

ZETA Earnings Call Transcript

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Operator: Greetings, and welcome to the Zeta 3Q '25 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Matt Pfau, SVP of Investor Relations. You may begin.

Matt Pfau: Thank you, operator. Hello, everyone, and thank you for joining us for Zeta's Third Quarter 2025 Conference Call. Today's presentation and earnings release are available on Zeta's Investor Relations website at investors.zetaglobal.com, where you will also find links to our SEC filings, along with other information about Zeta. Joining me on the call today are David Steinberg, Zeta's Co-Founder, Chairman and Chief Executive Officer; and Chris Greiner, Zeta's Chief Financial Officer. Before we begin, I'd like to remind everyone that statements made on this call as well as in the presentation and earnings release contain forward-looking statements regarding our financial outlook, business plans and objectives and other future events and developments, including statements about the market potential of our products, potential competition, revenues of our products and our goals and strategies. These statements are subject to risks and uncertainties that may cause actual results to differ materially from those projected. These risks and uncertainties include those described in the company's earnings release and other filings with the SEC and speak only as of today's date. In addition, our discussion today will include references to certain supplemental non-GAAP financial measures, which should be considered in addition to and not as a substitute for our GAAP results. We use these non-GAAP measures in managing our business and believe they provide useful information for our investors. Reconciliations of the non-GAAP measures to the corresponding GAAP measures, where appropriate, can be found in the earnings presentation available on our website as well as our earnings release and our other filings with the SEC. With that, I will now turn the call over to David.

David Steinberg: Thank you, Matt. Good afternoon, everyone, and thank you for joining us today. For the 17th quarter in a row, we once again delivered a beat and raise quarter, driven by our leadership in AI-powered marketing. In Q3, revenue was \$337 million, up 28% year-over-year ex political and LiveIntent. This is an acceleration in growth from Q2. Adjusted EBITDA was \$78 million, up 46% year-over-year. And free cash flow was \$47 million, up 83% year-over-year, representing a margin of 14%. This is the highest free cash flow margin we have ever achieved, and we did it while accelerating our revenue growth ex political and LiveIntent. This demonstrates our focus on driving growth and improved profitability while investing to extend our AI leadership. Based on our year-to-date momentum and our record pipeline exiting Zeta Live, we are raising our 2025 revenue guidance by \$11 million at the midpoint and providing an initial 2026 outlook well ahead of consensus. In October, we hosted our fifth annual Zeta Live, our most successful event yet with max capacity audience. Attendance was up 35%. And unfortunately, we had to turn away a large number of people. For next year, we are currently looking for a bigger venue. We had strong executive participation, representing more than \$100 billion in annual marketing spend decision-makers in attendance. At Zeta Live, we hosted 38 sessions, featured 95 speakers, delivered nearly 120 product demos and shockingly served 7,600 coffees to the 1,500 attendees. Customer feedback was overwhelmingly positive with many attendees commenting that it was one of the best events they have ever attended. Our goal is to close over \$100 million in incremental business coming out of Zeta Live. At Zeta Live, we launched Athena, our next step in leading the AI revolution in marketing. Athena is our AI conversational, superintelligent agent that becomes the intelligent operating system for our clients' businesses and ultimately for their lives. Athena marks a major breakthrough in human AI collaboration, removing the friction between the human and artificial intelligence and acting as a real-time voice-activated command center for the Zeta marketing platform. One workspace to plan, execute, analyze and optimize in plain-spoken English. AI

is the new UI and Athena proves it. You speak your objectives, it builds the experience, launches the program and delivers insights on one screen, making it easier to adopt more channels, more use cases and ultimately drive greater ROI and spend on Zeta's platform. The business impact of using Zeta is already proven. Independent analysis shows Zeta stands up 50% faster than our peers and delivers a 6:1 return on investment. And with Athena making the platform radically easier and more intuitive, we believe these numbers will only get stronger. This is how AI becomes a habit, not a headline. Adoption scales, usage deepens and the platform becomes harder to leave. We believe Zeta is uniquely positioned to develop Athena for 3 key reasons: First, data advantage. Our Zeta Data Cloud gives Athena rich real-time signals for personalization and prediction that generic AI just cannot match. Second, native integration. Athena is embedded in the Zeta Marketing Platform, connecting answers to actions and insights to activation and measurement. Unlike our competitors who have legacy tech debt and cannot natively embed AI into their marketing clouds. Third, AI track record. AI is foundational to what we do at Zeta. We have natively built AI into our platform since 2017, and we believe this AI leadership is the reason we are winning today. At Zeta, artificial intelligence is foundational to our business, not an add-on like our competitors are building. The reception from customers, prospects and partners has been incredible. If you did not attend the standing room-only Athena demo at Zeta Live, I encourage you to watch it in the Investor Relations section of Zeta's website. It is truly game changing. Athena is in internal beta now, and we expect it to be in client beta by the end of Q4 and fully production ready by the end of the first quarter of 2026. OneZeta is a key growth engine for us and a growth flywheel for our customers as they consolidate more data and use cases into the Zeta Marketing Platform. Customers who adopt 2 or more use cases generate greater than 3x the annual revenue of a single use case customer, have our highest NPS score and see the highest return on marketing spend. We have accelerated this focus under Ed See, our Chief Growth Officer, and the results are meaningful. For example, a leading big box retailer consolidated acquire, grow and retain onto the ZMP at the start of our relationship. That agreement was greater than 3.5x the size of a standard deal with similarly sized enterprises. Second, one of the fastest-growing specialty retailers started with the retain use case and recently added a grow use case. As a result, the customer is expected to spend over \$2 million with us in the fourth quarter compared to only \$700,000 in the first quarter, a threefold increase, and we expect this customer to continue to grow into next year. We expect the strong pipeline generated from Zeta Live, combined with the acquisition of Marigold's enterprise software business, which includes over 100 enterprises, 20 of the top 100 advertisers in North America and more than 40 Fortune 500 companies who are all currently only on one use case, will further accelerate our OneZeta momentum into 2026 and beyond. I'll close with an update on our agreement to acquire Marigold's enterprise software business. We remain on track to complete the acquisition by the end of the year. After spending the past several weeks getting to know the business and the team better during the closed process, I am even more enthusiastic about the opportunity this acquisition represents. Strategically, the data that we pick up, including the loyalty program, will be game-changing to training our proprietary algorithms, including our Athena, answers and generative engine optimization products and widens our data cloud moat. We hosted several of their employees and customers at Zeta Live and the 1 plus 1 equals 4 opportunity is more clear than ever. Great numbers are the output. The inputs are great execution, products and people. The reason we are growing at an accelerated pace is simple. We have superior artificial intelligence and data to our competitors that we started developing 8 years ago, not 8 months ago. Our consistent execution over the past 17 quarters as a public company is a credit to our artificial intelligence, our people and our data. Quarter after quarter, we have raised the bar. As always, I would like to sincerely thank our customers, our partners, team Zeta and all of our shareholders for the ongoing support of our vision. Now let me turn it over to Chris to discuss our results in greater detail. Chris?

Christopher Greiner: Thank you, David, and good afternoon, everyone. The theme of our Investor Day in October was durable, predictable and profitable growth, and our third quarter results are a perfect illustration of this. Our revenue growth, excluding political and LiveIntent, accelerated to 28% in Q3 from 27% in Q2 and 26% in Q1, showing the durability of our growth. Our third quarter results once again exceeded our guidance for both revenue and adjusted EBITDA, highlighting the predictability of our growth. And we achieved the highest free cash flow margin in our history, achieving the Rule of 40

on a free cash flow margin basis, demonstrating the profitability of our growth. With that, let's dive into the details of the quarter. In Q3, we delivered revenue of \$337 million, up 26% year-over-year or 28% when excluding the contribution from LiveIntent and political candidate revenue in the year ago period. We exceeded the midpoint of our guidance by \$9 million or 3 percentage points higher than our forecast, solidly within the 2 to 5 points of cushion we typically leave ourselves. Total scaled customer count grew to 572, up 20% year-over-year and an addition of 5 customers sequentially. We ended the quarter with 180 super-scaled customers, up 25% year-over-year and an addition of 12 customers sequentially. The strong super-scaled customer additions were broad-based across industry verticals and driven by cross-sell of LiveIntent customers and our OneZeta initiative. Scaled customer quarterly ARPU of \$579,000 increased 4% year-over-year or 13% when adjusting for political candidate revenue. Super-scaled customer quarterly ARPU of \$1.6 million was up 1% year-over-year or 12%, excluding prior year political candidate revenue. From an industry perspective, 7 of our top 10 verticals in the quarter grew faster than 20% year-over-year on a trailing 12-month basis, an improvement from 6 in the first and second quarters. The additional 20% plus growth industry was telecom, where we have had multiple significant wins over the past year and has been a focus of ours this year. It's also worth noting growth in consumer discretionary verticals like retail, travel and hospitality and automotive remained strong in the quarter. And finally, all 3 of the non-20% growth industries were up year-over-year between 7% and 17%. Our direct mix in the third quarter was 75%, consistent with the second quarter and an increase from 70% in the year ago quarter, demonstrating continued success of our agency direct-to-channel adoption. Our GAAP cost of revenue in the quarter was 39.5%, a 13 basis point increase year-over-year and 160 basis points sequentially. The increase in cost of revenue was driven by strong sequential and year-over-year growth in display and video, channels where we continue to see customers investing and which remain highly effective channels for customer acquisition and growth. In the third quarter, we generated \$78.1 million of adjusted EBITDA at a margin of 23.2%, 320 basis points higher year-over-year and \$7.4 million better than the midpoint of our guidance. This marks the 19th quarter of expanding adjusted EBITDA margins year-over-year. Our GAAP net loss for the third quarter was \$3.6 million, an improvement from a loss of \$17.4 million in the third quarter of 2024. There were \$6.5 million of acquisition-related expenses in the third quarter, which absent these costs, we would have been GAAP profitable. Third quarter net cash provided by operating activities was \$57.9 million, up 68% year-over-year with free cash flow of \$47.1 million, up 83% year-over-year and representing a margin of 14%. This represents a free cash flow conversion of 60%, a significant improvement from 48% in the third quarter of 2024 and 57% in the second quarter of 2025. This also includes a roughly 18-point working capital headwind driven by longer agency payment cycles. The improvement in both adjusted EBITDA margin and free cash flow conversion in the third quarter exhibit the strong operating leverage of our model and put us firmly on track to achieve our Investor Day targets of a 30% plus adjusted EBITDA margin and greater than 70% free cash flow conversion in 2030. During the third quarter, we repurchased 1.7 million shares for \$28 million and have repurchased 6 million shares for \$85 million year-to-date. We also continue to make significant progress in reducing dilution and stock-based compensation expense. Just like the second quarter, in the third quarter, we had 0 net dilution and year-to-date, our dilution is 1.6% as of September 30. We remain on track to achieve both our 4% to 6% normal course dilution target in 2025 and our \$190 million equity compensation expense target even when factoring in the equity we anticipate issuing for the Marigold acquisition. Before diving into our updated fourth quarter and 2025 guidance, I want to reiterate what I said on the recent Marigold acquisition call regarding forward-looking estimates. Given there could be variability in the close date, which we continue to anticipate will happen in the fourth quarter of 2025, we have not included any Marigold-related contributions in our 2025 guidance and continue to guide analysts to not yet include Marigold in their 2025 or 2026 estimates until the transaction closes. Upon closing, we will provide guidance on Marigold's contribution for 2025 and 2026. We want to make sure that consensus estimates do not become a mixed bag of organic and acquisition-related revenue. As we have done with prior acquisitions, we plan to clearly break out the organic versus acquired revenue for the first year post transaction upon announcement of closing. With that in mind, we're raising fourth quarter and full year revenue, adjusted EBITDA and free cash flow guidance. Details can be found starting on Slide 16 of our earnings supplemental. For the full year 2025, we are increasing the

midpoint of our revenue guidance by \$11 million to \$1.275 billion, representing a 26% year-over-year growth when excluding political and LiveIntent, which is 5 points higher than our starting point for the year at 21%. For the fourth quarter, we now expect revenue of \$364.5 million at the midpoint, \$2 million higher than our previous guidance and representing year-over-year growth of 16% or 23% when excluding political candidate and LiveIntent revenue, which is consistent with our Zeta 2028 plan to grow 20% or greater organically. For adjusted EBITDA, we're increasing the midpoint of our 2025 guidance to \$273.7 million, up \$9 million from our prior guidance and representing a year-over-year increase of 42% at a margin of 21.5%, an improvement of 230 basis points over 2024. For the fourth quarter of 2025, we now expect adjusted EBITDA of \$90 million at the midpoint, up from our previous expectation of \$88.4 million and representing growth of 28% and a margin of 24.7%. We are also increasing the midpoint of our 2025 free cash flow guidance to \$157.4 million, up \$15 million from the midpoint of our previous guidance and representing year-over-year growth of 71% and a conversion of 57% of adjusted EBITDA. This conversion is up 10 points from 2024. For context, since our initial 2025 guidance back in February, we have increased revenue by \$35 million and free cash flow by \$28 million. Now let me transition to looking beyond 2025 and setting our initial organic guidance for 2026. While providing out-year guidance in Q3 is not intended to become standard practice, we're doing so this year because we want to establish a clean organic baseline for 2026 before Marigold is incorporated into our guidance. At our recent Investor Day, we spent time demonstrating our track record of 5 straight years of at least 20% revenue growth and free cash flow margin expansion. The punchline is, we see another year ahead of us with each at substantially higher scale. In terms of revenue, we're guiding 2026 to be \$1.54 billion or 21% growth on 2025 guidance of \$1.275 billion. Importantly, this is an organic-only view and does not include Marigold. Our guidance assumes \$15 million of political candidate revenue, which we would expect to evolve and is 2x what the midterms were in 2022. We expect \$354 million of adjusted EBITDA in 2026 or a 23% margin, up 150 basis points year-to-year. We see an initial view of 59% free cash flow conversion, yielding \$209 million in free cash flow at a margin of 14%. And lastly, we continue to plan for a guidance model with 2% to 5% top line buffer. From a seasonality perspective, we expect revenue in the first quarter to be \$314.5 million, up 19% year-to-year and accounting for roughly the same percentage of full year revenue in the first quarter as 2025 and with an adjusted EBITDA margin of 17.8%. I'll conclude where I began. Our third quarter results, updated 2025 guidance and initial outlook for 2026 underscore the durability, predictability and profitability of our growth and reflect the confidence and momentum we have in the business. Now let me hand the call back over to the operator for David and myself to take your questions. Operator?

Operator: [Operator Instructions] Our first question comes from the line of Arjun Bhatia with William Blair & Company.

Arjun Bhatia: Perfect. Congrats on another great quarter, guys, very nicely done. One question for you, David. Just at a high level, I'm curious like as you look at the next kind of pocket of spend that's out there, I imagine a lot of it is going to come from media budgets. How do you think kind of Zeta's ROI or ROAS compares to that of the walled gardens? Are you hearing more customers come to you and say, you're getting to parity? Are you already there? Because -- how do you go after that kind of large pool of budget dollars on spend?

David Steinberg: Thank you, Arjun. I'm obviously very proud of the team for the quarter. Let me start by saying that if you look at our collective clients, you've got 572 clients that spend over \$100 billion a year in marketing today. If you look at the global marketing spend, it's about 75% media and about 25% CRMS revenues. When we look at the breakdown of those 2, we continue to be substantially more profitable than anybody else in the media space. In fact, a number of our clients use our platform, which allows our data to inform the way they market into the walled gardens today, and we already partner with most all of the walled gardens. So when you think about it, every dollar that is spent through the Zeta Marketing platform returns a 6x return in revenue to our clients. That puts us on par with pretty much any walled garden. And what we're starting to see in a post-Gemini and post-OpenAI world, marketers are looking for new methodologies to create customers and maintain the customers they have. It's been challenging as the vast majority of the questions that are now asked on the Google platform and certainly all that are asked on the OpenAI platform, ChatGPT, are answered on platform.

So what used to be sent to our clients or to other publishers is now being consumed there. So clients are very much looking for new methodologies. We continue to be at the forefront of that. And I think that was a big part of what you saw us talk about at Zeta Live, and I think it's a big part of what you're seeing in the tailwind that we're currently experiencing.

Arjun Bhatia: All right. Perfect. Very helpful. And then maybe one just on customer count and me nitpicking a little bit here, but it seems like in Q3, I think you added 5 scaled customers. And if I look at just the last 2 quarters, it's been hovering around 20. Is there anything sort of one-off that we need to consider there, just maybe agencies and us not having brand count visibility? And just how should we think about that metric sort of evolving over the next couple of quarters?

Christopher Greiner: Yes, I'm glad you asked, Arjun. Three data points for you. First, on a year-over-year basis, that 20% growth in total scaled customer count is, a, consistent with where we've been this year and obviously north of our model of 4% to 5%. But to your point around sequentially, we had a really strong progression from scaled to super-scaled customers. We increased by 12% sequentially, which is, if you look back at our history, certainly at the higher end. And then to your point around agencies, what's also being masked in the total-scaled customer count is we were up 23 brands quarter-to-quarter. So as we continue to have success scaling within and adding new agencies, that doesn't necessarily add to scaled customer count. But in this case, it certainly translates to higher brand expansion. So we're really happy with the scaled customer count expansion this quarter.

Operator: Our next question comes from the line of Elizabeth Porter with Morgan Stanley.

Elizabeth Elliott: I wanted to follow up, David, on your target for the \$100 million incremental business after Zeta Live. So could you provide some context around how that target compares to what you've achieved in prior years? And how you'd characterize the momentum coming out of Zeta Live relative to prior years? And then just lastly, how should we think about the conversion time line from that event into bookings and revenue? And is that already included in fiscal '26 guidance?

David Steinberg: Thank you, Elizabeth. So first of all, last year, we closed about \$57 million in business coming out of Zeta Live, which I think is one of the reasons we were able to grow 500 basis points greater through the year than we gave original guidance for thus far. This year, we're trying to get that to \$100 million. I would tell you that as of today, the pipeline is already full enough to get us to that number, and we might see even more meaningful numbers than that. So as you know, we try to be consistent with our beat and raise methodology. We don't usually give guidance for the next year at the end of the third quarter. We felt because of the Marigold deal, it was important to make it clear that we were going to grow organically 20% again into next year from a top line perspective. I do think that Zeta Live will be a part of that, but I also think it's a part of the buffer that we continue to leave ourselves where we think we can continue to do better than that. To answer the momentum question, I would tell you my biggest challenge today, Elizabeth, is how do I top Zeta Live next year. It was just so incredibly well received. We had multiple clients just going crazy for Athena, and I just continue to see the most momentum I've ever seen coming out of any event we have ever hosted ever. It's a very exciting time for Zeta right now.

Elizabeth Elliott: Great. And then just as a quick follow-up. On the LiveIntent piece, understanding it's a smaller portion of the business, but it looks like it was a little bit weaker in Q3 and in Q4 guidance. So wondering if there's any trends to kind of call out there on how that integration is going?

Christopher Greiner: Yes. Thanks, Elizabeth. I'll take that. Look, in short, we're really happy with how LiveIntent is performing. We are accruing at 100% of their earn-out. I think if we were to do things over again, remember, we set that initial guidance skew for every quarter of 2025, about a month after we owned the asset. We've learned a lot since. I think we're also realizing a substantial amount of new product synergies that is flowing organically to the business. But overall, I couldn't be happier with how the integration has gone and the execution of the team.

David Steinberg: And what you're not seeing in the numbers is all of the cross-sales from Zeta clients into their products and their products into ours. So we're -- I would tell you, Elizabeth, we think the LiveIntent deal was a grand slam home run, and we're looking forward to having a similar experience with Marigold.

Operator: Our next question comes from the line of Matt Swanson with RBC.

Matthew Swanson: David, we've seen the compounding value from an ARPU perspective when

customers take multiple products. You talked about Athena and AI being the new UI. Can you just talk a little bit about how maybe that will help with the cross-sell and for people to see the full value of your platform?

David Steinberg: Thank you, Matt. I would tell you that I think Athena will be amongst the single biggest drivers to the OneZeta methodology we've ever had. To point out, it is, of course, fully voice activated and fully conversational. So any client by the end of the first quarter should have this fully embedded into their platform. Not only will they be able to work through the existing use case they have, Athena will already be programmed to help them with secondary use case expansion from production level launch. By way of example, if a client is using us actively for acquisition, they'll literally be able to say to Athena, "Tell me which of my clients are most likely to churn and how do you recommend that we save them." That removal of the friction between the human and the platform is going to allow, I think, for an accelerated growth of OneZeta.

Christopher Greiner: One point where that Matt shows up also in the metrics is one of the areas that as we were preparing post close that stood out to me is not only did each of our use cases grow double digits year-over-year, which has been consistent, but our 2 or more use case count grew over 100% year-over-year. So we're going into capabilities like Athena with really interesting go-to-market momentum.

David Steinberg: Yes. And once again, with 100 global enterprises in Marigold that are all on one use case, we see that as a very unique opportunity for the specialty team we've set up under Ed See to get in there and focus on it. But I think that the integration and production capabilities of Athena are going to be really an accelerant to platform utilization.

Matthew Swanson: That's really helpful. And then I'm sure the pipeline has a big -- a lot to do with this. But David, you mentioned that the '26 guide was a quarter early. So Chris, could you just kind of talk us through being one of the first people to give us an outlook into 2026? Just what's kind of building all the confidence and the visibility that you have?

Christopher Greiner: Yes. We talked about at Investor Day, Matt, you'll recall that so much of our installed base not only has been with us 3-plus years, almost 60%, 5 or more years, but there's now a demonstrated history of there, on average, expanding their spend with us 15 points a year. So by starting our guide at 21% year-over-year, which, by the way, is consistent with really the last 2 years of where we started our guidance, we feel like we've left even some conservatism there. The pipeline says a lot. And then with more and more of our revenue under the curve from really strong signings throughout the year, it just -- it felt like today was the right time. Again, wanted to be clean with our organic baseline before we added Marigold. And I wouldn't want to overlook the really strong addition, not just to revenue, but how much of that revenue for 2026 out of the gate is flowing towards increasing adjusted EBITDA and free cash flow. In fact, this year, from our initial guide of revenue, which was around 21%, so we've obviously added to that since, but that translates to \$35 million of revenue and \$28 million of free cash flow that's been added to the guide since the beginning of the year as well.

Operator: Our next question comes from the line of DJ Hynes with Canaccord Genuity.

David Hynes: Congrats on a really nice quarter here. David, Chris, I want to ask how you're thinking about sales and marketing investment and capacity build-out there. I mean, obviously, the operating leverage is great to see, but sales and marketing actually went down sequentially. And you shared some really powerful pipeline statistics around the growth there and the strength coming out of Zeta Live. So I'm wondering how you're thinking about whether it's time to lean in on growth. I mean, obviously, I guess you're going to get some sales reps with Marigold. But any thoughts there, maybe kind of plan for 2026 would be helpful.

David Steinberg: Yes. I mean it went down a little bit by accident. We didn't mean it to. Quite frankly, we're trying to hire every great salesperson we can possibly get, DJ. The challenge is that our existing sales reps have been so incredibly productive that we've been able to continue to grow at a much faster pace than we expected to while simultaneously trying to find more salespeople. We will pick up an incredible sales team with Marigold, both in the United States and Europe and EMEA. So it feels like we're sort of very well positioned for where we want to go, although -- once again, we did grow 28% top line, 43% EBITDA line -- I'm sorry, 46% don't want to screw us out of that last 3%, but 46% growth on EBITDA and 83% free cash flow growth, while simultaneously, DJ, making some of the largest

investments we have ever made into our artificial intelligence and innovation. So feeling very good about where we are organizationally.

Christopher Greiner: You'll see a pretty material tick up 3Q to 4Q with Zeta Live occurring in October versus September like last year.

David Hynes: Yes. Yes. Okay. Makes sense. And then, Chris, while I have you, maybe can you talk about gross margins in the quarter? I mean, direct revenue mix held pretty stable at that 75%. We saw a little bit of degradation in gross margin. Just anything we should be thinking about there as we model the numbers going forward?

Christopher Greiner: Yes, mix was up nicely year-over-year. But to your point, it was -- stayed at that higher end of our range, 75% quarter-to-quarter. What we wrestle with on occasion is mix within the mix. And frankly, this quarter, we had really strong display video channel usage. That display video channel usage is lower than what we average on our total direct revenue mix profile. But to give you a sense of just how much channel usage we're seeing, our greater than 4 cohorts, so those scaled customers using 4 or more channels was up 44% year-over-year and our greater than 5 or more channels is up over 60% year-to-year. So mix within the mix, but consistent with our model, our long-term model that each year, we want to get between 100 basis points and 300 basis points of efficiency on the cost of revenue line.

Operator: Our next question comes from the line of Clark Wright with...

Clark Wright: Awesome. It was great to see a strong quarter of organic growth. I was wondering if you could talk a little bit more about the contributions from the agency. You talked about 23 brands being added. How should we think about the growth of the agency business and independent agencies relative to the direct enterprise relationships as we head into 2026?

Christopher Greiner: Yes. We break out our business in a lot of different ways and give you a lot of metrics. One of them we're going to keep to is, keep the disaggregation of revenue down to direct and integrated. But what I will point to is as a proxy for how healthy our agencies are growing. You would see the direct mix was up over 30% on a year-over-year revenue growth basis. And then mix within the agencies, let me just look at my notes here, was up pretty substantially as well from a direct perspective. Let me just get the exact data point here for you. Matt, if you have it. let's say, direct -- agency direct mix was up from 52% direct to almost 60% this quarter.

David Steinberg: I mean direct to enterprise -- yes, I'm sorry, Clark, I was just going to say direct to enterprise continues to be the vast majority of our business, and I think will be for many years to come. But we love our agency clients, and we continue to expand with them very nicely. So it's been a really good blend to have both.

Operator: Our next question comes from the line of Jason Kreyer.

Jason Kreyer: All right. Great. So first on Athena. When you think about your 572 scale customers, are there specific groups or segments of that where you think Athena resonates better than others?

David Steinberg: So Jason, I would start by saying I think our direct enterprise clients will probably adopt it in a more meaningful way first, which is not to say we don't think it really plays very well with the agency clients. From a vertical perspective, I don't really think it's going to be that differentiated. I think if you have not seen the demo yet, which was standing-room only, I say standing-room only, there were people sitting on the floor who physically asked me to move so they could see the demo. We have a recording of it on our Investor Relations site. But I would tell you that when you put that type of power in the hands of a client, they're going to really adopt it very, very quickly. And we're excited about that.

Jason Kreyer: And just going back to the momentum topic. At the Investor Day, you had talked about 80% faster onboarding. There's some operational streamlining you've been doing. So you just hosted Zeta Live, biggest events for building the pipeline. I'm just curious, is there a scenario where that pipeline of potentially \$100 million can transition to revenue at a faster pace than we've seen in the past?

David Steinberg: Let me start by saying our goal is to close \$100 million in business, not just get the pipeline to \$100 million, Jason. So we're on the same page. When you look at the fact that we've given guidance early to next year, we've now raised the fourth quarter this year, it's our 17th quarter of raising in a row. We feel like we've got the wind at our back or we wouldn't be in a position to do both of those things. So I think that our confidence level is very, very high based on where the record pipeline is,

what's coming out of Zeta Live. And yes, we are closing deals faster than we have in the past, and we are onboarding them substantially faster than we have in the past by automation and AI internally.

Operator: Our next question comes from the line of Terry Tillman with Truist...

Terrell Tillman: The first question is, I was just hoping to double-click on the replacement cycle opportunity. I think there was a stat that was provided at the Analyst Day about the last couple of quarters, the RFP activity had been up quite a bit. And I don't know if that's independent of the Zeta Live and the pipeline that you built out of that. But just maybe you could comment a little bit more around where we are in this replacement cycle opportunity and maybe Athena helps with that. And kind of related to that, and hopefully, this doesn't become a 5-part question is like maybe there's pricing and packaging and other things you could drive to kind of minimize the inertia for those folks to move to your platform? And then I have a follow-up.

David Steinberg: Yes. So let me start by saying that the replacement cycle continues to be at full scale. And we are not just seeing more RFPs in our company's history. We are seeing the largest RFPs we have ever seen. And if you look at the legacy marketing clouds, the guys like Salesforce, Oracle, Adobe, one of them is leading the industry. The other 2 are legacy. They're great companies with legacy technology. We are the next generation of Marketing Cloud. And we're really focused on how do we continue to win in what is an even faster accelerating replacement cycle. As it relates to Zeta Live, we came -- we went in with a record pipeline. We came out with a meaningfully larger record pipeline. It's just -- right now, we are firing on 11 of 12 cylinders. I don't say 12 of 12 because I don't want to jinx us, but we're feeling very, very good about it.

Terrell Tillman: That's great to hear. And I guess I won't ask for more cylinders past 12. Maybe that's for another conversation. But in terms of the independents, I think you added 3 last quarter. I was impressed at the Analyst Day, one of the -- your folks that was on stage was an independent, and it was pretty impressive their kind of passion for the platform. Maybe you could just give us an update on the independent side in terms of agencies.

David Steinberg: Yes. So there -- it's growing very rapidly. And when you look at the different agencies that we're now platforming, even though we call them independent agencies, each one of them is representing between \$1 billion and \$2-plus billion a year in marketing revenue. So very excited about what's happening there, Terry. We've built out a sales force that's now solely focusing on independent agencies, and they are really, really rocking. I would tell you, we had -- I can't give you the count, but so many independent agencies attended Zeta Live, we had a separate breakout to spend time with them, and it seems to be going very, very well.

Operator: Our next question comes from the line of Gabriela Borges with Goldman Sachs.

Gabriela Borges: David, my question is on Athena and more specifically on the process for implementation and deployment within customer environments.

David Steinberg: Yes. So Gabriela, I don't know if I lost you -- I'm sorry, I lost you for a second there. I heard the Athena and then you got into deployment?

Gabriela Borges: Yes, the process of deployment and the learning curve on deterministic versus nondeterministic outcomes when you work with customers to deploy Athena.

David Steinberg: So first of all, great question as usual. All of our deterministic -- all of our actions at Zeta are deterministic. So if you think about the Data Cloud, you've got the 242 million deterministic individuals in the United States, over 550 million globally. Athena is going to be built right into the Zeta Marketing Platform. So literally, anybody who's using the ZMP, which, as you know, has a common user interface for setup and a common user interface for reporting, will be able to use Athena seamlessly to activate and learn. It's almost like a data scientist and then an execution capability in one voice-enabled conversational platform. So everything that Athena does will be fully deterministic and will allow for deterministic attribution capabilities.

Operator: Our next question comes from the line of Richard Baldry with ROTH Capital.

Richard Baldry: Can you talk about sort of the architecture around Athena? And another thing about is, how easy or challenging would it be to extend that to cover new platforms? Obviously, something like Marigold would be a place to look at.

David Steinberg: Yes. So I mean, Athena's architecture is fully internally built. We are partnering with OpenAI as it relates to the voice interface, and we're excited about that. As it relates to what we can

layer it on top of, we can easily layer it on top of any platform that has an open API. And when you think about where we're trying to go long term, yes, Athena is native to the application layer at the Zeta Marketing Platform, but as we integrate other platforms, it can easily be layered on top initially through an API integration. And then as we fully integrate them into the platform long term, it will become native to their application layer as well.

Richard Baldry: So last 2 for me. Does having Athena make you likely to be more acquisitive maybe as tuck-ins because you can bring it under that umbrella kind of easier? And then maybe for Chris, do you think long term or even short term about the buybacks as a percent of free cash flow? Where is your thinking lately on that?

David Steinberg: So as it relates to being acquisitive, as you've heard me joke, Rich, we've been in business now for 17 years. We've bought 17 companies. It's highly probable that there'll be an 18th at some point. I don't know if Athena makes us more acquisitive, but it certainly becomes a bridge into anything we do going forward. And as we think about today, being the #1 marketing cloud using artificial intelligence and data native to the application layer, Athena gives us the opportunity to expand and increase our TAM and our addressable market by moving into other business intelligence and other opportunities. Chris -- As it relates to the buyback, Chris was sort of jumping on something for the second. We continue to focus on using greater than half of our free cash flow for retiring shares and repurchasing shares. Quite frankly, the only reason we didn't buy more over the last quarter was because once we signed the agreement to do Marigold before we announced it, we were in an internal quiet period. We weren't able to buy stock back. So I believe we were in the mid-70s as a percentage of free cash flow for share repurchasing year-to-date. I could see us continuing at those.

Christopher Greiner: We've done about 85% year-to-date. We have a lot of dry powder in the next 200 program.

Richard Baldry: Sounds good. Congrats on a great quarter.

Operator: Our next question comes from the line of Zach Cummins with B. Riley Securities.

Zach Cummins: And congrats on a strong quarter. David, I thought it was notable to call out that you've seen some strong momentum in the telecom vertical. So just curious, what's going so well on that front in terms of building that momentum with telecom customers? And is a lot of that success really coming as a displacement for other solutions with these major customers?

David Steinberg: Yes. I mean you've got a lot of different telecom players out there really, really struggling for growth. And our platform allows them to grow at an accelerated pace at a lower cost than our competitors' platform. So what I would tell you in almost all cases, we're displacing one of the major marketing clouds at this point. There's very few companies that are sort of doing this stuff internally. So we're very excited about telecom. It's growing at an accelerated pace, and it's something we think will continue. Chris?

Christopher Greiner: Yes. A couple of other points, I think, Zach, that are relevant on the industry verticals. As you know, we report the industry verticals on a trailing 12-month basis, and this was the first quarter that telecom made it to be over 20%, but it's actually been growing really strongly in the last 2 quarters. So that was good to see. The 7 out of 10 growing over 20% is a marked improvement from the -- what's traditionally been 6 for us, obviously, telecom being that new entrant. But even those not growing at 20%, we're growing between 7% and 17%, which is great. But with so much focus in the investor community on what's happening in the macro, I think it's also worth highlighting that verticals that we've seen to be the most consumer discretionary, retail, travel and hospitality, even automotive have continued at their very strong growth rates. What we're seeing is even when there's difficult times out there, clients are moving to us in an accelerated pace because of our substantially better return on investment than most of our competitors.

Zach Cummins: Understood. And a follow-up for Chris, just around the free cash flow conversion. It's nice to see the strong execution here in Q3 even despite the working capital headwinds. As we think about modeling out into future years, do you assume those working capital headwinds regarding collections with agencies will start to ease? Or how are you thinking about that as we move forward from here?

Christopher Greiner: If you adjust, Zach, for the pure timing of the agency's longer payment cycles, we would have been again at 80% and better free cash flow conversion. And if I then go backwards to -- I

should say, forwards to the Zeta 2030 conversion target of at least 70%, you could argue we've even built in for a continued headwind from the agencies and not needing that to be fully neutral for us to get to that at least 70%.

Operator: Our next question comes from the line of Jackson Ader with KeyBanc...

Jackson Ader: First one is on the, I guess, visibility into 2026. David, you mentioned, normally, we don't get this kind of forward guidance a quarter early. But I'm curious like is it more than just the pipeline? Do the large customers you're doing business with actually -- do they have commitments that give you more confidence or that the spend level is going to go up in the future that might not have existed in years passed?

David Steinberg: Yes. Yes. We're seeing much larger contracts from our larger clients, and it's giving us far more visibility and comfort in the numbers.

Jackson Ader: Right. So it's -- okay, pipeline bigger, but also visibility also bigger?

David Steinberg: Yes, Jackson, to be specific, large clients are giving us larger contracts than we've ever had before and far more visibility into our forward numbers than we've had in the past.

Christopher Greiner: And tactically, Jackson, this time of year, frankly, August, September, we're in our kind of next year planning process anyway, not just internally, but with our customers. So even though historically and what we would normally expect under absent a Marigold-type transaction giving guidance in February, a lot of that work is effectively already done.

Jackson Ader: Got it. Okay. Okay. And then a quick follow-up. You mentioned the political candidate revenue expectations for last year. But curious whether you have any initial expectations for advocacy and how that works in that in the, call it, like the off-cycle election years?

Christopher Greiner: It's followed, Jackson, a similar pattern as candidate spend, meaning if you go back to the midterms in 2022, where we had political candidate revenue of around \$7.5 million. This year, we're planning for effectively double that. I would think along similar lines for advocacy from kind of midterm to midterm. The tricky part for that for us and why I specifically said in the prepared remarks, I think this number will evolve is those deals can come into the pipeline very rapidly, much faster or I should say, later in the process than what a typical enterprise or an agency deal would come in. So it tends to be something that happens on a quicker time line for us. So hence, why I think that number is going to continue to evolve.

Operator: Our last question comes from the line of Koji Ikeda with Bank of America.

Koji Ikeda: I wanted to ask a question on Marigold for 2026. And I know it hasn't closed yet, but really wanted to ask around -- because you've had such success in the past with acquisitions, I think about acquisitions where you guys -- for you guys with like more around 1 plus 1 equals more than 2. And so with your guys giving out a '26 guide out there, thank you very much for that. And previously, you've kind of given a guide for, I think, \$190 million for Marigold for 2026. I mean, I guess where I'm going with this is that -- it sounds like just stacking \$190 million on the \$1.54 billion guide for 2026 could be understating the opportunity with Marigold. Of course, I don't want to get over my skis here, but just given your track record with acquisitions, it doesn't seem like that's out of the realm.

David Steinberg: Yes. So let me start by saying we do not want to have the guidance combined for the two yet. The reason we put the organic guidance out was because the last time we did this with LiveIntent, half of the analysts added it, half did not, and it created a tremendous amount of confusion. So when we do close that deal, Koji, which we expect to do this year, we will 100% update what we believe it will do on top of the \$1.54 billion. And I just wanted to get that out there. Second, we started this year at a 21% guide, and we're going to -- we're already at 26%. So we've added 500 basis points from where we expected to be at the beginning of the year. As you know, we've known you now for a very long time. For 17 quarters in a row, we've beaten our guidance and raised our guidance. Our goal is to be sitting here at the end of next year and saying we've done that 22x, right? So we are very good at M&A.; We have our pillars. We believe that Marigold fits every one of our pillars, and we believe that it's going to create a really nice tailwind to the growth of the combined company, specifically around taking their 100 global enterprise clients and making them from one use case to multiple use cases. As you point out, we always want 1 plus 1 to equal 4. When you look at moving from a single use case to multiple use cases around the Zeta opportunity, those clients generate between 3 and 3.5x more revenue than clients that are just using one use case. So I do think that the Marigold acquisition will

lead to a really nice tailwind into next year, if that makes sense.

Koji Ikeda: Yes, totally does. And looking forward to that press release on the closing of Marigold, absolutely. And maybe just a follow-up for you, David. I did want to -- now that on the back of Zeta Live, I did want to ask how Zeta's brand image is evolving with your customer base? Maybe compare and contrast how customers are looking at Zeta today versus how they looked at you 3 years ago?

David Steinberg: Well, I'm not even sure you could put the way they looked at us 3 years ago to the day in the same conversation. It is so advanced, Koji. What I would tell you is we started this journey and 3 years ago, we were at Zeta who, which really meant when we walked into a sales call, we would have to spend 50 minutes of the first hour explaining who we were and why we were in the room. Our goal was to get to why Zeta, meaning we know you're here. We know why you're here. Why should we pick you over your competitors? The next evolution really is Zeta now. I need Zeta, how do I get you into my stack? And the final is must-have Zeta. We're still a ways off from that. That's sort of like Microsoft. But what I would say is we are very solidly in the why Zeta. We get into the room and people know who we are. We are the advanced player in our space. We are looked at as cutting edge. We are looked at by marketers as a very important component of their tech stack, and they're really looking at us as a sort of game-changing company as it relates to AI data and their ability to deploy it organizationally.

Operator: Ladies and gentlemen, there are no additional questions at this time. Thank you for your participation. This does conclude today's teleconference. You may disconnect your lines, and have a wonderful day.