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CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

Matthew Corey Thornton *Truist Securities, Inc., Research Division - VP*

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

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

Timothy Wilson Nollen *Macquarie Research - Senior Media Analyst*

PRESENTATION

Operator

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

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

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

Thank you, operator. And good afternoon, everyone. Welcome to Magnite's Second Quarter 2023 Earnings Conference Call. As a reminder, this conference call is being recorded. Joining me on the call are Michael Barrett, CEO; and David Day, our CFO. I would like to point out that we have posted financial highlight slides on our Investor Relations website to accompany today's presentation.

Before we get started, I'll remind you that our prepared remarks and answers to questions will include information that may be considered to be forward-looking statements, including, but not limited to, statements concerning our anticipated financial performance and strategic objectives, including the potential impacts of macroeconomic factors on our business. These statements are not guarantees of future performance. They reflect our current views with respect to future events and are based on assumptions and estimates and subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements.

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

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

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

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

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

Thank you, Nick. Q2 was a solid quarter for Magnite. Total revenue grew 11%. Contribution ex-TAC grew 9%. And adjusted EBITDA came in at $37 million with a margin of 28%. That said, EBITDA and margin were negatively impacted by the MediaMath bankruptcy, which David will discuss in more detail.

Once again, our DV+ business was a bright spot as contribution ex-TAC grew 10% year-over-year despite an industry-wide weakness in CPMs, showing clear market share gains. About a year ago, we refocused on our DV+ business, completed a number of technical improvements and consolidated our online video activity. This freed us up to put greater focus on the needs of our partners, platform enhancements and optimizations for ad spend performance. We're now seeing the results of those efforts, and we expect more strength in our DV+ business moving forward.

On the CTV front, contribution ex-TAC grew a healthy 8%. We continue to execute well against our plan this quarter while managing through a challenging market that is far from normal.

Starting in June, we began to see softness in our managed service business driven by macro challenges as several large managed service campaigns were paused based upon ad budget pressure, particularly in the auto and media and entertainment verticals. As we've discussed in previous earnings calls, our managed service business operates at our highest take rate, so the flow through to financials are significant.

The industry also saw TV upfronts, excluding sports and live events, come in weaker than anticipated, which is a good indicator of advertiser sentiment in the current challenged ad spend environment. On a positive note, we would hope that, though buyers were cautious in the upfronts, their budgets remain largely intact and that spend could be deployed in the scatter market, which will benefit streaming services and programmatic partners like Magnite.

Several trends also accelerated this quarter into Q3. The most significant of those trends is that the largest and fastest-growing streaming players, the broadcasters, plus services and TV OEMs, are all getting truly serious about programmatic and are taking share from smaller CTV publishers. We're seeing this shift manifest itself in our own partners, including Disney, Roku, Warner Bros., Discovery and VIZIO, who are moving more inventory toward programmatic transactions and away from traditional direct-sold executions.

While we believe this trend is positive for the long-term health of the programmatic CTV market and our business, it is negatively impacting our near-term financials. The reason is simple. As all those large sellers move direct-sold deals to publisher direct programmatic, they're becoming a bigger part of our ad spend mix, but they're relying on services with lower take rates.

What's not showing up in our financials is that we're growing market share at a far greater rate than our revenue would suggest. In Q2, our ad spend grew at a significantly higher rate than our revenue and industry forecasts.

With that being said, we see a huge, long-term opportunity here. The shift to premium programmatic CTV is in full swing, and Netflix hasn't even started its programmatic efforts. Magnite is winning at the top-tier clients. And from experience, we know that the more we work with these types of companies, the closer we get to them, the more we can move to delivering higher value, higher take rate services over time.

So what makes us confident that we can expand our value generation on this growing market share? It's a combination of continuing to execute on existing industry-leading products and introducing new, innovative services. On the existing front, we're going to: upsell higher-value SSP services to those clients by running auctions and bringing proprietary demand; continue to win new ad serving clients as SpringServe; expand our

SpringServe tiles business and other proprietary formats; and continue to create direct private marketplaces between agencies and premium publishers, further accelerating our SPO efforts.

On the new and future front, this quarter, we introduced 2 new, innovative offerings in one new partnership. First, there's ClearLine, the self-service direct video buying solution for agencies. We believe strongly in this product's ability to unlock linear budgets and efficiently bring them to programmatic, which, as I mentioned, is of strategic interest to agencies. In fact, we recently announced that the list of agencies using ClearLine has expanded beyond our launch partners, Camelot, GroupM and MiQ, to include GSD&M, Horizon Media, Omnicom Media Group Germany and Stagwell Brand X Performance Network.

ClearLine has also seen robust momentum on the sell-side, where we've added A&E Networks, AMC Networks, DIRECTV Advertising, DISH Media, Disney Advertising, FOX Digital, Nine and Warner Bros. Discovery to our launch partners, LG and VIZIO.

Second, in June, we introduced Magnite Access, a suite of omnichannel audience, data and identity products that make it easier for media owners and their advertising partners to maximize the value of their data assets, including a DMP, a data storefront, a secure solution enabling sellers and buyers to match datasets and more. Parts of Access are available to clients today, and others are in testing and on track to reach wider availability this year.

And finally, earlier this month, we and FreeWheel announced an integration enabling clients of their ad server, including many of the world's largest programmers and broadcasters, to work seamlessly with Magnite for their programmatic needs. Not only does this integration allow our mutual clients to better maximize yield across sales channels, but it also unifies their view of ad creatives, frequency capping and other data across systems, which ultimately improves the advertiser and consumer experience. We expect it will take a few quarters for this integration to ramp up, but we're bullish on the value for the industry and the opportunities it opens for us to further grow our footprint.

We believe these efforts will both positively influence our revenue and increase our role as a strategic partner to our clients. And now that we have completed the CTV platform integration that began with our acquisition of SpotX 2 years ago, we will apply even more focus towards innovation that advances our technology and leadership position.

In summary, we are very pleased with how our business is performing and our share gains in both DV+ and CTV. Though the rapid shift to premium programmatic and CTV has come with some near-term revenue pressure, the ad spend growth represents a significant opportunity for us to expand our relationship with the industry's top players. I'm confident that we have the resources and the strategy to execute on this opportunity.

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

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

Thanks, Michael. Q2 was a solid quarter for Magnite. We reported total and CTV contribution ex-TAC results within our guidance range, and our DV+ business performed very well. Total revenue for Q2 was $153 million, up 11%. Contribution ex-TAC was $135 million, up 9% from Q2 2022 and at the midpoint of our guidance. CTV contribution ex-TAC was $56 million, up from $52 million or 8% from last year. DV+ contribution ex-TAC was $79 million, an increase of 10% compared to Q2 last year. Our contribution ex-TAC mix for Q2 was 42% CTV, 39% mobile and 19% desktop.

From a geographic perspective, international continues to lead our growth, increasing at a rate well over double the U.S. From a vertical perspective, travel showed relative strength overall, while technology and media and entertainment were relatively weaker, particularly in CTV.

I'd like to highlight a few trends we are seeing, which are impacting our Q3 CTV guide. In general, April and May continued to grow, and June was softer than expected. In particular, our managed service business was notably weaker, evidenced by slower order flow and paused campaigns, as Michael alluded to. The premium broadcasters, plus services and OEMs are taking share from smaller CTV publishers, which while creating significant long-term opportunity is negatively impacting revenue in the short term. Also related to second half trends, keep in mind that political spend represented roughly 3% of CTV contribution ex-TAC in Q3 2022 and 6% in Q4 2022, creating some additional comp challenges.

DV+ continued to be an area of strength with 10% growth in the quarter. We continue to innovate in DV+ and are excited with the launch of native ad formats across DV+, allowing programmatic demand to target key publishers that offer native formats. We will continue to bring new products to DV+ that will enable our publishers to better monetize their supply.

Total operating expenses, which includes cost of revenue, for the second quarter increased to $224 million compared to $161 million in the same period a year ago with the increase primarily driven by $53 million of noncash accelerated amortization resulting from our platform consolidation. Adjusted EBITDA operating expense was $97 million, higher than our expectations due to $4.5 million in bad debt expense that was recognized as a result of the MediaMath bankruptcy. Excluding the MediaMath impact, expenses would have been at the low end of our guidance range.

Last year, adjusted EBITDA operating expense for the second quarter was $82 million. The year-over-year increase was driven by higher platform expenses, payroll expenses, the aforementioned MediaMath expense, return to office and travel and event-related costs.

Net loss was $74 million for the quarter compared to net loss for the second quarter of 2022 of $25 million. Results for the second quarter this year include the previously mentioned $53 million of accelerated amortization expense.

Adjusted EBITDA was $37 million, and adjusted EBITDA margin was 28% for the quarter, both of which reflect the negative impact from the $4.5 million in bad debt expense. Note that we calculate our adjusted EBITDA margin as a percentage of contribution ex-TAC.

GAAP loss per basic and diluted share was $0.54 for the second quarter of 2023 compared to a loss of $0.19 for the second quarter of 2022. Non-GAAP earnings per share in the second quarter of 2023 was $0.09 compared to $0.14 reported last year. The $53 million of accelerated amortization expense had a negative impact on GAAP loss per share of $0.39 and a negative impact on non-GAAP earnings per share of $0.09 in Q2. The reconciliations to non-GAAP income and non-GAAP earnings per share are included with our Q2 results press release.

We will recognize the final amount of accelerated amortization expense of $8 million in Q3 this year tied to the completion of our CTV platform consolidation. There were 136 million weighted average basic and diluted shares outstanding for the second quarter of 2023. Fully-diluted weighted average shares utilized for non-GAAP earnings per share were $146 million for the second quarter.

Capital expenditures, including both purchases of property and equipment and capitalized internal use software development costs, were $9 million for the quarter. As a reminder, our CapEx for this year is expected to be about $5 million lower than 2022, aided by the repurposing of the SpotX CTV platform servers to our on-prem DV+ platform.

Operating cash flow, which we define as adjusted EBITDA less CapEx, was $28 million for the quarter. Our net interest expense for the quarter was $9 million.

During the second quarter, we purchased and retired $40 million in face value of our convertible notes using $34 million in cash, resulting in a discount of 15%. Our total par value convertible note repurchases through the second quarter was $90 million, reducing our total convertible note balance from $400 million to $310 million. With these purchases, we've completed our previous plan, and our Board has approved a new repurchase program, authorizing the use of up to $100 million to repurchase common shares or convertible debt through August of 2025.

Our cash balance at the end of Q2 was $266 million, an increase from $237 million at the end of last quarter. Our net leverage ratio was 2.2x at the end of Q2, down sequentially from 2.5x at the end of Q1. We expect the ratio to be meaningfully below 2x at year-end.

Our business model generates strong cash flow, providing flexibility to self-fund investment in our business, reduce debt and maintain a healthy cash position. We continue to expect to generate significant free cash in 2023, especially in our seasonally strong second half. And we will continue to evaluate the best use of our cash as it relates to debt reduction and share repurchases.

I will now share our expectations for the third quarter and thoughts for the full year. For the third quarter, we expect contribution ex-TAC to be in the range of $128 million to $132 million. We expect contribution ex-TAC attributable to CTV to be in the range of $50 million to $52 million. We expect contribution ex-TAC attributable to DV+ to be in the range of $78 million to $80 million. We expect adjusted EBITDA operating expenses to be between $92 million and $94 million, which implies adjusted EBITDA margin of approximately 28% for Q3 at the midpoint.

For the full year 2023, we expect our contribution ex TAC growth rate to be in the mid- to high single digits. For Q4, we expect CTV growth to improve from Q3 guidance and to be much closer to flat year-over-year. We anticipate adjusted EBITDA would be comparable with 2022, excluding the impact of MediaMath bad debt expense. For Q4, we expect adjusted EBITDA operating expenses to be between $94 million and $96 million. Our CapEx expectation is unchanged, and we expect it to be less than $40 million. And lastly, we continue to expect free cash flow to exceed $100 million.

Overall, the company's performance for the second quarter was solid. We're well positioned financially with strong cash flow generation that has allowed us to retire 23% of our converts well before their maturity. We have significant opportunities ahead of us, and we are uniquely positioned to leverage our capabilities as a leading independent omnichannel SSP. We're excited about our position and feel confident in our ability to continue delivering positive results.

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

QUESTIONS AND ANSWERS

Operator

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

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

Michael, can you spend a little bit more time talking about just the trade-off and what's happening in connected TV? Like are you seeing some of the bigger participants move volumes from like a biddable or a private auction to something that's purely direct? Or -- I'm just having trouble reconciling going from an inventory that's a higher take rate to an inventory that's a lower take rate.

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

Yes, Jason, I'm happy to address that. So yes, so the forward guidance that we're giving in CTV is a mix of 2 things, right -- well, of 3 things. The managed service business, which, as you know, carries with it the highest take rate. When deals are canceled or shifted out of the quarter, it's quite abrupt, and it does have an impact to the net revenue for the quarter, call that around 50% of an impact.

And the other 50%, Jason, we're seeing was the surge in publisher-sold programmatic deals. And that was primarily shifted to the premium inventory that kind of didn't exist last year, so the plus services run by the broadcasters and, if you look at the kind of TV OEMs and throw Roku into that group, folks that have exceptional data and prefer to try to sell that direct. And so the larger CTV players with direct sales teams, they exacerbated the share shift on the platform.

So you're seeing a couple of things. You're seeing the shift come from an open market world that wasn't really ever the domain of those players. Like they didn't really ever really lean into auctions. They like to sell their own stuff directly. As we've talked about, we think that over time, as it evolves, they'll be more comfortable with that. But right now, they like to sell direct, and they really took a lot of air out of the room in what was a muted spend environment.

And then any new dollars that came into the environment, which new dollars did because, again, we talked about the dislocation between our revenue growth rate and the spend, new dollars that come in, it almost exclusively went to that cohort. So it was a relatively quick transition from a 1.5 quarters play out.

And we think as spend returns to normal, that spend will find its way into open auctions. It will find its way onto other publishers. But right now, in a pretty scarce spend environment, there's just kind of flight to quality, flight to security for the buyers and flight to like dealing with the folks they know best. And so that's -- hopefully, that helps you understand, Jason, what we saw.

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

So that helps. I guess that begs another question. I mean, clearly, you've got some confidence that you're going to continue to play a role. I mean if you're seeing some of this premium inventory be sold direct, where does that confidence come from that inventory comes back to Magnite over time? And do you view that as a quarter or 2 transition? Or is that like a year or 2 transition?

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

Okay. So to be very clear, and I know it's very nuanced, but there's publisher-sold direct deals that are processed by the ad server, right? So I'd sell traditionally, go in. Someone e-mails me the creative and sends me an insertion order, and that's publisher-sold direct. And we -- unless it's SpringServe-involved, we have no involvement in that as Magnite.

What I'm talking about here that occurs in the Magnite platform is publisher-sold programmatic. And so the agency agrees to buy from the publisher. But they want to do it programmatically, largely because of workflow. They can just press a button, hands on keyboard, campaign goes live. That's what I'm talking about.

And Jason, they've always done that. This group is now just getting an outsized share of wallet on the platform, but this has always been the domain and how they play -- how a Disney plays in the programmatic world. So what gives us confidence is, as we've said all along, we know that as they get more and more into programmatic, have more and more inventory available in programmatic, that eventually buyers will move them into kind of an invite auction world, which will conduct the auction. And those publishers want more demand because they'll have more inventory, and that is where our demand facilitation team gets involved.

So we are very confident. We've seen this play out in DV+ over the years, and we've actually seen it play out on certain publishers on the platform. So all those things that we talked about, the upsell, there's transition to SpringServe, ClearLine, all of those things give us great confidence that we're incredibly well positioned to increase the value we bring, ergo, increase take rate.

Operator

The next question comes from Shyam Patil from Susquehanna.

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

I just wanted to follow up on the CTV and the managed services and that transition you're seeing. With the CTV programmatic direct, that piece that you just talked about, how big is that as a mix of your CTV business? And how -- I guess -- and how big could that get with this transition that you talked about, especially if other large customers kind of move in that direction?

And as you look out to -- I know you guys gave color for the second half, which is really helpful. But as you kind of look out to next year and the year after, I mean, what's the right way to think about CTV growth? Are we kind of thinking kind of 10% growth, 5% growth, 20% growth? Like what's the right way to think about CTV kind of looking out to next year?

And then just second quick question. On the upfronts, and you talked about the upfront weakness and potentially kind of the scatter market being stronger later in the year, when do you think you might know if that's actually happening, if that's moving towards programmatic CTV?

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

You bet. So I think I got them all. So the first question is how big is that business today and how big could it be. I want to emphasize again, how these players sell their inventory hasn't changed. The amount of dollars going to these players has changed. So close to 80% of our business in the CTV world, on the streaming platform, is direct deals. In some cases, we'll bring the direct deal. We'll find the buyer and bring it. In other cases, the publisher sales team will do it.

It is not an open market industry right now. Very few players, a handful do, but very few players do open auctions. So it's not like a DV+ world. So I'm not saying that, that's changed. What's changed is just the concentration of spend on those particular publishers. And what gives us hope again is all the products and services that we have, both for the buy-side and for the sell-side to enhance the take rate over time, and so I think we're incredibly well positioned there.

As far as 2024 CTV growth rate, this hasn't changed that at all. If the market returns to a normal pace of growth, what you define normal or Magnite can define normal, we fully intend to grow faster than that. So we think we're incredibly well positioned to outpace the market growth in CTV. It's just really a question of when it returns and what does that return to.

And lastly, from an upfront standpoint, I think a lot of people are hoping that when the upfronts really kick in, traditionally, it's the end of Q3, Q4, that the spend that's been paused, the spend that was held back will find its way through scatter. And streaming has always been a beneficiary of scatter.

I will caveat that by saying there's externalities like the writer and actors' strike that will pause the creation of new programming, which will definitely have an impact on broadcasters, a little less on the kind of plus services in terms of their library. But that could very well create some friction in that spend resuming because of the lack of programming choices. But we do feel confident that a weak upfront or a muted upfront is not the enemy of streaming. It actually might help downstream.

Operator

The next question comes from Laura Martin from Needham.

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

So I think we need to let you address the big question, which is your primary competitor was down 33% today. And from this morning's open, you guys are down, round numbers, 24%, so -- whereas Trade Desk is down 5%. So I think the question I'd like to hear you address is essentially, Wall Street is saying that SSPs are doomed, but somehow they are in a worse strategic position than DSPs. Please respond as to why that's wrong, why Wall Street is wrong.

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

Well, we certainly don't read it that way, Laura. And I think some of it has to do with the particular performances of each company and not necessarily the category. I think our difference is markedly -- our performance is markedly different than the competitor that you cited. We actually grew in the DV+ business in a world of suppressed CPMs. And as we noted, our ad spend has significantly increased, not decreased, significantly increased CTV ad spend on the platform. So I think we're externally well poised for this to play itself out.

I think in the case of Trade Desk, they've done a magnificent job of consolidated spend on their platform to the point where the DSP world has almost become a duopoly. And we have great confidence that over time, you're going to see that play out on the SSP side, and we'll be the beneficiary of that shakeout.

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

Okay. My second one is following up on upfront. So today, Netflix, ABC and CW all closed their upfront, and I think that's pretty much them, there might be one more. One of the things we've heard is that they -- the contracts this year gave a lot more flexibility to get out of their commitment, which was a big competitive advantage of scatter and ad open Internet, like where you guys compete. So as the upfront market didn't have as much power to negotiate draconian terms by the linear guys, does that mean that the competitive advantages in scatter of the digital ecosystem where you compete are actually less valuable? What's your point of view on that?

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

That's a great question. I would say maybe a year, 1.5 years ago, that might have been a cogent observation because essentially, programmatic was kind of thrown to the kid's table and then all they got was scatter. But if you look at the upfronts this year, I believe I read this morning that Disney, in their upfront that they just recently closed, claiming that their percentage of programmatic is above 40%.

So programmatic is now part of the upfront and to the tune of maybe $1 out of every $2. And so therefore, I think that distinction about scatter upfront winners -- streaming loser, streaming winner, is a lot less defined now that programmatic is a part and parcel of the upfront.

Operator

The next question comes from Nick Zangler from Stephens.

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

I was wondering if you could talk about any contribution in the quarter from the new ClearLine product aimed at directing spend right from the agencies. How has reception been there? And how might ClearLine contribution be impacting your guidance for the rest of the year within CTV?

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

Yes. Nick, I'll handle that and let David chime in if he feels as though I botched it. But the ClearLine contribution de minimis, and we don't -- it's already baked into any kind of guidance that David has provided. The reception has been incredibly strong, as noted by the list of folks that have jumped on the ClearLine bandwagon, if you will. It seemingly is the right product at the right time for the customers that we're offering it to. There's a lot of excitement around it. And we feel over the mid- to longer term, it will definitely be a material contributor to our revenue.

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

Within like the next like year or 2, though, do you think that this inflects CTV growth rates? Or is it still just too small?

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

No. I think, look, if you look at some of the folks that have been using the product for the longest period of time because it had been in beta before, we saw definitely a crawl-walk kind of run. And I wouldn't say it's too different from deals that we announced like the GroupM marketplace, where it takes a while for the client to onboard their clients and get them acclimated to the idea and the concept. So I think it plays itself out over the coming quarters. But I think there'd be some sense of disappointment on our end if 2024 ended and we weren't able to cite a ClearLine contribution to the growth rates of CTV.

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

Got it. And then last one, I just wanted to see if you could flesh out the recent partnership with FreeWheel. Obviously, they're an SSP competitor of yours. It sounds like, in a way, you're combining SSP capabilities. But just looking for just more detail on what exactly you guys are doing together and what the economics are for Magnite.

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

Yes. Sure, Nick. So in some ways, it's unchanged, right? The broadcasters that are all FreeWheel clients have always liked working with us in our programmatic capabilities, whether that's our serving functionality, our targeting functionality, our demand facilitation functionality. And to be honest, it wasn't always the easiest lift for these broadcasters to do it because they have a separate ad server over here, they're using programmatic over here, which is Magnite. The 2 systems are talking to each other. It makes extra work for the ops people at these broadcasters.

So a combination of us talking to FreeWheel, the broadcasters talking to FreeWheel. This announcement was a technical integration that makes it quite seamless to use Magnite for programmatic capabilities and use the FreeWheel server for ad serving capabilities, have them talk to each other in real time so that you're making the most efficient use of your programmatic and direct-sold inventory. So we think this is a breakthrough partnership, and we really respect the FreeWheel folks, and I think this meets the needs of our programmatic partners in the broadcast space.

Operator

The next question comes from Dan Kurnos from The Benchmark Company.

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

Michael, maybe I can rephrase the conversation a little bit today, at some risk here. I'm not sure how investors will feel about this. But just in terms of -- you guys have always preached variable take rate. And it seems like the point here is you have things in place to increase value-add, especially with the aforementioned broadcasters as you develop some of the new things. But I mean correct me if I'm wrong, even if -- just to oversimplify this, even if you [dump pipe] for them at a low single-digit take rate rather than managed services, because you own the ad server, that can be a massively high margin accretive business at scale. So just kind of hold on what I just said? Or kind of help me see if I'm thinking about that wrong.

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

No, Dan, I think you nailed it. I mean it's not our highest margin profile product that we have in our suite of CTV offerings. But if that's how the world ended and $60 billion of linear dollars shifted to CTV, most of it goes to Magnite and most of it is pubs sold programmatic by the broadcasters, life's good. Like it's good. I mean we just -- we think that the imbalance that we're feeling right now is that the broadcasters and the plus services and some of the TV OEMs had a decidedly different strategy a year ago in terms of how they were going to embrace programmatic or how they were going to use it.

And generally speaking, it was like not really a lot. And what's changed is the market softened. Buyers want to buy this way. They don't want to buy direct anymore. And so all of this inventory whooshes in. And all of a sudden, it's bright and shiny Disney inventory -- guess what? There's a whoosh of spend that goes over towards it and the new spend that comes and goes towards it.

So we're just going through this imbalance right now. But I think you hit the nail on the head, Dan, that if it never does anything and we can never upsell and the market resumes at a 25% growth rate, life is good. But we think we're really truly at kind of the nadir of take rates because of this phenomenon that's occurred in this period of time. And we think over time, there'll be expansion.

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

Got it. That's helpful. And to kind of follow up on part of that question. I mean now that you've got the integration on video side behind you, you've talked about some new products that you're planning on launching. Can you sort of -- we've seen this before with you guys and have the chance to redeploy assets and obviously, what that meant for DV+ over the past year or so. So just help us think through if you really believe that the sort of trough take rate for you guys, it feels like a good time to invest incrementally and redeploying those assets that you now have. Just help us think about your willingness to kind of maybe give us the margin or invest a little bit more aggressively, so when things turn, you guys are kind of poised to (inaudible).

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

Yes. Dan, I think you killed it there. I think that you're exactly right. This is very now this DV+. In the DV+ business, we had OLV inventory running on the legacy SpotX platform, the legacy Telaria platform and the legacy Rubicon platform. We brought it all together. That freed up bandwidth from people having to operate 3 platforms to 1. It freed up creativity. It freed up innovation. And we think we're going through that phase right now that we've sunset one of our platforms and it's all in streaming and CTV.

So I don't even think the use case is, oh, now it's time to double down and bring on 100 people because we just freed up 100 people. These poor people were working night and day consolidating platforms, and now their 100% bandwidth is focused on innovating on streaming. And so I think we're just incredibly well positioned.

If the use case presented itself, where we could collapse time by bringing on more resources and investing more for the long-term revenue growth of CTV, obviously, we look at that every day. But I really think the story here is with our existing assets, we just gained like 50 FTEs because these poor people were doing 2 jobs.

Operator

The next question comes from Matthew Thornton from Truist Securities.

Matthew Corey Thornton - *Truist Securities, Inc., Research Division - VP*

Two, if I could. Can you walk us through what you're assuming for the back half of the year just in terms of services across M&E as well as the auto verticals? Just more color on what you're thinking and assuming in the guidance for 3Q and 4Q within CTV. Secondly, I mean, you talked about it a bit from maybe RTB to -- programmatic to go back in the short term -- or direct sold in the short term. Are you also seeing a shift from maybe smaller tail players to blue chip, a handful of blue-chip publishers as well? So I wonder if that exacerbates it as well. Any thoughts or color there would be helpful.

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

Yes, sure, Matt. You were a little garbled, but I think I got it. So back half of the year, I think that some of the disruption in managed service truly are kind of pauses in campaigns that should reignite in Q4, particularly in like verticals of autos. What we're hearing from regional auto dealers is they're still troubled by lack of supply. It's not as bad as it was at the height of the pandemic, but they're still not where they need to be. And whether that's battery shortages or chip shortages, I think that on the lot, they don't have what they want to sell, but they feel more emboldened by model launches coming later.

Media and entertainment might be a little bit slower to rebound. A lot of it has to do with new production. I think you're seeing tune in for libraries. I see it myself. People are now advertising existing shows that are deep in the library to get people to watch them. But I don't think we see that whoosh of new media and entertainment spend if there's not new production, and so that's kind of a question mark.

As to any other verticals, David, do you have any opinion or insight into anything that we might see in the second half of the year from a trend line?

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

No, I think you covered the big ones.

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

Okay. And then, yes, definitely, Matt. I think we talked about it in the script. And that is -- so it's impossible for our spend to significantly grow in the CTV platform if there hasn't been some cannibalization, right? So in other words, if spend is growing disproportionate to net revenue, it can't all be new spend. So some of it have to be spend that was hitting publishers that have higher take rates that were more open auction-oriented publishers that have now gone to more premium hub-sold programmatic deals. So that's kind of the shift that's occurred.

And then what we're seeing is the new dollars coming in disproportionately favor that cohort of publishers. Again, we think that if you get spend rising and back to 20%, 25%, as some of the analysts are predicting in a normal market, that I think every mouth will be fed and everything will be great and we will also have worked our journey with bringing in higher value services to the plus service, broadcaster, TV OEMs.

Operator

The next question comes from Dan Day from B. Riley Securities.

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

Just any potential friction in the third quarter guide from MediaMath going down and that spend getting reallocated between DSPs? I asked because like my understanding is they're not much of a player in buying CTV. So I assume if anything, it would be more on the DV+ side. But is that a challenge for you in the third quarter right now?

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

No, Dan, most of that spend was DV+, as you point out. And from our tracking of it, it's found a home, with some rare exceptions because private deals take a while to be activated. But by and large, that spend has worked its way back into the ecosystem, but all on the DV+ platform.

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

Other than a cash hit, it was kind of sadly a nothingburger.

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

Understood. Maybe just talk about what's giving you the confidence here to give sort of a soft guide for the fourth quarter CTV revenue. We haven't seen people sort of willing to opine out beyond the current quarter. Is that -- I think you said close to flat year-over-year for the fourth quarter for CTV. Just definitely conversations with advertisers, publishers, just actual visibility at all? Just what is it that's informing that 4Q commentary?

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

Yes. I would say, first of all, it's a very cautious approach, but we have spent a lot of time with our sales team, getting feedback from the managed service team. Michael mentioned that some of those campaigns appeared to be paused rather than completely taken off the table. We think that it's sort of, as our sales team described earlier, an air pocket for a few months here. And so we are comfortable with some recovery on the managed service front.

And then I think the rest of the business, as Michael mentioned, from an ad spend share perspective, the business is actually very healthy, and so we do have continued growth on that front. And so even at these reduced take rates, it still, as we move forward, we believe, provides some momentum and lift for us to at least return to those levels.

Operator

The next question comes from Tim Nollen from Macquarie.

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

Obviously, CTV is the topic of the day. So I've got another related question to this, which is there's been more discussion recently over issues of transparency and measurement and things in CTV. And I wonder if that may be factoring in, in any way to the network groups maybe opting to go into direct sold means instead of using more programmatic tools. I just wonder if there's any correlation of that at all and if so, what you can do to help improve that.

And then one point of clarification. I think we're talking mostly or exclusively U.S. CTV. You did mention international is growing double the rate. So I just wonder if there's any of this sort of dynamic that's going on now in the U.S., if that's also happening outside the U.S.

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

Yes. Great questions. I -- listen, I think that when dollars are scarce, marketers tend to stick with the people they know, the safe bets and probably experiment a lot less. And so I think that has less to do with perhaps fraud or lack of visibility than it does to do with just kind of looking for a safe harbor in a rocky ocean.

One of the things about our platform is because we deal publisher direct, we've never had those issues at all. We don't deal with aggregators in the CTV world. So we know every publisher, we have a direct relationship with them. So visibility on our platform, fraud on our platform -- fraud has never really existed, visibility at 100% level. So I don't think from a micro standpoint, from a Magnite standpoint, that has played a role. Maybe more in a macro, but not for Magnite.

And international is predominantly DV+. So not surprising that if they over-index on the DV+ and our growth rate is what it was that they will outperform their peers in those markets. We have a very strong footprint in the Australian marketplace as it relates to CTV, but it's mostly through broadcasters. And so some of the phenomenon that you're seeing here is the same in that marketplace. So the top-tier broadcasters, they like to sell pubs sold direct, and so I think that it's not a unique North America phenomenon that we're seeing occur right now.

Operator

The next question comes from Shweta Khajuria from Evercore ISI. This concludes our question-and-answer session. I would like to turn the conference back over to Michael Barrett, CEO, for any closing remarks.

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

Thank you, Jason. Yes, I'd like to thank the Magnite team for the diligent effort required to report another strong quarter. We are thrilled to complete our CTV platform integration. I would particularly like to thank the many internal teams responsible for completing the migration to the new CTV platform, which required significant additional work and attention to deliver a smooth transition for our partners. So thank you so much.

We look forward to speaking with many of you at our upcoming investor events. RBC will host our post-Q2 virtual meetings tomorrow. Nick will be participating in a virtual IRO conference with Cannonball on August 14, in mid-Atlantic marketing with Craig-Hallum on August 22. We will be marketing in New York on September 6 and attending The Benchmark Conference in New York on the 7th. We will participate in the Truist Virtual Summit on September 12. Nick will be marketing in San Francisco with Truist on September 21. We'll also be in London for marketing on September 26. Thank you for joining and have a great evening.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
