Prepared Remarks of

theTradeDesk®

First Quarter 2019 Earnings Call

May 9, 2019

Chris Toth, Vice President Investor Relations

Thank you, Operator. Hello and good afternoon to everyone here in Europe and good morning to everyone in the US. Welcome to The Trade Desk First Quarter 2019 earnings conference call. Our call today is taking place from our London office. On the line today is our Founder and CEO Jeff Green, 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 referenced in our press release and included in our most recent SEC filings. In addition to reporting our GAAP financial results, we present supplemental non-GAAP financial data. A reconciliation of the GAAP to non-GAAP measures can be found in our earnings press release. We believe that providing non-GAAP measures combined with our GAAP results provides a more meaningful representation of 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.

I'm excited to be speaking to you from The Trade Desk's London office, the hub of our European operations. Our growth in this region continues to be very solid. Our offices in Hamburg and Madrid both grew spend well over 100% over the last 12 months.

More on that later, but let's start with the results for the quarter.

I am extremely pleased to report that Q1 2019 was another outstanding quarter.

Because advertising budgets are often reset in Q1, numbers for the quarter have historically been the most challenging to predict. This year, we again surpassed even our own expectations. We continued to add new advertisers to our platform and existing customers increased their spend. All major agency holding companies are now under MSA with us and spending on behalf of the largest advertisers in the world. The vast majority of the companies in the S&P 500 have run advertising campaigns on our platform. We are executing well.

As a result, revenue was $121 million in the first quarter of 2019, an increase of 41% compared to a year ago. This beat our own expectations of $116 million. When we've seen surprises in the past, they tended to be to the upside. Because we have continued to maintain our 95%+ client retention, this quarter continued that trend. Adjusted EBITDA increased to a Q1 record of $24.7 million. We continue to be one of the fastest-growing profitable software companies in the world today. Our GAAP net income has been in the black for the last 12 quarters in a row.

Now let's step back and look at the big picture.

In 2019, according to IDC, spending on global advertising will be about $725 billion, up over 4% from 2018. At current growth rates, global advertising will be a trillion-dollar industry in about seven years.

Programmatic is still a relatively small part of total global advertising. It is estimated at around $33 billion in 2019 and growing about 20% year-over-year, according to Magna Global. But it is growing 5x faster than total advertising. We maintain our prediction that, before long, most advertising will be digital, and nearly all of it will be transacted programmatically. We are racing toward that outcome and transforming how media is bought and sold along the way. Data-driven micro transactions are better than bulk transactions that are fueled primarily by guessing. Programmatic offers advertisers a measurable return on their investment and a better ad experience for consumers to support the content they love – with greater transparency for all parties.

Our addressable market is huge and growing. In Q1, we grew twice as fast as the programmatic industry and about 10x the pace of global advertising growth. The Trade Desk is better positioned than nearly any other company to capture significant share in the channels and regions that matter most. We expect to continue to gain market share for the foreseeable future.

45% percent of Q1 spend on our platform was in mobile. Our Q1 year-over-year mobile video spend growth was about 60%. Mobile in-app spend growth was about 60% as well. Data spend was up 80% and cross-device spend was again up around 300%. Audio spend had an amazing quarter, growing over 270% in Q1, and Connected TV spend grew well over 3x from a year ago.

Large brands such as a massive gaming company, a global food company, a global auto manufacturer, and many others are expanding their reach through The Trade Desk. We're also seeing many of the unicorns that have gone public or are planning to go public using The Trade Desk to power their foundational digital advertising strategy.

But as the programmatic industry grows, it's also consolidating. This trend is accelerating. You see this in the headlines. In this environment, we will continue to look for selective acquisition opportunities like Adbrain®. Since becoming part of The Trade Desk in late 2017, Adbrain's cross-device technology has added incredible value for our customers. Cross-device spend has been up about 300% year-over-year for the last two quarters in a row now! This acquisition has already paid for itself many times over.

As our industry evolves, advertisers are migrating from other platforms to The Trade Desk as we solidify as the premier gateway to the independent internet. Our business model of independence, transparency, and objectivity make us the compelling alternative to the walled gardens that have become an increasing source of frustration for major advertisers worldwide.

Our customers and industry pundits recognize these trends.

Last week at AdExchanger's Programmatic I/O conference, The Trade Desk was recognized as the Best Demand-Side Technology from among other DSPs. This validates what we have been saying all long. From our revolutionary bid factoring architecture to the Next Wave platform we launched last June, our agile engineering team has built technology that outpaces all other DSPs in the market today.

This all adds up to make us one of the fastest growing and most profitable software platforms in any sector.

As I mentioned earlier, much of that growth is coming from rapidly expanding markets outside of North America. Here in London, our office broke its all-time spend record in the month of March, surpassing the previous record they had just set in December of 2018. That is quite the accomplishment. We've seen outsized growth in all our offices in Europe.

And the momentum does not end there. We continued to see major brands move their spend onto our platform in Europe. These recent wins included several CPGs, a video gaming company, a large technology company, and a multinational food and drink company.

As anyone following The Trade Desk closely will know, we are investing heavily in CTV. In quarters past, we have talked about CTV growth in North America. But it is happening everywhere in the world. One of the big drivers for growth in Europe is connected TV.

We recently ran our first CTV campaigns on the European Broadcaster Exchange or EBX. This is really exciting. EBX is a joint venture among Europe's leading media companies to make video advertising inventories available programmatically. This enables advertisers to run pan-European campaigns in a premium, brand-safe environment.

We have not seen diminished spend in Europe as a result of GDPR. From our perspective, consumer privacy and relevance are both attainable. GDPR helps to create a better internet by establishing guiding principles for marketers. It pushed companies to be clearer about the *quid pro quo* of the internet and how it works. Our proactive approach to data privacy has strengthened our relationships in the region. We have built trust with publishers and customers. We continue to win new spend and build closer relationships with content owners. We think GDPR and the success we have had in this region with its leadership can be a blueprint for other regions that implement general data and privacy regulations.

We are laying the groundwork for additional success in Europe. Coming out of my meetings here this week, I am more optimistic than ever about what is possible in the UK and continental Europe in the months and years to come.

Another key region for The Trade Desk is Asia, where the largest middle-class in history is emerging and consuming digital content at unprecedented rates.

After two years of laying the foundation, we officially launched our platform in China in Q1. Our inventory partners include Baidu, Alibaba, Tencent, and iQiyi– all regional "must have" content providers with premium inventory for advertisers. We've also built out the appropriate data infrastructure conforming to Chinese law. Our account teams are equipped with clear onboarding procedures. The Trade Desk is fully "open for business" to global brands wanting to reach Chinese consumers.

One great example of the "outside-in" approach to China is a global luxury retail brand that wanted to showcase their latest collection. Their agency used The Trade Desk so all campaign management and reporting could be consolidated on one platform. The goal of the campaign was to drive more visits to the luxury retailer's site. After just a few days of running the campaign, the agency decreased the advertiser's cost per visit by 25%. It was a huge success. There are many opportunities like this for global brands to reach consumers in China on our platform.

At our China launch event in March, Benson Ho, the Chief Data Strategy Officer of Tencent Marketing Solutions, stated that we are aligned on three core principles. First is our mutual desire for transparency. Second is the combined focus on delivering premium inventory to global advertisers. Third is the ability to properly put third-party data to use. He also said The Trade Desk has built a great team of people in our Shanghai and Hong Kong offices. He pointed out on stage that our business is driven by relationships. While this is true everywhere, but this is especially true in China.

This is how we are laying the foundation for long-term success in China. China is a long-term investment. We are only at the beginning, but I have never been more optimistic about our prospects in China. I look forward to updating you more on our progress as we continue to grow our business over the long-term.

I also want to highlight some of the key growth initiatives.

First, we are again seeing exponential gains in our Connected TV business. Nearly every quarter, we have some breakthrough to report in this key channel. Q1 2019 is no exception.

Our CTV inventory continues to grow. More channels, users, and more ad opportunities joined our platform this quarter. In Q1, advertising slots available through our platform increased over 3x. We invested in the infrastructure early to support CTV inventory. By nearly all measures, we were ahead of the curve, and as the overall market evolves, no one is better positioned than us to reap the rewards than us. Better to be early than late.

Five years ago, when I was predicting the advent of internet-fueled TV to replace linear TV at a faster pace than trends suggested, critics would always counter that traditional TV had staying power. I heard over and over again how live events—especially sports—would make TV lovers keep their beloved cable subscription. Now, nearly every major live event is available on demand and accompanied by fewer and more effective ads. Live TV is perhaps better suited to the real-time nature of programmatic monetization. Unpredictable commercial breaks and unexpected overtime are better monetized in programmatic than in traditional advertising.

In live events, we are accessing more inventory than ever before. The NCAA “March Madness” Basketball Tournament is just one example. March Madness was incredibly successful for The Trade Desk. We saw more spend on our platform than we have for any other live sporting event to date.

Given the spend we’ve seen in the past from the NBA Playoffs, MLB’s World Series, the Superbowl, the World Cup, and now March Madness—we expect this trend to continue.

Even with this tremendous growth, we're still just getting started with CTV. eMarketer reports that 2.8% of all television advertising spend in 2019 will be in programmatic. While that represents a solid upward trend, we believe that, before long, virtually 100% of TV ad buying will be transacted programmatically. As an industry, we have barely started. Linear TV continues to lose ground to connected TV and other channels – there are fewer viewers, more ads, and higher CPMs. According to Cord Cutters News, Comcast, Verizon, and AT&T had over 900 thousand people cancel their pay TV services in Q1 alone. If the trends continue, they could collectively stand to lose over 3.5 million subscribers this year. Ultimately, this is an unsustainable model.

That's why we have a focused presence at the current TV upfronts. If you're not familiar with the upfronts, it's an annual gathering where networks and other content providers present their new shows to advertisers. Advertisers commit the bulk of their annual TV spending at these upfronts. These commitments have often been based on instinct and relationships with no measurable sense of how that advertising will perform. It's an old-school, analog way of doing business. Programmatic ad buying wasn't even on the radar at the upfronts a few years ago. As more TV content is consumed on connected devices, advertisers realize they can apply a more data-driven approach to TV advertising and become much more precise in their campaigns.

Changes to the upfront process represent the biggest opportunity for stair-step growth CTV may ever see.

The generational convergence of internet and TV has started to shift the entire TV industry toward programmatic. A growing number of brands and agencies now require that a portion of the upfronts be transacted programmatically. Many have asked us to help them to actively navigate this new digital upfront environment. This is the first upfront season where we're involved like this, but we expect the trend to continue. Because of our early investment in CTV, The Trade Desk is in the right place to meet the needs of both content providers and advertisers as they shift to programmatic TV buying.

Our value proposition to advertisers in CTV is massive. We have incredible scale. We currently reach 80 million households worldwide through our CTV inventory – that's up from zero just a few years ago. The scale of our reach is at least 3x the size of the largest MVPD.

In fact, it's nothing but upside at this point. So we expect CTV to be a key growth driver for us again in 2019.

A second key initiative we're excited about is the growth in data-driven spend on our platform. It's just a fact that data-driven decisions are better than guessing. The choice for advertisers is clear: when it comes to guessing or a data-driven campaign, data wins every time. With The Trade Desk, advertisers have the tools to become data-driven in all their decision-making in a way that protects consumer data and privacy.

Since the launch of our Next Wave product last year, data spend growth and usage has accelerated. Data spend increased 80% year-over-year. Media buyers using data have also significantly increased. We have still only scratched the surface on what we can do with data. Data usage will be significantly higher as the years go on.

This is a good time to remind everyone that our approach to data has been the same since Day One. Unlike walled gardens, The Trade Desk doesn't need directly identifiable information to create relevant advertising. We don't need names or email addresses or phone numbers on our platform to target advertising effectively. It's not part of our business model and never has been. In the current environment, that positions The Trade Desk well as a compelling alternative to the duopoly of Facebook and Google for advertisers who value data transparency and privacy. Our strategy is working, and we are winning.

The final initiative I want to highlight today is our commitment to enhancing the effectiveness of programmatic advertising by providing a unified ID for the entire industry. Our Unified ID solution involves The Trade Desk giving away our cookie identifier for free to SSPs, publishers, DSPs, DMPs, and data providers. Doing so helps improve the efficiency and performance of the entire ad-funded internet. Match rates are improved -- giving advertisers more effective targeting -- and the number of syncs taking place in the ecosystem are massively reduced -- giving consumers a better ad experience. Momentum has accelerated. Today, more than half of all header bidding auctions are completed using our Unified ID technology. The largest independent SSPs in the world are seeing match rates with us of up to 99%. As we hoped, our unified open ID is becoming a common currency for the open internet.

Finally, we are continuing to make large investments in areas critical to our future. The Trade Desk has always been about innovation. We are pushing the pedal to the metal to innovate and grow more quickly than others in our industry. We are confident we can invest in areas such as CTV, data, global expansion, and creating a safer programmatic environment. We also continue to invest in our infrastructure to support business and data processing growth worldwide.

All 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 2020 and beyond.

In conclusion, The Trade Desk had a strong first quarter in 2019, extending our strong run from 2018. Our foundational business model of independence, objectivity, and transparency continues to be validated in the marketplace. The contrast between our offering and the walled gardens continues to propel our momentum. Our investment in key regions and channels has yielded great gains, so we will continue to invest wisely as new opportunities emerge. We are executing well and the secular tailwinds for our business are strong. There is every indication we will see continued significant growth in 2019 and beyond.

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

Paul Ross, CFO

Thanks, Jeff, and good afternoon everyone – and good morning to those investors joining us from North America.

As you've seen in the numbers, we are off to a great start in 2019 with strong Q1 financial performance and execution. Revenue increased 41 percent year-over-year. Adjusted EBITDA increased to $24.7 million and GAAP Net Income increased to $10.2 million. We achieved this while we continued to invest aggressively in areas critical to our future growth, such as on our platform, while adding to engineering and sales talent.

Revenue for the first quarter was $121 million, which was above our prior expectations, and reflected increased spend by our existing customers plus the addition of new customers and advertisers. For the quarter, approximately 89 percent of our first quarter gross spend came from existing customers who have been on our platform for over a year.

With the growth of our business, our operating expenses grew to $115 million. This increase year over year was due to sales and marketing as we scale for future growth. The year over year increase also reflected higher G&A expenses which takes into account stock-based compensation, and we expect G&A to moderate as a percentage of revenue in Q2 and in the back half of the year.

Income tax was a benefit of $4.8 million in the quarter mainly due to the tax benefits associated with employee stock-based awards, the timing of which can be variable.

GAAP Net Income was $10.2 million for Q1 or $0.21 per fully diluted share.

Our adjusted net income was $23.1 million or $0.49 per fully diluted share compared with adjusted net income of $15.3 million or $0.34 per share in the comparable period.

Adjusted EBITDA was $24.7 million with a corresponding margin of 20% of revenue during Q1. The increase in adjusted EBITDA dollars reflects the strong growth of our top line, offset by our increasing investments in product, people, global expansion, and corporate expenses.

Net cash provided by operating activities was about $10 million for Q1 and our trailing twelve months of operating cash flow and free cash flow were $84.5 million and $55 million, respectively.

We continue to have zero debt on our balance sheet and our total cash, cash equivalents, and short-term investments exiting the quarter was $218 million. Please note that short-term investments is a new line item on our balance sheet, and represents an opportunity to earn a return on our unused cash.

Our DSOs at the end of Q1 were 95 days, a decrease of 1 day from the same period a year ago. DPOs for Q1 were 76 days, a decrease of 2 days from the same period a year ago.

For Q2 of 2019, we are expecting revenue of $154 million, and Adjusted EBITDA of $46 million.

For the full year 2019, we now expect revenue to be at least $645 million, revised upward from $637 million last quarter. Adjusted EBITDA is now expected to be $187 million, also revised upward from last quarter, or 29% percent of revenue.

I will now turn the call back to Jeff for final comments and, of course, Q&A. Jeff.

Jeff Green, Founder and CEO

Thanks, Paul.

2019 is off to a great start for The Trade Desk. We exceeded our expectations for the first quarter and are raising them for the year. The fundamentals of our business are solid, and we continue to scale up well. As the worldwide advertising market moves towards a trillion dollars in a few years, we are well-positioned to win a large share of the programmatic portion of that market. We invested early in key markets and channels and, while we are pleased with our initial gains, we see far more upside yet to come. All indications are that our business is poised for increased success in 2019 and beyond.

The future has never been brighter.

That concludes our prepared remarks. Operator, let's open it up for questions.