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

Thank you, operator, and good afternoon, everyone. Welcome to Magnite's Second Quarter 2020 Earnings Conference Call following the merger of Rubicon Project and Telaria. As you may recall, the merger closed on April 1, 2020, and this quarter’s 10-Q will be the first quarter that includes the combined company results. The comparisons you will see in the 10-Q are listed as reported, as they include the combined financial results in the second quarter of 2020. But for 2019, the results do not include Telaria.

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-Q. When we make comments referring to pro forma comparisons, we are using combined company metrics for the prior year period in 2019 as the basis for comparison in order to provide additional detailed insights to business performance that management also uses to evaluate our business performance.

As a reminder, this conference call is being recorded. Joining me on the call today are Michael Barrett, CEO; David Day, CFO; and Tom Kershaw, our CTO, for the Q&A session.

I would like to point out that we have posted financial highlight 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 impact of COVID-19 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 our actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements, including with respect to the severity and duration of the COVID-19 pandemic.

A discussion of these and other risks, uncertainties and assumptions are set forth in the company's periodic reports filed with the SEC including our 2019 annual report on Form 10-K and subsequent filings and including our 10-Q for the second quarter of 2020. We undertake no obligation to update forward-looking statements or relevant risks.

Our commentary today will include non-GAAP financial measures. 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. We define cash flow as adjusted EBITDA less capital expenditures, which excludes changes in working capital. 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 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 webcast replay of today's call to learn more about Magnite.

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

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

Thank you, Nick. Before we get started, I want to take a moment to recognize that this is our first earnings call as Magnite, the leading CTV in full-service omnichannel SSP. When we announced our intent to merge in December, we knew that our combined company deserved a new name, a name that would capture the culture and drive of both companies, project our strength as a global leader, position us as the alternative to the walled gardens and highlight our ambition to unite the industry through innovation and transparency. The Magnite brand embodies all of that. And since we launched it in June, the excitement from our clients and partners has been phenomenal.

I'd like to review the highlights of our first full quarter since completing the merger. We have seen a strong improvement in our business trends since our last call and are seeing very positive momentum since the start of Q3. But before we get to the current trends, which you will be most interested in, I'll give a brief overview of the second quarter 2020 results.

Q2 revenue was $42.3 million, reflecting year-over-year revenue growth of 12% versus as reported Rubicon Project-only revenue of $37.9 million in Q2 2019. CTV revenue was $7.9 million in Q2, which represented an increase of 12% year-over-year. In Q2, adjusted EBITDA loss was $3.5 million, much better than we originally expected.

Since our last earnings call, we have observed a steadily improving revenue recovery. We noted in our last earnings call that we had observed revenue stabilizing in April and early May at a level of roughly down 30% year-over-year on a pro forma basis. Revenue in May and June continued to recover, with June down only 17% year-over-year on a pro forma basis, resulting in a 24% year-over-year decline for the full quarter.

Since the start of this quarter, we have observed even greater recovery, with Q3 revenue quarter-to-date nearly breakeven year-over-year on a pro forma basis. And since the start of Q3, we have observed even more rapid acceleration in CTV revenue growth, currently running at roughly 50% up year-over-year.

I'd like to provide some color on where we are seeing signs of recovery. The top 3 performing ad sectors in Q3 to date are technology, home & garden and health & fitness. The lowest performing sectors are travel, retail and automotive. From a global regional perspective, we have continued to see significant APAC outperformance relative to Americas and EMEA. Q3 quarter-to-date, APAC is growing in the high teens on a pro forma year-over-year basis, and both the Americas and EMEA are close to returning to flat pro forma year-over-year growth.

We've done some additional work looking at ad spend trends in regions of the U.S. impacted by coronavirus resurgence. Initially, we saw ad spend slow in regions where hotspots have been concentrated in April and May. However, when new hot spots emerged in July, there has not been a corresponding slowdown in spend in these areas. We've, in fact, seen continued sequential growth in ad spend in all geographic areas, led by the strongest sectors we mentioned earlier.

Overall, as we step back and look at the main drivers of ad spend improvement, several trends emerge. Increased marketer confidence in the second half of 2020; SPO, or supply path optimization, which refers to buyers consolidated and the number of supply partners they work with; the return of live sports; an uptick in political ad spend; and lastly, ad spend shift from marketers participating in ad boycotts of social sites like Facebook.

On the SPO front, we have seen a flight to quality that has benefited Magnite. DSPs, agencies and publishers are narrowing their programmatic partners to a handful of full-service omnichannel players with sufficient resources to weather the COVID impacted economy. We expect this trend to accelerate in the coming quarters, and are also seeing a pickup in ad spend as a result of larger DSPs,
consolidating spend with us away from smaller industry players through SPO.

On the sports side, we’ve seen the return of basketball, baseball, soccer, hockey and golf, among others, and very strong ad spend deployment against programming. We participate directly in the live sports market, with CTV spend with Hulu, Sling, Pluto, Fox, Fubo and others, not to mention ESPN across all of their formats.

Political spend is starting to grow with less than 4 months until the November election. We expect that there may be an earlier spending surge, which primarily impacts our CTV business, with more mail-in versus live voting this year as compared to past elections. And as a result, we expect a more concentrated impact from political spending in Q3 versus Q4.

Lastly, we have been tracking the spend of many large brands that made public statements of their social media boycotts. Since the boycotts began, we've seen a pickup in their specific spending that has continued into early August.

I'll now shift gears to CTV. The CTV business is an important focus for us, and we provide an industry-leading CTV monetization platform to many of the largest players in the market. In Q2 2020, CTV represented 19% of our total revenue.

In 2020, the CTV market continues to accelerate. The largest industry participants, including Hulu, Disney, Roku, Peacock, Sling, Pluto and others, have seen strong subscriber growth, increased consumer viewing time and solid ad spend growth. We are seeing these same positive trends in our CTV business, which we define as digital content viewed on traditional TV screen. Specifically, we have seen a significant increase in CTV ad inventory. This was driven by consumers watching more CTV content during the COVID-19 pandemic and by larger secular trends. These trends include consumers cord cutting or canceling satellite subscriptions to save money, consumer preference for the lower cost ad-supported CTV content and marketers shifting dollars to CTV because of the expanding audience and its premium content. Together, these trends are driving continued solid performance of our CTV business, which, as I mentioned earlier, is now growing approximately 50% year-over-year since the start of Q3.

We gathered some additional color on CTV industry trends and predictions that demonstrate the strength of this growing market. Cord cutting is accelerating. By 2024, traditional linear pay-TV subscribers are expected to decline by 27 million or down 24% to less than half of all occupied U.S. households, according to research from Moffett and Nathanson [sic] [MoffettNathanson]. The combination of high prices, as well as loss of live sports, contributed to an overall drop of 1.8 million pay TV subscribers in Q1. That translates into an annual rate of decline of 7.6%, the fastest shrinkage of the sector on record, which we expect even further accelerated during the pandemic in Q2.

AVOD platforms are growing. Downloads of the Pluto app more than tripled to 3 million in April from 900,000 in January according to Sensor Tower, a market researcher. [Sanier] Tubi jumped 30% to 4 million over the same period, while Voodoo leapt 55% to 673,000.

Finally, on the demand side, agencies plan to increase their OTT CTV spending by 46% compared to 2019, while [Brands] said they expected to boost budgets by 32%, according to IAB in their June 2020 report.

As these and other trends continue to play out, we have seen business with our largest partners grow across the board, that include the likes of Hulu, Sling, Pluto, DISH, Tubi and across many of the content providers like Discovery, Fox and NBC.

We believe the future is bright for connected TV. Magnite, and importantly, our clients, will continue to benefit from our industry-leading technology and service as the CTV market evolves.

I'd like to change topics and talk a little bit about privacy. There continues to be a lot of attention in our industry on privacy initiatives from both regulators and industry participants concerning the collection and use of individual user data. For instance, Google's recent decision to eliminate the use of third-party cookies and Apple's recent announcement requiring user opt-in for IDFA tracking. First, we fully support consumer privacy efforts, and believe a privacy-first model is good for the health of our industry and our business. The new privacy paradigm is shifting responsibility for identification more squarely to publishers that have first-party relationships with their consumers and are better positioned to get consent versus a third-party that is operating in the background. This transforms the value a
publisher has with their users. And as the largest independent SSP, we are well positioned to help them capitalize on this industry shift.

Second, while we expect there to be some short-term disruption in the ecosystem as participants adjust to the absence of certain identifiers, we do not expect these changes to cause meaningful reductions in overall ad spend or revenue. We do not believe budgets will generally be reduced, and we believe that spend will continue to flow to high-value users on a mix of mobile, desktop and CTV. It may mean more volume trading at lower CPMs in some cases, but ad budgets themselves should continue to be deployed, and there is no lack of inventory.

Furthermore, CTV ad spend has never been third-party cookie-dependent or dependent upon mobile identifiers, like IDFA. So there should be little to no impact to CTV growth as the industry works towards a new targeting paradigm. In fact, more spend will likely shift to CTV, especially as our addressability efforts continue to roll out and allow buyers to find their audiences on these platforms.

Third, we are actively participating in this industry shift to ensure that we enable our publishers to realize value for their first-party data without sacrificing the security and control over that data. Some of the things we are doing include: helping publishers pass through first-party values such as demo, interest and subscriber types in the bid request, which allows buyers to incorporate this publisher info into their buys; packaging publisher segments into deal IDs, which allows buyers to purchase segments rather than identifiers; augmenting buyer segments with look-alike segments created by first-party publisher data; support for the SKAdNetwork standard, which was released by Apple and augmented by IAB specifications to allow for attribution on Apple devices; and lastly, beta testing our new vendor marketplace, which allows sellers to package their data and extend that to other publisher inventory. This is live with some accounts today.

Beyond publisher first-party data, we are also leading efforts through Prebid.org, with broad industry support to create an open community driven first-party identity model. And we are obviously participating heavily in the Google Chrome privacy project, also referred to as a Google Privacy Sandbox.

Now an update on Demand Manager, where we continue to see strong adoption by leading publishers. At the end of Q2, we had 172 live contracts as compared to 156 at the end of Q1 and 86 at year-end. Revenue continues to grow, and we continue to meet or exceed our contract signing targets for the year, which bodes well for the future as publishers look to decrease costs and optimized revenue. The key growth drivers for our business remain the same. We are focused on continuing to invest in CTV as our fastest growth area, driving revenue in the combined non-CTV video businesses to deliver growth, accelerating SPO as a transparent, independent omnichannel partner, growing our publisher focused prebid offering with demand manager, and lastly, playing a key supporting role in the changing landscape and identity solutions.

I am proud of the efforts that our team has undertaken to be productive and make huge strides to recover and further position us for success going forward. The merger of our 2 companies is a huge strategic milestone to position us for the future, and I’m even more optimistic now than ever.

With that, I will hand things over to David, who will go into greater detail regarding our Q2 financial performance, cost reductions and expectations. David?
On a pro forma basis, Q2 2020 revenue for mobile declined 32%, desktop declined 26% and CTV grew 12%. Revenue mix for Q2 2020 was 19%, CTV; 45%, mobile; and 36%, desktop.

Operating expenses, which, in our case, includes cost of revenue, for the second quarter of 2020 were $82.9 million versus $46.5 million in the same period a year ago. Increases were driven by the inclusion of Telaria expenses, $12.5 million of nonrecurring merger and merger-related restructuring expenses and the purchase accounting impact of approximately $7 million in noncash intangible asset amortization.

On an adjusted EBITDA basis, operating expenses, including cost of revenue for the second quarter, were $45.8 million as compared to $33.5 million in Q2 2019. This was below the $48 million to $49 million in total adjusted EBITDA operating expenses we originally expected, driven primarily by additional synergy savings and temporary cost reduction efforts, including the deferral of some non-time-sensitive projects.

Our GAAP-based gross margin for the second quarter was 49%. Gross margin is lower due to the impact of COVID-19 on our revenue and due to increased noncash intangible amortization resulting from Telaria purchase accounting. Onetime deal and merger-related expenses in Q2 were approximately $12.5 million and are excluded from adjusted EBITDA. Deal and merger-related expenses in the quarter were comprised of $6.8 million in banking, legal and professional service fees, and $5.7 million in personnel-related expenses, primarily severance.

Net loss was $39.1 million in the second quarter of 2020 as compared to a net loss of $8.3 million in the second quarter of 2019. As I mentioned earlier, adjusted EBITDA loss was $3.5 million, which is better than originally estimated due to improving business conditions and adjusted EBITDA operating expenses coming in lower than our initial expectations.

GAAP loss per share was $0.36 for the second quarter of 2020 compared to GAAP loss per share of $0.16 in the same period in 2019. Non-GAAP loss per share in the second quarter of 2020 was $0.10, compared to non-GAAP loss per share of $0.06 reported for the same period in 2019. There were 108.5 million weighted average basic and diluted shares outstanding for the second quarter of 2020. There would have been an additional 5.8 million shares included in the diluted share count had the company posted net income versus a net loss consistent with anti-dilutive accounting rules.

For purposes of estimating full year EPS calculations, please also keep in mind the impact of the April 1, 2020 closing date and the lower share count that should be used for Q1. Capital expenditures, including purchases of property and equipment, as well as capitalized internal use software development costs, were $3.3 million for the second quarter of 2020, in line with our guidance. We closed the second quarter with $107 million in cash, an increase of $36 million from the $71 million balance at the end of Q1. The cash increase was driven primarily by the addition of Telaria’s cash to our balance sheet, offset by deal-related cash usage of approximately $17 million and operating cash burn of approximately $7 million, which includes adjusted EBITDA loss and CapEx for the quarter, offset by favorable working capital impacts.

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. Note that as part of the purchase accounting related to the merger, we recorded intangible assets with a basis of roughly $103 million and goodwill of $150 million. The intangible assets consisted primarily of acquired technology of $58 million, which will be amortized over 5 years in cost of revenue and $36 million for customer relationships, which will be amortized over 2.5 years in sales and marketing. We continue to expect the total annual run rate cost reductions from our cost synergies to exceed $20 million. At this time, and based on current economic and business recovery trends, we are not planning any headcount-related cost actions.

I will now share some indications for our third quarter. We expect revenue for the third quarter to be in the range of $51 million to $55 million. These revenue expectations are based on the level of year-over-year revenue growth that we are currently experiencing, which is nearly flat year-over-year on a pro forma basis. It is, of course, challenging to handicap how revenue will respond in these still uncertain times. Although we are cautiously optimistic that current trends will continue.
We expect that adjusted EBITDA operating expenses in Q3, including cost of revenue, will be approximately $49 million to $50 million. As a result, we expect to be adjusted EBITDA positive in Q3. We continue to expect that CapEx for the full year 2020 will be roughly $22 million. We expect cash balances to be lower at the end of Q3 than the potential Q3 decrease from adjusted EBITDA less CapEx would normally indicate, as a result of the benefit from working capital in Q2 that will likely normalize in Q3.

We are very pleased to report on results and trends that are much improved compared to our Q1 call. The efforts we have undertaken position us very well to benefit from the continued improvement of economic conditions and to weather any additional pressures should they arise. We will continue to be extremely prudent with respect to cost, while also making critically important investments in the future growth of CTV, demand manager and in our tech stack efficiency.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Lee Krowl with B. Riley FBR.

Lee T. Krowl B. Riley FBR, Inc., Research Division - Associate Analyst

Nice work on the quarter and quarter-to-date trends. I wanted to start off just kind of on the quarter-to-date trends. You highlighted a few sectors that were performing well, as well as a few sectors that were performing poorly due to the macro backdrop. Just curious what kind of the working assumption is for the impacted sectors to the downside in Q3. And then also, I know you kind of defended the IDFA impact on the business. Is there any impact from a revenue standpoint? Or do you guys fully believe that you can steer clear of any impact in the second half?

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

Yes. Great questions. David, do you want to take the trends to date with the categories, question?

David L. Day Magnite, Inc. - CFO

Yes. I'm not sure I fully follow that. So I apologize. So Lee, can you just expand on that question?

Lee T. Krowl B. Riley FBR, Inc., Research Division - Associate Analyst

Yes. I guess, is there an assumption that those negative sectors improve in Q3? Or do they kind of trend similar to Q2?

David L. Day Magnite, Inc. - CFO

Yes. We are basing our guidance on what we're observing today. So we are not assuming significant upsides in those lower performers at this point in time. I'm not saying that that's what will happen, but that's what we're basing our guidance on.

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

Yes. And I can -- Lee, I can hit the IDFA, and then also would love to throw that to Tom Kershaw as well, our CTO, is on the call, who is far more expert at the impacts of IDFA, perhaps not monetarily, but from a technical standpoint. But, yes, we feel comfortable, Lee, in that. We aren't terribly exposed or have outsized exposure to any depreciation of IDFA. And of course, it's all a guessing game as to how money at the top acts are unable to get consumer permission. And so that all has to play itself out. But generally speaking, we think that the inventory is broad and diverse enough, and the spend is broad and diverse enough that what we've seen on platforms, whether it's GDPR or any of the other Apple initiatives, like intelligent tracking prevention and the depreciation of cookies in the Safari browser, that if there's a momentary imbalance, it's usually in CPMs, not in ad budgets, and there tends to be enough inventory where if you sold one unit at $1, you are now selling 2 units at $0.50, I'm not trying to minimize the impact that may have on specific publishers, but for our platform, generally speaking, we deliver the budgets, and we haven't seen the budgets cut. I don't know, Tom, if you have anything further to add to that.
Thomas Kershaw Magnite, Inc. - CTO

Yes, I totally agree with that. I think the thing to note is this is going to be a phased rollout? IOS 14 rolls out in the middle of September, and it's not going to be adopted on day 1. It will be adopted gradually by consumers over time. And in the same way, the opt-in process for apps is the opt-in to IDFA tracking is per app, and that will be rolled out again, over a period of time. So you won't see like a onetime impact. You will see a gradual rollout of this. And with the introduction of the SKAdNetwork standard for attribution, we feel that spend will still flow to iOS devices. Many mobile buyers have been in close contact with us in what's going to be necessary to maintain spend. So I think there will be some impacts here or there, but I think given the phased rollout, our experience with this because we've seen this in the year before, makes us pretty comfortable we'll be able to manage this transition.

Lee T. Krowl B. Riley FBR, Inc., Research Division - Associate Analyst

Got it. That was very helpful. I think most investors just breathed a sigh of relief there. Thanks, Tom. The second question I had, just wanted to focus on the SPO share gains. I know we have talked about it several times in the past. It's always kind of been on the horizon. But it seems like the tone in this call has changed. Since it really seems like perhaps it is starting to materialize. I guess, what is the catalyst for the change in tone? And I guess, what is sort of the trajectory for SPO from here go forward?

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

Yes, I'll jump on that and maybe David will want to chime in, Lee. But, yes, there's no question we are seeing better-than-average rebounding this quarter and the projections at the guide that we gave for Q3. And if you look across the industry and you look at the CPMs that we have trending on our platform, in the volume, it all seems to be beating the industry average with this COVID tamped down. So through the multiple initiatives that we have done over the last 2 years, to the strengthening of the company's profile with the merger with Telaria, the strength of the balance sheet in terms of being able to assuage buyers and sellers that we're not going anywhere with our cash balance, there has definitely been an uptake, we think, in this kind of flight to quality.

And I also believe that many of the initiatives are -- they are not bold. You would like SPO to be one day you wake up and 4 platforms go out of business, and it's tangible, and everyone recognizes that SPO is upon us. This is -- it's a gradual game. And we have been seeing a gradual shifting, a gradual strengthening of the Magnite platform, and there is no question. There's countless examples of agencies. There are agency partners or DSP partners that we can point to where we are getting shift spend towards the platform.

Operator

The next question is from Jason Kreyer with Craig-Hallum.

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

Good to hear the improvement in trends. Just wanted to start on connected TV. Michael, can you give any details on the cadence that you saw over the course of the quarter? And in particular, if you've seen any changes in the volume of CTV being purchased programmatically as opposed to direct?

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

Yes. So we see what we can see, right, Jason. So it's not completely a macro insight. But what we have seen is what intuitively folks predicted and others have commented upon. And that is CTV was not immune from the pause in March. It was a drastic decline in growth rates, but it was still growing. And then we saw it as one of the fastest media types to recover. And so outpacing the gains that we saw in the rest of the platform. And those are even accelerated, as we pointed out with the guidance for Q3. And we know that it's an increase in inventory that we are seeing, not partially because of consumer behavior, but also because of how difficult it is in a world without upfront, in a world that's been disrupted from direct selling, the idea that you can monetize these added impressions in the surge in viewership without having to marshal your direct team to do so in this backdrop, we've definitely, definitely benefited from that trend.

And I think some of that is here to stay. The concern that programmatic would drag down CPMs, the concern that programmatic would take away -- arrest control of inventory from leading players. You can just sense it abating and that there's this new norm that it's going to be front and center with their distribution strategies and their sales strategies, and it's now going to play a very, very important role pulled forward by, I would guess, 8 or so quarters in terms of what it would normally be the development cycle.
AUGUST 10, 2020 / 8:30PM GMT, Q2 2020 Magnite Inc Earnings Call

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

Perfect. And you made a couple of comments that stood out to me earlier in regards to the privacy initiatives. Two in particular I wanted to see if you could just give a little bit more color on. Or maybe if Tom can give a little bit more color on. But one was just the establishment of publisher segments. It seems like almost kind of creating better capabilities to target individual groups. And then just second on launching a vendor marketplace. So any more color on those 2 would be great.

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

Sure. Tom, do you want to jump on this?

Thomas Kershaw Magnite, Inc. - CTO

Sure. So publisher segment, publishers leveraging first-party data for the creation of segments is something that the industry has been doing for a while. We've been passing publisher data in the form of key value payers to buyers for a long time, but they weren't really using that data actively. And what's shifted now with this change in identity is that we are using deals and deal IDs to package up segments for buyers so they can buy their audiences without having to process the IDs themselves. And I think what this is going to represent is a shift of kind of control and responsibility to the sell-side, to the publisher community. And those publishers are going to need to federate, because a lot of them are too small to scale on their own. So these groups of publishers using tools like Prebid to be able to create standardized audiences for the buy side is a clear trend we're seeing, and we're super excited about it.

And I think we're, with Prebid and Magnite, I think we're collectively in a really good position there. The vendor marketplace, it's a new innovation that allows us to plug third-party data into our platform. So say, a third-party provider has a bunch of information for segment creation or for targeting, they can plug that into our platform, we will collect the money from the buyer on their behalf or from the seller and pass that on to them seamlessly, so they don't need to have contracts with thousands of publishers. And what this helps publishers do is it will help them take their first-party data and extend that to other publishers. So we think there's going to be a data marketplace, as well as kind of a format marketplace that will be enabled as we move towards this first-party environment.

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

Okay. Since Tom has already got the floor, I'm going to throw one more out to you. But over the course of the quarter, I guess, early in the quarter, we saw one of the larger DSPs starting to put some regulations out there to limit supply path. And as we have gone through checks, we have heard that, that's been a big tailwind for Prebid, and they've seen better adoption. And just wondering if you can kind of connect some dots for us. I mean, do you see that as a benefit to Magnite with Prebid gaining market share? Or what's kind of the read-through for you guys?

Thomas Kershaw Magnite, Inc. - CTO

Well, yes, I have to see it pretty positively from Magnite that Prebid is gaining market share. I think it's just a phenomenal testament of Prebid success. That when publishers were asked a couple of months ago, you have to pick, you have to pick between Google, A9 and Prebid, they overwhelmingly picked Prebid as their preferred methodology for connecting to the rest of the world. And that's a testament to the open-source nature and the control that publishers have. So we definitely did see that trend. We see a continued movement of inventory into Prebid. The next phase of this is for that to extend to mobile and to CTV. But certainly, that was one of the big trends in the first half of the year was just the continued acceleration of Prebid as the preferred method for most publishers to connect to demand sources.

Operator

Next question is from Matt Thornton with Truist Securities.

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

Maybe first, just coming back to supply path optimization, I guess, maybe this one is for Michael. I guess, did you see -- without getting into specifics, but are you starting to see in the second quarter, did you see developments that just gave you just proof points that this is starting to play out in the way that favors Magnite, meaning, obviously, you guys just closed this merger, did you see a buyer or buyers come to the table and prune their supplier cohorts in favor Magnite because of the steps you guys have take? So I'm just curious, without any specifics, if you have seen some of the evidence start to come to fruition there? And then just secondly on, maybe on the revenue side,
we've talked a little bit about some of the cost synergies that you guys reiterated for the deal. But I'm just curious if you've started to see, again, evidence of some of the revenue synergies that we've talked about in the past starting to come through as well as you start to cross-sell the 2 different customer bases and the 2 different kind of geographic footprints. Any color there would be helpful.

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

Yes, Matt, I'll jump on that. So yes, the big vision is the promise of Magnite bringing together the great CTV capabilities of Telaria in the omnichannel capabilities of Rubicon. We see validation of that play on a daily basis. But to be honest, that's a longer-term delivery in terms of then working with publishers on Demand Manager products or video management platform products and more of a software. We always saw this. The big opportunity that Mark and I saw when we got together wasn't just being able to provide demand to publishers for all media types, that's very important, obviously. But the idea was to take this to the next level and being able to combine some of the cool initiatives they have done with Hulu, with our Demand Manager project, our product, bring them all together and have this one platform, one software first approach.

And that obviously takes time. And I'll be honest, it certainly isn't helped by not being able to be in the office, meeting your colleagues and doing all the normal stuff you normally would do under business. But we are terribly encouraged. The feedback has been fabulous from clients. And as it relates directly to fruition of the deal promise, we definitely saw that the initial pause in spend that occurred in the concern from publishers about viability of certain demand sources and viability of certain platforms. Given this combined strength of the 2 companies and the combined balance sheet, there was no question that played a significant role in the shift of spend and the culling of partners among leading publishers. And so we definitely benefited from that.

And as it relates to revenue synergies, I think it kind of dovetailed into the first part of the answer of the first question, which was those are definitely longer-term plays. We'll be shouting them from the mountain top as they start to come to fruition. But I think that right now, given what we're doing, we are just trying to excel at the CTV game, excel at the omnichannel game and work behind the scenes of making it one cohesive pitch that we'll be able to deliver on the ultimate promise. I don't know if you have anything to add, David.

David L. Day Magnite, Inc. - CFO

I think you got it.

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

Maybe just one quick, quick follow-up, and then I will jump back in the queue. I guess when you think about the landscape over time, obviously, you've come together with Telaria, which is a very pragmatic move. I'm curious, as we continue to see kind of fallout here, if you think there will be more opportunity for you guys to be a consolidator of the supply side. I know there's always been argument that maybe consolidation on the supply side didn't make sense. But obviously, the world is changing. I'm curious your views of that looking forward.

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

Yes, Matt, I don't think they've changed. I think we're bullish on the consolidation. I think we look at deals constantly. And what took us so long to do the Telaria deal was the market timing was right for both companies. But it was also -- we were both winning, and we don't want to do a merger or a roll-up or an acquisition just for the sake of trying to do it for financial engineering. I think, any company we look at has got to be playing offense has got to be in a very strategic and valuable piece of the ecosystem, has a plethora of options themselves because they are doing well, but buy into the overall vision of this combined entity and running the table as the omnichannel SSP with a huge focus on CTV.

And so we're -- I think you will see activity from us in the future. And we're, as I said, open to a lot of things. But we are highly selective and still don't buy the thesis of trying to roll up a bunch of general exchanges that were kind of born in the desktop banner era and trying to see if that adds up to more than the sum of the parts.

Operator

The next question is from Kyle Evans with Stephens.
Unidentified Analyst
And this is actually Michael on for Kyle. I know you talked about the number of live contracts increasing now to 172 for Demand Manager. Do you feel like you are scaling to a user base and have a healthy enough ad environment to get to the original pre-COVID goal of $5 million in revenue? And just to tack on to that, are there any new competitive threats to Demand Manager outside of in-house development of Prebid solutions that you are seeing?

Michael G. Barrett Magnite, Inc. - President, CEO & Director
I'll jump the latter and let David handle the revenue projection piece of it. But no, I don't think the landscape has changed much, Michael, and that was -- and thank you for the question. And that was kind of the belief that we had that our primary competitor in the demand manager space is going to be the free Prebid product. And that has certainly played itself out. And why you see the acceleration is Prebid is growing in complexity, Prebid is moving server to server and I think publishers are starting to look hard at internal costs, and realizing that by taking a company like ours with a managed service software offering, it's a very attractive economic proposition base trying to run it yourself. So I think that that's really what we're seeing in terms of the uptick. As it relates to revenue and reaching the original $5 million goal, David, do you -- do we have a...

David L. Day Magnite, Inc. - CFO
Yes. I'll take that. Yes, I think there was -- well, first, as you noted on the sign-ups, we are just thrilled. And we're -- what's interesting is we're also getting more interest from, I think, some of the larger players that we thought would have taken more time to gain this level of interest because of COVID and because of the impacts on their revenue and as they look at their cost structures. So definitely positive progress on the sign-up side. From a revenue side, I think we're not formally updating our guidance, but we -- there's a big enough hole here that we don't expect to hit those levels this year. Of course, we've still got a runway here the rest of the year, so things could take up even more. But at this point, I don't think we're going to hit those levels. But I think we're going to be better positioned for 2021.

Unidentified Analyst
Got it. And just one follow-up. The onetime deal and merger-related payment that you guys were expecting in 2Q of $16 million, I know it came in a little bit below. Just wondering what the variance was here. And if you expect any kind of more incremental expenses in Q3 or if that's going to be a little bit cleaner going forward.

David L. Day Magnite, Inc. - CFO
Yes. Yes, and it was a little bit confusing. Part of the -- we're talking about cash outlays when we talked about that $16 million, and the cash outlay related to those deal expenses will actually be $17 million. So it's actually just a tick up. And it's just a quirk of some of the investment baking costs on the Telaria side actually aren't on the cost ledger, but they are on the cash flow ledger. So the -- we're proceeding as expected with both the cost and the cash outlays related to the deal cost. But yes, and then going forward, there's a lot of noise in this quarter, and it should certainly, on the GAAP side, normalize significantly next quarter, this third quarter.

Operator
The next question is from Chris Sakai with Singular Research.

Joichi Sakai Singular Research, LLC - Equity Research Analyst
Can you -- I know there was some weakness in the desktop and mobile channels. Can you just provide some color as to -- what were the main points of weakness there? And in the near future, how do you see these channels in the future?

Michael G. Barrett Magnite, Inc. - President, CEO & Director
Why don't you grab that, David.

David L. Day Magnite, Inc. - CFO
Yes. I will -- well, I think the premise, I mean, obviously, COVID has impacted across the business. And actually, the results on both desktop and mobile, I think, are better than we would have anticipated, certainly even at the end of May for the quarter, and certainly did not anticipate the momentum that we have coming into July. And so I wouldn't necessarily describe even though they are down. That's
purely we see as COVID-driven, and we think we are well on our way to recovery as overall ad spend levels lift across the industry. And as we get continued momentum on some of the things that Michael talked about with continued SPO. And then in particular, as some of the sectors, some of the low-performing sectors do start to recover, for example, travel and retail, certainly, not necessarily in the super near term, but we believe they will come back as well, and those will certainly help lift our desktop and mobile business as well.

Joichi Sakai
Singular Research, LLC - Equity Research Analyst

Okay. Great. And then as far as proportion of revenues from CTV. By the end of the year, where would -- can you provide a good estimate? How is -- how much of the revenues came from CTV as compared to desktop and mobile?

David L. Day
Magnite, Inc. - CFO

Yes. We're only -- we're not providing specific CTV revenue guidance going forward. But obviously, with 50% growth rate and a higher -- a quicker trajectory, certainly, that 19% that we experienced in Q2 is mathematically going to grow. So we're very bullish on that CTV business, and think that the benefits that we're seeing are not just COVID related, but they are sustainable for the longer term.

Operator

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

Thank you, operator. And as David mentioned in his closing remarks, we're just very pleased to deliver solid Q2 results and the view into the strength we've seen so far in Q3. We are optimistic about these trends continuing and remain very excited about the future long-term growth prospects of our business, especially CTV.

None of this would be possible without the tireless effort by every team member of Magnite. We closed our merger at the start of this quarter, have never had the opportunity to meet each other in person, get through thousands of hours of Zoom meetings, the teams have bonded and not missed a beat. Don't get me wrong, we all hope one day to return safely to our offices and resume a more regular business cadence. But if our team can put up these types of results under extraordinarily trying circumstances, I feel very bullish about the future of Magnite.

Thank you all for joining us for our Q2 results call. We look forward to talking to many of you through virtual investor meetings in the coming weeks. And everyone, have a good evening.

Operator

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