

# To Outbrain's Shareholders, Present and Future:

We founded Outbrain out of a deep passion for stories and great story-telling, as manifested in the newspapers, magazines and blogs that we love.

When we pioneered the business of recommendations for publishers, there were two areas we viewed as broken:

- 1. The content experience:** In the haystack of the Internet, it was nearly impossible to find a delightful “needle” of a story.
- 2. The advertising experience:** The main business model for publishers — advertising — seemed challenged in the long term because it so often delivered a bad user experience.

We founded Outbrain with a clear goal of fixing these two key problems, thereby helping users enjoy a better experience, while ensuring that publishing can remain sustainable and thrive.

Fast forward to today, and Outbrain is a global leader in monetization and user engagement for publishers and media owners. Over the past decade, in the 18 countries in which Outbrain operates, we have generated over \$3B+ in direct revenue for our media partners. Supporting some of the world's most prestigious news organizations, this number represents a tremendous amount of journalism and editorial resources that otherwise might not have existed. We are incredibly proud of Outbrain's profound contribution to sustaining journalism, local news and independent publishing.

Trying to explain how we achieved this, and how we plan to continue growing our business, is not trivial, as some of the key pillars of our strategy can at times seem counterintuitive. Therefore, we thought it is important to provide you, our shareholders, with a clear understanding, so that you have the context and insight into our thinking. We hope you join us on our journey.

## Our core, contrarian, thesis

At the core of Outbrain is a thesis that is contrarian to much of the broader market in which we operate – the digital advertising market. Since our core approach to making money is contrarian, it is sometimes misunderstood.

Online advertising has three constituents that participate in the value exchange: the publishers (or media owners) that create the content, the advertisers that pay to be featured alongside the content, and the people who consume the content and ads.

All three constituents are critically important for this value exchange, yet one constituent is oftentimes ignored - the consumers of content. Outbrain's approach is different, we focus on the consumer first. In fact, we refer to the consumer as 'Our Boss.'

This contrarian approach manifests itself in one particular way - how ads are typically priced and prioritized online. As a rule of thumb, most companies that facilitate online advertising will typically sort ads from those priced highest down to the cheapest, and show you, the consumer, the priciest ads they've been able to sell. Herein lies the conundrum of how such a vast industry with so much technology ends up serving so many ads that are so underwhelming to all of us.

At Outbrain, we know that 'Our Boss,' the consumer, is interested in many different things: She's interested in politics, and technology, in sports, and entertainment. We also know for a fact that there is one thing she is NOT interested in at all — the price of the ads served to her. We have yet to find a person who has consumed any form of media and said: *"That ad is so delightfully priced! I have to spend more time on this site!"*

More likely, if the content and advertising user experience is not great - the consumer is not likely to come back tomorrow.

This is why our core thesis is predicated on the long-term behavior patterns of the consumer. We like to think that we are 'long-term greedy,' as we don't optimize for the specific ad, but rather, for the long-term revenue stream that the user represents. As an illustrative example, we believe that across our industry, when most companies need to select between two ads, one priced at \$1.00 and the other at \$0.80, they will automatically choose to show the \$1.00 ad.

In contrast, at Outbrain we ask: "Between these two ads - which is more likely to result in the consumer engaging more with this publisher in the future?" If our predictive AI models indicate that the consumer's engagement is more likely to compound over time if we choose the \$0.80 ad - that is what we will choose to serve.

The price paid by our advertisers is determined by the advertisers, not by Outbrain. In most industries and most companies, pricing power is considered an important indicator of a business' strength. At Outbrain that is not necessarily true. The reason is that we always aim to first grow our revenues based on user engagements, and not through price. Again - if we can get 2 (or more) user engagements at \$0.80 each, or even \$0.50 each - we will much prefer that than getting 1 user engagement at \$1.00.

While our contrarian model requires patient discipline, we believe that in the long run it should reward our shareholders handsomely for several reasons:

**First - the compounding effect:** Prices of ads, like those of any other product, can fluctuate. They can go up or down based on supply-vs-demand, seasonality, competition, geography, etc. The price an advertiser was willing to pay during March of last year has little to do with the price the same advertiser will be willing to pay next December, right before Christmas.

In contrast, **user engagement compounds over time.** If a consumer ('Our Boss') clicked on a link, or visited a site, and had a good user experience - she is slightly more likely to come back tomorrow. And if she indeed comes back tomorrow and again has a good user experience - she's slightly more likely to engage again the day after. And so forth and so on, for many years to come.

So while the entire industry seems to be obsessed with grabbing the highest priced ad regardless of the long-term impact on users, Outbrain focuses on the gradual compounding effect of user engagement.

**Second - Return-On-Ad-Spend (ROAS):** When we choose to serve ads that are more engaging rather than pricier, that translates to lower prices that our advertisers have to pay. Again - in most industries this might be viewed as lack of pricing power. However, we see tremendous value in this, as it helps drive superior value, typically referred to as Return on Ad Spend (ROAS), for the advertisers that choose to spend on Outbrain.

In the long run, advertisers choose to spend more money on the platforms that deliver them the best ROAS. As at Outbrain we prefer to opt for the long-term compounding effects, rather than capture short-term pricing fluctuations - we prefer to charge advertisers less per user engagement, but collect from them more total spend for more user engagements over time.

To refer back to the pricing example above, our approach means that our pricing power should not be derived from pricing per se — when we select an \$0.80 ad vs a \$1.00 ad, we knowingly chose the lower priced one. Instead, our pricing power should be derived from the yield that we generate for our partners and for ourselves. In this example, if we were able to gain two user engagements, we yielded in the long-term \$1.60 while our competitors yielded only \$1.00. And we did that while at the same time delivering 20% better value and higher ROAS for our advertisers.

These tradeoffs, while counterintuitive, are ones we'll always attempt to make at Outbrain as we believe they will serve our business, and thus our shareholders, well in the long term.

**Lastly - the deep, typically exclusive, nature of our media owner partnerships:** Since the Outbrain model optimizes for the user's experience, it works best when Outbrain exclusively powers a media owner's entire feed of recommendations. Unlike many advertising technology companies that occasionally serve an ad in a variety of places, Outbrain's default model is to exclusively power 100% of our partner's recommendation feed, including all of the content, videos, ads, etc that are within it. These long-term, typically exclusive partnerships give us a tremendous amount of first party data, and provide us with predictability of the model into the future.

## **Beyond our business - Outbrain's culture & values**

As you consider investing in our business, it is important for us to ensure that you have a strong understanding of not just 'what' we do and 'why' we do it, but also 'how' we do things. To state the obvious – we believe that just like the 'what' and the 'why,' how we go about running our business is core to our ability to succeed in the long run:

- **Integrity is at our core** - In how we conduct ourselves with our employees, with our business partners, with our shareholders and in our communities - integrity is of paramount importance to us. We don't mean this just as lip service. Over the years, when confronted with specific choices that might have resulted in short term gains, but would have breached our integrity - we have always chosen the path of integrity. We will continue to conduct ourselves in this way in the future.
- **Trust is our fundamental currency** - In the spirit of this letter, we strongly believe that the most fundamental currency for media owners, and therefore for Outbrain, is consumers' trust in the stories and the ads that they are served. For example, Outbrain was the first company in this space to codify public advertising guidelines

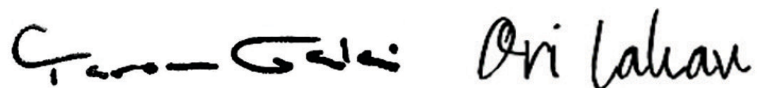
and ban fake news. We did that some five years before other competitors did, even as it had a significant negative impact to our revenue, as we believe that it serves our shareholders well in the long term.

- **We are risk-takers when it comes to innovation** - We like to manage our business conservatively and humbly, to ensure that Outbrain's business is sustainable for many years to come. But when it comes to product and technology, we are happy to be the risk-taking innovators. Simply put, we believe that in a dynamic industry such as ours, it's impossible to sustain a leadership position without being bold when it comes to innovation.

Historically, this approach has worked well for us, as Outbrain has pioneered many of the major product innovations in our space. But innovation and experimentation is only truly that, if it occasionally fails. We've had our fair share of innovations that have ultimately failed and which we have shut down. These failures will not discourage us, and we will continue making big bets on innovations that we believe could yield material returns for our shareholders in the long run.

- **We take our company culture seriously** - Since founding the company, we have led it based on the values and aspirations that we have attempted to summarize in our company's "Culture Manifesto." It is publicly available on our website, and we encourage you to take a look: [www.outbrain.com/about/cultural-manifesto](http://www.outbrain.com/about/cultural-manifesto).

We hope that laying out the driving philosophy behind how we run our business will help you understand our framework for making decisions. We hope to have you as a shareholder and to earn your trust today, and into the future, understanding that we plan to continue making decisions that are focused on maximizing the compounding returns for our shareholders in the long term.

Handwritten signatures of Yaron Galai and Ori Lahav in black ink.

**Yaron Galai & Ori Lahav**

Co-Founders of Outbrain Inc.