightly from that, even from the little we had. So, it's not a huge area of focus for us. We're focusing the largest TV advertisers that are always on. And political is on and off. We may see some revenue through the TVSquared acquisition because, obviously, it's related to performance, tracking website visitation, social stuff, app downloads, and all that. So, I expect to see some revenue through the measurement piece, but I would not say it's significant or that we're counting or banking on it.

Laura Martin

Okay. Super helpful. Okay. Thanks very much.

Zvika Netter

Thanks, Laura.

Operator

As a reminder, if you would like to ask a question, please press star, one on your telephone keypad. Our next question comes from the line of Shyam Patil with Susquehanna. Please proceed with your question.

Shyam Patil

Hey, guys. Good morning. I had a couple of questions. First one, on the supply chain issue that you guys had talked about in your first, in your 4Q call, Zvika, it sounded like in your prepared remarks, that you kind of saw maybe less of a headwind from auto and CTV. I'm just curious if you could elaborate on kind of what you're seeing there. Was that a comps issue? Was it something else? Are you seeing recovery there? I'm just kind of curious what you're assuming for 2Q and the rest of the year?

And then the second question, on measurement, you guys have talked about this quite a bit already on the call, but do you think that you can move upmarket with TVSquared? How quickly do you think that can happen? And kind of combining, kind of what you said, Zvika, already several times on the call, do you think combining their measurement with kind of your other data sets, given that you do ad serving, do you think that gives you some unique advantages to move upmarket and take shares, take share from some of the larger players? Thank you.

Zvika Netter

Thanks, Shyam. So, on the supply chain, this was obviously, and since we, as you can see, we surpassed the guidance. So, the progress that we saw in Q1 is faster than we anticipated in terms of recovery, as we shared in Q4, right? It's not something that we have close control over, right? This is a very senior executive's decision to spend more or less on TV advertising within the brand marketers, our largest clients in the auto industry.

So, yes, we saw a significant year-over-year drop in Q4, almost 31 percent, so moving that, from that to flat, so the level of volume that we saw from the other category in Q1 was similar to Q1 2021, which was "pre-supply chain issues," right? If you remember that time, it's still COVID time. So, this is a very interesting kind of environment we were operating in the last two and a half years.

So, that definitely communicates optimism in terms of the side of the auto manufacturers that are coming back to spend on similar levels of last year Q1. If you look at this as a trend, right, you can take that line and continue it. At the same time, we want to continue to be cautious, given the macroenvironment.

Putting aside for a second supply chain, we actually have a different environment that we all live in right now, and it's hard to predict how the rest of the year will evolve from that perspective. So, if you put the two things together, that's why we kept our guidance. And we will continue to monitor this closely. Specifically for the auto category, the trend is very, very positive.

So, that's on the supply chain, similar to CPG, but CPG was more scattered. You had some large CPGs that continued to spend, slightly less, but continuing. Some dropped dramatically in Q4. So, we're definitely seeing recovery there. But, it's almost more of a brand-by-brand basis. Auto was across the board. Whether you're an Innovid customer or not, we saw this everywhere. And also you saw it with other companies, of course.

And then, in terms of the measurement component, where we're now in the integration. But, maybe I'll ask, when you said, just to clarify, when you say upmarket, like what do you mean? In what perspective? In terms of the type of client, in terms of the type of products?

Shyam Patil

Yeah, so the way I understood it was that TVSquared is more focused on kind of SMB-type advertisers.

Zvika Netter

Okay.

Shyam Patil

And your larger competitors get a lot of press. Theirs focus on, it seems like, the largest advertisers and the largest publishers. And I was just curious if the combination would, if it's part of your strategy to move upmarket.

Zvika Netter

Absolutely, absolutely. That's 100 percent the move. I would say two things. First of all, the existing customer base is generating with TVSquared a segment, customer segment. And to share with the rest of the team who is maybe less in the details on TVSquared's core business, existing business, it's, as you said, both SMBs but also performance, very known clients that are more TV performance-type advertisers.

They're looking for immediate clear ROI, less on the branding side, which created a very, very advanced self-service measurement platform because if you think about it, the performance customers are not like, "I'm going to run my ad over the year," and if someone will help, they're like every cent needs to be accounted for. So, from that perspective we found the most advanced system in the market with self-service capabilities, from a strategic, so that's going to continue, and that's growing faster with Innovid. To be clear, and continues to grow faster with Innovid, and I expect to continue to see that through the existing customer base.

By the way, there's also a sell side, customers like Spectrum and Effectv and Sky. So, there are large MVPDs and publishers on the platform also, using it to measure the performance of the campaigns for their customers. That all, stuff, everything we share and also the own and non-organic stuff we shared, this is all coming from the TVSquared's business.

To your point, 100 percent, that's the move. What we're doing now is we're training the "legacy" Innovid sales team, which is 100 percent focused on the top 200 advertisers, and our account management team to take the converged product. We already have all of our customers' CTV for the last three, four, five years. Linear is public information, so we have all the linear data of the same customers.

So, you can imagine putting this together and taking it to market. This could be a very compelling offering. That space, to your question, was the TV, advanced measurement of that space was, we were not a player in there. Obviously, what we're doing right now, and I believe everybody else understanding, including people who file lawsuits, that's the play, right? That's exactly what we're doing as we speak.

Shyam Patil

Got it. I had one more, if I could sneak it in.

Zvika Netter

Sure.

Shyam Patil

Netflix, their announcement on more ambitions with AVOD, can you just talk about, what are your, I mean, you guys see a lot of different things. You guys have seen many, many walled gardens in CTV and kind of evolutions. And from your vantage point, what do you think this means for the industry? What do you think it means for you guys? Just would love to get your overall thoughts.

Zvika Netter

I would, Tal, I'm sure you would love to take this one as a known rock star speaker on the topic of AVOD and SVOD and everything in between.

Tal Chalozin

Thank you very much. Again, thank you very much. In regards to Netflix, and I think I can combine a bunch of other announcements that were, recently about big streaming platforms that are introducing an ad-supported package. Like Disney+ and HBO are well on their way on doing that, and Hulu and others. We think, first of all, we think that this is the way of the future. The same way that television used to be a dual revenue model, streaming will be the same.

And the second part is it's obviously very much aligned with the strategy of innovators that tremendous media and good content will be ad-supported. And our job is to create the platform that allows marketers to enjoy that and essentially use technology to battle fragmentation. So, more players are inevitable. This is very much aligned with our offering.

I'm just going to add one more thing, specifically with Disney+ and maybe Netflix coming out with advertising. We think with those players, we will see much more investment in better ad products as those companies historically really invested in user experience and innovating on what are the viewers, the viewer experience part. This is very much aligned with what we've been doing and echoing for many years with our personalization and advanced creative products invested in better user experience around that. And we think that this would be a great tailwind for all of that.

Shyam Patil

Thank you, guys. Thank you, Tal.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. I will now turn the call over to CEO and Co-Founder, Zvika Netter, for closing remarks.

Zvika Netter

Thanks, Alex. Thank you, everybody. Before we sign off, I would like to take a moment and thank, first of all, all of you for your time and great questions. On a personal note, I have to say that this is, in all the three

months, this is part I'm waiting for the most, not the recording as much as the live Q&A, and looking forward to continuing to talk with many of you in the next coming months.

A huge thank you also to our customers, our partners. We heard about a lot of them and their trust and support in Innovid but most of all to our really phenomenal teams. I believe we have some of the best teams in the world in the business, in our business in advertising tech. Their relentless driving commitment to excellence is kind of what got us here, through ups and downs and, as you can see now, a really strong and great quarter.

We started the year strong. I believe as far as it comes to Innovid internal KPIs, new logos, new products, new innovation announcements, partnerships, upselling, retention, I expect to see a very strong year, no matter, from internal KPIs. Obviously, we're going to be affected like everybody else from the macroeconomic situation, but extremely passionate and bullish and more coming there, 5, 10 years, 20 years. There's a lot more that's coming ahead of us. This is practically day 1 or day 2 of the journey here.

So, thank you so much. Have a lovely day and a great weekend, and see you soon. Thank you.

Operator

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.