
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended March 31, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 0-25965

**Ziff.
Davis**

ZIFF DAVIS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

47-1053457

(I.R.S. Employer
Identification No.)

114 5th Avenue New York, New York 10011 (212) 503-3500

(Address and telephone number of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value	ZD	Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐	Non-Accelerated filer ☐	Smaller reporting company ☐
Emerging growth company ☐			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

There were 47,282,972 shares outstanding of the Registrant’s common stock as of May 5, 2023.

ZIFF DAVIS, INC. AND SUBSIDIARIES
QUARTERLY REPORT
QUARTER ENDED MARCH 31, 2023

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ZIFF DAVIS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands except share and per share data)

	March 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents	\$ 721,502	\$ 652,793
Short-term investments	39,012	58,421
Accounts receivable, net of allowances of \$7,061 and \$6,868, respectively	277,764	304,739
Prepaid expenses and other current assets	68,306	68,319
Total current assets	1,106,584	1,084,272
Long-term investments	116,062	127,871
Property and equipment, net of accumulated depreciation of \$276,760 and \$255,586, respectively	187,025	178,184
Intangible assets, net	433,310	462,815
Goodwill	1,597,684	1,591,474
Deferred income taxes	8,457	8,523
Other assets	77,946	80,131
TOTAL ASSETS	\$ 3,527,068	\$ 3,533,270
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	\$ 143,966	\$ 140,541
Accrued employee related costs	31,838	42,178
Deferred revenue, current	200,936	187,904
Accrued liabilities and other current liabilities	64,439	61,825
Total current liabilities	441,179	432,448
Long-term debt	999,617	999,053
Deferred revenue, noncurrent	8,861	9,103
Deferred income taxes	68,142	79,007
Other long-term liabilities	114,654	121,048
TOTAL LIABILITIES	1,632,453	1,640,659
Commitments and contingencies (Note 8)		
Preferred stock, \$0.01 par value. Authorized 1,000,000 and none issued	—	—
Preferred stock - Series A, \$0.01 par value. Authorized 6,000; total issued and outstanding zero	—	—
Preferred stock - Series B, \$0.01 par value. Authorized 20,000; total issued and outstanding zero	—	—
Common stock, \$0.01 par value. Authorized 95,000,000; total issued and outstanding 47,286,093 and 47,269,446 shares at March 31, 2023 and December 31, 2022, respectively.	473	473
Additional paid-in capital	444,813	439,681
Retained earnings	1,530,665	1,537,830
Accumulated other comprehensive loss	(81,336)	(85,373)
TOTAL STOCKHOLDERS' EQUITY	1,894,615	1,892,611
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,527,068	\$ 3,533,270

See Notes to Condensed Consolidated Financial Statements (Unaudited)

ZIFF DAVIS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands except share and per share data)

	Three months ended March 31,	
	2023	2022
Total revenues	\$ 307,142	\$ 315,068
Operating costs and expenses:		
Cost of revenues	45,730	46,100
Sales and marketing	115,920	117,762
Research, development, and engineering	17,914	18,427
General and administrative	101,263	102,217
Total operating costs and expenses	280,827	284,506
Income from operations	26,315	30,562
Interest expense, net	(4,480)	(10,290)
Loss on debt extinguishment, net	—	(1,220)
Unrealized (loss) gain on short-term investments held at the reporting date, net	(20,345)	8,951
Gain on investments, net	357	—
Other (loss) income, net	(908)	2,399
Income before income taxes and loss from equity method investment, net	939	30,402
Income tax benefit (expense)	616	(5,080)
Loss from equity method investment, net	(9,182)	(785)
Net (loss) income	<u>\$ (7,627)</u>	<u>\$ 24,537</u>
Net (loss) income per common share:		
Basic	\$ (0.16)	\$ 0.52
Diluted	\$ (0.16)	\$ 0.51
Weighted average shares outstanding:		
Basic	46,987,249	47,054,411
Diluted	46,987,249	52,405,317

See Notes to Condensed Consolidated Financial Statements (Unaudited)

ZIFF DAVIS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited, in thousands)

	Three months ended March 31,	
	2023	2022
Net (loss) income	\$ (7,627)	\$ 24,537
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustment	3,713	(6,265)
Consensus separation adjustment	—	4,056
Change in fair value on available-for-sale investments, net of tax expense of \$109 for the three months ended March 31, 2023	324	—
Other comprehensive income (loss), net of tax	4,037	(2,209)
Comprehensive (loss) income	<u>\$ (3,590)</u>	<u>\$ 22,328</u>

See Notes to Condensed Consolidated Financial Statements (Unaudited)

ZIFF DAVIS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three months ended March 31,	
	2023	2022
Cash flows from operating activities:		
Net (loss) income	\$ (7,627)	\$ 24,537
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	54,623	59,071
Non-cash operating lease costs	2,933	2,392
Share-based compensation	8,402	6,717
Provision for credit losses on accounts receivable	441	(1,032)
Deferred income taxes, net	(7,442)	(3,745)
Loss on extinguishment of debt	—	1,220
Loss from equity method investments	9,182	785
Unrealized gain (loss) on short-term investments held at the reporting date, net	20,345	(8,951)
Gain on investments, net	(357)	—
Other	2,776	868
Decrease (increase) in:		
Accounts receivable (includes \$0 and \$5,278 with related parties)	27,626	57,483
Prepaid expenses and other current assets	(7,658)	10,638
Other assets	(2,048)	(5,603)
Increase (decrease) in:		
Accounts payable	6,922	(22,501)
Deferred revenue	12,085	3,061
Accrued liabilities and other current liabilities	(4,896)	(8,429)
Net cash provided by operating activities	<u>115,307</u>	<u>116,511</u>
Cash flows from investing activities:		
Purchases of property and equipment	(30,017)	(30,502)
Acquisition of businesses, net of cash received	(8,001)	(28,136)
Proceeds from sale of equity investments	3,174	—
Other	(3,947)	—
Net cash used in investing activities	<u>(38,791)</u>	<u>(58,638)</u>
Cash flows from financing activities:		
Payment of debt	—	(54,609)
Debt extinguishment costs	—	(756)
Repurchase of common stock	(2,875)	(62,810)
Proceeds from exercise of stock options	—	148
Deferred payments for acquisitions	(6,679)	(2,676)
Other	71	(5)
Net cash used in financing activities	<u>(9,483)</u>	<u>(120,708)</u>
Effect of exchange rate changes on cash and cash equivalents	1,676	(2,977)
Net change in cash and cash equivalents	68,709	(65,812)
Cash and cash equivalents at beginning of period	652,793	694,842
Cash and cash equivalents at end of period	<u>\$ 721,502</u>	<u>\$ 629,030</u>

See Notes to Condensed Consolidated Financial Statements (Unaudited)

ZIFF DAVIS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, in thousands, except share amounts)

	Three months ended March 31, 2023					
	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total Stockholders' Equity
	Shares	Amount				
Balance, January 1, 2023	47,269,446	\$ 473	\$ 439,681	\$ 1,537,830	\$ (85,373)	\$ 1,892,611
Net income	—	—	—	(7,627)	—	(7,627)
Other comprehensive loss, net of tax expense of \$109	—	—	—	—	4,037	4,037
Vested restricted stock	53,299	—	—	—	—	—
Repurchase and retirement of common stock	(36,652)	—	(3,336)	461	—	(2,875)
Share-based compensation	—	—	8,402	—	—	8,402
Other, net	—	—	66	1	—	67
Balance, March 31, 2023	47,286,093	\$ 473	\$ 444,813	\$ 1,530,665	\$ (81,336)	\$ 1,894,615

	Three months ended March 31, 2022					
	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total Stockholders' Equity
	Shares	Amount				
Balance, January 1, 2022	47,440,137	\$ 474	\$ 509,122	\$ 1,515,358	\$ (57,222)	\$ 1,967,732
Reclassification of the equity component of 1.75% Convertible Notes to liability upon adoption of ASU 2020-06	—	—	(88,137)	23,436	—	(64,701)
Net income	—	—	—	24,537	—	24,537
Other comprehensive loss, net of tax expense of zero	—	—	—	—	(6,265)	(6,265)
Exercise of stock options	5,439	—	148	—	—	148
Vested restricted stock	101,385	1	(1)	—	—	—
Repurchase and retirement of common stock	(594,661)	(5)	(12,180)	(50,625)	—	(62,810)
Share-based compensation	—	—	6,717	—	—	6,717
Other, net	—	—	(16)	(3,904)	4,056	136
Balance, March 31, 2022	46,952,300	\$ 470	\$ 415,653	\$ 1,508,802	\$ (59,431)	\$ 1,865,494

See Notes to Condensed Consolidated Financial Statements (Unaudited)

ZIFF DAVIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation and Overview

The accompanying Condensed Consolidated Financial Statements of Ziff Davis, Inc. and its subsidiaries (“Ziff Davis”, the “Company”, “our”, “us”, or “we”), whether directly or indirectly wholly-owned, were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), and all adjustments considered necessary for a fair presentation have been included. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying interim Condensed Consolidated Financial Statements have been prepared in accordance with instructions for Form 10-Q and Article 10 of Regulation S-X issued by the Securities and Exchange Commission (“SEC”). The preparation of these Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the Condensed Consolidated Financial Statements, as well as the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. All normal recurring adjustments necessary for a fair presentation of these interim Condensed Consolidated Financial Statements were made.

This Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission (“SEC”) on March 1, 2023 and other filings with the SEC.

The results of operations for this interim period are not necessarily indicative of the operating results for the full year or for any future period.

Description of Business

Ziff Davis, Inc. is a vertically focused digital media and internet company whose portfolio includes leading brands in technology, shopping, gaming and entertainment, connectivity, health, cybersecurity, and martech. The Company’s Digital Media business specializes in the technology, shopping, gaming and entertainment, connectivity, and healthcare markets, offering content, tools and services to consumers and businesses. The Company’s Cybersecurity and Martech business provides cloud-based subscription services to consumers and businesses including cybersecurity, privacy, and marketing technology.

Impairment or Disposal of Long-Lived Assets

The Company assesses whether events or changes in circumstances have occurred that potentially indicate the carrying amount of definite-lived assets may not be recoverable. During the three months ended March 31, 2023 and 2022, the Company recorded an impairment of approximately \$1.8 million and zero, respectively, primarily related to certain operating lease right-of-use assets. The Company regularly evaluates its office space requirements in light of more of its workforce working from home as part of a permanent “remote” or “partial remote” work model. The impairment is presented in general and administrative expense on the Condensed Consolidated Statement of Operations.

Recent Accounting Pronouncements

Recently issued applicable accounting pronouncements not yet adopted

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This update provides for optional financial reporting alternatives to reduce cost and complexities associated with accounting for contracts, hedging relationships, and other transactions affected by reference rate reform. This update applies only to contracts, hedging relationships, and other transactions that reference London Interbank Offer Rate (“LIBOR”) or another reference rate expected to be discontinued because of reference rate reform. The accommodations were available for all entities through December 31, 2022, with early adoption permitted. This update was later amended by ASU 2022-06.

In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*. This update defers the expiration date of ASC Topic 848 from December 31, 2022 to December 31, 2024. We are currently evaluating the effect the adoption of this update will have on our condensed consolidated financial statements and related disclosures.

Reclassifications

Certain prior year reported amounts have been reclassified to conform with 2023 presentation.

ZIFF DAVIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

2. Revenues

Digital Media

Digital Media revenues are earned primarily from the delivery of advertising services and from subscriptions to services and information.

Revenue is earned from the delivery of advertising services on websites that are owned and operated by us and on those websites that are part of Digital Media's advertising network. Depending on the individual contracts with the customer, revenue for these services is recognized over the contract period when any of the following performance obligations are satisfied: (i) when an advertisement is placed for viewing, (ii) when a qualified sales lead is delivered, (iii) when a visitor "clicks through" on an advertisement or (iv) when commissions are earned upon the sale of an advertised product.

Revenue from subscriptions is earned through the granting of access to, or delivery of, data products or services to customers. Subscriptions cover video games and related content, health information, data, and other copyrighted material. Revenues under such agreements are recognized over the contract term for use of the service. Revenues are also earned from listing fees, subscriptions to online publications, and from other sources. Subscription revenues are primarily recognized over time. Revenues related to the provision of access to historical data for certain services are recorded at the time of delivery.

We also generate Digital Media subscription revenues through the license of certain assets to clients. Assets are licensed for clients' use in their own promotional materials or otherwise and may include logos, editorial reviews, or other copyrighted material. Revenues under such license agreements are recognized over the contract term for use of the asset. In instances when technology assets are licensed to our clients, revenues from the license of these assets are recognized over the term of the access period.

The Digital Media business also generates revenue from other sources which include marketing and production services. Such other revenues are generally recognized over the period in which the products or services are delivered.

We also generate Digital Media revenues from transactions involving the sale of perpetual software licenses, related software support and maintenance, hardware used in conjunction with its software, and other related services. Revenue is recognized for these software transactions with multiple performance obligations after (i) the contract has been approved and we are committed to perform the respective obligations and (ii) we can identify and quantify each obligation and its respective selling price. Once the respective performance obligations have been identified and quantified, revenue will be recognized when the obligations are met, either over time or at a point in time depending on the nature of the obligation.

Revenues from software license performance obligations are generally recognized upfront at the point in time that the software is made available to the customer to download and use. Revenues for related software support and maintenance performance obligations are related to technical support provided to customers as needed and unspecified software product upgrades, maintenance releases, and patches during the term of the support period when they are available. We are obligated to make the support services available continuously throughout the contract period. Therefore, revenues for support contracts are generally recognized ratably over the contractual period the support services are provided. Hardware product and related software performance obligations, such as an operating system or firmware, are highly interdependent and interrelated and are accounted for as a bundled performance obligation. The revenues for this bundled performance obligation are generally recognized at the point in time that the hardware and software products are delivered and ownership is transferred to the customer. Other service revenues are generally recognized over time as the services are performed.

The Company records revenue on a gross basis with respect to revenue generated (i) by the Company serving online display and video advertising across its owned and operated web properties, on third-party sites, or on unaffiliated advertising networks; (ii) through the Company's lead-generation business; and (iii) through the Company's subscriptions. The Company records revenue on a net basis with respect to revenue paid to the Company by certain third-party advertising networks who serve online display and video advertising across the Company's owned-and-operated web properties and certain third-party sites.

Cybersecurity and Martech

The Company's Cybersecurity and Martech revenues substantially consist of subscription revenues which include subscription and usage-based fees, a significant portion of which are paid in advance. The Company defers the portions of monthly, quarterly, semi-annual, and annual fees collected in advance of the satisfaction of performance obligations and recognizes them in the period earned.

ZIFF DAVIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Along with its numerous proprietary Cybersecurity and Martech solutions, the Company also generates subscription revenues by reselling various third-party solutions, primarily through its email security line of business. These third-party solutions, along with the Company's proprietary products, allow it to offer customers a variety of solutions to better meet the customer's needs. The Company records revenue on a gross basis with respect to reseller revenue because the Company has control of the specified good or service prior to transferring control to the customer.

Revenues from external customers classified by revenue source are as follows (in thousands).

	Three months ended March 31,	
	2023	2022
Digital Media		
Advertising	\$ 156,082	\$ 170,067
Subscription	69,148	55,576
Other	8,981	9,184
Total Digital Media revenues	\$ 234,211	\$ 234,827
Cybersecurity and Martech		
Subscription	\$ 73,016	\$ 80,494
Total Cybersecurity and Martech revenues	\$ 73,016	\$ 80,494
Elimination of inter-segment revenues	(85)	(253)
Total Revenues	\$ 307,142	\$ 315,068
Timing of revenue recognition		
Point in time	\$ 11,522	\$ 8,983
Over time	295,620	306,085
Total	\$ 307,142	\$ 315,068

The Company has recorded \$65.1 million and \$73.1 million of revenue for the three months ended March 31, 2023 and 2022, respectively, which was previously included in the deferred revenue balance as of the beginning of each respective year.

Transaction Price Allocation to Future Performance Obligations

As of March 31, 2023, the aggregate amount of transaction price that is allocated to future performance obligations was approximately \$15.8 million and is expected to be recognized as follows: 85% by December 31, 2023 and 15% by December 31, 2025. The amount disclosed does not include revenues related to performance obligations that are part of a contract with original expected duration of twelve months or less or portions of the contract that remain subject to cancellations.

3. Business Acquisitions

The Company uses acquisitions as a strategy to grow its customer base by increasing its presence in new and existing markets, expand and diversify its service offerings, enhance its technology, and acquire skilled personnel.

2023 Acquisitions

The Company completed an immaterial Digital Media acquisition during the three months ended March 31, 2023, paying the purchase price in cash.

The Condensed Consolidated Statement of Operations since the date of the acquisition and the Condensed Consolidated Balance Sheets as of March 31, 2023, reflect the results of operations of the 2023 acquisition. The initial accounting for the 2023 acquisition is incomplete due to timing of available information and is subject to change. The Company has recorded provisional amounts which may be based upon past acquisitions with similar attributes for certain intangible assets (including trade names, software and customer relationships), preliminary acquisition date working capital, and related tax items.

ZIFF DAVIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Goodwill recognized associated with this acquisition during the three months ended March 31, 2023 was \$3.8 million, all of which is expected to be deductible for income tax purposes. Approximately \$4.2 million of definite-lived intangibles were recorded in connection with the acquisition during the three months ended March 31, 2023.

2022 Acquisitions

The Company completed the following acquisitions during the three months ended March 31, 2022, paying the purchase price in cash in each transaction: (a) a purchase of 100% of equity interests of Lifecycle Marketing Group Limited, acquired on January 21, 2022, a United Kingdom-based portfolio of pregnancy and parenting brands, including Emma's Diary and Health Professional Academy, reported within our Digital Media segment; and (b) two other immaterial Digital Media acquisitions. During the three months ended March 31, 2023, the purchase price accounting was finalized for these acquisitions.

The Condensed Consolidated Statement of Operations since the date of each acquisition reflects the results of operations of all 2022 acquisitions. For the three months ended March 31, 2022, these acquisitions contributed \$2.1 million to the Company's revenues. Net income from continuing operations contributed by these acquisitions was not separately identifiable due to the Company's integration activities and is impracticable to provide. Total consideration for these transactions was \$36.6 million, net of cash acquired and assumed liabilities.

The following table summarizes the allocation of the purchase consideration for all 2022 acquisitions as of March 31, 2022 (in thousands):

Assets and Liabilities	Valuation
Accounts receivable	\$ 4,615
Prepaid expenses and other current assets	231
Property and equipment	307
Trade names	2,302
Customer relationship	9,216
Goodwill	24,156
Other intangibles	3,439
Other long-term assets	11
Accounts payable and accrued expenses	(2,551)
Deferred revenue	(1,697)
Deferred tax liability	(3,390)
Total	<u>\$ 36,639</u>

The fair value of the assets acquired includes accounts receivable of \$4.6 million, of which none is expected to be uncollectible. The Company did not acquire any other classes of receivables as a result of its acquisitions.

Goodwill recognized associated with these acquisitions during the three months ended March 31, 2022 was \$24.2 million, of which \$2.2 million is expected to be deductible for income tax purposes.

Unaudited Pro Forma Financial Information for All 2022 Acquisitions

The following unaudited pro forma information is not necessarily indicative of the Company's consolidated results of operations in future periods or the results that actually would have been realized had the Company and the acquired businesses been combined companies during the periods presented. These pro forma results are estimates and exclude any savings or synergies that would have resulted from these business acquisitions had they occurred on January 1, 2022. This unaudited pro forma supplemental information includes incremental intangible asset amortization and other charges as a result of the acquisitions, net of the related tax effects.

ZIFF DAVIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

The supplemental information on an unaudited pro forma financial basis presents the combined results of the Company and its acquisitions during the three months ended March 31, 2022 as if each acquisition had occurred on January 1, 2022 (in thousands, except per share amounts):

	Three months ended March 31, 2022
	(unaudited)
Revenues	\$ 316,154
Net income	\$ 24,815
Income per common share - Basic	\$ 0.53
Income per common share - Diluted	\$ 0.52

4. Investments

Investments consist primarily of equity and debt securities.

Investment in equity securities

On October 7, 2021, the Company completed the separation of its cloud fax business (the “Separation”) into an independent publicly traded company, Consensus Cloud Solutions, Inc. (“Consensus”). Following the Separation, the Company retained shares of Consensus common stock and as of March 31, 2023 and December 31, 2022, the Company held approximately 1.0 million and 1.1 million shares, respectively, of the common stock of Consensus. As of March 31, 2023 and December 31, 2022, the carrying value of the investment in Consensus was \$35.3 million and \$58.4 million, respectively, and was included in ‘Short-term investments’ in the Condensed Consolidated Balance Sheets. The Company accounts for its investment in Consensus at fair value under the fair value option, and the related fair value gains and losses are recognized in earnings. During the three months ended March 31, 2023, the Company sold 52,393 shares of common stock of Consensus in the open market.

Gains (losses) on equity securities were recorded in ‘Unrealized (loss) gain on short-term investments held at the reporting date, net’ in the Condensed Consolidated Statements of Operations’ consisted of the following (in thousands):

	Three months ended March 31,		Three months ended March 31,
	2023		2022
Net (losses) gains during the period	\$ (19,988)	\$	8,951
Less: gains on securities sold during the period	357		—
Unrealized (losses) gains recognized during the period on short-term investments held at the reporting date, net	\$ (20,345)	\$	8,951

Investment in corporate debt security

On April 12, 2022, the Company entered into an agreement with an entity to acquire 4% convertible notes with an aggregate value of \$15.0 million. This investment is included in ‘Long-term investments, net’ in the Condensed Consolidated Balance Sheets and is classified as available-for-sale. The investment was initially measured at its transaction price and subsequently remeasured at fair value, with unrealized gains and losses reported as a component of other comprehensive income.

As of March 31, 2023, both the carrying value and the maximum exposure of the Company’s investment in corporate debt securities was approximately \$16.0 million, with a contractual maturity date that is more than one year but less than five years. As of December 31, 2022, both of the carrying value and the maximum exposure of the Company’s equity method investment in corporate debt securities was approximately \$15.6 million. Cumulative gross unrealized gains of investment in corporate debt securities as of March 31, 2023 and December 31, 2022 was approximately \$1.0 million and \$0.6 million, respectively.

There were no investments in an unrealized loss position as of March 31, 2023 and December 31, 2022.

As of March 31, 2023 and December 31, 2022, the Company did not recognize any other-than-temporary impairment losses on its debt securities.

Equity method investment

On September 25, 2017, the Company entered into a commitment to invest in an investment fund (the “OCV Fund”). The primary purpose of the OCV Fund is to provide a limited number of select investors with the opportunity to realize long-

ZIFF DAVIS, INC. AND SUBSIDIARIES
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term appreciation from public and private companies, with a particular focus on the technology and life science industries. The general activities of the OCV Fund is to buy, sell, hold, and otherwise invest in securities of every kind and nature and rights and options with respect thereto, including, without limitation, stock, notes, bonds, debentures, and evidence of indebtedness; to exercise all rights, powers, privileges, and other incidents of ownership or possession with respect to securities held or owned by the OCV Fund; to enter into, make, and perform all contracts and other undertakings; and to engage in all activities and transactions as may be necessary, advisable, or desirable to carry out the foregoing.

During both the three months ended March 31, 2023 and 2022, the Company received no distributions from OCV.

The Company recognizes its equity in the net earnings or losses relating to the investment in OCV on a one-quarter lag (including management fees) due to the timing and availability of financial information from OCV. If the Company becomes aware of a significant decline in value that is other-than-temporary, the loss will be recorded in the period in which the Company identifies the decline.

During the three months ended March 31, 2023 and 2022, the Company recognized a loss from equity method investment of \$9.2 million and \$0.8 million, net of tax benefit, respectively. The loss during the three months ended March 31, 2023 was primarily the result of losses in the underlying investments and the loss during the three months ended March 31, 2022 was related to management fee expense. During the three months ended March 31, 2023 and 2022, the Company recognized expense for management fees of zero and \$0.8 million, respectively, net of tax benefit.

As of March 31, 2023, both of the carrying value and the maximum exposure of the Company's equity method investment was \$100.0 million. As of December 31, 2022, both of the carrying value and the maximum exposure of the Company's equity method investment was \$112.3 million. These equity securities are included within 'Long-term investments' in the Condensed Consolidated Balance Sheets.

As a limited partner, the Company's maximum exposure to loss is limited to its proportional ownership in the partnership. In addition, the Company is not required to contribute any future capital and any expected losses will not be in excess of the capital account. Finally, there are no call or put options, or other types of arrangements, which limit the Company's ability to participate in losses and returns of the Fund.

5. Fair Value Measurements

The Company complies with the provisions of ASC 820, which defines fair value, provides a framework for measuring fair value and expands the disclosures required for fair value measurements of financial and non-financial assets and liabilities. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value.

- § Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- § Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- § Level 3 – Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company's money market funds are classified within Level 1. The Company values these Level 1 investments using quoted market prices.

The Company's investment in Consensus' common stock for which the Company elected the fair value option, and the fair value of the Company's investment in Consensus and subsequent fair value changes, are included in our assets and changes in fair value are recognized in earnings. As the initial carrying value of the investment in Consensus was negative immediately following the Separation, the Company elected the fair value option under ASC 825-10-25 to support the initial recognition of the investment in Consensus at fair value and the negative book value was recorded as a gain at the date of Separation. The fair value of the investment in Consensus is determined using quoted market prices, which is a Level 1 input.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

The Company has investment in a corporate debt security that does not have a readily determinable fair value because acquired securities are privately held, not traded on any public exchanges and not an investment in a mutual fund or similar investment. The fair value of the corporate debt securities is determined primarily based on significant estimates and assumptions, including Level 3 inputs. As of March 31, 2023 and December 31, 2022, the fair value was determined based upon various probability-weighted scenarios and included an assumption of a 13% discount rate as of March 31, 2023 and December 31, 2022, respectively, and a conversion timeframe of approximately one-year.

The fair value of the Company's 4.625% Senior Notes and 1.75% Convertible Notes (as defined in Note 7 - *Debt*) was determined using quoted market prices or dealer quotes for instruments with similar maturities and other terms and credit ratings, which are Level 1 inputs. If such information is not available for the 1.75% Convertible Notes, the fair value is determined using cash-flow models of the scheduled payments discounted at market interest rates for comparable debt without the conversion feature.

The Company classifies its contingent consideration liability in connection with acquisitions within Level 3 because factors used to develop the estimated fair value are unobservable inputs, such as volatility and market risks, and are not supported by market activity. The valuation approaches used to value Level 3 investments considers unobservable inputs in the market such as time to liquidity, volatility, dividend yield, and breakpoints. Significant increases or decreases in either of the inputs in isolation would result in a significantly lower or higher fair value measurement. As of March 31, 2023 and December 31, 2022, the contingent consideration was determined using a 100% probability of payout, without any other estimates applied.

The following tables present the fair values of the Company's financial assets or liabilities that are measured at fair value on a recurring basis (in thousands):

March 31, 2023	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Assets:					
Cash equivalents:					
Money market and other funds	\$ 292,847	\$ —	\$ —	\$ 292,847	\$ 292,847
Short-term investments:					
Certificates of deposit	—	3,753	—	3,753	3,753
Investment in Consensus	35,259	—	—	35,259	35,259
Long-term investments:					
Investment in corporate debt securities	—	—	16,019	16,019	16,019
Total assets measured at fair value	<u>\$ 328,106</u>	<u>\$ 3,753</u>	<u>\$ 16,019</u>	<u>\$ 347,878</u>	<u>\$ 347,878</u>
Liabilities:					
Contingent consideration	\$ —	\$ —	\$ 555	\$ 555	\$ 555
Debt:					
4.625% Senior Notes	399,203			399,203	456,498
1.75% Convertible Notes	540,237			540,237	543,119
Total liabilities measured at fair value	<u>\$ 939,440</u>	<u>\$ —</u>	<u>\$ 555</u>	<u>\$ 939,995</u>	<u>\$ 1,000,172</u>

ZIFF DAVIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

December 31, 2022	Level 1	Level 2	Level 3	Fair Value	Carrying Value
Assets:					
Cash equivalents:					
Money market and other funds	\$ 312,010	\$ —	\$ —	\$ 312,010	\$ 312,010
Short-term investments:					
Investment in Consensus	58,421	—	—	58,421	58,421
Long-term investments:					
Investment in corporate debt securities	—	—	15,586	15,586	15,586
Total assets measured at fair value	<u>\$ 370,431</u>	<u>\$ —</u>	<u>\$ 15,586</u>	<u>\$ 386,017</u>	<u>\$ 386,017</u>
Liabilities:					
Contingent consideration	\$ —	\$ —	\$ 555	\$ 555	\$ 555
Debt:					
4.625% Senior Notes	390,908			390,908	456,400
1.75% Convertible Notes	548,411			548,411	542,653
Total liabilities measured at fair value	<u>\$ 939,319</u>	<u>\$ —</u>	<u>\$ 555</u>	<u>\$ 939,874</u>	<u>\$ 999,608</u>

At the end of each reporting period, management reviews the inputs to the fair value measurements of financial and non-financial assets and liabilities to determine when transfers between levels are deemed to have occurred. For the three months ended March 31, 2023 and 2022, there were no transfers that occurred between levels.

The following table presents a reconciliation of the Company's Level 3 financial assets related to our investment in corporate debt securities that are measured at fair value on a recurring basis (in thousands):

	Three months ended			
	2023		2022	
	Contingent Consideration Arrangements	Corporate Debt Securities	Contingent Consideration Arrangements	Corporate Debt Securities
Balance as of January 1	\$ 555	\$ 15,586	\$ 5,775	\$ —
Fair value at date of acquisition	—	—	4,200	—
Fair value adjustments ⁽¹⁾	—	433	112	—
Balance as of March 31	<u>\$ 555</u>	<u>\$ 16,019</u>	<u>\$ 10,087</u>	<u>\$ —</u>

(1) The fair value adjustments to the contingent consideration arrangements in the table above were recorded within 'General and administrative' on the Condensed Consolidated Statements of Operations during the three months ended March 31, 2023 and 2022. The fair value adjustments to the corporate debt securities in the table above were recorded within 'Change in fair value on available-for-sale investments, net' on the Condensed Consolidated Statements of Comprehensive (Loss) Income during the three months ended March 31, 2023 and 2022.

The Company's non-financial assets, such as goodwill, intangible assets, right-of-use assets, and property, plant and equipment, are adjusted to fair value only when an impairment is recognized. Such fair value measurements are based predominately on Level 3 inputs.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

6. Goodwill and Intangible Assets

Goodwill

The changes in carrying amounts of goodwill for the three months ended March 31, 2023 are as follows (in thousands):

	Digital Media	Cybersecurity and Martech	Consolidated
Balance as of January 1, 2023	\$ 1,065,989	\$ 525,485	\$ 1,591,474
Goodwill acquired (Note 3)	3,849	—	3,849
Purchase accounting adjustments ⁽¹⁾	513	—	513
Foreign exchange translation	540	1,308	1,848
Balance as of March 31, 2023	<u>\$ 1,070,891</u>	<u>\$ 526,793</u>	<u>\$ 1,597,684</u>

(1) Purchase accounting adjustments relate to measurement period adjustments to goodwill in connection with prior business acquisitions.

Goodwill as of March 31, 2023 and December 31, 2022 reflects accumulated impairment losses of \$27.4 million and \$27.4 million, respectively, in the Digital Media reportable segment.

Intangible Assets Subject to Amortization

As of March 31, 2023, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Trade names	10 years	\$ 263,060	\$ 130,986	\$ 132,074
Customer relationships ⁽¹⁾	8 years	690,363	497,910	192,453
Other purchased intangibles	8 years	482,501	373,718	108,783
Total		<u>\$ 1,435,924</u>	<u>\$ 1,002,614</u>	<u>\$ 433,310</u>

(1) The Company amortizes customer relationship assets in a pattern that best reflects the pace at which the asset's benefits are consumed. This pattern results in a substantial majority of the amortization expense being recognized in the first 4 to 5 years, despite the overall life of the asset.

As of December 31, 2022, intangible assets subject to amortization relate primarily to the following (in thousands):

	Weighted-Average Amortization Period	Historical Cost	Accumulated Amortization	Net
Trade names	10 years	\$ 261,614	\$ 125,422	\$ 136,192
Customer relationships ⁽¹⁾	8 years	687,798	479,741	208,057
Other purchased intangibles	8 years	481,973	363,407	118,566
Total		<u>\$ 1,431,385</u>	<u>\$ 968,570</u>	<u>\$ 462,815</u>

(1) The Company amortizes customer relationship assets in a pattern that best reflects the pace at which the asset's benefits are consumed. This pattern results in a substantial majority of the amortization expense being recognized in the first 4 to 5 years, despite the overall life of the asset.

Amortization expense, included in General and administrative expense on the Condensed Consolidated Statements of Operations, was approximately \$33.3 million and \$41.2 million for the three months ended March 31, 2023 and 2022, respectively.

ZIFF DAVIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

7. Debt

Long-term debt consists of the following (in thousands):

	March 31, 2023	December 31, 2022
4.625% Senior Notes	\$ 460,038	\$ 460,038
1.75% Convertible Notes	550,000	550,000
Total Notes	1,010,038	1,010,038
Credit Agreement	—	—
Less: Unamortized discount	(2,690)	(2,764)
Deferred issuance costs	(7,731)	(8,221)
Total long-term debt	\$ 999,617	\$ 999,053

As of March 31, 2023, \$550.0 million of principal will mature in 2026 and \$460.0 million of principal will mature in 2030.

4.625% Senior Notes

On October 7, 2020, the Company completed the issuance and sale of \$750.0 million aggregate principal amount of its 4.625% senior notes due 2030 (the “4.625% Senior Notes”) in a private placement offering exempt from the registration requirements of the Securities Act of 1933. The Company received proceeds of \$742.7 million after deducting the initial purchasers’ discounts, commissions and offering expenses. The net proceeds were used to redeem all of its outstanding 6.0% Senior Notes due in 2025 and, the remaining net proceeds were available for general corporate purposes which may include acquisitions and the repurchase or redemption of other outstanding indebtedness.

These senior notes bear interest at a rate of 4.625% per annum, payable semi-annually in arrears on April 15 and October 15 of each year, commencing on April 15, 2021. The 4.625% Senior Notes mature on October 15, 2030, and are senior unsecured obligations of the Company which are guaranteed, jointly and severally, on an unsecured basis by certain of the Company’s existing and future domestic direct and indirect wholly-owned subsidiaries (collectively, the “Guarantors”). If the Company or any of its restricted subsidiaries acquires or creates a domestic restricted subsidiary, other than an Insignificant Subsidiary (as defined in the indenture pursuant to which the 4.625% Senior Notes were issued (the “Indenture”)), after the issue date, or any Insignificant Subsidiary ceases to fit within the definition of Insignificant Subsidiary, such restricted subsidiary is required to unconditionally guarantee, jointly and severally, on an unsecured basis, the Company’s obligations under the 4.625% Senior Notes.

The Company may redeem some or all of the 4.625% Senior Notes at any time on or after October 15, 2025 at specified redemption prices plus accrued and unpaid interest, if any, up to, but excluding the redemption date. Before October 15, 2023, and following certain equity offerings, the Company also may redeem up to 40% of the 4.625% Senior Notes at a price equal to 104.625% of the principal amount, plus accrued and unpaid interest, if any, up to, but excluding the redemption date. The Company may make such redemption only if, after such redemption, at least 50% of the aggregate principal amount of the 4.625% Senior Notes remains outstanding. In addition, at any time prior to October 15, 2025, the Company may redeem some or all of the 4.625% Senior Notes at a price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, plus an applicable “make-whole” premium. The discount and deferred issuance costs are being amortized, at an effective interest rate of 4.7%, to interest expense through the maturity date.

The Indenture contains covenants that restrict the Company’s ability to (i) pay dividends or make distributions on the Company’s common stock or repurchase the Company’s capital stock; (ii) make certain restricted payments; (iii) create liens or enter into sale and leaseback transactions; (iv) enter into transactions with affiliates; (v) merge or consolidate with another company; and (vi) transfer and sell assets. These covenants contain certain exceptions. Restricted payments are applicable only if the Company and subsidiaries designated as restricted subsidiaries have a net leverage ratio of greater than 3.5 to 1.0. In addition, if such net leverage ratio is in excess of 3.5 to 1.0, the restriction on restricted payments is subject to various exceptions, including the total aggregate amount not exceeding the greater of (A) \$250 million and (B) 50.0% of EBITDA for the most recently ended four fiscal quarter period ended immediately prior to such date for which internal financial statements are available. The Company is in compliance with its debt covenants for the 4.625% Senior Notes as of March 31, 2023.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Repurchases of 4.625% Senior Notes on the open market were as follows (in thousands):

	Three months ended March 31, 2022
Principal repurchased	\$ 54,609
Aggregate purchase price	\$ 55,365
Gain (loss) on repurchase ⁽¹⁾	\$ (1,220)

(1) Presented within 'Gain (loss) on debt extinguishment, net' on the Condensed Consolidated Statements of Operations.

Cumulatively as of March 31, 2023, the Company repurchased approximately \$290.0 million in aggregate principal of its 4.625% Senior Notes.

1.75% Convertible Notes

On November 15, 2019, the Company issued \$550.0 million aggregate principal amount of 1.75% convertible senior notes due November 1, 2026 (the "1.75% Convertible Notes"). The Company received proceeds of \$537.1 million in cash, net of purchasers' discounts and commissions and other debt issuance costs. A portion of the net proceeds were used to pay off all amounts outstanding under the then-existing Credit Facility. The 1.75% Convertible Notes bear interest at a rate of 1.75% per annum, payable semiannually in arrears on May 1 and November 1 of each year, beginning on May 1, 2020. The 1.75% Convertible Notes will mature on November 1, 2026, unless earlier converted or repurchased.

Holders may surrender their 1.75% Convertible Notes for conversion at any time prior to the close of business on the business day immediately preceding July 1, 2026 only under the following circumstances: (i) during any calendar quarter commencing after the calendar quarter ending on March 31, 2020 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding the calendar quarter is greater than 130% of the applicable conversion price of the 1.75% Convertible Notes on each such applicable trading day; (ii) during the five business day period following any 10 consecutive trading day period in which the trading price per \$1,000 principal amount of 1.75% Convertible Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate on each such trading day; or (iii) upon the occurrence of specified corporate events. On or after July 1, 2026, and prior to the close of business on the business day immediately preceding the maturity date, holders may convert all or any portion of their notes at any time, regardless of the foregoing circumstances. The Company will settle conversions of the 1.75% Convertible Notes by paying or delivering, as the case may be, cash, shares of the Company's common stock or a combination thereof at the Company's election. The Company currently intends to satisfy its conversion obligation by paying and delivering a combination of cash and shares of the Company's common stock. Holders of the notes will have the right to require the Company to repurchase for cash all or any portion of their notes upon the occurrence of certain corporate events, subject to certain conditions. As of March 31, 2023 and December 31, 2022, the market trigger conditions did not meet the conversion requirements of the 1.75% Convertible Notes and, accordingly, the 1.75% Convertible Notes are classified as long-term debt on our Condensed Consolidated Balance Sheets.

As of March 31, 2023, the conversion rate is 9.3783 shares of the Company's common stock for each \$1,000 principal amount of 1.75% Convertible Notes (or 5,158,071 shares), which represents a conversion price of approximately \$106.63 per share of the Company's common stock. The conversion rate is subject to adjustment for certain events as set forth in the indenture governing the 1.75% Convertible Notes, but will not be adjusted for accrued interest. In addition, upon the occurrence of a "Make-Whole Fundamental Change" (as defined in the 1.75% Convertible Note Indenture), the Company will increase the conversion rate for a holder that elects to convert its 1.75% Convertible Notes in connection with such a corporate event in certain circumstances.

The Company may not redeem the 1.75% Convertible Notes prior to November 1, 2026, and no sinking fund is provided for the 1.75% Convertible Notes.

The 1.75% Convertible Notes are the Company's general senior unsecured obligations and rank: (i) senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the 1.75% Convertible Notes; (ii) equal in right of payment to the Company's existing and future indebtedness that is not so subordinated; (iii) effectively junior to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and (iv) structurally junior to all existing and future indebtedness and other liabilities incurred by the Company's subsidiaries.

ZIFF DAVIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

The fair value of the 1.75% Convertible Notes at each balance sheet date is determined based on recent quoted market prices or dealer quotes for the 1.75% Convertible Notes, which are Level 1 inputs (see Note 5 - *Fair Value Measurements*). If such information is not available, the fair value is determined using cash-flow models of the scheduled payments discounted at market interest rates for comparable debt without the conversion feature. As of March 31, 2023 and December 31, 2022, the estimated fair value of the 1.75% Convertible Notes was approximately \$540.2 million and \$548.4 million, respectively. Refer to Note 5 - *Fair Value Measurements*.

The following table provides additional information related to the 1.75% Convertible Notes (in thousands):

	March 31, 2023	December 31, 2022
Principal amount of 1.75% Convertible Notes	\$ 550,000	\$ 550,000
Less: Carrying amount of debt issuance costs	(6,881)	(7,347)
Net carrying amount of 1.75% Convertible Notes	<u>\$ 543,119</u>	<u>\$ 542,653</u>

The following table provides the components of interest expense related to the 1.75% Convertible Notes (in thousands):

	Three months ended March 31,	
	2023	2022
Coupon interest expense	\$ 2,406	\$ 2,406
Amortization of debt issuance costs	466	493
Total interest expense related to 1.75% Convertible Notes	<u>\$ 2,872</u>	<u>\$ 2,899</u>

Accounting for the 1.75% Convertible Notes

On January 1, 2022 the Company adopted ASU 2020-06 using the modified retrospective method. As a result of this adoption, the Company de-recognized the remaining unamortized debt discount of \$87.3 million on the 1.75% Convertible Notes and therefore no longer recognizes any amortization of debt discounts as interest expense.

In connection with the issuance of the 1.75% Convertible Notes, the Company incurred \$12.9 million of deferred issuance costs, which primarily consisted of the underwriters' discount, legal and other professional service fees. Of the total deferred issuance costs incurred, \$10.1 million were attributable to the liability component and are being amortized at an effective interest rate of 5.5%, to interest expense through the maturity date. The remaining \$2.8 million of the deferred issuance costs were netted with the equity component in additional paid-in capital at the issuance date. Upon adoption of ASU 2020-06, the Company reclassified the \$2.8 million from additional paid-in-capital to long-term liability and recorded a cumulative adjustment to retained earnings for amortization from the issuance date through January 1, 2022.

Credit Agreement

On April 7, 2021, the Company entered into a \$100.0 million Credit Agreement (the "Credit Agreement"). Subject to customary conditions, the Company may, from time to time, request increases in the commitments under the Credit Agreement in an aggregate amount up to \$250.0 million, for a total aggregate commitment of up to \$350.0 million. The final maturity of the Credit Facility will occur on April 7, 2026.

At the Company's option, amounts borrowed under the Credit Agreement will bear interest at either (i) a base rate equal to the greater of (x) the Federal Funds Effective Rate (as defined in the Credit Agreement) in effect on such day plus 0.5% per annum, (y) the rate of interest per annum most recently announced by the Agent (as defined in the Credit Agreement) as its U.S. Dollar "Reference Rate" and (z) one month LIBOR plus 1.00% or (ii) a rate per annum equal to LIBOR divided by 1.00 minus the LIBOR Reserve Requirements (as defined in the Credit Agreement), in each case, plus an applicable margin. The applicable margin relating to any base rate loan will range from 0.50% to 1.25% and the applicable margin relating to any LIBOR loan will range from 1.50% to 2.25%, in each case, depending on the total leverage ratio of the Company. The Company is permitted to make voluntary prepayments of the Credit Facility at any time without payment of a premium or penalty. The Credit Agreement is secured by an associated collateral agreement that provides for a lien on the majority of the Company's assets and the assets of the guarantors, in each case, subject to customary exceptions. As of March 31, 2023, there were no amounts outstanding under the Credit Agreement.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

The Credit Agreement contains financial maintenance covenants, including (i) a maximum total leverage ratio as of the last date of any fiscal quarter not to exceed 4.00:1.00 for the Company and its restricted subsidiaries and (ii) a minimum interest coverage ratio as of the last date of any fiscal quarter not less than 3.00:1.00 for the Company and its restricted subsidiaries. The Credit Agreement also contains restrictive covenants that limit, among other things, the Company's and its restricted subsidiaries' ability to incur additional indebtedness, create, incur or assume liens, consolidate, merge, liquidate or dissolve, pay dividends or make other distributions or other restricted payments, make or hold any investments, enter into certain transactions with affiliates, sell assets other than on terms specified by the Credit Agreement, amend the terms of certain other indebtedness and organizational documents, and change their lines of business and fiscal years, in each case, subject to customary exceptions. The Credit Agreement also sets forth customary events of default, including, among other things, the failure to make timely payments under the Credit Facility, the failure to satisfy certain covenants, cross-default and cross-acceleration to other material debt for borrowed money, the occurrence of a change of control, and specified events of bankruptcy and insolvency. The Company is in compliance with its debt covenants for the Credit Agreement as of March 31, 2023.

8. Commitments and Contingencies

Litigation

From time to time, the Company and its affiliates are involved in litigation and other legal disputes or regulatory inquiries that arise in the ordinary course of business. Any claims or regulatory actions against the Company and its affiliates, whether meritorious or not, could be time consuming and costly, and could divert significant operational resources. The outcomes of such matters are subject to inherent uncertainties, carrying the potential for unfavorable rulings that could include monetary damages and injunctive relief.

On July 8, 2020, Jeffrey Garcia filed a putative class action lawsuit against the Company in the Central District of California (20-cv-06096), alleging violations of federal securities laws. The court appointed a lead plaintiff. The Company moved to dismiss the consolidated class action complaint. The court granted the motion to dismiss and the plaintiff filed an amended complaint. The Company moved to dismiss the amended complaint. On August 8, 2022, the court granted the Company's motion to dismiss the amended complaint without leave to amend. The lead plaintiff has filed a notice of appeal and appeal briefs have been filed.

On September 24, 2020, International Union of Operating Engineers of Eastern Pennsylvania and Delaware filed a lawsuit in the Delaware Court of Chancery (C.A. No. 2020-0819-VCL) asserting derivative claims for breach of fiduciary duty and related theories against directors of the Company and other third parties relating generally to the investment by the Company in OCV Fund I, L.P. (the "Chancery Court Derivative Action"). On November 17, 2020, the court entered an order allowing Orlando Police Pension Fund to intervene as a plaintiff in the case. The parties reached an agreement to settle the lawsuit, which required court approval. On July 29, 2021, the parties filed a stipulation of settlement that provided the terms of the settlement and began the settlement approval process with the Court. On January 20, 2022 the court approved the settlement. Among other terms of the settlement, no further management fees will be charged and no further capital calls will be made in connection with the Company's investment in OCV Fund I, L.P.

On December 11, 2020, Danning Huang filed a lawsuit in the District of Delaware (20-cv-01687-LPS) asserting derivative claims against directors of the Company and other third parties. The lawsuit alleges violations of Section 14(a), Section 10(b), Section 20(a) and Rule 10b-5 of the Securities Exchange Act of 1934, as well as breach of fiduciary duty, unjust enrichment and abuse of control.

On March 24, 2021, Fritz Ringling filed a lawsuit in the District of Delaware (21-cv-00421-UNA) asserting substantially similar derivative claims, and on April 8, 2021, the district court consolidated the two actions under the caption In re J2 Global Stockholder Derivative Litigation. No.: 20-cv-01687-LPS. As part of the settlement of the Chancery Court Derivative Action described above, the Company and its directors and officers intend to defend against the remaining claims in other actions.

The Company does not believe, based on current knowledge, that the foregoing legal proceedings or claims, after giving effect to existing accrued liabilities, are likely to have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows. However, depending on the amount and timing, an unfavorable resolution of some or all of these matters could have a material effect on the Company's consolidated financial position, results of operations, or cash flows in a particular period.

The Company has not accrued for any material loss contingencies relating to these legal proceedings because materially unfavorable outcomes are not considered probable by management. It is the Company's policy to expense as incurred legal fees related to various litigations.

ZIFF DAVIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Non-Income Related Taxes

The Company does not collect and remit sales and use, telecommunication, or similar taxes and fees in certain jurisdictions where the Company believes such taxes are not applicable or legally required. Several states and other taxing jurisdictions have presented or threatened the Company with assessments, alleging that the Company is required to collect and remit such taxes there.

The Company is currently under audit or is subject to audit for indirect taxes in various states, municipalities and foreign jurisdictions. The Company has \$25.5 million and \$24.0 million reserve established for these matters as of March 31, 2023 and December 31, 2022, respectively, which is included within 'Accounts payable' and 'Other long-term liabilities' on the Company's Condensed Consolidated Balance Sheet. It is reasonably possible that additional liabilities could be incurred resulting in additional expense, which could have a material impact to our financial results.

9. Income Taxes

The Company's tax provision for interim periods is determined using an estimate of the Company's annual effective tax rate adjusted for discrete interim period tax impacts. Each quarter the Company updates its estimated annual effective tax rate and, if the estimate changes, makes a cumulative adjustment. The Company's effective tax rate was (65.6)% and 16.7% for the three months ended March 31, 2023 and 2022, respectively.

The Company's effective tax rate for the three months ended March 31, 2023 was impacted disproportionately due to the unrealized loss on the Company's investment in Consensus, net of the gain on investment, during the first quarter of 2023, which resulted in a discrete tax benefit of approximately \$5.0 million. Additionally, the Company recognized a discrete tax benefit of approximately \$1.0 million related to the release of reserves for uncertain tax positions.

Conversely, during the three months ended March 31, 2022, the unrealized gain on the Company's investment in Consensus resulted in no tax expense recognized. The gain was not subject to tax since the Company had the ability at that time to dispose of the investment in a tax-free manner based on guidance and requirements set out by the Internal Revenue Service, within the one-year anniversary of the Separation.

As of March 31, 2023 and December 31, 2022, the Company had \$39.8 million and \$40.4 million, respectively, in liabilities for uncertain income tax positions included within 'Other long-term liabilities' on the Condensed Consolidated Balance Sheets. Accrued interest and penalties related to unrecognized tax benefits are recognized in income tax expense on the Company's Condensed Consolidated Statement of Operations.

Certain taxes are prepaid during the year and, where appropriate, included within 'Prepaid expenses and other current assets' on the Condensed Consolidated Balance Sheets. The Company's prepaid taxes were \$0.8 million and \$3.2 million as of March 31, 2023 and December 31, 2022, respectively. The Company had a current portion of income taxes payable of \$16.9 million and \$19.7 million as of March 31, 2023 and December 31, 2022, respectively, included within 'Accounts payable' on the Condensed Consolidated Balance Sheets. The Company had a long-term portion of income taxes payable of \$11.7 million and \$11.7 million as of March 31, 2023 and December 31, 2022, respectively, included within 'Other long-term liabilities' on the Condensed Consolidated Balance Sheets.

10. Stockholders' Equity

On August 6, 2020, the Company's Board of Directors approved a program authorizing the repurchase of up to ten million shares of our common stock through August 6, 2025 (the "2020 Program"). The Company entered into certain Rule 10b5-1 trading plans during the years ended December 31, 2021 and 2020 to execute repurchases under the 2020 Program. During the three months ended March 31, 2023 and 2022, the Company repurchased zero and 554,289 shares, respectively, at an aggregate cost of approximately zero and \$58.7 million, respectively, (including an immaterial amount of commission fees) under the 2020 Program. These shares were subsequently retired. Cumulatively as of March 31, 2023, 3,672,846 shares were repurchased at an aggregate cost of \$296.9 million (including an immaterial amount of commission fees) under the 2020 Program. These shares were subsequently retired. As a result of the repurchases, the number of shares available for purchase as of March 31, 2023 is 6,327,154 shares of the Company's common stock.

Periodically, participants in the Company's stock plans surrender to the Company shares of stock to pay the exercise price or to satisfy tax withholding obligations arising upon the exercise of stock options or the vesting of restricted stock. During the three months ended March 31, 2023 and 2022, the Company purchased and retired 36,652 and 40,372 shares at an aggregate cost of approximately \$2.9 million and \$4.1 million, respectively, from plan participants for this purpose.

ZIFF DAVIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

11. Share-Based Compensation

The Company's share-based compensation plans include the 2015 Stock Option Plan (the "2015 Plan") and 2001 Employee Stock Purchase Plan (the "Purchase Plan"). Each plan is described below.

The 2015 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance share units, and other share-based awards. 4,200,000 shares of the Company's common stock are authorized to be used for 2015 Plan purposes. Options under the 2015 Plan may be granted at exercise prices determined by the Board of Directors, provided that the exercise prices shall not be less than the higher of the par value or 100% of the fair market value of the Company's common stock subject to the option on the date the option is granted. As of March 31, 2023, 435,135 shares underlying options and 848,874 shares of restricted stock units were outstanding under the 2015 Plan.

Share-Based Compensation Expense

The following table presents the effects of share-based compensation expense in the Condensed Consolidated Statements of Operations during the periods presented (in thousands):

	Three months ended March 31,	
	2023	2022
Cost of revenues	\$ 76	\$ 84
Sales and marketing	924	569
Research, development and engineering	783	629
General and administrative	6,619	5,435
Total share-based compensation	\$ 8,402	\$ 6,717

As of March 31, 2023, the Company had unrecognized share-based compensation cost of approximately \$66.2 million associated with these restricted stock awards and restricted stock units. This cost is expected to be recognized over a weighted-average period of 2.6 for restricted stock awards and 4.2 for restricted stock units.

Restricted Stock

The Company has awarded restricted stock and restricted stock units to its Board of Directors and senior staff pursuant to certain share-based compensation plans. Compensation expense resulting from restricted stock and restricted unit grants is measured at fair value on the date of grant and is recognized as share-based compensation expense over the applicable vesting period. Vesting periods are approximately one year for awards to members of the Company's Board of Directors, four or five years for senior staff (excluding market-based awards discussed below) and four to eight years for the Chief Executive Officer. The Company granted 271,614 and 112,324 shares of restricted stock and restricted units (excluding awards with market conditions below) during the three months ended March 31, 2023 and 2022, respectively.

The Company has awarded certain key employees market-based restricted stock and market-based restricted stock units pursuant to the 2015 Plan. The market-based awards have vesting conditions that are based on specified stock price targets of the Company's common stock. Market conditions were factored into the grant date fair value using a Monte Carlo valuation model, which utilized multiple input variables to determine the probability of the Company achieving the specified stock price targets with a 20-days and 30-day lookback (trading days). Stock-based compensation expense related to an award with a market condition will be recognized over the requisite service period using the graded-vesting method regardless of whether the market condition is satisfied, provided that the requisite service period has been completed. During the three months ended March 31, 2023, the Company awarded 167,606 market-based restricted stock units at stock price targets ranging from \$83.61 to \$103.76 per share. During the three months ended March 31, 2022, the Company awarded 100,193 market-based restricted stock units at stock price targets ranging from \$107.97 to \$138.73 per share. The per share weighted average grant-date fair values of the market-based restricted stock units granted during the three months ended March 31, 2023 and 2022 were \$70.07 and \$87.11, respectively.

ZIFF DAVIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

The weighted-average fair values of market-based restricted stock units granted have been estimated utilizing the following assumptions:

	March 31, 2023	March 31, 2022
Underlying stock price at valuation date	\$ 77.80	\$ 99.32
Expected volatility	32.0 %	36.7 %
Risk-free interest rate	4.1 %	1.8 %

Restricted stock award activity for the three months ended March 31, 2023 is set forth below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2023	311,281	\$ 59.90
Vested	(36,380)	\$ 100.41
Nonvested at March 31, 2023	<u>274,901</u>	<u>\$ 58.43</u>

Restricted stock unit activity for the three months ended March 31, 2023 is set forth below:

	Number of Shares	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2023	464,354		
Granted	439,220		
Vested	(53,299)		
Canceled	(1,401)		
Outstanding at March 31, 2023	<u>848,874</u>	3.4	\$ 66,508,434
Vested and expected to vest at March 31, 2023	<u>705,218</u>	3.2	\$ 54,788,467

ZIFF DAVIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

12. (Loss) Earnings Per Share

The components of basic and diluted earnings (loss) per share are as follows (in thousands, except share and per share data):

	Three months ended March 31,			
	2023		2022	
	Basic	Diluted	Basic	Diluted
Numerator for basic and diluted net (loss) income per common share:				
Net (loss) income	\$ (7,627)	\$ (7,627)	\$ 24,537	\$ 24,537
Net income available to participating securities ⁽¹⁾	—	—	(11)	(11)
1.75% Convertible Notes interest expense (after-tax)	—	—	—	2,186
Net (loss) income available to the Company's common shareholders	<u>\$ (7,627)</u>	<u>\$ (7,627)</u>	<u>\$ 24,526</u>	<u>\$ 26,712</u>
Denominator:				
Basic weighted-average outstanding shares of common stock	46,987,249	46,987,249	47,054,411	47,054,411
Diluted effect of:				
Equity incentive plans	—	—	—	192,835
Convertible debt	—	—	—	5,158,071
Diluted weighted-average outstanding shares of common stock	<u>46,987,249</u>	<u>46,987,249</u>	<u>47,054,411</u>	<u>52,405,317</u>
Net (loss) income per share	\$ (0.16)	\$ (0.16)	\$ 0.52	\$ 0.51

(1) Represents unvested share-based payment awards that contain certain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid).

For the three months ended March 31, 2023 and March 31, 2022, there were 1,830,097 and zero shares, respectively, of stock options and restricted stock excluded from the calculation of diluted shares as they were anti-dilutive. For the three months ended March 31, 2023, there were 5,158,071 shares related to convertible debt excluded from the calculation as they were anti-dilutive. For the three months ended March 31, 2022, these shares were included in diluted shares because they were dilutive under the if-converted method for the diluted net income per share calculation of convertible debt instruments.

13. Segment Information

The Company's businesses are based on the organizational structure used by the chief operating decision maker ("CODM"). The Company aggregates its operating segments into two reportable segments: Digital Media and Cybersecurity and Martech.

The accounting policies of the businesses are the same as those described in the Company's Annual Report on Form 10-K filed with the SEC on March 1, 2023. The Company evaluates performance based on revenue and profit or loss from operations.

ZIFF DAVIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

Information on reportable segments and reconciliation to income from operations is as follows (in thousands):

	Three months ended March 31,	
	2023	2022
Revenue by reportable segment:		
Digital Media	\$ 234,211	\$ 234,827
Cybersecurity and Martech	73,016	80,494
Elimination of inter-segment revenues	(85)	(253)
Total segment revenues	307,142	315,068
Corporate ⁽¹⁾	—	—
Total revenues	<u>\$ 307,142</u>	<u>\$ 315,068</u>
Operating costs and expenses by reportable segment ⁽²⁾ :		
Digital Media	205,742	202,707
Cybersecurity and Martech	61,413	68,166
Elimination of inter-segment operating expenses	(85)	(253)
Total segment operating expenses	267,070	270,620
Corporate ⁽¹⁾	13,757	13,886
Total operating costs and expenses	280,827	284,506
Operating income by reportable segment:		
Digital Media operating income	28,469	32,120
Cybersecurity and Martech operating income	11,603	12,328
Total segment operating income	40,072	44,448
Corporate ⁽¹⁾	(13,757)	(13,886)
Income from operations	<u>\$ 26,315</u>	<u>\$ 30,562</u>

(1) Corporate includes costs associated with general and administrative and other expenses that are managed on a global basis and that are not directly attributable to any particular segment.

(2) Operating expenses for each segment include cost of sales and other operating expenses that are directly attributable to the segment, such as employee compensation expense, local sales and marketing expenses, engineering and network operations expense, depreciation and amortization, and other administrative expenses.

14. Supplemental Cash Flow Information

Non-cash investing and financing activities were as follows (in thousands):

	Three months ended March 31,	
	2023	2022
Non-cash investing activity:		
Property and equipment, accrued but unpaid	\$ 55	\$ 205
Right-of-use assets acquired in exchange for operating lease obligations	\$ —	\$ 2,673

Supplemental data (in thousands):

	Three months ended March 31,	
	2023	2022
Interest paid	\$ —	\$ 632
Income taxes paid, net of refunds	\$ 5,329	\$ 4,344

ZIFF DAVIS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued

15. Accumulated Other Comprehensive (Loss) Income

The following table summarizes the changes in accumulated balances of other comprehensive loss (income), net of tax, for the three months ended March 31, 2023 (in thousands):

	Unrealized Gains (Losses) on Investments	Foreign Currency Translation	Total
Balance as of January 1, 2023	\$ 441	\$ (85,814)	\$ (85,373)
Other comprehensive income	324	3,713	4,037
Balance as of March 31, 2023	\$ 765	\$ (82,101)	\$ (81,336)

There were no reclassifications out of accumulated other comprehensive loss for the three months ended March 31, 2023 and 2022, respectively.

16. Related Party Transactions

Consensus

As of March 31, 2023 and December 31, 2022, the Company held approximately 1.0 million and 1.1 million shares of the common stock of Consensus, respectively, representing approximately 5% of the Consensus outstanding common stock. The Company determined that Consensus was no longer a related party after September 30, 2022. Related party transactions with Consensus through September 30, 2022 are included within the disclosures below.

In preparation for and in executing the Separation, the Company incurred transaction-related costs, some of which were, reimbursed by Consensus. These transaction costs primarily related to professional fees associated with preparation of regulatory filings and transaction execution and separation activities within finance, tax, and legal functions. In connection with the Separation, Ziff Davis and Consensus entered into several agreements that govern the relationship of the parties following the Separation, including a separation and distribution agreement, a transition services agreement, a tax matters agreement, an employee matters agreement, an intellectual property license agreement, and a stockholder and registration rights agreement. The transition services agreement governs services including certain information technology services, finance and accounting services, and human resource and employee benefit services. The agreed-upon charges for such services are generally intended to allow the providing company to recover all costs and expenses of providing such services, and nearly all such services were terminated without extension twelve months after the Separation. During the three months ended March 31, 2022, the Company recorded an offset to expense of approximately \$1.2 million from Consensus related to the transition services agreement within 'General and administrative expenses' within the Condensed Consolidated Statements of Operations. Further, the Company assigned its lease of office space in Los Angeles, California to Consensus. Ziff Davis remained the lessee under this lease and its obligations remained in place through October 7, 2022, after which time Consensus took over the lease in full. During the three months ended March 31, 2022, the Company recorded an offset to lease expense of approximately \$0.4 million related to this lease, however, Consensus paid the landlord directly (other than an immaterial amount of sublease payments from Ziff Davis to Consensus).

OCV

On September 25, 2017, the Company entered into a commitment to invest in the OCV Fund. During the three months ended March 31, 2023 and 2022, the Company recognized expense for management fees of zero and \$0.8 million, net of tax benefit, respectively. During both the three months ended March 31, 2023 and 2022, the Company received no distributions from OCV.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Information

In addition to historical information, we have also made forward-looking statements in this report. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words "anticipates," "believes," "estimates," "hopes" or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those discussed below, the risk factors discussed in Part II, Item 1A - "Risk Factors" of this Quarterly Report on Form 10-Q (if any) and in Part I, Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022 (together, the "Risk Factors"), and the factors discussed in the section in this Quarterly Report on Form 10-Q entitled "Quantitative and Qualitative Disclosures About Market Risk." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the Risk Factors and the risk factors set forth in other documents we file from time to time with the SEC.

Some factors that could cause actual results to differ materially from those anticipated in these forward-looking statements include, but are not limited to, our ability and intention to:

- Sustain growth or profitability, particularly in light of an uncertain U.S. or worldwide economy, including the possibility of an economic downturn or recession, continuing inflation, supply chain disruptions, and other factors and their related impacts on customer acquisition and retention rates, customer usage levels, and credit and debit card payment declines;
- Maintain and increase our customer base and average revenue per user;
- Generate sufficient cash flow to make interest and debt payments, reinvest in our business, and pursue desired activities and businesses plans while satisfying restrictive covenants relating to debt obligations;
- Acquire businesses on acceptable terms and successfully integrate and realize anticipated synergies from such acquisitions;
- Continue to expand our businesses and operations internationally in the wake of numerous risks, including adverse currency fluctuations, difficulty in staffing and managing international operations, higher operating costs as a percentage of revenues, or the implementation of adverse regulations;
- Maintain our financial position, operating results and cash flows in the event that we incur new or unanticipated costs or tax liabilities, including those relating to federal and state income tax and indirect taxes, such as sales, value-added and telecommunication taxes;
- Accurately estimate the assumptions underlying our effective worldwide tax rate;
- Maintain favorable relationships with critical third-party vendors whose financial condition will not negatively impact the services they provide;
- Create compelling digital media content causing increased traffic and advertising levels; additional advertisers or an increase in advertising spend; and effectively target digital media advertisements to desired audiences;
- Manage certain risks inherent to our business, such as costs associated with fraudulent activity, system failure or security breach; effectively maintaining and managing our billing systems; time and resources required to manage our legal proceedings; liability for legal and other claims; or adhering to our internal controls and procedures;
- Compete with other similar providers with regard to price, service, and functionality;
- Achieve business and financial objectives in light of burdensome domestic and international telecommunications, internet or other regulations, including regulations related to data privacy, access, security, retention, and sharing;
- Successfully manage our growth, including but not limited to our operational and personnel-related resources, and integration of newly acquired businesses;
- Successfully adapt to technological changes and diversify services and related revenues at acceptable levels of financial return;

- Successfully develop and protect our intellectual property, both domestically and internationally, including our brands, patents, trademarks and domain names, and avoid infringing upon the proprietary rights of others;
- Manage certain risks associated with environmental, social and governmental matters, including related reporting obligations, that could adversely affect our reputation and performance; and
- Recruit and retain key personnel.

In addition, other factors that could cause actual results to differ materially from those anticipated in these forward-looking statements or materially impact our financial results include the risks associated with new accounting pronouncements, as well as those associated with natural disasters, public health crises, pandemics, and other catastrophic events outside of our control.

Overview

Ziff Davis, Inc. was incorporated in 2014 as a Delaware corporation through the creation of a holding company structure. Ziff Davis, Inc., together with its subsidiaries (“Ziff Davis”, “the Company”, “our”, “us” or “we”), is a vertically focused digital media and internet company whose portfolio includes brands in technology, shopping, gaming and entertainment, connectivity, health, cybersecurity, and martech. Our Digital Media business specializes in the technology, shopping, gaming and entertainment, connectivity and healthcare markets, offering content, tools and services to consumers and businesses. Our Cybersecurity and Martech business provides cloud-based subscription services to consumers and businesses including cybersecurity, privacy, and marketing technology.

Our consolidated revenues are currently generated primarily from two basic business models, each with different financial profiles and variability. Our Digital Media business is driven primarily by advertising revenues, has relatively higher sales and marketing expense and has seasonal strength in the fourth quarter. Our Cybersecurity and Martech business is driven primarily by subscription revenues with relatively stable and predictable margins from quarter to quarter. In addition to growing our business organically, on a regular basis we acquire businesses to grow our customer bases, expand and diversify our service offerings, enhance our technologies, acquire skilled personnel, and enter into new markets. We continue to pursue additional acquisitions, which may include companies operating under business models that differ from those we operate under today. Such acquisitions could impact our consolidated profit margins and the variability of our revenues.

Performance Metrics

Revenues from customers classified by revenue source are as follows (in thousands):

	Three months ended March 31,	
	2023	2022
Digital Media		
Advertising	\$ 156,082	\$ 170,067
Subscription	69,148	55,576
Other	8,981	9,184
Total Digital Media revenues	\$ 234,211	\$ 234,827
Cybersecurity and Martech		
Subscription	\$ 73,016	\$ 80,494
Total Cybersecurity and Martech revenues	\$ 73,016	\$ 80,494
Elimination of inter-segment revenues	(85)	(253)
Total Revenues	\$ 307,142	\$ 315,068

We use certain metrics to generally assess the operational and financial performance of our businesses. For our advertising businesses, net advertising revenue retention is an indicator of our ability to retain the spend of our existing advertisers year over year, which we view as a reflection of the effectiveness of our advertising platform. Similarly, we monitor the number of our advertisers and the revenue per advertiser, as defined below, as these metrics provide further details related to our reported revenue and contribute to certain of our business planning decisions.

For our subscription and licensing businesses, the number of subscribers that we serve is an indicator of our customer retention and growth. The average monthly revenue per subscriber and the churn rate also contribute to insights that contribute to certain of our business planning decisions.

The following table sets forth certain key operating metrics for our Digital Media advertising business for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,	
	2023	2022
Net advertising revenue retention ⁽¹⁾	91.2 %	106.6 %
Advertisers ⁽²⁾	1,737	1,950
Quarterly revenue per advertiser ⁽³⁾	\$ 89,857	\$ 87,214

(1) Net advertising revenue retention equals (i) the trailing twelve months revenue recognized related to prior year advertisers in the current year period (excluding revenue from acquisitions during the stub period) divided by (ii) the trailing twelve months revenue recognized related to prior year advertisers in the prior year period (excluding revenue from acquisitions during the stub period). This excludes advertisers that generated less than \$10,000 of revenue in the measurement period.

(2) Excludes advertisers that spent less than \$2,500 in the quarter within certain divisions.

(3) Represents total gross quarterly advertising revenues divided by advertisers as defined in footnote (2).

The following table sets forth certain key operating metrics for our Digital Media and Cybersecurity and Martech subscription and licensing businesses for the three months ended March 31, 2023 and 2022:

	Three months ended March 31,	
	2023	2022
Subscribers (in thousands) ⁽¹⁾	3,016	2,131
Average quarterly revenue per subscriber ⁽²⁾	\$47.14	\$63.85
Churn rate ⁽³⁾	3.28%	3.22%

(1) Represents the quarterly average of the end of month subscriber counts for both the Digital Media and Cybersecurity and Martech businesses. Cybersecurity and Martech subscribers are defined as a direct customer, including customers who have paused but not cancelled their subscription. If the company provides services through a reseller or a partner and the Company does not have visibility into the number of underlying subscribers, the reseller or partner is counted as one subscriber.

(2) Represents quarterly subscription revenues divided by customers in the table above.

(3) Churn rate is calculated as (i) the average revenue per subscription in the prior month multiplied by the number of cancellations in the current month, calculated at each business and aggregated; divided by (ii) subscription revenue in the current month, calculated at each business and aggregated. For Ookla, the churn rate calculation included in consolidated churn rate calculation includes the sum of the monthly revenue from the specific cancelled agreements in the numerator.

Critical Accounting Policies and Estimates

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements. Actual results could differ significantly from those estimates under different assumptions and conditions. Our critical accounting policies are described in our 2022 Annual Report on Form 10-K filed with the SEC on March 1, 2023. During the three months ended March 31, 2023, there were no significant changes in our critical accounting policies and estimates. See Note 1 - *Basis of Presentation and Overview* to the Notes to Condensed Consolidated Financial Statements included in Part I Item 1 of this Quarterly Report on Form 10-Q for additional description of significant accounting policies of the Company.

Results of Operations for the Three Months Ended March 31, 2023

Digital Media

We expect the Digital Media business to improve as we integrate our recent acquisitions and over the longer term as advertising transactions continue to shift from offline to online, and we continue to expand our advertising platforms. The main focus of our platform monetization programs is to provide relevant and useful advertising to visitors to our websites, provide meaningful content that informs and shapes purchase intent, and leverage our brand and editorial assets into subscription platforms. As a result, we expect to continue to take steps to improve the relevance of the ads displayed on our websites and those included within our advertising networks, and improve the effectiveness of our content in driving purchase decisions and subscriptions.

The operating margin we realize on revenues generated from ads placed on our websites is significantly higher than the operating margin we realize from revenues generated from those placed on third-party websites. Growth in advertising revenues from our websites has generally exceeded that from third-party websites. This trend has generally had a positive impact on our operating margins.

We expect acquisitions to remain an important component of our strategy and use of capital in this business; however, we cannot predict whether our current pace of acquisitions will remain the same within this business, especially in light of the current macroeconomic conditions. In a given period, we may close greater or fewer acquisitions than in prior periods or acquisitions of greater or lesser significance than in prior periods. Moreover, future acquisitions of businesses within this space, but with different business models, may impact Digital Media's overall operating profit margins.

Cybersecurity and Martech

The main focus of our Cybersecurity and Martech service offerings is to reduce or eliminate costs, increase sales and enhance productivity, mobility, business continuity, and security of our customers as the technologies and devices they use evolve over time. As a result, we expect to continue to take steps to enhance our existing offerings and offer new services to continue to satisfy the evolving needs of our customers.

We expect acquisitions to remain an important component of our strategy and use of capital in this business; however, we cannot predict whether our current pace of acquisitions will remain the same within this business, especially in light of the current macroeconomic conditions. In a given period, we may close greater or fewer acquisitions than in prior periods or acquisitions of greater or lesser significance than in prior periods. Moreover, future acquisitions of businesses within this space but with different business models, may impact Cybersecurity and Martech's overall operating profit margins.

Revenues

(in thousands, except percentages)

	Three months ended March 31,		Percentage Change
	2023	2022	
Revenues	\$ 307,142	\$ 315,068	(2.5)%

Our revenues consist of revenues from our Digital Media business and Cybersecurity and Martech business. Digital Media revenues primarily consist of advertising revenues and subscriptions earned through the granting of access to, or delivery of, certain data products or services to customers, fees paid for generating business leads, and licensing and sale of editorial content and trademarks. Cybersecurity and Martech revenues primarily consist of revenues from "fixed" customer subscription revenues and "variable" revenues generated from actual usage of our services.

Our revenues decreased during the three months ended March 31, 2023 compared to the 2022 period primarily due to declines in advertising revenue in our Digital Media business and subscription revenue in our Cybersecurity and Martech businesses, partially offset by a subscription revenue increase in the Digital Media business. Included in revenue during the three months ended March 31, 2023, was \$12.0 million of incremental revenue contributed by businesses acquired during 2022.

Cost of Revenues

(in thousands, except percentages)

	Three months ended March 31,		Percentage Change
	2023	2022	
Cost of revenue	\$ 45,730	\$ 46,100	(0.8)%
As a percent of revenue	14.9%	14.6%	

Cost of revenues is primarily comprised of costs associated with content fees, production costs, and hosting costs. The decrease in cost of revenues for the three months ended March 31, 2023, compared to the 2022 period was driven by the decline in revenue and is primarily due to a decrease in content fees, campaign fulfillment expenses, computer related expenses, and lower software purchases and license fees in the Digital Media business as well as a decrease in outside services fees and employee related expenses in the Cybersecurity and Martech business, partially offset by an increase associated with newly acquired businesses and advertising inventory costs in other Digital Media businesses.

Sales and Marketing

(in thousands, except percentages)

	Three months ended March 31,		Percentage Change
	2023	2022	
Sales and Marketing	\$ 115,920	\$ 117,762	(1.6)%
As a percent of revenue	37.7%	37.4%	

Our sales and marketing costs consist primarily of internet-based advertising, sales and marketing, personnel costs, and other business development-related expenses. Our internet-based advertising relationships consist primarily of fixed cost and performance-based (cost-per-impression, cost-per-click and cost-per-acquisition) advertising relationships with an array of online service providers. The decrease in sales and marketing expenses during the three months ended March 31, 2023 compared to the 2022 period was primarily due to a decrease in product development expenses and sales department related expenses.

Research, Development, and Engineering

(in thousands, except percentages)

	Three months ended March 31,		Percentage Change
	2023	2022	
Research, Development, and Engineering	\$ 17,914	\$ 18,427	(2.8)%
As a percent of revenue	5.8%	5.8%	

Our research, development, and engineering costs consist primarily of personnel-related expenses. The decrease in research, development, and engineering costs for the three months ended March 31, 2023 compared to the 2022 period was primarily due to a decrease in engineering costs as more costs were capitalized in 2023 than in 2022.

General and Administrative

(in thousands, except percentages)

	Three months ended March 31,		Percentage Change
	2023	2022	
General and Administrative	\$ 101,263	\$ 102,217	(0.9)%
As a percent of revenue	33.0%	32.4%	

Our general and administrative costs consist primarily of personnel-related expenses, depreciation and amortization, changes in the fair value associated with contingent consideration, share-based compensation expense, bad debt expense, professional fees, severance, and insurance costs. The decrease in general and administrative expense for the three months ended March 31, 2023 compared to the 2022 period was primarily due to lower depreciation and amortization expense and lower office rental expense, offset by an increase in personnel-related expenses.

Share-Based Compensation Expense

The following table presents the effects of share-based compensation expense in the Condensed Consolidated Statements of Operations during the periods presented (in thousands):

	Three months ended March 31,	
	2023	2022
Cost of revenues	\$ 76	\$ 84
Sales and marketing	924	569
Research, development and engineering	783	629
General and administrative	6,619	5,435
Total share-based compensation expense	<u>\$ 8,402</u>	<u>\$ 6,717</u>

Non-Operating Income and Expenses

The following table represents the components of non-operating income and expenses for the three months ended March 31, 2023 and 2022 (in thousands):

	Three months ended March 31,		Percentage Change
	2023	2022	
Interest expense, net	\$ (4,480)	\$ (10,290)	(56.5)%
Loss on debt extinguishment, net	—	(1,220)	(100.0)%
Unrealized (loss) gain on short-term investments held at the reporting date, net	(20,345)	8,951	(327.3)%
Gain on investments, net	357	—	100.0 %
Other (loss) income, net	(908)	2,399	(137.8)%
Total non-operating expense	<u>\$ (25,376)</u>	<u>\$ (160)</u>	15,760.0 %

Interest expense, net. Interest expense is generated primarily from interest due on outstanding debt, partially offset by interest income generated from interest earned on cash, cash equivalents, and investments. Interest expense, net was \$4.5 million and \$10.3 million for the three months ended March 31, 2023 and 2022, respectively. Interest expense, net decreased during the three months ended March 31, 2023 compared to the 2022 period primarily due to higher interest income as a result of higher interest rates and a higher amount of cash and cash equivalents during the first quarter of 2023, compared to the first quarter of 2022, partially offset by approximately \$1.7 million less interest expense from the 4.625% Senior Notes related to a lower principal balance over the period as the notes were repurchased.

Loss on debt extinguishment, net. Loss on debt extinguishment, net was zero and \$1.2 million during the three months ended March 31, 2023 and 2022, respectively. The loss on debt extinguishment during the three months ended March 31, 2022 related to the repurchases of the 4.625% Senior Notes.

Unrealized (loss) gain on short-term investments held at the reporting date, net. Unrealized loss on short-term investment held at the reporting date, net was \$20.3 million during the three months ended March 31, 2023 compared to an unrealized gain of \$9.0 million during the three months ended March 31, 2022. The unrealized (loss) gain recorded in both periods represents the change in fair value of our investment in Consensus.

Gain on investments, net. Gain on investments, net is generated from gains from investments in equity and debt securities. Gain on investments, net was \$0.4 million and zero for the three months ended March 31, 2023 and 2022, respectively. Our gain on investments, net during the three months ended March 31, 2023 related to the sale of shares of Consensus stock on the open market during the first quarter of 2023.

Other (loss) income, net. Other (loss) income, net is primarily from miscellaneous items and gains or losses on foreign currency exchange. Other (loss) income, net was \$(0.9) million and \$2.4 million for three months ended March 31, 2023 and 2022, respectively. The change was primarily attributable to changes in gains or losses on currency exchange.

Income Taxes

Our effective tax rate is based on pre-tax income, statutory tax rates, tax regulations (including those related to transfer pricing), and different tax rates in the various jurisdictions in which we operate. The tax bases of our assets and liabilities reflect our best estimate of the tax benefits and costs we expect to realize. When necessary, we establish valuation allowances to reduce our deferred tax assets to an amount that will more likely than not be realized.

Provision for income taxes amounted to income tax benefit (expense) of \$0.6 million and \$(5.1) million for three months ended March 31, 2023 and 2022, respectively. Our effective tax rate was (65.6)% and 16.7% for the three months ended March 31, 2023 and 2022, respectively.

The decrease in our effective income tax rate for the three months ended March 31, 2023 compared to the 2022 period was primarily attributable to the following:

1. a decrease in our effective income tax rate during 2023 due to the unrealized loss on our investment in Consensus that resulted in a discrete tax benefit of approximately \$5.0 million; and
2. a decrease in our effective income tax rate during 2023 due to the release of reserves for uncertain tax positions with no similar event during the three months ended March 31, 2022; partially offset by

3. an increase in our effective income tax rate during 2023 due to a decrease in the portion of our income being taxed in foreign jurisdictions and subject to lower tax rates than in the U.S.

Judgment is required in determining our provision for income taxes and in evaluating our tax positions on a worldwide basis. We believe our tax positions, including intercompany transfer pricing policies, are consistent with the tax laws in the jurisdictions in which we conduct our business. Certain of these tax positions have in the past been, and are currently being, challenged, and this may have a significant impact on our effective tax rate if our tax reserves are insufficient.

Equity Method Investment

Loss from equity method investment, net. Loss or gain from equity method investment is generated from our investment in the OCV Fund for which we receive annual audited financial statements. The investment in the OCV Fund is presented net of tax and on a one-quarter lag due to the timing and availability of financial information from OCV. If the Company becomes aware of a significant decline in value that is other-than-temporary, the loss will be recorded in the period in which the Company identifies the decline.

Loss from equity method investment, net was \$9.2 million and \$0.8 million, net of tax benefit for the three months ended March 31, 2023 and 2022, respectively. The increase in loss from equity method investment, net during the three months ended March 31, 2023 compared to the 2022 period was primarily due to a decrease in the value of the underlying investments.

Digital Media and Cybersecurity and Martech Results

Our businesses are based on the organization structure used by management for making operating and investment decisions and for assessing performance and have been aggregated into two reportable segments: (i) Digital Media and (ii) Cybersecurity and Martech.

We evaluate the performance of our segments based on revenues, including both external and inter-business net sales, and operating income. We account for inter-business sales and transfers based primarily on standard costs with reasonable mark-ups established between the businesses. Identifiable assets by business are those assets used in the respective business' operations. Corporate assets consist of cash and cash equivalents, deferred income taxes, and certain other assets. All significant inter-business amounts are eliminated to arrive at our consolidated financial results.

Digital Media

The financial results are presented as follows (in thousands):

	Three months ended March 31,	
	2023	2022
External sales	\$ 234,126	\$ 234,695
Inter-business sales	85	132
Total sales	234,211	234,827
Operating costs and expenses	205,742	202,707
Operating income	\$ 28,469	\$ 32,120

Digital Media's net sales of \$234.1 million for the three months ended March 31, 2023 decreased \$0.6 million, or 0.2%, compared to the 2022 period primarily due to an organic decline in certain businesses, offset by \$12.0 million of incremental revenue during the three months ended March 31, 2023 contributed by businesses acquired in 2022. The Company considers revenue from an acquired business to become organic revenue in the first month in which the Company can compare a full month in the current year against a full month under its ownership in a prior year.

Digital Media's operating costs and expenses of \$205.7 million for the three months ended March 31, 2023 increased \$3.0 million, or 1.5%, compared to the 2022 period primarily due to higher software amortization expense.

As a result of these factors, Digital Media's operating income of \$28.5 million for the three months ended March 31, 2023 decreased \$3.7 million, or 11.4%, compared to the 2022 period.

Cybersecurity and Martech

The financial results are presented as follows (in thousands):

	Three months ended March 31,	
	2023	2022
External sales	\$ 73,016	\$ 80,373
Inter-business sales	—	121
Total sales	73,016	80,494
Operating costs and expenses	61,413	68,166
Operating income	\$ 11,603	\$ 12,328

Cybersecurity and Martech's net sales of \$73.0 million for the three months ended March 31, 2023 decreased \$7.4 million, or 9.2%, compared to the 2022 period primarily due to the organic decline in certain businesses during the three months ended March 31, 2023.

Cybersecurity and Martech's operating costs and expenses of \$61.4 million for the three months ended March 31, 2023 decreased \$6.8 million, or 9.9%, compared to the 2022 period primarily due to lower sales and marketing expenses and lower general and administrative expenses, including lower depreciation and amortization expense.

As a result of these factors, Cybersecurity and Martech's operating income of \$11.6 million for the three months ended March 31, 2023 decreased \$0.7 million, or 5.9%, from the 2022 period.

Liquidity and Capital Resources

Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments consisted of (in thousands):

	March 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 721,502	\$ 652,793
Short-term investments	39,012	58,421
Long-term investments	116,062	127,871
	<u>\$ 876,576</u>	<u>\$ 839,085</u>

Cash, cash equivalents, and investments held within domestic and foreign jurisdictions were as follows (in thousands):

	March 31, 2023	December 31, 2022
Cash, cash equivalents, and investments held in domestic jurisdiction	\$ 709,783	\$ 671,587
Cash, cash equivalents, and investments held in foreign jurisdiction	166,793	167,498
Cash, cash equivalents, and investments	<u>\$ 876,576</u>	<u>\$ 839,085</u>

For information on short-term and long-term investments of the Company, refer to Note 4 - *Investments* to the Notes to Condensed Consolidated Financial Statements included in Part I Item 1 of this Quarterly Report on Form 10-Q.

Financings

As of March 31, 2023 and December 31, 2022, there were no amounts drawn under the Credit Agreement.

During the three months ended March 31, 2022, the Company repurchased approximately \$54.6 million in aggregate principal amount of the 4.625% Senior Notes for an aggregate purchase price of approximately \$55.4 million. No repurchases of 4.625% Senior Notes were effectuated during the three months ended March 31, 2023.

Material Cash Requirements

Ziff Davis' long-term contractual obligations generally include its long-term debt, interest on long-term debt, lease payments on its property and equipment and holdback amounts in connection with certain business acquisitions. As of March 31, 2023, we and our subsidiaries had outstanding \$1.0 billion in aggregate principal amount of indebtedness. As of March 31, 2023, our total future minimum lease payments are \$54.3 million, of which approximately \$22.1 million are due in

the succeeding twelve months. There were no material changes to our cash requirements during the three months ended March 31, 2023.

We currently anticipate that our existing cash and cash equivalents, cash generated from operations, and availability under our revolving credit facility, will be sufficient to meet our anticipated needs for working capital, capital expenditures, and stock repurchases, if any, for at least the next 12 months.

Cash Flows

Our primary sources of liquidity are cash flows generated from operations, together with cash and cash equivalents. The following table provides a summary of cash flows from operating, investing, and financing activities (in millions):

	Three months ended March 31,			Change
	2023	2022		
Net cash provided by operating activities	\$ 115,307	\$ 116,511	\$	(1,204)
Net cash used in investing activities	\$ (38,791)	\$ (58,638)	\$	19,847
Net cash used in financing activities	\$ (9,483)	\$ (120,708)	\$	111,225

Operating Activities

Our operating cash flows resulted primarily from cash received from our customers offset by cash payments we made to third parties for their services, employee compensation, interest payments associated with our debt, and taxes. The \$1.2 million decrease in net cash provided by operating activities during the three months ended March 31, 2023 compared to the 2022 period was primarily related to a net decrease in collections from our customers due to timing, partially offset by the effect of timing of payments to our vendors and increase in deferred revenue balances.

Investing Activities

The \$19.8 million decrease in net cash used in investing activities during the three months ended March 31, 2023 compared to the 2022 period was primarily related to lower cash used on business acquisitions during the three months ended March 31, 2023 compared to the 2022 period.

Financing Activities

The \$111.2 million decrease in net cash used in financing activities during the three months ended March 31, 2023 compared to the 2022 period was primarily related to repurchases of our 4.625% Senior Notes and repurchases of common stock on the open market during the three months ended March 31, 2022, both of which did not recur in 2023 period.

Stock Repurchase Program

On August 6, 2020, our Board of Directors approved a program authorizing the repurchase of up to ten million shares of our common stock through August 6, 2025 (the “2020 Program”). In connection with the authorization, the Company entered into certain Rule 10b5-1 trading plans with a broker-dealer to facilitate the repurchase program.

During the three months ended March 31, 2023, no shares were repurchased under the 2020 Program. As a result of the Company’s share repurchases, the number of shares of the Company’s common stock available for purchase as of March 31, 2023 is 6,327,154 shares.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion of the market risks we face contains forward-looking statements. Forward-looking statements are subject to risks and uncertainties. Actual results could differ materially from those discussed in forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. Ziff Davis undertakes no obligation to revise or publicly release the results of any revision to these forward-looking statements. Readers should carefully review the risk factors described in this document and in the other documents incorporated by reference herein, including our Annual Report on Form 10-K for the year ended December 31, 2022 as well as in other documents we file from time to time with the SEC, including the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K filed or to be filed by us in 2023.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and borrowings under our Credit Facility that bear variable market interest rates. The primary objectives of our investment activities are to preserve our principal while at the same time maximizing yields without significantly increasing risk. To achieve these objectives, we maintain our portfolio of cash equivalents and investments in a mix of instruments that meet high credit quality standards, as specified in our investment policy or otherwise approved by the Board of Directors. Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of March 31, 2023, the carrying value of our cash and cash equivalents approximated fair value. Our return on these investments is subject to interest rate fluctuations.

As of March 31, 2023 and December 31, 2022, we had cash and cash equivalent investments primarily in funds that invest in U.S. treasuries, money market funds, as well as, demand deposit accounts with maturities of 90 days or less of \$721.5 million and \$652.8 million, respectively. We do not have interest rate risk on our outstanding long-term debt as these arrangements have fixed interest rates.

We cannot ensure that future interest rate movements will not have a material adverse effect on our future business, prospects, financial condition, operating results, and cash flows. To date, we have not entered into interest rate hedging transactions to control or minimize certain of these risks.

Market Risk

Our investment in Consensus, which has a carrying value of approximately \$35.3 million as of March 31, 2023, is based upon the quoted market price of Consensus common stock. Our results of operations and financial condition have been and may be materially impacted by increases or decreases in the price of Consensus common stock, which is traded on the Nasdaq Global Select Market.

Gains (losses) on the investment in Consensus were as follows (in thousands):

	Three months ended March 31,	
	2023	2022
Realized gains on securities sold during the period	\$ 357	\$ —
Unrealized (loss) gain recognized during the period on equity securities held at the reporting date	\$ (20,345)	\$ 8,951

The carrying value of the investment in Consensus as of March 31, 2023 was \$35.3 million, or approximately 1.0% of the Company's consolidated total assets. A \$2.00 increase or decrease in the share price of Consensus common stock would result in an unrealized gain or loss, respectively, of approximately \$2.1 million.

Foreign Currency Risk

We conduct business in certain foreign markets, primarily in Canada, the United Kingdom, Australia, and the European Union. Our principal exposure to foreign currency risk relates to investment and inter-company debt in foreign subsidiaries that transact business in functional currencies other than the U.S. Dollar, primarily Canadian Dollar, British Pound Sterling, the Australian Dollar, Euro, Japanese Yen, the New Zealand Dollar, and the Norwegian Kroner. If we are unable to settle our inter-company debts in a timely manner, we remain exposed to foreign currency fluctuations.

As we expand our international presence, we become further exposed to foreign currency risk by entering new markets with additional foreign currencies. The economic impact of currency exchange rate movements is often linked to variability in real growth, inflation, interest rates, governmental actions, and other factors. These changes, if material, could cause us to adjust our financing and operating strategies.

As currency exchange rates change, translation of the income statements of the international businesses into U.S. Dollars affects year-over-year comparability of operating results.

Historically, we have not hedged translation risks because cash flows from international operations were generally reinvested locally; however, we may do so in the future. Our objective in managing foreign exchange risk is to minimize the potential exposure to changes that exchange rates might have on earnings, cash flows, and financial position.

During the three months ended March 31, 2023 and 2022, foreign exchange gains amounted to \$0.8 million and \$2.3 million, respectively.

Cumulative translation adjustments, net of tax, included in other comprehensive (loss) income for the three months ended March 31, 2023 and 2022 were \$(3.7) million and \$6.3 million, respectively.

We currently do not have derivative financial instruments for hedging, speculative, or trading purposes and, therefore, are not subject to such hedging risk. However, we may in the future engage in hedging transactions to manage our exposure to fluctuations in foreign currency exchange rates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to ensure that information required to be disclosed in the Company’s reports under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the principal executive officer and the principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As of March 31, 2023, under the supervision and with the participation of Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), management carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Management’s Report on Internal Control over Financial Reporting

During the quarter ended March 31, 2023, we migrated our Digital Media reportable segment onto the Company’s existing Enterprise Resource Planning (“ERP”) system. Consequently, certain business process controls have been modified to incorporate the controls contained within the ERP system. We do not believe this implementation has had or will have a material adverse effect on our internal control over financial reporting. Except for the foregoing, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act), which occurred during the quarter ended March 31, 2023 covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See discussion of legal proceedings in Note 8 – *Commitments and Contingencies* in Item 1 of Part I of this Quarterly Report on Form 10-Q, which is incorporated by reference into this Item 1 of Part II.

Item 1A. Risk Factors

There has not been material change in our risk factors since filing of our Annual Report on Form 10-K for the year ended December 31, 2022, except for the risk factor set forth below.

The collapse of certain banks and potentially other financial institutions may adversely impact us.

On March 10, 2023, Silicon Valley Bank ("SVB") was shut down, followed on March 12, 2023, by Signature Bank, and on May 1, 2023, by First Republic Bank. The Federal Deposit Insurance Corporation was appointed as receiver for these banks. Since that time, there have been reports of instability at other banks across the globe. Despite the steps taken to date by U.S. agencies to protect depositors, the follow-on effects of the events surrounding the SVB, Signature Bank, and First Republic Bank failures, and pressures on other banks, are unknown, could include failures of other financial institutions to which we face direct exposure, and may lead to significant disruptions to our operations, financial position, and reputation. The extent of such impacts is uncertain, and there may be additional risks that we have not yet identified. We are taking steps to identify any potential impact and minimize any disruptions to our operations. However, we cannot guarantee that we will be able to avoid negative consequences directly or indirectly from the foregoing events or other impacts on financial institutions.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

On August 6, 2020, the Board approved a program authorizing the repurchase of up to ten million shares of our common stock through August 6, 2025 (the "2020 Program"). In connection with the authorization, the Company entered into certain Rule 10b5-1 trading plans with a broker-dealer to facilitate the repurchase program. During the three months March 31, 2023, zero shares were repurchased under the 2020 Program.

Cumulatively, as of March 31, 2023, the Company repurchased 3,672,846 shares at an aggregate cost of \$296.9 million (including an immaterial amount of commission fees) under the 2020 Program, which were subsequently retired. See Note 10 - *Stockholders' Equity* in Item 1 of Part I of this Quarterly Report on Form 10-Q, which is incorporated by reference into this Item 1 of Part II.

As a result of the Company's share repurchases, the number of shares of the Company's common stock available for purchase under the 2020 Program is 6,327,154 shares.

The following table details the repurchases that were made under and outside the 2020 Program during the three months ended March 31, 2023:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Program	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Program ⁽²⁾
January 1, 2023 - January 31, 2023	14,021	\$ 79.40	—	6,327,154
February 1, 2023 - February 28, 2023	246	\$ 93.51	—	6,327,154
March 1, 2023 - March 31, 2023	22,385	\$ 77.85	—	6,327,154
Total	36,652		—	6,327,154

(1) Consists of shares surrendered to the Company to pay the exercise price and/or to satisfy tax withholding obligations in connection with employee stock options and/or the vesting of restricted stock issued to employees.

(2) As of the last day of the applicable month.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
<u>3.1</u>	<u>Amended and Restated Certificate of Incorporation of J2 Global, Inc., dated as of June 10, 2014 (incorporated by reference to Exhibit 3.1 to Ziff Davis' Current Report on Form 8-K filed on June 10, 2014. (File No. 0-25965))</u>
<u>3.2</u>	<u>Amendment to the Amended and Restated Certificate of Incorporation of J2 Global, Inc., dated as of September 5, 2019 (incorporated by reference to Exhibit 3.1 to Ziff Davis' Current Report on Form 8-K filed with the Commission on November 1, 2019 (File 0-25965))</u>
<u>3.3</u>	<u>Certificate of Amendment to Amended and Restated Certificate of Incorporation of Ziff Davis, Inc. dated as of October 7, 2021 (incorporated by reference to Exhibit 3.1 to Ziff Davis' Current Report on Form 8-K filed on October 8, 2021. (File No. 0-25965))</u>
<u>3.4</u>	<u>Sixth Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to Ziff Davis' Current Report on Form 8-K filed on May 10, 2023 (File No. 0-25965))</u>
<u>31.1</u>	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
<u>32.1</u>	<u>Certification of Principal Executive Officer of Periodic Financial Reports pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350</u>
<u>32.2</u>	<u>Certification of Principal Financial Officer of Periodic Financial Reports pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350</u>
101.INS	Inline XBRL Instance Document*
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* This instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ZIFF DAVIS, INC.
(registrant)

Date: May 10, 2023

By: /s/ VIVEK SHAH
Vivek Shah
Chief Executive Officer and a Director
(Principal Executive Officer)

Date: May 10, 2023

By: /s/ BRET RICHTER
Bret Richter
Chief Financial Officer
(Principal Financial Officer)

Date: May 10, 2023

By: /s/ LAYTH TAKI
Layth Taki
Chief Accounting Officer
(Principal Accounting Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Vivek Shah, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ziff Davis, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ VIVEK SHAH

Vivek Shah
Chief Executive Officer and a Director
(Principal Executive Officer)

Dated: May 10, 2023

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bret Richter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ziff Davis, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ BRET RICHTER

Bret Richter
Chief Financial Officer
(Principal Financial Officer)

Dated: May 10, 2023

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Vivek Shah, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The accompanying quarterly report on Form 10-Q for the quarter ended March 31, 2023 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Ziff Davis, Inc.

/s/ VIVEK SHAH

Vivek Shah

Chief Executive Officer and a Director
(Principal Executive Officer)

Dated: May 10, 2023

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to Ziff Davis, Inc. and will be retained by Ziff Davis, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Bret Richter, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The accompanying quarterly report on Form 10-Q for the quarter ended March 31, 2023 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Ziff Davis, Inc.

/s/ BRET RICHTER

Bret Richter
Chief Financial Officer
(Principal Financial Officer)

Dated: May 10, 2023

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to Ziff Davis, Inc. and will be retained by Ziff Davis, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.