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Presenters

Tejal Engman, SVP, Investor Relations
Mark Zagorski, CEO
Nicola Allais, CFO

Q&A Participants

Chris Merwin, Goldman Sachs
Matt Coss, J.P. Morgan
Raimo Lenschow, Barclays
Matt Hedberg, RBC Capital Markets
Ron Josey, JMP Securities
Laura Martin, Needham and Company
Arjun Bhatia, William Blair
Justin Patterson, KeyBanc
Michael Graham, Canaccord
Youssef Squali, Truist Securities
Alan Gould, Loop Capital

Operator

Greetings and welcome to the DoubleVerify First Quarter 2021 Financial Results. 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 that this conference is being recorded. I will now turn the call over to our hosts, Tejal Engman of Investor Relations. Thank you, you may begin.

Tejal Engman

Good afternoon, and thank you for joining us to discuss DoubleVerify's First Quarter 2021 Financial Results. With me today is Mark Zagorski, CEO, and Nicola Allais, CFO.

Before we begin, I'd like to remind everyone that statements made on this call and responses in Q&A today contain forward-looking statements. These forward-looking statements are subject to inherent risks, uncertainties, and changes, and reflect our current expectations based on our beliefs, assumptions, and information currently available to us as of today, May 25th, 2021. Although we believe these expectations are reasonable, they are subject to change and we undertake no obligation to revise any statements to reflect changes that occur after this call. You can find more information about these risks, uncertainties, and other factors that could

cause actual results to differ materially from these forward-looking statements in our SEC filings, including our S1 Registration Statement.

In addition, our discussion today will include references to certain non-GAAP financial measures. These non-GAAP measures are presented for supplemental purposes and should be considered in addition to and not as a substitute for or in isolation from our GAAP results. Reconciliations to the most comparable GAAP measures are available in today's Earnings Press Release, which is available on our Investor Relations website at ir.doubleverify.com. With that, I'll turn it over to Mark.

Mark Zagorski

Thank you, Tejal. Good afternoon, everyone. I'm Mark Zagorski, CEO of DoubleVerify. I'm excited to welcome you to our first-ever earnings call, and to discuss our strong first quarter performance and optimistic outlook on the year ahead. Nicole will detail our business model and financial results, as well as provide guidance. Since this is our inaugural earnings call, before we dive into the numbers, I wanted to take a few minutes to talk about DoubleVerify and the core value proposition that continues to propel the success of our business. DV's story is one of sustained organic growth, helped along by sector tailwinds, and a unique market-leading position and platform that creates exceptional expansion opportunities in the mid and long term.

DoubleVerify's mission is to make digital advertising stronger, safer, and more secure. We believe the advertising dollars that support the creation of diverse, high quality content, and make it accessible to the widest audience possible depend on a transactional environment that is based on transparency and trust. Via our media quality verification and performance solutions, DoubleVerify creates greater advertising transparency, and therefore protects the fair value exchange in the digital marketplace. In the process, we not only drive ROI for our brands, we ultimately keep money out of the hands of fraudsters, who often act to undermine free markets. Further, we help advance social good by defunding misinformation and hate speech. This is important not just for our advertiser partners, but for everyone who participates in the digital ecosystem.

Speaking of advertisers, our analytics platform has become a core utility for hundreds of leading global brands, from CPG companies such as Mondelez and Unilever, to media and tech innovators like Comcast and Vodafone, our tools help maximize digital ad spend and optimize ad delivery. DoubleVerify's Authentic Ad Metric has become industry currency, measuring whether digital advertising is displayed in a brand-safe, fraud-free environment, is fully viewable, and delivered in the desired geography.

As an independent measurement company, we are unconflicted in our ability to verify everywhere. Our cookie-free solutions are implemented across the open internet, and in the walled gardens, in display, mobile, video, social, and CTV, and in direct and programmatic transactions. Our strong track record of driving bottom line ROI for advertisers while creating a more secure digital ecosystem has not only directly benefited our customers, it has supported a thriving digital ad market that continues to grow at a rapid pace. According to Magna Global, digital ad spend, excluding search, is expected to grow by approximately 11% in 2021, and sectors such as CTV, social, and programmatic are growing significantly faster. As the global market remains largely underpenetrated, ample white space combined with sector and market tailwinds provide us with significant opportunities for expansion.

Now, let's dig into our strong results for the quarter. First quarter revenue grew 32% year-over-year, while adjusted EBITDA grew by a solid 41% year-over-year. Our top line momentum continues to be driven by a focus on global expansion fueled by enterprise client wins, successful product adoption in fast-growing new sectors, and an ongoing focus on new solutions that leverage our deep data set to capitalize on evolution in the digital marketplace. Let me discuss each of these three revenue drivers in greater detail. Beginning with global expansion, we continue to gain market share by closing new enterprise clients who are adopting our core verification solutions in both emerging and established media markets.

In the past few months, we notched new business wins with Unilever, UPS, Fujifilm Japan, Arnotts in Australia, and many others. When we win an enterprise client, most if not all of their measurable impressions run through our software platform, creating a sticky, long-term relationship that we continue to expand over time by upselling new solutions. These enterprise clients and many others contribute to our solid Q1 results and exceptionally strong revenue growth in both EMEA and APAC.

We grew first quarter EMEA revenues by 65% year-over-year, and APAC revenues by approximately 97% year-over-year. Overall, non-Americas revenue grew nearly 76% year-over-year in the first quarter, representing approximately 25% of direct revenue and exemplifying the expanding opportunity for the application of our software in markets around the globe.

Driving this commercial success is our investment in people and go-to-market infrastructure, as spearheaded by our newly-appointed Global Chief Commercial Officer, Julie Eddleman. Julie recently joined us from Google, where she managed some of their largest global clients, including P&G, Ford, GM, Chrysler, and McDonalds. Since joining, Julie has led the launch of DV's Global Client and Agency Partnerships team, which is responsible for driving growth with DV's largest customers, and ensuring seamless delivery of DV's comprehensive solutions.

In addition, the expansion of our self-serve software tools and the launch of our DV university training program last quarter are helping to accelerate the scalability of our platform and increase the stickiness of our offering with key customers. As of the end of 2020, we have enjoyed an average tenure of 5.6 years with our top 75 clients. Additionally, earlier this month, we expanded our business into the Middle East, North Africa, and Turkey, also known as the MENA region. According to EMarketer, digital advertising spend in the region is expected to grow by 54% over the next two years, and we are well positioned to take advantage of those local tailwinds.

Moving on to our product successes in fast-growing new sectors, CTV, social, and programmatic continue to gain the lion share of digital advertiser interest. DoubleVerify solutions have been focused on ensuring advertiser spend is securely optimized in these areas. In 2021, programmatic CTV ad spending is forecasted to grow by more than 40% year-over-year, to nearly \$11 billion in the United States, according to EMarketer. Because the cost for impression is relatively high on CTV compared to other formats, the incentives for fraud are obvious.

Over the past 18 months, we've uncovered seven different fraud schemes targeting CTV devices. These schemes were part of one large, coordinated fraud family, identified as Octobot, which generated billions of ad calls, or spoofed, or imitated, thousands of apps in millions of devices, all with the intention to defraud advertisers out of millions in revenue. These schemes may have cost unprotected advertisers tens of millions of dollars. Through our software

platform, DoubleVerify customers were fully protected from these issues, and continue to be insulated against the new challenges that will likely emerge.

With fraud being particularly rife in high-growing emerging media such as CTV, advertisers have increasingly turned to DV's sophisticated tools and algorithms to block new variants of fraud, and to provide them with the confidence needed to make premium digital advertising investments. As a result, through our integrations with platforms such as Roku, Amazon, and Hulu, DoubleVerify grew CTV volumes by approximately 75% year-over-year in the first quarter, as advertisers and consumers continued to flock to the medium.

In addition to CTV, social continues to be a fast-growing sector for the industry, and for our business. Concern around brand safety across social networks has risen during the challenging social and political environment over the last 12 months, and advertisers have become increasingly focused on brand equity and reputation online. DoubleVerify's software platform delivers the widest set of MRC-accredited brand safety and suitability solutions available on the largest social network, Facebook.

Social represented approximately 30% of our direct revenue in 2020, and our leadership position in this sector helped grow DoubleVerify's social product volume by nearly 75% year-over-year in the first quarter of 2021. With the potential for additional coverage opportunities across social platform partners, we are optimistic about our prospects for continued growth in this sector.

Finally, the success of our programmatic solutions has mirrored the rapid growth of our sector. In Q1, our programmatic business grew at a rate of 42% year-over-year, driven by growth in our premium-priced Authentic Brand Safety solution, which grew at 124%. With the recent launch of Authentic Brand Safety on Google's DV360 platform, our industry-leading programmatic product is now available on programmatic buying platforms, which manage the vast majority of programmatic media buying in the US.

The expansion of our solutions into CTV, social, and programmatic sectors, as well as road mapped investments into dynamic areas such as audio and gaming, underscore the extendibility of our software platform into exciting emerging areas that require greater transparency and trust in order to confidently attract advertiser spend.

Shifting to recent product launches and enhancements, DoubleVerify has had a strong track record of leveraging its incredibly valuable core data asset to innovate in new adjacencies. From programmatic Authentic Brand Safety, to CTV's Video Complete solution, we have repeatedly spun off successful solutions to help grow measured transaction fees, what we call MTF, and drive organic revenue growth from our existing client base.

Our two newest product launches include Custom Contextual and DV Authentic Attention. Our Custom Contextual product for programmatic advertisers delivers privacy safe, cookie-free targeting by aligning ads to relevant content in order to maximize user engagement and drive conversion. What's unique in the industry about our solution is that it leverages the same context classification expertise that advertisers rely on to ensure their digital ad spend is brand safe and secure, and applies it towards positive targeting in order to optimize their ad delivery outcomes.

The solution is now available on leading DSPs, including Media Map, Verizon Media, and Xander, and we expect it to be widely available on The Trade Desk later this quarter. As the industry shifts away from third-party audience targeting due to increased privacy regulation and the decline of third-party cookies, alternative ways of driving performance are becoming increasingly critical.

Through our custom contextual product and others in the pipeline, DV is well positioned to take advantage of this change. Our second recent premium product extension, DV Authentic Attention, delivers a unique exposure plus engagement metric that enables global brands to benchmark top-performing sites and apps, evaluate cost effective, high performance private marketplace deals, and focus on the ad units that deliver the most impact.

Mondelez International recently used DV Authentic Attention to evaluate and optimize the performance of a cross-platform display campaign for a popular snack brand. DV Authentic Attention insights found that private marketplace packages flagged as 'high attention' by our system outperformed open exchange inventory by 143% on the same campaign. Vodafone, another early adopter of DV Authentic Attention, found ads characterized by high DoubleVerify engagement scores drove over 3.5-times higher rates of qualified traffic and sales conversion as compared with low engagement ads.

It's exactly these kinds of positive ROI results that make us so essential to our customers and underscore the opportunity that exists with our new solutions. Although Custom Contextual and DV Authentic Attention have only just debuted, we expect these products, as well as other innovations that are currently in the pipeline to support future fee growth.

In summary, DoubleVerify remains uniquely positioned to solve the digital advertising ecosystem's need for independent, integrated, and standardized measurement of ads, particularly in a post-cookie world where our proprietary dataset provides a unique value proposition. We had a great Q1, which continued to show the utility of our software solutions for the biggest brands in the world. Numerous additions to our roster of enterprise customers, accelerating traction in key global markets, and successful product investments in CTV, social, and programmatic continue to drive our ongoing growth story. Add to this the tailwinds from a post-COVID advertiser recovery, and we see a future with strong momentum expected to build into 2021 and beyond. With that, let me turn the call over to Nicola.

Nicola Allais

Thank you, Mark. I am pleased to report our strong first quarter results as a newly public company, giving us confidence in providing a strong outlook for the year. Our impressive performance demonstrate the strength of our customer relationships and our attractive, scalable operating model. This quarter, we continued to execute against our plan as we generated strong revenue growth, maintain high profitability, while continuing to invest in the business.

Before reviewing our quarter results, I want to quickly take you through our business model. DV generates revenue via a transactional software model. Our customers use DV's software and data analytics to evaluate, target, and measure the quality of their digital ad spend. For every media transaction we measure, an MTM, we are paid a measurement transaction fee, an MTF. Our revenue model is MTM times MTF.

The MTF we charge is a fixed fee per transaction, rather than a take rate based on our customers' media spend. We want to measure all impressions for our customers, regardless of

format, channel, or media value. We grow MTM by adding new customers, by measuring additional impressions for our customers as they increase their digital ad spend, and as more digital media transactions are available for verification. We grow MTF by adding premium products that provide additional monetization opportunities for each impression we measure.

Our advertiser customers, who represent over 90% of our revenue, purchase and implement DV's solutions in two ways. The first way, which we track as advertiser direct revenue, occurs when advertisers use our software platform to measure the quality and performance of ads purchased directly from digital property, including open web publishers, social media, and CTV platforms. The second way, which we track as advertiser programmatic revenue, occurs when advertisers leverage our solutions through programmatic platforms to evaluate the quality of ad inventories before they are purchased through those platforms.

Since our transaction fee model is not a take rate based on the cost of media, our business is not subject to large fluctuations in revenue, when industry CPMs dip and surge. This was evidenced in 2020, where at the height of the market disruption in the second quarter, we achieved a 22% year-over-year revenue growth, driven by the increased need for digital ad verification in an uncertain environment. Our solutions are considered mission critical for our advertisers during periods of market fluctuations. DV has not historically experienced the negative revenue friction that normally occurs, yet our model enables us to grow as our customers increase their volume of digital ad spend when conditions improve.

In addition to revenue from our advertiser customers who generate supply side revenue, from platforms and publishers who use DV data to validate the quality of their own ad inventory before it is sold to their customers. This is a subscription revenue model which represents approximately 9% of our total revenue.

Now, let's turn to our results. In the first quarter, our media transaction measure continued to ramp, and were the main driver of our revenue growth. First quarter total revenue was \$67.6 million, up 32% year-over-year, in what is historically our lowest revenue quarter in the year, based on seasonal patterns of our customers' digital ad spend. Advertiser direct revenue was \$27.5 million, up 24% year-over-year. In addition to key new enterprise wins in the quarter, which Mark mentioned, we maintained over 95% gross revenue retention rate, highlighting the recurring nature of our transactions, where the majority of our revenue comes from existing customers.

Media transactions measured grew particularly rapidly in social and CTV, each approximately 75% year-over-year, contributing to the quarter growth. Advertiser programmatic revenue was \$33.9 million, up 42% year-over-year, as we benefitted from the continued upsell of our premium products, including Authentic Brand Safety, which is now available across all major platforms, including on Google's DV360, since the end of last year. ABS now represents approximately 50% of our programmatic revenue. Supply side revenue was \$6.1 million, up a steady 18% year-over-year, primarily driven by increased uptake of our services from our existing customers.

Turning to expenses. Cost of sales were 15% of revenue in the quarter. Even as we invest in our infrastructure for future growth, we are able to leverage our technology and extend our solution across new verticals, new geographies, and new solutions at marginal incremental cost.

On operating expenses, we're focused on scaling our operations globally, and on accelerating our product roadmap into new verticals. In particular, first quarter product development costs increased by 37% year-over-year, as we continue to improve and expand our solution. Because our business model is very profitable, we are able to invest while maintaining high margin. First quarter 2021 adjusted EBITDA was \$21.7 million, representing a 32% margin, as compared to \$15.4 million, or 30% margin in the first quarter of 2020.

In terms of balance sheet and cash flow, we generated \$19.5 million in cash from operating activities in the quarter, and had \$49.8 million of cash on our balance sheet at the end of the first quarter. After the quarter, we received aggregate net proceeds of \$282 million from the IPO and a concurrent private placement. This further strengthens our balance sheet, and bolsters our ability to expand our global footprint and accelerate our technology roadmap. Again, the first quarter, we had \$22 million of outstanding debt, which we have since repaid.

Now, turning to guidance. We expect second quarter revenue in the range of \$72 to 74 million, which at the midpoint implies growth of 38% year-over-year. As a reminder, due to the resilience of our business model, our second quarter 2020 performance of 22% growth year-over-year was much stronger than the general advertising technology market. We expect second quarter adjusted EBITDA in the range of \$20 to 22 million, which at the midpoint implies an increase of 34% year-over-year, and an adjusted EBITDA margin of 29%. In the second quarter, we expect to ramp investments in hiring talent, with a particular focus on engineering, product, and sales, as we continue to invest in the tremendous growth opportunities that lie ahead.

Finally, we expect our second quarter weighted average diluted shares outstanding to range between 157 and 161 million shares. For the full year 2021 guidance, we expect revenue in the range of \$322 to 326 million, a year-over-year increase of 33% at the midpoint, and adjusted EBITDA in the range of \$103 to 105 million, a year-over-year increase of 42%, and an adjusted EBITDA margin of 32% at the midpoint. Overall, we remain committed to delivering performance that exhibits the rule of 60, with high growth and high profitability.

Since the beginning of the year, our revenue growth expectations for the second half of the year have improved, driven by a more favorable outlook for the fourth quarter, which tends to benefit from seasonally higher spending on advertising campaigns. In summary, we delivered a strong first quarter, and are executing well against our 2021 plan. We are poised to continue to deliver consistent growth well above the expected digital advertising growth of 11% for the year.

And favorable conditions in the advertising marketplace will also drive our business, as we participate in the economic reopening across numerous segments, including retail and travel. We will take advantage of these tailwinds in the industry via continued investments in global markets and enterprise client wins, product successes in fast-growing sectors, and the introduction of new solutions for our customers. And with that, we will open the line for questions. Operator, please go ahead.

Operator

Thank you. And ladies and gentlemen, at this time, we will be conducting our 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 that your line is in the question queue. Ladies and gentlemen, please limit yourself to two questions per each time that you queue up for a question. You may also press the star key followed by the number two if you would like to remove yourself from the queue. For participants using speaker equipment, it may be necessary

to pick up your handset before pressing the star keys. And once again, to ask a question, please press star one on your telephone keypad. Our first question comes from Chris Merwin from Goldman Sachs. Please state your question.

Chris Merwin

Okay. Thanks so much for taking my question, and congrats to you all for such a strong first quarter out of the gate. In the prepared remarks, you talked about some recent wins in social and CTV. Can you give us a sense of what type of uptake you're seeing for those products among the customer base? And can you also talk a bit about the opportunity for improved data sharing for the socials, and how that could be a further catalyst for adoption for those products? Thanks.

Mark Zagorski

Hey, Chris. Thanks for the question. You know, we really had a strong quarter when it came to social and CTV volume growth. And you know, we obviously love seeing that in areas which we think are going to have great tailwinds around it. You know, as you remember, when we go in with a client, we generally start with a core value proposition across as many media as possible, and continue to upsell them solutions, you know, over time.

So, in the CTV and social space, social's a bit more mature of a product set--those usually kind of the earlier sell-throughs. CTV is an area which we just started entering in middle of last year, so we think we've got a good amount of white space to upsell both of those solutions into both our current client base and new clients moving ahead. So, we see a lot of potential growth in both of those areas down the road.

With respect to the second part of your question around additional coverage in CTV, I think there's, you know, two aspects of that. It's going deeper into the social networks that we currently work with, and expanding into new social networks down the road. We believe there are opportunities on both of those fronts. You know, late last year, there was a public announcement by Twitter on their interest in continuing to expand partnerships with third-party validation and verification companies, naming DoubleVerify as one of those companies. So, you know, there's opportunities there, as well as with the other social networks that we work with.

And then, as new social networks evolve and become introduced, you know, our drive to verify and measure everywhere, you know, means that we will work with those folks to get coverage there as well. It's important to note that, you know, we are really a customer-driven enterprise. And wherever our customers and the big brands need us to be, we're going to make sure that we get coverage in those new spaces.

Chris Merwin

Okay, perfect. Thank you. And maybe just one quick follow-up on the outlook, it looks like you come in well ahead of where the street is now. So, can you just talk about any factors that influenced that, you know, whether it's a better-than-expected cyclical recovery, or just stronger pipeline growth? Anything you can share about the outlook there would be great. Thanks.

Nicola Allais

Yeah, Chris, it's Nicola. I think the two points you just mentioned are what is driving sort of our outlook for the rest of the year, which is a positive one. There's clearly a cyclical component to the spend of our customers, and so we anticipate that to help us. As you know, the first quarter's our smallest quarter. More importantly, I think the recovery's definitely something that

we will participate in. We're very diversified across industries, but as in particular, as travel and entertainment comes back, we're poised to take advantage of that recovery as well.

Chris Merwin

Great. Thank you.

Mark Zagorski

Thanks, Chris.

Operator

Our next question comes from Mark Murphy with J.P. Morgan. Please state your question.

Matt Coss

Hi, good afternoon. This is Matt Coss on behalf of Mark Murphy. Congratulations on your first public quarter out of the gate. I just wanted to ask a little bit more about, you know, the favorable trends. You mentioned U.S. retail and travel opened back up. I think the thinking was that that would be more of a sort of late 2021 impact, but are you seeing evidence that that might be benefitting you earlier than you may have thought?

Mark Zagorski

Yeah, thanks, Matt. You know, good question. You know, I think we're still kind of looking at that as a latter part of the year bounce back, particularly when it comes to kind of travel and retail. But one of the things that I think is it's important to kind of lean into is the fact that a lot of the habits that were developed over--you know, during COVID as far as media ingestion and the amount of media people are consuming, kind of continued throughout--you know, throughout this year as well.

So, you know, we're benefitting from the tailwinds of things like social engagement and CTV engagement that are continuing to increase over time. So, I think on an industrial sector basis, we still have, you know, lots of room for that comeback. And I think we're really looking at that as a second half of the year kind of factor.

Matt Coss

Okay, very helpful. And then, you know, I know because of the comprehensiveness of your platform, that's really helped you sort of gain a foothold against some of the sort of incumbents, or, you know, legacy competitors. Do you see any change in your ability with the sort of broadening of your platform to perhaps accelerate, you know, share gains in--from your two largest competitors?

Mark Zagorski

It's another great question. You know, I think--you know, as we've seen across lots of different parts of the industry, there tends to be consolidation to more complete platforms and more complete solutions. You know, we obviously fit that bill. And as point solutions, you know, continue to lose favor with our advertiser clients, there's an opportunity for us to continue to take share there.

And we do so not just because of the completeness of our solution, but the efficacy and the power of our solution. I mean, to put it frankly, you know, as we've discussed in the past, this is a software sale. And that software sale is usually driven by a competitive RFP process in which there's a head-to-head competition. And the platform that delivers the best results is the one

that gets the win. And you know, we continue to gain share because our platform not only is complete, but delivers the best results as well.

Matt Coss

Thank you.

Operator

Our next question comes from Ramo Lensha with Barclays. Please state your question.

Raimo Lenschow

Thanks, and congrats from me as well. I have two questions. First, since it's like your first earnings call, it's maybe slightly more basic, but I hope it's still very relevant here. Mark, can you talk a little bit about advertiser programmatic against advertiser direct? How do you think those two will kind of play out over time? Is it going to be mix of that, and what's driving it? And so, just to get a better sense of when we start looking at the models, to think about like where the growth is coming from.

And then, a second question for Nicola is like, as you start investing again, can you talk a little bit about the balance between growth and margins? You talked about the rule of 60. You know, if I look at the margins this year, they're--kind of you're guiding for higher than last year, but it's still below historic. Just, how do you think about that dynamic? Thank you.

Mark Zagorski

Alright. Great question, Ramo, and you know, congrats on getting something out so quick. You're our first to draw--of getting some things out, so hopefully this will help for what comes out next. On the advertiser, you know, programmatic and direct, I think you've got a couple different factors there. You know, our direct business includes social spend as well, and we see that as a growing part of our business, in particular as we get more social networks and more, you know, coverage across those social networks. So, we've got a strong growth catalyst there.

On the other hand, you know, we've got a lot of room to catch up to our advertiser spend on the programmatic side. If you look at, you know, display and mobile ad spend in the US, anywhere from 85% to 90% of that spend is done on programmatic platforms. And currently, you know, if you look at our revenue breakout, it's about evenly split between direct and programmatic. So, you know, I think we've got a lot of room for additional programmatic growth to start to fill in space there and catch up.

So, I think programmatic is still going to have really nice growth trajectory. But as social, you know, continues to grow as well, we're going to have a balance there. So, I think the answer is, we've got growth on both sides of that business. Programmatic, I think, growth is going to outpace direct growth, just due to the fact that there's so much additional white space to catch up there. But we see a nice balance in both of those areas, but mainly because our direct business is being driven by social expansion as well.

Nicola Allais

Yeah, Ramo, on your question for the rule of 60 and our perspective on investments, yeah, we are committed to the rule of 60 just because it really reflects the highly profitable business model that we have, and it's sort of the outcome of really the highly profitable way we can grow our business. You know, we didn't really slow down our investments in 2020, right? We

invested, we added a lot of people in the year that was disrupted in the market, but where we still had growth on the topline that allowed us to continue our investments.

The way we think about tradeoffs is really around the opportunity to accelerate investments for either the product roadmap or in expanding into new markets. If we see the opportunity, we will go after the opportunity to the extent that we see a line of sight on accelerated revenue growth. So, we're very focused on the top line, making sure we can verify everywhere our customers are. And if that means we accelerate investments to get there, that's what we will do. You know, our outlook in the second quarter's guidance reflects that, right, with added investments and margins that dips below 30 just for the quarter. So, you know, we will continue to take that trade off, but ultimately, our model is very profitable and the rule of 60 is something we're committed to.

Raimo Lenschow

Very clear. Thank you. Congrats again.

Nicola Allais

Thank you.

Mark Zagorski

Thank you.

Operator

Thank you. Our next question comes from Matt Hedberg with RBC Capital Markets. Please state your question.

Matt Hedberg

Hey, guys. Thanks for taking my questions. Congrats on the results. You know, I wanted to start with the idea of cookies. I mean, we've all seen the news around Google moving away from cookies, Apple is certainly making some changes with IDFA, to just make it more challenging for ad tech companies around data collection. Obviously, you guys operate in a cookie-free architecture. Could you talk about, though, how this might impact the industry, and maybe competitively, how it benefits you guys?

Mark Zagorski

Yeah, thanks for the question, Matt. You know, broadly speaking, you know, what's going on with cookies and universal IDs and tracking, etcetera, is something that from an operational perspective, we're largely isolated--or insulated from, right? You know, we had a system that is based on the what, the where, the how, not the who, which gives us, you know, a lot of different ways of measuring without having to leverage those devices--you know, those trackers. I do think that the industry has done--you know, the open internet, you know, has done a really nice job addressing the challenges that they face in that space, and will continue to do so.

So, ultimately, I think it's going to become a non-factor down the road for the open internet. For us, we do look at this as a really nice opportunity to continue to leverage the solutions that we have. As measurement changes, right, from a focus on reaching frequency and an individual-level measurement, to other performance-based proxies that are not based on UIDs or cookies. And that's where I think we have a great opportunity, and we've launched solutions to take advantage of that.

So, our contextual targeting solution which was recently launched, you know, leverages our capabilities and understanding context of the page to better align ad spend. Authentic Attention is another measure of user engagement that can be used as a proxy for performance and outcomes. So, I think what we're seeing here is, you know, innovation coming from this activity as opposed to any degradation of the business. And innovation is spurring new ways of looking at performance, it's providing opportunities for companies like DV to play a bigger role in driving that performance. So, we think that, you know, this is--it's not just for the most part, but in total is good for our business moving ahead.

Matt Hedberg

Got it, that's super helpful. And then, I wanted to ask about competition earlier, kind of the two big competitors. But I wanted to kind of drill down into some of the faster growing aspects of your model, and that is social and CTV. You know, are these deals still largely greenfield in nature? You know, maybe just give us a little bit more color on sort of where you guys think you are from a tech perspective for those two emerging categories, just given its relative importance to I think your sort of durable growth here?

Mark Zagorski

Yeah, so I think, you know, for both CT and social, we're relatively early days of both product development and product distribution and market penetration, right? So, when we start off with our enterprise clients, a lot of it has to do with, you know, focusing coverage on mobile and video, and you know, display, etcetera, using our core verification products. But over time, as we continue to expand and their spend continues to expand into new sectors like CTV and further into new social applications, you know, we follow them into those markets and provide solutions which continue to kind of grow with them.

We've done that with CTV and social. And like I said, I think we're relatively early days and continue to expand not just with our current clients but with new clients as well. And you know, it's important to remember, you know, when we--so much of our growth comes from current organic clients buying new solutions from us and upsell, which means we still have a ton of white space to, you know, introduce solutions and newer solutions to, you know, new clients as well.

So, I think both of those factors, you know, weigh into point where I think we've got considerable growth opportunities on both social and CTV, both with new clients and current clients driven by product growth and introductions, and continued coverage in partnerships to verify and measure more across both of those areas.

Matt Hedberg

That's great. Thanks a lot, Mark, and congrats again.

Mark Zagorski

Absolutely. Thank you.

Operator

Our next question comes from Ron Josey with JMP Securities. Please state your question.

Ron Josey

Thanks for taking the question. I'll echo everyone's comments on just a great first quarter out of the gate. Mark, I wanted to talk a little bit more on just, you know, maybe you mentioned it

earlier, the Custom Contextual and Authentic Attention, just the new products that are out there. And specifically, the go to market strategy as basically DV's exposed to more performance ad budgets, and I think you mentioned some return rates there. So, can you just talk a little bit more about just go-to-market strategies for both Custom Contextual and Authentic Attention? And I have one follow-up. Thank you.

Mark Zagorski

Yeah. So, great questions, Ron. Thanks for them. Custom Contextual and Authentic Attention both have a core go-to-market around, first, introduction to current enterprise clients. Again, such a nice base for us to work from. And when we're talking about folks like, you know, Unilever and Mondelez, and all these big global clients who we work with, and the hundreds of brands, you know, that gives us this amazing launching pad for new solutions. So, the overarching is, we go to the folks that know us first, right, and trust our data. Because both of those products leverage data that they're already using to do verification and measurement.

So, a, take that core dataset, spin it off to different types of solutions so that we can, you know, engage with our clients in multiple different ways. But--so that's, you know, phase one of the go-to-market. The second, which kind of makes it a more seamless opportunity for us, if you think about, Custom Contextual is employed in the programmatic space, where we, you know, already have really strong distribution across so many of the leading DSGs, right? So, our enterprise clients who are already buying our core programmatic product there, now have the ability to buy another solution, our Custom Contextual product.

So, a, that's where distribution really helps out, right? So, if it starts with our core clients and our relationships there, it next moves to, where can they get that solution? And that means our distribution across all the major DSPs, you know, becomes not only an advantage for us, but a gating factor for other competitors. Authentic Attention, very similar. You know, it uses our core dataset, and you know, leverages that to provide a whole different level of engagement and attention metrics that help drive better optimization of media spend.

And for there, the go-to-market is--it's similar to programmatic, but with the fact that we go to our core clients first. But it's a little bit more bespoke in the fact that it is a toolset that can be used across direct buys as well, right? So it's not just going to be in the programmatic world, it could be across CTV, and there's social buys there, consequently. So, you know, both of them leverage the fact that we have great commercial relationships. Both of them leverage that core dataset to spin out and make it a unique application for each of them. But one of them is used predominantly on direct buys, and the other is a programmatic implementation.

Ron Josey

And maybe just a quick follow up on that, Mark. You mentioned in your prepared remarks that Authentic Attention, Mondelez saw data outperform results by 143% versus prior, Vodafone had 3.5-times higher rates on transactions, I think. So, is this a new ad buy, a new ad budget that maybe DV is exposed to, or just to your point, it's a land and expand strategy with newer products? Thank you.

Mark Zagorski

Yeah, it's--I mean, look, it's definitely a land and expand, right? So, it's the same ad budget, but making sure that same ad budget is even more optimally spent, which is really cool for us too, because it means that we can continue to sell services across the same spend and drive our MTF, right, those transaction fees, without having those advertisers have to spend more for us

to take advantage of driving more revenue for ourselves. So, it really is, you know, the true, you know, qualification of an upsell. It's, we don't need their volume or them to spend in new sectors, which we can, you know, certainly take advantage of down the road as well, to sell them these additional solutions. So, their budgets don't need to increase for us to make more money.

Ron Josey

Got it. Thank you, Mark. Appreciate it.

Mark Zagorski

You got it, Ron.

Operator

Our next question comes from Laura Martin with Needham and Company. Please state your question.

Laura Martin

Great numbers, you guys.

Mark Zagorski

Thanks, Lara.

Laura Martin

On CTV, I think, Mark, you--yeah, great, good job. So, I think you said that CTV grew 75% year-over-year in the quarter, so could you confirm that you actually said that on the call? And then secondly, what I'm really interested in on that is, do you think that was faster than the market or slower than the CTV market? Did you hold share or are you gaining share of CTV? What do you think?

Nicola Allais

Hey, Laura, it's Nicola. Yeah, we can confirm the number, 75% on the volume. And you know, look, it's off of a small base. We think we are entering the market aggressively, and doing very well with the customer and our distributors. So, we do think we're growing very fast in CTV for sure.

Laura Martin

Right, but do you think you're growing--we have CTV numbers all--you're the last guys to report. I have CTV numbers ranging from 32% growth to 120% growth. I'm wondering, as an expert, how fast you guys think CTV is growing?

Nicola Allais

Again, off of a small base, I think it's probably growing in the range that we are growing in.

Laura Martin

Okay, great. And then, my second question was, the hardest question I get from investors is, they understand that you have no cookies risk. However, what percent of your total adoption runs through platforms like DSPs, like Trade Desk, that actually have a lot of cookies risk, potentially, if universal ID isn't widely adopted by consumers? How much of your revenue is risked through that, through those DSP channels?

Mark Zagorski

It's a great question, Laura. You know, if you think about our business currently, about 50% of our business is programmatic, and 50% direct. You know, of that programmatic business, you know, we don't have transparency on how much of it actually uses cookie to do targeting, because remember, some of that programmatic business may be private marketplace packages, some of it may be automated guarantee packages, which, you know, don't use a lot of identifiers or targets--targeting to use.

However, though, I think at the end of the day--and some of it actually may be mobile, too, because remember, there's mobile, there's lots of different areas where programmatic plays a role without cookies today. So, you know, look, we feel like, a, there's opportunities for us to continue to grow on programmatic based on contextual targeting, starting to become more and more to the forefront for programmatic buyers. And we're playing in that space too, so we get a chance to kind of double-dip on programmatic growth.

But also, I think there's a good opportunity for the continued use and expansion of lots of different identifiers on the programmatic platforms, to, you know, compete against the walled gardens. You know, nonetheless, you know, we are in both spaces. We take advantages of growth opportunities both in walled gardens and the open internet. So, I think, you know, we're in a good position, you know, either way things go.

Laura Martin

Super helpful, thank you.

Mark Zagorski

Absolutely. Thanks, Laura.

Operator

Our next question comes from Arjun Bhatia with William Blair. Please state your question.

Arjun Bhatia

Thank you for taking my questions, and I'll echo my congrats on a great quarter. I think I heard in the prepared remarks that Authentic Brand Safety was at 50% of your programmatic revenue, which is I think quite impressive, given how new that solution is. Can you maybe just talk a little bit about how we should expect penetration of authentic brand safety to continue? And then more qualitatively, how do you think of Authentic Brand Safety as a competitive differentiator when you look across the landscape? I mean, are customers actually coming to you and saying, hey, I want to adopt DoubleVerify because of the Authentic Brand Safety capabilities that you have, maybe that are difficult to find elsewhere in the market?

Mark Zagorski

Yeah, thanks, Arjun. It's a great take. And I'll start with the second half of that question first, because it's the easiest one to answer, which is, nobody has a comparable solution. And I think that's why we've seen such, you know, stellar growth of that product, which is, again, a customized, you know, programmatic application of verification data, you know, that there's just nothing comparable out there. So, we've seen the rapid acceleration of that product, which is also a premium price product for us as well.

So, not only does it contribute to, you know, what we call our MGM growth, so volume growth, but it also, you know, continues to support our fee growth, because it is a premium price

product. So, we've got a really nice, you know, advantage in the marketplace there, and it's spurred a significant amount of growth. I think as far as, you know, longer term, you know, trajectory of that product, Nicola, you want to talk a little bit about that?

Nicola Allais

Yeah. Arjun, the way we think about it--first of all, I'm going to reiterate a little bit of what Mark said, which is, what Authentic Brand Safety did for us is it was a proof point for a premium price product and how well it was going to be taken up by the programmatic advertisers--the advertisers who buy through programmatic. So, it was a proof point that premium price products do work. In terms of how much--you know, where it will end up, where we'll say is, it just launched on Google's DV360 platform, that was a Q4, late Q4 2020 launch.

So, there's still opportunity there for people to understand the product and buy it on that platform specifically, plus the overall general growth in programmatic. I could see new customers taking Authentic Brand Safety just because it's just a powerful product. I would say, thinking ahead, going back to my first point, because premium price products have worked for us, especially on Authentic Brand Safety, I think the next layer of products, including Custom Contextual, will have a similar pattern for us. It's premium price, it will be on top of everything else, and will drive our growth as well.

Arjun Bhatia

Wonderful, that's great to hear and very helpful. And then, just another one, if I can. Mark, I think you mentioned some great new customer wins from 2020, including I think I heard Unilever and Vodafone. Can you just maybe help us understand how much of these new customers you're getting from competitors that maybe used a verification solution in the past, versus greenfield opportunities in market from customers that are maybe just starting to realize the importance of verification and measurement in the digital advertising ecosystem?

Mark Zagorski

Yeah, it's a great question. I think that we've got a nice balance of both. And you know, so, there are definitely, you know, some new wins there of folks that mostly were using point solutions or relying on kind of baked-in solutions into platforms, but really decided, you know, based on, you know, increased brand safety concerns and the prevalence of fraud that they're continuing to see in certain sectors, that it was important for them to kind of look at a more cohesive, complete solution. We've seen a nice balance of both.

And even in the cases where we're winning, you know, competitive--against our competitors, what's been nice is, we're not only kind of winning the competitor business, but we're expanding on that business as well. So, I would say, in most if not all cases, where we're winning a competitor's business, it's not just for the current business they have, it's for some additional pieces of coverage. So, they also want coverage in social, or they're looking for additional extension into CTV, or they want additional programmatic coverage. And I think that's really important to note, because the completeness of our solution also helps us win deals.

So, the fact that we've got more MRC accreditations across social, or across, you know, any other--you know, all the other media means that when someone's looking to do a competitive RFP, it's not just who has the best solution, i.e., like who delivers best results, which we win against, but it's also the fact that, hey, we're looking to expand into these new areas. Which platform is going to give us coverage there?

And that is a great--you know, that's a great aspect of the power of the breadth of our platform, right? We're winning because it's a better platform, but also, in these head-to-head deals, when those advertisers, in a majority of the cases they're saying, hey, we are doing this today. We want to expand to this, so the RFP's going to include these new areas. Will you cover those better than anybody else? So, that's helped things along as well.

Arjun Bhatia

Perfect. That's very helpful, and congrats again on the quarter.

Mark Zagorski

You got it. Thank you.

Operator

Our next question comes from Justin Patterson with KeyBank. Please state your question.

Justin Patterson

Great. Thank you very much for taking the questions, and congratulations. Mark, you mentioned audio and gaming in your prepared remarks. Could you talk about the investment need to succeed in new channels, and how we should think about the timeline between investment and monetization? And then I'll pause there, and I have a follow-up for Nicola after that.

Mark Zagorski

Yeah. Hey, thanks, Justin, for the question. So, you know, we're really excited about, you know, where we think we take our core platform as different emerging medias start to catch the attention of our advertisers. And I think audio and gaming are two of the most that we hear from those advertisers. And as we've noted before, we really use our customers as the leads for where we go next, right? They're the ones who are driving us based on their spend, and based on what they say is important to them down the road.

So, we use their queues. We don't want to get too far ahead of them, right, because we want to make sure we're aligned with where their dollars are going, but when we do, you know, get into those markets before they do. In the case of kind of audio and gaming, we're just starting to lean into those investments today. We know that the first stage of what we do is to leverage what we currently have in our core verification and measurement solutions, and extend them to the new media.

Then it comes down to, what are the unique aspects of that media that we need to build either adjacent products for or different levels of functionality? And that, you know, obviously takes longer than just taking the core and extending it. So, you know, we're in early days in both of those areas. I would say, you know, this is a 2022 opportunity for us, to really start to think about monetization of those areas. But you know, product cycle is usually around 12 months or so. So, I think, you know, check back in next year, and we'll have a really solid update on both of those areas.

Justin Patterson

Very helpful, thank you.

Mark Zagorski

Sure.

Justin Patterson

And for Nicola, Q1 was a somewhat unusual quarter where brands got off to a late start, COVID affected--advertisers also came back at various points of time. So, I'm curious if you could talk about linearity, whether there were any factors that actually tempered the Q1 growth rate, prevented from being even stronger, and then how we should look at that Q2 guide in the context of modest acceleration, but you're also facing a 20-point easier comparison? Thank you.

Nicola Allais

Yeah, so, you're right. I think in Q1 not all of our customers are, you know, spending back at the pre-COVID levels, right? That's clear. And I think the start of the year was slower for some, tried to understand exactly how the year was going to play out. What we--and that obviously impacted Q1, even though it was a strong quarter at 32% growth rate. What we're hearing from our customers is, a more favorable outlook, feeling stronger about certainly the second half of the year and the fourth quarter which is seasonally strong. In terms of our second quarter guidance, you know, we had a strong quarter last year, right, 22% growth while many of our peers didn't show growth at all.

So, as compared to the 22 last year, 38 at the midpoint is a continuation of the recovery that we're seeing, and our large enterprise wins of Q1 starting to scale. So, it fits the story of slow start. You know, we intend to show consistent growth, right? We have a transactional software model. It's highly repeatable. We have a 95% gross retention rate. So, we wouldn't expect huge spikes on the growth rates, and that's kind of what you're seeing. The reason why Q2 is where it's at is because last year's Q2 was more muted than the other quarters.

Justin Patterson

Great. Thank you.

Nicola Allais

Mm-hmm.

Operator

Thanks. Our next question comes from Michael Graham with Canaccord. Please state your question.

Michael Graham

Yeah, hey, guys, and thanks for squeezing me in. I just wanted to maybe quantify a little bit some of the questions around the product opportunity. And you know, looking back to 2019 and 2020, you had really good expansion in your MTF because of, you know, some of the new products around brand safety, and maybe some of that was paused a little bit during COVID. So, can you just maybe mention your outlook in terms of the puts and takes around MTF, you know, expansion? I mean, we're sort of modeling it flat, but it sounds like there's a good case for that to expand.

And maybe, could you just help us understand some of the products that you have that you're working on, like Authentic Attention, that maybe we haven't seen yet? Can you just at a high level help us understand sort of how impactful some of that stuff can be? And do you have stuff in the pipeline that could be as important as, you know, the brand product, for example?

Nicola Allais

Yeah, Michael, it's Nicola. So, I'm going to start by saying the main driver of our growth is MTMs, right? The more volume we can verify, that's the main driver for that growth. On the MTF side of the equation, I think the bands around movement in MTS is too full. You mentioned the one around premium price products increasing MTF, there's--against that. You know, as we expand internationally, which contributes a lot to MTM, the MTF there might be a little discounted to the US MTF.

So, that creates the band around where MTF is going to be. Our expectation is that MTF is going to remain fairly steady, because of those two factors. In terms of what you're discussing in terms of new products, we do see those new products as being premium priced, in which case, those would actually contribute to a growth in MTF. But our general outlook is, we're very focused on MTM, and we think that the two factors that I mentioned around MTF will keep it fairly stable for us.

Michael Graham

Okay, thank you.

Nicola Allais

Yep. Thanks, Michael.

Operator

Our next question comes from Youssef Squali with Truist Securities. Please state your question.

Youssef Squali

Great. Thank you very much, and congrats, guys, on your inaugural earnings call as a public company. So, I guess just a follow-up on a couple of other questions that were asked around just growth. I was wondering, either Mark or Nicola, if you guys can speak to growth from existing versus new customers. And just stepping back a little bit, you've had some changes, or you've added more bandwidth to your management team, etcetera. Could you maybe speak to the sales efficiency that you're seeing, and sale side call, particularly on the enterprise side? And just kind of gating factors that are preventing that business from growing even faster, just considering the huge TAM in front of you. Thanks.

Mark Zagorski

Yeah, thanks for the question, Youssef. I think, you know, when we look at how traditionally the business has grown, a lot of that has come organically from current clients. And we always know that, you know, that's the easiest place for us to drive growth, both based on their continued spend and transition of their spend from, you know, traditional media into digital, as well as our ability to continue to expand coverage and upsell them new products, right?

So, we still continue--I think we'll continue to see a majority of our growth coming from, you know, same-store sales by their volume growth, continued upsell of new solutions to them, and our expanding coverage. However, you know, we are seeing really nice broader uptake outside of our core client set for solutions with new partners. And I think a lot of that has to do with our fact that, as you noted in the second part of your question, we start to lean in more heavily into investing in sales forces around the world, as well as, you know, additional new sales leadership and a restructuring of our sales organization.

I think that will play, you know, a significant role over the coming quarters in our ability to continue to expand into that white space that there is globally, right? And if there's--we don't see a lot of gating factors with our ability to do that other than, you know, literally our ability to hire, you know, great salespeople in local markets. What we've done, and what our success has been to date is closing enterprise clients that give us a launching pad to roll into new global markets. We did that with Yahoo Japan, which opened up the Japanese market for us, closing folks like Mondelez, which is one of the largest advertisers in India, opened India for us.

And we're going to continue to see that as we close those new enterprise clients to help us open up new markets, and those new markets then give us a launching pad to close new local clients in those markets. So, you know, we're going to continue to see great organic growth from, you know, our core customer base. But I think you'll see, you know, as we lean into, you know, getting more enterprise clients, those enterprise clients help us open up new markets, those new markets give us an opportunity to sell to new customers. You're going to see, you know, an increased focus and success rate, you know, outside of our core business and growth coming from that area too.

Youssef Squali

Okay. Thanks, Mark.

Mark Zagorski

You got it.

Operator

Our next question comes from Alan Gould with Loop Capital. Please state your question.

Alan Gould

Thanks for taking the question, and likewise, congratulations on the first quarter out of the box. Two questions. On Custom Contextual, was this your first quarter that you generated revenue from it? And how big is the opportunity for Custom Contextual? Could it be as big or bigger than ABS? And then the second question, more mundane. Octobot, were you guys the only ones that were able to uncover and find that fraud?

Mark Zagorski

Yeah, I'll take the second half. First of all, thanks for the questions. I'll take the second half of that first. Octobot, we were the first company to detect, you know, that level of fraud. I think there was some subsequent, you know, other companies out there that may have uncovered pieces of it. But, a, we uncovered the first aspects of the fraud, and we also stringed them all together to determine that it was all part of the same family. And it was--you know, it's something that occurred over 18 months.

So, it really is--it's such an incredibly interesting space. I mean, this is--you know, a lot of the fraud detection is technology in automation. But there's also an investigative and human element to this that, over time, having a really strong data science team to string these all together to determine they all came from the same--you know, of the same family or different types of fraud, was really unique. And it's unique to, you know, the way we operate, and it's a testament to our broad view of all different media, right? Because even though this was a CTV fraud implementation, our experience in finding fraud across traditional video and mobile and display played a role in this, because it was all very similar in the way that it was approached.

So, a, I think, again, this is another example of where our scale and breadth of solution really contribute to our ability to provide, you know, a safe and secure ecosystem for our partners into play. You know, leaning into the first question, I'll let Nicola kind of jump in on that.

Nicola Allais

Yeah. Hey, Alan, it's Nicola. On the Custom Contextual, it is early days. So, you know, the contribution of the product in the first quarter numbers is small. You know, the opportunity for the product, you know, we actually see it as large. We do see it as part of this idea of being able to provide premium products on top of the basic suite of products. It also comes at the right time, with all the discussions that we've had around cookie deprecations and etcetera. It's a perfect product for the time. But it is early days. You know, we're hopeful on the product. We think there's a huge opportunity there. But you know, it's really too early to tell.

Alan Gould

Okay. Well, thanks for taking the questions.

Nicola Allais

Yep.

Operator

Thank you. There are no further questions today. I'll turn it back to Mark Zagorski for closing remarks. Thank you.

Mark Zagorski

Alright. Thank you all for joining us on the very long call today. We appreciate your time. It's been an exciting few months at DoubleVerify. We appreciate all the support of our investors, clients, partners, and board it's provided. I'd also like to take this opportunity to thank the global DoubleVerify team who's done such an incredible job over the past decade getting us to this point. The team has been the driving force behind our success to date, and our continued success in the future. Again, we appreciate the opportunity to discuss the first quarter results with you, and look forward to talking with many of you over the coming weeks.

Operator

Thank you. This concludes today's call. All parties may disconnect. Have a good evening.