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PRESENTATION

Operator

Good day, and welcome to Magnite's third-quarter 2024 earnings call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Nick Kormeluk, Investor Relations. Please go ahead.

Nick Kormeluk - *Magnite Inc - Investor Relations*

Thank you, operator, and good afternoon, everyone. Welcome to Magnite's third-quarter 2024 earnings conference call. 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 highlight slides on 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 macroeconomic factors on our business. These statements are not guarantees of future performance. They reflect our current views with respect to future events and are based on assumptions and estimates and subject to known and unknown risks, uncertainties, and other factors that may cause 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 third-quarter 2024 quarterly report on Form 10-Q and our 2023 annual report on Form 10-K. We undertake no obligation to update forward-looking statements or relevant risks.

Our commentary today will include non-GAAP financial measures, including contribution ex-TAC or less traffic acquisition costs, adjusted EBITDA, and non-GAAP income per share. Reconciliations between GAAP and non-GAAP metrics for our reported results can be found in our earnings press release and in the financial highlights deck that is posted on our Investor Relations website. At times, in response to your questions, we may offer additional metrics to provide greater insights into the dynamics of our business. Please be advised that this additional detail may be one-time in nature, and we may or may not provide an update on the future of these metrics. I encourage you to visit our Investor Relations website to access our press release, financial highlights deck, periodic SEC reports, and the webcast replay of today's call to learn more about Magnite.

I will now turn the call over to Michael. Please go ahead, Michael.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Thank you, Nick. We are pleased to deliver another strong quarter of CTV growth and a strong beat on adjusted EBITDA, allowing us to boost full-year numbers. For the quarter, our year-over-year growth rate and contribution ex-TAC from CTV accelerated to 23% from a 12% growth rate in Q2. Strong CTV performance was driven by overall ad spend growth, increasing programmatic adoption by the industry's largest players, ad serving strength, and solid contribution from political. Our growth rates in contribution ex-TAC from CTV and ad spend have significantly narrowed, showing a stabilization in our mix and corresponding take rate.

Robust programmatic CTV adoption is also continuing across a broad set of partners. As volumes continue to scale and CPM pressures persist, our clients are increasingly looking for us to help them add value to their inventory by layering on data to target and segment audiences. It is critically important for these partners to utilize programmatic selling to reach all demand sources, including SMB advertisers that didn't historically play in linear.

We believe these trends are very powerful in expanding industry usage of programmatic and growing our accessible TAM. Partners more fully embracing programmatic include Roku, Netflix, Paramount, Warner Discovery, and Disney.

Next, I want to highlight our Netflix and Disney partnerships. Netflix's rollout of Magnite-powered programmatic solutions continues to ramp, and we anticipate the partnership to grow in revenue contribution through 2025. We recently announced a two-year extension and expansion of our relationship with Disney. The recently signed deal now expands our partnership to include live sports like college football, the Latin American region, and podcasts for ESPN and ABC News. We will also make Disney inventory available through ClearLine. Magnite will continue to be a key partner for Disney in the years to come, and we are pleased to further broaden our partnership.

We are also seeing a nice boost from live sports this summer and fall. Recent areas of growth are college football, NFL from the top MVPDs, and Olympics internationally. This is a market that is beginning its journey to programmatic and our industry-leading tech offering, combined with our scale to monetize real-time inventory is unmatched. We expect growth in live TV and live sports to continue with more sports and more partners in the coming years. This is a key investment focus for the company.

We are optimistic about the commerce media vehicle being a powerful long-term growth driver, and I'm working many new opportunities in this space. Our partnership with United Airlines announced this summer is progressing well. We are now powering ad serving on personal devices on hundreds of planes and look forward to expanding beyond personal device entertainment to include seatback screens in 2025.

ClearLine, our self-service direct buying platform, is continuing to grow and gain traction. We now have more than 20 agencies and brands buying through ClearLine and continue to ramp their efforts.

I want to double-click on our CTV ad serving business, which has been operating at nearly twice the ad impression volume from a year ago. Our software is deeply embedded within our partner workflows and go-to-market solutions as a core part of their operations, comparable to enterprise software solutions. It's very sticky and allows us to provide superior overall monetization.

Our market leadership position in CTV continues to get stronger, and we remain extremely focused on innovative features and services that will extend our lead into the future. Evidence of this is our deep and evolving partnerships with the likes of Netflix, Disney, Roku, Warner Brothers Discovery, Paramount Fox, Samsung, LG, and VIZIO. The fastest-growing accounts this quarter included Roku, Warner Brothers Discovery, Disney, and LG. A solid portion of this growth comes from our SpringServe and Magnite streaming SSP combination, which gives us a competitive advantage as a programmatic first partner and is a major differentiator.

Now to DV+. Q3 once again finished in line with our expectations with contribution ex-TAC growth of 5%. Contributing to growth are investments in emerging formats such as native, audio, podcasts, and digital out-of-home. Our volume of ad requests continues to grow, and we continue to get much more efficient with our cost per ad request coming down by approximately 30% versus last year. Our improving efficiency is driven by filtering, traffic shaping, and AI.

Another tailwind aiding our DV+ and CTV businesses is the increased importance of sell-side audience aggregation, a practice that is commonly referred to as curation. In simple terms, curation is a selective packaging of ad inventory using audience data to help advertisers reach audiences they might otherwise miss. For sellers, it means driving substantially higher yields on impressions that might have gone unsold.

As AdAge recently noted, there's an ongoing industry shift toward curation on the sell side, and it's being fueled in part by signal loss on the demand side, where data collection is becoming more restricted due to privacy changes in browsers and devices. We'd add to this that within the sell side, there's no better home for curation than the SSP, where it's easiest for premium publishers to lie with their peers to attract spend they'd have a harder time getting individually. In fact, Magnite's revenue from curating publisher audiences has grown over 100% year over year. It's early days, and we anticipate this growth to continue for the foreseeable future given our strong tool set and unrivaled publisher footprint.

Just last week, a Forrester report evaluating 10 SSPs highlighted curation as one of the top three capabilities publishers should prioritize to drive higher yields and differentiate themselves. Not only did Magnite receive the highest possible score for curation, but I'm proud to say we also achieved the highest overall score for the totality of our current offering. Expanding our leadership in curation is critical and is another example of how our omnichannel footprint will enable capabilities for both CTV and DV+ that no one else has and will drive outsized market share gains.

In closing, we delivered strong Q3 results and Q4 guide. The strategic investments we've made to create the world's leading programmatic CTV platform are clearly paying off, and we are confident about a strong finish to the year. It's an exciting time for the role of programmatic and the evolution of CTV advertising and as the industry scales and evolves to bring in thousands of new buyers.

We are also optimistic about 2025 as programmatic continues to gain steam in CTV, we ramp up new and existing partners, and see continued acceleration in sports and further growth of ClearLine.

With that, I'll turn the call over to David for more detail on the financials. David?

David Day - *Magnite Inc - Chief Financial Officer*

Thanks, Michael. The third quarter was another strong quarter for Magnite, beating the high end of CTV top-line expectations and exceeding adjusted EBITDA expectations. Our results drove very strong free cash flow during the quarter. Our strong financial performance, debt refinancing, and early achievement of net leverage ratio goals have allowed for a tighter focus on equity dilution management. Our business is in a very solid position, and we are set up for a strong Q4, which is reflected in our updated guidance.

Total revenue for Q3 was $162 million, up 8% from Q3 2023. Contribution ex-TAC was $149 million, up 12%. CTV contribution ex-TAC was $64.4 million, up 23% year over year and, again, above the top line -- above the top end of our guidance range. Ad spend growth and strong momentum with our SpringServe ad serving and programmatic growth drove the outperformance in the third quarter. DV+ contribution ex-TAC was $85 million, an increase from $81 million or 5% compared to the third quarter last year. Our contribution ex-TAC mix for Q3 was 43% CTV, 40% mobile, and 17% desktop.

From a vertical perspective, as expected, political was the strongest performing category at approximately 3.5% of contribution ex-TAC. News and retail were strong as well. Categories that did not perform as well were food and beverage and health and fitness. Total operating expenses, which includes cost of revenue, for the third quarter were $147 million, a decrease from $168 million for the same period last year. The primary driver of the decrease was the result of the SpotX-acquired intangible assets that became fully amortized in the third quarter of last year.

Adjusted EBITDA operating expense for the third quarter was $99 million, well below the low end of our guidance range. In Q3, we had a temporary benefit of approximately $1.5 million in lower rent-related expenses from one of our offices. The increase from $93 million last year was primarily driven by personnel costs, software costs, and cloud costs.

Net income was $5.2 million for the quarter compared to a net loss for the third quarter of 2023 of $17.5 million. Adjusted EBITDA grew 26% year over year and was $51 million with a margin of 34%, which compares to $40 million and a margin of 30% last year. As a reminder, we calculate adjusted EBITDA margin as a percentage of contribution ex-TAC.

GAAP earnings per basic and diluted share was $0.04 for the third quarter of 2024 compared to a loss of $0.13 for the third quarter of 2023. Non-GAAP earnings per share in the third quarter of 2024 grew 42% and was $0.17 compared to $0.12 last year. The reconciliations to non-GAAP income and non-GAAP earnings per share are included with our Q3 results press release. Operating cash flow, which we define as adjusted EBITDA less CapEx, was $40 million for the quarter.

Overall, cash generation was very strong in the third quarter, and our cash balance at the end of Q3 was $387 million, an increase of $61 million or 19% from the end of Q2. The increase was due to strong results and typical seasonality in our business, partially offset by share repurchases.

Capital expenditures, including both purchases of property and equipment and capitalized internal use software development costs, were $10 million for the quarter, bringing the total to $40 million year to date. Our net interest expense for the quarter was $7 million. We are pleased to report that our net leverage ratio was 0.9x at the end of Q3, a sequential improvement from 1.3x at the end of Q2. This result achieves our goal of less than 1x ahead of schedule.

I'd also like to highlight that we repriced our $364 million Term Loan B debt at SOFR plus 3.75%, a 75-basis-point reduction. This will decrease interest expense by roughly $2.7 million annually. We're very focused on managing shareholder dilution after having successfully solidified our capital structure.

During the third quarter, Magnite utilized approximately $14 million to effectively reduce dilution for shareholders by 1.1 million shares. Year to date through November 6, our repurchase program and withhold to cover activity have effectively reduced dilution by 2.9 million shares for $32 million. We expect net share dilution in 2024 to be approximately 2%, excluding potential additional activity under the repurchase program. Through November 6, we have plenty of additional capacity with $110 million remaining in our authorized repurchase program.

I'll now share our expectations for the fourth quarter and updated guidance for the full year. For the fourth quarter, we expect contribution ex-TAC to be in the range of $182 million to $186 million, contribution ex-TAC attributable to CTV to be in the range of $75 million to $77 million, reflecting year-over-year growth of approximately 20% at the midpoint. Contribution ex-TAC attributable to DV+ to be in the range of $107 million to $109 million. We anticipate adjusted EBITDA operating expenses to be between $102 million and $104 million, which implies adjusted EBITDA margin of approximately 44% for Q4 at the midpoint.

For the full year, we're raising our expectation for contribution ex-TAC to now grow between 11% and 12%. We're raising our expectation for adjusted EBITDA margin to expand 150 to 200 basis points over 2023. We're raising our expectations that adjusted EBITDA will now grow more than 15% year over year and raising our expectations for free cash flow to grow approximately 20%. And we now expect total CapEx to be above $50 million. We also expect to be net income and EPS positive for the full year on a GAAP basis.

Q3 was another solid quarter for Magnite, and I'm very pleased with our consistent results. We have momentum and significant opportunities ahead, and I'm looking forward to the strong finish we expect for 2024.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Laura Martin, Needham & Company.

Laura Martin - *Needham & Company, LLC - Analyst*

Great. Great numbers, you guys. My two questions are these all at the same time. Net leverage, 0.9 times. Are we on our way to 0? It feels like you guys are levered given your strong free cash flow. So that's my first question.

My second question is on generative AI. One of the things we're seeing is that companies that are using generative AI are growing their costs much slower than their growing revenue. So I'm wondering how you guys are using generative AI and what the road map for that is so we can get cost growth like more operating leverage into the model? Thank you.

David Day - *Magnite Inc - Chief Financial Officer*

Great. I'll take the first one. This is David. Yes. No, we're really happy with where our balance sheet or capital structure is at this point in time. I think our goal was to get to 1x -- net leverage ratio of 1x or below. We're happy with where we're at. And in some ways, our pivot is turning a little bit to equity dilution management. And so, I suspect that our net leverage ratio will could come down over time, but there will also be a focus on share repurchases.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Yeah. And hey, Laura, I'll take the generative AI question. Yeah, so it's a journey for us as a company. We started a task force within the company comprised of engineering, go-to-market folks, product, et cetera, to look at a slew of tools that are out there, as well as our own development. As you know, we have a very large data science team and a lot of the machine learning that we're doing isn't true generative AI to speak of, but that's really where it's driving our cost efficiencies as we kind of pointed out.

Our volume on the DV+ platform continues to go through the roof, but our cost of processing has come down roughly 30%, largely because of machine learning, filtering, et cetera. And we have talked about AI that we've pushed to our customers in the form of Demand Manager that's going over very well and creating revenue lifts up to 30% for some of our customers. So it's a -- like most companies, it's a work in progress, and we see a lot of the efficiencies are going to be gained internally probably through software development on our team's front, but we'll have more to say on that in the coming quarters.

Operator

Sean Patil (sic - "Shyam Patil"), Susquehanna.

Shyam Patil - *Susquehanna Financial Group - Analyst*

Hey, guys, Nice job on the quarter. I had a couple of questions. Michael, you talked about, I think, both of these topics in your prepared remarks. I just wanted to see maybe if you could give a little more color. On Netflix, obviously, a great, great win, great relationship. Just wondering if you could provide any more color on just how you expect that to ramp in 4Q next year and then also kind of beyond that?

And then on Disney, really good to see that partnership expansion. I guess, could you talk a little bit about just what led them to select Magnite for these additional areas and just what they really liked about the company and the technology that led to the renewal. And just -- and I guess maybe just kind of related to that, just do you expect further revenue growth from this relationship kind of over time? Thank you.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Yeah. Great questions. As it relates to Netflix, as we talked about, we're very careful on our messaging there. A lot of folks ask us a lot about Netflix, and I'm not suggesting you're doing that, but to get a read-through on the Netflix ad business more so than a read-through on Magnite's business. So I think what we stand by is that we're with them, we're sole programmatic partner on the sell side.

As they expand into foreign markets, we are going with them. The implementation has been seamless to date. They're in the very early stages of selling programmatic themselves. But we stand by the estimate that when 2025 dust settles that Netflix could very well be one of our, if not the biggest customer of Magnite.

And as it relates to Disney, I think that you got to look at the length of our relationship with Disney and all the software that we've helped build for them that they use internally under DRAX. And I just think it's more of an extension of the relationship that we've had as opposed to a full-blown RFP. But I think Disney has gotten very comfortable with what they want to do proprietary and what they want to be able to offer their customers but don't necessarily want to build it themselves. And so, as you start to look at the expansion of the relationship, I think those are very good indicators that Magnite is a trusted partner of theirs and will be for years to come.

Shyam Patil - *Susquehanna Financial Group - Analyst*

Great, thank you, guys.

Operator

Jason Kreyer, Craig-Hallum Capital Group.

Jason Kreyer - *Craig-Hallum Capital Group LLC - Analyst*

Great, thank you. Michael, there's been a lot of focus on direct connections over the last couple of quarters. Just wondering if you can maybe revisit that and give us your thoughts on how direct connections evolve over the long-term?

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Yeah. I mean, as you well know, Jason, a little bit different for both platforms, right? So DV+, the dust has kind of settled there. It's a little bit easier to do a direct connection because of pre-bid software being predominantly used by all DV+ kind of publishers. And as we said, there hasn't been much change in the kind of two-pipe strategy that Trade Desk has deployed, one pipe for the direct connection, the second pipe to compete in the unified auction that is pre-bid and continue to see large amounts of spend from Trade Desk in the pre-bid unified auction area.

As it relates to CTV, there is no pre-bid, so to speak. And so, it's a bespoke kind of connection to each player's ad server. And in many cases, as you know, we're either the primary ad server or we are the programmatic layer by which the DSP would connect through to the ad server. And so, ergo, we don't see much loss in economics for Magnite in a direct connection scenario in CTV by the Trade Desk in nonproprietary ad serving CTV players. And even in those case, you're dealing with a two-pipe scenario.

So I think that one of the things that gets slightly conflated is the success that the Trade Desk is seeing with greater matching with UID. And I think a lot of people think, oh, UID in CTV equals direct connection, which is very, very far from the truth. Like look at Roku, for instance, Roku talks about UID and how it's helping them generate more revenue through the Trade Desk pipe. But keep in mind, UID is in direct connect and UID is serviced by Magnite to the Trade Desk through Roku. And so, I think people sometimes think if UID is mentioned, Magnite gets cut out of the picture, and it's far from the truth.

Jason Kreyer - *Craig-Hallum Capital Group LLC - Analyst*

Thank you, a lot of good color. You talked a little bit about curated audience, too. Just curious, I would think that, that's relatively nascent in terms of adoption there. But can you talk about where there's some early success as far as DV+ CTV and kind of the scale of publishers that are looking at something like a curated audience solution?

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Yes. I'll tell you, it's incredible. So Jason, we've been talking about this whole kind of moving audience targeting to the sell side. And I think that what's been the hindrance to that is, there's still third-party cookies, right? And most publishers are like, hey, until the third-party cookie goes away, I'm going to continue to transact the way I always did.

But now that they feel that it is going away, even though the hiccup with chrome deprecation of cookies, they are really leaning into it. So we've seen -- and it is early days and it's early revenue, but we've seen a big explosion in it from a theory to reality. And so, you're seeing quite a bit of publishers adopting it. I mean, again, curation is, you're looking for finite audiences, left-handed jugglers. And there's only so many that any publisher would have, but if a Magnite can group together 1,000 publishers, now all of a sudden, you have this curated left-handed juggler segment that is scaled and buyers now can take advantage of that.

And of course, in CTV, a lot of that world is first-party data and almost everything is curated in that respect. So we think it's a logical outcome of what we've been talking about, and that is when third-party cookies go away, the signal loss goes away. That's how the buy side has operated since the dawn of DSPs. We really think this is a very encouraging opportunity for publishers and their partners like Magnite to be able to participate in those economics. So early days, but very encouraging in the direction it's heading in.

Jason Kreyer - *Craig-Hallum Capital Group LLC - Analyst*

All right. Appreciate all your thoughts, Michael. Thank you.

Operator

Tim Nollen, Macquarie.

Tim Nollen - *Macquarie US Equity Research - Analyst*

Hey, thanks so much, Michael, could you talk a little bit more about the transfer of the shift into more bidded programmatic? It was only a year or so ago that there was this weird sort of fluctuation with a lot of direct sales, which I think coincided with linear TV advertising being soft and what's happening upfront at the time. But now linear TV advertising is still soft. There's a lot more demand -- or sorry, a lot more supply on the market from the likes of Amazon Prime and so on in CTV. And I think there's been a shift toward using more bidded tools, which should be good for you, for your business and for your take rate. And I wonder if you could just give us an update on transitions in the industry, please?

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Yeah. Tim, really good observation. And certainly, publishers have -- I mean, buyers have always wanted to be able to activate programmatic buys in kind of a biddable fashion because they're very used to that, and they think it derives value for their advertisers. And the top premium publishers have been reluctant to play in that game for a number of reasons, largely driven by -- that's just not what they've done historically. So they much prefer to try to sell everything direct.

And I think in an environment where we've had a surplus of CTV inventory as opposed to two years ago when you had -- when it was supply constrained, you're not surprisingly seeing behavior shift more towards what the buyers want. And you're still seeing -- you're seeing it definitely occur more on the OEMs, the fast, the streaming-first players. And then if you look at the plus streamers, the premium big programming of legacy broadcast folks, bidding -- biddable programmatic is becoming something that they're leaning into, but certainly still not the prevalent way they conduct business with the buyers. So a long way of saying, there's still a lot of room to grow in there, which I think is good from a Magnite economic standpoint.

Tim Nollen - *Macquarie US Equity Research - Analyst*

And am I right in thinking that where CTV initially was a little bit what's the dilutive to your take rate versus online and mobile a few years ago, now with more bidded work, it should be actually positive for your take rate as this evolves?

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Yeah, I think you're right. As it evolves, I think we've always made a point of saying that it's not that we're under extreme take rate pressure from the marketplace. It's just that the type of product that's been popular namely among the Plus services has been publisher sold programmatic, which carries very low take rate vis-à-vis Magnite sourcing demand and bringing it to those publishers. So I think you're exactly right. I think we're on the low end of our historic take rate in CTV, and that will only improve as more biddable becomes activated.

Tim Nollen - *Macquarie US Equity Research - Analyst*

Great, thank you very much.

Operator

Omar Dessouky, Bank of America.

Omar Dessouky - *BofA Global Research - Analyst*

Hey. Thanks a lot for taking my question. So happy to hear about the extension of the Disney. And I was just wondering if you could talk a little bit about the economics. And if you can't do so in absolute terms, possibly in relative terms versus the kind of the prior deal or relationship you had with them, in particular, is the take rate changing at all or were there any other kind of value exchanges in this extension?

David Day - *Magnite Inc - Chief Financial Officer*

Yeah. Omar, obviously can't go into great detail on that. But suffice to say, Disney is -- the products that we sell to Disney carry with it take rate bands that are similar to other premier clients. So in other words, Disney is predominantly sourced their own demand through their sales team, whether it's programmatic or if it's direct sold. And in those cases, that's again a very low range of our take rate.

As you look at the expansion of our opportunities, some of those expansion opportunities carry with it the concept of Magnite bringing demand in. And when that happens, it comes at a more attractive take rate, just like it would for any other publisher. So I think the expansion opportunities are great. It validates our partnership and the strength of it. But more importantly, it probably does carry with it more attractive economics when they start to light up. So I think net-net, we view Disney as a big revenue grower for Magnite in the years to come.

Omar Dessouky - *BofA Global Research - Analyst*

Okay, that's really good to hear. And if I could just ask a quick follow-up. Please feel free to skip this question if it's been asked before. Do you have any kind of update on your views given, I guess, the recent regulatory decisions and court decisions regarding Google and SSPs? And I apologize again if this question has been asked already.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

No, Omar, it hasn't been asked. And no real update. Obviously, the ad tech trial piece of it is, the remedies are going to be argued coming soon. I think there's been a slight delay in it. But listen, I think that as we all know, this is going to be several years in the making before the dust settles.

We can't imagine that when the dust settles, it's not more attractive for Magnite to be able to compete in an industry where Google has a stranglehold on share on the DV+ side. We've been very successful in competing against them on the CTV side. But on the DV+ side, we think there's significant opportunity for growth once some of the structural inefficiencies in the marketplace get worked out, impossible to tell when that might be. But we think all in all, we're quite positive about the direction it's heading in.

Omar Dessouky - *BofA Global Research - Analyst*

Okay, good to hear. Thanks for taking my questions.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Thanks, Omar.

Operator

Dan Kurnos, The Benchmark Company.

Dan Kurnos - *The Benchmark Company, Inc. - Analyst*

Yeah, thanks. Michael has kind of touched on this. You raised the sort of confusion issue, which I think is very prevalent out there. Maybe it would be helpful if you updated your thoughts on, given the increasing prevalence of 1P ad tech stacks, how much you think the split of volume ends up being between the two, how much they lean on kind of 3P versus 1P? And obviously, there's been noise on who has better signal strength between the two. And I think you guys have argued that you guys pretty much win every A/B test.

So I'd love to hear kind of your thoughts there. And then, separately, we continue to hear from other e-com guys, Uber, Lyft, for example, that they're willing to test out more programmatic. So it feels like United is just scratching the surface of what you can do in kind of broader e-com, but love to hear what you're thinking about incremental use cases as just the whole ecosystem continues to move more programmatic. Thank you.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Yeah. Thanks, Dan. So on the first-party data versus third-party data, I think you have to look at it in two buckets. I think that third-party data will be very prevalent in DV+. If you look at the traditional DV+ publisher, whereas they do have a relationship with their end user, obviously, the consumer that consumes the content, oftentimes, it's not a logged-in registered relationship. And therefore, some of the fidelity of the signals aren't nearly as strong as if you were to have a logged-in relationship or even a credit card relationship, and that obviously is the CTV world.

And so, I think in CTV, it will be predominantly a first-party world. And in the cases of third-party, I think you will see that's coming from the advertiser. So there's a lot of activity in clean rooms where you're matching Bank of America customers with a Paramount audience and trying to create audience segments specifically for BofA, and that's just an example. It's not a real-life thing.

And so, I think when you start to look at it will play a very big role in creating signals in the DV+ world, but that's going to be a portfolio world. There's not going to be one killer data signal that's going to replace the deprecation of third-party cookies. And we'll be part of that portfolio solution. But I think in CTV, you're going to see a very, very strong first-party world, and we'll be front and center in that.

As it relates to commerce media, you give a good example of Uber, and you can see it through across all kind of the travel industry per se. Anyone that owns their own screens, you're starting to see a real appetite to get into the commerce media business. And I think that we are expertly positioned as you look with the win of a very contested RFP with United -- we have a video ad server. We have video monetization capabilities in the programmatic area.

We are extremely experienced in this stuff, and we can bring demand for them. And so, I think that unlike some of the initial forays in kind of retail media networks, I think this commerce travel network business will be very much a sell-side focused business. And I think we're very well-positioned to capitalize on that.

Dan Kurnos - *The Benchmark Company, Inc. - Analyst*

Thanks, Michael.

Operator

Shweta Khajuria, Wolfe Research.

Brian Kraska - *Wolfe Research - Analyst*

Hi, guys. This is Brian Kraska on for Shweta. Thank you for taking the questions, and congrats on the quarter. Just wanted to see if you could provide an update on Trade Desk and OpenPath, if there's any impact you're seeing there. I know you mentioned in the first quarter that you're gaining share in DV+ and accelerated growth. Just any update on that commentary?

And then, we appreciate the color on the verticals in the quarter. Just wanted to see if you have any incremental color on how those trend quarters to date.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Sure, Brian. I'll take the first, and I'll let David talk about the verticals. Yes, no real update on OpenPath. Again, it's here to stay. We participate in the economics of OpenPath on the CTV side. And we have -- our share of spend with Trade Desk continues to grow on the DV+ side. So we feel as though we're well positioned as a kind of leading omnichannel SSP.

And David, I don't know if you have any more color on the verticals.

David Day - *Magnite Inc - Chief Financial Officer*

Yeah. I mean, I think a couple of things. I think first to -- when you think about verticals for us, we're not disproportionately dependent on specific verticals. We have such a big footprint that overall spend, advertising spend in general, our spend tends to mimic that. And so when we talk about strength and weaker verticals, it's more on the margin.

They're not always huge, huge drivers. So some context there. I think, obviously, political being 3.5% of our total revenue for the quarter was significant. And news and retail were the other strongest verticals. News, we were talking about this earlier.

Hurricanes drove a little more news and probably politics as well. So that's -- I think that's the insight that we have.

Operator

Zach Cummins, B. Riley.

Zach Cummins - *B. Riley Securities - Analyst*

Hi, good afternoon. Thanks for taking my question. Is there any way you could provide any sort of incremental update around the Mediaocean partnership? I know it was something announced earlier this year, but any sort of incremental update on that would be appreciated.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Yeah. Thanks, Zach. As we had said before, we think it's a great partnership filled with opportunity for both of us. But we caution that from a sales cycle standpoint and an activation standpoint that it's going to take some time. And so I think we're pretty much right where we thought we would be.

We have folks sampling the tool. We have folks actively coursing spend through it. And it's more kind of a test mode and probably doesn't activate in terms of any substantial spend until you get into the kind of Q1, Q2 timeframe of next year.

Zach Cummins - *B. Riley Securities - Analyst*

Understood, that's helpful. And realizing that DV+ is facing some near-term headwinds, what's the right way to think about maybe the sustainable growth rate in that business as we go forward from here? Just curious of how you're thinking about incrementally investing in opportunities on that side.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

David, do you want to handle that?

David Day - *Magnite Inc - Chief Financial Officer*

Yeah, sure. Yeah, I think I think we feel good about DV+. There's no reason that we can't continue to be a share taker. And depending on the strength of the macro and overall spend, we certainly think that our DV+ growth rates could increase from the level that they're at now. We're investing in new formats and the curation that Michael mentioned earlier, we think we have the scale and the footprint and the technology that, that could be an additional driver for us, both in the space and also for taking share.

Zach Cummins - *B. Riley Securities - Analyst*

Understood. Thanks for taking my questions, and best of luck with the rest of the quarter.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Thanks, Zach.

Operator

Matt Swanson, RBC Capital Markets.

Unidentified Participant

Hey, guys. This is Simran on for Matt Swanson. Thanks for taking the question, congrats on the results. For my first one, it seems like you guys have partnered with almost everyone in CTV. So what would you say is the strategy to grow these partnerships from here?

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Yeah, great observation. There aren't too many folks that we aren't their primary programmatic partner. So I think what the strategy is, is that we ride the maturation of programmatic with our partners. So particularly for our top premium partners, the Plus services, programmatic right now is almost exclusively sold by the publisher. And when we don't source the demand, our take rate is on the lower range of our take rates.

But as it becomes more biddable, as more advertisers, not just linear broadcast advertisers, but advertisers that have traditionally done social or OLV in open web, as they start to test CTV and use it as a performance kind of middle funnel, bottom funnel advertising vehicle, that's where we start to pipe in the demand. We bring those advertisers in and that significantly improves the economics. So I think that the idea is to partner with everyone out there, which check that's occurred and now go with them on the journey and help bring them more monetization capabilities. And there, you'll see the profile of the economics improve substantially.

Unidentified Participant

Great. That's really helpful. And then one more for me. Do you see pressure on non-political spend? Did you see that towards the end of October? And how are you thinking about it coming back in guidance? And then, just speaking more broadly, how have trends looked one month into Q4? And has that momentum from Q3 kind of continued?

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Yeah. So on the political side, there's always going to be dislocation, right? There's finite amount of ad times in CTV. And when political comes in, it does push out other folks. Also given the fact that it was like most of the elections in this country quite contentious, the mood of the programming, generally speaking, was something that folks kind of shut down on. So we did see a shutdown of like general ad brand spend, which we anticipate to return. Obviously, you're going into the holiday season, the strength of Q4 has always been there. So we anticipate that, that will come back.

As to your -- the second part of the question, David, do you have any color as it relates to that?

David Day - *Magnite Inc - Chief Financial Officer*

Yeah. As I mentioned, political is about 3.5% of our total revenue in Q3. And since the election is over, I guess, we can talk about political in the past tense here. In absolute terms, we more than doubled Q3 spend concentrated in the preelection timeframe. And so, if I pan back big picture, we had expectations of political coming in at around $20 million of contribution ex-TAC for the year, and we came in right around those expectations.

Unidentified Participant

Great, thanks a lot. Congrats again.

Operator

Robert Coolbrith, Evercore ISI.

Robert Coolbrith - *Evercore ISI - Analyst*

Hi, good afternoon. Thanks for taking the questions. I wanted to ask quickly if you have any update on the managed service business in the quarter. And then, I also wanted to ask a follow-up on curation, maybe from more of an advertiser perspective. Our understanding is that with one of the major DSPs and their sort of preferred ID solution, there's probably going to be a policy limitation on the use of third-party data segments. Are you seeing any advertisers trying to get ahead of that?

And I'm wondering if there's anything you might be able to share in terms of share gain opportunity if you're sort of lighting up these audience segments and a different SSP solution isn't take rate opportunity or uplift opportunity, anything else you could tell us about that? Thank you very much.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Sure. I'll take the curation piece, and then, David, you can talk about managed service. Yeah. So, again, curation relative to early stages really has gained popularity. There used to be a ton of services, a ton of -- I'm not going to say networks, but some were network models, some were more of an exchange model.

But as this SPO has continued with major buyers, basically, let's just say, you were a company that had player technology that a publisher would use your player -- your video player technology in return, they would give you instead of paying for the technology or they pay a little for the technology, but they give you some ad slots in it. And so there's a case of technology and then there's a case of unique ad units. So some folks have unique spaces on the page. Increasingly, what buyers are saying and particularly the large agencies is like we would just soon conduct that through our exchange relationships that we have in place. So why don't you just go to Magnite and then Magnite will then activate through their marketplace these special units, the special technology, et cetera.

And therefore, we'll buy it that way. That's one quite common way of that occurring. The other is the targeted solution of us finding audience segments and banning them together. I'm not aware of any restrictions vis-à-vis a DSP allowing that to occur. Generally speaking, it's not coming from the DSP per se, but it's coming from the advertiser behind the DSP, and they're the ones that are driving that demand.

So I feel hard-pressed to believe that they would limit that if they're finding success of that and trying to find the audience that they're looking for that's quite finite if we weren't able to stretch it across thousands of publishers.

Robert Coolbrith - *Evercore ISI - Analyst*

Got it. Thank you.

David Day - *Magnite Inc - Chief Financial Officer*

And on the managed service front, in the third quarter, managed service was about 4% of our total contribution ex-TAC, and that's down about 20% year over year. As we look forward to the fourth quarter, we would also expect managed service to be down in those levels or perhaps even greater. So what's going on, as you recall, managed services is primarily our mid-market sales folks who are helping agencies and other buyers who don't have the in-house resources to run programmatically. But many of those agencies and buyers are growing in their ability to run programmatic. And so, we're seeing some of those dollars shift into programmatic.

The good news is, most of the time, that's continued -- they continue to work with us. And so these relationships are very important from our managed service team. But you are seeing, as we expected, that business activity becoming programmatic, which is at a slower take rate.

So in the short term, it hurts us from a take rate perspective and a contribution ex-TAC perspective. But we believe these players over time are going to continue to grow in their programmatic and that certainly offsets the negative component of that over time. And so we believe that managed service will continue to become a smaller and smaller portion of our overall contribution ex-TAC as we continue to move forward.

Robert Coolbrith - *Evercore ISI - Analyst*

Got it. Thank you very much.

Operator

Alec Brondolo, Wells Fargo Securities.

Alec Brondolo - *Wells Fargo & Company - Analyst*

Thank you so much. Could we maybe double-click on the 30% reduction in cost per ad request year over year? That seems like a pretty meaningful -- it is a pretty meaningful improvement. I think you called out filtering and traffic shaping as the two drivers in the prepared remarks. Could you maybe spend a little bit more time just elaborating on what specifically that means or what functionally is changing there? And then secondly, just any feedback on how gross spend trended in the quarter relative to contribution ex-TAC would be helpful. Thanks.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Yeah. Great. I'll touch on the efficiency gains on the DV+ platform and then have David expand upon that and talk about gross spend. But essentially, our costs are -- when we receive an ad request, that carries the cost structure to it. But when you bring that ad request to the exchange and run an auction and you're sending that ad request out to multiple DSPs, obviously that's a different cost profile.

So what you really want to do is figure out what are the most sought-after ad requests, the ones that have been purchased in the past, whether it's a region, whether it's a device type, whether it's an inventory type. And for those that have never been bought, make sure that they don't make it to auction where your costs escalate. And so, most of the filtering and the shaping occur when the trillions of ad requests hit the front door. And then you smartly allocate to DSP number two, because DSP number two loves this type of inventory, we will send them that inventory first because we think we'll have a higher win rate. So all of this is going on in real time every day, recalibrated every 10 minutes based upon the trailing 10 minutes of activity. And that has really helped us to become so much more efficient with our on-prem boxes.

I don't know, David, if you have more to add there or about the gross spend.

David Day - *Magnite Inc - Chief Financial Officer*

Yeah. No, I think you covered it. From a gross -- an ad spend perspective, we'll look at DV+ and CTV separately. From a DV+ perspective, in general, our ad spend grows roughly at similar rates as our revenue growth, as our contribution ex-TAC. In CTV, as we've talked about, ad spend continues to grow at higher rates than our CTV contribution ex-TAC growth, but the difference between those growth rates has narrowed as our contribution ex-TAC has lifted up closer to the ad spend run rates. And so we're starting to see a little bit more stabilization. There's still a gap between those growth rates, but we're seeing more stabilization.

Alec Brondolo - *Wells Fargo & Company - Analyst*

Thank you so much.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Thank you.

Operator

Max Michaelis, Lake Street Capital Markets.

Max Michaelis - *Lake Street Capital Markets - Analyst*

Hey, guys. Just one for me. If we go back to the Disney renewal, and you guys talked about sourcing your own demand and taking a higher take rate on that. Is that something you weren't previously doing? Or can you help me understand, is that something new you're doing with Disney? I guess, anywhere, any comments you can provide? Thanks.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Yeah. I think, Max, good observation. I think the statement was more a statement about -- it was 2-fold. Number one, it's just the growing evolution of premium publishers' willingness to do programmatic in a biddable fashion, where when they first foray into programmatic, it was very much audiences defined by the publisher, pricing set by the publisher, and a one-to-one relationship in terms -- even though it was just executed programmatically, right? They knew the advertiser, they created the audience segment for them. It was just pushed through our pipes.

So in that scenario, we're kind of providing value, but kind of the lower rung of value. And now that you're getting into more biddable opportunities, even if it's led by the publisher, when you're doing biddable, it carries a higher-value perception invite-only auctions, even could be 80 advertisers bidding on the same segment, that's a different profile. So the maturation of the Disney relationship is not unlike any of the other relationships we have with the premium publishers. There's just a growing acceptance that biddable is a very viable way to increase yield and please buyers.

Some of the properties that we expanded our relationship with in Disney, in particular, are in markets that are either, A, emerging, say, for instance, audio, or B, in international markets that may or may not have the same kind of sales footprint that you might in North America. And they lend themselves more naturally to programmatic demand being sourced by Magnite.

Max Michaelis - *Lake Street Capital Markets - Analyst*

Awesome, thanks, guys.

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Thanks.

Operator

Tim Nollen, Macquarie.

Tim Nollen - *Macquarie US Equity Research - Analyst*

[With large growth drivers, including the ongoing secular shift to CTV] --

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Operator

Tim, are you on the line?

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

We already had Tim question before.

Nick Kormeluk - *Magnite Inc - Investor Relations*

Operator, we can go ahead and move on to the next one. If there's no others, then we can wrap up.

Operator

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

Michael Barrett - *Magnite Inc - President, Chief Executive Officer, Director*

Thank you, Sherry. Before wrapping up, I would like to thank the great Magnite team around the world for their dedication and very hard work for delivering another strong quarter that exceeded expectations. Our team's success is publicly recognized by securing the highest score in the current offering category of the 10 vendors evaluated in the Forrester Wave sell-side platform's Q4 2024 report. So congratulations to all the Magniters.

We look forward to speaking with many of you at our upcoming investor events. We are participating in or at Wells Fargo Virtual Meetings tomorrow, Truist Virtual Conference on November 12, SIG Meetings in Boston on the November 13, Seaport Virtual Conference on November 18, Craig-Hallum Conference in New York on November 19, RBC Conference in New York on November 20, Macquarie Conference in Sydney on November 20, Wells Fargo Conference in Rancho Palos Verdes on December 3, Wolfe Conference in New York on December 4, Evercore meetings in San Francisco on December 9, and the Scotiabank Conference in San Francisco on December 10.

Thank you all for joining, and have a great evening.

Operator

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