Introduction

My investment checklist is quite simple, consisting of eight key points:

1. **Wide Margin of Safety**: EV to Revenue near or at its lowest level. If this is not satisfied, I move on to the next stock.
2. **Strong Growth**: CAGR of at least 20%, and operates in a secular market such as AI and telehealth, to name a few.
3. **Operating Leverage**: Profitability, both on an absolute and marginal basis, is improving.
4. **Positive and Growing FCF**: This indicates a healthy business that is self-sufficient and can reinvest for growth.
5. **Positive Net Cash**: I avoid highly indebted, capital-intensive businesses.
6. **Skin in the Game**: Preferably founder-led with high insider ownership.
7. **Strong Execution**: Consistent track record of beating guidance and estimates.
8. **Competitive Moats**: Strong competitive advantages are required to generate shareholder value in the long term.

Guess what?

Zeta Global (ZETA) checks all the boxes.

As a result, I have started a position in ZETA stock.

In this deep dive article, I break down my thought process behind this brand-new purchase.

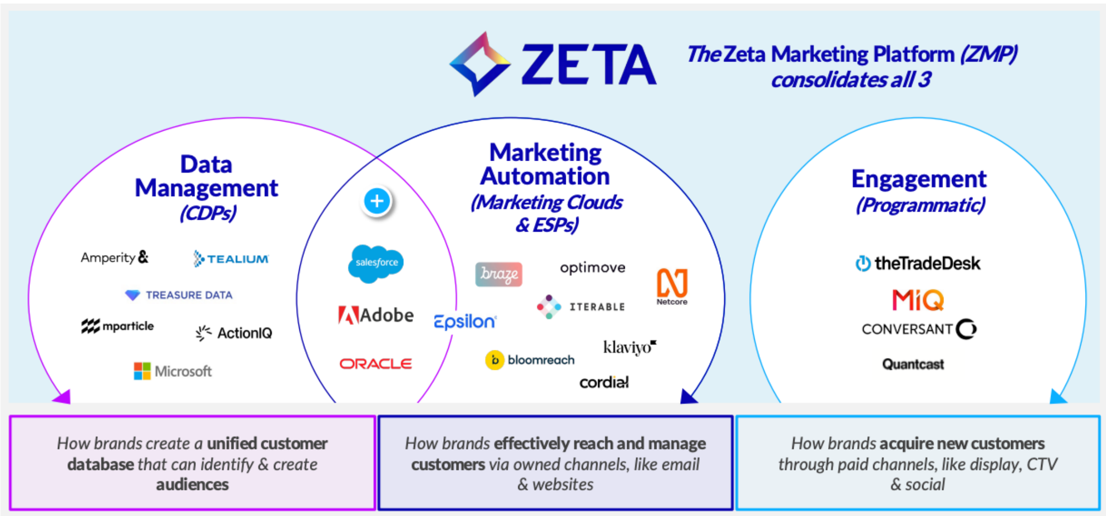
Let’s get started.

Company

Founded in 2007 by David Steinberg and John Sculley (former Apple CEO), ZETA is on a mission to accelerate brand growth by making sophisticated marketing simple.

In a nutshell, ZETA is a marketing technology company that leverages a proprietary data cloud and AI to deliver highly personalized marketing to help brands acquire, grow, and retain customers across multiple channels, including email, mobile, web, video, and more.

ZETA offers an all-in-one marketing platform — called the Zeta Marketing Platform (ZMP) — complete with three core products, namely 1) data management, 2) marketing automation, and 3) omnichannel engagement.



First, ZETA offers a **customer data platform (CDP) for data management**. In essence, a CDP collects and unifies first-party customer data from various sources to create a single centralized customer database. Marketers can then use this database to build a comprehensive profile of each customer and thus, launch targeted marketing campaigns.

ZETA's point of differentiation is that it owns one of the largest proprietary data sets in the world, containing 245M+ individuals in the US and 535M+ individuals globally, with more than 2,500 real-time signals per individual. This translates to 1T+ consumer data signals per month, and marketers can use all this data to identify customer profiles, predict individual intents, and target them in any paid channel.

What's more, ZETA's identity graph focuses on first-party data by collaborating with its clients and integrating their systems with the ZMP, as well as through strategic acquisitions that bolster first-party data collection, like its recent purchase of LiveIntent, which enables ZETA to gather first-party data from email interactions across a network of 2,500+ premium publishers.

For reference, ZETA collects three types of data: identities, identifiers, and signals. According to ZETA's investor presentation, 75%+ of identities, 95%+ of identifiers, and 75%+ of signals come from first-party data sources. In aggregate, only 10% to 15% of ZETA's data comes from third-party sources.

Keep in mind that first-party data is higher in quality compared to third-party data, as it is sourced directly from customers and therefore has a higher degree of accuracy and relevance for marketers. By prioritizing first-party data, ZETA is well-positioned to not only build a rich dataset but also navigate privacy regulations effectively in a post-cookie world.

Perhaps, this is why ZETA's CDP was recognized as a "Strong Performer" in [The Forrester Wave: Customer Data Platforms for B2C].

Second, ZETA offers an **AI-powered marketing cloud**. Thanks to ZETA's AI engine, ZETA is able to analyze billions of structured and unstructured data signals from the CDP, ultimately driving high-ROI personalized marketing.

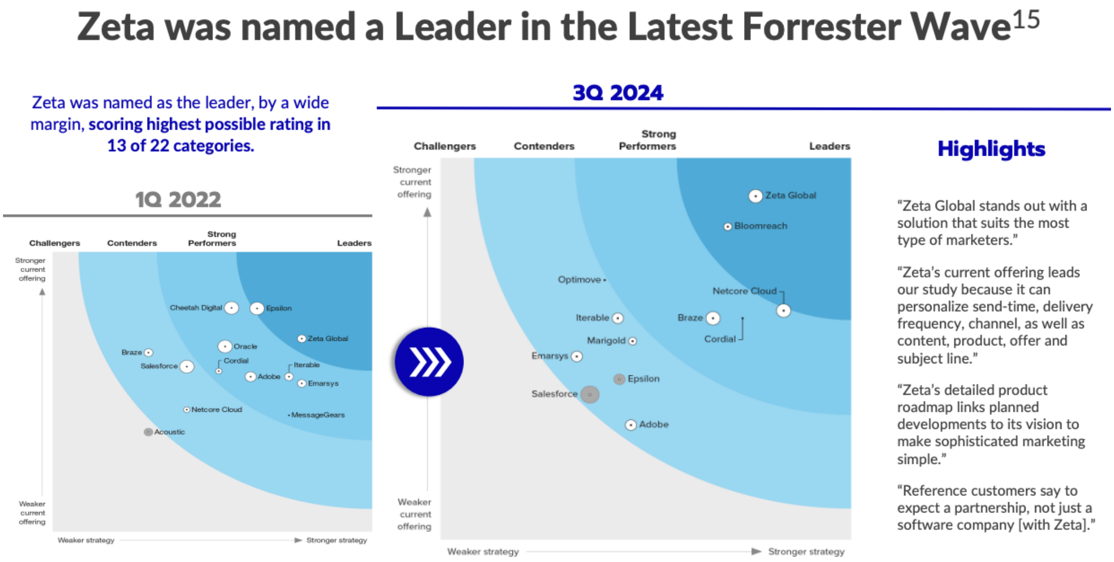
ZETA uses GenAI, machine learning, and predictive AI to automate a good chunk of the marketing process, freeing marketers of administrative, repetitive tasks and allowing them to focus on strategy and results.

Here are a few AI products that ZETA offers as part of the ZMP:

- **AI Agents**: The ZMP boasts 500+ pre-built AI-powered agents. They can help clients perform tasks such as segmentize customers by behavior and preferences, provide instant customer support through chatbots, and even build, manage, and execute an entire marketing campaign from scratch. Clients can build their own custom AI Agent as well.
- **Zeta Opportunity Engine**: Clients can ask a chat-based AI assistant to find answers to complex questions such as "which of my marketing channels is most profitable?" or "what is the sales forecast for next month?" — all within seconds.
- **Zeta Answers**: Recently launched in June, Zeta Answers leverages first-party data and multi-agent workflows to provide marketers with actionable data and trigger immediate actions across multiple channels, drastically shortening the time between insight and execution.

Pairing ZETA's AI tools with its Email Service Provider (ESP) solution makes such a formidable combo, allowing clients to deliver hyper-personalized, AI-powered marketing campaigns across email, mobile push, and SMS channels, maximizing engagement, predictability, and productivity.

ZETA's AI-powered ESP is so powerful that it has been recognized as a "Leader" in [The Forrester Wave: Email Marketing Service Providers]for the third time in a row, receiving the highest possible scores across 13 criteria. This is a strong testament to ZETA's technological proposition.



Lastly, ZETA offers **omnichannel engagement through its demand-side platform (DSP)**. For those who don't know, a DSP is a software that allows advertisers to participate in programmatic auctions to buy digital advertising inventory.

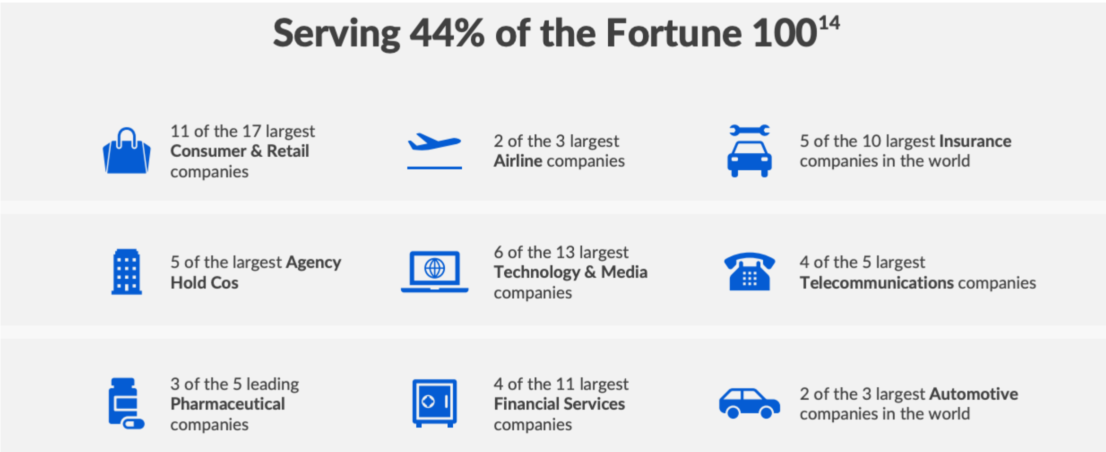
Put simply, ZETA's DSP helps clients realize the full potential of paid media channels by leveraging its extensive dataset to engage the right audiences with precision and efficiency, thus maximizing customer acquisition and retention.

What sets ZETA's DSP apart is its access to first-party data with minimal reliance on third-party cookies. Other DSPs like The Trade Desk and Google DV360 rely on third-party data, which is expensive and lacks personalization. On the other hand, ZETA uses first-party data, which reduces the need for data expenses, thus allowing ZETA to pass on the savings to clients. In addition, first-party data allows for more personalized marketing experiences.

With all this in mind, ZETA's competitive moat comes from the unification of its three core products — CDP, marketing cloud, and DSP — creating a full-stack AI marketing platform, while other marketing platforms lack one or two of these products. In my view, the absence of one product dissolves ZETA's competitive advantage.

By integrating first-party data, AI automation software, and omnichannel activation capabilities, ZETA gives marketers the power to deliver cost-efficient, hyper-personalized, and highly automated marketing campaigns that generate significant ROI.

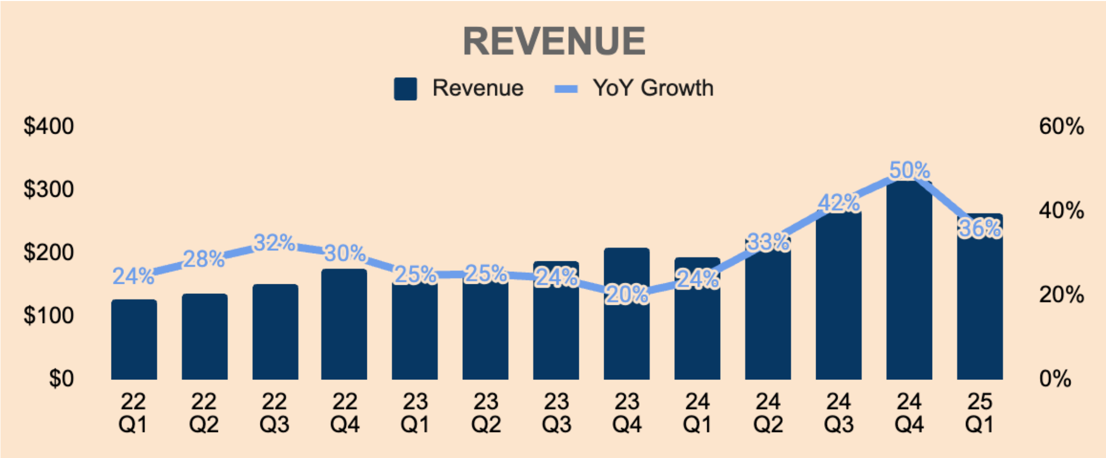
This is why 44 of the Fortune 100 companies use the ZMP.



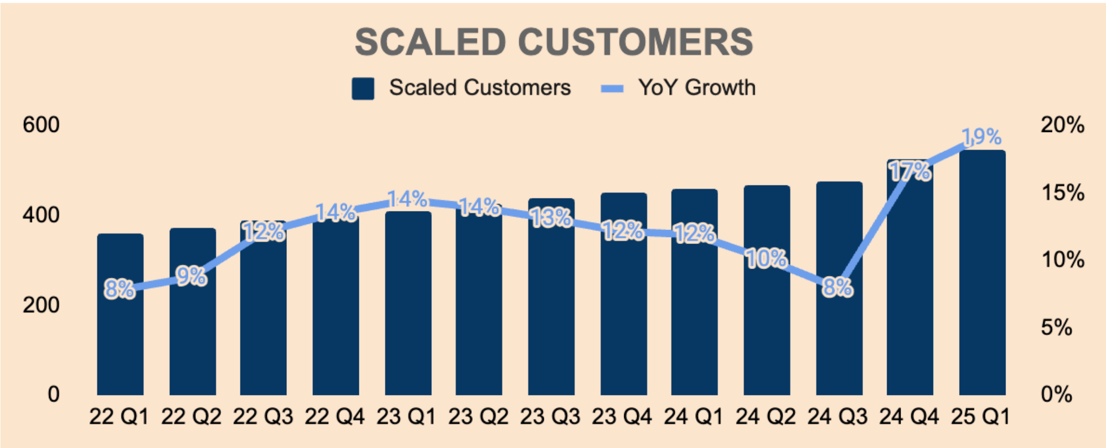
Growth

ZETA has been on a tear lately.

In Q1, Revenue was $264M, up 36% YoY, beating both management's midpoint guidance and analyst estimates by $10M. Revenue from LiveIntent, a people-based email marketing platform ZETA acquired in October last year, was $19M.



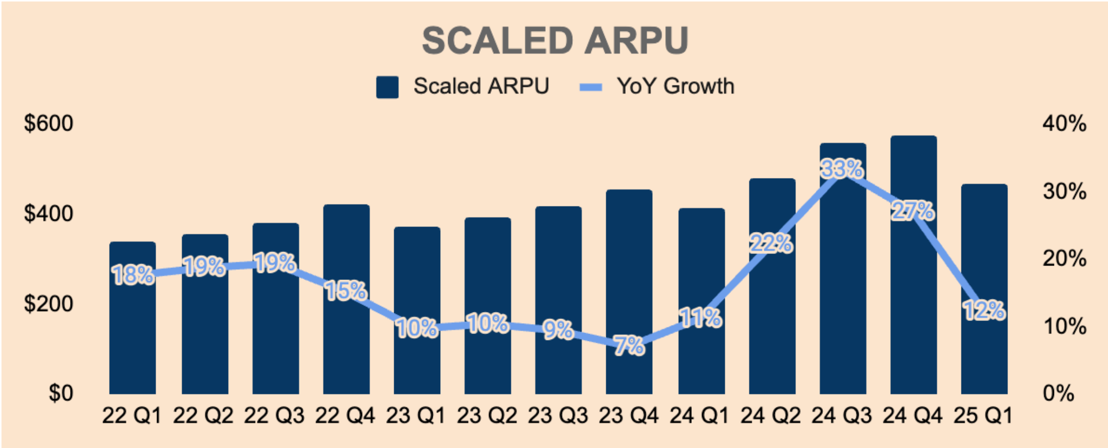
As you can see, ZETA continues to grow its customer base with Scaled Customers — customers that spend at least $100K over the last 12 months — up 19% YoY, to 548 as of Q1.



Again, the spike in Scaled Customer growth in Q4 and Q1 was due to the LiveIntent acquisition. For context, LiveIntent added 34 Scaled Customers in Q4. Excluding LiveIntent, Scaled Customers would have grown 9% in Q4.

So, without LiveIntent, Scaled Customer growth is clearly slowing down, which may be a major concern for some investors.

While LiveIntent positively impacted customer growth, it negatively impacted Average Revenue Per User (ARPU) growth, due to its smaller average customer size compared to the core ZMP business. As you can see, Scaled ARPU growth decelerated meaningfully following the LiveIntent acquisition in Q4.



Despite the pressure, Scaled ARPU still grew 12% YoY in Q1, to $467K. This falls within management's long-term Scaled ARPU CAGR target range of 12% to 16%.

Nonetheless, the smaller LiveIntent ARPU profile presents significant monetization opportunities among LiveIntent customers. Cross-selling other ZMP products would do the trick, and this should gradually improve Scaled ARPU in the coming quarters.

We can further split Scaled Customers into two sub-categories: Super Scaled Customers and Mini Scaled Customers.

Super Scaled Customers are customers that have spent at least $1M over the last 12 months. As of Q1, there are 159 Super Scaled Customers, up 10% YoY. LiveIntent added 3 customers to this tally.

Period	Super Scaled Customers	YoY Growth	Super Scaled ARPU	YoY Growth	Avg. Channels Per Super Scaled Customer
22 Q1	99	41%	$981	-2%	2.3
22 Q2	100	32%	$1,047	7%	2.5
22 Q3	106	23%	$1,149	14%	2.6
22 Q4	103	6%	$1,331	26%	2.8
23 Q1	110	11%	$1,158	18%	2.8
23 Q2	118	18%	$1,127	8%	2.9
23 Q3	124	17%	$1,241	8%	3.0
23 Q4	131	27%	$1,313	-1%	3.0
24 Q1	144	31%	$1,120	-3%	2.9
24 Q2	144	22%	$1,326	18%	2.8
24 Q3	144	16%	$1,619	30%	2.9
24 Q4	148	13%	$1,725	31%	3.0
25 Q1	159	10%	$1,380	23%	3.0

Do note that management counts each customer that spends at least $1M as one Super Scaled Customer, regardless of how many brands this customer works with. To illustrate, 5 of the largest agency holding companies use ZMP, and even though the agency business holds multiple brands, it still counts as one Super Scaled Customer. Below, you can see the "Big Six" agency holding companies and the brands under their umbrellas.

Indeed, ZETA's agency business is one of the fastest-growing parts of the company, contributing to a rapid increase in Super Scaled ARPU, up 23% YoY to $1.4M, as these holding companies keep adding more brands. However, they still count as the same number of Super Scaled Customers, which is why customer growth is relatively slower, up only 10% YoY.

Moving forward, management expects Scaled Customer growth to slow down to 4% to 8% annually through 2028 (versus 14% CAGR from 2021 to 2024), as the agency business continues to add brands to the ZMP.

Underneath the surface, there are way more brands that are using ZMP, so don't be discouraged by the slowing customer count growth. As pointed out by management, signing up just a handful of agencies could result in more than 1,000 new brands using the ZMP.

We executed and platformed two new independent agencies in the first quarter and are finalizing agreements with two additional ones, proving early traction in **a market with over 1,000 potential prospects**.

(CEO David Steinberg — ZETA FY2025 Q1 Earnings Call)

That being said, we can expect ZETA's agency business to continue to gain traction, as ZETA is "the most profitable partner on average that the agencies work with bar none." Like I mentioned in an earlier section, ZETA's focus on first-party data reduces data expenses, thus lowering the cost of using the ZMP. Couple that with AI-powered personalized marketing, and clients enjoy massive ROI.

Because most of our competitors who have had some challenges over the last number of months, they're charging a meaningful upcharge to data expense. We bundle the data in as a part of the activation and are generally **lowering the cost to the agency or increasing their profit depending on how they book it, by 25%**. So what we're seeing is the agencies are moving more and more brands and more and more volume to us.

(CEO David Steinberg — ZETA FY2024 Q4 Earnings Call)

Nevertheless, Super Scaled Customer count should continue to grow as Mini Scaled Customers expand ZMP usage, eventually graduating to the Super level.

Mini Scaled Customers (a name I came up with) are customers that have spent between $100K to $1M over the last

12 months. As of Q1, Mini Scaled Customer count was 389, up 23% YoY.

Period	Mini Scaled Customers	YoY Growth	Mini Scaled ARPU	YoY Growth	Avg. Channels Per Mini Scaled Customer
22 Q1	260	-1%	$99	-2%	1.7
22 Q2	273	2%	$102	-3%	1.7
22 Q3	283	8%	$94	-1%	1.7
22 Q4	300	16%	$113	4%	1.8
23 Q1	301	16%	$88	-11%	1.8
23 Q2	307	12%	$109	7%	1.7
23 Q3	316	12%	$95	1%	1.8
23 Q4	321	7%	$104	-8%	1.8
24 Q1	316	5%	$95	8%	1.8
24 Q2	324	6%	$103	-6%	1.9
24 Q3	331	5%	$95	0%	1.9
24 Q4	379	18%	$129	24%	2.0
25 Q1	389	23%	$94	-1%	2.0

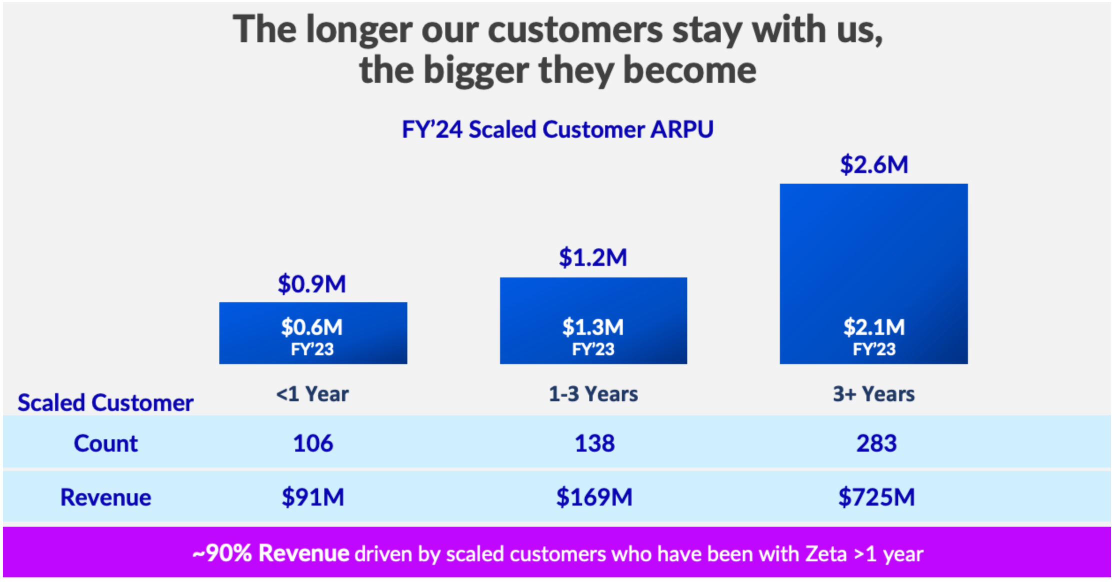
Mini Scaled ARPU was $94K, down 1% YoY. Now, this metric is quite lumpy as Mini Scaled Customers that increasingly use the ZMP will eventually graduate to become Super Scaled Customers, and thus, cause a drop in Mini Scaled ARPU.

It does, however, illustrate the massive monetization opportunity for ZETA. To elaborate, Mini Scaled ARPU is $94K. On the other hand, Super Scaled ARPU is $1.4M, which is 13x higher than the Mini group. In other words, the average existing Mini Scaled Customer has the potential to increase spending on the ZMP by 13x.

What's more, Mini Scaled Customers, on average, use only 2.0 channels on the ZMP, as compared to 3.0 channels among Super Scaled Customers. This presents substantial cross-selling opportunities for ZETA.

We can see in the slide below that there's evidence of increased monetization as customers spend more time on the ZMP.

- Scaled Customers of less than 1 year have an Annual ARPU of $0.9M
- Scaled Customers of more than 3 years have an Annual ARPU of $2.6M, nearly 3x the newer cohort.



It is also reassuring that more than 50% of ZETA's customer base has stayed on the platform for over 3 years, reflecting strong customer loyalty and platform stickiness.

What I can infer from this data is that ZETA has massive growth potential just by focusing on monetizing, cross-selling, and retaining *existing* customers.

Despite the strong growth momentum and potential, management expects growth to slow down throughout 2025, largely due to tough YoY comps as a result of elevated political activity last year.

Interestingly, management raised their Q2 and 2025 Revenue guidance by just $2M each, but lowered their Q3 and Q4 Revenue guidance. They typically raise guidance across each quarter, but this time around, they chose to be extra conservative in light of elevated macro uncertainty due to the tariff war.

- **Q2 Revenue** of $297M, up 30% YoY
- **Q3 Revenue** of $323M, up 21% YoY
- **Q4 Revenue** of $358M, up 14% YoY
- **2025 Revenue** of $1.242B, up 23% YoY.

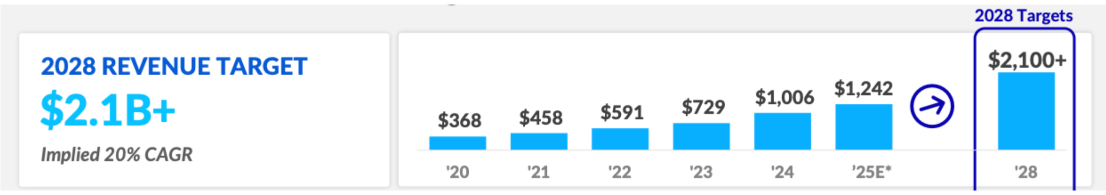
On a more positive note, excluding LiveIntent and Political, Revenue is expected to grow by about 20% throughout the remainder of 2025, reflecting ongoing momentum for the core business.

	1Q'25 Actuals	2Q'25 Midpoint	3Q'25	4Q'25	FY'25 Midpoint
Zeta Revenue excl. LiveIntent	$245M	$275M	$297M	$330M	$1,147M
% Growth excl. LiveIntent & Political Y/Y	*26%*	*21%*	*20%*	*19%*	*21%*
LiveIntent Revenue	$19M	$22M	$26M	$28M	$95M
Total Zeta Revenue	$264M	$297M	$323M	$358M	$1,242M
% Growth Y/Y	*36%*	*30%*	*21%*	*14%*	*23%*

Having said that, I would take management's guidance with a grain of salt — I believe management is sandbagging their guidance... by a lot. Here are a few reasons why:

- ZETA is on a 15-quarter streak of beating and raising its guidance.
- ZETA has a perfect track record of beating analyst Revenue estimates (16 quarters in total).
- Management mentioned the words "conservative" and "conservatism" 12 times during their Q1 earnings call.
- Per management, not a single client decreased spending or left the platform.
- They have also seen "zero changes", "no pullbacks", and "no pauses".
- In the last few months, ZETA just signed three of its largest deals in the history of the company.

Nevertheless, I believe ZETA's business momentum, flawless execution, and AI-powered platform will take the business to new heights. Management has full confidence in the growth trajectory of the company, which is reflected in their bold 2028 Revenue target of at least $2.1B. This is more than double its 2024 Revenue, implying an Organic Revenue CAGR of at least 20% over the next four years.



To get to this number, management plans to expand their market share among existing customers by just 100bps. According to management, ZETA's Scaled Customers spent over $100B in marketing and advertising last year, and with $1B of Revenue in 2024, ZETA's current market share is only 1%.

So just by ramping up usage among existing customers, ZETA has the potential to capture a larger proportion of their marketing and advertising budgets, eventually increasing ZETA's penetration to 2% by 2028.

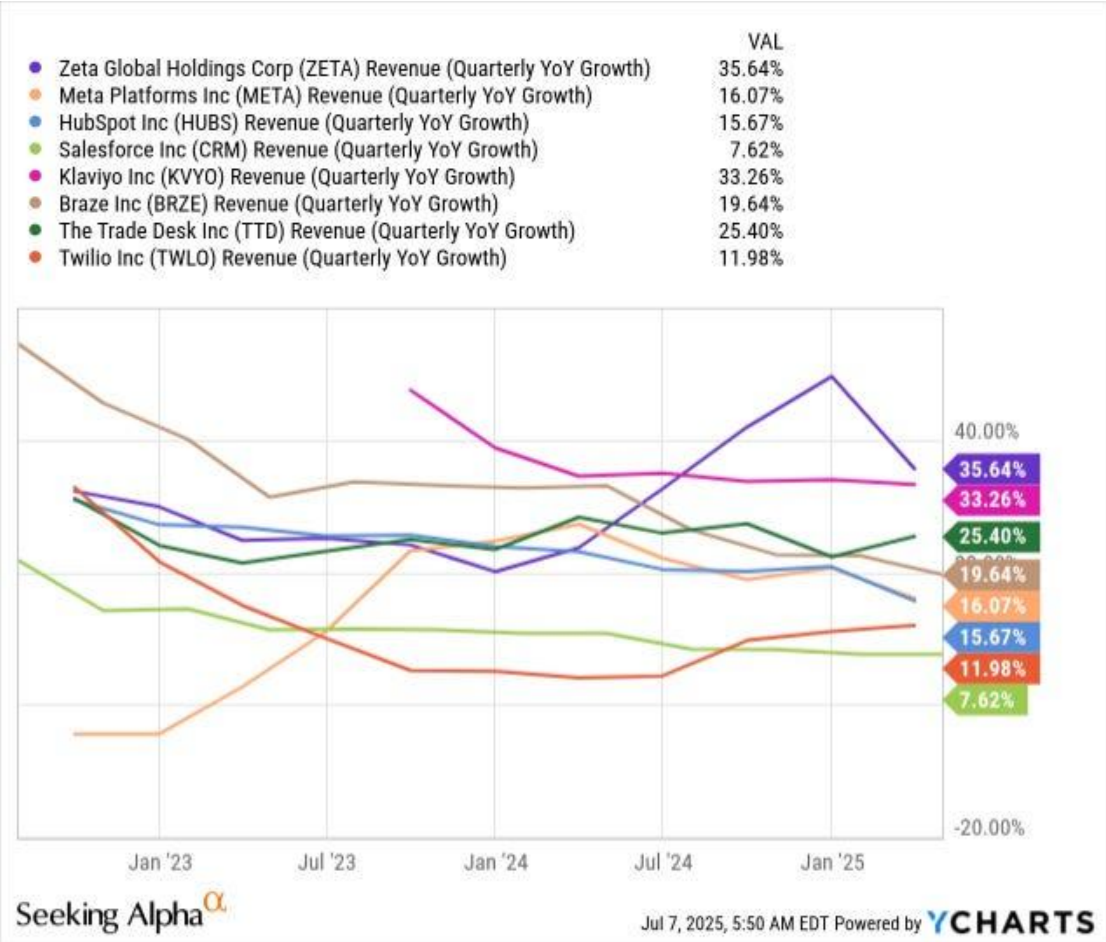
Over the longer term, there is room to increase this penetration to 5% to 15%, which implies a 5x and 15x from here, respectively. Some of ZETA's enterprise clients are already allocating more than 5% of their wallet share on the ZMP, so getting to these long-term figures is very much possible.

This is just from existing customers — don't forget about new customers joining the ZMP.

While management expects only 4% to 8% CAGR in Scaled Customers over the next four years, each new customer will be a key driver of future growth. As a reminder, agencies count as a single customer, despite holding hundreds of brands in their portfolio.

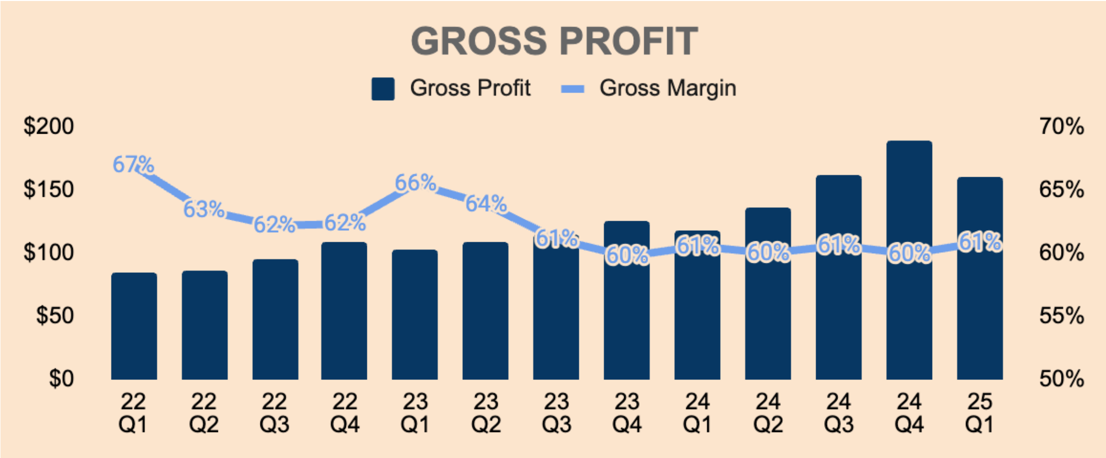
It's worth noting that ZETA is currently the fastest-growing publicly traded martech/adtech platform. As you can see below, ZETA (purple line) has the fastest growth rate among its peers, big or small, suggesting ongoing market share expansion.

Safe to say, the road to 5% share is well underway.



Profitability

Looking at profitability, Q1 Gross Profit was $161M, representing a Gross Margin of 61%, which has been stable for the last seven quarters. However, you can see that Gross Margin is not as high as it used to be. As a result, some investors are quick to point out that ZETA might be losing pricing power.



It's important to note that two major factors contribute to lower Gross Margins.

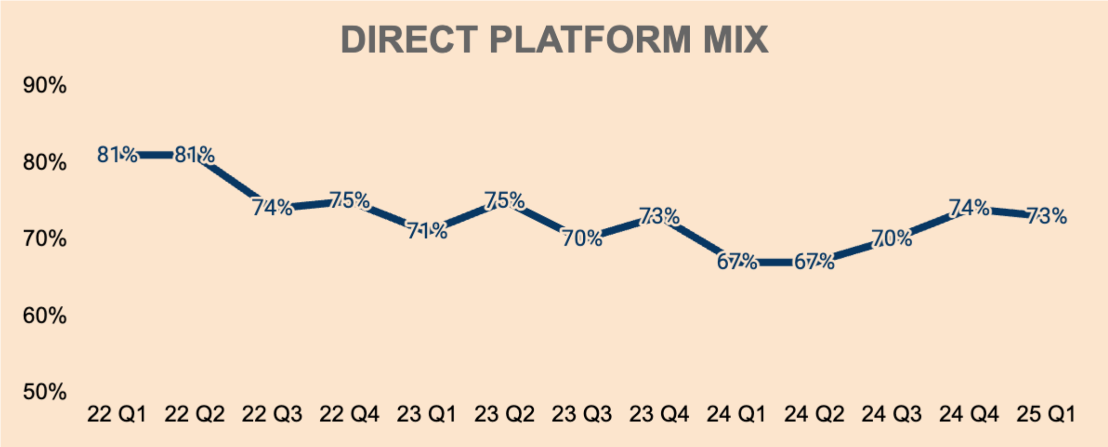
First, **the concentration of Direct Platform Revenue is down**from three years ago.

So ZETA generates two types of Revenue:

- First, there's **Direct Platform Revenue**, which is generated directly and entirely through the ZMP. I believe this Revenue model has a Gross Margin profile of about 70%.
- Second, there's **Integrated Platform Revenue**, which is generated through API integrations with third-party platforms. By my estimation, this Revenue model has a Gross Margin of about 50%.

As you can see, Direct Platform mix has declined from 81% in Q1 of 2022 to 73% in the most recent quarter. Because of this change in mix, Gross Margin naturally declined as well.

Now, you might be wondering: why did Gross Margin remain unchanged despite the increase in Direct Platform Mix over the last few quarters?



Well, the answer lies in the second factor, which is **higher Revenue concentration from ZETA's agency business**.

Aside from low perceived customer growth, another caveat of the agency business is that it has lower margins compared to its direct client business. This may be due to Revenue-sharing agreements, higher operational costs, and lower pricing. Think of it like the wholesale model in retail — wholesale partners get lower prices for buying in bulk while individual customers pay full prices.

We know that the agency business is one of the fastest-growing verticals in the ZETA ecosystem, so this could pressure Gross Margin in the near term. However, management noted that their agency clients are increasingly using ZMP directly as opposed to indirect integrations, which should be accretive to Gross Margin.

Because we're able to evidence that the on-platform business delivers a higher return on investment than the integrated component of the business, we're just seeing the agency holdcos move clients over faster. **Some are starting there. A big chunk of them are migrating from integrated to direct**.

(CEO David Steinberg — ZETA FY2025 Q1 Earnings Call)

To recap, lower Direct Platform mix and higher agency mix are causing Gross Margin to decline. However, Direct Platform mix has recovered as of late, which should offset margin headwinds from the growth of the agency business. As such, Gross Margin should remain stable in the foreseeable future.

Moving down the income statement, we can see that ZETA has made significant progress in its bottom line, even despite lower Gross Margins:

- **Operating Profit** was $(16)M at a (6)% Margin, up 12pp YoY.
- **Net Income** was $(22)M at an (8)% Margin, up 12pp YoY.
- **Adjusted EBITDA** was $47M at an 18% Margin, up 2pp YoY.

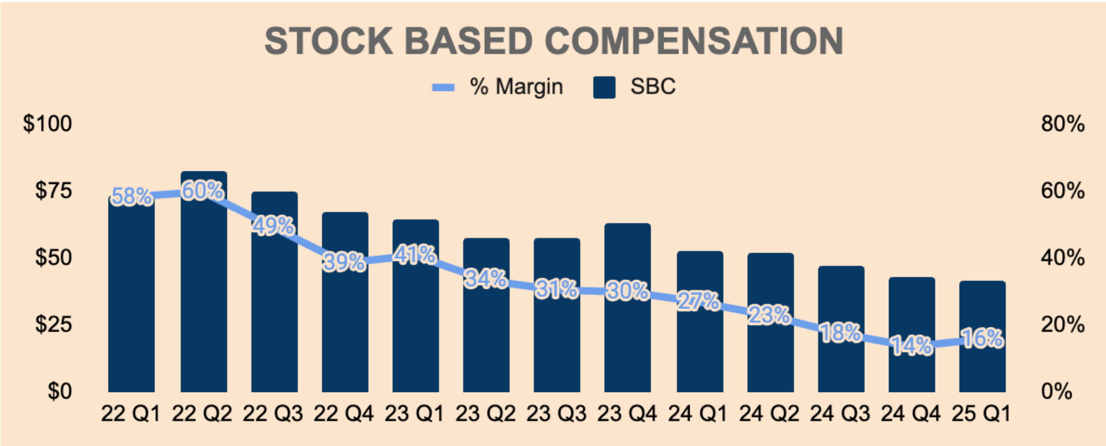
ZETA did turn GAAP profitable briefly, but that was due to the strong Q4 holiday season.

Period	Operating Profit	Operating Margin	Net Income	Net Margin	Adjusted EBITDA	AEBITDA Margin
22 Q1	-$68	-54%	-$72	-57%	$19	15%
22 Q2	-$77	-56%	-$86	-63%	$19	14%
22 Q3	-$66	-43%	-$69	-46%	$22	15%
22 Q4	-$48	-27%	-$52	-30%	$32	19%
23 Q1	-$52	-33%	-$57	-36%	$24	15%
23 Q2	-$46	-27%	-$52	-30%	$27	16%
23 Q3	-$37	-20%	-$43	-23%	$34	18%
23 Q4	-$32	-15%	-$35	-17%	$45	21%
24 Q1	-$36	-18%	-$40	-20%	$31	16%
24 Q2	-$27	-12%	-$28	-12%	$39	17%
24 Q3	-$12	-5%	-$17	-6%	$54	20%
24 Q4	$7	2%	$15	5%	$70	22%
25 Q1	-$16	-6%	-$22	-8%	$47	18%

One big reason why the company is still unprofitable on a GAAP basis is because of high Stock-based Compensation (SBC). In Q1, SBC was $42M, or 16% of Revenue.

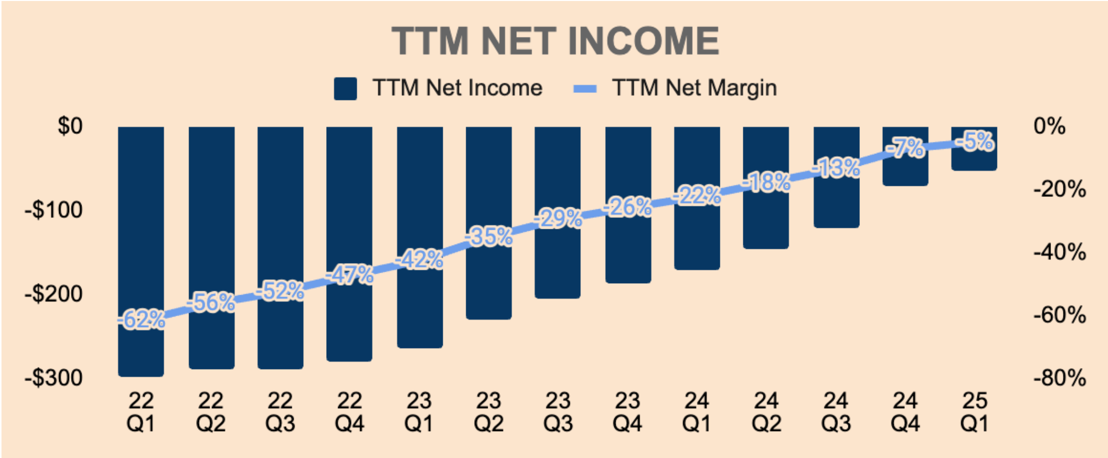
High SBC is a major bear argument against ZETA, but it's worth noting that SBC — both on an absolute and marginal basis — has been trending down over the last few years. Furthermore, management guided for $190M of SBC in 2025, which is about 15% of their 2025 Revenue guidance. This is an improvement from $195M last year, which is about 19% of Revenue.

In other words, the "high-SBC" bear argument is quickly losing substance.



Besides, ZETA backs it up with improving fundamentals. As you can see in the chart below, ZETA's TTM Net Income has consistently moved up and to the right, paving the company towards durable, profitable growth.

As long as ZETA continues to compound earnings, I'm okay with its high SBC levels in the near term.



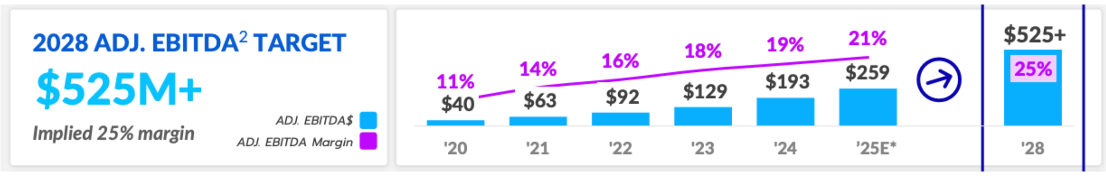
In addition, management has clear visibility of improving profitability, guiding for strong profit generation for the remainder of 2025:

- **Q2 Adjusted EBITDA** of $55M at a 19% Margin, up 2pp YoY.
- **Q3 Adjusted EBITDA** of $70M at a 22% Margin, up 2pp YoY.
- **Q4 Adjusted EBITDA** of $87M at a 24% Margin, up 2pp YoY.
- **2025 Adjusted EBITDA** of $259M at a 21% Margin, up 2pp YoY.

Similar to its Revenue guidance, its 2025 Adjusted EBITDA guidance was raised by $2M. Again, you can probably sense how sandbagged this guidance is...

In the longer term, management expects 2028 Adjusted EBITDA of at least $525M. This implies a 170%+ increase over 2024 levels. 2028 Adjusted EBITDA Margin is expected to reach 25%, up 6pp from 2024.

Put simply, expect continued operating leverage from here.



As you digest management's long-term guidance, bear in mind that they achieved their original 2025 financial targets (announced back in February 2022) **a year early**.

As indicated below, ZETA's actual performance was substantially higher than their original projections, reflecting significant outperformance.

Now, management is expecting 20% Revenue CAGR and 28% Adjusted EBITDA CAGR through 2028. Given management's exceptional track record of execution, I wouldn't be surprised if they achieve their 2028 model one year earlier — again.

Compound annual growth rates for Zeta 2028 key metrics

	Original Zeta 2025 Model *Announced Feb. 2022*	Actual Performance *2021-2024*	Zeta 2028 Model *Announced Feb. 2025*
Revenue CAGR	22%	30%	20%
Adj. EBITDA² CAGR	33%	45%	28%

Regardless, I expect an earnings explosion ahead as ZETA continues to drive operating leverage and outperform expectations.

In addition, Q1 could potentially mark ZETA's last quarter of negative GAAP profitability. Here's why:

- ZETA's first GAAP profitable quarter was in Q4, where it generated $15M of Net Income on $315M of Revenue.
- Q2 Revenue guidance was $297M at the midpoint. Remember that management is being extra conservative here.

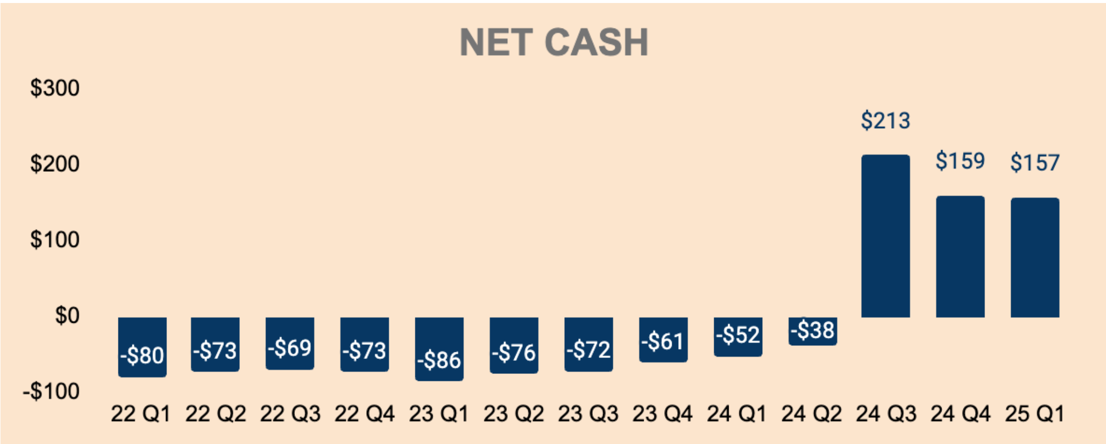
- In the last four quarters, ZETA has beaten its Revenue guidance by an average of about $18M.
- With that in mind, Q2 Revenue could likely be $297M + $18M = $315M — the same as its Q4 Revenue figure, which produced $15M of Net Income.
- Following Q2, Revenue is expected to scale further, which should translate to profitable quarters as well.

That being said, Q2 could be the start of a new era, an era of GAAP profitability and shareholder value generation.

Health

As of Q1, ZETA has $364M of Cash and Short-term Investments. Total Debt stands at $207M as ZETA drew down $200M from its term loan facility. As a result, ZETA holds about $157M of Net Cash at the moment.

If you notice, the company has had a negative Net Cash position for a while now, but has recently turned positive three quarters ago. The spike in Net Cash in Q3 of 2024 was primarily due to a $205M public offering. In hindsight, the equity raise was executed with decent timing — management took advantage of the rising share price last year, issuing 8.7M shares at $23.50 per share (as of this writing, ZETA is trading at $15).



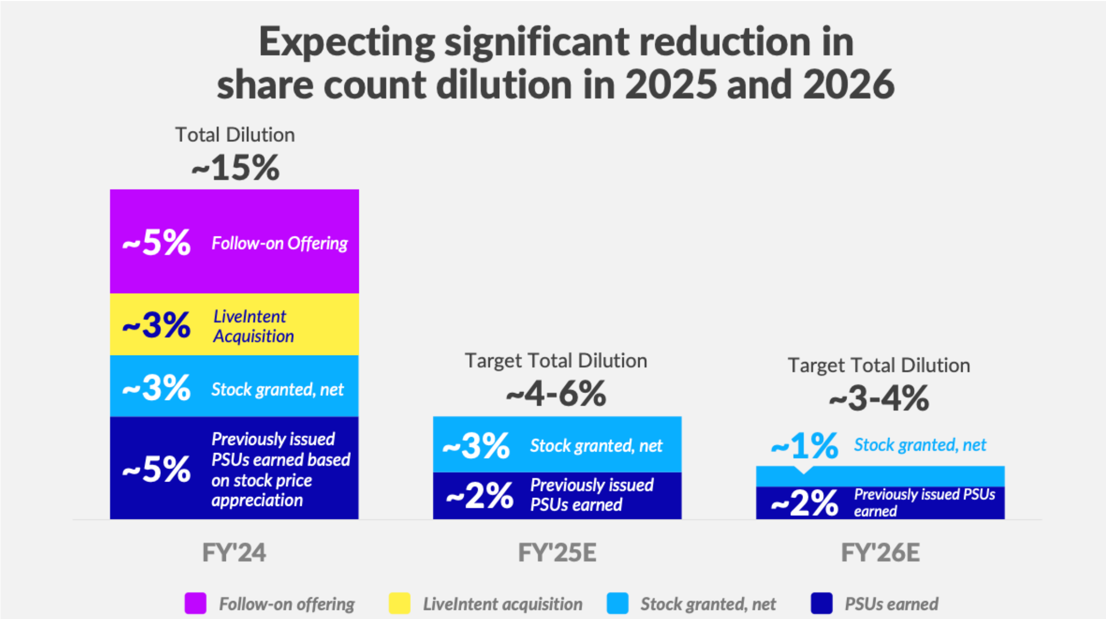
Net Cash level dropped sequentially in Q4 as ZETA partially used the proceeds from the public offering to acquire LiveIntent, which cost $77.5M of cash and $172.5M of common stock, for a total consideration of $250M.

It's also worth mentioning that ZETA is a serial acquirer, frequently gobbling up smaller players to enhance its platform and fuel its growth. I came across FundamentalBottom's article during my research and found that ZETA has acquired a total of 16 companies since 2013.

That said, the LiveIntent acquisition was highly synergistic for ZETA as LiveIntent's data assets, publisher network, and channel capabilities further strengthen the ZMP and solidify ZETA's competitive position. In addition, the acquisition was immediately accretive to earnings as LiveIntent was already Adjusted EBITDA profitable at the time of the acquisition.

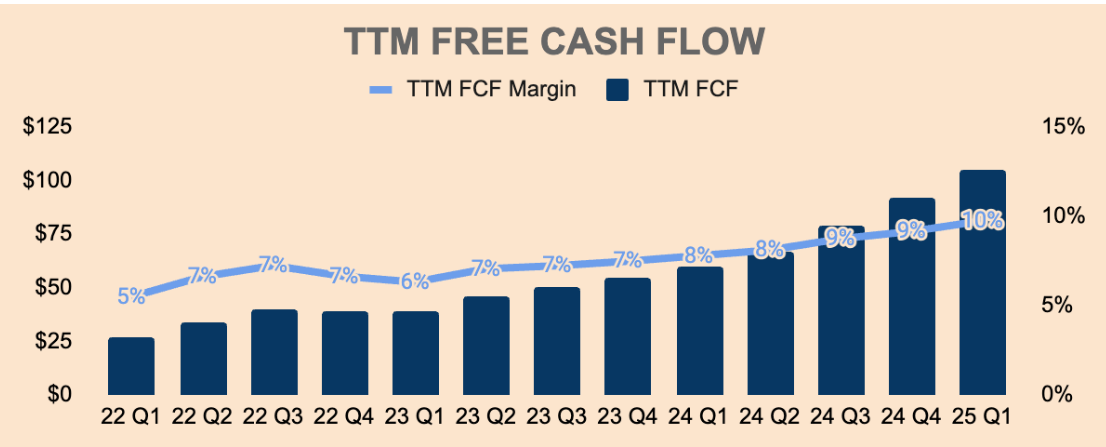
Nevertheless, many investors were not particularly fond of the public offering and LiveIntent acquisition, as they contributed to about 8% share count dilution. Adding SBC, investors experienced a heavy dilution of about 15% in 2024.

Fortunately, we can expect much less dilution in 2025 and 2026.



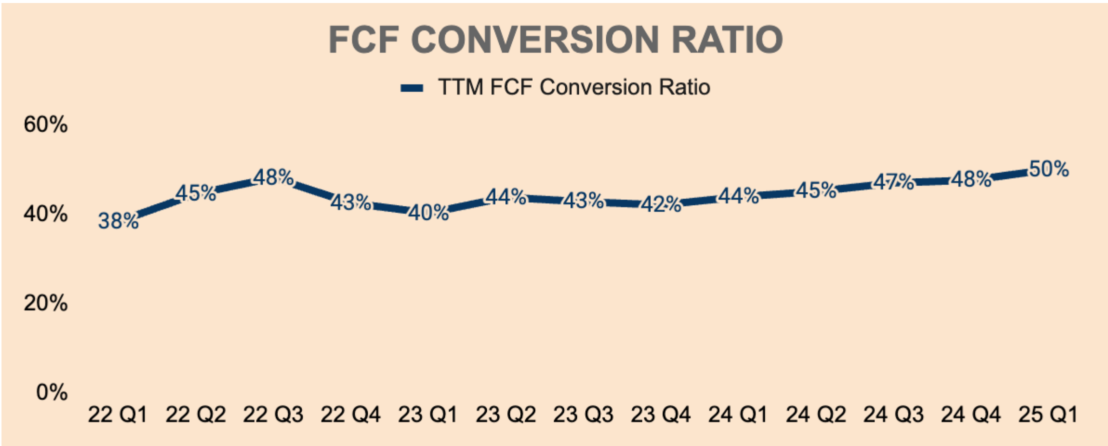
Despite high dilution and an aggressive growth-through-acquisition strategy, ZETA has a strong track record of deriving value from these acquisitions, as seen by its improving cash flows.

In Q1, Free Cash Flow was $28M at an 11% FCF Margin, which improved by 3pp YoY. On a TTM basis, Free Cash Flow was $105M at a 10% TTM FCF Margin, which improved 2pp YoY. As you can see, FCF is at an all-time high, displaying strong operating leverage within the business.



Management also expects robust FCF generation moving forward, as seen by their strong FCF guidance in 2025 and 2028:

- **2025 FCF** of $132M at the midpoint, which represents nearly an 11% Margin against their Revenue guidance. Interestingly, this guidance implies a 51% FCF Conversion Ratio (defined as FCF divided by Adjusted EBITDA). It's worth mentioning that Q1 FCF Conversion Ratio was 60%, which is 9pp higher than their guidance — management also pointed out that this 60% ratio "included a headwind in terms of working capital by virtue of the growth we're having with the agencies." Furthermore, as shown in the chart below, ZETA's TTM FCF Conversion Ratio is already at 50% as of Q1, so getting to management's guidance of 51% is just a walk in the park in my opinion. Judging by management's conservatism and ZETA's current momentum, I think ZETA could easily end the year with a TTM FCF Conversion Ratio of around 54%. This will surely smash its FCF guidance for the year.



- **2028 FCF** of at least $340M, which implies a 16% FCF Margin and 65% FCF Conversion Ratio, up 7pp and 17pp from 2024 levels, respectively. Management mentioned two key levers to this margin improvement: 1) lower CapEx growth compared to Revenue, and 2) smaller headwind from the agency business as its growth stabilizes over time. Considering management's sandbagged Revenue and

Adjusted EBITDA guidance, I believe ZETA will obliterate its 2028 FCF target.

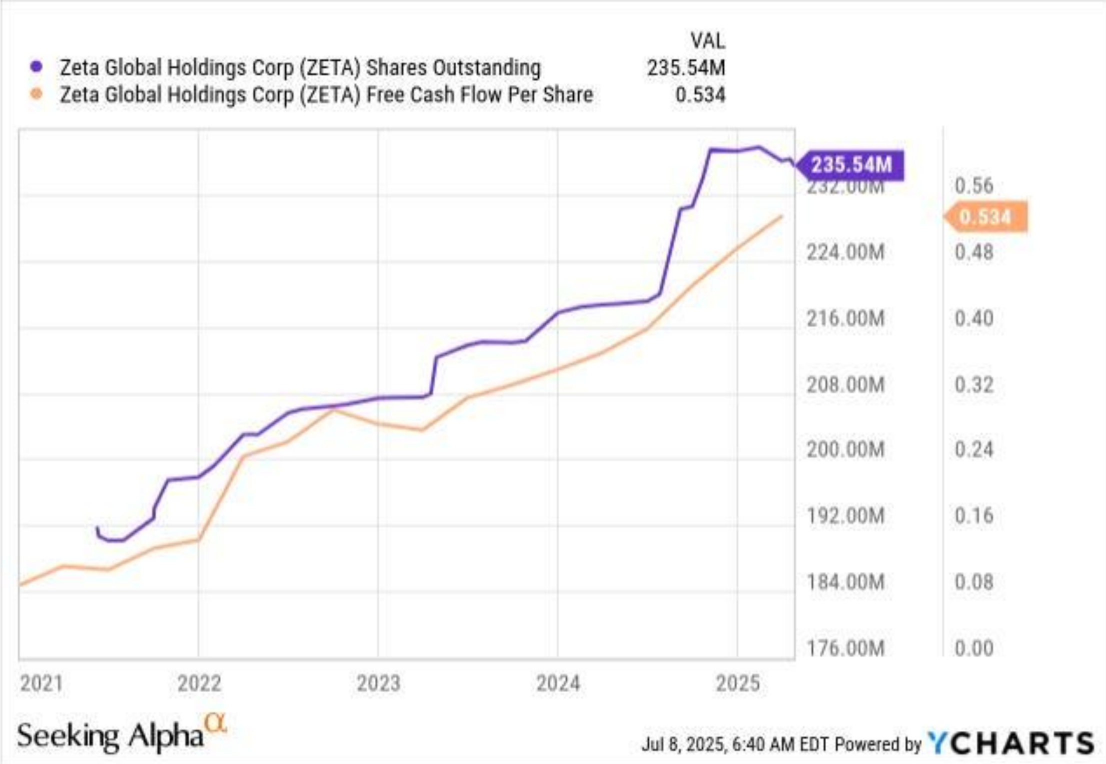
With a positive Net Cash balance and robust FCF, ZETA has allocated a good portion of its FCF for share repurchases. In Q1, ZETA repurchased $25M worth of common stock, accounting for 89% of FCF.

Not only that, but ZETA has repurchased another $21M of stock between April 1st and April 25th — not even the whole of April, and it's already nearly as much as what ZETA bought back in Q1!

At this rate, ZETA would fully exhaust its remaining buyback capacity of $38M, prompting management to initiate a new share repurchase program as early as Q2. This should serve as a positive catalyst for the stock.

While its buyback program does not fully offset the dilution from SBC and equity offering, it does slow down the dilution process. As you can see below, ZETA's Shares Outstanding have been declining recently, signifying some progress in controlling dilution. Be that as it may, ZETA's rising share count is still a concern.

But let me repeat. ZETA backs it up with improving fundamentals, as evident from its improving FCF per Share, which is impressive given ZETA's high dilution rate. At the end of the day, a higher FCF per Share indicates increasing shareholder value generation, and that, ultimately, is what matters most.



Whatever it is, given its 60% share price collapse, I expect management to accelerate its buyback program, accumulating shares on the cheap.

This brings me to my next point.

Valuation

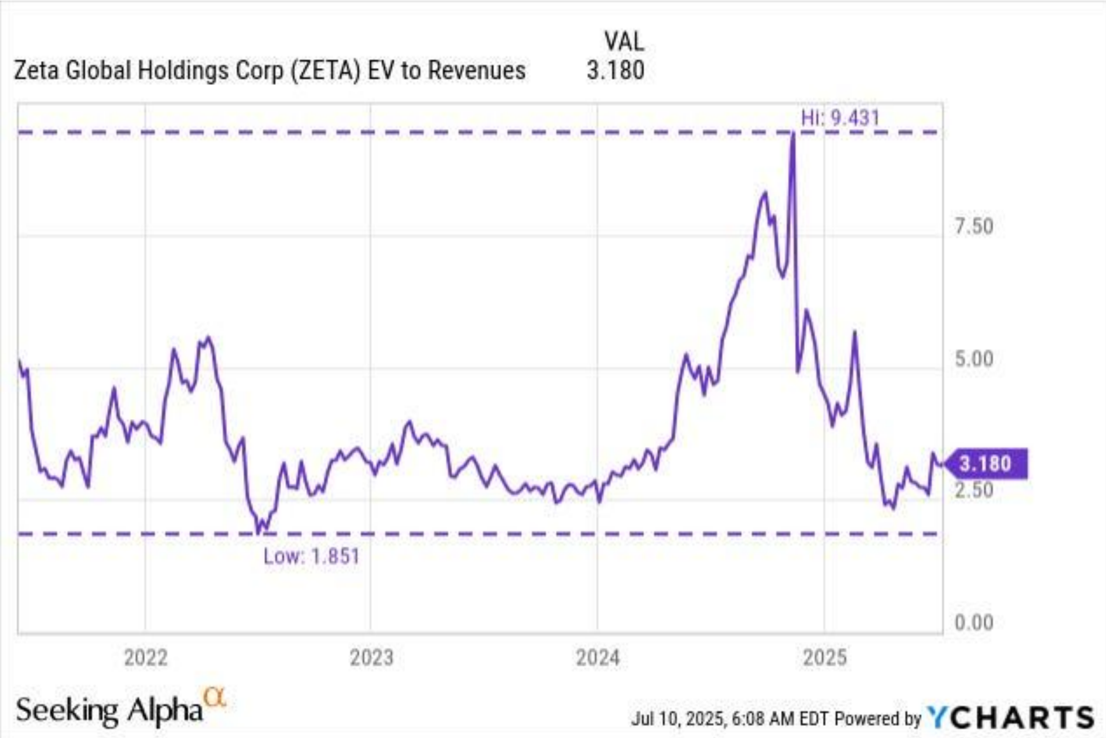
Not many people like to use EV to Revenue multiples to value companies — I don't either. However, I like to use it to gauge the company's current valuation relative to its historical valuation.

90% of the time, I only consider buying or researching a particular stock if it trades at the bottom range of its EV to Revenue multiple. And if the fundamentals align, then that stock, to me, has entered a particularly attractive buying zone.

In my view, ZETA is currently trading in this zone.

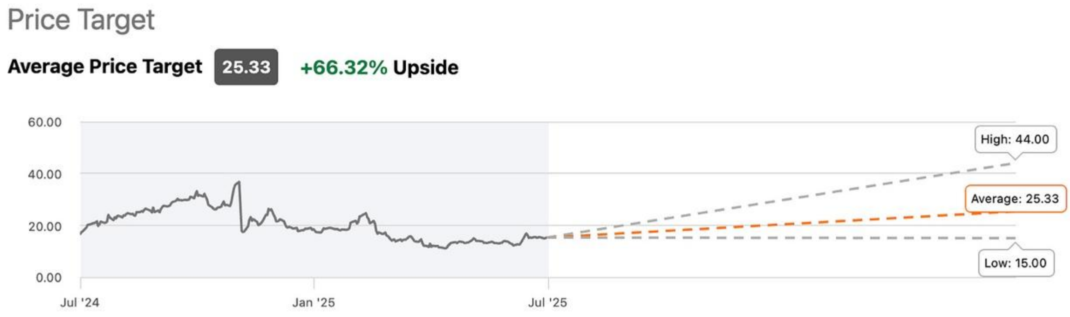
As it stands, ZETA is trading at an EV to Revenue multiple of 3.2x, which is currently near the bottom of its historical range of 1.9x to 9.4x.

Combine that with solid fundamentals — that is, robust growth, expanding profit margins, and improving FCF per share — and we get an attractive investment setup with a wide margin of safety.

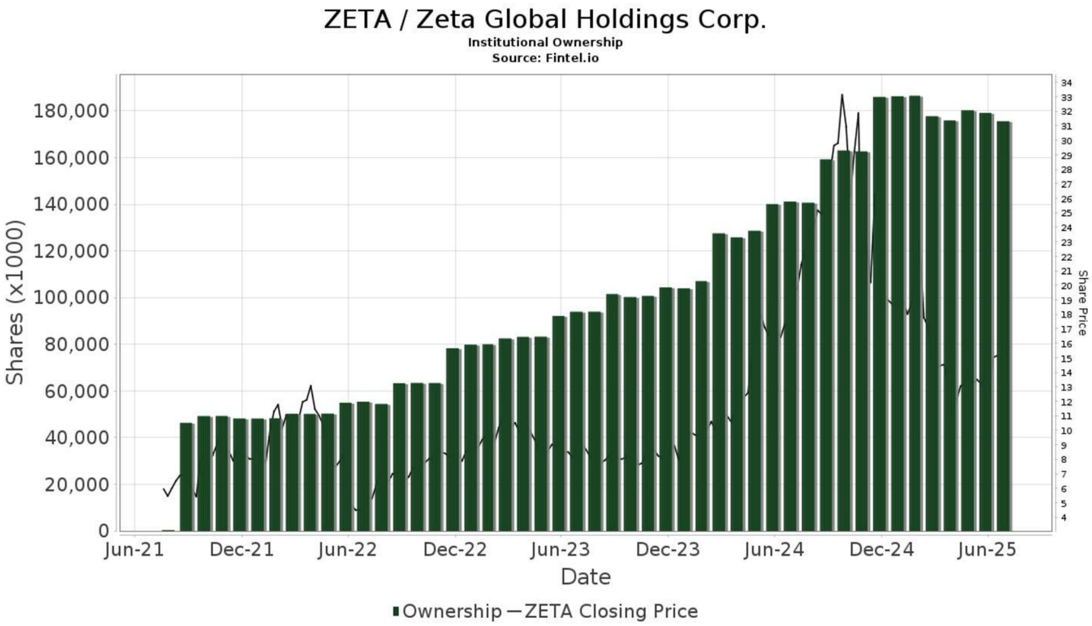


Analysts have an average price target of $25, implying a 66% upside. The street-high is $44, nearly 3x from here, while the street-low is $15, basically where ZETA is trading now.

Put simply, analysts see a lot of upside with minimal downside.

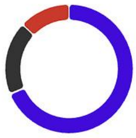


Institutions are also loading up on ZETA, mostly unaffected by the recent selloff.



Importantly, ZETA has a high insider ownership of 18% with CEO Co-Founder David Steinberg owning 11% of the company. In other words, management has skin in the game and strong shareholder alignment.

Ownership

Type	Common Stock Held	% of Shares Outstanding	Market Value	Composition
Institutions	161.45M	68.54%	2.38B	
Corporations (Public)	426,000	0.18%	6.28M	
Individuals / Insiders	43.18M	18.33%	636.63M	
State Owned Shares	15,323	0.01%	225,938	
Public and Other	30.47M	12.94%	449.34M	
Total	235.54M	100.00%	3.47B	

Taking a look at my 10-year DCF model, I have laid out the following key assumptions:

- **Revenue growth** of 24% in 2025 (inline with guidance) and slowing down to just 12% by 2034.
- **Cost of Revenue** remains stable at 40%, translating to a Gross Margin profile of 60%. I am not expecting a decline or increase in Gross Margin as the growth of the lower-margin agency business should offset any increase in Direct Platform mix.
- **Operating Expenses** gradually improve from 67% in 2024 to 38% by 2034, mainly driven by operating leverage and lower SBC as a % of Revenue.
- **Capital Expenditures** as a % of Revenue declines from 4.2% in 2024 to 2.0% by 2034.

	2020A	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Revenue YoY Growth		24.5%	29.0%	23.3%	38.0%	24.0%	21.0%	20.0%	18.0%	17.0%	16.0%	15.0%	14.0%	13.0%	12.0%
Cost of Revenue	40.5%	38.1%	36.5%	37.7%	39.7%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Operating Expenses	59.7%	116.1%	107.4%	85.4%	67.0%	58.0%	55.0%	51.0%	47.0%	45.0%	43.0%	41.0%	40.0%	39.0%	38.0%
Income Tax	-150.0%	0.2%	0.6%	-0.6%	7.7%	10.0%	15.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Depreciation & Amortization	10.9%	10.0%	8.8%	3.7%	3.4%	3.6%	3.5%	3.4%	3.3%	3.2%	3.1%	3.0%	3.0%	3.0%	3.0%
Stock-Based Compensation	0.0%	56.6%	50.6%	33.3%	19.4%	15.2%	13.0%	11.0%	9.0%	8.0%	7.0%	6.5%	6.0%	5.5%	5.0%
Capital Expenditures	-6.6%	-5.9%	-6.6%	-4.9%	-4.2%	-4.0%	-3.8%	-3.6%	-3.2%	-3.0%	-2.8%	-2.6%	-2.4%	-2.2%	-2.0%
Changes in Net Working Capital	-4.7%	0.0%	0.4%	2.0%	5.1%	6.0%	5.0%	4.0%	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

Based on the assumptions above, I expect:

- **2028 Revenue, Adjusted EBITDA, and FCF** of about \$2.1B, \$541M, and \$342M, respectively, which are pretty much inline with management's long-term target. Honestly, I think ZETA could achieve Revenue of \$2.3B, Adjusted EBITDA of \$600M, and FCF of \$400M by 2028, but I just want to be super conservative here.

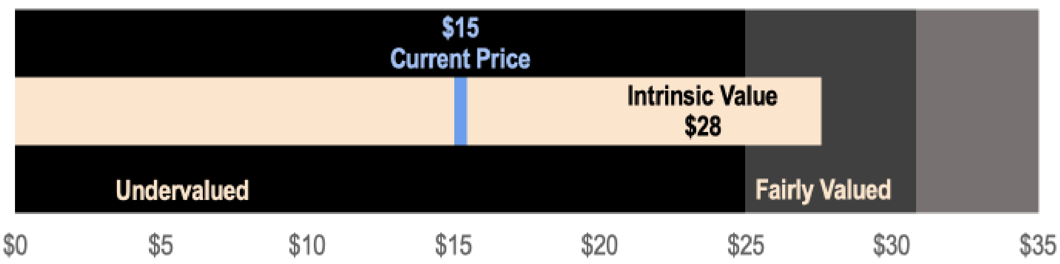
- **2034 Revenue** of \$4.8B.
- **2034 Adjusted EBITDA** of \$1.4B at a 30.0% Margin.
- **2034 FCF** of \$1.0B at a 20.6% Margin and 68.7% FCF Conversion Ratio.

As you can probably tell, I'm sandbagging my assumptions and projections.

	2020A	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Revenue	368	458	591	729	1,006	1,247	1,509	1,811	2,137	2,500	2,900	3,335	3,802	4,296	4,812
Less: Cost of Revenue	149	175	216	275	400	499	604	724	855	1,000	1,160	1,334	1,521	1,719	1,925
Gross Profit	219	284	376	454	606	748	905	1,087	1,282	1,500	1,740	2,001	2,281	2,578	2,887
% Margin	*59.5%*	*61.9%*	*63.5%*	*62.3%*	*60.3%*	*60.0%*	*60.0%*	*60.0%*	*60.0%*	*60.0%*	*60.0%*	*60.0%*	*60.0%*	*60.0%*	*60.0%*
Less: Operating Expenses	220	532	635	622	674	723	830	924	1,004	1,125	1,247	1,367	1,521	1,676	1,829
EBIT	(1)	(248)	(260)	(168)	(68)	25	75	163	278	375	493	634	760	902	1,059
% Margin	*-0.2%*	*-54.2%*	*-43.9%*	*-23.0%*	*-6.7%*	*2.0%*	*5.0%*	*9.0%*	*13.0%*	*15.0%*	*17.0%*	*19.0%*	*20.0%*	*21.0%*	*22.0%*
Less: Income Taxes	1	(1)	(2)	1	(5)	2	11	33	56	75	99	127	152	180	212
EBIAT	(1)	(248)	(258)	(169)	(63)	22	64	130	222	300	394	507	608	722	847
Plus: Depreciation & Amortization	40	46	52	27	34	45	53	62	71	80	90	100	114	129	144
Plus: Stock-Based Compensation	0	259	299	243	195	190	196	199	192	200	203	217	228	236	241
Less: Capital Expenditures	(24)	(27)	(39)	(36)	(42)	(50)	(57)	(65)	(68)	(75)	(81)	(87)	(91)	(95)	(96)
Less: Changes in Net Working Capital	(17)	(0)	2	15	51	75	75	72	75	75	87	100	114	129	144
Unlevered Free Cash Flow	32	31	52	50	73	132	180	254	342	430	519	637	745	864	991
% Margin	*8.6%*	*6.7%*	*8.7%*	*6.9%*	*7.2%*	*10.6%*	*12.0%*	*14.0%*	*16.0%*	*17.2%*	*17.9%*	*19.1%*	*19.6%*	*20.1%*	*20.6%*
Adjusted EBITDA	40	63	92	129	193	259	324	424	541	655	786	951	1,103	1,267	1,444
% Margin	*10.8%*	*13.8%*	*15.6%*	*17.7%*	*19.2%*	*20.8%*	*21.5%*	*23.4%*	*25.3%*	*26.2%*	*27.1%*	*28.5%*	*29.0%*	*29.5%*	*30.0%*

Assuming a **perpetual growth rate of 3%** and an aggressive **discount rate of 12%**, my DCF model arrives at an **intrinsic value of \$28 per share**, which represents an upside potential of about 81% based on the current price of \$15. This is the base case.

Sensitivity Analysis: Intrinsic Value Per Share								
		Discount Rate						
		10.5%	11.0%	11.5%	12.0%	12.5%	13.0%	13.5%
Growth Rate	1.5%	30	28	27	25	24	22	21
	2.0%	32	29	28	26	24	23	22
	2.5%	33	31	28	27	25	23	22
	3.0%	34	32	30	28	26	24	23
	3.5%	36	33	31	29	27	25	23
	4.0%	38	35	32	30	28	26	24
	4.5%	40	37	34	31	29	27	25



I have also attached my bear and bull cases below — they just assume lower or higher growth rates and FCF margins compared to the base case.

If I'm being honest, I believe the bull case is the most likely outcome. If not, I'm still happy with an 81% gain from the base case.

Do note that these are 12-month price targets.

Current Price	$15		
	Bear	**Base**	**Bull**
FY2034 Revenue	$4,150	$4,812	$5,381
FY2034 FCF Margin	18.2%	20.6%	23.0%
Perpetual Growth Rate	2%	3%	4%
Discount Rate	12%	12%	12%
Price Target	**$21**	**$28**	**$36**
Upside/Downside	**39%**	**81%**	**135%**

In short, I believe ZETA is severely undervalued here. Interestingly, some "people" seemed to agree as well. Just look at what CEO David Steinberg (accidentally) said during the Q1 earnings call:

But quite frankly, I've been spending a disproportionate percentage of my time **taking calls from people trying to buy us** over the last few weeks.

…

As we continue to grow and take massive market share, we're just **getting a lot of attention on that side that we hadn't gotten in the past**.

(CEO David Steinberg — ZETA FY2025 Q1 Earnings Call)

If ZETA does end up getting acquired, we could see a major boost in the share price.

I also want to point out that ZETA has a high Short Interest Ratio of about 12%. Any positive news, in my opinion, could trigger a short squeeze.

Risks

Here are a few risks to consider:

- **Macro Uncertainty**: A major economic slowdown could force ZETA's clients to cut their marketing budgets, thus slowing ZETA's growth. The good news is that management has already embedded this uncertainty in their guidance. The good news is that management is not seeing a single customer reducing spend or leaving the platform. The good news is that ZETA typically sees an acceleration of growth during times of uncertainty, as enterprises typically allocate more budget to the highest ROI platform, that is, ZETA.

For example, in 2022, a year when many tech companies experienced a sharp slowdown in growth, and then rising inflation and broader budget rationalization, **our revenue growth accelerated by 4 percentage points**, reaching 29%.

(CFO Chris Greiner — ZETA FY2025 Q1 Earnings Call)

- **Competition**: ZETA faces tough competition from other marketing platforms like Google, Meta, HubSpot,

Salesforce, Klaviyo, and more. Symptoms of competitive pressures include slowing growth, declining customer count, and lower Gross Margins — keep an eye out for these.
- **Shareholder Dilution**: Ever since the company went public in 2021, ZETA has diluted shareholders by 23%. Fortunately, management is taking proactive measures (buybacks, lower SBC, etc.) to reduce dilution. Besides, FCF per Share continues to rise despite heavy dilution, so I think the dilution issue is not as serious as many bears claim.
- **Short Report**: Much of ZETA's share price drop was attributed to a short report — titled *Shams, Scams, and Spam* — published by Culper Research in November 2024. ZETA stock dropped 37% in a single trading day. Although management refuted the claims in the report and even bought shares on the dip, ZETA's share price has yet to recover from the short attack. Furthermore, there were numerous lawsuits filed against ZETA as a result of the report. Cases like these have left a seemingly permanent negative perception of the company, which is why the stock hasn't performed as well as it should.

Thesis

Going back to my 8-point investment checklist, I can confidently say that ZETA has ticked all boxes:

1. **Wide Margin of Safety**: The stock is trading at the bottom range of its historical EV to Revenue multiple and well below my intrinsic value estimate.
2. **Strong Growth**: Expected to grow at a 20% CAGR through 2028, fueled by AI tailwinds.
3. **Operating Leverage**: On the brink of turning GAAP profitable. In fact, Q1 could be its last ever quarter of negative profitability.

4. **Positive and Growing FCF**: Generating robust FCF that can be used for share repurchases and acquisitions. As FCF continues to grow, it reduces the need for external capital.
5. **Positive Net Cash** — Positive Net Cash balance, with a capital-light business model.
6. **Skin in the Game** — Founder-led, with insiders owning 18% of the business.
7. **Strong Execution** — 15 straight quarters of beating and raising guidance. 100% track record of beating Revenue estimates.
8. **Competitive Moats** — Full-stack AI-powered marketing cloud with a cost-efficient data model and omnichannel capabilities.

All things considered, I have initiated a position in ZETA.

With that being said, I hope you enjoyed this deep dive. If you do, please consider sharing my work and subscribing to this newsletter. Your support is greatly appreciated!

And before you go, I would love to hear your thoughts or feedback in the comments section below.