Cardlytics Q4 2023 – Earnings Report and Transcript

March 14, 2024

Editor's note: This document has been edited for clarity. To read more about Cardlytics Q4 earnings, visit here.

Presenter: Nick Lynton, Chief Legal & Privacy Officer

Good evening, and welcome to the Cardlytics fourth quarter and full year 2023 financial results call. Before we begin, let me remind everyone that today's discussion will contain forward-looking statements based on our current assumptions, expectations, and beliefs, including expectations regarding

- Our future financial performance and results, including for the first quarter of 2024; and
- Various product initiatives and improvements.

For a discussion of the specific risk factors that could cause our actual results to differ materially from today's discussion, please refer to the "Risk Factors" section of the company's 10-K for the year ended December 31, 2023, which has been filed with the SEC.

Also during this call, we will discuss non-GAAP measures of our performance. GAAP financial reconciliations and supplemental financial information are provided in the press release issued today and the 8-K that has been filed with the SEC. Today's call is available via webcast and a replay will be available for one week. You can find the information I have just described in the Investor Relations section of the Cardlytics website. Please note that a supplemental presentation to our fourth quarter and full year results has also been posted on our investor relations website.

Joining us on the call today is Cardlytics CEO, Karim Temsamani, and CFO, Alexis DeSieno. Following their prepared remarks, we'll open the call to your questions. With that said, let me turn the call over to Karim.

Presenter: Karim Temsamani, CEO

Good evening, and thank you for joining our Q4 2023 earnings call. I would first like to reflect on 2023 as a whole.

We started the year in a difficult position financially, with the SRS dispute presenting a significant challenge for the company. I am glad we not only resolved the SRS dispute, but also finished the year with positive annual Adjusted EBITDA of $3.8 million dollars. This is the first time since 2019 that we ended a year with positive Adjusted EBITDA. In 2023, we also made fundamental changes to our cost-structure, including renegotiating partner contracts and right-sizing our expenses, and we made key hires for tech, product, sales and leadership teams. All these efforts and results are a great foundation for us to continue to improve our business.

With the SRS dispute resolved and our cost structure rebalanced, we can now fully focus on execution and growth as well as addressing our capital needs. I am delighted to add that we have just signed a large new bank partner as per the 8-K we just filed within the last hour. Q1 is off to a good start and we are expecting 12% to 16% billings growth when we exclude Entertainment, which we sold in Q4. Alexis will provide further details on our financial performance later in the call.

Aside from our finances, we are making progress across our operational teams. Our sales teams in the US and UK are driving stronger growth and bringing advertisers back to the platform. As I mentioned, our bank partner team has just signed a large new bank partner in the US, and we continue to have promising discussions with additional banks in the US and the UK. Our product and engineering teams are continuing to launch new products that improve the experience of our bank partners and their customers as well as provide more options for advertisers.

Let me provide more specifics on our progress:

We continue to obsess about the outcomes we create for our banking partners' customers, and tech adoption is a foundational part of creating these outcomes. Our new technology provides us the ability to run the network better, surface more relevant offers to bank customers, and roll out new products more quickly. All these are great drivers for engagement, new content and growth.

We continue to make progress on tech adoption with almost 80% of our network traffic now on AWS. Bank partners that are on AWS have the ability to adopt our Ads Decision Engine, or ADE, and we are in discussions with the remaining banks who have not yet migrated to AWS. We’ve mentioned that ADE will be a powerful driver for improvements over time, by allowing us to interface with banks in real time, enhance audience segmentation and offer relevance, and improve dynamic targeting. So far we are already on our third version of ADE. 80% of our network is now on ADE with 40% of our network on the latest version.

For those banks on ADE, we have seen a 23% increase in redemptions, compared to a 9% increase across the whole network. We saw this trend continue in January and we are confident that subsequent versions of ADE will continue to improve redemption numbers.

I focus on the impact of ADE on redemptions because we view driving redemptions as our North Star, as they provide the best outcome for our banks, their customers, and our advertisers. And because the best way to increase redemptions is to increase engagement, we have focused on 4 key pillars to drive more engagement with our platform.

The first key pillar is content and insights. We are continuously aiming to improve the quality and variety of content on the network. We pride ourselves on being a high-quality, in-demand advertising solution for well-known large brands. We are seeing growth from our existing advertisers and are additionally seeing advertisers return that had previously left our network.

The strength of our business resides in our insights. Most competitive analyses focus on scan data from a limited number of retailers or a subset of card types. Our data provides the most comprehensive scope across channels, cards and geographies, making our insights highly differentiated. However, historically it's been a manual process for our teams to pull this data.

We're fixing this. We plan to deliver an automated dashboard by the end of 2024 that will provide advertisers with a snapshot of their performance against industry benchmarks. This dashboard will give advertisers a self-serve view of the market summary for their category. We will let them visualize competitor activity, showcasing revenue, transactions and customer growth across different brands. Lastly, we will offer a customer-centric dataset showing brand affinity, new customer and churn benchmarks. This is just the beginning of a growing list of insights use cases that we will keep exposing over time. As we productize more of these insights, we will also free up time from our analytics team to provide custom, highly nuanced and actionable insights for our largest advertisers and bank partners. We believe this is a highly differentiated offering that will enable us to reduce churn and increase budgets over time.

The second key pillar is giving merchants customizable tools to optimize campaigns and offers. I wanted to highlight the success we had recently with a receipt level offer test we did with a major US airline. As a reminder, receipt level offers are offers tailored to a specific product category or item. In this case, the airline wanted to promote a higher cash back reward for flights that departed within the month, as they were experiencing softer than expected bookings demand in the low season. To the airline's delight, 45% of ticket purchases in the campaign were for the targeted time period and allowed us to close a renewal with the client just days later for a campaign that ran the following month. This is one example of how our product initiatives are driving more targeted growth for our advertisers and delighting their customers.

The third key pillar is making our offers easier to discover and use. With several of our banks, we are testing different placements for the core widget, call out buttons, new entry points, and alerts. All these tests are at low volumes but have already shown a strong ability to increase engagement with the program. As an example, when one of our bank partners started placing offers under line-item transactions in customer's bank statements, we saw an activation rate for those offers that was 5 times higher than the typical activation rate.

The fourth key pillar is our differentiated offerings for each bank. Our technology and size of network enables us to create differentiated offerings such as featured offers, increased curations and proximity offers. We are also allowing enrichment and customization of the offer experience. For example, we launched a unique event the week leading up to the Superbowl called “The Big Game” with one of our bank partners. “The Big Game” targeted card holders of that bank with featured cash back deals for all of their party supply needs across multiple advertisers. This is the first of many 2024 initiatives where we will leverage existing advertisers to target customers with unique Tentpole events to increase engagement with the banks’ reward platforms.

With these four pillars in mind, we are building a best-in-class platform with flexible platform APIs, a deep understanding of merchant data, a top-tier targeting and decisioning engine, and a rich, highly differentiated user experience with a fantastic source of content and insights. All of this is hosted in the cloud and fully flexible.

Moving to Bridg. First party data is the foundation for the cookie-free world of marketing and Bridg continues to serve the leading retailers, QSRs and entertainment businesses, helping them to better understand their customers by expanding and enriching their first party data. For instance, we are helping one of the fastest growing grocers enhance their inventory management strategies by analyzing purchasing data. Our partnership with a large fast food restaurant allows them to grow their loyal customers by delivering hyper-targeted promotions. Rippl, our Retail Media and Data Network that we recently launched, provides CPGs and other brands flexibility in building sophisticated audiences, seamless access to a national footprint, and user-friendly tools that empower them to gain valuable insights, drive substantial incremental sales, and accurately measure the impact of their campaigns. Over the last few months several leading retailers, including Wegmans and Giant Eagle, have joined the Rippl platform, which translates to a national footprint of around 70 million profiles actively being loaded onto the platform. This has sparked interest from leading CPGs who have started running test campaigns and this gives us great confidence that our strategy will pay off.

With our cost structure rebalanced, we can now dedicate our time to returning to the higher growth rates we should expect from this business. Our Q4 results and projected Q1 progress give us confidence that we can do this, and just as I said last quarter, we are in the midst of a transformation that will spur growth. In addition to adding a new, large banking partner, we are working towards a broader and deeper data set, more sophisticated audience targeting, better analytics and reporting, and a variety of ad formats that will drive increased engagement. As we move past the core transformations that needed to happen in the business, our belief in our long-term growth prospects continues to strengthen.

Now, I'll hand it over to Alexis to discuss our financial results.

Presenter Alexis DeSieno, CFO

Thank you, Karim.

Before moving onto Q4, I want to echo Karim's sentiments about 2023 as a turn-around year for Cardlytics, with most of our acceleration occurring in the second half of the year. In 2023, we generated $453.4 million dollars in Billings, representing 2% growth, and we generated $309.2 million dollars in Revenue, representing 4% growth, both versus the prior year. Adjusted Contribution was $158.6 million dollars at 11% growth versus the prior year, with the second half of the year at 20% growth alone. Adjusted EBITDA was positive for the first time since 2019 at $3.8 million dollars, and nearly $50 million dollars better than in 2022. As Karim mentioned, we've made fundamental changes to our cost-structure that will enable us to drive positive Adjusted EBITDA and invest strategically in the future.

Let's move onto our Q4 results. We performed in-line or better than expected, with billings, revenue and adjusted contribution consistent with our Q4 guidance, and Adjusted EBITDA exceeding expectations. We had our 3rd consecutive quarter of positive operating cash flow and our second consecutive quarter of positive Adjusted EBITDA. We continue to show momentum in driving top-line after right-sizing our business.

My comments will be year-over-year comparisons for the fourth quarter, unless stated otherwise. In Q4, billings reached $131.9 million dollars, a 5% increase, due to continued success in Everyday Spend as well as in travel. Our restaurant category turned slightly positive in Q4, as the efforts of rebuilding our sales team are beginning to pay off. Revenue was $89.2 million dollars, up 8%, partially driven by a one-time revenue related benefit of $2.2 million dollars. Our top 5 customers accounted for 16% of revenue this quarter compared to 12% last year, and we continue to land new customers and expand existing customers.

Geographically, U.S. revenue increased 8%. The UK showed growth for the first time in several quarters at 4%. We re-signed Lloyds to a 3-year contract and started implementation of our auto-enrollment program. This means customers no longer have to opt in to our offers program, which has allowed our sales team to sell and deliver larger budgets. We expect to see a continued sequential improvement and very strong double-digit growth in the UK in Q1 as a result of these initiatives and of new leadership.

Bridg revenue grew 12% due to an existing customer expanding its contract, as well as a new large restaurant joining our platform. We will soon have over 70 million profiles in our database, and we believe we now have the scale to be relevant to CPG customers.

Adjusted contribution increased 18% to $47.3 million dollars, with a margin calculated off of revenue of 53% compared to 48% one year ago. Adjusted contribution growth is partially due to the benefit of our partner share renegotiation.

Adjusted EBITDA exceeded the high end of guidance at positive $10.0 million dollars - the largest in Cardlytics history. Business operating expenses came in lower than expected at $37.3 million dollars, and Bridg was profitable for the third quarter in a row.

Operating cash flow was $2.9 million dollars and as previously mentioned, positive for the third consecutive quarter. On the balance sheet, we ended Q4 with $91.8 million dollars in *c*ash and cash equivalents, and we had $16.7 million of unused available borrowings under our Line of Credit. This does <u>not</u> reflect the amendment to our line of credit which we completed in February, which now allows us to borrow up to 75% of our eligible accounts receivable, up from 50% previously. We also confirmed the extension of the maturity on our line of credit by one year, to April 2025. As a reminder, we paid $20 million dollars at the end of January as part of our settlement with SRS, and we issued 3.6 million shares in February. We believe that our available liquidity is sufficient to support our long-term plans, however our amendment to the line of credit is one of many steps we are taking to improve our balance sheet.

Lastly, MAUs were 168 million and ARPU was 53 cents for the fourth quarter, an increase of 3% and 8% respectively.

Before I turn to guidance, I want to note that we added a new non-GAAP metric to our 10-K, which is Free Cash Flow. We believe free cash flow is useful to measure the funds generated in a given period that are available to invest in the business. In Q4, Free Cash Flow was negative $0.8 million dollars, and for the year we were nearly $55 million dollars better than in 2022.

To remind you, Q1 is seasonally weak due to consumer spending habits which lead to decreased marketing budgets for most of our clients. Despite that, we are expecting double-digit topline growth in Q1.

For Q1, we expect:

- billings between $105 and $109 million dollars
- revenue between $70 and $73 million dollars
- Adjusted contribution between $37 and $39 million dollars
- Adjusted EBITDA between negative $1 million and positive $1 million dollars

At the midpoint of our range for Adjusted EBITDA, this would be the first time we would be breakeven in Q1. Excluding the sale of Entertainment, our billings guidance represents 12% to 16% growth and a meaningful growth acceleration from Q4. I'd like to provide some additional color on what we are seeing in the topline.

Billings are being driven by continued success in the Everyday Spend and travel categories. We continue to see our largest clients spending more with us. The majority of our growth is from existing accounts increasing their spend with us - and we are continuing to focus on getting new brands onto the platform and winning back lapsed brands. In fact, we are seeing good momentum in restaurants, with the return of two major clients back on the platform over the next two quarters.

2023 was an instrumental year as we built the foundation for future growth and positive Adjusted EBITDA. Our Q1 guidance implies further acceleration and shows we are making progress towards our long-term goals. As we look forward to 2024, we expect the momentum to continue, and we expect to make progress on our capital structure. We are excited about the addition of a large new bank partner, and we'll provide more details about the launch when we are able to do so. For fiscal year 2024, we expect continued operating leverage. Our expectation moving forward is to have double digit billings growth for 2024 and to be operating cash flow positive on an annual basis. We are focused on our Northstar, redemptions, and continue to drive consumer engagement, top line growth and Adjusted EBITDA.

Now, I'll turn it back to Karim for closing remarks.

Presenter: Karim Temsamani, CEO Closing Remarks

With each passing quarter we have delivered additional progress in the business. The trajectory of our financials continues upward, we have signed a new large bank partner, and the transformation of our platform is well underway. I'd like to thank our teams for their dedication to the business, and I'd like to thank our investors for their patience over the past several years. I am excited about 2024 and Cardlytics' long-term prospects. Thank you for your support.