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Q1 2024 BuzzFeed Inc Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the BuzzFeed Inc first quarter 2024 earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Amita Tomkoria, Head of Investor Relations.

Amita Tomkoria ***BuzzFeed Inc - SVP of IR***

Hi, everyone, welcome to BuzzFeed Inc's first quarter 2024 earnings conference call. I'm Amita Tomkoria, Senior Vice President of Investor Relations. Joining me today, our CEO, Jonah Peretti and CFO, Matt Omer.

Before we get started, I would like to take this opportunity to remind you that our remarks today will include forward-looking statements. Actual results may differ materially from those contemplated by these forward-looking statements.

Factors that could cause these results to differ materially are set forth in today's press release are 2023 annual report on Form 10-K and our Q1 2024 and quarterly report on Form 10-Q to be filed with the SEC. Any forward-looking statements that we make on this the call are based on assumptions as of today, and we undertake no obligation to update these statements as a result of new information or future events.

During this call, we present both GAAP and non-GAAP financial measures, including adjusted EBITDA and adjusted EBITDA margin. The use of non-GAAP financial measures allows us to measure the operational strength and performance of our business to establish budgets and to develop operational goals for managing our business.

We believe adjusted EBITDA and adjusted EBITDA margin are relevant and useful information for investors because they allow investors to view performance in a manner similar to the method used by our management. A reconciliation of these GAAP to non-GAAP measures is included in today's earnings press release. Please refer to our Investor Relations website to find today's press release along with our investor letter.

And now I'll pass the call over to Jonah.

Jonah Peretti ***BuzzFeed Inc - Chief Executive Officer and Co-Founder***

Thank you, Amita. Good afternoon, everyone, and thank you for joining us today. Our flagship BuzzFeed brand continues to be the leading player in digital media with vastly more time spent than other widely known digital and legacy properties like Vox, Bustle, People, Vanity Fair, and Vogue, according to comScore.

As I outlined last month in our my annual letter to shareholders, BuzzFeed is leaning into AI to extend this leadership position and build the defining media company for the AI era. Over the past few months, we have made progress towards realizing this vision and have stabilized the business by selling Complex, strengthening our balance sheet with more cash and less debt, implementing a cost savings plan to reduce the size of our central teams and direct more dedicated resources to our individual brands, organizing our business around our most scalable, high-margin tech-led revenue streams in programmatic advertising and affiliate commerce.

In doing so, we completed the biggest step in our transformation, which was to refocus the company on our owned and operated sites and apps and away from platform dependent models of distribution. We are now starting to see the impact of that shift. Our business evolved from one that was reliant on Facebook and third party social platforms for audience traffic to now having the majority of our users come directly to our owned and operated sites and apps.

Today, direct traffic referrals are our largest source of traffic. In Q1, 90% of audience time spent with our content with our owned and operated properties. Even more promising, we are pulling the right levers and starting to see that audience grow. In Q1, direct traffic across BuzzFeed web and app properties grew 3% versus Q4.

This shift also means that we have to change how we think about success. Instead of focusing on scaling a casual audience, which was massive when they were referred from Facebook, we are focused on deepening engagement to our most loyal users who visit us directly and turning more casual users into loyal users.

A single page view to an article from a casual user has less value than a single page view from a loyal user on our interactive format like games and chat bots, where they spend five minutes, take several kinds of actions and are more likely to return. As we focus our AI work on making our platform an interactive, personalized, and differentiated experience, we are in turn discovering what resonates with our audience based on these signals.

Over the past few months, we've rolled out several new features and formats, some of which have driven record levels of engagement. AI image filters like to turn your pet into a plushie, where users can design a plushie toy that resembles our pet. Trending AI generators like the Taylor Swift Tortured Poets Department song generator, utility bots like Shoppy, the AI assistant designed to help shoppers find the perfect gift for everyone on their list.

Chatbot games like Nepogotchi and Under the Influencer. And content generators like make-your-own emoji which skyrocketed to the top 10 most engaged BuzzFeed post of all time and the Shrek generator, which turns your favorite celeb into a lovable ogre.

This work is increasing the engagement and loyalty of our direct audience and turning casual users into loyal ones, which are encouraging trends. Not only have we been able to grow direct traffic to Buzzfeed.com, we've also seen deeper engagement among our most loyal audience, with the number of page views per web visitor growing for four consecutive months since December. Because we were so early to adopt GenAI, we also expect to benefit from this technology's potential to act as an accelerant as new models can be plugged into existing experiences without having to invest more in their development.

As we continue to update and introduce new AI-powered content formats and experiences, we expect to drive improvement in engagement, loyalty and time spent per user. With many more content initiatives in the pipeline, our teams are hard at work to make our sites and apps more rewarding, engaging and fun for users.

In fact, just last week we began rolling out a new BuzzFeed homepage design with novel ways to interact and engage with our content built right in. And we expect to build on this momentum as we unveil more of our work in the coming weeks and months.

As we continue to lean into the power of our audience and existing tech infrastructure on O&O, we are also seeing positive trends on the revenue side. In Q1, programmatic advertising revenues across the BuzzFeed and HuffPost websites and apps grew year-over-year for the third consecutive quarter. While our overall revenue performance reflects ongoing pressure on our direct sales channel and lower monetization on third party platforms, we are encouraged by this positive trend on our largest and highest margin revenue streams.

Our commerce business is another area where we see tremendous potential for the application of GenAI to transform the shopping experience. And we have a strong foundation from which to drive this transformation. We have strategic partnerships with the largest retailers in the world, including Amazon, Walmart and Target.

I shared previously that in 2023, our organic affiliate business drove more than $500 million in transactions on behalf of our retail partners and brought in approximately $50 million of revenue for us. But our partnerships with retailers extends far beyond this affiliate model, encompassing a range of advertising products, including programmatic revenue buys and branded content campaigns.

In 2023, we generated nearly $80 million in revenue through retailer relationships, representing more than 30% of our total 2023 revenue. Retailers love to partner with BuzzFeed because our commerce business is discovery-based. We create shopping content that introduces consumers to new products and inspires transactions.

With this approach, our shopping content resonates with a wide addressable audience for retailers and advertisers as compared to other affiliate and published models that narrowly focus on recommendations for a specific product. And we have a proven track record of driving meaningful GMV on behalf of retailers.

Increasingly, we are also a trusted destination for retailers as retail media networks look to fill growing ad inventory, and we are growing our retailer relationships by tapping into retail media network budgets. Very simply, as ad inventory grows, retailers are looking off-site to fill ad units and BuzzFeed as a natural destination because we are already an established partner.

Looking ahead, as we infuse our commerce approach with AI, we believe AI can help us develop a more personalized shopping experience for our audience, launch initiatives like dynamic insertion of recommended products and introduce other models to take product curation to the next level and help us expand our relationship with retailers.

Before I pass the call to Matt, I want to reiterate that we are only at the start of this journey to build the defining media company for the AI era. Moving forward, we are focused on bringing our websites and apps to life in new ways with the help of AI. And in doing so, we expect to build on some of the positive audience and revenue trends I shared with you and continue to push the boundaries of what is possible in our industry. Stay tuned as we bring more of this work together into reimagining BuzzFeed web and app experiences for our audience.

Now I'll hand the call off to Matt to discuss our financial performance and outlook.

Matthew Omer ***BuzzFeed Inc - Chief Financial Officer***

Thank you, Jonah. We closed the first quarter with great momentum in our business. Some of which Jonah already touched on. Before I discuss our Q1 financial performance in more detail, let me recap some highlights from across the business. We delivered Q1 revenue and adjusted EBITDA in line with our March outlook, generating a $7 million improvement in adjusted EBITDA year-over-year despite a $10 million year-over-year decline in revenue.

Our flagship property, Buzzfeed.com saw modest growth in direct traffic, up 3% versus Q4, a positive signal that traffic trends are beginning to stabilize as we complete the transition from being a Facebook dependent business to one that drives traffic directly to our owned and operated platforms.

Programmatic advertising revenues across BuzzFeed and HuffPost websites and apps grew year-over-year for the third consecutive quarter. Last month, we completed the restructuring program we announced in February, which is expected to yield approximately $23 million in annualized compensation cost savings.

We paid down a significant portion of our outstanding debt resulting in lower go-forward interest expense obligations. And we increased our cash balance by approximately $26 million quarter-over-quarter to $62 million, including restricted cash. This was driven by the proceeds from the sale of Complex, which closed in February. As a result, we are well-positioned to navigate the ongoing headwinds facing publishers, and digital media at large, sustainably and profitably.

Moving on to our first quarter results. As a reminder, all financials and comparables presented here are on a continuing operations basis, which excludes Complex. Overall revenues for Q1 2024 declined 18% year-over-year to $44.8 million, in line with our March outlook.

Performance by revenue line was as follows. Advertising revenues declined 22% year-over-year to $21.4 million, driven by ongoing pressure on our direct sales channel and lower monetization on third party platforms. By contrast, programmatic advertising revenues across our largest owned and operated properties, BuzzFeed and HuffPost, grew modestly for the third consecutive quarter, increasing 6% year-over-year.

Advertising revenues are driven in large part by audience time spent with our content across platforms. In conjunction with advertising revenues, we continue to report US time spent across our owned and operated properties and third party platforms according to

Comscore.

In Q1, US time spent as reported by Comscore declined 16% year-over-year to 67 million hours driven primarily by the ongoing declines in referral traffic from third-party platforms. However, as Jonah discussed, we continue to see positive trends in direct traffic, which grew 3% year-over-year, sorry quarter-over-quarter.

Content revenues declined $3.1 million or 19% year-over-year to $13.1 million, driven primarily by a nonrecurring custom content campaign that was delivered in the year-ago quarter with no comparable revenue in the current quarter.

Commerce and other revenues of $10.2 million declined $1 million or 9% year-over-year. This is primarily due to less promotional spend by retailers and lower audience traffic as compared to the year-ago quarter. We generated first quarter adjusted EBITDA losses of $11.3 million also in line with our March outlook. It is important to note that per US GAAP, we have not allocated any of the shared expenses to discontinued operations.

As a result, our first quarter adjusted EBITDA includes Complex's portion of our shared corporate expenses, which were significant. We ended the first quarter with cash and cash equivalents, including restricted cash, of approximately $62 million, a net increase of approximately $26 million versus the fourth quarter after paying down a significant portion of debt, partially funding our recent restructuring and improving working capital. This again, was driven by the proceeds from the sale Complex, which closed in February.

Before I share our financial outlook for the second quarter, let me provide a little context. Starting with revenues. Building on Q1 momentum in direct traffic and programmatic revenues, and as we lap the deprecation of Facebook Instant Articles and the closure of BuzzFeed news, we expect overall programmatic advertising revenue to return to modest year-over-year growth in Q2. However, we do expect ongoing pressure on the direct sales channel and lower third party platform monetization to continue to impact year-over-year growth in overall revenues.

In terms of adjusted EBITDA, our Q2 outlook reflects the cost savings from our fully executed restructuring program announced in February. As a reminder, the program is expected to drive approximately $23 million in annualized compensation cost savings. These savings are expected to fully offset the year-over-year revenue pressures that we are anticipating for Q2.

With that, I will turn to our financial outlook. Again, all figures and comparables are presented on a continuing operations basis. For Q2 2024, we expect overall revenues in the range of $44 million to $49 million or 21% to 30% lower than the year-ago quarter.

We expect adjusted EBITDA in the range of $4 million in losses to $1 million in profits. Approximately flat year-over-year at the midpoint. With a leaner cost base, stronger balance sheet and renewed focus on driving high-margin programmatic and affiliate revenues across our owned and operated properties, we are continuing to make meaningful strides towards returning the business to profitable cash-positive growth.

Thank you. I'll hand the call back to Amita, so we can take questions.

QUESTIONS AND ANSWERS

Amita Tomkoria ***BuzzFeed Inc - SVP of IR***

Thanks, Matt. I've gathered a bunch of questions here that we've received offline and during the call, so we'll get right into it.

Jonah, maybe starting with you on the Commerce business, you spoke a little bit about Retail Media Networks as it relates to your affiliate business and some of the retail partnerships that you have with Retail Media Networks continuing to show strong growth. What's the opportunity for BuzzFeed to leverage first party data and the engaged audience that you have to attract some of these dollars?

Jonah Peretti ***BuzzFeed Inc - Chief Executive Officer and Co-Founder***

Thanks Amita. Yeah, the retail media networks are big opportunity for us. We see a lot of opportunity in that space. Just to take a step back, as I mentioned earlier, our model for commerce is a bit different than a lot of our peers. We really focus on product discovery. People come to BuzzFeed for all kinds of things, entertainment and useful information and sometimes while they're there they start discovering the shopping content and buy things.

Other times, they might come there because they want to shop, but they want to shop for fun. They're not doing research on a particular product that might want to buy. It's much more about discovery - finding something they didn't know existed, being inspired to buy something new and driving emotional responses in the buying process, finding new products, finding something for yourself you didn't know you needed, finding something that solves a problem that you have in your life that our amazing writers have known is a common problem that people have and have suggested a bunch of interesting products to solve that.

All of that is what drives of our transactions and our shopping business. And so as a result, we're able to capture a lot of really rich first-party data because we see what are people responding to. For example, we have data on shoppers that are looking for particular categories. We have data about shoppers that is more generational -- what kinds of other content are they reading, are they parents, are they Gen-Z, are they millennials?

And then we have these amazing partnerships with the largest retailers in the world of Amazon, Walmart, Target and others where that new product discovery can be -- it is very easy to transact on and when you find something on one of these major retailers because there are places that people are already accustomed to shopping, places where people already are logged in or have credit cards on file.

And so that's why we were able to generate $80 million in revenue through retail relationships in 2023, and that's approaching a third of our revenue. And so I think this positions us really well for continuing to grow and expand our relationships with these retailers. And also when these retailers have the desire to extend advertising from their RMN, they can do that through a partner like us because they know that we have great first-party data. We know a lot about shoppers.

We know that -- they know that their customers are already shopping from BuzzFeed and discovering things and finding things on BuzzFeed. By extending their retail media networks across our inventory, they're able to get something really differentiated and help particularly with incrementality where people are discovering new things and clicking through and transacting.

And so that's awesome. It's a big area of focus and integrating more deeply with our retail partners and going deeper on first-party data to make those connections, is a big opportunity, and we're very deeply engaged in that.

Amita Tomkoria ***BuzzFeed Inc - SVP of IR***

Thank you. Matt, maybe turning to you because you discussed the comps for time spent trends and also some of what you're seeing on O&O. Can you talk about any green shoots specifically that you're seeing with respect to content initiatives driving O&O traffic that might point us toward a potential return to growth over a period of time?

Matthew Omer ***BuzzFeed Inc - Chief Financial Officer***

Yeah. Thanks for the question. I think on 4Q overall time spent continues to be pressured by the lower Facebook referral traffic. However, we are seeing green shoots with respect to our direct audience. So for example, our BuzzFeed web and app direct traffic grew 3% quarter-over-quarter. We're also seeing deeper engagement among our most loyal audience. For example, the number of page views per web visitor has grown for four consecutive months since December. And really just looking to build on this momentum in Q1 with a focus on audience loyalty and new content in the pipeline to help drive time spent.

Amita Tomkoria ***BuzzFeed Inc - SVP of IR***

Got it. And maybe back to you, Jonah. You and Matt both reference the sale of Complex and just, now that's behind you guys, how do you think about the brand portfolio as it stands today? Are you thinking about additional asset sales or maybe you can talk about sort of the role of each brand in the portfolio at this stage?

Jonah Peretti ***BuzzFeed Inc - Chief Executive Officer and Co-Founder***

Sure. So we have really amazing assets, and it's exciting that we continue to see inbound interest in our brands. It speaks to the strong reputation we have built around each of our brands in the marketplace, both with audiences and advertisers. And we'll continue to be opportunistic in order to put our business in the strongest position to benefit from the work we're doing in AI and this next generation of more interactive content that we are very excited about.

I think when you look at the programmatic and affiliate revenue lines, which are -- we really see as core, both HuffPost and BuzzFeed have really have great audiences and brands and dynamics to drive programmatic and affiliate revenues. We're seeing a lot of strength in programmatic across both those properties.

And although HuffPost is newer to the affiliate commerce, the large engaged audience and an audience that's a bit more affluent as has really helped that business grow on HuffPost. And so we think the core program and affiliate revenue lines really BuzzFeed and HuffPost drive that. We also think these brands are poised to benefit from our work in AI and so we're excited to see additional leverage out of those businesses.

Another thing that and I think is important, which I talked about previously, is just putting more power in the hands of GMs and brand managers to make sure that each of our brands can operate very entrepreneurially and achieve their full potential. We tried to provide support from centralized services, but in a very lightweight way, that is cost effective and then allow the each brand to really control their own destiny and be able to drive value that way.

And then part of that is bringing employees back to the office in a very deliberate way to foster collaboration and continue to work with our advisors to optimize our balance sheet and to evaluate assets and to make the smartest deals for the company moving forward.

Amita Tomkoria ***BuzzFeed Inc - SVP of IR***

Thank you. And then in terms of monetization, as you guys lean into programmatic, can you speak to some of the benefits that you've seen materialize so far? And maybe just how you expect that to translate from an overall revenue perspective and EBITDA and cash perspective over the longer term?

Matthew Omer ***BuzzFeed Inc - Chief Financial Officer***

Yeah, I can take that. One thing I noticed or noted was our third consecutive quarter of programmatic revenue growth across our largest O&O properties. So it's important to note as we lap the deprecation of Facebook Instant Articles and the closure BuzzFeed News, we expect overall programmatic advertising revenue to return to modest year-over-year growth in Q2. And it's good to remind that programmatic advertising is our largest and highest -- largest and highest margin revenue stream.

And so as we continue to scale this revenue and return to growth, we do expect to drive improved EBITDA trends as well. And you're seeing some of that in the Q2 guide approaching breakeven despite the revenue pressures in other parts of the business. Q2 savings, again from the restructure, are fully offsetting the revenue pressure that we're seeing.

Amita Tomkoria ***BuzzFeed Inc - SVP of IR***

And maybe just a follow on from that, thinking of the restructuring, can you talk about how you're looking to drive or how you're thinking about margin expansion and cash generation kind of over the course of the balance of the year?

Matthew Omer ***BuzzFeed Inc - Chief Financial Officer***

Yeah. I mean, as I touched on earlier the restructuring program drives around approximately $23 million annualized savings, a meaningful reduction to our cash cost structure. And another important consideration is as we with our strategy to focus on our higher margin, programmatic and affiliate revenues, a greater position percentage of our costs are going to be related to our compensated -- compensation related expenses for the creation of our editorial content, which are more fixed in nature. This will result in higher margin expansion and cash generation as we continue experience seasonal lift in our revenues.

Amita Tomkoria ***BuzzFeed Inc - SVP of IR***

Thank you. And our final question just on the topic, Jonah, of Google cookie deprecation and kind of the shifting time line around that. Has the delay changed any conversations that you guys are having with advertisers and the industry? Has more time to prepare, from your perspective reduced the risk of signal loss that might otherwise pressure CPMs. Can you maybe give us your perspective on that?

Jonah Peretti ***BuzzFeed Inc - Chief Executive Officer and Co-Founder***

Sure. It's nice to have more time, although we felt ready for the change. The biggest impact for this change will be a short term period once it's rolled out of adjustment and we've seen that with other changes like this, where it takes a bit for everyone to update and change their strategies and then quickly using other approaches you can achieve revenue that's on par with what you were seeing previously.

I think we feel very good about the way we have - particularly with this first-party data -focused on our operated properties to be able to provide really excellent ad targeting. One of the reasons that brands like to partner with BuzzFeed is that we have the ability to reliably target key audience demographics. So people who are travel assessed or parents or people who are shopping or people who have certain passions or interests and we can do that all within a brand-safe environment of trusted content.

And we also have an audience that for lack of a better word, has a pull say, they buy things, they share content, they comment, they engage and so having them audiences that are really proactive and take action, I think, is really valuable for anyone who might be interested in having someone buy a product of theirs or share or product or talk about their products.

So all of that, really plays to our to our strength and a little bit more in the weeds. We do have many initiatives that will help our first-party data be used to mitigate any potential downside risk from cookie depreciation. So logged-in user testing, we partner with LiveRamp and see that a logged-in user has a 35% increase in CPMs when they're authenticated, UID partners with The Trade Desk Universal ID has seen 4% of our users authenticated, sales outreach to increase sales efforts around contextual positioning.

We have some other things on the sales side, our ad product roadmap includes product enhancements and contextual positioning and LLMs, using LLMs to understand contextual audiences even better. I think when particularly with these advances in AI, it's possible for an AI to actually read all of our content and increasingly to be able to do that multi-modal and then be able to suggests what ad placements or contextual average ad placements would make the most sense. And that's all pretty new.

If you think back to the sort of early era of magazines where every [method] all these nice magazines were launching so that you could advertise just to people who were in the hygiene and people who are into running and people are into fishing and all of that kind of work that was done to spin up publications to create contextual environments for advertising. Now you can do that in a dynamic automated AI powered way. And so I think a lot of the advancements in that space are going to offset or more than offset some of the impacts of the cookie depreciation.

Amita Tomkoria ***BuzzFeed Inc - SVP of IR***

Great. Thank you. That wraps our live Q&A session for today. Thanks, Jonah. Thanks, Matt and thank you all for joining us on the call today. Operator, I'll hand it over to you.

Operator

Thank you. This concludes the conference. Thank you for your participation. You may now disconnect.