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MGNI.OQ - Q2 2022 Magnite Inc Earnings Call

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PRESENTATION

Operator

Good morning, afternoon, evening, and welcome to the Magnite Second Quarter 2022 Conference Call. (Operator Instructions) Please note this event is being recorded.

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

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

Thank you, operator, and good afternoon, everyone. Welcome to Magnite's Second Quarter 2020 Earnings Conference Call. As a reminder, the comparisons you will see in the 10-Q as reported include the financial results of SpotX and SpringServe for Q2 2022, but do not include April '21 and SpotX results or Q2 '21 SpringServe results because those businesses were acquired April 30, 2021, and July 1, 2021, respectively.

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 including SpotX and SpringServe for the relevant preacquisition period in order to provide a like-to-like comparison. Please keep in mind as it relates to the SpotX and SpringServe acquisitions, prior quarterly results are estimated and unaudited.

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'll 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.

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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 second quarter 2022 quarterly report on Form 10-Q and our 10-K. We undertake no obligation to update forward-looking statements or relevant risks.

Our commentary today will include non-GAAP financial measures, including revenue 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 incremental metrics to provide greater insights into the dynamics of our business. Please be advised that this additional detail may be onetime in nature, and we may or may not provide an update on the future of these metrics. I encourage you to visit our Investor Relations website to access our press release, financial highlights deck, periodic SEC reports and webcast replay of today's call to learn more about Magnite.

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

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

Thank you, Nick.

In a more challenging ad spending environment, I'm pleased with our team's ability to deliver revenue and EBITDA in line with what we communicated to you 3 months ago. CTV finished at the midpoint of our guide, and we achieved strong adjusted EBITDA growth of 30% year-over-year, with a margin of 34%, also at the midpoint of our implied guide. David will provide greater detail on Q2 results and Q3 outlook.

Like others in the sector, we were not immune to the impacts of macroeconomic challenges, and we did experience softening as the quarter progressed, especially in EMEA and APAC in the DV+ business. A strong U.S. dollar also pressured overall ad spend in these geographies. In DV+, the U.S. proved more resilient than the rest of the world. These trends in DV+ have continued into Q3 and are reflected in our expectations.

Given market conditions, we are very pleased that our CTV business continued to be a growth driver in the quarter as revenue ex-TAC grew 52% year-over-year on an as-reported basis or 19% pro forma. Q3 has started even stronger, and we are optimistic that our CTV business will see improving growth rates in the back half of the year. We are seeing great traction in CTV and specifically our ad server business, SpringServe. The integration between our ad server and the SSP is incredibly powerful. It reduces complexity, improves inventory management between multiple parties, enhances functionality and most importantly, drives yield for customers that have both a direct sales force and a programmatic sales channel.

We are continuously introducing new features into this integrated solution, such as ad tiles, which are the native ad units presented on the home screen of connected TVs. Solutions such as these have put us in a great position to capture share with one of the fastest-growing groups in the CTV market, the TV OEMs. They have quickly scaled, and will continue to further strengthen as key players in the market for years to come. The likes of VIZIO, Samsung and LG continue to invest aggressively in their advertising businesses as more viewers rely on their TV operating system to access digital content.

This quarter, we announced a multiyear deal with LG Ads Solutions. We will have access to their automatic content recognition or ACR data for planning, activation, measurement and advanced analytics across our platforms. Through the agreement, ACR data from opted in LG smart TVs in the U.S. will be made available across our U.S. inventory footprint this year and will expand to other countries starting in 2023.

Simply put, this is technology built into connected TVs, which captures everything that is viewed, both content and ads, and regardless of source, whether linear or streamed. It is extremely valuable and unlocks unique capabilities such as targeting around content viewership, incremental

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reach and frequency management across both linear and streaming environments within the household. Through this partnership, we have also renewed our relationship with LG, which spans ad serving, programmatic execution and demand generation.

This landmark deal also highlights the unique positioning Magnite has established in market around data enablement. While most major players in this category have reserved the use of their first-party data assets against only their own inventory, LG has opted to partner with Magnite and leverage the scale and secure data enablement infrastructure we have spent years developing across our broader inventory footprint.

This enhances LG's ability to scale their advertising business while protecting this incredibly valuable data asset. Other CTV growth drivers that keep us optimistic are Disney+'s ad-supported tier, our strategic relationship with GroupM continuing to scale and the 2022 midterm election season, which is just starting to emerge in August and is likely to accelerate through early November.

We are extremely well positioned to capture political dollars with our managed service team as well as with partners such as the Scripps Political Consortium, where we are the exclusive SSP. Scripps is leading a group of premium publishers, including Cox Media Group, Capitol Broadcasting Company, Graham Media Group and other broadcasters to provide billions of monthly CTV impressions to Magnite available to political advertisers.

On the DV+ side, we have identified key initiatives for growth and are working on delivery against them in the coming months. In the first half of the year, we have nearly doubled ad request volumes compared to last year. This is a key first step to driving higher conversion of these ad requests to ad spend. We have done this with tremendous efficiency and continuously lowering cost per ad request. Our omnichannel scale, ability to serve all types of publisher inventories [unmasked] among independent SSPs and is a key differentiator for Magnite.

Our Demand Manager business continues to perform well. We have had very good traction recently with a number of large, notable publisher wins such as Disney, TIME and BuzzFeed. These are expected to onboard over the next several quarters. We are pleased to see larger and more complex publishers increasing their adoption of Demand Manager and lean heavily on Magnite for yield optimization and monetization.

Looking ahead to the second half of the year, our overall growth rate could be tempered by a macro environment that is challenging. However, we believe that we have unique drivers that will support further growth and prudent investments. We continue to hire key talent, invest in our CTV platform, build out more capabilities on the audience and identity front, introduce new ad server functionality and optimize the DV+ business for better growth and market share gains. We believe we have all the key strategic pieces that we need across these areas.

Additionally, our platform integration is progressing well with functionality expected to be completed this year and migration of customers beginning next year. I'm pleased that the strength in our business allows us, even in challenging times, to balance growth investments, while continuing to deliver strong and improving financial results.

Before turning the call over, I wanted to step back from the short term and provide some comments on Magnite and our position in the market. In the last 2 to 3 years, we have transformed Magnite into a $0.5 billion revenue company, aiming at $1 billion as our next milestone, with a strategic and durable market position and a business model with a very attractive earnings and cash flow profile. This has been done through the combination of strategic M&A as well as internal investment in organic growth.

Most importantly, we have grown a CTV business that now represents 42% of our total revenue ex-TAC, up from 0% in 2019. With customers like Disney, Warner Bros., Discovery, Paramount, Samsung, VIZIO, LG, Roku, DIRECTV, Sling and many more, I'm incredibly proud of what we've accomplished and built for the long term.

With that, I'll turn the call over to David. David?

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

Thanks, Michael.

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Overall, we had a solid quarter in the context of macroeconomic challenges. Revenue ex-TAC finished within our guidance range, with CTV revenue at the midpoint. Expenses came in lower than our guide, which resulted in adjusted EBITDA at the midpoint of our implied guidance range. This demonstrates the benefit of our revenue diversity, positioning within CTV and the leverage of our business model. We continue to be cautiously optimistic as we look at the back half of 2022.

Total revenue for Q2 was $138 million. Revenue ex-TAC was $123 million, up 23% from Q2 2021 on an as-reported basis, and up 7% on a pro forma basis. CTV revenue ex-TAC was $52 million, up from $34 million or 52% from last year on an as-reported basis, and up 19% on a pro forma basis.

DV+ revenue ex-TAC was flat versus prior year on a pro forma basis. Mobile revenue ex-TAC grew 6% and desktop revenue ex-TAC at 8% year-over-year, both on a pro forma basis. It is important to note that these results were achieved while cycling very strong growth in the second quarter of last year. Our revenue ex-TAC mix for Q2 2022 was 42% CTV, 36% mobile and 22% desktop. On a sequential basis, Q2 2022 total revenue ex-TAC grew 15% over Q1 2022. CTV revenue ex-TAC grew 23% and DV+ grew 10%.

Total operating expenses, which, in our case, includes cost of revenue for the second quarter, decreased slightly to $161 million versus $162 million in the same period a year ago. Operating expenses include year-over-year increases in amortization of acquired intangibles and personnel-related expenses from SpotX, which were more than offset by a decrease in merger, acquisition and restructuring costs compared to last year.

Adjusted EBITDA operating expense was $82 million, an increase of $4 million sequentially and up $13 million from Q2 2021, also driven by -- primarily by the acquisition of SpotX in the year-over-year comparison. Costs for the second quarter were lower than expected, primarily due to slower hiring, lower office and facilities costs, lower technology and cloud costs and delayed marketing events. Net loss was $25 million for the quarter as compared to net income of $37 million in 2021. The decrease in net income was primarily attributable to a onetime $88 million tax benefit recorded in Q2 of 2021 as a result of the SpotX acquisition. Adjusted EBITDA was $41 million, an increase of 30% versus prior year, resulting in a margin of 34% compared to adjusted EBITDA of $32 million or a margin of 32% in the second quarter of 2021. This was driven by continued revenue growth and cost synergies from the acquisition of SpotX. Note that we calculate our adjusted EBITDA margin as a percentage of revenue ex-TAC.

GAAP loss for basic and diluted share was $0.19 for the second quarter of 2022, compared to GAAP earnings per diluted share of $0.26 in the same period in 2021. This decrease is a result of the tax benefit mentioned above. Non-GAAP earnings per share in the second quarter of 2022 was $0.14, which was up compared to non-GAAP earnings per share of $0.11 reported in the same period in 2021.

There are 132 million weighted average basic and diluted shares outstanding for the second quarter of 2022. Fully diluted weighted average shares utilized for non-GAAP earnings per share were $142 million for the second quarter of 2022. Capital expenditures, including both purchases of property and equipment and capitalized internal use software development costs were $12 million for the quarter, in line with our expectations. Operating cash flow, which we define as adjusted EBITDA less CapEx, was $29 million. Our interest expense for the quarter was $7 million, of which roughly $6 million was cash.

At the end of Q2, we had $233 million in cash on the balance sheet. Regarding debt, we continue to reduce our net leverage ratio, which was approximately 2.8x at the end of Q2 as compared to 6.2x at the time we closed SpotX at the end of April last year. This represents further progress towards our ultimate goal of 2x or less.

As an update on our $50 million share buyback program announced in December, we repurchased 312,000 shares for approximately $4 million in Q2, leaving $28 million in the program at the end of the quarter. In addition, for our regular RFP vesting during the quarter, we utilized the withhold-to-cover method to cover employee taxes, withholding 462,000 shares for approximately $5 million.

We started the year with a balanced goal between share buyback and debt reduction. Going forward, we plan to lean more to cash accumulation to maximize flexibility and with the goal of reducing our net leverage ratio. That being said, we continue to believe that repurchases at our current share price represents an attractive use of capital to buy our shares at a discount to intrinsic value.

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I'll now share our future expectations. Our approach to guidance is conservative and does not anticipate broad economic improvement through the end of the year. For the third quarter, we expect revenue ex-TAC to be in the range of $122 million to $126 million. We expect revenue ex-TAC attributable to CTV to be in the range of $52 million to $54 million. We expect adjusted EBITDA operating expenses to be $85 million to $87 million, implying an adjusted EBITDA margin of 31% at the midpoint.

For Q4, we currently expect quarterly adjusted EBITDA operating expenses to increase roughly $5 million compared to Q3. This increase would primarily be driven by technology operating costs and increased headcount to support our growing business. For the full year, we expect revenue ex-TAC to be above $500 million. We expect CapEx to be approximately $45 million, of which approximately [$80 million] will be in Q3. And we maintain our expectation that we'll generate over $100 million in free cash flow. We define free cash flow as adjusted EBITDA less CapEx and net cash interest payments.

We are hard at work to deliver across all opportunities we have in the second half, while managing our expenses and continuing to prudently invest in strategic growth areas. Our model continues to show strong EBITDA and cash flow generation even with slower revenue growth driven by macroeconomic pressures.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Shyam Patil with SIG.

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

I had a couple of questions. Michael, can you talk a little bit more about your outlook and some of the puts and takes and maybe in addition to that, just how you continue to see your CTV opportunity and kind of growth over time. I know you talked about kind of better than market growth rates, which I think people have pegged around 30%. Just kind of curious if you could just kind of walk through those, and I have a follow-up.

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

Yes, sure. So our crystal ball is as good as anyone else's, but we spend a lot of time in the market with buyers at agencies and at marketer level. And I think there's a general -- obviously, depending on the advertising vertical. But there's a general feeling that their budgets that have been cut have really more been paused than taken off the table. And so there is a hope across the board that as we get into the late second half of the year, you're going to be able to see a resumption of that. And so that gives us some confidence.

The other piece about our CTV business precisely is that we often talk about the "competition" with Magnite really is direct sales by sales folks at these large broadcasters and/or CTV programmers. And in markets like these, you'll find publishers more willing to work with programmatic inventory and their programmatic partners. And so we certainly benefit from that as well, as well as our managed service team which is picking up steam. We're seeing the rebound of regional travel, which is a big category for them. Still softness in Tier 2 automotive, but we've talked about political in the script, and we think that, that can be a very nice driver. And political inventory goes at a high price in terms of CPM, so it has a kind of rising tide effect on the whole publishers monetization. So that's kind of the -- in a nutshell, what we're seeing for the second half of the year.

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

Got it. And then just a quick follow-up. We get a lot of questions around Hulu and Disney. And I know the contract is on evergreen basis now. I was just wondering if you could maybe talk a little bit more about that and just your -- the relationship and the ability to expand the relationship and economics over time.

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

Yes, [you] don't classify the contract as evergreen, but I would say that I feel we're in a terrific position with our partner, Disney. Over the course of this contract, our relationship has expanded into other areas. Of course, there's a launch of Disney+ that wasn't really on an as reported here, that wasn't really anticipated and/or factored in to the original contract, and so that's accretive. And we talked about Disney adopting Demand Manager. So now you're starting to see kind of this omnichannel story play out that we felt was something that was going to benefit us in the market and it's starting to pay dividends there. So I would say a very strong relationship with Disney, very intertwined from a technology build standpoint and feel good about where we're heading and the continuation of our relationship.

Operator

Our next question comes from Laura Martin with Magnite (sic) [Needham & Company].

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

So stepping up to 3,000 feet, Michael, I'm really interested in Netflix' choice of Microsoft, and whether you think this adds Microsoft as a meaningful competitor to other SSPs. Does it sort of reinvigorate Xandr, which to date has been sort of a weak competitor in the hands of AT&T? It's my first question.

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

Yes. Laura, I would say that it certainly doesn't hurt Microsoft's ad credibility. But I would emphasize that the Netflix has been reported. So I don't have any blinding insights there. That was quite a different process than what the normal publisher would go through, right? The talk of pieces of the cloud deal, revenue guarantees, all that. And that is not what a normal publisher goes through. A publisher goes through testing the technology capabilities, whether or not it can meet their needs, almost all of these publishers have large sales teams so they aren't starting from 0.

And so I would say that they haven't really proven an ability to compete on that level, on a normal RFP-driven level. So I think I feel really comfortable where we stand and the pieces that we put together, but it would be silly to discount Microsoft and the resources that they have as someone who doesn't have aspirations to ultimately be a player in this space.

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

Super helpful. And then my other one is also macro walled gardens versus open Internet sort of strategic thinking. So the 3 walled gardens that reported earlier had really [abysmal] numbers, YouTube about 2%, SearchUp 14, Roku guiding to 3% revenue growth and Facebook/Meta up -- down revenue 1%. Whereas you just reported 23% growth, biggest open Internet SSP. Trade Desk just reported 36% revenue growth, biggest open Internet DSP. Are we getting a shift from walled gardens to the open Internet. And if so, why now?

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

Well, I think you bring up a really interesting point, Laura, and I think it's something that we've always leaned into, and that is buyers want choice. They want to be able to use their data. They want to have their choices as it relates to what data they want to bring into the mix. And lastly, they

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want to be able to track their results, learn from their spending and be able to apply that learning onto other buys. And as you know, in a walled garden situation, all that data and all that information stays within the walled garden and it doesn't make a big marketer any smarter on their next buy across the web.

We've also been very clear that in CTV particular, it's very, very difficult to run the table and create a monopoly, like Google has done in search, like Facebook has done in social. Premium video content is available in many places, and it's only increasing à la Netflix and Disney now coming to the market with ad-supported vehicles.

And so I think that what you're finding here is that for the first time, marketers, agencies have a true choice, a real choice. You're getting every bit as good targeting. You're getting every bit as good effects from the advertising. And you're not being held captive because someone has -- run the table on a certain type of inventory, you need to buy from them. And so I think you might be seeing some of that play through.

Operator

Our next question comes from Jason Kreyer with AGI Hallum (sic) [Craig-Hallum].

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

Okay. It's Jason Kreyer from Craig-Hallum. Michael, just wanted to see if you can maybe talk a little bit more about the trends you're seeing in DV+ and maybe the opportunity for Magnite and DV+. I think you alluded to a little bit of -- some strategic changes or things that you're going to be doing a little bit differently there. So I wanted to hear a little bit more on what the strategy is there.

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

Yes, Jason, good question. Listen, we're certainly not where we want to be in DV+, and I certainly don't feel good with the numbers that we put up. What I do feel good about is the progress that we've made behind the scene. It's a very complicated business. Global, obviously, huge scale. You're talking hundreds of billions of ad requests a day. And so [the -- a modest peak here or there], can we go a long distance just given the scale? And so I think you would have seen much more attractive green shoots in Q2 hadn't been for the economic headwinds that we saw in EMEA and APAC. So those CPMs became quite depressed throughout the quarter and kind of continue to be so, although it's built into the guide that David shared with you.

But we feel -- I feel good, Jason, going into the second half of the year. We've got some [option mechanics] that we've implemented that have promising early results that we're now spreading out to a larger sample set. As we said, we onboarded a lot more inventory. And with SPO gains like the GroupM deal, I think that it's setting us up to return that business to walk first and then run second. And I don't think I could have felt -- I didn't feel this good about the business a couple of quarters ago. It's been a longer side than I anticipated in terms of getting to where we are now. But I think from here on out, it's going to be a much more positive story for DV+, thanks for the hard work of the team.

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

Okay. And I can't make it through a conference call without talking about cookies. So obviously, Google kind of kicked out that deadline once again. But we've spent a lot of time talking about how deprecation of the third-party cookie is going to yield more usage of first-party data, and that's going to be a benefit to you guys. I mean the more we get these delays, and I think a lot of people feel like [24] is not even going to be the answer, but do you think that creates a little bit of a vacuum? Or has the industry moved beyond that enough where first-party data is going to start to maybe appeal as a targeting mechanism more so than third-party data is?

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

I think unfortunately, as long as third-party cookies are around, it's kind of the easy button. And the published -- the forward-thinking publishers that have been dependent historically on third-party cookies that are putting a lot of energy and effort into creating their own audience segments and working with us to help them try to merchandise it. I just don't think you're going to see a rabid appetite on the buyer side as long as there's third-party cookies and it's what they've been used to.

So I do think that some of our ambitions in the identity and audience management space have been pushed out largely because of the cookies not being deprecated. But as I say that, let's take a look at the world that has never had cookies, which is the CTV world, and look at our LG deal. And I think that, that is perfectly emblematic of what we envision and that is LG had their choice. They could have gone to a DSP and made a deal come for the data, they could have gone to a data company like a LiveRamp, they could have -- or they could have gone to an SSP. And they chose Magnite given our tools and given their level of comfort that they could still run a thriving ad business themselves, while we help accelerate it through the use of our [identity live] tools, et cetera. So I do believe in the thesis. I just think in this third-party tricky world, you're going to see a delay in that as long as they still exist in the Chrome environment.

Operator

Our next question comes from Matt Swanson with RBC Capital Markets.

Matthew John Swanson - *RBC Capital Markets, Research Division - Associate VP*

If I could actually pick up at the end of where Laura's question was on CTV. And you kind of touched on this, the idea that between Netflix, Disney, HBO, Warner coming together, we're going to see a lot of ad-supported content coming into inventory in this next year here. So could you just talk about how that inventory is going to impact how advertisers approach CTV market? And then also how existing publishers might need to adapt to that competition. So maybe a little more high level than looking at individual partnerships, but just thinking about how much supply is going to come on and how that's going to maybe impact the ecosystem.

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

Matt, great question to be played out. But our sense in talking to the big buyers is when there were rumors of the Netflix perhaps coming online this year, they purposefully left money out of the upfronts into the spot market to have optionality. And I think that, that's probably how it's going to play out. And where is that money going to come from? I think it just really comes down to, we've already crossed that tipping point in terms of the larger audience being on streaming products. They're more desirable, they're younger, they're harder to reach and ergo, I think that you're just going to find more and more dollars.

I don't think it gets cannibalistic out of the gate. I don't think Disney+'s gain is Warner -- Discovery+ is HBO Max's loss. I think it's really -- the dollars that are getting up for grab are more of the linear dollars being pulled into the streaming environment. So I see it as an expansion of a SAM as opposed to cannibalizing each other in price erosion because the premium services are still holding a high premium in terms of CPM. And I don't think that's going to also [occur -- also a race to kind of the bottom of CPMs] in a finite pool of dollars to fight over.

Matthew John Swanson - *RBC Capital Markets, Research Division - Associate VP*

That's super helpful context. And then, David, you mentioned at the beginning of your prepared remarks the cautious optimism into the second half. And then we've also talked a lot about some of the conservatism that's built in the guidance. So could you maybe just kind of like separate and double-click on both of those? And if it would be helpful, like on a month-over-month basis, just kind of thinking how trends progress through Q2, and then maybe changes or anything you've noticed going to Q3. And then if I can tag on one last, the -- just any assumptions around political benefit to Q3? I know if it comes, it comes in September. So just kind of how you're thinking about the seasonality of political spend?

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

Yes, sure. All right. Let me unpack a few of those. I think -- let's start with the guidance. And that's absolutely correct. We're seeing a lot -- there's a lot of uncertainty and kind of mixed signals. And so we have taken a conservative approach to the guidance. I think there are 2 primary components of that conservatism.

So first, our guidance does have some room for further deterioration of the macro environment. So not that we absolutely expect that, but it does have room for that.

And then, second, as you highlighted on the political side, political spend should grow in September and obviously, October will be the more significant month. We don't have significant visibility into that at this point, being a midterm election, and so we've taken a pretty conservative approach on political. We've built in some growth in political in September, but haven't over-indexed on that until we actually see it.

So from an overall trend perspective, I think we saw a little bit of weakening -- continued weakening, I think, in the latter half of the second quarter, kind of continuing challenges, strengthening dollar has impacted EMEA in particular and our DV+ business. And so we're sort of seeing that trend. And there's a lot of weariness. Michael highlighted with buyers, some of the big agencies have talked about some spend increases, but everyone is just sort of weary and just seeing where things will go. And so we're just kind of feeling that with tepidness, I guess, in the current spending levels.

Operator

Our next question comes from Dan Kurnos with The Benchmark Company.

Daniel Louis Kurnos - *The Benchmark Company, LLC, Research Division - MD & Senior Equity Analyst*

Maybe just a follow-up on both of those. And Michael, you gave sort of TAM expansion around sort of the incremental supply, but I think the bigger -- other or alternative question we've heard from sort of Hulu, Disney around programmatically executable inventory in 4 years. And I know we all don't know exactly what Netflix is planning on doing with Microsoft. [And it looks like -- in] your prepared remarks and talking about the direct relationships, just how are you thinking about what Netflix and/or Disney going AVOD means from the acceleration of programmatic adoption rather than direct sales?

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

Yes, Dan, [this is actually a -- and] a great question. And I think Hulu's really instructive in terms of being kind of the OG of streaming ad-supported, right? And if you look at how they balance their go-to-market, they have a healthy amount of biddable inventory that they use to help drive pricing against direct sold inventory. And what they have found and others, so not just 2, that biddable can help rise -- increase overall monetization.

And biddable for the premium services is very much an invite-only auction, right? So it's not open header bidding where they don't know who the advertiser is. This is very much an auction where they know who all the participants are, and the participants know what the price floors are. And utilizing that against the mixture of upfront direct sold yields the highest amount of CPM.

And so what I think you're going to see is this expansion of biddable inventory in the top tiers. Most of it will be through the form of invite-only auctions, but that's good news for a player like Magnite because it has to run through someone who can conduct an auction, and that's kind of what we're good at.

And so I see that as the first step to a true programmatic utilization of the premium services. And then after that, I think you'd get an appetite for, well, "Boy, if you can bring me 1,000 advertisers I've never called on, and they can help even round out further this kind of portfolio approach of

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how I go to market, I'll let you bring them on all day long." And we see that with others in the -- other partners in the space. And so then you acted that SSP that's not just running an auction that's an invite-only auction, you're running a true auction that is opening it up to a class of advertisers that are traditionally not television advertisers and/or called upon by the big direct sales teams.

Daniel Louis Kurnos - *The Benchmark Company, LLC, Research Division - MD & Senior Equity Analyst*

Got it. That's super helpful. And then just also to touch on sort of the political commentary. I have sort of a unique view covering the broadcasters. Every single one of them has now said political is going to be a record, even greater than 2020.

I know, David, in your response prior, you mentioned sort of some conservatism baked in to your numbers. And I guess my question is just more around the tech. I know the partnership with Scripps is unique. We're starting to see a lot more of those types of deals, but a lot of the issue is being able to actually code the inventory and expand from a national sales desk. And if you ask like a Roku or VIZIO, there's challenges on their part in terms of maybe being under-indexed from a sales perspective.

So I guess the question is, obviously, early innings, but if 15%, I think, is kind of the estimate, 15% to 20% of political goes to CTV, how much over time of that do you think you end up capturing? And how much do you have to either educate or continue to expand the [tech] in order to grow what is obviously a very nascent category?

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

Yes, great question. I'll attempt to answer some of it and maybe David can embellish on some more of it. But the -- this is where the investment that we've made in building out this middle-market managed service team comes into play because these are regionally located individuals that have a deep relationship with all the agencies and marketers in the area. And so they're poised to be able to take advantage of this new category of spend and have done so historically very well for legacy SpotX. So a lot of experience in doing it.

And as you know, as it gets bigger and it's a senate race or -- sometimes those dollars flow through to D.C.-based agencies that are specialized in political advertising and having a relationship with them year-round, which we do with folks on the ground in that market, helps us greatly. So I think that we're well positioned from a [tech] standpoint. I think some of the biggest challenges from tech has always been able to scale, particularly in CTV, and that's where an SSP really comes involved because we -- with all the relationships we have, if you take the DMA or IP-targeted inventory, it may not be enough from one service like a Pluto. But if you add Pluto with Hulu with who -- you all of a sudden now have a huge footprint to be able to activate, and that's kind of along the flavor of Scripps. We get together all these competing broadcasters that now can be able to bundle together all this inventory to make it more meaningful.

So I think we're in a really good position to benefit from it. We definitely don't have as much experience as the local folks in terms of history. Political's pretty nascent for streaming. Streaming's pretty nascent itself. But we fared well. And David can share the numbers of what we did in the general election last -- in 2020, and perhaps, you can extrapolate from there if you think that it's going to be same size or bigger.

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

Yes. And to add on to that, in that presidential cycle at its peak, political was mid-single digits of our total revenue. So if we can hit those levels and execute on everything that we've talked about, certainly some upside there.

Operator

Our next question comes from Nick Zangler with Stephens.

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Nicholas Todd Zangler - *Stephens Inc., Research Division - Senior Research Associate*

How about an update on the managed service business? Are you seeing some improvement there? Or are we still limited by that? It was $3 million to $4 million a quarter in this segment at one point. I think that's still kind of the headwind. But any update there?

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

Yes. Nick, David can give a little bit more specific if we're going to actually break them out. I'm not sure if we are or not. But the -- it's definitely improved. There's no question that we still -- again, that business over-indexed versus the general exchange, over-indexed on 2 ad categories, automotive, which is typically the dealer-type advertising, Tier 2, and regional travel. And regional travel's definitely picked back in. Automotive is still lagging, but there's been bright signs of other categories emerging.

And furthermore, we've also talked about the mix of business in their portfolios, and it's trending towards more of the higher margin business now. And so therefore, we think of -- whereas managed service has been a bit of a slag because of the macro, we see it freshening. And again, they'll be the biggest beneficiary of the political spend. That will be the group that captures most of the spend. And so therefore, that [will give them] a good guide as well.

Nicholas Todd Zangler - *Stephens Inc., Research Division - Senior Research Associate*

And then -- oh, go ahead.

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

I was going to say they're one of the strongest growing areas in the company sequentially Q1 to Q2.

Nicholas Todd Zangler - *Stephens Inc., Research Division - Senior Research Associate*

Oh, wow. Great. Great. And then just the other question, just on the desktop side within DV+, is -- I think it was obviously down year-over-year in the quarter. Outside of macro, is there anything more specific to call out there? I'm kind of wondering if this segment is just falling out of favor with advertisers and growth maybe just hard to come by as we continue to push forward, and it's really going to be CTV and mobile that advertisers are really attracted to. But maybe just your thoughts on that segment.

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

Yes. I could start with...

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

You want -- David can. Go ahead.

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

Yes. So if you look at prognosticators, e-marketer, magnets, if we look at multiyear CAGR on desktop, it's low single digit. And so what I think you saw for us, we've got some improvements we need to make in our DV+ business. We've made some of those improvements, as Michael highlighted, but it's masked a little bit by the macro environment.

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So I think your overall comment is generally true. I think we'll have opportunity as we continue to make progress with the DV+ business. Desktop is 20% of our total business built. We can take some of that share from those low single-digit growth over time, but it won't be the major driver for us in the future.

Operator

Our next question comes from Matt Thornton with Truist Securities.

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

David, I guess, maybe one housekeeping for you. You called out currency -- or currency was called out in the prepared remarks, that's not usually something we think of you guys as having much exposure to, but if you'd be willing to quantify kind of what that headwind is versus maybe what it was 3 months ago, that would be helpful.

And then, Michael, over at Warner Bros., obviously, a lot going on there, having parted ways with Xandr and more recently, obviously, starting to merge their 2 VOD services. And my question there is if you think there is incremental opportunity, incremental risk, just how you're viewing that potential opportunity?

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

Sure. Thanks, Matt.

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

So on the currency front, we don't -- some companies record their results internationally in foreign currencies and then have a translation impact. It's very easy to quantify. In our case, our system is U.S. based. And so -- and foreign currency budgets get translated at the input stage into U.S. dollars. And so it's a little hard to quantify, but it manifests itself typically in CPMs. And so we've seen CPM drops in Europe, in particular, in the 10% or 15% range. And so we think that correlates to the currency impact to some degree.

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

Yes, Matt, on the Warner, Discovery. So we have a long history of working with Discovery and with Warner's. Obviously, it was a bit tempered when they were part of the AT&T family, and they acquired Xandr or AppNexus became Xandr. But now that they're back in the fold of the Discovery team, and the Discovery team is kind of running the operations there, we feel really good about that relationship, the expansion of that. And obviously, they, along with a lot of others, have announced the launch of an ad-tiered free service to complement their merger of Discovery+ and HBO Max. So even more inventory opportunities, [more deals], and we feel we're in a good position to work closely with that partner.

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

That's helpful. Maybe I can slide one more in. The -- you guys have called out a couple of different opportunities that kind of help drive the back half of the year. I mean political, the LG-ACR relationship, the Disney+ AVOD launch here in the U.S. as well as just the GroupM relationship and general SPO, I guess. Any way to size kind of what the biggest driver is? Or give us any kind of sense of what's more material? And some of those actually may be more '23 drivers than '22 drivers, so that kind of color would be helpful as well. And then I'll jump back in the queue.

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

Yes. Great question, Matt. I think -- and I'll let David chime in as well. Certainly, the most discrete, seasonal opportunity would be political. The other drivers would help with Q4, help with Q3, but not be unique to just Q3 and Q4, view them as more evergreen. So political, I think, would be the one that you could quantify or attempt to quantify the most.

I don't know if, David, you have a varying opinion.

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

No, that's it.

Operator

Our next question comes from Shweta Khajuria with Evercore ISI.

Spencer Stephen Tan - *Evercore ISI Institutional Equities, Research Division - Research Analyst*

This is Spencer Tan on for Shweta. Just had a quick question on your industry verticals and kind of the expectations in Q3 outside of political spend. I think you pointed to travel and auto as being at different points of the strength spectrum. And so I guess just underlying your assumptions for Q3 growth, are there any conservative kind of growth figures that are going into your assumptions around vertical mix?

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

You want to handle that, David?

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

Yes, I'll start with that. Yes. So as you highlighted, I think we're seeing some pullback, particularly in retail, health and fitness, home and garden, strength in travel as you highlighted, some strength in technology and computing, and some green shoots in auto, particularly in our mid-market team -- managed service team. And so from a guidance perspective, again, there's no particular lean into those verticals other than assuming those trends continue and having some cushion in our guidance if general trends deteriorate further kind of over the last half of the year in the third quarter.

Operator

Our next question comes from Tim Nollen with Macquarie.

Timothy Wilson Nollen - *Macquarie Research - Senior Media Analyst*

I've got one more on CTV. We've covered a lot of ground with CTV today, but my question is about SpringServe, which I thought was an interesting tag on to the SpotX acquisition that you made last year. And I'm wondering, is it -- you sound very optimistic on CTV kind of gaining share from linear and the role that Magnite plays in all of that. And I'm wondering how the SpringServe play into that. Do you need to win accounts over to use the SpringServe server? Is that an extra boost to your business? I'm just curious what the status of SpringServe is now.

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

Yes, Tim, great question. I think we've been pretty clear that the initial goal or the near-term goal of utilizing SpringServe in combination with Magnite wasn't you're going to look for a release -- a press release that is a rip and replace of like FreeWheel. Take the Australian marketplace where Magnite has a very enviable position powering programmatic for all of the top broadcasters in the Australian market. And every one of those broadcaster uses GAM as their -- Google's Ad Manager as their ad server. So that's a perfect case in point of how we can work with an existing ad server and just bring enhanced, advanced programmatic functionality to that ad server that really wasn't built for CTV.

And so that's the real pitch that even FreeWheel wasn't built for CTV. It was built for online video and had to be morphed into CTV. SpringServe is built for CTV. And with it comes some inherent functionalities that the others don't have that our clients wish to have. So for the meantime, I think you see us working alongside their existing -- in the top tier, the plus services, call it, working alongside their chosen ad server, providing that functionality and yield optimization that they desire. As you start to work with folks like the OEMs or the SaaS services, they're tailor-made for SpringServe as their primary ad server. And it's even more powerful if we're the primary ad server coupled with Magnite.

So I think that we are elated with the performance to SpringServe. The team is just crushing it. And I think that as we start to evolve as Magnite to have this deeply embedded ad serving capabilities within the leading CTV SSP, it's going to really provide us with competitive advantages that are very difficult to replicate.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to Michael for closing remarks.

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

Thank you, Jordan.

We continue to build on our market-leading position and invest in clear areas for growth in CTV, DV+ and audience and identity. As we look at the back half of the year, we feel strongly that our selection by GroupM and CTV and DV+ in the U.S., Disney+ recently announcing an ad-supported alternative, the return of verticals such as travel and political spend are tangible examples of growth drivers for the quarters ahead.

I'd like to give a huge thank you to all Magniters around the globe for your hard work and tireless efforts. Q2 was a challenging macro environment, and thanks to you, not only are we weathering the storm, but we entered the second half of the year poised to grow and gain share.

Thank you, too, for joining us for our Q2 results call. We look forward to talking to many of you at virtual investor meetings hosted by RBC tomorrow; Craig-Hallum meetings in New York on August 16; Cannonball on August 18; conferences by Evercore ISI on September 7 and Benchmark on September 8, both in New York; the Virtual Truist -- the Truist Virtual Bus Tour on September 19; and the European road show the last week of September. Thanks again, and have a great evening.

Operator

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

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