Prepared Remarks of

theTradeDesk®

Second Quarter 2018 Earnings Call

August 9, 2018

Chris Toth, Vice President Investor Relations

Thank you, Operator.

Hello and good afternoon. Welcome to The Trade Desk Second Quarter 2018 earnings conference call. On the call today from our Hong Kong office is Founder and CEO Jeff Green, and from our headquarters in Ventura, California are 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 GAAP to non-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.

As Chris mentioned, I'm speaking to you from Hong Kong today. I'm excited to be taking this call from Asia for the first time. More on that later. But first, on to our results.

I'm pleased to report that The Trade Desk had another outstanding quarter in Q2 of 2018. Let me remind you that programmatic is growing at 21%, while our growth was nearly two and a half times that. Our revenue was up 54% from a year ago to a record $112 million, which again surpassed even our own expectations. That 54% year-over-year growth equaled the 54% year-over-year growth we had in Q2 2017. Q2 2018 also represented the largest increase in incremental revenue dollars we have ever had in a single quarter.

Our business strategy continues to be validated in the marketplace. This quarter more than ever. We continued to see marketers allocate budgets beyond the few search and social sites that historically got the most incremental advertising dollars. Our strategy of being the best platform for media buying and not owning or arbitraging media is more valuable today than it ever was.

In the last three months, even more of the top 200 worldwide advertisers signed up on our platform. In the last 12 months, Ad Age's top 50 worldwide advertisers increased their spend nearly 100% more with us this year than last. That positions us very well for continued growth, not only for 2018, but in 2019 and beyond.

This quarter, growth came from many areas. Mobile spend grew nearly 100% year-over-year to account for 45% of spend on our platform – the highest ever. That is about 4x the industry growth rate for mobile ad spend, according to eMarketer. Data spend again hit another record for the quarter, and spend on cross-device data grew by nearly 100%. Meanwhile, our international business continued its solid growth in both Europe and Asia, up 85% compared with last year.

Arguably, the most important channel for our company is Connected TV. Last quarter, we shared the most bullish number that I think we've ever shared as a public company: Q1 2018 CTV spend increased by over 21x over Q1 2017. This quarter, I'm excited to report that Connected TV spend more than doubled from last quarter.

In Q2, nearly everything went right. We executed well in one of the most dynamic environments we've ever seen. We often see a game-changing event or two impacting the industry in any given year. However, in Q2, many significant developments occurred in the industry, all of which we believe will yield massive positive implications for our business over the rest of this year, next year, and over the long-term.

Here are four I want to touch on:

- First, Google sharply limited how their DoubleClick ID can be used.
- Second, significant merger deals shifted the TV landscape.
- Third, GDPR went live in the European Union.
- And finally, The Trade Desk launched the biggest product in our company's history!

I think it's important that I take a minute to discuss each of these events and how they impact the entire digital advertising marketplace.

First, Google announced in April they would stop sharing DoubleClick IDs with clients to enable reporting across websites and properties, including YouTube and DBM. Keep in mind that Google's DoubleClick has about 75% of the global ad serving market share— which means they touch and measure about 75% of the ads served on the global independent internet. Removing the ID makes comparative reporting go away, so this is a very big deal. Sharing the ID enables third-party reporting companies to measure Google's performance objectively. The ID makes it possible for marketers to compare YouTube, Google, and DBM performance to other parts of their media plan. Taking this away weakens the value proposition of YouTube, Google, and especially DBM.

In my view, Google's decision to remove this ID offering is driven by its increasing need to reduce risk against malicious data enablement, like what we saw Cambridge Analytica do with social data. The risk is similar for both Google and Facebook. The risk exists because Google (at the fundamental level of its business) transacts in directly identifiable consumer data. Google knows so much about billions of consumers because of their core product, its search engine.

Because The Trade Desk does not transact in directly identifiable consumer data and because we don't own a search engine, we can provide a unified open ID that enables advertisers to compare every destination on their media plan to every other destination objectively. Agencies and brands see this, and it is why, in part, we are winning spend. In our platform, we don't even house email addresses—let alone provide hundreds of millions of people with their own email addresses. Our data – and the data of our third-party partners – cannot be directly associated with an individual. Data in The Trade Desk platform does not include names, phone numbers, or social security numbers, for example.

This is the centerpiece of many of the discussions we have with agencies and brands today. Our value proposition has strengthened because of Google's strategic ID policy change. The choice for marketers could not be clearer: choose an objective partner with transparent reporting or choose higher walls where the publisher largely does the measurement. We have already seen some of the benefit in Q2. We think this can only lead to more positive outcomes for our business over the long-term.

Which brings us to the second high-impact development this quarter – the significant merger deals in TV.

To properly understand this, a little context is needed. The worldwide advertising market is currently at $700 billion and moving toward $1 trillion over the next ten years. The biggest part of that market is television, which according to IDC, is nearly $230 billion this year. When that TV number is added to web video, social video, mobile video, and CTV, video content is approaching half of the growing global advertising pie. And TV has just started to move to digital. We are witnessing a generational shift with the global convergence of the internet and television. This monumental change is making new forms of distribution possible in which content owners can reach content consumers directly.

As a result, we are seeing decisive actions from TV and broadcast companies. We see this as one of the drivers behind the AT&T Time Warner deal as well as the Disney and FOX deal which also includes control of Hulu. These massive deals have given us a clearer indication of where the future of TV is going than we have ever seen in the past. Netflix used to be the exception and now they have become the rule. Content owners are showing more commitment than ever to having a direct relationship with consumers.

But as this shift occurs, content distribution is fragmenting. In the past, distribution was through one cable operator on a TV in a living room. Today, that line to the consumer is through five or six different types of devices. When you add in the number of skinny bundles or virtual MVPDs from companies like Sony, Comcast, Hulu, Sling TV, DirectTV, FuboTV or many others, there are probably more than 20 different ways to watch ESPN, for example.

This is driving the increase in the number of content owners who are providing their inventory directly to us. Content owners can eliminate many steps in the distribution channels and monetize their ad inventory more directly and effectively.

Our objectivity from not owning media ourselves makes The Trade Desk one of the most important partners to these TV content owners. For example, take the most recent World Cup on Fox. We ran ads across every game in the World Cup. Ads that aired via our partnerships with many of the virtual MVPDs, not just a single partner.

But new inventory in CTV isn't just coming from virtual MVPDs. New inventory is coming from three main categories of new distribution. First, it's coming from new ad-funded channels that didn't exist before the internet. These are channels like Hulu and Sony Crackle. Secondly, new CTV inventory is coming from the new MVPDs we just talked about. There are a lot more skinny bundles than I ever knew, and some of the big ones like Sling TV are doing very well and are great partners. And third, ads are coming from new channels, sites, or players where content owners are going direct to consumers. For example, over the past year our relationship with Discovery has grown tremendously. They are providing long-form premium content on all types of connected devices. This approach is how new standards in programmatic advertising will emerge.

To that point, we are working with many of the biggest digital publishers in the world— from Baidu to Google, to Alibaba, to Spotify, to Pandora, to CBS, to Dish Network, and to DirecTV. We think in the long-term we may be the one company who can partner with everyone in digital media —because of our scale and independence with no conflicts of interest.

As a side note: I want to remind everyone that TV market dynamics are different from other digital channels like social. No single company dominates the market share in TV, so the industry is unlikely to see a "walled garden" approach succeed. The Google and Facebook playbooks for search and social do not seem applicable when no one can or will likely own as much market share in TV as Google has in search or Facebook has in social. Content owners are going direct to consumers, and that is fragmenting the supply chains and breaking up the aggregation points that cable companies used to be.

Because of all these changes, there has never been more opportunity in media than there is now. TV distribution is more fragmented than ever as content owners in desperate need of ad revenues increasingly try to go direct to consumers. Internet TV -- especially ad-funded Internet TV -- is all up for grabs.

For agencies and advertisers, The Trade Desk is the only way to effectively target across the fragmented distribution channels that characterize the emerging internet television ecosystem. Once again, our value proposition is enhanced by this development. Because we are independent and objective, we can nimbly move where the TV ecosystem moves.

As I mentioned, The Trade Desk is seeing great progress in CTV. After 21x growth in Q1, Q2 was more than double what Q1 was. Further, our scale on inventory increased by over 7x compared with a year ago, which is perhaps equally exciting. With more inventory, we get the option to do more targeting and add more value. This continued growth is I think the most exciting thing happening in our company and our industry.

And that's not just in North America. The big story in the European advertising marketplace – and our third major event of the quarter - was the GDPR rollout on May 25. It was tough on many publishers. The weekend after the launch date, our engineering and partnership teams put in a huge effort working with publishers and their SSPs who, in some cases, were not ready to ensure the technology was in place to secure the required consents.

But in Q2, we delivered record spend in all four of our European offices: the UK, Spain, Germany, and France. GDPR did not diminish spend over the quarter. In fact, the trust we built with our partners and customers was massive, and we even won additional spend because of GDPR.

And we are seeing similar gains here in Asia. Our business in China continues to progress. We are building strategic partnerships with major players like Baidu, Alibaba's Youku, and Hong Kong's TVB, which are key to scaling our business in the market.

Though we have a strong focus on China as a strategic market, Asia as a whole is crucial to our success. The opportunities here are bigger than we originally thought.

And it's not just with advertisers. Inventory partners here in Asia also see The Trade Desk as an essential strategic partner. Most publishers are not getting their fair share of spend today relative to walled gardens. One of the largest publishers in Asia wants to rapidly increase advertising on their content. But they shared with us that they can't fully monetize it on their own because they are not getting enough budget from large global advertisers. Many other inventory partners in Asia are facing the same problem. As a result, they are looking to partner with The Trade Desk - a partner they can trust who is also trusted by global brands. Our inventory in the region has increased nearly 60% year-over-year.

The secular trend driving all this is the emergence of the largest middle class in history. And most of the emerging middle class is coming from here in Asia. It is essential for brands to reach these consumers through the channels they use the most – Connected TV and mobile. Because we made investments early on in these channels, we are starting to reap the benefits and expect to continue to do so well into the future.

And the last of our significant Q2 events was that The Trade Desk launched the biggest product in our history at the end of June. Internally, we've likened this release to Apple's first launch of the iPhone. Our DNA has always been to ship product every week. But with this product, we invested almost 40% of our engineering resources over the last two years to overhaul the entire user experience and make decisioning even easier for our users. What we call the "Next Wave" significantly increases our technological lead over our competition. The result is increased sophistication and ease-of-use for the thousands of people who use our platform every day. This release was the biggest enhancement ever to the platform and it's already paying off.

Once again, there's a larger context to understand about why this launch has such an impact. Internally we are talking more and more about the concept of consumer surplus. And by that, we mean giving customers measurable value that exceeds the fee they pay to use our platform.

Let me explain why this is such a focus for us. Providing our customers with more value than we charge them for is the definition of sustainability. We could choose to enhance our product and charge more for it. Or we could just pass the added value onto our customers and increase their satisfaction with our platform. In other words, increase their consumer surplus. This is the best explanation for our 95%+ client retention rate over the last 18 quarters. In 2018, we have added more value than ever before without our customers seeing their platform fee increase.

Within a few days of our recent product release, I met with the CEO for APAC for a large, worldwide brand. The reception was phenomenal. We talked about objectivity and transparency. We discussed the new products we launched. And he said, "The Trade Desk is giving me so much more with this new product rollout." This major advertiser is now spending more on programmatic and moving more of their brands and campaigns to our platform.

The Next Wave consists of three new products:

- Megagon™, a data-focused user experience that enables media buyers to see precisely how their bidding strategies affect their opportunities to win impressions,
- Planner, an innovative tool that enables media planners to generate a range of campaign scenarios and validate them against data-driven insights, and
- Koa™, the artificial intelligence that drives it all backed by data from our entire bid stream.

Just a word on Koa and our approach to AI in general. We have developed new AI to make the data-driven parts of advertising more automated, but we've also made it easier for media buyers to participate in the process, too. We've built the best approach -- where people create hypotheses and machines test them. And unlike "black box" implementations of AI, The Trade Desk has always been transparent about what insights are being generated. Koa draws a clear line between what the AI found and insights it provides to the user. The user has the option to incorporate the recommendations or not. The choice and transparency are always there.

The response to the Next Wave has been extraordinary. We live-streamed announcements that, along with other launch videos, generated nearly 650,000 views globally to date. Industry press and general business media highlighted the Next Wave with more than 300 stories worldwide.

More importantly, our customers enthusiastically started using the new tools. In the month-and-a-half since the launch, we have seen great traction. If current trends continue, the majority of spend on our platform at the end of the year will be on these new products. Already, more than half of those adopted are Koa™ enabled.

Over two-thirds of those using the new product have switched on Koa™ Predictive Clearing. This is an incredible feature that counters publisher moves to first-price auctions, which have caused CPMs to jump approximately 40% over the past couple of years. Early results for those using Predictive Clearing indicate CPMs are being reduced by up to 20%. That's a huge value! That is amazing consumer surplus!

When we provide our users with new savings of up to 20%, we're more than earning our platform fees. That is the consumer surplus we are talking about. The value exchange has never been better for our customers, and we expect that will help our growth.

The Next Wave is a great example of our investment strategy. We have proven the value of investing ahead in areas of technology, channels, and geographies. It enables us to grab share in the fast-growing programmatic market that is just over 2% of the entire advertising market. We've done this consistently.

But it does not stop here. We will continue to innovate more quickly and efficiently than others in our industry. This includes areas such as CTV, mobile, global expansion, and creating a safer programmatic environment, as well as investing in our infrastructure and data centers.

We are not maximizing profit for today. We are doing the best thing for the growth of our business and profitability over the long-term. But even as we make these investments, we are still generating EBITDA significantly higher than almost all the high-growth software companies of similar size.

In closing, we had a great second quarter. The secular tailwind is strong, and like what occurred in the first two quarters of the year, when we have revenue surprises, they tend to be to the upside. We have incredibly strong momentum, and I expect the wind to stay at our backs. We are executing well and responding rapidly to new opportunities to create consumer surplus value.

We increased our guidance for the year to $456 million which is about 48% year-over-year growth. As great as the numbers are for the quarter, we are most excited about the growth for the year, which gives the best indicator of the strength of our business. The pieces are all in place for continued success for the rest of this year, for 2019, and over the long-term.

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.

We had a strong second quarter and a great first half of the year. Our business continues to deliver terrific results. Second quarter revenue grew 54% year-over-year. Mobile spend again grew nearly 100% year-over-year and, exiting Q2, was at its highest level as a percent of our total spend. Growth on the platform continues across both channels and regions. Audio, one of the best values in programmatic today, grew by just under 200%, mobile video grew 156%, and as Jeff mentioned, Connected TV spend more than doubled from the previous quarter. We had another exceptional quarter of international growth. Our offices in Germany, France, and Spain all posted over 100% growth. In APAC, Australia led the way, growing over 150% on a year-over-year basis.

It is our goal to always deliver the highest return on investment to the agencies and brands using our platform and create surplus value for them. We do this by focusing on the three core priorities of our business, which are to:

- One - remain the OBJECTIVE and INDEPENDENT trusted partner to our customers,
- Two - continue to grow our omnichannel presence, and
- Three – continue to grow our international footprint.

Our objectivity and the fact that we do not own media differentiate us from our largest competitors. The choice, transparency, and insights that we offer are what creates trust between us and the agencies and brands that use our platform. They can invest in their own first-party audiences, in CRM segmentation, and deeper audience analysis through their own data management platform. It is important for them to understand and optimize reach and frequency across all their media buys.

Agencies and their brands also want robust measurement to track sales and attribute offline sales. We offer more options for third-party measurement and verification so that they can verify and analyze performance across all the platforms they may use. We have over 100 data and other value-added service partners in our platform. While large competitors have stopped sharing their IDs and do not offer solutions for offline sales attribution, we provide advertisers a better path to understand how their marketing spend drives overall revenue growth for their companies.

Our objectivity, measurement solutions, and shared ID have led to us winning new business and an increase in spend from some existing customers in the quarter. The Trade Desk's other value propositions, such as independence, transparency, ease of use, more sophisticated technology, world-class client service, and providing surplus consumer value to our customers, also helped our pipeline of new business become stronger than ever.

A great example of this shift in spend is from a large global food company in Q2. The Trade Desk had been a regular part of their programmatic business, but we had a smaller piece of their spend relative to our competition. Our key performance metrics across multiple channels regularly outperformed other platforms they used. For example, viewability came in consistently 15-20% higher than all other platforms while maintaining comparable cost efficiency.

But when third-party measurement and offline attribution ability came into play, it really changed the game for this customer. The ability to tie online ad exposure to offline sales results allowed the team to deepen relationships and prove the value of programmatic advertising on our platform. We became the largest platform for their programmatic business in Q2 and are now on a pace for over $15 million in spend this year, which is significantly higher than the prior run rate from this advertiser.

Next, I want to focus on our omnichannel presence. It's no surprise that nearly all of us use multiple internet-connected devices each day. One of our fundamental beliefs is that programmatic advertising should reflect this fact – to be successful in programmatic advertising, marketers need to coordinate their messaging across multiple channels. In Q2, we continued to see marketers advertise across more channels than ever before, including mobile, video, connected TV, audio, native, and display. In Q2, our customers using at least six of these channels increased by 156% versus the same quarter a year ago.

We also saw agencies and advertisers take full advantage of omnichannel campaigns by incorporating cross-device data. And, with our recent Next Wave product launch, it is easier than ever to layer cross-device data by using our Koa Identity Alliance product. This enables the media buyer to leverage cross-device data from the four major cross-device vendors that best increase the size of a target audience for every single impression.

A great example of an advertiser increasing the ROI of its ad dollars using cross-device data is a large international hotel chain that, through its agency, had a goal to increase its target audience and capture more online booking conversions. By using Identity Alliance, the agency was able to drive a 20% increase in new customer bookings! These are significant results. Every dollar spent on cross-device data easily paid for itself, resulting in an average 31% increase in return on investment across the four cross-device partners.

Moving on to our third priority – we are continuing to widen our geographic footprint to serve our customers locally in the markets that are important to them. International spend growth percentage continues to outpace that of the US significantly and, in the second quarter, that trend continued. Our international business amounted to 15% of our total spend – the highest percentage ever. The teams in nearly every one of our offices outside the US each reached their all-time spend record in Q2. The adoption of programmatic and the market growth we saw across both Asia and Europe was very strong. But it is the success we had in Europe that I want to highlight on this call.

As GDPR went live, our team worked around the clock to ensure the technology was in place to secure the required consents with publishers and SSPs. Our work really paid off. As other large platforms cut off external SSPs and publishers, we maintained and strengthened our relationships. When large advertisers came to us stating that their DSP were unable to access certain publishers or sites they wanted to access, we were there for them. This enabled us to sign new MSAs and move spend over to our platform. The new business wins included large global brands such as a major food company, a global airline, and another large beverage company. We have seen this momentum continue as we exit Q2 and our prospects in Europe are well positioned over the long-term

Overall, we feel really good about our second quarter success and our prospects for the remainder of the year and in 2019. We have made tremendous strides in increasing our customer engagement and retention, 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, the first half of 2018 is off to a record start, and we were pleased with our Q2 financial performance and execution. Revenue increased 54 percent year-over-year, equal to the 54 percent year-over-year increase in Q2 of last year. Adjusted EBITDA increased 46 percent year-over-year, and GAAP Net Income was $19 million – all while we continued to invest aggressively in areas critical to our future growth.

Revenue for the second quarter was a record $112 million, which was above our prior expectations, and reflected the increased spend by our existing customers and the addition of new customers and advertisers. For the quarter, approximately 89 percent of our second 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 $86 million in Q2 of 2018 from $53 million during the same period in 2017. This increase was primarily due to our increased investments in our platform operations and increased personnel, primarily in technology and development, as we continue to invest for future growth.

Total other expense net was $1 million, and the income tax expense was nearly $6 million in the quarter for a tax rate of 23%.

GAAP Net Income was $19 million for Q2 or $0.43 per fully diluted share.

Our adjusted net income was $27 million or $0.60 per fully diluted share compared with adjusted net income of $23 million or $0.52 per share in the comparable period. GAAP and adjusted net income in Q2 of 2017 reflected a discrete tax benefit of $8.6 million primarily related to incentive stock options.

Adjusted EBITDA was $37 million with a corresponding margin of 33% of revenue during Q2 2018. 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. Of the $9 million revenue increase above our prior expectations, approximately 75% of the revenue fell through to adjusted EBITDA.

Net cash provided by operating activities was about $1 million for Q2 and our trailing twelve months of operating cash flow and free cash flow were $56 million and $42 million, respectively.

We have zero debt on our balance sheet and our cash position exiting the quarter was $142 million.

Our DSOs at the end of Q2 were 101 days, an increase of 6 days from the same period a year ago. DPOs for Q2 were 82 days, an increase of 9 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.

For Q3 of 2018, we are expecting revenue of $116 million, and an Adjusted EBITDA of $33 million.

And for the full year 2018, we now expect revenue to be at least $456 million, which approximates to 48% growth year-over-year, and the corresponding Adjusted EBITDA to be $140 million or nearly 31% percent of revenue.

With that, I will hand it back to Jeff in Hong Kong 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 typically are to the upside. There is a generational shift happening with the convergence of the internet and TV globally. Massive markets like China 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 in growing market share and revenue. We believe The Trade Desk is well-positioned to realize this growth for the rest of this year, next year, and beyond.

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