MediaAlpha, Inc.

Third Quarter 2020 Earnings Call

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CORPORATE PARTICIPANTS

Denise Garcia, *Investor Relations - Hayflower Partners*

Steve Yi, *Co-Founder and Chief Executive Officer*

Tigran Sinanyan, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Doug Anmuth, *JPMorgan*

Mike Zaremski, *Credit Suisse*

Daniel Grossman, *Citi*

Michael Graham, *Canaccord Genuity*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the MediaAlpha Third Quarter 2020 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation there will be a question-and-answer session. To ask a question during the session, you will need to press star, one on your telephone. Please be advised that today's conference is being recorded. If you require any further assistance, please press star, zero.

I would now like to hand the conference to your speaker today, Denise Garcia, Investor Relations. Thank you. Please go ahead.

Denise Garcia

Thank you, Operator.

Our discussion today will include forward-looking statements about our outlook for future financial results, including our financial guidance for full-year 2020, which are based on assumptions, forecasts, expectations, and information currently available to management. These forward-looking statements are subject to risks and uncertainties that could cause future results or events to differ materially from today's guidance. Please refer to the earnings release we filed with the SEC on Form 8-K and the Shareholder Letter we posted to the Investor Relations section of our website today for a fuller explanation of those risks and uncertainties and the limits applicable to forward-looking statements.

MediaAlpha will routinely post information that may be important to investors on our IR website, investors.mediaalpha.com, and we use this website address as a means of disclosing material information to the public in a broad, non-exclusionary manner for the purposes of the SEC's Regulation Fair Disclosure.

In addition, we will be referring to certain actual and projected financial metrics as MediaAlpha which are non-GAAP financial metric measures. These metrics include Adjusted EBITDA, Contribution and Contribution Margin, and we present them in order to supplement your understanding and assessment of our financial performance. Non-GAAP measures should not be considered a substitute for or superior to financial measures calculated in accordance with GAAP.

The most directly comparable GAAP measures as well as reconciliations of the non-GAAP measures to those GAAP measures are available in our third quarter earnings release.

As a reminder, we published a shareholder letter on our IR website that we'll refer to during this Q&A session.

Now I'll turn the call over to Steve.

Steve Yi

Thanks Denise. Hi everyone. Welcome to our first earnings call as a public company.

Before we open the call to questions, I want to recap some important concepts we discussed during our IPO process. I'll start with the enormity of our market opportunity.

Insurance carriers spend on digital distribution is projected to increase from $4 billion in 2019 to $16 billion by 2025. We believe we're still in the early stages of the $2 trillion insurance industry's shift to a digital direct-to-consumer distribution model. We built the leading technology platform to connect insurance consumers with insurance carriers at or near the point of purchase. Our transparent, data science-based approach has enabled us to achieve tremendous scale, one that is now two to three times larger than other insurance customer acquisition marketplaces.

Our platform is unique in its ability to serve insurance carriers' needs holistically, whether they are looking to acquire new customers or generate revenue from their non-converting shoppers by intelligently referring these consumers to other insurance carriers and distributors.

As a company, transparency underlies and inspires everything we do. From our product development to how we work with our partners, to how we treat our team members.

Our company was self-funded until our IPO. We believe in growing profitably and the importance of stewardship. Most of all, the only scorecard that has ever mattered to us is one that measures the enduring value we have created for our partners. We are pleased with our third quarter performance and we anticipate a strong record-breaking fourth quarter.

With that said, I'm looking forward to discussing our most recent results with you, so we'll open the call to questions now.

Operator

As a reminder, to ask a question you need to press star, one on your telephone. To withdraw your question, press the pound or hash key. Please stand by while we …

As a reminder, to ask a question you need to press star, one on your telephone. To withdraw your question, please press the pound or hash key. Please stand by while we compile the Q&A roster.

Our first question comes from Doug Anmuth with JP Morgan. Your line is open.

Doug Anmuth

Great. Thanks for taking the questions. One for Steven and one for Tigran. Just first, Steve, the Shareholder Letter, you talked about spend for your ten largest carrier partners increased 95% year-over-year in 3Q. Could you just talk about what's driving the momentum that you're seeing with some of the bigger carriers? Then also perhaps just how some of those conversations are evolving with some of the carriers who are not on your platform today?

Then second, Tigran, the 4Q guide does imply some slowdown in growth just relative to the 40-ish percent kind of transaction value growth the first nine months of the year, and you talked about strong health seasonality given annual enrollment. Maybe you could just talk about some of the puts and takes around growth in 4Q? Thanks.

Steve Yi

Hey Doug, thanks.

To your first question about the increase in spend from our top 10 insurance carriers, keep in mind that's top 10 as of right now, and so it was growth from some who are new to the top 10. Here's what I'll tell you is that what we're discovering is that when these large insurance companies, the traditional ones, that typically had relied on agents and offline channels to sell their policies, when they make a transition to online direct to consumer, they tend to do so and spend rapidly to increase their investments there. So, I think the high growth rates that you saw from the top 10 partners as of Q3 of this year reflect outside growth rates from some of the large traditional insurance carriers, most notably in the P&C space who rapidly increased their investment in our ecosystem in 2020.

In terms of insurance carriers who are not on our platform, what I'll tell you is that we're always looking to add new carriers to our platform, both on the demand and on the supply side. We did in Q3 add a top carrier who had never advertised in this channel before, but really, Doug, the growth for us is coming from the growth from existing partnerships. We work with all of the top insurance carriers already, both as demand partners and many as buy partners, and so for us it's about the day-to-day account management, the day-to-day consultative work that we do with each of those insurance carriers to make sure that all of their spend, all of their investments are measured as granularly and as efficiently as possible. So, while there are some new carriers that will be coming into the platform, our focus really is in growing the existing partnerships that we already have, just because we have already worked with so many of the major carriers across all of the insurance verticals already.

Doug Anmuth

Okay. That's great. That's helpful.

Any thoughts on just 4Q guide, some of the puts and takes and any seasonality dynamics perhaps?

Tigran Sinanyan

Yes, Doug, I think you hit on the head with seasonality. As a reminder, Q4 tends to be a seasonally weaker period in P&C, and so you do see Q4 come down from Q3 a little bit in the P&C vertical, and we have seen through November a strong open enrollment period in both Medicare and health, so that's driving the guidance in Q4.

Another note is, in our other verticals last year, obvious that was pre COVID, travel was contributor on the top line. In Other, this year obviously that vertical is a bit challenged.

Doug Anmuth

Just following up there, how do you think about travel coming back in 2021? Are you starting to see any pickup in that vertical?

Steve Yi

Hey Doug, it's Steve. We're not. I mean we're seeing some increases in air travel and that's something that we monitor, the TSA stats. It hasn't translated into a big increase in terms of the advertising spend from travel companies that we work with.

For us, right now it's hard to predict when that market is going to come back, but we feel that we're well positioned for when the market comes back.

Doug Anmuth

Okay, great. Thank you, both.

Operator

Our next question comes from Mike Zaremski with Credit Suisse. Your line is open.

Mike Zaremski

Hey, good evening.

I guess first question, back to your comment about adding a top carrier who never advertised in your ecosystem. Curious, should we be thinking about that carrier differently than maybe some of the other carriers on your platform, given that it has a more kind of a niche client base? Should we be thinking its spend might be kind of maybe somewhat disproportionately smaller given its niche? It's a pretty big carrier, from what I understand.

Steve Yi

Hey Mike, I don't think so. I think that they're—it's still early stages and what I'll tell you is that when we start to work with either new carriers in our ecosystem or carriers who we have been working with for years who start to then begin to transition to focus more on direct-to-consumer and then start to invest more in our ecosystem, that's a growth curve that takes one to two years to come up. So, the carrier that you're referring to has a lot of direct experience so they may come up that curve, learning curve or adoption curve more quickly than some of the traditional agency writers that are the ones that have made that transition over the last two years. But right now, it's too early to tell what that adoption curve is going to look like.

Mike Zaremski

Okay, that's helpful. Just switching gears to the Contribution Margin, you pointed out that there was a partner that I think might have—I think you're saying it maybe had a one-time negative influence. I just want to make sure I'm interpreting that correctly. Or are there any other kind of just secular trends on the Contribution Margin we should be thinking about?

Tigran Sinanyan

Mike, this is Tigran. Let me take that.

First, stuff on the Contribution Margin, that's a partner that commenced their relationship with us early. We had signed a long-term deal earlier in 2020 but contemplated the economic relationship starting in October, October 1st. They wanted to start early but had really through the transition period a fee to pay to their prior platform provider and so to be a good partner there, we took on that business by taking no margin in Q3, really a one-time example issue where you see revenue in Q3 but no Contribution from that partner.

Mike Zaremski

Tigran, did you call out the impact? Quantify that for us? Is that something we should think about?

Tigran Sinanyan

On a pro forma basis, that partner would have added a little over a percent, 1 percentage point to the Contribution Margin, so that would have been a little over 15% in Q3 had we taken our revenue share, our contractual revenue share, which commenced on October 1st.

Mike Zaremski

Okay. Other than that, no other trends we should be thinking about into—in outer years?

Tigran Sinanyan

No.

Mike Zaremski

Okay. Lastly, if we can kind of go back to travel, I know the outlook might be a little cloudy given the pandemic, but I mean I guess should we, now—should we eventually be thinking about travel kind of eventually, right, hopefully come back in a real way, if you're saying it's a primary of the almost $10 million year-over-year drop in revenues in the Other segment?

Steve Yi

Yes, Mike. I mean, I think you can assume that it will come back, but it's really hard to say what the timing will be. On this one, we study the industry, we're looking at what's going on, but to be honest with you, with the uncertainty around what's happened this year and obviously going into next, I would say I'd feel comfortable saying your guess is as good as mine in terms of what the timing would be.

Mike Zaremski

Okay. Understood. Thank you very much.

Operator

Again, if you would like to ask a question, press star, one on your telephone.

Our next question comes from Daniel Grossman with Citi. Your line is open.

Daniel Grossman

Hi guys, thanks for taking the question on congrats on a good quarter out of the gate.

I wanted to focus a little bit on the Medicare AVP period that just ended. Anything that was different this year versus last year? Obviously, everything has moved online now, so just curious if you're seeing anything different from a demand partner perspective or kind of the amount of customer referrals coming through clicks, calls or leads? Any trends that were different this year versus previous years?

Steve Yi

You know, I would say there was nothing specific to call out, right? I think that the demand was strong. I feel we've had very strong EP performance, but it was in the form of just increased demand, right? Increased adoption of direct-to-consumer. Some of our partners are now starting to support an online only experience which then precipitates a heavier investment in online customer acquisition. The growing adoption of Medicare Advantage among new entrants into the Medicare pool. All of those are trends and secular trends and demographic trends that we've seen for a while.

All of those things and just a continuation of those trends we believe contributed to a stronger EP for us. Not any one thing that we're seeing in this period that we really hadn't anticipated.

Daniel Grossman

Got you, okay. That makes sense.

Then, you know, one of the newer channels for you is kind of the agency channel. Any comments you can make on the progress going into selling leads to traditional agents and your hiring of sales folks to address that channel?

Steve Yi

Yes, absolutely. I think we're making good progress. It's something that we launched in Q3. And you're right to point out how is the hiring going? The hiring is going very well. We have a great team there that's ramping up. Now, many of them are in Arizona because it does require a different team in place to do outreach and work with agents as opposed to insurance carriers, as our team is typically used to doing. We're happy with the ramp-up of that team. We are starting to generate revenue from that business but right now we're really focused on building that organization and making sure that with the early adopters, the early agents that we're working with, that we're making sure to dig in and understand what their needs are and what their feedback is. That's because in this space the one thing that we are seeing early on that is very encouraging for us is that there is room for innovation here. There is room for disruption here.

Transparency, granularity, control, all of those things that we brought to our ecosystem I think are lacking here. We have to address it in different ways, but we see a lot of opportunities here. So, we're very happy with what we're seeing and the progress we're making, and then the results are coming in and we expect strong growth from this business going forward.

Daniel Grossman

Got you. And last one, maybe for Tigran.

It looks like transaction expenses was double of what you were expecting from the flash numbers in the IPO prospectus. Just curious what caused that to double and how we should think about that for the rest of the year.

Tigran Sinanyan

Yes, Dan. So, those are one-time IPO related transaction expenses that when we were formulating this last range were reflected as balance sheet items, and on closing, right, we determined that some of those need to be expensed as one-time, not recurring items.

You can expect to see a similar number in Q4, the month we closed the IPO, and then obviously going forward beyond that you expect to see that normalize and adjustments to EBITDA not to reflect these one-time transaction items.

Daniel Grossman

Got it. All right, thanks guys.

Operator

Our next question comes from Michael Graham with Canaccord. Your line is open.

Michael Graham, your line is open.

Michael Graham

Oh, hey. Sorry, I was on mute.

Hey guys, thanks for taking the question.

My first question is just on wondering if you can comment on the dynamic of (inaudible) partners turning into supply partners as well on your platform. Are most of the carriers that you're working with taking advantage of that opportunity, and is converting more of those folks into that dynamic an opportunity for you?

Steve Yi

Hey Michael, it's Steve.

Yes, absolutely. I think that we—I don't know most. We work with over 35 insurance carriers, both as demand partners and supply partners, and so a lot are.

What we're happy about is the progress that we made recently in terms of expanding those partnerships. Getting new partnerships, to be sure, but also expanding the partnerships that we already have in place. As we tried to explain in the past, there is a development cycle or a relationship cycle with these supply partnerships with insurance carriers. Typically, they're dipping their toes in the water and then expanding from there, and that can take two to three years to really expand those partnerships.

What we've been happy about is the openness that these insurance carriers have now to expanding this and I believe that a lot of it is due to how competitive the marketplace has become for customer acquisition because this is a great way to offset customer acquisitions costs and as customer acquisition costs start to increase with increased competition in this soft market, particularly in the P&C space, we are seeing greater interest in this program as it's been adopting it, but then expanding these relationships that we may have had in place for one and two years or more.

Michael Graham

Okay, thanks for that.

I wanted to ask a bigger picture question just on as DTC becomes more prominent, and specifically I guess the auto insurance market, it seems like we should see consumers switching policies more frequently, as it's easier to shop and compare. Just wondering if you think that's true and does that mean, I think more transactions is going to be a better outcome for your platform? Just wondering if you foresee any longer-term issues where carrier LTVs might be under pressure from that dynamic because they're losing customers more frequently. How do you see those two sort of higher transaction volumes versus the potential for lower LTV sort of playing out?

Steve Yi

That's a good question, Michael. I'd say it's hard to say, right?

What we're seeing is that the nonstandard drivers have been open to switching policies more and that's been for some period of time now. Now what we're seeing are standard drivers or standard consumers being more open to switching policies and comparing policies because the ease with which they can do so.

How will that impact the expected lifetime value of these consumers? I mean, again, it's hard to say, right? If increased switching comparisons, then it would lower it a bit, but what I have confidence in are the insurance carriers that we work with to be able to factor that in and factor that in quickly when it comes to assessing what the expected lifetime value is of these consumers.

Michael Graham

Yes, okay. Thanks a lot.

Steve Yi

Ultimately for us, that's what's important, right? That they factor that in or accurately being able to evaluate the expected LTV.

Michael Graham

Yes. Okay, thank you Steve. I appreciate it.

Operator

There are no further questions at this time. This concludes today's conference call. You may now disconnect.