Prepared Remarks of

theTradeDesk®

Fourth Quarter and Full Year 2018 Earnings Call

February 21, 2019

Chris Toth, Vice President Investor Relations

Thank you, Operator. Hello and good afternoon. Welcome to The Trade Desk Fourth Quarter and Fiscal Year 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 is 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 regarding the Company's operational performance.

Lastly, I would like to highlight the following upcoming investor relations events:

- We are holding an analyst day on Wednesday March 6, 2019 in New York. This event will be webcast and available on our investor relations website,
- And, then, on Tuesday March 12, we will be attending the Susquehanna Technology Conference in New York.

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

Jeff Green, Founder and CEO

Thanks, Chris.

I am excited to be taking this call from Hong Kong. For me, it's exciting to be talking about the future of our business in Asia which is economically the fastest growing region in the world.

Back in October 2017, at our investor day, we stated that in the years ahead it was highly probable that we would see accelerating growth. It happened much sooner than we thought.

I'm excited to announce that our revenue growth accelerated to 55% in 2018 from 52% in 2017. It was a huge year for The Trade Desk. Spend on our platform surpassed $2.35 billion. Revenue was a record $477 million.

This growth is more than twice the 22% growth of the entire programmatic advertising industry in 2018, according to Magna Global. We've achieved over 2x the growth of the industry for over five years in a row.

Q4 was also an outstanding quarter to cap off an amazing year. Revenue for the quarter was a record $160 million, up 56% from Q4 2017. That 56% revenue growth also represents revenue acceleration. In Q3 2018, we grew 50%, and, looking a year back, in Q4 2017, we grew 42%.

Based on our performance, 2018 was clearly a foundational year for The Trade Desk. But that foundation is not just the numbers. We also had a series of achievements and accomplishments that laid groundwork for our future growth that are worth spending time on now.

- We launched the biggest product in our history at the end of June. What we call the Next Wave included an enhanced user experience, artificial intelligence technology, as well as a forecasting engine that helps every planner in media.

- 2018 was the year when Connected TV became a “must-have” in the media plan as the convergence of TV and the internet continued to speed up. We increased CTV inventory a substantial 6x since the beginning of the year. CTV spend increased over 9x year-over-year.

- We started to build a solid base of trust with the largest companies in China -- such as Baidu, Alibaba, Tencent, and iQiyi.

- Our Unified ID initiative, which reduces inefficiencies for advertisers and provides a better experience for audiences, began gaining steam across the industry.

- Data usage on our platform grew at nearly twice the rate of media spend for the year. In Q3 and Q4, after the Next Wave launch, data usage accelerated.

These achievements are the foundation for our future growth and further our vision of making advertising better for everyone.

In 2019, according to IDC, 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 small, estimated at around $33 billion in 2019, according to Magna Global. But it is growing much faster than all of advertising and much faster than digital advertising. We believe that, before long, the vast majority of advertising will be digital, and all of it will be transacted programmatically. Our addressable market is huge and growing. We intend for The Trade Desk to own its fair share of the trillion-dollar worldwide advertising market in the coming years.

We believe technology and rational economic choices will win in the long run. Programmatic is better for advertisers, publishers, and consumers alike. The Trade Desk is better positioned than anyone else to prosper as the world moves to programmatic. Our customers tell us we provide meaningfully better technology solutions and service. We are seeing substantive business wins as a result. We expect to grow faster than the rest of the industry for as far as we can see into the future. This is why these foundational pieces are so important to our future growth.

In 2018, we had record revenue in all our international offices, validating our focus on expansion outside of North America. Mobile spend grew nearly 80%, now accounting for 45% of spend in our platform. Data spend increased by 80% year-over-over. Our two-year investment in the Next Wave product launch is already paying off. Through today, customer adoption is over 71%.

Our business strategy continues to be confirmed in the marketplace. More than ever, our objectivity matters, as large brands trust us more than any other scaled player in the market. It is our biggest differentiator from the walled gardens. As big as they are, the rest of the internet is much bigger than any one destination. The independent internet has more premium content than the user-generated content sites. And this is especially true in TV and video content, as more of that comes online. And, whether it's premium video content, apps, or websites, we're the ones who monetize it. The Trade Desk helps advertisers find quality content and audiences, as well as mitigate the risks of advertising on user-generated-content sites.

In 2018, marketers allocated meaningful budgets beyond the couple of search and social sites that historically attracted 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 2018, 55% of *Ad Age's* top 200 worldwide advertisers spent more than $1M on our platform. Four of these top 10 worldwide advertisers increased their spend over 100% in 2018. Eighty-four of them increased their spend OVER 50% in 2018, which is just amazing. We expect most of them to spend even more in 2019 and beyond.

The results we are producing now are the direct result of the strategic decisions we made years ago. We make smart bets early. We continue to invest in these opportunities heavily. I will briefly update you on our key initiatives today. We plan to go into more details on these initiatives at our investor day in a couple of weeks.

First, early on we identified the rise of Connected TV. The convergence of the internet and TV continues to be a once-in-a-lifetime shift in media. According to IDC, the traditional linear TV advertising market is about $230 billion worldwide, but this number is shrinking as more dollars get allocated to CTV and video. Nearly everyone agrees that all of traditional linear TV will move to CTV. The only question has been "how quickly?" The answer now appears to be "much sooner than most thought."

CTV spend on our platform has had a material impact. It helped drive our revenue acceleration in Q4 and 2018. In Q4, we had record spend in CTV. Over 160 advertisers spent at least $100,000 each in CTV, with a double-digit number of them spending in the millions. We invested in CTV early so that we would be poised to win substantial marketing budgets as the overall ecosystem matured. For content providers, aggregators, and advertisers, our value proposition is compelling. We have access to premium inventory at scale. Advertisers don't have to worry about the risks associated with user-generated content.

Throughout 2018, we saw CTV inventory increase a substantial 6x. This increase is across all forms of CTV. Probably the fastest growing segment of CTV inventory today is coming from the large networks such as NBC, FOX, CBS, ABC, Discovery, ESPN, and A&E. It is on new channels, sites, or players where these large networks and content owners are going direct to consumers. The networks want to monetize their own inventory and they want higher CPMs. Inventory is also coming from ad-funded channels, like Hulu, and MVPDs, like Sling TV, which are going great and are wonderful partners.

We're also seeing a lot of growth in live events, where we have access to more inventory than ever before. On our platform, advertisers could buy ads on live events for CTV, mobile apps, and video players. Some of these events were huge. They included the Super Bowl and the entire NFL playoffs. In 2018, they also included the World Cup, the NBA Playoffs, and also the World Series. That's a vision few saw when we made our initial CTV investments. And it's now already a reality.

Our ongoing efforts to educate media buyers and provide them with the tools and data -- such as reach and frequency -- to target and measure audiences is converging with our increasing inventory scale. We advise our customers to include CTV on every media plan they create.

Our second key initiative was international expansion. Two-thirds of global advertising spend is outside the US. We are a global company. As programmatic markets mature, we expect our international revenue -- which is currently 14% of our revenue -- to grow to roughly 2/3 of the total revenue over time. The opportunity for us is massive.

In 2018, growth in our North American offices was unexpectedly strong. But even with that, the growth of our international offices significantly outpaced that of North America again. Our offices in Hamburg, Madrid, and Sydney grew well over twice that of the US. We expect continued fast growth outside of North America again this year.

Our business in Europe remained very strong. Both Q4 and 2018 saw record revenue in all our European offices. We prepared for GDPR. We helped our customers prepare. Throughout the transition to a post-GDPR world, we've solidified our position as the trusted partner for brands and media buyers in the European Union. We will continue to be proactive as the implications of GDPR evolve.

Asia continues to be a key area of rapid growth for us. That is why I am here in Hong Kong today. The fastest-growing and largest middle class in the history of the world is emerging in Asia, and global brands want to reach these new consumers. This expanding middle class is consuming digital media primarily through mobile and CTV channels. That's why global advertisers are turning to The Trade Desk to reach audiences in Asia. We're strong in the key channels and markets where they can effectively reach these consumers.

And, of course, there is no bigger market in Asia than China. 2018 has been a year of developing the key partnerships needed to succeed in the second-largest economy on the planet. We continue to build trust and partnerships with some of the biggest content providers in China. We've announced major partnerships with Baidu, Alibaba, Tencent, and iQiyi– all "must have" content providers for advertisers. In the next few months, we'll be sharing even more about the scope of our offerings in China as we formally launch our major initiative in the marketplace.

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 am super optimistic. I will be spending more time in Mainland China and Hong Kong in 2019 as we continue to grow our business in these key markets.

Our third initiative has been to enhance the effectiveness of programmatic advertising by providing a unified identity for the entire industry called the unified ID solution.

Today, as users synch the internet, hundreds of ad-tech platforms must sync their identifiers with one another to recognize the anonyomized user. There's no standardized identifier, and every ad tech company uses their own ID. This slows down page loads, drives up infrastructure costs, but, most significantly, lowers audience match rates. These are costly issues that impact everyone from the consumer to the advertiser.

But as the leading demand-side platform for the independent internet, The Trade Desk has a huge ID footprint. And we're making it available to all credible ad tech players around the world, for free.

By inviting everyone to sync using the same universal ID -- which we do not link to a user's actual identity -- we can help advertisers reach more of their valuable target audiences. It's a privacy-safe way to solve our industry's cookie-mapping problem – and boost our collective ability to compete against walled gardens.

(use this version) Those who use our unified ID see more seamless matching, up to 100%, of digital identities across multiple devices and content providers. We are seeing growing adoption of the unified ID by some of the largest publishers in the world, supply-side platforms, and data companies, as well as other DSPs.

The final initiative I'll discuss today is to increase the use of data on our platform. Its just a fact that data-driven decisions are better than guessing. The choice for advertisers is clear: when it comes to guessing or driving a campaign with data, data wins every time.

Our focus has always been on providing advertisers with an easier way to make data-driven decisions. We have significantly increased the number of data elements used on each impression on our platform. We now average over 2.25 data elements per impression. And we have still only scratched the surface of what we can do with data. These numbers will be exponentially higher as the years go on.

The Next Wave product launch in June of last year was a big step in the right direction because it made it easier for advertisers to layer on data. The numbers speak for themselves: Q3 data spend growth accelerated to over 70%. Q4 data spend growth surpassed even that – increasing to over 90%. Cross-device spend in Q3 was up about 200%. In Q4, cross-device spend was up over an astounding 300%. We expect more outsized growth in data in 2019 and beyond.

And, speaking of our Next Wave product launch last June, we consider it the biggest product launch in our history. It's something akin to Apple launching its first iPhone. There were three key components of the Next Wave:

- Megagon, our data-centric user experience that puts actionable insights right where media buyers need them,
- Planner, a tool that lets media planners tap into the insights of our historical data to model and refine ad campaigns, then port them into the platform for execution, and
- Koa™, our AI agent that provides data-driven recommendations transparently to media buyers, who can choose to act on the insights that make sense for their goals.

We invested almost 40% of our engineering resources for almost two years to launch Next Wave. We overhauled the entire user experience and made decisioning even easier for the tens of thousands of people who use our platform. The Next Wave significantly increased our technological lead over our competition. And the engineering capacity we added to launch the Next Wave widened the technology gap between us and the competition even further.

This release was the biggest improvement ever to the platform. Our adoption goal for our customers exiting year-end was 50%. We surpassed that. Adoption today is over 70%.

More than half of the customers that have adopted the Next Wave have enabled Koa™ -- artificial intelligence driven by data for our entire bid stream and data provided by customers. Over 75% 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 up significantly. Those using Predictive Clearing have seen CPMs reduced by up to 20% which is huge value. The value exchange has never been better for our customers, and that helps drive customer retention and growth. In fact, our customer retention rate has been 95% plus for the 20th straight quarter in a row.

We expect the momentum to continue in 2019. For the year, we expect gross spend on our platform to be over $3.2 billion, resulting in revenues of at least $637 million.

In the coming year, we will continue to make investments in high-growth areas just as in prior years. We estimate our EBITDA margin in 2019 to be about 29 percent. But like prior years, when we've seen surprises, they tend to be to the upside. And the upside has fallen directly to the bottom line.

While we generate EBITDA at levels much higher than our software peers, we are not aiming to maximize profit in the near-term. We believe investing organically in our core growth opportunities will yield the best return for shareholders over the long term.

There's a multiplier effect with our investments. Our investment in the engineering to build the Next Wave, for example, has now positioned us to outpace the competition in technology for years to come. Since we started building the Next Wave over two years ago, our engineering capacity has increased by over 4x. At the same time, we have increased our R&D efficiency. The result is we now we have the capacity to build eight Next Wave products this year. And we're directing that capacity to other high-growth opportunities.

CTV, data products, cross device, and now China are just a few great examples of our investment strategy. If we had not invested in CTV years ago, then we would not be where we are today. The same can be said for investments in data, cross device, and, of course, our acquisition of Adbrain®, which has paid for itself many times over already. So, we will continue to invest ahead, like we are doing right now in China. We want to be there early. We want to invest for the long-term, not next quarter or the quarter after that. We will continue to operate this way. We regularly evaluate growth opportunities in areas of technology, channels, and different geographies. It enables us to grab share as we have done consistently since the first dollar of spend on our platform back in 2011.

We are excited about our prospects in 2019. The secular tailwinds remain very strong. Everything is in place for continued success this year, next year, and over the long-term.

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

Paul Ross, CFO

Thanks, Jeff, and good afternoon, everyone.

For the full year 2018, revenue growth accelerated to 55% year-over-year compared with the 52% growth rate we saw in 2017. The revenue growth acceleration resulted from large global brands moving additional spend onto our platform, significant amounts of new business and adoption of video which includes both mobile video and CTV.

Adjusted EBITDA increased 67% percent year-over-year, and Net Income increased 74% from a year ago to a record $88 million. We achieved this while continuing to heavily invest in areas critical to our future growth, such as launching our Next Wave family of products, adding engineering talent and expanding our global reach.

We continued to gain market share. We ended the year with over $2.35 billion in spend on our platform, up from approximately $1.55 billion a year ago. For more than five years in a row we have grown more than 2x the RTB programmatic industry, according to Magna Global.

Outside the US, spend growth was incredibly strong at about 70% year-over-year. Exiting 2018, 14% of total platform spend was outside of North America.

From a channel perspective, in 2018, mobile spend was the primary driver of our growth, increasing 77% year-over-year. For the first time, total mobile spend on our platform, which includes video, in-app, and web, ended the year at over $1 billion. As Jeff highlighted, CTV grew more than 9x year-over-year, audio grew more than 230% year-over-year and mobile video grew more than 130% year-over-year.

Turning to our financials, revenue for the fourth quarter of 2018 was $160.5 million, up 56% year-over-year. This growth reflects growth in spend by existing customers as well as the addition of new customers. Approximately 90% of our fourth quarter gross spend came from existing customers who have been with us for over a year.

Adjusted EBITDA was $67.1 million with a corresponding margin of 41.8% of revenue during Q4. Margins are typically the strongest in the fourth quarter given the seasonal strength in advertising spend.

For the full year 2018, adjusted EBITDA was $159.4 million, for a 33.4% margin, reflecting our revenue overperformance, even as we increased our investments in product, technology, people, and global expansion.

GAAP net income was $39.4 million for the fourth quarter of 2018, or $0.84 per fully-diluted share. For the full year, 2018 GAAP net income was $89.1 million, or $1.92 per diluted share. GAAP net income increased 74% compared to a year ago and 2018 marked our fifth consecutive year of positive GAAP net income.

Our adjusted earnings per share was $1.09 for the fourth quarter compared with $0.54 in the prior year. For the full year 2018, our adjusted earnings per share was $2.70, up 69% compared with the prior year.

In Q4, Net cash provided by operating activities was $48 million, and we closed the year with $207 million in cash. In 2018, we added $51 million in cash in addition to paying off $27 million in debt back in Q1.

Our DSOs ended the year at 114 days, and our DPOs were 97 days. The 17-day spread between our DSOs and DPOs exiting the year has tightened and stabilized over the past several years as a result of internal initiatives to improve capital management.

Finally, I would like to share our guidance for the first quarter and full year 2019. For Q1 we expect revenue to be $116 million and adjusted EBITDA to be $18.3 million. And for 2019, we expect the full year revenue to be at least $637 million on total gross spend of at least $3.2 billion and adjusted EBITDA to be at least $182 million or about 29% of revenue.

As a percentage of revenue, our guidance for 2019 adjusted EBITDA is very similar to our guide last year, which we believe provides significant flexibility to invest opportunistically in the growth opportunities we see in front of us. This includes investments in areas such as our infrastructure and offices. In 2019 we plan to continue to invest in our people and our technology; in high-growth channels, such as CTV; and in sales and marketing as we build out our account teams worldwide.

Similar to recent years, for any revenue upside that we see in 2019 relative to our investment plan, we should again expect much of that incremental revenue upside to drop down into adjusted EBITDA.

For 2019, we expect total Operating Expenses of $545 million, total other expenses for the year to be about $1 million, and we expect our full-year tax rate to be about 28% percent. We expect stock-based compensation expense for the year to be about 10% of revenue. Share count is expected to be about 49 million as we exit 2019. And finally, we expect our capital investments to total about $50 million and depreciation and amortization expense to be about $24 million for the year.

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

Jeff Green, Founder and CEO

Let me close by giving some commentary on the remainder of 2018.

For all of 2018, we are expecting revenue of $464 million, and an Adjusted EBITDA of $145 million.

If we just meet our goals in Q4, we will have produced year-over-year growth acceleration, beating last years Q4 growth rate of 42%.

Brands are coming to us directly at a record pace. TV content creators are coming to us directly at a record pace. Our data business has grown 70% year-over-year. Cross device has grown 3x. Mobile video was up almost 100% and mobile overall is almost half of our revenue. And we saw a remarkable 10x increase in CTV once again.

With those trends, you can see why we're so bullish for Q4 and 2019. Our investments are paying off. When we see surprises, they typically are to the upside. There is more opportunity in front of us. We believe The Trade Desk is well positioned to realize continued growth for Q4, next year, and beyond.

That concludes our prepared remarks. Operator, please open it up for questions.