Cardlytics Q1 2023 – Earnings Report and CEO Transcript

May 4, 2023

Editor's note: Cardlytics CEO Karim Temsamani shared thoughts on first quarter 2023 results during the company's quarterly earnings call. To read more about Cardlytics Q1 earnings, visit here.

Good evening and thank you for joining our Q1 2023 earnings call. Today, I will share highlights of our product journey and explain how these foundational changes set a stronger roadmap and direction for the company. But first, given its importance to our business, I'd like to discuss the determination of the Bridg first anniversary payout, the important changes to the second anniversary earnout and our Q1 results.

Update to Bridg Earnout Payments

As you read in the 8-K earlier this week, an independent accountant made a determination on the first anniversary payout, finding the payout to be $208.1 million, inclusive of fees. Importantly, based on this determination, we anticipate that the second anniversary payment will be zero dollars given it is based on the growth of first anniversary clients. The outcome for the total earnout and the total cash portion of the earnout is in line with our expectations, and we believe the monetary shift to the first anniversary is highly beneficial to our stockholders.

Here are the key considerations:

- The total cash for both earnouts, inclusive of fees, is expected to be $72.6 million
- 3.4 million shares are expected to be delivered for the equity portion of the earnouts. Notably, we expect to be able to rely on the favorable $40.15 VWAP to deliver the full equity portion for the earnouts, regardless of the current trading price of the stock.
- Under this determination, we now expect shareholder dilution to be reduced by nearly half of our original expectation based off our current shares outstanding, and we expect the risk of any additional cash outflow due to the ownership-cap provision in the merger agreement to be eliminated.

We are thrilled to move past this roadblock, which will allow us to continue to focus our energy and attention on becoming a product-led organization. We appreciate your patience and support throughout this process and look forward to moving ahead with renewed vigor and determination.

Financial Highlights

Now, onto our results. We exceeded external expectations in Q1:

- Billings decreased 2.6% year-over-year to $95.6 million
- Revenue decreased 5.3% year-over-year to $64.3 million
- Adjusted contribution decreased 5.6% year-over-year to $30.9 million
- Bridg revenue grew 34% year-over-year to $5.3 million
- Excluding the large client that exited our channel last year, our total billings growth increased 10% year-over-year and our U.S. billings growth increased 21% year-over-year

Our focus on product and operational initiatives led us to exceed expectations despite real difficulties in the economy and advertising market. Topline performance benefited from a strong March and better billings efficiency via the product optimizations we have made as a company. We saw particularly solid results in travel and entertainment and gas and grocery. That said, the economic outlook is still challenging, and we are continuing to make prudent financial decisions for the business. Over the past few months, we have improved our cost base immediately and in the long term, including a $3.9 million one-time reversal of a bonus accrual and renegotiating the lease on our office space in Atlanta. We expect the amended lease to save us $400,000 in total over the next 3 quarters, and $1.9 million in total from January 2024 through April 2025.

Even though the economic climate is tough, the metrics underlying our business are strong. I'd now like to specifically focus on several key metrics and operational initiatives that show this foundational improvement evident in our business.

Unique consumers activating offers increased 4.4% year over year in Q1, even with the impact of the large restaurant client exiting the channel. Adjusting for this client's exit, we saw total activations increase greater than 19% year over year and total redemptions increase greater than 74% year over year. This is great news: We are increasing the number of active users and our current users are engaging more often.

Historically, Q1 is our seasonal low, but we increased the number of advertisers spending more than $50k in the channel during Q1 by 8% year over year. Advertisers with billings between $500,000 and $5 million increased by 11%.

We are focused on increasing our MAU base by signing new partners. Our progress in our pipeline over Q4 is solid. We are in discussions with multiple top 20 U.S. banks and several high-upside FinTechs, and we believe we will sign at least one of these major partners by the end of 2023. We will continue to update you as we make progress on these potential partnerships.

Becoming a Product-led Company

Now, I want to move to our strategic product initiatives. When I joined Cardlytics, it was clear that the company had solid foundations. We have a unique and scaled platform that drives significant value for our banking partners, provides great outcomes for consumers with highly relevant offers, and delivers high ROI for marketers.

Since I joined, we have been conscientiously working to improve every aspect of our foundation: we are becoming partner obsessed and better supporting their needs, fueling advertising innovation and ultimately stronger consumer engagement in the program, and are combining that with greater control of our expenses and operational processes so that we become a strong and profitable business, regardless of the economic conditions. All this work is centered around our operating thesis: If we could accelerate and optimize our product teams to drive our strategy, while also meeting the needs of bank partners and advertisers, then we could drive long term growth and profitability for the company. Now, just 8 months later, we are already benefiting from the speed of change.

Cardlytics is transforming into a product-led company. We are enabling product to sit at the forefront of every aspect of our operations, and our teams are aligned and working collaboratively towards common goals. It's allowing us to have clearer focus, move at a faster pace and create a better experience for our partners and customers. We believe the benefits will compound with each passing quarter, but we are already seeing results.

On our last several calls, we have consistently talked about progress on three important product initiatives for our bank partners and advertisers – the new Ad Server, our new User Experience, and Cloud Migration. Each of these initiatives complements the other. And we are making great progress on all.

- For the cloud, all our major U.S. banks have data in AWS and 4 have systems in AWS.
- We expect nearly all our major banking partners to move to the new Ad Server and User Experience by the end of 2023.

I'd like to highlight progress on the new UI. While the new UI creates a superior look-and-feel for offers, it is more about creating new functionality for both our advertisers and bank partners. For example, we can provide more detailed descriptions of offers, richer imagery and categorized offers. The result: More customer engagement, which we are already seeing in our early data.

One of our largest bank partners has rolled out the new UI to more than 25% of its users. While early, we have seen around a 50% increase in impressions on the rewards summary. We believe this is only the beginning. As the UI has rolled out, we've observed other engagement metrics on the new UI that are equally promising, and we intend to disclose some of these statistics once we have scaled data across more bank partners.

On our last call, I mentioned that we expect our upgraded Ad Decisioning Engine to drive higher monetization and offer relevancy for the business. Most of our smaller banks have now migrated to ADE and we expect nearly all of our banks to migrate by the end of Q2.

Banks that have upgraded to the Ad Decisioning Engine are seeing around a 6% increase in activations. Even better, we estimate the Q2 lift from ad ranking and budget pacing optimization to be around $2.2 million for the quarter. To give you a better idea of how this works, here are two new targeting features we released in our Ads Manager.

- First, Share of Wallet, or functionality that allows advertisers to target audiences who shop and spend at competitor brands. A great example is a large restaurant customer that wants to increase breakfast traffic could target only customers of breakfast brands.
- Second, Min/Max Targeting, or the ability to let advertisers target based on minimum or maximum amounts of spend during a certain period. This gives advertisers a tool to drive elevated spend from their current customers.

Improved targeting is not the only area that is showing progress. Here are a few examples of the new offer developments we are most excited about:

- We expect to launch an alpha version in Q2 of the Spend Stretch Offers that we discussed on the prior call. As a reminder, Spend Stretch allows advertisers to incentivize a set of customers spending in a certain range to increase their spending on their next visit. For example, customers who spend $20 dollars on average could receive a $5 dollar cash discount if they spend $40 dollars or more. This offer concept pairs well with Min/Max Targeting.
- We also expect to launch an alpha version of Multi-Tier Offers in Q2. These offers allow flexibility for advertisers to provide variable incentives based on their objectives. This tiering structure also gives customers more choice. For example, a travel client can reward 10% on all stays in Los Angeles and 5% on all other stays in the U.S. Or a subscription provider could reward 10% back on annual subscriptions and 5% back on all other purchases.

For Bridg, our Retail Media Network product is progressing nicely. We have secured proof of concepts with several large restaurant and convenience clients, which we hope to convert to full-scale relationships later this year. This is important, as it is the first step to building our base of smaller retailers on the Retail Media Network. And, as a reminder, by building scale for these retailers, we can create a compelling new product for CPGs to gain insights, drive incremental sales and measure campaigns.

Market Trends

Turning to market trends. There is no denying that Q1 was a difficult quarter for the economy. Overall year-over-year spend grew only 1% versus 10% in Q1 of 2022. Restaurant and retail spend both struggled in the quarter, growing 5% and -2% year over year, respectively. Travel spend, which enjoyed a post-pandemic boost in 2021 and 2022, is showing signs of more normalized growth, with a growth rate of 12% year over year.

Given the challenging economy, our focus remains squarely on growing the business responsibly as evidenced by our actions since Q3 of 2022. We have decreased our expenses linearly in each quarter since I started, and we will continue to monitor them. Our Adjusted EBITDA in Q1 2023 is better by $4.5 million year-over-year despite lower revenue and we expect a similar or better trend with our Adjusted EBITDA in Q2. Given the challenging advertising market, we may be slightly off our free cash flow goal of breakeven in Q3 of 2023, but we remain focused on getting to positive free cash flow as soon as possible.

As I have said in prior quarters, success hinges on our ability to execute with a disciplined approach. It also hinges on our teams being laser focused on how they can support our product initiatives. And most importantly, we remain partner obsessed. Our relationships with our bank partners are improved, as evidenced by their uptake of our strategic initiatives. Transforming Cardlytics into a product-led company allows a clearer focus and faster pace, which will translate into long-term results. I remain confident that our strategy and priorities are propelling the company towards achieving growth and profitability.

Thank You

Thank you to everyone listening. First, I want to thank Andy for his service to Cardlytics. We all sincerely appreciate his contributions to the company, and we wish him the best moving forward.

We are excited to move past one of our largest short-term issues and to continue focusing on product as the central driver of our strategy. While the economy is still uncertain, we are confident that our unique, scaled platform drives value for our partners and delivers high ROI for marketers. We are excited about the tremendous opportunity that lies ahead of us. By prioritizing our goals and positioning the company for long-term success, we are setting ourselves up for a bright future.