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PRESENTATION

Operator

Good afternoon, and welcome to the BuzzFeed, Inc. First Quarter 2023 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Amita Tomkoria, Senior Vice President, Investor Relations. Please go ahead.

Amita Tomkoria - *BuzzFeed, Inc. - SVP of IR*

Hi, everyone. Welcome to BuzzFeed, Inc.'s First Quarter 2023 Earnings Conference Call. I'm Amita Tomkoria, Senior Vice President of Investor Relations. Joining us today are Founder and CEO, Jonah Peretti; President, Marcela Martin; and CFO, Felicia DellaFortuna.

Before we get started, I would like to take this opportunity to remind you that our remarks today will include forward-looking statements. Actual results may differ materially from those contemplated by these forward-looking statements. Factors that could cause these results to differ materially are set forth in today's press release, our 2022 annual report on Form 10-K and in our Q1 quarterly report on Form 10-Q. Any forward-looking statements that we make on this call are based on assumptions as of today, and we undertake no obligation to update these statements as a result of new information or future events.

During this call, we present both GAAP and non-GAAP financial measures, including adjusted EBITDA and adjusted EBITDA margin. The use of non-GAAP financial measures allows us to measure the operational strength and performance of our business to establish budgets and to develop operational goals for managing our business. We believe adjusted EBITDA and adjusted EBITDA margin are relevant and useful information for investors because they allow investors to view performance in a manner similar to the method used by our management. A reconciliation of these GAAP to non-GAAP measures is included in today's earnings press release. Please refer to our Investor Relations website to find today's press release along with our investor letter.

And now I'll pass the call over to Jonah.

Jonah Peretti - *BuzzFeed, Inc. - Founder, Chairman & CEO*

Thank you, Amita. Good afternoon, everyone, and thank you for joining us today. Last quarter, I shared my vision for the future of digital media, namely that content creation would be transformed by creators and AI. With a massive direct audience across our premium brands and IP portfolio, we are poised to benefit from these trends. We have built trusted brands with awareness that is the level of 100-year-old companies.

U.S. Gen Z and millennials spend vastly more time consuming our content than that of any other digital media company in our competitive set according to Comscore. These competitive advantages have helped us carve out a strategic position in the ecosystem of audiences, advertisers, platforms and creators. The biggest beneficiaries of the shift to the creator economy and generative AI will be incumbents with recognizable brands and scaled distribution.

In Q1, our content teams made great progress in launching new content formats to align with these trends. On creators, the next few years will be defined by creators partnering with the best media brands for credibility and community. For us, Tasty is leading this transformation in how media is made and distributed through the creation of programs to give creators the tools and skills to drive large audiences. Creator-led content has generated 2x the views per video and more than one billion views on Instagram alone. This gives us the conviction to extend this model to more brands.

The results are amazing for everyone when creators and media companies work together, develop IP together, collaborate on new formats and frames and jointly brainstorm with analytics from the larger BuzzFeed, Inc. media network. To build on this success, we are rapidly expanding our Creators Program to increase both revenue and content output. Tasty recently welcomed a new class of creator residents, And earlier this year, Complex launched its inaugural creator class.

Turning to our progress on artificial intelligence. Broadly speaking, I believe that generative AI will begin to replace the majority of static content. Audiences will begin to expect all content to be personalized, interactive, dynamic with embedded intelligence. Formats that were developed before the AI revolution and many of the formats and conventions of the media industry will need to be updated and adapted or begin to feel stale and outdated. This is why BuzzFeed has been investing in AI-powered content and launching new formats like Infinity quizzes and chatbot games. In the past 2 months, we've seen Time Spent increase by more than 40% when a quiz is AI-powered compared to legacy quizzes. And our first chatbot game, Under the Influencer had an average time spent 4x higher than time spent on static quizzes. Looking ahead, we are rapidly prototyping new generative AI format, including quizzes and chatbots that we will scale in the coming months.

We have also made significant strategic and organizational changes to position the business for long-term growth. Last month, we completed a strategic reprioritization across the company in order to accelerate our progress in the areas of Creators and AI and translate this exciting work into new revenue opportunities that will help us reaccelerate growth.

Specifically, we have significantly reduced our fixed cost structure and aligned resources with the formats and platforms, we believe, it will propel our future growth, refocused our flagship BuzzFeed on entertainment and announced the closure of our platform-dependent news brand, BuzzFeed News, to focus on growing a significant direct audience at HuffPost and anchored our go-forward strategy in the areas that we believe represent our biggest opportunities to drive long-term growth and monetization.

These changes, in addition to the momentum we have built in growing audience reach and engagement around new platforms and formats, position us to close the gap in monetization and accelerate our revenue growth. We are committed to building a business that delivers significant margin expansion and generates strong cash flows over time. I am grateful for the support of our shareholders as we continue to transform our business in this new era of digital media. And I'm honored to work alongside our talented teams of creators, journalists, producers and all our employees as we continue to lead the industry forward in an unwavering commitment to our mission to spread truth, joy and creativity on the Internet.

Thank you, and I look forward to seeing you at our upcoming virtual Investor Day this Thursday. I'll now hand the call off to Marcela to discuss our business performance and operational highlights.

Marcela Martin - *BuzzFeed, Inc. - President*

Thank you, Jonah, and good afternoon, everyone. I will recap our Q1 performance, including some of the progress that we have made in refocusing our sales efforts to unlock the full monetization potential of our combined brand portfolio. I also want to share with you the early results we are driving through our focus on creators and AI. But let's start first with our Q1 performance.

We delivered first quarter results in line with our guidance range for both revenue and adjusted EBITDA. Q1 revenues declined 27% to $67 million, driven by the ongoing shift towards short-form, creator-led content, continued softness in the broader digital advertising market and the sales execution challenges I outlined last quarter. Looking ahead, we expect Q1 to be the trough in terms of both revenue growth and adjusted EBITDA. Felicia will provide more details shortly. But at a high level, in Q2, we expect to deliver a modest improvement in core advertising and content revenue trends year-over-year relative to Q1.

In order to measure our progress, we will supplement our Time Spent reporting with a new metric on revenue retention. And as we execute against the cost savings plan that we have announced to date, we are driving towards significantly lower fixed cost structure positioning us to mitigate much of the bottom line impact from lower Q2 revenues and achieve full year adjusted EBITDA profitability. As I mentioned over the last few months, we have made significant changes to our sales team structure in order to improve execution, enable cross-brand synergies and bring the wider brand portfolio to market for our clients.

First, we are now working horizontally with a centralized sales enablement and support teams set up to service all brands in the portfolio. Second, we are driving increased focus on traditional sales verticals such as CPG, retail, entertainment, tech and financial services with leaders that bring strong industry knowledge and relationships. Previously, coverage of these verticals was fragmented across the sales organization. This new organization structure will help us serve our customers more efficiently. Third, we have amplified coverage for new businesses and industries. And finally, by consolidating the teams and breaking down silos, we are accelerating the knowledge transfer across the BuzzFeed brands and the Complex brands. With these changes, we are positioned to drive further improvements in year-over-year trends in the back half of the year.

Now turning to our progress around Creators and AI. In Q1, we continued to build audience momentum on creator-driven platforms like TikTok, Instagram Reels and YouTube Shorts. Q1 viewership of our short-form content across platforms continued to grow. And once again, we surpassed 1 billion views on each of Instagram Reels and YouTube Shorts, respectively. Tasty expanded its creator footprint in Q1 by welcoming a new class of Tasty residents and launching a new TikTok series called Potatoes 100 Ways. The series has already earned more than 50 million views across its first 2 episodes. These initiatives also continue to attract advertiser demand from household brands like Campbell's and McCormick.

In terms of AI, BuzzFeed's new AI-powered content formats are already driving deep engagement. As you hear from Jonah, audience Time Spent with our quizzes and chatbot games is meaningfully higher relative to our static content. And although it is still early, we are very encouraged by this momentum. Audiences love the interactivity, the personalization and shareability of this content. We have much more in store for our audiences in the coming weeks and months. And as we continue to build audience engagement around these new formats, we expect to translate this momentum into innovative products and partnership opportunities for our clients.

Before I wrap up, I want to reiterate my excitement for the future of BuzzFeed, Inc. By leaning further into Creators and AI, we are on our way to building a content creation model that makes our creative teams more efficient and substantially expand our output without increasing fixed costs. We hope you will join us this Thursday at our Virtual Investor Day where you will hear more from our extended leadership team including our brand leaders and our Head of Sales on how this exciting work is expected to drive our long-term growth and profitability.

Thank you. Felicia will now take you through our financial results and outlook.

Felicia DellaFortuna - *BuzzFeed, Inc. - CFO*

Thank you, Marcela. We delivered first quarter results in line with our guidance range for both revenue and adjusted EBITDA. On a year-over-year basis, overall revenues for Q1 2023 declined 27% to $67.2 million, as expected, driven by the ongoing shift towards short-form creator-led content, continued softness in the broader digital advertising market and the sales execution challenges Marcela referenced earlier.

Performance by revenue line is as follows: advertising revenues declined 30% year-over-year to $34.2 million, in line with fourth quarter trends as expected, primarily driven by both pricing and demand pressures on our owned and operated properties. Content revenues declined 33% year-over-year to $21.6 million with branded content performance decelerating versus the fourth quarter as expected. As a complement to our content revenues, we are introducing a KPI to represent net branded content advertiser revenue retention, which is a function of both the number of clients we serve and the spend per retained clients. This metric reflects current period trailing 12-month branded content revenue as a percentage of prior period trailing 12-month revenues for branded content customers that spent a minimum of $250,000 in the prior period.

As we outlined last quarter, the steps we took to combine the BuzzFeed and Complex sales teams created operational challenges that negatively impacted our revenue performance in Q1. These impacts materialized in the form of lower revenue retention versus the prior year. However, average spend per advertiser remained relatively consistent year-over-year.

Commerce and other revenues grew 6% to $11.3 million, driven by easing comps in our organic affiliate business. This revenue performance resulted in Q1 adjusted EBITDA loss of $20.2 million in the quarter, $3.5 million lower year-over-year, with the majority of the lower revenue year-on-year mitigated by the cost actions taken throughout 2022. We also incurred charges that did not impact adjusted EBITDA. A full reconciliation of our GAAP to non-GAAP measures can be found in today's press release available on our Investor Relations website. We ended the quarter with cash and cash equivalents of approximately $50 million.

Turning to audience engagement and Time Spent. In terms of audience Time Spent, we continue to report U.S. Time Spent across our owned and operated properties and third-party platforms according to Comscore. This metric is intended to be viewed in conjunction with our advertising revenue performance. As we have discussed in previous quarters, audience Time Spent with our content on Facebook has continued to decline driven by increased competition from newer creator-driven vertical video platforms for which Time Spent is not currently captured by Comscore. As a result of these declines, the advertising revenues we generate from Facebook are no longer material to our overall advertising revenues.

As of January 1, 2023, we have removed Facebook from our reported measure of Time Spent. We will continue to report U.S. Time Spent according to Comscore, which reflects our owned and operated properties, YouTube and Apple News.

As Jonah discussed earlier, the broader strategic reprioritization across the company has enabled us to align resources to the platforms and formats that represent the biggest opportunities for future growth. And we believe this change in reporting methodology now aligns with our go-forward monetization strategy, namely to increase focus on our owned and operated properties.

In Q1, U.S. Time Spent as reported by Comscore declined 3% year-over-year to 109 million hours. In terms of creator-led vertical video, ahead of scale monetization, we are continuing to build audience momentum around newer platforms and formats, including YouTube Shorts, Instagram Reels and TikTok.

In the first quarter, we continued to grow viewership of our short-form creator-led content, generating billions of views across platforms in Q1. This gives us further confidence that we are driving the right strategic focus to position the business for long-term growth and monetization. Before I share our financial outlook for the second quarter, let me first provide some context. Starting with revenues. In the year ago quarter, BuzzFeed Studios delivered two feature films, which contributed to Q2 2022 content revenue. For Q2 2023, no film projects are scheduled for delivery in the quarter.

Also in the year ago quarter, Complex hosted a metaverse experiential event known as ComplexLand. This event will not repeat in Q2 2023. Excluding these year ago revenues, we expect Q2 year-over-year trends to improve modestly as compared to Q1.

In terms of adjusted EBITDA, as Jonah and Marcela discussed, in April, we took further steps to reduce our fixed cost structure and align resources to the formats and platforms that will propel our future growth. These steps, together with our previously executed cost savings have positioned us to mitigate the majority of the bottom line impact from lower revenues and achieve breakeven adjusted EBITDA in Q2.

With that, I will turn to our financial outlook. For Q2 2023, we expect overall revenues in the range of $76 million to $81 million or 24% to 29% lower than the year ago quarter. We expect this revenue decline in conjunction with the fully executed cost savings announced in mid-April to result in adjusted EBITDA in the range of $0 million to $4 million, and we expect to deliver full year 2023 adjusted EBITDA in the high teens million.

As we lean further into creators and AI, we see the opportunity to drive significant operating leverage and adjusted EBITDA margin improvement over time. We look forward to sharing much more about our long-term plans with you at Virtual Investor Day.

Thank you, and we look forward to taking your questions at our Investor Day this Thursday.

Operator

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