Prepared Remarks of

theTradeDesk®

First Quarter 2018 Earnings Call

May 10, 2018

Chris Toth, Vice President Investor Relations

Thank you, Operator.

Hello and good afternoon. Welcome to The Trade Desk First Quarter 2018 earnings conference call. On the call today are Founder and CEO Jeff Green, Chief Operating Officer Rob Perdue, and Chief Financial Officer Paul Ross.

A copy of our earnings press release can be found on our website at thetradedesk.com in the investor relations section. Before we begin, I would like to remind you that, except for historical information, the matters that we will be describing will be forward-looking statements, which are dependent upon certain risks and uncertainties. I encourage you to refer to the risk factors included in our press release and our most recent SEC filings. In addition to reporting our GAAP financial results, we present supplemental non-GAAP financial data. A reconciliation of the Non-GAAP to GAAP measures can be found in our earnings press release. We believe providing non-GAAP measures combined with our GAAP results provides a more meaningful representation regarding the Company's operational performance.

I will now turn the call over to founder and CEO Jeff Green. Jeff.

Jeff Green, Founder and CEO

Thanks, Chris, and thank you all for joining us today.

I'm pleased to report that The Trade Desk had another outstanding quarter in Q1 2018.

Because advertising budgets are often being reset in Q1 , numbers for the quarter have historically been the most challenging to predict. This year, we surpassed even our own expectations. A steady stream of new brands and agencies joined our platform. We won additional spend from existing customers. We developed closer relationships with the biggest brands in the world. This was a quarter where nearly everything went right.

As a result, revenue was $85.7 million, an increase of 61% compared with a year ago. Adjusted EBITDA increased 202% to a Q1 record of $18.9 million. And GAAP Net Income increased to $9.1 million.

As a preface, I'd like to highlight that IDC estimates that global advertising will be $704 billion in 2018, which is up by 4% from their 2017 projection. In 2018, the overall global digital advertising market, according to *eMarketer,* is estimated to grow by 18%.

The Trade Desk's revenue growth through Q1 was over three times that! We saw much of that growth in channels we have identified as key to our customers. Forty-two percent of Q1 spend in our platform was in mobile – the highest percentage ever. Our Q1 year-over-year mobile video growth was over 100%. Mobile in-app growth was over 100% as well. Data spend was up 70% and cross-device spend was up 65%. Connected TV grew over 21x from a year ago.

Our expansion in international markets continues at a strong pace. Overall, international spend grew over 100% year-over-year. International is growing at double the pace of the United States. This is what we expect for the foreseeable future as most economic growth and the rise of the largest middle class in history will come out of Asia in the next decade.

Before we discuss some of our major growth initiatives, I'd like to give some qualitative commentary on the macro state of advertising. In the last 12 months, there has been a mind shift inside agencies and the marketing teams of big brands. Digital has become the leader, instead of the necessary-but-not-sufficient sidekick that it has been for nearly the last decade. Digital spend has become large enough that every major brand is getting smarter about the way they spend. In recent months, there is strong momentum to diversify the way people spend on digital. Whether driven by strategic thinking or by practical thinking, its seems all marketers are realizing that they cannot simply spend on a few sites or companies.

The fragmentation of media, especially in television, is increasing the need for objective, data-driven media buying. There is strong momentum to spend more in digital and beyond the few companies in search and social who have historically gotten most of the budget. Our strategy of being the best platform for media buying and avoiding owning or arbitraging media is even more valuable today than it was yesterday.

Now I would like to highlight some key points from the major growth initiatives that we laid out at our last investor day and which will drive our momentum and growth over the next five years.

First, we'll look at growing spend across our customers and channels. Since Q1 of last year, we have added nearly $200 million of spend in our platform from major brands that weren't spending with us previously. We continue to see the strong movement of advertising dollars from the top brands in the world to The Trade Desk.

For example, several long-term agency partners representing three of *Ad Age's* top 200 advertisers in the world all began small pilot campaigns for these three brands toward the end of last year. These include a worldwide beverage company, a top retail pharmacy in North America, and a multinational food company.

We also saw similar test starts from new media companies, including some of the largest music and video streaming services in the world today. Sometimes companies like this that offer inventory through our platform also need to run ad campaigns of their own. They are familiar with our objective approach. So when it comes time for them to run their own ad campaigns, they turn to The Trade Desk.

All these brands saw measureable results and increased their spending in our platform by millions of dollars. We see this repeated again and again.

We're also seeing increased spend in emerging channels. There is nothing more exciting in media than what is happening in Connected TV. We started planting seeds in Connected TV years ago. In 2018, we are seeing the green shoots. CTV is still small—but, with the 21x increase I mentioned earlier, it won't stay small for long. The growth timeline will be dictated by consumers' and content creators' ability to adapt, but The Trade Desk is ready. The objectivity that comes from us not owning media makes us one of the most important partners to TV companies. I'm very bullish on our ability to source advertising demand for the next frontier of television.

One of the more recent and innovative customers on the platform is global automaker Mazda Motor Corporation and their WPP agency, Garage Team Mazda. Mazda saw that a lot of their target customers were consuming video across multiple devices, and expanded their strategy to include cross device, video, and Connected TV. Mazda uses The Trade Desk technology to reach a specific proprietary audience profile built using their first-party data and data from Oracle at scale. They identified key markets in the US where they wanted to build awareness for the brand. Mazda then used their core consumer audience for targeting on the platform.

In traditional linear TV, targeting granularly is almost impossible to do because most linear TV is bought and sold nationally. The team and the technology hit it out of the park. The Trade Desk platform enables CTV advertisers to reach the unreachable.

This quarter also uncovered an amazing insight. For the first time, we were able to quantify from an outside party the increased reach of CTV. Of course, as consumers spend more time in CTV, they are spending less time with traditional TV. Across nine recent Nielsen studies recently commissioned by The Trade Desk, an average of 41% of The Trade Desk audience was unique to CTV, and beyond the reach of ads on broadcast and cable.

Our team continues to add more CTV inventory, and year-to-date through the first week in April, we added 78% more inventory than in all of 2017 combined! And as we add more inventory, spend will inevitably follow. In Q1, CTV spend was nearly equivalent to the entire spend in CTV for all of 2017.

But it doesn't stop with CTV. This year, an estimated 1.5 billion smartphones will ship. This is more than four times the number of PCs that ever shipped in a single year at the peak of the personal computer boom. Mobile is now the medium to achieve unprecedented reach and scale. As a result, almost all our customers have moved to some amount of mobile advertising. I'm incredibly optimistic about in-app and mobile video, two of our fastest growing channels within mobile. We also see more advertisers turning to other fast-growing channels such as audio, which is up over 650% from a year ago. We expect these trends to continue around the world.

Another strategic initiative is to grow internationally. Thirty percent of our headcount is now in Asia and Europe. Last year 12.5% of our spend came from Asia and Europe. As of Q1 of this year, it is over 14%. This year, the growth rate internationally is twice that of North America.

The first quarter had record spend coming through our offices in Sydney and Madrid. Both Madrid and Jakarta, which are two of our newer offices, grew spend 300%, and nearly 200%, respectively, from a year ago. Considering that the first quarter historically isn't even the biggest quarter of the year, this is remarkable. Our growth and momentum in these and other international media centers are more evidence that the world, not just the US, is moving toward programmatic.

And while Connected TV is a big growth driver here in the US, it is also key to our ongoing expansion in China. For years, we have been building relationships with some of the biggest companies in China. In 2017, we announced expanded relationships with significant players such as Baidu, Alibaba's Youku, and Miaozhen. We have also earned some other big wins in the near-term.

One of the most interesting is our preferred partnership with TVB, which is Hong Kong's leading television company. To get a sense of TVB's importance in the Hong Kong market, they are like ABC, NBC, CBS and Roku all rolled into one network and delivered digitally. Since launching its on-demand product, TVB has reached 5.8 million registered subscribers, with 1 million over-the-top (OTT) boxes in Hong Kong households. That's out of a total population of about 7.5 million people.

The Trade Desk is currently the only demand-side platform for targeting and purchasing advertising on TVB's connected TV product. On a personal note, I was honored to be present at the two-year anniversary of TVB's CTV product and consider them to be an ideal example of forward thinking.   TVB isn't waiting for consumers to push them into the digital era. They are racing to make their content available on demand. TVB is a leader in proving the potential of CTV.

Our team is firing on all cylinders achieving new wins, taking market share from competing platforms, expanding existing customers, and integrating with new partners. We batted a thousand in Q1—and that's something that doesn't usually happen. In Q1, even issues that raise questions for other major players in digital advertising have created opportunities for us.

For example, there's been a lot of discussion recently about data and privacy. Increasing our data offering is another of our growth initiatives because we believe that data, more than ever, represents a large untapped opportunity. But you can't pursue this opportunity without taking user privacy very seriously.

Almost nine years ago when I created the first pitch deck for The Trade Desk, nearly all the slides were about data. We talked a lot about data rights management and data privacy. Our goal from the beginning was to have the tough conversations about data and not operate in the gray areas. We wanted to make very explicit how we use data. In general, our philosophy was this—we can make buying advertising data-driven while respecting consumers' privacy. We think we can make the internet more relevant and create a win for advertisers, a win for publishers, and a win especially for consumers.

The *quid pro quo* of the internet is that publishers provide interesting content and consumers provide data and look at the targeted advertising that funds that content. Consumers are concerned about their personal privacy and are asking for clarity about how the data they provide is used. But the fundamental *quid pro quo* of the internet is not going to change.

Unlike social media or most consumer-facing platforms, The Trade Desk doesn't need directly identifiable information to create relevant advertising. We don't need names or emails or phone numbers on our platform to target advertising effectively. It's not part of our business model and never has been.

So in the current environment, The Trade Desk is well positioned as a compelling alternative to the duopoly of Facebook and Google for advertisers who value data transparency and privacy.

Let me take a minute and demystify some of the what we've been hearing about Facebook recently. The problems they are encountering are not due to third-party data being brought into their platform. Facebook's problems came about because an outside company found a way to take directly identifiable data out of their platform and use it in a way Facebook never intended. The problems were not caused by data companies bringing data in, it was other companies taking data out of Facebook.

In contrast, The Trade Desk does not allow directly personally identifiable information in our platform. So, of course, this makes it impossible for a company to take directly personally identifiable information out of our platform. We have never been better-positioned as an alternative to Facebook and Google for advertisers who believe, like us, that you can create an incredibly effective advertising experience without compromising personal privacy.

In fact, data spend in the month of March spiked to an all-time record, which is amazing because if you read the news headlines you would have thought all data usage came to an immediate halt. When the public discussion about data privacy was at its highest, the data spend on our platform was also at its highest! I believe The Trade Desk represents a safe harbor from concerns about data privacy.

Because The Trade Desk has thought about privacy from the very beginning, we've been able to prepare for GDPR without significantly disrupting our technology or business practices. We are excited about GDPR because its creating a better internet. It pushes companies to be clearer about the *quid pro quo* of the internet and how it works. We care about getting it right not just now, but beyond the May 25th implementation date as the practical impact of the legislation becomes clear. The sustained growth of our business in the European Union indicates that major brands and agencies believe we are ready, too.

And, finally, we are continuing to make large investments in areas critical to our future. The Trade Desk has always been about innovation. We are continuing to push the pedal to the metal to innovate more quickly and more effectively than others in our industry. Our development teams are a competitive advantage. We get to market faster with better features.

In the next quarter, we will launch an enhanced UI in our platform. This new user experience is built around better data visualization and better media planning tools. Both are in private beta today and are progressing nicely.

We are investing in areas such as mobile, CTV, global expansion, and creating a safer programmatic environment. We also continue to invest in our infrastructure to support business and data processing growth worldwide.

These areas are critical to grabbing additional share over the long term. We expect the investments we are making now to yield significant results in 2019 and beyond.

The secular tailwind is strong and like what occurred in Q1 of last year, when we have revenue surprises, they tend to be to the upside. The opportunities in programmatic are enormous and we believe that our focused mission positions us better than anyone else. Long-term drivers such as CTV and programmatic adoption in China will accelerate programmatic growth for the industry and we are ready to capture our fair share.

Now I'd like to turn the call over to Rob for his comments on our operational performance.

Rob Perdue, COO

Thanks, Jeff, and good afternoon, everyone.

2018 kicked off with one of the best quarters we have ever had in terms of revenue and momentum in our business. We exceeded our targets and delivered strong operating results, highlighted by our 61% year over year revenue growth for the first quarter of 2018. Our growth was driven primarily by our mobile channel, which soared <u>almost</u> 100% on a year over year basis and comprised 42% of our total spend. We also saw substantial incremental growth in our video segment, which grew by <u>over</u> 100%.

The first quarter is the time for us to reset and reinvest in both our employees and our customers. A large part of our focus in Q1 is hiring new employees, onboarding, and training them to contribute as we head into our seasonally stronger quarters of the rest of the year. In Q1, we also invest our time to educate our customers on the benefits of programmatic advertising, highlight new product features we released, and provide more training on our platform. We then focus on winning incremental new spend, as both brands and agencies look for options to diversify their digital ad spend <u>away</u> from large search and social media platforms.

An example of this in Q1 was a global specialty beverage retailer that, through their global agency, began to think differently about how to allocate their digital ad spend. In this case, they had a major new product launch so their goals were first to increase brand awareness and then ultimately to drive sales for this new product. To achieve their goals, they believed that advertising programmatically was a more measurable and targetable way to spend digital ad budgets and so they chose The Trade Desk to help them do just that. To increase brand awareness – the first goal – we guided them on how to extend the reach and frequency of their ads using data and accessing better measurement tools, all in a more brand safe environment.

After some small test budgets in late 2017, they began moving multi-million dollars of spend per month from non-programmatic digital on to our platform in Q1. They exceeded their campaign goals and as a result, spent more in Q1 than they did in all of 2017 combined. In Q2, we continue to see them more spend to our platform as this quarter progresses as well.

Now, from an operational perspective I will update you on the progress we made in our three core priorities:

One – remain the OBJECTIVE and INDEPENDENT trusted partner for our customers.

Two – continue to grow our omnichannel presence, and

Three – continue to grow our international footprint

One of the largest differentiators between The Trade Desk and other large advertising platforms is our objectivity, and the independence that comes with NOT owning media. Those qualities serve as the basis of trust that we build with agencies and brands. The proof is not just in our top line revenue results or the performance on our platform, but by a 95% plus customer retention rate for the 17th straight quarter in a row. We are very proud of that statistic. In a time when there is a ton of focus on privacy and brand safety concerns, advertisers are seeing that The Trade Desk provides the control they need to buy only the premium inventory they require, and reach only the audiences they want to. And we are winning spend from traditional digital channels as a result.

A great example of this shift in spend is from a global consumer technology company in Q1. For several years, The Trade Desk had received a smaller piece of their overall digital spend than a large competitor. Over time, we built trust with the advertiser, with full buy-in from their agency. The client brought us the opportunity to capture a much larger share of their digital spend in Q1. We demonstrated the effectiveness of full omnichannel campaigns, and we had key integrations with the advertiser's preferred data partners to better incorporate cross-device data. Out platform delivered exceptional KPI performance and service for those campaigns around the world. This resulted in the advertiser starting to consolidate their programmatic ad spend specifically on The Trade Desk and calling us their primary or "power platform" for the future.

Next, I want to focus on growing our omnichannel presence. The ability to target marketing messages throughout a complete customer journey is a key function for an omnichannel buying platform. And in Q1 we have seen more and more advertisers use multiple channels in their advertising mix. This includes mobile, video, connected TV, audio, native and even display. Customers using at least six of these ad channels increased by 148% from a year ago and advertisers using four, five, or six channels now far outnumber those using one, two, or three channels. The omnichannel approach is enhanced by using data – both first-party data *and* third-party data – and it is making a real impact on advertisers' marketing performance. This is helping to accelerate consolidation onto fewer DSPs and therefore more moving spend to The Trade Desk.

This could not be more evident than with many consumer product companies. When evaluating DSP options for their programmatic ad spend they know how important having fully integrated newer channels like audio, Connected TV, and native are for their category. But they also advertise on traditional programmatic channels like display and mobile. And then they can tie their programmatic ad spend to our offline sales results suite on our platform. This allows the advertiser to optimize media spend based on actual sales, in real-time when a large majority of their sales are all offline. For example, a large beverage company, managed this strategy all the way down to the product SKU level to increase sales on specific products. This is why they have consolidated their programmatic spend on our platform and their ad spend significantly increased in Q1.

The third priority we are focused on is widening our geographic footprint to make sure we serve our customers locally in the markets that are important to them. International spend growth percentage continues to significantly outpace that of the US and, in the first quarter, that trend continued. Our international business amounted to over 14% of our total spend in Q1. Our teams in Sydney and Madrid each set their all-time spend record in Q1 and Hamburg and Jakarta continued to grow well over 100% on a year over year basis. The adoption of programmatic and the market growth we see across Asia is accelerating.

Overall, we feel really good about our first quarter success and our prospects for the remainder of the year. We have made tremendous strides in increasing our customer engagement, hiring and training the next generation and continuing to advance our international strategy. The advertising industry is still in the early stages of its programmatic transformation, and we see a huge multi-year opportunity in front of us.

Now I am going to turn the call over to Paul to discuss our financials.

Paul Ross, CFO

Thanks, Rob, and good afternoon everyone.

As you have seen in the numbers, 2018 is off to a great start, and we are really pleased with our Q1 financial performance against our key metrics. Revenue increased 61 percent year-over-year, Adjusted EBITDA increased 202 percent year-over-year, and GAAP Net Income was $9.1 million all while investing aggressively in areas critical to our future growth.

Revenue for the first quarter was $85.7 million which was above our prior expectations and reflects of the increased spend by our existing customers and the addition of new customers and advertisers. We continued to see customers move more dollars onto our platform helping to drive the revenue upside. For the quarter, approximately 88 percent of our first quarter gross spend came from existing customers, whom we define as customers that have been with us for over one year.

Our operating expenses increased with the growth of our business, to $75.7 million in Q1 of 2018 from $51.4 million during the same period in 2017. The increase in operating expenses was primarily due to our increased investments in our platform operations and increased personnel primarily in technology and development as we invest for future growth.

Total other expense net was $700K and income tax expense was $160 thousand in the quarter. Income tax expense benefitted from the new US government tax legislation which reduced the statutory rate, plus the treatment of incentive stock options that is variable, but deductible, under the current tax legislation.

GAAP Net Income was $9.1 million for Q1, or $0.20 per fully-diluted share.

Our adjusted net income was $15.3 million or $0.34 per fully diluted share compared with adjusted net income of $7.8 million or $0.18 per share in the comparable period.

Adjusted EBITDA was $18.9 million with a corresponding margin of 22% of revenue during Q1 2018, as compared to adjusted EBITDA of $6.3 million or 12% of revenue during the same quarter last year. The increase in adjusted EBITDA dollars reflects growth of our top line, partially offset by our increasing investments in product, people, global expansion, and corporate expenses. Of the $12.5 million revenue increase above our prior expectations, approximately 90% of the revenue fell through to adjusted EBITDA.

Net cash provided by operating activities was $11.8 million for Q1. Our trailing twelve months of operating cash flow and free cash flow were $65.8 million and $54.3 million respectively.

During the quarter, we paid off the remaining $27 million in debt on our balance sheet, so we are now debt-free. Our cash position exiting the quarter was $139 million.

Our DSOs at the end of Q1 were 96 days, an increase of 14 days from the same period a year ago. DPOs for Q1 were 78 days, an increase of 18 days from the same period a year ago. We are continually striving to close the gap between DSOs and DPOs, which benefits our cash flow from operations.

Moving on to guidance, for Q2 of 2018, we are expecting revenue of $103 million, and an Adjusted EBITDA of $30 million.

For 2018, we are off to a great start and it appears we are starting to see a little flattening of the revenue seasonality curve. As a result, we now expect revenue to be at least $433 million which approximates to just over 40% growth year-over-year, and the corresponding Adjusted EBITDA to be $133 million or 30.5% percent of revenue.

With that, I will hand it back to Jeff for any final comments and, of course, Q&A. Jeff.

Jeff Green, Founder and CEO

Thanks, Paul.

In closing, let me reiterate that, while we are excited about The Trade Desk's current performance, we see even more potential for the future. As the worldwide advertising market grows to one trillion dollars, we believe it will move to programmatic. Programmatic is the fastest-growing segment of advertising, and The Trade Desk is growing faster than anyone in programmatic. When we see surprises, they're typically to the upside. There is a generational shift happening with the convergence of the internet and TV globally. Massive markets like China that are just starting to adopt programmatic. And I believe it is highly probable that the programmatic industry in the years ahead will see accelerating growth. We see the opportunity and now is the time to invest to land grab market share and revenue and we believe The Trade Desk will do so in 2018 and beyond.

That concludes our prepared remarks for this afternoon and now the operator will open it up for questions.