

Q3 2021 Earnings Conference Call

Management Prepared Remarks

Scott Schmitz, SVP Investor Relations

Thank you, operator. Hello everyone and thank you for joining us for Zeta's third quarter 2021 conference call. Before we begin, I would like to mention that today's presentation and press release are available on Zeta's website at www.investors.zetaglobal.com where you will also find links to our SEC filings, along with other information about Zeta.

Joining me on the call today are David Steinberg, Zeta's Co-Founder, Chairman and Chief Executive Officer, and Chris Greiner, Zeta's Chief Financial Officer.

Before we begin, I'd like to remind everyone that statements made on this call, as well as in the presentation and press release contain forward looking statements regarding our financial outlook, business plans and objectives, and other future events and developments, including statements about the market potential of our products, potential competition, and revenues of our products and our goals and strategies. These statements are subject to risks and uncertainties that may cause actual results to differ materially from those projected. These risks and uncertainties include those described under the heading "Risk Factors" in our most recent Quarterly Report on Form 10-Q and the Company's final prospectus, dated June 9, 2021, each filed with the Securities and Exchange Commission, as well as other documents that we may file from time to time with the SEC.

Any forward-looking statements speak only as of today's date and we assume no obligation to update any forward-looking statements made on today's call or that are in the presentation or press release. In addition, our discussion today will include references to certain supplemental non-GAAP financial measures, which should be considered in addition to, and not as a substitute for our GAAP results. We use non-GAAP measures to describe the way in which we manage and operate our business. We reconcile each of these measures to the most directly comparable GAAP measure, and you are encouraged to examine those reconciliations, which are found in the Appendix to the presentation, and at the end of the press release.

Now I will turn the call over to David.

David A. Steinberg, Co-Founder, Chairman and CEO

Thank you, Scott. Good afternoon and thank you for joining Zeta's second earnings call as a public company. We sincerely appreciate your interest.

Zeta had a strong quarter. We executed against our strategic initiatives and drove results ahead of our guidance for the quarter. We generated record revenue of \$115 million dollars, up 21% year-to-year and up 25% when adjusting for the 2020 Presidential Cycle. We drove strong operating leverage in the quarter with Adjusted EBITDA of \$16 million dollars, up 30% year-to-year. With good visibility and confidence in our growing pipeline, we are raising the midpoint of our full year 2021 revenue guidance

range to \$446.5 million dollars from \$434 million dollars and our Adjusted EBITDA outlook to \$61.3 million dollars from \$56.5 million dollars. Chris will dive into more of those details shortly.

Stepping back, there are three key themes supported by our results:

1. We have a strong strategic position.
2. We are executing and winning in the marketplace.
3. We are just getting started.

Let me dive into each of these themes in more detail, starting with our strategic position:

In this increasingly digital world, data and AI are at the center of how companies make decisions. Companies are rethinking how they ingest, synthesize, and prepare data to activate their marketing campaigns. This is where Zeta fits in perfectly. Our customers use Zeta's software, the core of which is the Zeta Marketing Platform, or ZMP, to orchestrate and execute targeted marketing campaigns across all addressable channels. The patented AI native to the ZMP synthesizes Zeta's first-party proprietary data, along with the customer's first-party data and gets smarter over time, enabling our customers to achieve both greater scale and a higher ROI. This partnership with our customers results in strong customer loyalty.

Our vision is to help enterprises accelerate their digital transformation of customer acquisition, retention, and growth through our technology, data, expertise & execution. With Zeta, customers can eliminate point solutions that add complexity by investing in our modern software and AI platform that drives better outcomes versus products from legacy competitors who have under-invested in their platforms.

As a reminder, our goal is to be the largest marketing cloud in the next five years. Powering our marketing cloud is a leading Customer Data Platform, or CDP, which serves as the backbone of our data-driven ecosystem. While many companies claim to have a CDP, few offer the full suite of data assembly, analytics, segmentation, and activation as our platform.

Central to our vision is unifying data as the critical step for enterprises to adopt data-driven marketing across all addressable touchpoints; our CDP is the manifestation of this vision. As a stand-alone product, CDPs connect disparate data elements to an identity, and ingest behavioral and transactional signals to create a 360-degree view of the consumer for both prospective and existing customers. We believe CDPs are the foundation of more personalized experiences and more precise measurements. With marketers elevating the importance of CDPs, Zeta is becoming more central to every marketing technology conversation. Importantly, CDPs can be bundled with the ZMP for activation, OR be adjacent to an incumbent marketing cloud, providing Zeta with incremental opportunities to partner with large enterprises and expand over time.

And all this is translating into results in the market which brings me to my second point - we are beating the competition. Our customers are excited about how our assets and capabilities unlocks their ability to acquire, retain, and grow customers at an attractive ROI. We're executing, with both new and

existing customers. In fact, we saw our win rates improve during the quarter, highlighted by the fact that we booked an incremental \$16 million dollars in total contract value, with over 90% recurring revenue. Let me give you a few examples to illustrate how and why we're succeeding across different environments.

First, we are engaging new customers as the central Hub of data-driven ecosystems. This quarter, a leading children's retailer chose our CDP to be the backbone of all their data-driven marketing activity, across all touchpoints, including in store. We competed against both legacy providers as well as smaller upstarts. In the end, we ultimately won by providing a single platform to serve as the center of their digital transformation, unifying disparate data elements and connecting the dots across their business.

Second, we are creating opportunities adjacent to an incumbent Marketing Cloud as part of our Land and Expand strategy. A top 100 global marketer chose us to develop an innovative, trigger-based messaging program, leveraging Zeta's unique insights that are taken to a new level when combined with the data set of this marketer. Importantly, our strategy does not require us to rip-and-replace legacy competitors up front, but instead we can sit adjacent, building bigger internal client relationships that allow us to take share over time.

Third, we are expanding use cases within current customer environments. At a top luxury retailer, which is a major user of our CDP, we are expanding our solution into activation. Again, we are taking share from a major Marketing Cloud which should set the stage for future expand and extend opportunities.

Going back to the third major theme this quarter: We're just getting started. Industry tailwinds are accelerating, our platform and data have never been stronger, and we're just beginning to see the benefits from our go-to-market investments. While we view these as long-term trends, we are benefiting today with Q4 off to a great start. With a higher mix of recurring revenue, our visibility is improving. With broader awareness and more sales capacity, our pipelines are expanding. And with competitive differentiation, our win rates are increasing.

In summary, the migration to digital is accelerating. As the world comes out of the pandemic, companies see the current environment as one of the biggest opportunities to affect change. They are looking at digital, AI, and new technologies to identify, engage, and build customer loyalty.

Disruption in the digital ecosystem creates a critical need for marketing technology as enterprises look for help navigating changes like the elimination of Apple's IDFA or the third-party cookie - neither of which we rely on to identify individuals today. Let me reiterate, we do not use Apple's IDFA or third-party cookies in our identity graph. This disruption creates a unique opportunity for Zeta as we benefit from these changes. We help companies rethink their data strategy and gain more control over their own first-party data. Our software helps companies respond to changes from gatekeepers so they can measure customer behavior and market with greater precision.

Our 360-degree view of the customer across all media, using the Zeta ID, creates a single deterministic identity of prospects and customers. As some of the walled garden providers continue to tighten their grip, we expect customers to find that it will be more difficult to work with them and that marketers will increasingly look for alternatives. We believe Zeta is well positioned to benefit from our combination of data, AI and deployment capabilities. We're seeing this manifest itself in our results, and our visibility into our business, which is leading us to increase guidance for the full year 2021.

To further understand the massive opportunity in front of us and why we're winning in the market, we invite you to hear directly from our customers, partners, and industry luminaries at our inaugural Zeta Live conference on Nov 16 and 17. Zeta Live will convene some of the industry's most forward-thinking business leaders for insightful discussions on the future of marketing and technology along with opportunities to hear from Zeta's customers on how they are leveraging our software and data as well as hearing from Zeta technologists about where future product innovation is headed. You can register now on our website, zetaglobal.com.

I would like to thank our customers and partners for the confidence and trust they place in us. I would also like to thank our Zeta people for their hard work and dedication. And thank you to all our investors for your support along this journey.

And with that, let me hand it off to Chris to discuss our results in greater detail. Chris?

Chris Greiner, CFO

Thank you, David. And Scott, welcome to Zeta, we're thrilled to have you.

Good afternoon, everyone. Q3 was another outstanding quarter for Zeta, continuing the trend from the first half of the year. There are three highlights to the quarter we want investors to step away understanding:

First, our record third quarter results beat the high end of our guidance through all elements of the P&L and generated powerful operating leverage. Major contributors included: our sales transformation is running ahead of plan, we had a break-through quarter of recurring revenue bookings, and we continued our positive mix shift toward higher margin solutions. On the back of this momentum, we are increasing the midpoint of full year 2021 revenue guidance by \$12.5M to \$446.5M and increasing Adjusted EBITDA guidance by \$4.8M to \$61.3M.

Second, we are beating the largest marketing clouds head-to-head in a resounding way. In the third quarter, we once again saw robust new customer wins and existing customer expansion. Our focus is on driving more multi-year wins with higher levels of software subscription and minimum usage contracts. And in the third quarter alone, we booked 6 multi-year deals for over \$16 million in total contract value with over 90% recurring revenue.

Third, we had another strong quarter of execution on our 5 core growth drivers. Our core growth drivers are the building blocks to our long-range target of sustained 25%+ year-to-year revenue growth and at least 20% Adjusted EBITDA margins. Zeta's core growth drivers span growing our existing customers, adding new customers, leveraging Opportunity Explorer, launching new products, and expanding internationally. We continue to build upon the momentum from last quarter and last year. Let me briefly talk about each of these three highlights in more detail.

Starting with our record results, the third quarter was demonstrative of our execution in the market. We delivered \$115M in revenue, growing 21% year-to-year and up 8% quarter-to-quarter. Normalized for \$3M of prior year Presidential Cycle revenue that did not repeat in 3Q21, growth came in at 25%

year-to-year. Similar to last quarter, growth was generated across a diverse set of end markets. In fact, 6 out of our 10 largest industry verticals grew more than 30% year-to-year.

And the positive shift to Direct Platform revenue continued. Third quarter Direct Platform revenue mix was 74% compared to 66% last year and we are on track to end the year at our goal of mid-70s. On a year-to-date basis, 75% of revenue is being delivered directly on the ZMP compared to 71% through the first 9 months of 2020. Over the same nine-month period, we are seeing a lowering of our cost of revenue percentage from 40% year-to-date 2020 to 38% year-to-date 2021, driven primarily by revenue generated from Zeta owned and operated channels.

Third quarter cost of revenue percentage was 37.6% representing an improvement of 510 basis points year-to-year and 160 basis points quarter-to-quarter, excluding stock-based compensation. With the strength of the third quarter in mind, we now expect to reduce our cost of revenue percentage by at least 150 basis points for full year 2021 vs 2020, an improvement of 50% from our prior guidance.

We feel the competitive strength of our platform is becoming more appreciated, and therefore we are seeing larger deal sizes and the use of more channels. This is creating greater pricing power and the opportunity for more revenue generated directly on the Zeta Marketing Platform. This is the driving force behind our improving cost of revenue percentage.

Our third quarter GAAP net loss was \$69.1 million dollars and includes \$69.3 million of stock-based compensation expense.

The increase in our top line revenue flowed down through our operating expense structure, even as we continued to invest in sales and marketing. On \$8.2M of increased revenue quarter-to-quarter, \$4.6M flowed direct to Adjusted EBITDA, better than 50% leverage. For the quarter, we generated a record \$16M in Adjusted EBITDA, up 30% year-to-year and up 40% quarter-to-quarter. From an Adjusted EBITDA margin perspective, the third quarter is 13.9% representing an increase of 100 basis points year-to-year and 320 basis points quarter-to-quarter.

From a cash generation perspective, operating cash was \$10.2 million with free cash flow generation of \$3.7 million. Both up significantly year-to-year by \$3.2 million and \$3.4 million, respectively. At the end of the third quarter our cash balance was \$116.2 million.

On to my second highlight of the quarter, the reason why we are beating the competition is simple. The Zeta Marketing Platform outperforms the competition in return on investment and significantly lowers the total cost of ownership for marketers. We accomplish this because our marketing cloud can offer software and AI, proprietary identity data, and omnichannel activation in a single platform, backed by sophisticated ROI attribution models.

Completed in early 2020, rebuilt from the bottom's up, the ZMP is a new platform as compared to other marketing clouds, where we compete against their legacy assets, acquired years ago. Our win rates accelerated across the board and in the 6 multi-year, recurring revenue contracts I highlighted earlier, we competed against and beat numerous times: Salesforce's Exact Target, Adobe's Neolane, and Oracle's Responsys, along with many others. These continue to be the primary names showing up to the RFPs and in engagements we are winning.

But it is not just WHO we are beating, it is also HOW we are winning. Four out of the six of new multi-year wins I highlighted earlier came from customers who were introduced through Opportunity Explorer, our newest product which continues to be a sales accelerator. These six multi-year contracts, and all of the other opportunities we won have the potential to become much larger and open a number of new doors for cross-selling.

Wrapping up with the third highlight of the quarter - our execution on our 5 core growth drivers. Let me take a moment to highlight two in particular.

Focusing first on existing customers, we increased scaled customer count from 343 in the second quarter to 347 in the third quarter. In addition to increasing count, we also increased ARPU for scaled customers by adding more channels and more use cases. In the third quarter we saw ARPU for scaled customers increase to \$320,000, up from \$260,000 a year ago, or 23% year-to-year, and up from \$299,000 last quarter, or 7% quarter-to-quarter. We continue to benefit from making our largest customers even more successful, which is motivating them to scale even further on our platform driving incremental platform usage and revenue to Zeta. And, as I mentioned up front, the entirety of our year-to-year revenue growth in 3Q was driven directly on the Zeta Marketing Platform.

Shifting to adding new customers, it was our best quarter of the year on a number of different fronts, and we are seeing sales productivity track ahead of pace. More than two-thirds of our growth in the third quarter came from new customers, a noted acceleration from the first half of 2021, and a by-product of the focus we placed on hunters and sales development rep investment. Our success in the market is also attracting great sales and marketing talent. In a tough hiring environment for Enterprise sellers, we added 7 new hunters and farmers and 3 marketers in the quarter. We are now quickly approaching 90 quota carriers, up from 72 ending last year. And finally, nearly two-thirds of new quota carriers hired within the last 12 months have already closed their first deal, up from 50% last quarter – better than our internal expectations. We measure this to understand the efficacy of our hiring and enablement programs.

Wrapping up with guidance, and with three strong quarters of momentum behind us, we are raising revenue and Adjusted EBITDA guidance in the fourth quarter and full year. We are increasing full year 2021 revenue guidance from \$432M to \$436M to \$445M to \$448M, an increase of \$12.5M at the midpoint. As a reminder, Zeta had \$12M of Presidential Cycle revenue in the fourth quarter of 2020, which created a 13-point year-to-year growth headwind. Normalizing for a more accurate comparison, growth at the midpoint of 4Q21 guidance is 20%. Included in our fourth quarter outlook is \$2M of revenue from Apptness. For the full year 2021, year-to-year growth at the midpoint of guidance is 21%, and 26% after adjusting for \$15M of Presidential Cycle revenue in the third and fourth quarter of last year.

We are also increasing Adjusted EBITDA guidance from \$55.5M to \$57.5M to \$61M to \$61.5M, up \$4.8M at the midpoint. We are seeing a strong conversion of incremental growth to Adjusted EBITDA, even while continuing to fund our ramp of sales, marketing and R&D investment. For the full year of 2021, Zeta is guiding to 13.7% Adjusted EBITDA margin at the midpoint, representing 290 basis points of expansion year-to-year.

You can refer to slides 8 and 9 in the 3Q21 Earnings Supplemental presentation for details on our fourth quarter and full year guidance.

Before handing the call over the operator, I'll wrap up where David started. We have a strong strategic position. We are winning in the marketplace. And, we are just getting started.

With that, let me hand the call back to the operator for David and me to take your questions. Operator?