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PRESENTATION

Operator

Good day, and thank you for standing by and welcome to BuzzFeed Inc. second quarter 2024 earnings conference call. At this time, all participants are in a listen only mode. 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, Senior Vice President of Investor Relations. Please go ahead.

Amita Tomkoria - *BuzzFeed Inc - Senior Vice President - Investor Relations*

Hi everyone. Welcome to BuzzFeed Inc Second Quarter 2024 earnings conference call. I'm Amita Tomkoria, Senior Vice President of Investor Relations. Joining me today are 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, our 2023 Annual Report on Form 10-K, our Q1 2024 quarterly report on Form 10-Q and our Q2 2024 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. Before I get into the specifics about the quarter, I want to provide a bit of context. As I've mentioned on our past calls, we take a long-term approach to managing our business. This is why we have kept our world-class tech team and product teams intact despite a tough market where many of our competitors shed those costs, provide short-term savings.

We have a strong conviction that continuously experimenting and innovating with technology sets us up to thrive in the next era of the Internet. We've always lived at the intersection of content and technology, and we're increasingly leaning into new technologies that are beginning to transform the media industry.

I'm pleased to share that we are beginning to see the fruits of our experimentation and innovation. In particular, Generative AI, interactive content format, bot formats, enhanced personalization are starting to drive improvements in key metrics across our business. These improvements include more audience loyalty, more user logins, higher conversion on our commerce content, better targeting in growth in our advertising inventory, revenue growth in our most scalable lines of business and improved profitability.

By leaning into new technologies, we have also accelerated the pace of new product development, made our content creators more efficient and creative and invited our audience to participate directly in AI-assisted content creation. We've already done much of the hard work that will enable us to do more of the fund consumer-facing work moving forward.

Since the start of the year, we've built foundational capacities with the help of AI that now power internal content development tools like our AI co-pilot as well as consumer-facing experiences like our AI-assisted content generators. By leveraging a range of embedding techniques to represent our content in conjunction with Vector data stores and model fine tuning capabilities, we have the right building blocks in place to recommend, remix, personalize and generate new forms of media for our audiences.

Our teams are very excited about the capabilities we've built so far and even more excited about all the new things we'll be able to launch in the coming months and years. We'll share more with you on future earnings calls so you can track our progress. These changes have also allowed us to complete the shift away from platform-dependent model of content distribution and monetization.

In Q2, our teams were focused on deploying many of these tools to drive deeper audience engagement on our owned and operated websites and apps. And our Q2 results demonstrate the progress we've made in that regard, along with stabilizing our business more generally.

As compared to Q1, audience time spent with our content in Q2 grew 5% according to Comscore, and as the only digital media company among our competitive set to grow over this period, we believe this highlights the strength of our differentiated business model and contrast with peers whose traffic is highly dependent on search and other external referral sources. We also grew time spent among our core demographic of millennials and Gen Z by 11% versus Q1.

In terms of revenue, on a year-over-year basis, we grew Q2 revenues in two of our largest and highest margin lines of business, programmatic advertising and affiliate commerce, and we exceeded our May profit outlook, delivering $2.7 million in Q2 adjusted EBITDA for a $5 million improvement year over year. With the vast majority of audience engagement happening on our owned and operated properties, we are well positioned to control our own destiny in terms of enhancing personalization, enhancing and personalizing the audience experience and driving long-term monetization.

In Q2, 90% of audience time spent with our content was on our own websites and apps, and direct traffic continues to be our largest source of audience traffic, far surpassing referrals from third-party platforms, including Facebook. Direct traffic continued to show stability in Q2 across our two largest owned and operated properties, BuzzFeed and HuffPost. More importantly, we saw strong evidence of deepening loyalty among our audience.

Logged-in users grew versus Q1 better position us to mitigate potential risk of cookie depreciation as we introduce more interactive content. As we introduced more interactive content, we also have seen that the number of loyal users or the number of users that visit us more than once a week has grown by a double-digit percentage since Q4 2023.

And we are also seeing momentum in terms of repeat visits to our site. Page views per unique visitor grew quarter over quarter for the third consecutive quarter. Loyalty continues to be particularly strong across our suite of BuzzFeed Games with the vast majority of Q2 game users on the app return within a week.

One of our biggest learnings in Q2 was that when creativity is in the hands of our audience, engagement is deeper. Whether it's our Sims AI Generator, Make Your Own Emoji or Turn Your Favorite Celeb Into Shrek, our AI-powered content generators have demonstrated higher audience engagement and participation relative to other formats.

We've also launched the new BuzzFeed homepage in June, offering more engagement opportunities for audience directly on the page from poles to quizzes to widgets that make it easier for the audience to learn more about themselves and each other. Although it is still early, following the new site launch, we have seen measurable increases in audience engagement and monetization with more actions per visit and a double-digit percentage increase in programmatic revenue per home page view.

Looking ahead, we expect to build on these engagement and monetization trends with a new landing page that features all of BuzzFeed Games, social leaderboard feature and a newly designed BuzzFeed app that builds on the learnings from our web homepage. We see a future where our app provides a mix of trusted content, games and interactive features, creating a hybrid between high content publisher and a social media destination. I'm excited to be building a platform that aligns with the future of digital media.

Turning to our revenue performance. I'm pleased to share that we grew Q2 programmatic advertising by 3% year over year. This is the first quarter of year-over-year growth in overall programmatic revenue since Q1 2022, a signal that our strategic and organizational changes we have made to stabilize our business are beginning to pay off. And importantly, these changes are also helping us offset the impact of declines on third party platforms and validating our focus on our owned and operated properties.

Although our overall revenue performance continues to be pressured by headwinds in the direct sales channel, we are optimistic about the progress we are seeing on the programmatic side, which represents approximately two-thirds of our overall advertising revenue. As part of our larger company-wide transformation, we continue to prioritize our most scalable, high margin revenue lines, and we expect this momentum to continue into Q3 as strength in our high-margin revenue lines drives further year-over-year improvements in adjusted EBITDA.

Our affiliate commerce business also had a strong Q2, growing revenues by 9% year over year. As I discussed in past calls, retail partnerships are an important part of our business. With coverage like editorially-driven product roundups, we drive hundreds of millions of dollars in commerce transactions on behalf of the largest retailers in the world.

But our retail partnerships extend far beyond our editorial shopping content. Our relationship with Target is a great example of how we put our diverse product catalog to work and to drive actionable results. Target leverages our high-quality on-site real estate to promote general brand aids and supplier funded campaigns secured through Roundel through its retail media business, which drives advertising revenue for BuzzFeed.

They also purchased branded sponsored content like homepage takeovers to spotlight their big tent-pole moments like Target Circle week or the holiday gifting season. And more recently Target partner with us on AI this past holiday shopping season as we introduced Shoppy - our AI-powered shopping assistant that helps our readers find the perfect gift for everyone on their list.

Our expertise in serving retail partners continued to shine in Q3. Off of the back of Amazon's largest Prime Day yet, BuzzFeed also had its biggest Prime Day ever, growing revenues over the two-day period by a strong double digit percentage year-over-year surpassing even Amazon's overall prime growth, and demonstrating the value add we're able to deliver on behalf of the world's largest retailers. I'm so proud of the teams whose expertise and dedication contributed to such impressive results for the company.

As we continue to make progress in growing our programmatic and affiliate revenue lines, this quarter, we are introducing more transport currency into our revenue reporting. I encourage you to flip through our Q2 investor letter available on our IR website for a closer look at revenue performance. Matt will also share more on this shortly.

Although legacy digital media continues to face challenges, we are charting a path to a better future and redefining the industry for this next era of technology. I want to emphasize the progress we have made in stabilizing the business in a relatively short period of time.

Since the start of the year, we have built the leading platform for AI-powered content, accelerated the launch of tons of new content from AI-Power formats, to games, to new homepage experience, reduced our debt, reduced our cost structure, improved our cash position, returned two of our largest and highest margin revenue lines to growth and have driven year-over-year improvements in profitability.

I'm grateful to work alongside such a talented and dedicated team and excited to showcase what's next for BuzzFeed as we continue to build the defining media company for the AI era. I'll now hand the call off to Matt to discuss our financial performance and outlook.

Matthew Omer - *BuzzFeed Inc - Chief Financial Officer*

Thank you, Jonah. As Jonah just touched on, we closed the second quarter with great momentum. Before I discuss our Q2 financial performance in more detail, I'll recap some highlights from across the business. In terms of audience time spent, we were the only digital media company in our competitive set to grow time spent quarter over quarter, up 5% versus Q1 according to Comscore. And importantly, we grew time spent among our core demographic, millennials and Gen Z by 11% versus Q1.

We delivered overall Q2 revenues in line with our May outlook with year-over-year growth in two of our largest and highest margin revenue lines of business, programmatic advertising and affiliate commerce. We exceeded our May outlook for adjusted EBITDA, generating $2.7 million in Q2 profits, a $5 million improvement year over year.

This momentum has continued into Q3 with our biggest Prime Day ever, generating double digit year-over-year growth in both audience traffic and commerce revenue and outpacing Amazon's overall prime growth day growth. As we work to return the overall business to growth, we are introducing more transparency in our revenue performance, and this quarter, in this quarter's investor letter available on our Investor Relations website, you will find details on the year-over-year revenue performance of our areas of focus, programmatic advertising and affiliate commerce.

With that let me share some more our second quarter financial results. As a reminder, all financial and comparables presented here are on a continuing operations basis, which excludes complex. Overall revenues for Q2 2024 declined 24% year over year to $46.9 million, in line with our May outlook. Performance by revenue line was as follows. Advertising revenues declined 19% year over year to $23.8 million, driven by ongoing pressure on our direct sales channel and a shift in our strategy to prioritize our most scalable high-margin revenue lines.

This offset growth in our programmatic advertising business across both our owned and operated properties and third-party platform. 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 viewers time spent across our owned and operated properties and third-party platforms according to Comscore. And as I mentioned earlier, we led the industry in Q2 in terms of overall audience time spent growing versus Q1.

On a year-over-year basis, time spent trends continued to reflect the ongoing declines in referral traffic from third-party platforms. Q2 time spent as reported by Comscore declined 5% year over year to 71 million hours. Deposit revenues declined 40% year over year to $11.4 million, again driven by ongoing pressure in the direct sales channel.

The vast majority of our content revenue is made up of branded content campaigns for clients. Now if you double down on our higher margin more scalable revenue lines like programmatic advertising and affiliate commerce, we have put less emphasis on its lower margin branded content business. Commerce and other revenues of $11.7 million grew 7% year over year, driven by better performance of our shopping content across multiple metrics., which you have higher affiliate commissions from our retail partners.

When we delivered second quarter adjusted EBITDA of $2.7 million ahead of our May outlook and $5 million better than a year ago quarter, this reflects the cumulative impact of our cost savings plan announced in February, which more than offset the revenue headwinds in the quarter. We ended the second quarter with cash and cash equivalents of roughly $45 million, a net increase of approximately $10 million year to date.

And before I share our financial outlook for the third quarter, let me provide some context, starting with revenues. As we continue to prioritize our more scalable revenue lines, we once again expect year-over-year growth in programmatic advertising and affiliate commerce revenues in Q3. In terms of content revenues, we do expect to see an improvement in year-over-year revenue trends versus what we saw in Q2.

It's also worth noting that although historically we have seen a lift and directional revenues ahead of the US presidential election, the majority of this spend typically occurs in the fourth quarter. As such, our Q3 guidance does not assume any material lift from political sales. From a commerce perspective, as I discussed, we have continued to see strong momentum in the affiliate business into Q3, particularly with Prime Day.

And in terms of adjusted EBITDA, off the back of expected improvement in revenue trends from Q2 to Q3 and our cumulative cost savings, we expect to drive operating leverage quarter over quarter and year over year reflected an improvement to adjusted EBITDA and adjusted EBITDA margin.

With that, I'll turn to our financial outlook. Again, all figures and comparables presented on a continuing operations basis. For Q3 2024, we expect overall revenues in the range of $58 million to $63 million or 3% lower to 5% higher than the year-ago quarter. And we expect adjusted EBITDA in the range of $6 million to $11 million in profits, approximately $8 million higher year over year at the midpoint.

Our Q2 results have demonstrated our efforts to refocus the business are driving real financial results, and we see this momentum continuing into Q3. As we return two of our most scalable and highest margin revenue lines of growth, we continue to execute with a lean cost structure and strong cash management. And we see an opportunity to further stabilize the balance sheet and return the overall business at top line growth and drive additional margin expansion over the upcoming quarters.

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

QUESTIONS AND ANSWERS

Amita Tomkoria - *BuzzFeed Inc - Senior Vice President - Investor Relations*

Thanks, Matt. Hi everyone, We've gathered a bunch of questions that have come in over the course of the call and in advance. So we'll get right into it.

Jonah, starting with you on the topic of AI and some of the upcoming launches that you mentioned. Can you share a bit more about how AI is helping move some of these content launches forward? And if there's a way to quantify the cost benefit of rolling out content that utilizes some of the new AI capabilities that you talked about?

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

Yeah. So I'll start just by saying that there's a fair amount of upfront work that we've done really over the last year and a half to build a platform to enable us to accelerate our work in AI and to be able to launch more products and more content. So if you take an example like the Bridgerton dress generator or Shrek post, it really represents a very different way of thinking about and making content. Someone on our team will, instead of making a single post or article, will create a generator.

And then our audience will come and use that generator to create hundreds of pieces of content or thousands of pieces of content. And so, you basically shift from a model where your team and your editors and writers are making one piece of content that is consumed, to they're making a machine that generate lots of content with the audience and allows the audience to participate in that content creation. I mean that's just one example of the ways that increases the content output and these audience and the interactivity.

We're also driving more personalization on our site. We're building tools to streamline our business operations. We're using AI to detect trends and surface ideas that then our writers can turn into stories and posts. And so there's a huge wide range of things that we're able to do.

But all of it is really enabled by the fact that we have spent the time investing in building a platform, and so now, instead of it taking many weeks to launch a new interactive format, we can launch things as quickly and easily as other forms of content in the past, but the content is more personalized, more interactive and is more generative of additional content. And I think it really starts to feel like a collaboration between our team, our audience and the AI. And it's something that is pointing to a lot of really exciting opportunities for the future.

Amita Tomkoria - *BuzzFeed Inc - Senior Vice President - Investor Relations*

Thank you. And then just as the election approaches, maybe just to quickly touch on Jonah and maybe this will be for you Matt, what are the expectations for the impact on book traffic and advertising revenue for the business?

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

I mean, just to quickly start with traffic, I think we're already seeing tremendous interest in the election on both BuzzFeed and HuffPost. BuzzFeed is more of an entertainment property. But there's so many memes and stories and entertainment related to the way that the election is driving culture. And HuffPost is really the best place to go and find out what's going on in this election, especially as social media platforms have gotten more fragmented and there's more misinformation spreading across social platforms.

The front page of HuffPost is a great place for an audience to know what's going on, what are the latest developments? What's real, what's not and we see a lot of strength in HuffPost with the election. I think in terms of ad spend, we usually see that ad spend come later in the cycle as campaigns span really rapidly in the run-up to the election to drive turn out, registration, other things.

Matthew Omer - *BuzzFeed Inc - Chief Financial Officer*

Yeah, I would just echo that. We really expect the direct sold revenue to come in Q4 as opposed to Q3.

Amita Tomkoria - *BuzzFeed Inc - Senior Vice President - Investor Relations*

So, Matt, that's a good segue maybe into the Q3 guide. The Q3 guidance that you shared shows a pretty significant step up in revenue versus Q2. Can you share a bit about what's driving that blip?

Matthew Omer - *BuzzFeed Inc - Chief Financial Officer*

Yeah, sure. I mean, we expect the positive trends to continue in both programmatic and affiliate as we double down on owned and operated properties. As you heard from Jonah, the new content launches, plus the revamped homepage are certainly driving deeper audience engagement, which is translating into improvements in programmatic revenue, and we just had our best Prime Day ever as I touched on. So double-digit top line growth drove significant momentum for as we have approaching kind of began Q3.

We're also seeing the stabilization in direct sold content in Q3 and expect a significant improvement in the year-over-year trend in Q3 versus what we saw in Q2. So that's part of the step-up. And then following the cost-saving actions that we touched on last quarter, more of our costs are fixed in nature. And so as we see the seasonal lift in our revenue and some of the stabilization, we're going to see improvements on operating leverage, and that’s certainly amplified particularly as we see two of our highest margin lines of business return to growth.

And as a reminder, we showed $5 million improvement in adjusted EBITDA in Q2. And based on the midpoint of guidance, we expect an $8 million improvement into Q3. So we're extremely excited that we have some momentum and we're going to continue to focus as a management team, keep our head down, continue to focus on execution.

Amita Tomkoria - *BuzzFeed Inc - Senior Vice President - Investor Relations*

And maybe then just to jump over to the balance sheet. You guys obviously still have a fair amount of debt outstanding. Can you share your latest thinking around that? And particularly how you guys are thinking about the impending option that becomes available for the lenders in December I believe?

Matthew Omer - *BuzzFeed Inc - Chief Financial Officer*

Yeah. I guess this coming off the last question, and what we're really focused on is execute on the strategy that Jonah and I have laid out in previous earnings calls and in this one. And we're starting to see some material improvements to our fundamentals in the financials. And we believe we have a very collaborative relationship with our noteholders, as demonstrated by -- they gave us consent and we [executed](corrected by company after the call) the Complex transaction.

As we previously discussed in our 10-Q, the company is -- we're always evaluating strategic changes to our operations or capital structures, including divestitures, of which the proceeds will be used to pay down debt. We also consider restructuring or refinancing existing debt and discontinuance, I should say, of any unprofitable lines of business to ensure the long-term health of the business.

It's also worth noting that with our larger public float, we have been able to increase the size of our ATM program to $150 million. So we have that as well at our disposal for additional liquidity should the market circumstances support it. But overall, again, we're focused on keeping our head to the ground and operating, executing on the plans laid out earlier this year and will continue looking forward.

Amita Tomkoria - *BuzzFeed Inc - Senior Vice President - Investor Relations*

That's very helpful. So maybe, Jonah, turning back to you. I'd be remiss not to ask about some of the headlines around new activist shareholders entering stock and I'm curious if there's anything that you can share with us in terms of whether BuzzFeed has engaged with them up to this point or really any light that you can shed on that would be great.

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

Sure. So obviously, BuzzFeed is a very well-known brand. That means a lot to many people. And I agree that there's a lot of future potential for BuzzFeed, and we're working really hard to unlock that potential. In terms of Actavis, I'm always very open to hearing from our shareholders, to hearing new ideas, to hearing ways that we might be able to unlock even more value in the future.

And I think there are a lot of tremendous possibilities ahead of us, and we're working very hard on our long-term strategy to unlock as much value as possible. But engaging with voices and shareholders and beyond shareholders, getting ideas for how to do the best we possibly can at creating the defining media company for the AI era over the next few years is something that we're very excited about.

Amita Tomkoria - *BuzzFeed Inc - Senior Vice President - Investor Relations*

Thank you. We've got a couple of minutes left. So Matt, I'd like to close out with you just on the topic of cash. If I look from Q1 to Q2, it looks like the company burned about $16 million in cash quarter to quarter. Is that indicative of your expected cash burn rate going forward?

Matthew Omer - *BuzzFeed Inc - Chief Financial Officer*

I think the Q2 cash burn is absolutely not indicative of the go forward expected run rate. We had a few expenditures in Q2 that are not expected to repeat in Q3. The most material of which were the severance and one-time compensation charges related to expenses from the Complex transaction and the cost savings actions we announced in February.

Secondly, as we previously had noted, we used some proceeds in the Complex sale towards optimizing our working capital. And lastly, we had a biannual interest payment that was due in June. None of those are going to be repeated in Q3. And so if we remove those expenditures then the cash burn would have been dramatically reduced. And so with large one-time charges behind us, we do expect much more stability in our cash balance going forward. I'm pretty excited about where we are headed in this business.

Amita Tomkoria - *BuzzFeed Inc - Senior Vice President - Investor Relations*

Thank you. Thanks, Matt, and thanks, Jonah. That concludes our Q&A session for today. So I'll hand it back to the operator to close out our call.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.