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PRESENTATION

Operator

Good afternoon, and welcome to the Magnite Fourth Quarter 2020 Earnings 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 Fourth Quarter 2020 Earnings Conference Call.

As a reminder, the comparisons you will see in the 10-K, as reported, included the combined financial results for the fourth quarter of 2020. But for 2019 and for the first quarter of 2020, the results do not include Telaria, given the merger date of April 1, 2020.

During the course of this call, when we refer to results and associated year-over-year comparisons with the phrase, as reported, we are referring to the basis as reported in our 10-K. When we make comments referring to pro forma comparisons, we are using combined company metrics, including Telaria, for the prior year period in 2019 and the first quarter of 2020 as the basis for comparison in order to provide additional detailed insights that management also uses to evaluate our business performance.

When discussing pro forma information as it relates to the SpotX acquisition, we are also including the preliminary results of SpotX for the relevant period.

As a reminder, this conference call is being recorded. Joining me on the call today are Michael Barrett, CEO; and David Day, our CFO.

I would like to point out that we have posted financial highlights slides to our Investor Relations website to accompany today's presentation.

Before we get started, I will 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 proposed acquisition of SpotX; the timing or terms of the closing of the transaction; and the potential benefits and synergies we expect to realize therefrom.

These statements are not guarantees of future performance. They reflect our current views with respect to future events 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 prior filings. We undertake no obligation to update forward-looking statements or relevant risks.

Our commentary today will include non-GAAP financial measures, including adjusted EBITDA and with respect to pro forma comparisons that includes SpotX's results non-GAAP net revenue. Reconciliations between GAAP and non-GAAP metrics for our reported results or the preliminary SpotX results can be found in our earnings release and in the financial highlights deck that is posted on the Investor Relations website. We define cash flow as adjusted EBITDA less capital expenditures, which excludes changes in working capital. We define net revenue as GAAP revenue less amounts paid to sellers that are included within cost of revenue. We'll be referencing preliminary non-GAAP net revenue and adjusted EBITDA results for SpotX for the year ended 2020 and for the fourth quarter of 2020. These results are preliminary and unaudited and are subject to change.

Also note that we will use the term Online Video, or OLV, where we previously used the term non-CTV video. 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 webcast replay of today's call to learn more about Magnite.

With that, I'll now turn the call over to Michael. Michael, please go ahead.

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

Thank you, Nick. Our revenue performance in the fourth quarter was strong across the board and most notably in CTV and Online Video, or OLV, demonstrating our value as the leading independent sell-side platform. Top line growth once again outpaced industry performance, especially in those 2 fast growth segments in the market, and we meaningfully exceeded the trends that we shared in our last earnings call. Overall, top line strength led to further margin expansion, demonstrating the leverage we have in our financial model to deliver profitable earnings growth.

I'll briefly cover Q4 2020 results. Revenue was \$82 million, which equates to a 69% as reported increase year-over-year and a 20% pro forma increase year-over-year. CTV revenue was \$15.3 million, representing an increase of 53% year-over-year on a pro forma basis. OLV revenue grew 35% year-over-year on a pro forma basis, and we delivered \$30 million of adjusted EBITDA, with a margin of 37%.

Next, I want to highlight a few key topics. First, I'll talk a little more about the pending acquisition of SpotX and share some additional details on their business. Second, I'll talk more broadly about CTV market -- CTV product to market trends. Third, I'll go into broader programmatic market trends, providing information on client wins and SPO progress. And lastly, I'll provide an update on our identity initiatives.

We are thrilled to have announced the proposed acquisition of SpotX. The SpotX deal is a big strategic win for Magnite, our clients and shareholders. SpotX has great tech, great people, strong customer relationships, fast-growing revenue and is highly profitable. The transaction is expected to close in Q2 pending customary regulatory approvals.

One of the exciting benefits of the acquisition will be to combine 2 great engineering and sales teams, which will accelerate the release of new features and functionality for our CTV clients. The goal of this supercharged development road map is to draw more linear TV advertising dollars to ad-supported programmatic CTV by providing our clients with the tools they need to succeed.

Combining Magnite and SpotX pro forma results for 2020 would have resulted in approximately \$350 million of non-GAAP net revenue. For Q4 2020, CTV would have been the largest format, closely followed by OLV, positioning Magnite to go head-to-head with the larger players in the CTV market. The combined companies would have also had a meaningfully higher combined adjusted EBITDA margin of 22% in 2020, and that's prior to any targeted cost synergies. David will provide additional financial details related to SpotX.

I'll now turn to CTV market trends and product news. CTV growth trends continue to be very favorable, from cord cutting, to increasing growth estimates, to movement of linear TV dollars to CTV, to recent results from The Trade Desk and Roku, all signs support very healthy market growth dynamics. We continued to outpace industry growth estimates from e-Marketer in CTV in the fourth quarter and grew our Q4 CTV revenues 53%.

We recently announced an open beta for our new CTV Unified Decisioning solution. This product is critical to increasing publishers' revenue by enabling them to have their direct and programmatic inventory compete for the highest price, thus driving higher yields. It is particularly important during a time of increased demand where programmatic CPMs can exceed direct sold CPMs. Many publishers, who primarily sold direct, missed an opportunity to adjust their strategies and allocate more inventory to programmatic. The product is currently in beta with a handful of clients, with positive early results. It is something that we plan to charge for separately, and we'll share more specifics in subsequent quarters.

The broader programmatic market also performed well in Q4. Of particular note, OLV grew 35% in Q4 on a pro forma basis. We are pleased to see the benefits of revenue synergies from the Telaria merger and the participation in this growing market earlier than expected.

Next, I want to provide an update on key customers and examples of Supply Path Optimization, or SPO. Consolidation continues to take place in our industry and our omni-channel offering, servicing technology, plus the opportunity to cross-sell from the Telaria merger have put us in a great position to grow further. On the agency front, we expanded our work with Havas in building out a trusted marketplace, while deepening relationships with key publishers.

In Q4, Magnite wants Havas' meaningful media marketplace on our technology platform. The program now features over 100 publishers across the U.S. and in key European countries. We also continued our work with Omnicom's Marketplace in Q4. Omnicom is bringing large and engaged advertisers that are shifting spend into curated, premium and transparent inventory. The build-out of this marketplace is a major priority for them in 2021. We formally launched the marketplace in December and now featured 20 premium publishing partners running display and Online Video inventory. A CTV marketplace solution is in development.

Along with SPO, we believe there is additional room for total ad spend acceleration as there are several sectors, including auto, travel, entertainment and sports, that are still performing well below pre-COVID levels and have significant upside.

I'll now shift to give a brief update on our efforts with respect to identity solutions. As you're aware, third-party cookies and IDFAs are going away, and this creates an opportunity for Magnite to bring greater value to publishers. I'm pleasantly surprised at the pace of development of the new identity solutions in the way that the programmatic ecosystem has come together to find open viable alternatives that work in a privacy compliant manner.

We believe 3 primary identity solutions will coexist and complement each other to replace the current landscape, and we are deeply involved in the development of all 3. First, and particularly important to us, publisher first-party data segments that are created within our Magnite marketplace and can be bought at scale across a large number of publishers to find desired audiences.

Second, open source identifiers, such as offered by The Trade Desk and LiveRamp, that are based on logged in users will play an important role in the market. We are particularly pleased to see The Trade Desk announced that its Universal ID 2.0 will now live within and be operated by Prebid, an independent organization that we cofounded, which is designed to ensure and promote fair and transparent marketplaces across the industry.

And third, Privacy Sandbox from Google Chrome, where the browser preserves identity and creates cohorts or groups. We believe that our platform and scale position us well to provide the infrastructure and tools that publishers need to succeed in the new world of identity.

Our key growth drivers remain the same: growing CTV, which will continue to be our most compelling opportunity for the foreseeable future, further accelerated with the addition of SpotX; increasing market share gains across all formats and device types as we better service a fragmented marketplace as a transparent, independent omnichannel partner; expanding our software solutions, as seen with our new Unified Decisioning products and our Demand Manager offering; and lastly, playing a leading role in transforming the landscape of targeted advertising and creating value for our clients with broad-reaching identity solutions.

Before turning the call over to David, I wanted to provide a contract update for a very strategic CTV and market-leading client, Disney. It is well-known that we've been serving as their SSP partner and that we've had a strong CTV relationship through Hulu dating back several years. We are pleased to announce that we have renewed our contract for an additional 18 months. In addition, we are excited to announce we'll be expanding our relationship by powering programmatic transactions across the wider umbrella of premium Disney, such as ESPN, ABC, among others, as part of their Disney DX (sic) [XD] HP or cross-platform offerings.

As we continue to expand on opportunities within Hulu's platform and their many content partners, we will now also work across and directly with these additional Disney properties. This is a true omnichannel partnership, and our relationship is stronger than it has ever been. We look forward to continued innovation and growth as we work closely with our partners at Disney.

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

David L. Day Magnite, Inc. - CFO

Thanks, Michael. As Michael described, we are pleased to report improvement and strength in our top and bottom line performance as we continue our recovery from COVID-driven challenges in 2020.

For the full year 2020, we delivered \$221.6 million in revenue, a 42% increase over the prior year. Including Telaria revenue for Q1 2020, pro forma revenue would have been \$236.7 million. For the full year, we generated \$43.1 million in positive adjusted EBITDA, a \$17.4 million improvement over 2019.

As Michael mentioned, Q4 2020 revenue of \$82 million represented a year-over-year increase in as-reported revenue of 69% and was up 20% on a pro forma basis. The revenue recovery was greater than originally expected and was broad-based across channels and formats, led by CTV pro forma growth of 53% and OLV pro forma growth of 35%, with OLV driven from both new business wins and Q4 political spend.

Q4 revenue was also supported by an unseasonably stronger-than-expected last 10 days of the quarter, where we have typically experienced greater revenue drop-offs than this year. Q4 revenue for mobile increased 24%, and desktop grew 3% on a pro forma basis, with mobile growth driven by mobile app and OLV. Our revenue mix for Q4 2020 was 19% CTV, 48% mobile and 33% desktop.

For the year, total pro forma video revenue, including CTV, was \$106 million or approximately 45% of total pro forma revenue. Demand Manager revenue for the year came in slightly below \$4 million. We continue to see more inventory through the product and a focus on larger publisher penetration, where we continue to see adoption by leading publishers.

We previously provided specific ad spend and take rate amounts on an annual basis. Given the growing complexity inherent in our ad spend, which would double count ad spend related to Demand Manager, Unified Decisioning for CTV and other initiatives, and importantly, given the significant and growing competitive sensitivity related to our take rates, we will not be providing specific ad spend and take rate figures going forward.

From a qualitative perspective, however, take rates remain stable. Operating expenses, which in our case includes cost of revenue for the fourth quarter of 2020, were \$74 million versus \$47.5 million in the same period a year ago. Increases were primarily driven by the inclusion of Telaria operating expenses and some relative increases in cost of revenue due to increased amortization resulting from the Telaria merger and from the increasing cloud costs.

On an adjusted EBITDA basis, operating expenses, including cost of revenue for the fourth quarter, were \$52 million as compared to \$33.2 million in Q4 2019, also driven primarily by the addition of the costs resulting from the Telaria merger. Our GAAP-based gross margin for the fourth quarter was 74%, up from 66% in Q3 2020 and also up slightly from 73% in Q4 2019 on an as-reported basis. Net income was \$5.9 million in the fourth quarter of 2020 as compared to net income of \$1.5 million in the fourth quarter of 2019.

Adjusted EBITDA was a positive \$30 million, resulting in a margin of 37%, higher than originally expected, primarily due to strong revenue growth. The strong incremental flow-through of revenue to adjusted EBITDA continues to demonstrate the leverage we have in

our financial model from incremental revenue growth. GAAP income per share was \$0.05 for the fourth quarter of 2020 compared to GAAP income per share of \$0.03 in the same period in 2019. Non-GAAP income per share in the fourth quarter of 2020 was \$0.19 compared to non-GAAP income per share of \$0.17 reported for the same period in 2019. There were 112.7 million weighted average basic shares and 124.4 million diluted shares outstanding for the fourth quarter of 2020. The increase in diluted shares is directly attributable to more in the money options, driven by the increase in our share price.

Capital expenditures, including both purchases of property and equipment and capitalized internal use software development costs, were \$9.3 million for the fourth quarter of 2020, resulting in a total of \$24.5 million for the full year, in line with our guidance from last quarter. We had strong free cash flow in Q4. Free cash flow was \$20.7 million in the quarter, which we define as adjusted EBITDA less CapEx. We closed the year with \$118 million in cash, up \$14 million from the \$104 million balance at the end of Q3. The cash increase was driven primarily by the positive free cash flow of \$20.7 million for the quarter, plus the inflow of \$10 million of stock option proceeds and offset by working capital changes.

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 on a net basis.

As Michael mentioned, we are thrilled with the pending acquisition of SpotX, which we believe, combined with our current industry-leading team and technology, will create important scale for us as we compete for advertising spend and significantly accelerate our CTV footprint, growth and opportunity.

I wanted to highlight both SpotX stand-alone as well as Magnite combined metrics that would illustrate our potential future scale following the successful completion of our acquisition of SpotX, which we expect to occur in Q2 pending customary, legal and regulatory requirements.

Note that the following amounts are based on preliminary and unaudited results from SpotX. Note also that because SpotX reports a portion of their business on a gross revenue basis, I will use non-GAAP net revenue to represent combined results on an apples-to-apples basis. All the SpotX's revenue is in video, CTV and OLV.

On a stand-alone basis, for 2020, SpotX generated \$116 million in non-GAAP net revenue, of which \$67 million was CTV; total non-GAAP net revenue year-over-year growth of over 25%; CTV non-GAAP net revenue year-over-year growth of over 40%; OLV non-GAAP net revenue year-over-year growth of high single digits; adjusted EBITDA of \$35 million for an adjusted EBITDA margin of just over 30% based on non-GAAP net revenue; and SpotX has about 440 employees, with almost half in engineering, product and technology.

Combining Q4 2020 Magnite and SpotX on a pro forma basis, CTV and OLV non-GAAP net revenue would have represented approximately 67% of total combined non-GAAP pro forma net revenue. CTV non-GAAP pro forma net revenue would have nearly tripled to \$42 million versus Magnite stand-alone or approximately 34% of non-GAAP pro forma net revenue. The OLV business would have represented approximately 33% of non-GAAP pro forma net revenue.

Combined, pro forma adjusted EBITDA for the full year 2020 would have been approximately \$76 million for a margin of approximately 22% prior to the application of any potential cost synergies. This includes adjusted EBITDA of negative \$2.4 million for Telaria in Q1 2020.

Note that we are currently targeting an excess of \$35 million in run rate operating cost synergies, with more than half of the synergies targeted to be realized within the first year of combined operations. The SpotX acquisition consideration would have been valued at \$1.17 billion based on the value of Magnite's stock on the date of signing, comprised of \$560 million in cash and 14 million shares issued to the RTL Group. This represents a roughly 10x multiple on SpotX's 2020 non-GAAP net revenue. Goldman Sachs has provided committed financing for the transaction.

I will now share some indications for our first quarter, which I will remind you, of course, does not include SpotX as it is expected to close in the second quarter.

We expect revenue for the first quarter to be in the range of \$58 million to \$62 million, and we expect CTV to continue with strong year-over-year growth rates. We expect Demand Manager revenue to roughly double to \$8 million in 2021. We expect that adjusted EBITDA operating expenses in Q1, including cost of revenue, will be \$51 million to \$53 million. We expect the CapEx for the full year 2021 will be roughly \$25 million.

Shifting now to our long-term financial targets. We continue to target long-term annual top line revenue growth above 20%, with an upward bias as the broader advertising market more fully recovers from COVID and post closing of the SpotX acquisition. We are raising our long-term adjusted EBITDA margin targets to 30% to 35%, pending our successful acquisition of SpotX, to reflect the higher margins from SpotX, including achievement of related synergy targets and overall scale and efficiency improvements in our operating leverage.

We are very pleased with our performance this quarter as the clear leading independent omnichannel SSP, particularly with our CTV and OLV growth rates and with our margin improvement. We look forward to closing the SpotX acquisition and benefiting from the potential accelerated growth rates and margins.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question will be from Laura Martin with Needham.

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

Guys, can you hear me okay?

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

We sure can, Laura.

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

Really great numbers, you guys. So Michael, let's talk about chess play, which you're doing an awesome job, master chess player here. What acquisitions do you need next? What holes do you want to fill? What should we expect from you as a big picture master chess player over the next 12 months?

And then secondly, maybe for David. Just on the -- when we bought Telaria, my -- when you guys bought -- when Rubicon bought Telaria, merged with Telaria, my recollection was that our OLV, that's non-CTV video revenue, was actually -- had negative growth. But in the fourth quarter, you just reported 35% growth. So does that mean that's fixed? And when we buy SpotX, we should be able to accelerate the non-CTV revenue growth?

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

Yes. Thank you, Laura. I'll take the top one. And David, you can grab the second question.

Yes. No, listen, I think that with Telaria closing 4/1 of last year, and fingers crossed, SpotX some time around there, I think we have our hands full, and we are -- we have all the pieces we need. We're going to integrate the heck out of it. We've got a great senior leadership team here. SpotX has extremely talented team there. Meshed the 2 teams together. Go to team as one market. and I really, truly believe if there's anything else that's going to occur in the M&A area, it'll be rounding out the edges. It won't be a kind of swing for the fence like you've seen in the last 2 acquisitions.

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

Yes. And on the OLV. Yes, Laura, really pleased with that performance. Nothing is ever truly 100% fixed in this business. So I don't want to jinx this, but we're really pleased.

As we mentioned, last quarter, our OLV had grown -- turned positive, had grown 3%. And so we felt like we had stabilized the patient as it were. And we think we're ahead of schedule in bringing those businesses together and having positive momentum going forward. So we think we're in really good shape.

Operator

And the next question will be from Jason Kreyer with Craig-Hallum.

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

Congrats on the quarter and SpotX. Michael, I want to start out on connected TV. So obviously, one thing we've talked about, there's opportunity where ad spend has really yet to catch up to consumer behavior, which has already moved over towards streaming. Just wanted to get your take, what triggers that catchup? And then with the combination of Magnite and SpotX, how do you think you guys can help the industry accelerate that shift?

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

Yes. Jason, great question. So yes, listen, I think in the history of advertising, especially whenever any new media comes along, boy, how long was it when we -- online media first started and you heard everyone grousing about look at all these eyeballs over here and magazines are still getting more money than online. And little by little, it wore away. And I certainly don't see that occurring as slowly as it did or as slowly as it was perceived to have happened when you were on the online side, largely because the format is identical, right?

You're talking about highly produced television ads that are running in highly produced content. So it's just that the eyeballs have shifted over, and it's quite easy for marketers to shift dollars towards it.

So I think that some of it is ingrained practice. Some of it is more of a committed upfront approach, where now folks are asking for more flexibility to target buckets of dollars towards programmatic. I think we, as an industry, have to get our measurement house in order, and that's more of an ecosystem thing than a Magnite thing. But we have to figure out how it is that marketers who have spent the last 50 years advertising on TV and relying upon household audience numbers and gross rating points, how does that translate to CTV? And how are they able to know that they're selling boxes of Tide, right? So all those things take a little bit of evolution. But it's happening with a pace that I don't think anyone thought it ever would. And some of that's the silver lining of the pandemic where ad-supported video-on-demand just went up into the rate. And so the eyeballs are there, and generally speaking, folks follow that.

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

And then another question, just on your SPO conversations. Curious if you're having conversations today, how those conversations compare to those in the fall? I'm just -- what are the key drivers of the decision for an agency to consolidate their spend with Magnite? And then how do those conversations change when you layer in SpotX?

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

Yes, another good question. So if you look at the arc of SPO, and I couldn't even guess where we are in that arc, but we've been talking about this, Jason, for several years now.

And so when we were Rubicon stand-alone, we were asked to come in to agencies and say, "Okay. You want -- we want you to be one of our top display platforms, right? And we're not going to consider you for video because there's other people that do video."

And then when we closed the Telaria merger, all of a sudden, the conversations were, "Well, why are we doing it? Video over here, display over here. We should be able to just have one conversation with one platform that can do both." And I would say that SpotX just will further accelerate that. It will make us look that much more different than every other platform that's out there. And I think that it puts us in a unique position, from an SPO standpoint, to really give the agencies the choices that they've been asking for, and that is why am I spending all these dollars in the walled gardens when there's no one out there that looks like them, that is scaled like them, and I think we're slowly but surely answering that question for the agencies.

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

Okay. Just the last one kind of a point of clarification on what you talked at the end of your prepared remarks with Disney. But you called that a true omnichannel partnership. So I'm curious, is this inclusive of all ad formats? And then wondering with that relationship, if there's any exclusivities or kind of partner of choice or anything tied to that?

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

Sure. So it's Disney, obviously, being a far-reaching media empire with many, many, many media formats, the exclusivity or the preferred partner lies around the cross-platform inventory. So if you were to buy inventory from the DX (sic) [XD] HP that Disney cross-platform sale, all of that goes through Magnite.

And specifically, if you were to buy Hulu only and didn't buy any of the cross-platform inventory, that too would go through Magnite. You're capable of buying ESPN without going through Magnite, but conversely, Magnite is very capable of selling ESPN inventory as well. So we have access to all of it. Some of it's in a preferred partnership, others is in an open market partnership. But we really do enjoy a special relationship with them, built some great software for them, and there's even more positive things in the offing. So yes, kudos to the team and to our Disney partners for getting this resolved because, boy, it's been a terrific last 18 months and can't wait for growing that relationship even further going forward.

Operator

And the next question will be from Shyam Patil with Susquehanna.

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

Congrats on a great 2020 and the SpotX deal and all the strategic moves you guys have made over the past few years.

I had a couple of questions. I guess, first one, in terms of the CTV competitive landscape from the supply side standpoint. Michael, could you just talk about how you feel about your positioning? And just, at this point, do you think it's possible for a traditional SSP to kind of enter the CTV market?

And then second question is, in terms of Unified Decisioning, it seems like this is something that's much needed in the industry. You talked earlier in your prepared remarks about early positive feedback from some of the beta clients. And I was just wondering if you could talk a bit more about this and just maybe elaborate a little bit on just your vision and expectations for what this could enable.

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

Yes, great, Shyam. Thanks for the question. Yes. So listen, I think we feel very good about our positioning as it relates to the supply position from a CTV standpoint. But I think it's silly to not acknowledge the fact that there are some very, very large sources of CTV supply out there that we go up against, namely Comcast Corporation's FreeWheel. Google has this little ad serving company within their empire that has access to CTV. And obviously, they have YouTube. And you have more and more folks trying to attempt to do a walled garden approach where it's of debate short term what value an SSP can bring to it. So whatever I think we've done, I think, with the pending acquisition of SpotX, we've clearly positioned ourselves as the leading independent CTV/omnichannel SSP. There is no one that looks like us.

And as it relates to the ability for an SSP that has never done in CTV to jump in. I just put myself in their shoe before we bought Telaria, and we were going through that build by partner scenario, and it just dawned on us that the build scenario would cost a lot of money. You'd have to hire a lot of talent, and there's a lot of risk because the market is always moving. And by the time you build your first version, the market might be onto the fourth version.

So we thought that a merger was the only way for us to get into it. And as you look around the landscape, if I'm an SSP and I don't have a CTV capabilities, I don't think building has become any more attractive. And I think if you start to look at who you could partner with or buy to get into it, there's a paucity of folks.

So I think unlike the display SSP world, there's an ability here to create moats that didn't exist. And again, to be clear, that moat just gets

you into the game with the Comcasts and the Googles of the world. But everyone is asking for an independent company, and I think we're well on our way to being able to offer publishers and buyers that choice.

You also -- I'm sorry, also asked about UDI. And yes. So we're very excited about the Unified Decision tool. It's -- the marketplace is, again, in addition to the competitors that you have in the programmatic space, in some essence, you compete for inventory with direct sales, right?

And so sometimes, as we pointed out in the call, the pricing there is less than what you could get programmatically, but the systems and the tools that are in place right now aren't easy to be able to calibrate between the 2 real time. So that's what we're attempting to do with that product. And it's early days. Publishers that are in beta are using it and enjoying it.

There has to be -- some of the friction to that is the adoption by the ad server. And of course, we're not an ad server. So that requires publishers willing to work with their ad serving partner. But to date, in the instances where we've been able to pull it off, unified demand has worked extraordinarily well. And I think that's kind of where you're going to see the industry going, and I think we'll take a leading effort there.

Operator

And the next question will be from Vasily Karasyov with Cannonball Research.

Vasily Karasyov Cannonball Research, LLC - Founder

A couple of questions. One, about the different vertical exposures for Magnite and SpotX, if you could talk about that. Not specific to connected TV at all.

Then what would drive -- what would be the source of upside to your target EBITDA margin, if at all? Could you talk about it, how conservative this range is? Or is it something that you're really confident that you'll get to and there's potential upside to it?

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

Yes, great. So I'll take the vertical exposure. And by that, I would assume you mean ad verticals?

Vasily Karasyov Cannonball Research, LLC - Founder

Yes. Correct. Sorry.

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

Great. Yes. I don't think we have an exposure risk that you wouldn't necessarily see with any premium advertiser players. So in other words, travel, auto, entertainment, sports, those are all significant verticals for us in terms of our total mix. And we've been operating without those really going anything -- going far less than full steam since the start of COVID. So I don't see it as exposure risk. I see it as upside because we really have been participating in this rebound in this growth without major participation from those categories.

So I think as you look at exposure, we've already weathered the exposure from those categories. You've already seen those built into the numbers. And obviously, looking forward, as the new normal occurs, we certainly anticipate a rebound in those categories.

And David, did you want to hit the upside to the EBITDA?

David L. Day Magnite, Inc. - CFO

Yes. Yes. So I guess, maybe the easiest way to approach that is from a baseline perspective. And to reiterate, our new targets are at 30% to 35% adjusted EBITDA margins. If you think about the impact of the SpotX acquisition, if you just take our combined results from just 2020, which is a COVID year, and if you were to add in our full achieved cost synergies, that out of the gate puts you at a 31% adjusted EBITDA gross margin.

Now of course, those cost synergies will take a little while to put in place. But at the same time, we're going to be growing and adding

leverage to our adjusted EBITDA margin profile. So we think that range is very achievable in the near and medium term. And longer term, we'll, obviously, just depend on our pace of growth, discretionary investment decisions, engineering investments and so forth.

Operator

And the next question will be from Kyle Evans with Stephens.

Kyle William Evans Stephens Inc., Research Division - MD

Michael, could you please talk about how programmatic the CTV market today? And how you see that evolving over time? And specifically, if you can offer them up, any kind of milestones or catalysts that we should be looking for the possible inflection points? And then I've got some follow-ups.

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

Kyle, yes, I think what will be interesting from a near-term standpoint is -- and we've already been talking with some of the biggest marketers out there, how this year's upfronts are going to play out, right? And so typically, upfronts are a vestige -- or well, they're not a vestige, they have been an efficient way for the television and cable companies to move their inventory in a condensed period of time with upfront commitments from marketers that had some flexibility, but sometimes no wiggle room. And they were hook -- they were on the hook for the inventory.

And then programmatic was always kind of the spot market, where it would round out the buy for the marketer throughout the year. And obviously, last year with COVID, that kind of changed. The upfronts were all but canceled. And almost all of the transactions were spot, which favors programmatic. And we're starting to see a hybrid this year where marketers are willing to play in the upfront world, but they're also asking for part of that upfront to be committed to programmatic as opposed to programmatic as an afterthought throughout the year.

So I think, Kyle, that might be an interesting signal that there's systematic change in the way that TV advertising is bought and sold, right? And I think over time, as you just start to see, as more and more cord-cutting occurs and you watch those numbers, as greater adoption of these ad-supported services occur and you see the numbers from the content companies, that it's just impossible to reach the amount of folks you used to, to sell a car, to open a movie, to book a flight without having to advertise on CTV, and it will just become more and more and more the norm. And from a seller standpoint, you no longer will see programmatic as being that thing that rounds it out. Programmatic will be front and center as part of your decisioning as to how the inventory gets allocated, and you'll be doing it much more in an agnostic way.

Kyle William Evans Stephens Inc., Research Division - MD

But is it safe to say that CTV is not a very open programmatic marketplace today, first off? And then second off, how long do you think it takes for that change to unfold?

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

Yes. So good point, Kyle. And the difference between open programmatic and just a programmatic, or the way we refer to it is open market, or OMP, open market programmatic, versus PMP, or a private marketplace or preferred marketplace, and one is kind of the Wild West that you see in display, which is 200 buyers bidding on a piece of inventory, highest bid wins, ad gets served. That's never going to happen in CTV.

The inventory is too precious. The ads are too scrutinized. The pods have rules with them that highest bidder doesn't always win. If there's a Honda ad, Toyota can't advertise in the pod. And the content producers are way too protective of their inventory, and the consumer experience to have an ad that runs -- that does not fit with that programming or the vibe of the programming. So we do not see -- we do not advocate an open world, it's all going to be private marketplace deals. They'll all go over programmatic rails, but it won't be this open bidding that you see that is developed on the display side.

Kyle William Evans *Stephens Inc., Research Division - MD*

Got it. And then just 2 more quick ones. Could you kind of step back -- and I don't blame you guys for pulling your take rate information. That's why you gave it in the first place. But just generally speaking, kind of what your long-term thinking is on take rates? And downward, what drives that?

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

Yes. I think we've been consistent about that even pre-Telaria, Rubicon pre-Magnite and now with SpotX. We think that we celebrated \$1 billion in ad spend and \$2 billion in ad spend goes through the platform. We see a day not too far out where those look like small numbers and \$10 billion is coming through the platform, \$15 billion is coming through the platform. And there is no question that take rates will drift downwards.

However, I think it's been -- I don't view that as an investor risk. I don't view that as something that you have to account for your modeling because any decrease will be in the basis points range and it will be more than made up by the gain in spend. And in addition, particularly in CTV, we're talking very, very high value. So we're talking CPMs, where, in banners, you can fight over a \$0.20 CPM banner. We're talking \$15, \$20, \$40 ad spots. Any give on take rate is more than made up on the net revenue side. So we don't view that as anything other than the natural maturation of a marketplace, but it isn't of concern. And from a competition standpoint, Google has been out there at 20% for, well, forever, and hasn't really moved at all. And so we think the marketplace is pretty settled as it relates to take rate. And if there's anything that decreases, it's just simply because of volume.

Kyle William Evans *Stephens Inc., Research Division - MD*

Great. And then one quick one for David. David, \$30 million plus in cost synergies on a business that did \$116 million last calendar year. Those are pretty eye-popping figures. And I just wondered if you could break down that figure in to kind of component parts so that I understand it a little bit better.

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

Yes. If you think about it, we have -- I guess you -- a majority of that would -- over 50%, would come from a personnel perspective. We're bringing together 2 businesses. We have a lot of the same client relationships.

The other components will come from combining our platforms. And so our ultimate goal is to combine platforms, take the best products and features from each platform. That's not a quick process. That's a long and -- it's a longer process. You have to be very careful. We don't want to disrupt any business along the way.

But when you're running -- we have 2 data centers in each part of the world. We have a lot of duplication from a platform perspective, and so there's significant savings that come from that. And then related to that, with our vendor relationships, with the size that we're growing to, we have a lot more clout for cloud computing and for other vendor relationships.

Operator

And the next question will be from Matthew Thornton with Truist Securities.

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

Maybe a couple, if I could. But maybe, Michael, if you can talk a little bit about how do you think the average CTV relationship -- or what the average CTV relationship looks like over time? And really 2 parts to that, I guess, from a revenue model standpoint, do you think that remains a take rate model? Or does it move to more of a fee-based model? I'm just kind of curious as to the thinking there.

And then just secondarily. Do you think that a typical CTV publisher has maybe 2 partners, a primary and a secondary, and you'll leave it at that? Just kind of curious your thoughts on that -- on those 2 vectors.

And then one for David. On CTV, you talked about continued strong growth in 1Q. I think the pro forma number was 53% in 4Q, if I'm not mistaken. Is that a reasonable kind of bogey to think about for 1Q? Any color there?

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

Matt, thanks for the questions. So I think that the -- it's a great question about the revenue model for CTV, and then, of course, the relationship piece of it. But from a revenue standpoint, there's no question we see this evolving more as a software/take rate business, as you would see in the normal display world where it was almost exclusively take rate driven.

Why is that? It's more complex. There's fewer players. There's more needs. There's more software involved. And not any great capability within the CTV players, from a programming standpoint, to build it themselves. And so I think that you're going to see evolve over time more of a hybrid approach where there may be a fixed fee. And then on top of that, a take rate if you're bringing demand or allowing demand to flow through the pipes.

And this will evolve over time. I don't think anyone should be modeling this hybrid approach by Q4 of this year. And as it relates to partners, I think CTV will be much more of a monogamous world from a publisher to SSP than you see in the display world where it kind of is to their advantage to invite 6, 7, 8 SSPs to compete in their header bidding to bring demand and to increase yield that way in an open market.

As I said before, on a previous question, I don't see this becoming an open market world. It will be private marketplace. And when you do private marketplace deals, you tend to do hundreds of deals and you create a deal library, and buyers get used to where this deal library sits. And they're generally not sprinkled around 10 SSP players. They're sprinkled around 1 or 2 because there's just no advantage to it. Because they're not open market, the pricing has already been agreed upon. You're just transacting through pipes. And so keeping the deal libraries with 1 or 2 players is what's occurring today and, I believe, is what you're going to see long term. So I don't see this evolving to 25 SSPs like you would see in the display world.

David L. Day Magnite, Inc. - CFO

Great. And on -- from a CTV growth perspective, we're not providing point-specific guidance. Last quarter, we used, I think, the same terminology, continued strong growth. So we're not going to refine it more specifically. But obviously, that means we expect similar momentum to what we've seen the last couple of quarters.

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

All right. Great. Maybe I can sneak one more, and then for -- maybe for Michael. Michael, away from CTV, I think for several years now, consolidation amongst the traditional SSPs has maybe never really made sense when you model it out. One plus one didn't get you to 2 or better. I'm just curious if we're getting to a point in the industry, from a consolidation standpoint, where that is starting to change at all. Or is that view unchanged?

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

Well, it's funny. We always thought of -- so to answer your question. Yes, it definitely has changed. I mean, all you'd have to do is ask The Trade Desk how many platforms do they buy from on the display side, and it's less than it was 2 years ago. And next year will be probably less than it was this year. But it's not going to get to 1. It's not going to get to -- it could get below 10, but even then there's so many nuanced SSPs out there that only do this, that only do that. So where do we want to compete? We want to be that independent omnichannel with a focus on CTV. And we believe that, that separates us distinctly from the rest of the SSPs.

And I think what we're seeing is validation on that from the agency side. And you see things like Havas. You see deals like Omnicom. And that's where you're starting to see some of the real SPO moves play out, and that is agencies deciding where their dollars run, over what pipes. And that will have quite an effect on narrowing the number of competitive SSPs.

And I think we're very well positioned there, not just because of the announcements we made and some to come, but well positioned there because of the resources that we have. That becomes a software business as well, right? Building out a private marketplace for Havas or for Omnicom is not for the faint of heart as it relates to technological resources, engineering resources, product resources.

And so I think that combining our teams, SpotX and Magnite, you now have well over 250 engineering product folks. And so we really do think we're extraordinarily well positioned as you start to look to kind of a software-first world, if that makes sense.

Operator

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

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

Thanks so much. We are really pleased to put up a strong Q4 and continue to more strongly participate in the fastest growth areas of the market, CTV and OLV.

Since December of 2019, we have gone from an SSP without a CTV presence to becoming the clear independent market leader in both CTV and OLV, with 2/3 of our revenue, post closing of the SpotX deal, coming from video. I could not be more proud of the efforts of all of our employees in these challenging circumstances. There's still a lot of work ahead to support our clients, grow the business and on the integration front, but I feel more bullish than ever about future of Magnite.

So thank you all for joining us for our Q4 results call. We look forward to talking to many of you through virtual investor meetings and conferences hosted by Stephens, Truist and SIG, or Susquehanna, in the next 3 weeks. And have a good evening. Thank you again.

Operator

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

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