



System1

Second Quarter 2022 Earnings Webcast and Conference Call

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C O R P O R A T E P A R T I C I P A N T S

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P R E S E N T A T I O N

Kyle Ostgaard

Welcome to the Second Quarter 2022 Earnings Call and Webcast for System1.

Joining me today to discuss System1's operational financial results, are our co-founder and CEO Michael Blend, and our Chief Financial Officer Tridivesh Kidambi.

A recording of this conference call will be available on our Investor Relations website at ir.system1.com shortly after this call is ended.

I'd like to take this opportunity to remind you that during the call, we will be making forward looking statements. This includes statements relating to the operational performance of our business, future financial results and guidance, strategy, long term growth and overall future prospects. We may also make statements regarding regulatory or compliance matters.

These statements are subject to known and unknown risks and uncertainties that could cause our actual results to differ materially from those projected or implied during this call. In particular, those described in our Risk Factors included in our registration statement on Form S-1 filed on April 13, 2022, in our Form 10-K for Fiscal Year 2021, filed on March 31, 2022, and in our Form 10-Q for the second quarter of 2022 to be filed shortly, as well as the current uncertainty and unpredictability in our business, the markets and the global economy generally.

You should not rely on our forward-looking statements as predictions of future events. All forward looking statements that we make on this call are based on assumptions and beliefs as of the date hereof and System1 disclaims any obligation to update any forward looking statements except as required by law.

Our discussion today will include non-GAAP financial measures including pro forma revenue, pro forma gross profit and pro forma Adjusted EBITDA. These non-GAAP measures should be considered in addition to and not as a substitute for or in isolation from our GAAP results. Information regarding our non-GAAP financial results including a reconciliation of our historical GAAP to non-GAAP results may be found in our earnings release which was furnished with our form 8-K filed today with the SEC. It may also be found on our Investor Relations website.

I would now like to turn the conference call over to System1's Co-Founder and Chief Executive Officer Michael Blend.

Michael Blend

Thanks, Kyle.

Good afternoon, everyone, and thanks for joining us on our Q2 earnings call. Together with me on this call is Tridi Kidambi, our long-time CFO. We're pleased to report a good Q2 which Tridi will go into in detail, I would like to begin with an overview of some of our operating priorities, and then describe our view of the current digital marketing landscape. We've made considerable progress on key priorities that will enable us to triple our marketing scale over the next few years.

First, let's give a quick update on RAMP, which as you remember is our end-to-end marketing platform and a key growth driver. While RAMP is already one of the largest marketing platforms, we have ambitious plans to 3x our scale to \$2 billion in marketing spend. Handling this kind of scale entails substantial behind the scenes advances in our technology, particularly in the areas of automation and machine learning. We've been hard at work on these advances and much of our engineering and product team has been focused on this since last year. We started the transition to our next generation RAMP in Q2; while we are in the early stages of migrating traffic over the early data looks very promising. By next quarter, I should be able to point to specific improvements from these efforts.

Our biggest challenge remains hiring great engineers and product managers in a competitive hiring environment. But as other tech companies slow or freeze hiring, we are starting to see the market loosen a bit. We remain focused on adding great engineers and product managers.

Shifting to M&A, we've made very good progress integrating our RoadWarrior, CouponFollow and our most recent Answers.com acquisition. On RoadWarrior, we have started using RAMP to profitably acquire new subscribers and we're in the process of integrating our CMS platform to handle all the billing and customer communication.

With CouponFollow, we recently soft launched our brand new cash back shopping program and already have over 500 participating merchants. We also begin integrating the CouponFollow coupon data with our Startpage search engine and we expect to further integrate this data throughout our network of O&O Properties.

Finally, on Answers.com we fully migrated the site to our tech stack and have seen an immediate 30% monetization lift. We also started sending paid traffic to Answers.com, early signs are really positive. We remain active in the M&A front and are evaluating a few interesting opportunities.

As always, we're looking for strategic deals where we can inject growth into the companies via RAMP. While we are not bargain hunters, we do expect it overall market conditions could lead to lower pricing for acquisitions.

Now I want to move on to our business performance where the advertising business overall was solid in Q2. Our owned and operated business was in line with expectations including our volume of marketing spend, and our partner network, which has been flat the last couple of years as we focused on owned and operated is showing accelerated growth. This is a result of RAMP improvements we have made to support that business combined with excellent execution by our partnership team. The one negative in our advertising business was a onetime occurrence for an advertising network sent as fraudulent traffic.

Beginning earlier this year, we began scaling our marketing spend with the Microsoft Bing partner advertising network. However, in June, we discovered that we have been paying for fraudulent traffic that did not convert for our advertisers. The fraudulent traffic went undetected by the most sophisticated compliance programs and platforms in the world, including the largest ad networks and our own system. This was an exceedingly rare occurrence, and we have identified the publishers responsible for the traffic. Tridi is going to go into details of this event during his remarks.

Despite this setback, our relationship with Bing remains strong. In fact, today, we are happy to announce a three-year extension of our strategic partnership with Bing that's going to go through 2025. We look forward to putting this episode behind us scaling back up our marketing on Bing and continuing to work very closely with them in the future.

Looking towards the rest of 2022 in advertising, we're starting to see some of the same macro trends reported by our peers in the digital space. In our case, we're starting to see advertising demand soften towards the end of Q2 and particularly the beginning of Q3. Typically, demand is lower in the summer months, the market resets downward in July, and then bounces back towards the end of summer.

This July, the drop is more pronounced than it's been in recent years, and the market is recovering more slowly than typical. We believe this is due to inflation affecting buying habits and potentially from increased summer travel. While we do have the ability to get more aggressive on the buy side during a downturn, we've decided to stay a bit cautious so far this quarter. We're keeping a close eye on the ad markets and are beginning to see things stabilize and rebound as they always do. As the market moves, we are shifting marketing to the most in demand verticals, and increasing our buy side efforts on native and social networks, and as we are continuing to push our international expansion.

Moving on to our subscription business, we saw a nice performance in Q2. We continue to see improved retention and up-sell metrics from our flagship antivirus product Total AV. We added 319,000 new subscribers in more than 100,000 from our newer Total AdBlock product. We also launched a new product, a Browser Booster, which is a browser extension that speeds up a user's browsing experience, and we have more products set to launch later this year. As subscription team continues to be focused on retaining existing customers, opening new customer acquisition channels and launching new products. The team is doing a great job and I'm really excited about our near term and long-term opportunities in subscription.

Overall, we remain very bullish. We're going to keep investing in product and engineering and we do not expect our investing to slow down. Our Management team has been through macro headwinds several times including 2008, and of course, the onset of COVID-19 in 2020. Each time we've invested through these cycles, and each time, it has paid off. Times like these are when the diversification our business model really shines. As areas like online shopping dip a bit, other advertising verticals like consumer finance open up. At the same time, digital advertising overall was facing headwinds, we're seeing opportunities open up in our subscription business. While we are keeping a close eye on the short-term

macro trends, we are playing for the long-term. I'm confident in our technology advantage, our diversification and our long-term growth story.

I'll now hand things off to Tridi to discuss his quarter's results and updated guidance. Take it away, Tridi.

Tridivesh Kidambi

Thanks, Michael.

As previously mentioned, we are excited about the results we delivered in Q2 and despite any short-term headwinds we might see for the rest of this year, we remain very bullish about the business.

To start, I want to provide more color on the fraudulent traffic issue Michael mentioned earlier.

Since Q1, we had been significantly growing our marketing spend with Microsoft's Bing advertising partner network. Late in Q2, it was identified that this network was sending System1 material amounts of fraudulent traffic. In plain English, we were paying for clicks that were generated by bots, not humans. Our analysis shows that these fraudulent clicks originated from websites owned by two large publishers on the Bing partner network, IAC and CBS Interactive.

As a result of this fraudulent traffic our revenue was impacted by \$11 million which is the amount refunded (phon) to our advertising partners. The impact to the gross profit, net of any refunds, received from Microsoft in Q2, 2022 was \$6 million.

In this specific event, while Microsoft has acknowledged the fraudulent traffic and issued us a credit, our analysis shows that we have not yet been made whole. This type of event is rare and even more rare is the advertising network not providing a full refund. Our data strongly shows that we are doing incremental ad credit from Microsoft, and we are committed to pursuing all avenues available to us to be made whole.

As a result, we've added back the net impact of this issue in our reported adjusted gross profit and Adjusted EBITDA metrics for this quarter.

Before diving into the rest of our Q2 results, I wanted to start with a reminder of our operating philosophy. Gross profit dollar generation is the ultimate metric we use to measure the effectiveness of our RAMP platform. We see RAMP as the key to growth by enabling more marketing spend and driving operating leverage through optimizations. Also, when I talk about our financial performance, and specifically year-over-year results, in every case, I will be referring to pro forma financial metrics inclusive of Protected.net results in prior periods. For a reconciliation of these metrics to our GAAP financials, please refer to the reconciliation tables in the earnings release issued earlier today.

Let's move on to Q2 results. Revenue was \$220 million as compared to \$206 million last year, a 7% year-over-year increase on a pro forma basis. Adjusted gross profit was \$74 million, an increase of 31% compared to last year's pro forma gross profit of \$56 million, with all segments of the business contributing to that increase.

Adjusted EBITDA was \$41 million versus \$34 million last year and above the high end of guidance by \$3 million.

In general, similar to what we've seen in moments of dislocation in the past, as advertisers pulled back overall spent, the last dollars they pull are in the pay for performance categories where RAMP excels. We were able to take advantage of this trend and Q2 ahead of the larger macro pullback for the back half of the year. It lends further validation to our business model and the platform in the long term.

On the advertising front, we acquired over a billion sessions to our owned and operated advertising properties in the quarter, reflecting a 32% increase year-over-year. Our cost per session was \$0.12 with corresponding monetization of \$0.16 per session, which maintains our spread of \$0.04 sequentially, and represents a spread of 35%. Excluding the impact of the fraudulent ad traffic issue, our cost per session was \$0.11 and our spread would have been 42%.

Our network advertising business also delivered a strong quarter with revenue up 52%, network RPS up 41% and network sessions up 8% year-over-year. Overall advertising revenue less advertising spend was up 21% year-over-year.

The subscription business performed well with revenue up 19% and segment profit up 26% year-over-year. We continue to benefit from the shift to renewing customers and our ability to retain and upsell the large Total AV user base. Subscriber ARPU was \$20.17 in the quarter versus \$18.76 last year. Total subscribers were up 1% sequentially and 5% year-over-year.

Change in deferred revenue which represents the delta between GAAP subscription revenue and billings was \$3.5 million in the quarter. In our guidance for the year we assume change in deferred revenue remains flat with a similar seasonal spread through the quarters as last year.

Operating expenses net of add backs were \$32.5 million for the second quarter of 2022 compared to \$21.7 million last year. The year-over-year increase is reflective of our continued investment in RAMP, increased headcount from our transition to a public company and increased public company costs. Operating expenses as a percentage of adjusted gross profit was 44% for the second quarter of 2022 compared to 50% last quarter.

With respect to liquidity, we ended the quarter with \$37 million of cash on the balance sheet. Gross debt was \$444 million, which includes the \$49 million revolver drawdown to finance the CouponFollow acquisition. As of June 30, LTM, billings based EBITDA as defined by our credit facility was \$159 million, resulting in a net leverage ratio of 2.55 times. We plan to actively pay down the revolver via our operating cash flow and second half of the year.

Now onto guidance. Through the first six weeks of Q3 and consistent with the earnings announcements of our peers, we have seen a significant softening in the advertising market driven by the macroeconomic environment. Despite the choppy start to the quarter, we believe the current trends are temporary. We expect advertising dollars and volume to come back to the market and consistent with historic trends, we expect those dollars to come back first to performance-based advertising platforms.

As we've seen in the past, when ad markets rebound, we have historically seen acceleration in our business. Our overall views on our business model remains unchanged. Our management team has been through many of these cycles in the past. Our guidance also reflects the financial impact of the marketing we previously had planned to do with Bing. Due to the fraudulent traffic issues I discussed earlier, we currently have materially reduced our advertising spend with Bing. Because this is a higher volume but lower margin business for us, the result is substantially lower gross revenue, combined with higher gross margins.

Additionally, we are seeing several pockets of new subscriber growth in our subscription business. While this is very positive, the short-term effect of increased customer acquisition is upfront marketing spend ahead of increased renewals and profitability next year.

As a result of the combination of these internal trends coupled with macroeconomic trends we discussed earlier, we have determined it is more appropriate to provide full year guidance versus specific Q3

guidance. This gives us the flexibility to pull acquisition levers as we deem necessary to take advantage of new sources of subscriber growth. We will provide an update on both of these trends during our next earnings announcement.

For the full year, we expect revenue to be between \$900 million and \$930 million representing 10% growth at the midpoint; Adjusted gross profit to be between \$285 million and \$295 million representing 36% growth at the midpoint and Adjusted EBITDA to be between \$155 million and \$165 million representing 26% year-over-year growth at the midpoint.

Our lower revenue guidance reflects our currently reduced marketing spend with Bing as well as a conservative view on buy side spending as ad market stabilize. The Adjusted EBITDA guidance reflects the forecasts of limited recovery in the macro environment, as well as our desire to maintain optionality to increase customer acquisition spend through the end of the year.

Finally, I'm excited to announce that our Board of Directors has approved a repurchase program for both common shares and public warrants of up to \$25 million. This program reflects both the Company's and the Board's confidence in our business model and platform.

I want to reiterate that while the macro conditions have caused us to reduce our full year outlook, we view this as a temporary change as markets stabilize. Ultimately, this is a business that's going to conservatively grow gross profit by more than 35% and EBITDA by more than 20% at the low end of the range. We have a proven platform that thrives in these environments and a plethora of opportunities in front of us, both organic and via M&A. We are excited about our prospects and bullish about the opportunity.

Thank you for joining us today. Now let's go to questions.

Kyle Ostgaard

Thank you, Tridi.

We will now go to live Q&A. The first question is from Shweta Khajuria with Evercore ISI. Shweta?

Shweta Khajuria

Okay. Hello. I just have two questions.

First is with Bing, it sounds like you are pulling back on spent but would you offset that pullback by diverting that to perhaps Google or someplace else? If not, why not?

Second is you said you're staying cautious on the buy side. But if you are managing to gross profit dollars, that I would imagine that you're sort of optimizing it for gross profit. If there is—I'm trying to understand why your gross profit annual guide would be lower if the spread remains the same?

Michael Blend

Yes. Sure. I'll handle the first question, Shweta. Good to see you. Then Tridi the second.

Related to our Bing spend, yes, we pulled back substantially in that network almost to zero. We are watching very closely so we can get confidence to kind of scale back up on the Bing side and our guidance does reflect not scaling back up with Bing although that we hope to be able to. In regards to

moving spend around, think of Bing is just another source for us all of our other sources we are continuing to maximize as much as we can right now.

Market has been pretty choppy and volatile for the past few weeks, certainly reset pretty heavily in July, as we mentioned. We are seeing things stabilize pretty good amount the last couple of weeks, but we didn't want in our guidance—for our guidance to count on that. But we are seeing some green shoots I would say in the market.

Tridi do you want to handle the second question?

Tridivesh Kidambi

Sure.

Really just piggybacking off of what Michael just said the choppiness and the ad markets, really is what's driving the cautiousness both in our guidance and just how we're operating in the marketplace right now. While we are maintaining that spread, our algorithms as advertisers are moving in and out and demand is moving around, it takes us some time to kind of learn and execute against that.

Really, what you're seeing in the guidance Shweta is just our conservatism around waiting for the market stabilize, which is Michael said, we started to see very recently. As that happens, our algorithms learned, we expect to be able to ramp back up our spend and to your point, continue to drive that gross profit and maintain that spread.

Shweta Khajuria

Okay. Thanks, Michael. Thanks, Tridi.

Michael Blend

Thank you.

Tridivesh Kidambi

Thank you.

Kyle Ostgaard

Our next question comes from Victoria James with D.A. Davidson. Victoria, please go ahead with your question.

Victoria James

All right, thank you for taking my question.

I have one question and one follow up, but I will ask them one at a time.

My first question then is how should investors think about System1's ability to take advantage of the disruption in the digital advertising market such as with Apple's focus on privacy, and then Google eventually moving (inaudible).

Michael Blend

Yes, thanks. Thanks for calling in.

Yes, we do like disruptions in the marketplaces. In terms of things related to the Apple changes, and things getting more private, that's good for our system. July was actually pretty volatile overall. It was pretty similar to I would say, April 2020, when the ad markets had a pretty big reset, right around when COVID hit. In that case, and if you go back to April 2020, we stayed in market pretty heavily, and had in April—had a pretty down April in 2020. We learned from that experience. When we saw the—particularly the pay per click markets reset in July, we decided to be much more cautious this time. I think that answers your question.

Tridivesh Kidambi

If I could just add to that, Victoria, just two other points. One is we did have—as those markets, as the advertiser started to pull out of the market towards the end of Q2, we actually had a really good Q2 in terms of, as we saw ad spend really kind of retreat to the performance marketplaces, where RAMP shines.

Secondly, just I think you mentioned specifically kind of Google going cookie less, that's also kind of to Michael's point, another place where we expect our platform to really outperform there as well. We don't rely on cookies. We're specifically a first party data. That's another opportunity for us when it happens.

Victoria James

All right.

Then my other question, I feel like we've touched on a little bit in your answer here, and maybe a bit in your opening remarks, but I just wanted to ask him a little bit more explicitly. For investors, who maybe were not following the story in 2008 or 2020, can you talk a little bit more about what is allowing you to outperform during those times of market downturn?

Michael Blend

Yes.

Our system is set up to take advantages of dislocations between markets we think of what we're doing—specifically on the advertising side, what we're doing is we're typically buying on one market and finding a place to sell on the other market to advertise at a higher price. As markets are moving around and—like display markets, if they're dropping in pricing, and pay per click markets are increasing, we're going to move heavily into display and sell to our pay per click providers, in this particular case. That's how things work normally and 99% of the time, in this particular case, in July, specifically, the first four or five weeks of the quarter what we saw as pay per click markets overall, in almost every category that we are in, became depressed relatively quickly when the markets reset in July.

Then on our buy side, we saw a bit of—we've been seeing a bit of volatility. Kind of, as I mentioned, we don't necessarily need up markets or down markets, we can take advantage of our spread in most markets, but we do look for some level of stability that allows us to figure out the ad verticals that are going to be most profitable for us, and also the buy side and sell side places that are going to increase our spread the most. Anyway, and we have history of doing this.

Most recently was 2020, where that was a dislocation, like no one's ever seen before. We stayed in market. It took us about six or eight weeks to kind of figure out where the pockets were. As I said, we're

starting to see that we did not put—we really based our guidance on what we've seen so far in the quarter. Our guidance is also combined with—as we've mentioned, we're seeing some pretty good pockets of opportunity on the subscription side to go in and acquire customers at larger scale while maintaining our cost to acquire our goals.

Kyle Ostgaard

The next question comes from Nat Schindler with BOA. Nat?

Nat Schindler

Hi, guys, thanks. A couple questions.

One, and I think you've been touching on this the whole time, and everybody's asking about it, but more explicitly, because you're in both the buy side and the sell side of any advertising transaction. How quickly can your systems learn so that you can protect profit in advertising recession? Can you—do you think over—as long as it's get, you're given some time to figure it out, that you could actually maintain the same level of profitability, regardless of the macro movement as long as it isn't too abrupt? I have some other follow up questions.

Michael Blend

Yes. Thanks for joining.

Yes. We have historically over since really, since our founding, we've been able to maintain that spread through good markets and bad markets. We're looking for stability, as I said. We are starting to see it in the markets on the advertising side. Yes, we're highly confident. Tridi reported good spread, we're continuing to see that on our advertising side. But what we have—what we've been is a bit conservative.

As we were saying, the markets fluctuate with the quarter reset, we decided to be a little bit more conservative, but we're still maintaining spread, as we always have. One kind of just interesting little titbit, which has affected us more on the—where you're looking at our gross revenue—our total revenue projections. We play on—desktop and mobile are two major areas where we play.

On the desktop side, we're seeing a bit of reduced consumer queries, particularly commercial queries on desktop. Desktops are higher revenue, lower margin business for us. You see that play out in our numbers with lower projected revenue, but margins going up. But that's just kind of an anecdote that we're seeing. We think it's because combination of both people having more normalized work schedules, but also, particularly this summer, we believe travel is affecting that as well. People are traveling not in front of their desktop computers and doing more searches on mobile.

Nat Schindler

That's actually very interesting, because that goes into my next question, I want to ask, why in particular, Bing, you described as a higher dollar lower margin business. I'd assume that's compared to Google, which is the obvious compare for Bing. Is that because what you just mentioned the Bing is not playing very much on mobile and mobile tended to be lower dollars higher margin?

Michael Blend

Bing would shift—would be a little bit more heavily desktop where we specifically were scaling up our business with Bing was more on the desktop side. As we scaled that back, I mean, we've scaled that

pretty heavily since around the middle of Q1 rolling into Q2. As we pull that back, we still have some buys going on Bing just to make sure that we're highly confident in the quality of the traffic coming from there. As we pull that back you're seeing the immediate effect because that was a heavy desktop business for us. Kind of as I mentioned, that's why we're bringing down our total revenue guidance substantially but EBITDA coming down just a little bit.

Nat Schindler

From this earning season, a pretty severe de-sell from the socials from—talking to the DSPs, they saw things go down and connected television and the like. Can you give any more just overarching thoughts about where in the online ad landscape things are being impacted? Where dollars are shifting? How quickly and how you see them coming out, given that you're kind of playing across the world?

Michael Blend

Yes. I would say two different areas. As I said, at least, our view on the kind of CPCs and performance advertising, those look to have been pretty relatively depressed from what we would have expected. We mentioned in our earlier remarks, when things always reset in July, our systems are ready for that. It's really almost at the end of every quarter, when literally, the next day rolls into Q1 have markets reset, and then they kind of over the first month and a quarter generally tend to rebound. We saw things rebound much more slowly.

We're seeing that on the sell side that's primarily where our revenue is coming from is the pay per click marketing side. We're seeing a little bit more depressed consumer queries. That's not going to be a long term. Over the long term, obviously, people are using the internet more and more specifically, as we were rolling towards the end of Q2 and early in Q3, it looks to us and we don't have a perfect view of the entire market—this is our view of the market. It looks to us, like commercial query volume was a little bit lower, in general.

What we would suspect, and we flagged this in our remarks, we suspect that's a combination of certainly on the shopping side we've seen things be depressed. There are probably some macroeconomic headwinds in there, where we think that it has something to do with a bit of increased summer travel, as well, which would have a natural effect. You hear a lot about revenge travel this summer. We're seeing things just a little bit depressed on the consumer side as well. But that said, as I mentioned, as summer's kind of starting to get to the end of summer, and maybe consumers are feeling a little bit better about things, we're starting to see things stabilize.

Tridivesh Kidambi

Yes. I think one thing to add there is that we—kind of we mentioned this in the remarks as well, but we think the advertising dollars, when they do come back, following those consumer queries, they'll come to the performance marketplaces first. That certainly, as we looked at some of the stabilization, we've seen some kind of recent days or weeks, even, that's what we're seeing as well. Again, we feel pretty well-positioned to take advantage of that, as it kind of returns.

Michael Blend

Lastly, I would say we always get a lot of discussion about the advertising side. On the subscription side, things are opening up for us a bit. I can give you some real time data. Our July customer acquisition was materially higher than our June number of customers acquired.

That's kind of—points to the—what we consider to be the beauty of our diversification. You get the advertising side being a little bit depressed. We went through, July was super choppy, things are going to stabilize on advertising, our system figures it out, and kind of exploit where the pockets of profitability are. But also, macro advertising being down, makes us a more effective advertiser on the subscription side. We've got that nice balance as well.

Kyle Ostgaard

We will now go back to Victoria James, for a follow up question.

Victoria James

Thanks for taking my follow up here.

My question is, with valuations just kind of down across the market, can you give your updated thoughts on future M&A?

Michael Blend

Yes. Thanks.

We are remaining active in the M&A market. We think there's a lot of opportunities out there. We're maintaining our discipline. We haven't seen valuations. It's kind of like takes a little bit of time for sellers to adjust to the new normal. We're being a little bit conservative. We're only going to do M&A that we have a very high level of confidence is going to be accretive, and we can inject growth into it. But we are seeing people—companies that normally let's say weren't as interested, are coming back and unsolicited inquiring with us if we're still interested in deals. We're starting to see the market move a little bit.

I mentioned in our earlier remarks, we're not discount buyers. We're not trying—we like deals that we're highly confident we can inject growth into. But it's feeling to us like valuations are coming down a bit. Hopefully that'll be reflected when we do buy—when we do our next M&A that it'll come in into perhaps a lower price than it would have four months ago.

Kyle Ostgaard

The next question is from Dan Kurnos with Benchmark.

Dan Kurnos

Hi, great. Thanks. Michael, Tridi, good to see you guys.

Just to your point on subscription, maybe we can just talk through kind of a couple things here. I guess maybe we can also parlay to the O&O (phon) business as well, where you guys have always thrived. There's been disruption in the marketplace. Well, obviously, that's not helpful to your advertising business at the moment, can you just talk a little bit about sort of CAC trends and sort of what you're seeing, and if you're able to kind of toggle that right now. Michael, you say that July, customer acquisition subscription is good. Obviously, your product fits into a different niche or bucket than maybe some of the plus guys or some of the really expensive guys that are out there that are seeing some challenges. If we go towards the recession getting consumers to sign up, I know, it's really hard being for you. But just to help us think through your ability to kind of continue to grow through any economic pressure on that (inaudible).

Michael Blend

Yes, sure. I think there's a few questions in there.

We've got a mix of products at this point. We've got our Total AV product, which is our flagship, that's starting to—I wouldn't say it's hitting maturity, but that's starting to hit the point where it's going to be leveling off and we'll be kind of reaping the profitability from that. We've got our Total AdBlock product, which we mentioned, is achieving really nice scale. Then we've got another product that we released in Q2 that we mentioned—actually another product, which is going to be coming out here in the next couple of weeks. For us, we haven't seen any consumer kind of macro headwinds start to affect our business.

In fact, as—we are finding pockets of opportunity for increase customer acquisition. We typically are not going to go bring down our CAC on that. What we're going to do is buy—is acquire as many subscribers as we can at an acceptable return. For us, that's where we do remain pretty disciplined. Instead of kind of like spending less per customer, our goal would be to spend up to the level that we're comfortable paying per customer and get as many customers as we possibly can.

For us, we're seeing good opportunity there. That's also reflected in our annual guidance. We tried to be—leave ourselves some room, both on the advertising side, we're making assumptions, pretty conservative—relatively conservative assumptions that the markets not going to recover. We're basing our kind of a forward-looking advertising on what's the quarter so far, but we're also leaving ourselves room for increased customer acquisition on the subscription side.

I think everybody on the call knows how that works on the customer acquisition side, because we're paying upfront for the subscribers, that typically is going to come into negative EBITDA for this year, and then increase the growth for next year. Our guidance for this year, we want to give ourselves some cover in case the opportunities we're seeing right now continue throughout the entire year.

Tridivesh Kidambi

If I could just add, I think, Dan, you mentioned kind of CAC trends in general on the subscription side. We did see CAC go up in Q2 over Q1. That's really a function of the trends that Michael talked about, which is specifically on the AdBlock product.

We're seeing really nice kind of LTV, specifically you'll recall we launched that product at the beginning of last year, and as those annual renewals are coming in and we're continuing to see the monthlies, very bullish on kind of the return profile the LTV to CAC metrics that are there. Per Michael's point, we're willing to take up what we're going to spend to get those customers in because the return is there. That's kind of what's driving some of that upward trend on CAC that we're seeing.

Dan Kurnos

Great. Got it. That's helpful.

Then just a quick follow up. I apologize if this was asked earlier, but around international, like in the (inaudible) continue to be pressured by kind of what's going on. We all know what's going on. APAC has been probably a little softer, but it's not quite as bad maybe as EMEA in some pockets. I know, international—we talked about it sort of on the fringes, but just help us think through in this market, again disruptions, opportunity challenges, just maybe talk to that a little bit. Thanks.

Michael Blend

Yes. We're continued. We're very bullish international. We are not seeing any—I know some of the other advertising-based companies have talked about international challenges. We continue to see the opportunity there we're not we're not changed. That's also an area where we haven't talked much more, we haven't talked much about our new platform that we're moving to, which is substantial upgrade from where we are now are taking—our RAMP platform. Early data on there, which we can't promise anything yet, because as we're talking very early data. That's an area where international looks like it's got increased opportunity via some technical upgrades we've made on our platform.

Kyle Ostgaard

At this point, there are no further questions. We'll turn it back to Michael Blend for closing remarks.

Michael Blend

Well, I want to thank everyone for taking the time to join us today. We're happy to announce our Q2 earnings. We look forward to you joining us again in Q3. We're very proud of the team for executing on our initiatives in Q2. We are very happy we've got a diversified business model. This carries us through these times. We've got opportunities on advertising and opportunities on subscription as well and look forward to speaking with you again in Q3. Thank you.