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Q2 2021 Magnite Inc Earnings Call

EVENT DATE/TIME: AUGUST 05, 2021 / 8:30PM GMT

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PRESENTATION

Operator

Good afternoon and welcome to the Magnite Second Quarter 2021 Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Nick Kormeluk, Head 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 2021 Earnings Conference Call. As a reminder, the comparisons you will see in the 10-Q, as reported, include the financial results of SpotX for May and June of 2021, but for the second quarter of 2020, the results do not include SpotX, given the acquisition date of April 30, 2021.

During the course of this call, when we refer to results and associated year-over-year comparisons with the phrase as reported, we're referring to the basis as reported in our 10-Q. When we make comments referring to pro forma comparisons, we are including SpotX for the second quarter of 2020 and the month of April in 2021 in order to provide additional detailed insights that management also uses to evaluate our business performance. Please keep in mind as it relates to the SpotX acquisition, prior quarterly results are estimated and unaudited.

As a reminder, this conference call is being recorded. Joining me on this call are Michael Barrett, CEO; and David Day, our CFO. I would like to point out that we have posted financial highlight slides to 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 might 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 COVID-19 on our business as well as statements concerning the acquisitions of SpotX and SpringServe and potential benefits and synergies we expect to realize there from.

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 2020 annual report on Form 10-K and our 10-Qs for Q1 and Q2 2021. We undertake no obligation to update forward-looking statements or relevant risks.

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

At times, in response to your questions, we may offer incremental 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'll now turn the call over to Michael. Please go ahead, Michael.

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

Thank you, Nick. It's been an exciting 3 months for us since our last call. The digital advertising market has continued its strong recovery from the impacts of COVID. The recovery is clearly visible in our Q2 revenue ex TAC across all formats and channels, which combined were up 79% on a pro forma basis. These results are very strong even when considering easier comparisons from COVID in Q2 last year.

I'll first cover some quick performance highlights. CTV revenue ex TAC grew 108% on a pro forma basis, with both legacy Magnite and SpotX platforms each delivering growth over 100%. OLV and display also showed very strong revenue ex TAC pro forma with growth of over 60% each, indicating broad strength in our business aided by a strengthening economic recovery. Adjusted EBITDA margins ex TAC came in at 32% in Q2. And we generated $24 million in operating free cash flow in Q2, which we define as adjusted EBITDA less CapEx.

This quarter was transformative for Magnite, specifically with the closing of 2 strategic M&A deals, SpotX and SpringServe, which expanded our addressable market, added video ad serving to our product offering, significantly enhanced our product development and engineering capabilities, all of which contribute to greater CTV scale and revenue growth expansion.

I want to provide some insights on what our combined scale, value proposition and growth opportunities look like going forward. As viewers continue to consume media content via streaming services and platforms, many media and content owners are creating content and services for the CTV market. And we are in a great position to provide them with the only independent end-to-end monetization platform.

To be clear, we define CTV as large-screen immersive TV advertising and do not include streaming TV across other devices like mobile, tablet and desktop. We have significantly widened and strengthened the customer segments we serve across device OEMs, such as Roku and Samsung; virtual multichannel video programming distributors, or MVPDs, such as Sling and Hulu; digital-first platforms, such as Pluto and Tubi; and of course, broadcasters such as Discovery and Fox.

We have also meaningfully expanded our service offering to touch more inventory and transaction types. And our CTV revenue includes not only programmatic auction, but also fees for private and direct-sold deals, managed service revenue, ad serving fees and value-added service fees.

With the traditional TV upfront season recently concluded, I'd like to clear up confusion regarding how we participate in these upfronts. Direct-sold and upfront refers to who is doing the selling. But direct and upfront deals increasingly include programmatic media spend commitments because buyers and sellers want to realize the workflow efficiencies and targeting gains that programmatic provides.

So how do we participate in upfronts and direct-sold CTV? First, through private marketplaces where our platform serves as the pipes that connect buyers and sellers. As you may recall, a substantial majority of our CTV revenue comes from PMPs. In support of PMPs, our tech serves as a self-service productivity and workflow tool to efficiently execute CTV campaigns.

We also participate in direct-sold inventories through our managed service business, which provides demand facilitation and serves as a great onboarding source to get buyers into the programmatic ecosystem.

And finally, with CTV ad serving, which comes by way of the SpringServe acquisition. We now have significant scale in CTV even in these early days of its adoption as we expect well over $40 million in quarterly CTV revenue ex TAC in Q3, which if you step back is greater than what our total company revenue was in Q3 2019. And we are now enabling every part of the buying process, direct, upfront and programmatic, through our technology solutions and through our managed service offering. We participate in all growth categories of CTV.

On the identity front, we saw Google push out the elimination of third-party cookies in Chrome until the end of 2023. We continue to believe that first-party publisher segments collected in a privacy-compliant manner will be the future of identity solutions and that SSPs will be a driving force behind this transition. However, the Google decision provides the industry with more time to transition and focus on advancement and adoption of alternative audience solutions.

We also saw a further adoption of IDFA removal with iOS updates this quarter. We observed some shift from iOS to Android in spend, lower but better-than-expected CPMs for iOS app ads and limited impact to overall ad spend.

I'll now shift to highlight the strategic value and opportunity created by our addition of an ad server. This is a very strategic piece for us to better serve current and future customers. Ad serving in its most basic form is a key utility function for CTV publishers to manage, forecast and execute their campaigns, whether programmatic or direct.

This is a key technology piece that market leaders like FreeWheel and Google have bundled with their SSP to create an efficiency advantage and better compete in the market versus other SSPs or ad server-only competitors. We've talked before about how important it is to be a full-stack independent partner to serve the open web and third-party CTV publishers. And this critical piece of tech allows us to offer a viable independent end-to-end solution.

Ad serving adds significantly to our CTV value proposition. Specifically, ad serving is required by all CTV market participants: OEMs, broadcasters and OTT-only platforms; and for all types of inventory: upfront, direct or programmatic. Having a tightly integrated ad server allows for the dynamic allocation of programmatic and nonprogrammatic inventory to provide a holistic yield management solution for publishers.

It addresses a specific set of customers that want an integrated ad server and SSP solution from one partner, especially new entrants with no legacy tech or desire to build it. It allows us to cross-sell ad serving to all of our SSP customers. And from a technical standpoint, it provides greater efficiency and performance versus third-party ad server integrations, which leads to better monetization for publishers.

Switching gears. Our SpotX and SpringServe integration efforts have been progressing well. Specifically related to SpotX, our senior leadership structure has been finalized. Our go-to-market teams have been put in place. The dev and product teams are combined. And we are ahead of plan for first year cost synergies. We are also pleased with plans to consolidate our 2 CTV platforms appropriately under the leadership of Allen Dove, our Chief Technology Officer; and Adam Soroca, our Chief Product Officer.

Lastly, we are excited to serve customers as a more comprehensive, scaled, independent and powerful company to accelerate the growth of programmatic within the already attractive and rapidly growing CTV market. We look forward to our Investor Analyst Day, which is planned to be virtual on September 15.

With that, I will hand things over to David, who will go into greater detail regarding financial performance and expectations.

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

Thanks, Michael. We are pleased to announce a strong Q2 to provide some color on areas of strength in the business and to provide our outlook for continued growth in Q3.

Total revenue for Q2 was $114 million. Revenue ex TAC was $100.4 million for Q2, up 139% from Q2 2020 on an as-reported basis and up 79% on a pro forma basis. CTV revenue ex TAC was $34.3 million and grew 108% on a pro forma basis, as Michael stated earlier. OLV and display were up over 60%, all on a pro forma basis.

Looking at the CTV business more granularly. Both legacy SpotX and Magnite grew pro forma revenue ex TAC over 100% in Q2. Since we've now integrated our customer sales, support and engineering teams, we're no longer running separate CTV businesses. And thus, it no longer makes sense to split out CTV results based on legacy companies. As a result, we will speak to our combined CTV business going forward.

Desktop pro forma revenue ex TAC grew 52%. And mobile pro forma ex TAC grew 75%. Our revenue mix for Q2 2021, on an ex TAC basis, was 34% CTV, 39% mobile and 27% desktop. Operating expenses, which in our case includes cost of revenue, for the second quarter were $161.5 million versus $82.9 million in the same period a year ago. Increases were primarily driven by the inclusion of SpotX cost of revenue, including traffic acquisition costs, operating expenses and acquisition-related expenses.

Adjusted EBITDA operating expenses, which represents the difference between revenue, ex TAC and adjusted EBITDA, were $68.6 million for Q2 as compared to $45.5 million in Q2 2020, also driven primarily by the addition of the costs resulting from the SpotX merger.

As Michael mentioned, we have made significant progress on our SpotX acquisition-related cost synergy goals. In June, we announced our leadership and team reorganization and, as part of that process, reduced our workforce by roughly 6%. As a result of this and other actions in our first 4 months, we have achieved over half of the $35 million in run rate synergies that we targeted, which is ahead of our plan.

Net income was $36.8 million in the second quarter of 2021 as compared to a net loss of $39.1 million in the second quarter of 2020. The increase in net income was primarily attributable to an $87.7 million tax benefit recorded in Q2 as a result of the SpotX acquisition.

Adjusted EBITDA was $31.8 million, resulting in a margin of 32% as compared to an adjusted EBITDA loss of $3.5 million in the second quarter of 2020, driven by continued revenue growth in our legacy business and by the addition of SpotX. Note that we calculate our adjusted EBITDA margin as a percentage of revenue ex TAC.

GAAP diluted income per share was $0.26 for the second quarter of 2021 compared to GAAP loss per share of $0.36 in the same period in 2020. Non-GAAP diluted income per share in the second quarter of 2021 was $0.11 compared to non-GAAP loss per share of $0.10 reported for the same period in 2020.

There were 126 million weighted average basic and 143 million weighted average diluted shares outstanding for the second quarter of 2021. We estimate diluted shares outstanding for the third quarter to be approximately 152 million.

Capital expenditures, including both purchases of property and equipment and capitalized internal use software development costs, were $8 million for the second quarter of 2021, in line with our expectations. Operating free cash flow was $24 million for the quarter, which we define as adjusted EBITDA less CapEx.

As a reminder, our acquisition of SpotX closed on April 30. Total consideration consisted of $640 million in cash and approximately 12.4 million shares of Magnite for a total value of $1.1 billion based on the value of our stock on the date of closing, excluding normal working capital adjustments.

Our financing for the acquisition consisted of the issuance of $400 million in convertible senior notes during Q1 and the issuance of a $360 million 7-year senior secured term loan concurrent with the close of the acquisition. The term loan bears interest at LIBOR with a floor of 75 basis points plus 500 basis points. The loan also requires 1% in annual principal payments payable quarterly, which will be $900,000 per quarter.

Our interest expense for Q2 2021 was $5.2 million. We estimate that full quarter interest expense will be approximately $7.1 million, of which $5.5 million will be the cash cost.

At the end of Q2, we had $193 million in cash on the balance sheet. Note that just after the quarter closed, we used $31 million for the

SpringServe acquisition. As a reminder, our cash balances can swing disproportionately, both up and down, compared to the run rate of our business since we collect and pay the gross amount of flow-through to our sellers while we record revenue primarily on a net basis and even more so with higher revenues with SpotX going forward.

We are excited to add SpringServe to our business, which is currently generating approximately $3 million in quarterly revenue, the majority of which is CTV, and is roughly EBITDA breakeven. This is an area we plan to invest in.

I will now share future expectations, which includes SpringServe. We expect revenue ex TAC for the third quarter to be in the range of $112 million to $116 million. We expect revenue ex TAC attributable to CTV for the third quarter to be in the range of $41 million to $45 million. This represents pro forma CTV growth of roughly 50% at the midpoint year-over-year.

We expect that adjusted EBITDA operating expenses in Q3 will be $77 million to $79 million. We expect that total CapEx for the second half of 2021 will be roughly $16 million. We continue to target long-term annual revenue ex TAC growth of 25% and adjusted EBITDA over revenue ex TAC margins of 30% to 35%.

We are thrilled with the progress our teams are making, especially considering all that they've had to accomplish and integrate in a COVID-restricted world. Q2 also showed the powerful financial leverage we have in our business model with a strong adjusted EBITDA margin expansion that comes with revenue outperformance.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Shyam Patil with SIG.

Ryan Michael Lister ***Susquehanna Financial Group, LLLP, Research Division - Associate***

It's Ryan on for Shyam. So first, you talked at length about SpringServe in the prepared remarks. But can you talk about how you think about the SpringServe impacting CTV growth sort of in the long term? And does that accelerate your opportunity there? And then secondly, we saw you set up the new leadership team in Asia post the acquisition. So just how do you feel about your expansion prospects in Asia?

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

Yes. Ryan, this is Michael Barrett. I can start it off and David can jump in. Yes. So well -- so prior to SpringServe acquisition, we were certainly the leading independent programmatic player in CTV, but we did lack the ad serving capabilities. And ad serving isn't just essential to the whole monetization stack, whether it's CTV or online video or display. The top players have shown that if you combine an SSP with ad serving, there are benefits for the publisher from a monetization standpoint. So there's the direct benefits we get from market expansion, which is ad serving.

So if the publisher were to sell an ad and not run it programmatically, it still has to be served, and there's revenue to be generated from that. But then there's also the increased opportunity from a programmatic standpoint. So we're quite excited. I think that SpringServe has done a great job in the, let's say, middle market in terms of the customer base. I think that we -- we see that segment growing. We had mentioned in the prepared remarks about interest on content owners and distributors to get into the CTV marketplace, and we think we'll have a very exciting role there.

And as far as the Asia announcement of our leadership team, that was done across the board. And I think the exciting aspect there is that we have go-to-market teams focused on CTV and DV+. So we have product teams focused on CTV and DV+ and engineering teams focused on CTV and DV+. And DV+ is display video, audio, anything that's not CTV.

And I think that allows us to better invest in the areas of the company because you saw the display growth numbers. They were quite strong for the quarter, and I'm not intimating that display is up 60% marketplace every quarter. But the simple fact is it's a growth business for us. It's highly profitable, and we're going to lean into that as well with the appropriate resources. And that team is doing a bang-up job.

And I think we have growth, particularly in India in the Asian market where we're making investments there. So yes, I would say very pleased with the team's structure, the leadership in place and the prospects for growth in the future.

Operator

The next question is from Jason Kreyer with Craig-Hallum.

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

Congrats on the execution. I wanted to go back to the SpringServe topic. Just wondering where that product sits today relative to where you think it needs to be to kind of -- to serve as a big catalyst, as kind of another tool in your tool bag? Because we hear a lot in checks and in conversations that there's a lot of demand for an alternative ad server relative to what's out there. But curious kind of what kind of resources you need to put behind that to get it ready for a broader go-to-market?

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

Yes. It's a great question, Jason, and thanks for the kind words on the quarter. I think we'll be touching -- we'll be kind of drilling down on this quite a bit more on our Analyst Day in September 15. But it's a new acquisition for us, right, just recently closed on it. The good news is SpotX has been working very closely with the SpringServe team for the past year. And it was almost a complete validation that if you couple ad serving knowledge with programmatic monetization that it's going to yield greater outcomes to the publishers.

And there is definitely a tier of publishers that are ready for the SpringServe product and leaning into it. And there's, admittedly, a tier of publishers that bring with it legacy sales and linear sales. And that's a far more complicated product and probably not the effort that we're going to attack head on as a kind of rip-and-replace of a Google or a FreeWheel. But we see many, many opportunities in what is a pretty complex multi-server environment to be able to work very closely with those folks and to gain more opportunities than we currently had prior to SpringServe.

But yes, again, super excited about it. And as David mentioned, in the area of investment, but the team has proven for the last year, working closely with SpringServe, that there is a real need out there for a coupling of our demand with the SpringServe product.

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

In regards to integrating SpotX, we've spent some time before talking about the managed service offering. And I'm curious, is there -- is that part of the integration process to make that product available to the more legacy Magnite CTV customers? And -- I mean if it is, is there a time line when that becomes available? Because it seems like that could be a source of revenue synergies over time.

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

Yes. No, great call. And that's one of those things where you kind of just hit the ground running with it. Like if you had inventory, say, a legacy Magnite or legacy Telaria had inventory that SpotX didn't have access to day and date of the close, that goes into a salesperson's bag, right? And so it's just those -- that inventory is used to bolster packages, create new packages. But yes, that's the kind of low-hanging go-to-market stuff that doesn't require a tremendous amount of tech work background, wiring, et cetera. So yes, we see really promising opportunities in the increase of demand facilitation.

Operator

The next question is from Nick Zangler with Stephens.

Nicholas Todd Zangler ***Stephens Inc., Research Division - Senior Research Associate***

Great quarter. Curious how revenue trended throughout the quarter. What may you might attribute to COVID-19-impacted businesses driving a resurgence in ad demand, maybe specifically in CTV as well? I know you saw some oscillation late last quarter. Just thoughts on how things trended throughout the quarter.

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

Do you want to hit that, David?

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

Yes. I think -- so I think across the business, we saw, for the most part, normal seasonal patterns except that we did see some acceleration, I think, coming into June. And so -- you had a couple of categories that kind of picked up. I think travel was one in particular that over the course of the quarter really strengthened. And I think we also saw a slight strengthening in CTV as well, but nothing extremely outsized, I guess.

Nicholas Todd Zangler ***Stephens Inc., Research Division - Senior Research Associate***

Great. And then -- I mean, obviously, this was a very busy quarter for you guys. So this might be going back a ways, but maybe you could talk through some of the advantages of partnering with IRIS.TV for contextual advertising as well as tvScientific for access to incremental demand. And do you think you're seeing performance marketers, performance advertisers enter this market for CTV?

And maybe you could just talk about the opportunity there. It seems it's pretty vast. I think $134 billion is spent across search and social, and they covet the measurement and attribution that search and social offer, now that theoretically is coming to CTV, it's available on CTV. So maybe you could just kind of size up that opportunity for incremental demand.

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

Yes. I mean -- all good questions, Nick. I would think that one of the themes that we've kind of been pushing on as it relates to the programmatic opportunity or market size for CTV is kind of this democratization of advertisers. If you look at linear TV, given the sophistication of the media buying, the expense of the media buying and the quality of the advertising that has to be produced, it's not surprising that the linear world from a national TV standpoint, there's a couple of hundred advertisers, right, represents the bulk of it. Where we believe firmly in programmatic CTV, you're going to be talking 10,000 advertisers.

And we already saw that throughout the COVID, when a lot of direct-to-consumer brands started testing CTV and had a very positive experience with it. Pricing was right. Pricing on Instagram and Facebook had kind of gotten very expensive for them. And so they already had the creative from those video units and were able to repurpose it. So we're at the very early stages, but I think it's a big, big opportunity, this democratization of advertising.

And lastly, the 2 partnerships you mentioned on -- are strong partnerships in one of many. I think one of the things that SpotX in particular has done extraordinarily well is the whole onboarding of measurement of attribution of audience segments of packaging. They've done a very nice job in terms of being able to present inventory and the results of the advertising on inventory to marketers and publishers. And we're going to continue in that vein with more partnerships and generally just trying to help the industry with this attribution and measurement conundrum that kind of exists today.

Operator

The next question is from Vasily Karasyov from Cannonball Research.

Vasily Karasyov ***Cannonball Research, LLC - Founder***

So on Q1 report, your connected TV revenue were a little light. And one of the reasons you cited was that the inventory wasn't -- there was a shortfall in inventory due to linear ratings. So that caused some concerns. So now that you have closed on SpotX and the SpringServe is going to be acquired soon, too, can you tell us how these transactions mitigate the risk of that happening again?

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

Yes. Vasily, thanks for the question. I think that in a high-growth nascent marketplace, I think it's hard to bulletproof projections, and your baseline of performance quarter-to-quarter isn't all that great in terms of years of practice. And so I think we're going to have choppiness, but I think we still stick with our longer-term view of a marketplace that we're going to outpace the growth in the marketplace.

And as it relates to safeguarding against inventory shortfalls, those kind of fall out of our control, by and large, because of publishers and their go-to-market efforts, et cetera. But I can say what SpringServe does and certainly SpotX, it absolutely broadens the product sets that we can go to market with, which creates a larger TAM, which creates stability.

And so yes, there will always be bullets here. There is an online video -- and we've been at that for 15 years. And so in programmatic, it's technical things happen, and there's pushes and pulls. But long story short, I think that the larger our base becomes, the more stable the projections can become. And we now have a portfolio of products that help safeguard against that.

Operator

The next question is from Matt Thornton with Truist.

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

Maybe 2, if I could. I guess, Michael, maybe can you talk a little bit about the competitive landscape out there, maybe on the display side as well as on the CTV side? Just kind of aiding incremental since we were on the call last time 3 months ago, supply path optimization, competition, pricing, just kind of the lay of the land?

And then just secondly, and I apologize if I missed this, but I think last quarter, you talked about being comfortable with north of $0.5 billion in revenue next year. I just want to see if you're still comfortable or if there's any update to that number.

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

Sure, Matt. I'll take the first half, and David will stick his neck out for the second half. It's just what you do to a good CFO, right? The -- yes. Listen, competition continues, right? I think what we're seeing is it's really getting consolidated among the top players, right, a Magnite or maybe a PubMatic on the display side, folks that are in the private sector that are venture-backed. You see OpenX is going through a process right now, trying to sell themselves. Index Exchange, which was a tough competitor a couple of years back, I think, has fallen a step behind, and you kind of hear that in the marketplace.

So I think there's just the bigger getting bigger. Marketers are feeling more comfortable with a handful of partners. And renewing that down has occurred. And the final steps to supply path optimization will look different in different sectors. Open auction, I think there will always be a need for 8 to 10 participants to do a unified auction in the open-market header bidding.

In CTV, I don't see any momentum for people looking for more demand partners in the PMP world. I think they're quite satisfied with the players that exist there. And so I think we'll benefit from that growth. So all in all, I think we stand very well positioned in this marketplace that is consolidating. And David, on the 2020 forecast -- 2022 forecast?

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

Yes. Yes, we were excited this quarter to come in $6 million or so ahead of our midpoint of guidance and remain bullish about 2022. So certainly not reducing our targets. And we'll continue to lean into -- I think we talked about well in excess of $500 million in revenue, and we remain super comfortable with that.

Operator

(Operator Instructions) The next question comes from Shweta Khajuria with Evercore ISI.

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

Well, I'm sorry if I missed this, but is there -- Michael, is there a way -- is there a structural difference in growth rates? So you mentioned 100% year-over-year growth in CTV revenue for Magnite as well as SpotX. I guess the question is for managed services versus direct deals putting into programmatic, sort of 2 growth different paths, are you seeing trends where one is growing faster than the other?

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

David, is that something we've ever broken out? I understand the questions. What I don't know if we've ever broken that out, though.

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

We haven't broken out growth rates, but what I would say is they're both growing strongly. And so they're going to be an important part of our business. The managed service or demand facilitation part of our business represented about 18% of our total GAAP revenue. So it will be an important part of our business, but it's not the primary part of our CTV business. It's still -- programmatic will be the biggest driver over the long term, I think.

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

Okay. So 18% of the combined like pro forma, you take SpotX plus Magnite -- Telaria. Is that right? It's managed service?

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

18% of the CTV number, correct.

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

Yes. Okay. And then -- go ahead.

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

Sorry, I was going to say, it's actually -- it's 18% of our total revenue. It looks like about -- revenue ex TAC. It's 7% of our total revenue. And so it's still a minority of our CTV business.

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

Okay. And then the guidance that you gave, where it accounts -- called for 50% year-over-year growth in CTV revenue. Is it fair to assume it's 50% for both the Telaria part as well as SpotX?

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

Well, we've combined our teams. And so there really is no such thing going forward as a legacy -- one legacy business versus the other business. So in the second quarter, we did have that differentiation. Both CTV businesses grew at basically the same rate. And so now we've combined and we're going forward. And there's no drag in any of the legacy clients that we brought together. And we'll be talking about that business on a combined basis going forward.

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

Okay. So then when you report third quarter, should we not expect you to give us a breakout like you did this time, that with 100% each?

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

That's correct.

Operator

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

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

So I'll kind of follow up on the previous Matthew going down competition. So I mean with the acquisition of SpotX and now with SpringServe, you've really kind of established your place in the CTV market. So thinking competitively, how do you build a defensible moat around the market share, kind of acknowledging that this is still a nascent market? We're looking 5 years from now with a much larger TAM. How are you thinking about kind of sticking to the areas that you're excelling in right now?

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

Yes. Great question, Matt, and thanks for the question. The funny thing is you can certainly look at competitors coming up general display exchanges like a PubMatic, crashing the party and wanting to get into CTV. And god knows why -- we know why they would want to, given the exciting TAM and growth rates, et cetera. But we really do feel it's going to play out quite differently. And as you pointed out, we now have a question of assets that are unrivaled. And in order to really compete against us as a new entrant, you really are going to have to bring a lot of tech and a lot of experience and a lot of talented engineers.

And so we don't think of -- we don't see this as something where it erupts into open auction header bidding with 10 exchanges competing for inventory. That may well occur at a segment of the market, but that would be kind of the longer tail, and it wouldn't necessarily at all look like the upper top of the pyramid like broadcasters, et cetera.

The way we look at it, Matt, is that this isn't a defensive move by us to maintain what we have. The vast majority of the revenue dominated in the space right now is by FreeWheel and Google. And that's who we're going after. So it's a lot less about being concerned about creating a moat to protect what we have than it is about expansion opportunities to get business that's already there in the hands of the nonindependent, more walled-garden guys. And that to us is the stuff that has really driven the collection of assets that we have, the people that we have and our go-to-market strategy.

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

Yes. And that's super helpful, Michael. And then if I could just kind of add on to that collection of assets idea. Bringing in SpringServe, can you talk about kind of how you see the wholeness of your value proposition now. Are there any other clear adjacencies or capabilities, either M&A or internal development, either assets or even thinking about like ways to build out some of those strategic managed services to kind of build -- I know we're not saying defensible, I want to say entrenched position with your customers, but kind of cement the value creation that you have for publishers.

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

Yes. I mean -- listen, I think we have the big pieces in place. And I think we are very satisfied if we never did another M&A deal, that we have gotten the best that was out there, the best talent. And now we're all set to run a unified company Magnite. That said, that's probably not realistic. So the flavor of the M&As going forward will more than likely be SpringServe-sized as opposed to SpotX-sized, just simply because that's what exists in the market. And with the ad server, it's about executing and scaling the SpringServe product.

So what are adjacent areas? I don't think we'd ever get into as a principal in the measurement business because a lot of marketers or publishers don't like you grading your own homework. So there are great measurement companies out there that we'll work with and help unify. I think the audience packaging, the audience segmentation business, that has some interesting areas of opportunity for us.

We're already head down doing a great job on it in CTV and in DV+. But there's probably opportunities there, particularly as we get closer to the deprecation of cookies in Chrome. But yes, I think generally speaking, the way you should think about it, Matt, is that we've got the pieces in place. It's about execution at this juncture.

Operator

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

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

I'm sorry, Debbie. I was on mute. One more time, we are excited about what the future holds for Magnite and how we're positioned in the CTV, OLV and display markets. Magnite is the industry's leading independent omnichannel SSP, and we could not have achieved that position without all the hard work from our close to 1,000 Magniters. Thank you all for your commitment and passion.

We've accomplished a lot in a very short time from a strategic perspective. The investments we've made, the offerings and talent we now possess give us the opportunity to play an ever more strategic role in serving open web and CTV publishers. We are very excited about the industry and Magnite's future.

Thank you for joining us for our Q2 results call. We look forward to talking to many of you at our virtual Analyst Day on September 15 or through virtual investor meetings hosted by Craig-Hallum and Cannonball Research this quarter. Have a great evening.

Operator

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