Prepared Remarks of

theTradeDesk®

First Quarter 2021 Earnings Call

May 10, 2021

Chris Toth, Vice President Investor Relations

Thank you, Operator. Hello and good afternoon to everyone. Welcome to The Trade Desk first quarter 2021 earnings conference call. On the call today are our Founder and CEO Jeff Green, and Chief Financial Officer Blake Grayson.

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, some of the discussion and our responses in Q&A may contain forward-looking statements, which are dependent upon certain risks and uncertainties. In particular, our expectations around the impact of the Covid-19 pandemic on our business and results of operations are subject to change. Should any of these risks materialize, or should our assumptions prove to be incorrect, actual financial results could differ materially from our projections or those implied by these forward-looking statements. 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.

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

As you can see from our earnings press release, The Trade Desk reported a very strong first quarter this year.

This performance is especially encouraging because annual advertising budgets are often being reset and reconsidered in Q1, making them historically harder to predict. And this year, it was especially challenging because of the global pandemic. The unique world-wide business environment helped accelerate digital advertising in most parts of the world as we exited 2020. However, several verticals are still to come as we all march up and out of the recovery curve.

For the quarter, we exceeded our own expectations, and this is another positive sign that The Trade Desk has emerged as the default demand side platform for the open internet.

A steady stream of new brands and agencies started to work with us for the first time in Q1. And we continue to win additional spend from existing customers. Industry momentum around key drivers such as CTV and UID2 could not be stronger. The challeges of the past year have only served to focus our attention on how we can drive real business value for our customers and partners, and that has enabled us to forge closer relationships with the biggest brands in the world.

As a result, revenue was $219.8 million, an increase of 37% compared with a year ago. Adjusted EBITDA increased to a Q1 record of $70.5 million. This Q1 record is on both an absolute basis and a percentage of revenue basis.

As we continue to grow and represent more and more large brands and a larger percentage of ad agencies, we will continue to become a more accurate bellwether for the open internet and advertising spend.

When you consider our performance in the context of the health of the overall advertising industry, you can see how we continue to outperform our industry and gain share. For example, WPP's GroupM predicts worldwide advertising revenue will increase 10% in 2021. Publicis Groupe's Zenith expects overall US ad spending to rise 3.2% in 2021 following a drop of 5.4% last year. GroupM also predicts digital advertising will surge 14% to nearly $400B.

We are growing at a pace well ahead of the industry. CTV continues to lead our growth and our international expansion continues to yield very encouraging results. Overall, international spend grew much faster than spend in North America. Growth in EMEA was especially strong. We are starting to see green shoots from the investments we have been making in CTV in Europe. APAC also outgrew the US which is very encouraging. That is what we expect for the foreseeable future as the most rapid economic growth, driven by the rise of the largest middle class in history, will come out of Asia in the next decade.

In order to provide some color on our results, I'd like to focus on three major points.

First is the evolution of CTV. As I mentioned, CTV continues to be a major driver of our growth, but it's also the catalyst of broader change across the advertising landscape.

Second, I'd like to touch on identity. There's a ton of discussion about identity in the industry right now, with a fair number of misperceptions.

And third, as we head into the Summer, we'll be getting ready to launch our new platform Solimar. And I'd like to spend a moment on what's new about the platform and why we think it's the right platform to meet the emerging needs of advertisers around the world.

So first, CTV.

With so much attention on the CTV market today, it's sometimes easy to forget how far we've come in such a short amount of time. Afterall, CTV is a fairly young advertising channel. At first, the early mover markets, such as the US and Australia, operated with fairly limited supply, as you'd expect.

Back then, most connected TV was SVOD. Subscriptions paid for the content, not ads. For most of the last few years, that created scarcity in the AVOD portion of the CTV market. That scarcity by itself kept CPMs high. As the market evolved, more consumers shifted to CTV and over the last couple of years, almost all major content owners put more premium inventory online.

Today, TV providers are fighting for consumer attention and there is more competition than ever. The gap in cost-adjusted efficacy between linear and CTV has stayed strong. However, as advertisers embrace CTV to leverage data and relevance, CPMs remain high – not because of scarcity, but because the power of data-driven targeting is quickly becoming more apparent. Only effective data-driven targeting can achieve the value sought after by advertisers, and just as important, preserve the high CPMs for publishers as premium inventory impressions increase. In other words, TV advertisers now have choice, they have the ability to differentiate between content and across channels more than ever – and that's critical to a healthy and competitive CTV market.

TV is often the most effective part of the media plan. It is also generally the biggest. It is my prediction that AVOD will outpace the growth of SVOD over the coming years, but for that to happen, AVOD will need to get better at relevance and efficacy through products like Solimar. More to come on Solimar later.

Now, just to put the CTV market scale in perspective, According to Omdia's latest research, there are now more than 200 million active AVOD users in the US alone. By 2024, Omdia predicts that annual CTV advertising revenue will top $120 billion, outperforming subscription revenue by more than 20%.

Omdia also predicts that markets such as the UK and Germany will be the fastest growing CTV markets outside the US, driven by very similar consumer shifts. These trends are very consistent with what we're seeing, and that's why we're investing so heavily in CTV. For example, we recently announced a new partnership with SkyTV, one of the major broadcasting platforms in the UK, and more broadly across Europe, giving us access to one of the richest sources of premium inventory content in that region.

Through our platform, advertisers now have the ability to be more deliberate about what CTV ads they buy and to apply data driven decisioning in TV at increased scale. And the increased scale and deliberation is affecting everything about the TV advertising business. Just look at the Upfront process, which is kicking off again this month. More and more of the world's top advertisers are making programmatic buys a larger component of their upfront commitments. As you may have heard from many advertisers publicly, they want more data-driven flexibility in their TV advertising campaigns, they believe their digital buys should be a core element of their upfront commitment, and the networks are adapting to that demand.

Ultimately, this will lead to the development of a new programmatic forward market for CTV inventory. We are pioneering this work, collaborating with companies such as Magnite, and Freewheel. Our goal is to significantly improve the legacy upfront process by using more data and measurement to make better deals for both advertisers and content owners. This won't happen overnight. It will be a multiyear effort. But it's these kinds of innovations that are making The Trade Desk such an integral component of the tech showcases that major platforms, such as Disney, NBCU and Nielsen, are putting together as part of the Upfronts this year.

I'm encouraged by how traditional TV companies and broadcasters are thinking about this. They are not standing still or waiting around. They are leading. With NBCUniversal, for example, we're working on innovative ways to bring ecommerce into the CTV experience – so if you see an ad for a product, you can interact with it and purchase it with one click, right on the screen.

Broadcasters are also applying that same innovation focus to the world of identity. In the last couple of weeks, we've announced collaborations with OpenAP and Blockgraph. These companies are each owned by some of the largest TV networks in the U.S. They are both working on creating new approaches to identity that work for CTV, and which bridge between CTV and linear TV. Both organizations have announced that their technology will be interoperable with UID2.

Which brings me to my second point, the evolving world of identity.

Let me start the discussion of identity by clarifying what we're talking about. This discussion on identity is bigger than cookies. Its bigger than any company or any channel. Cookies are not present in CTV. However, a privacy-safe identifier for CTV will be a major factor in driving relevant ads and managing reach and frequency across apps, channels, and devices. CTV needs this kind of approach in order to maintain or increase CPMs in a way that helps fund the amazing content that has kept most consumers sane during the pandemic. The current TV content arms race cannot be financially sustained, for providers or consumers, without relevant ads.

So, you can see how the identity discussion is bigger than cookies, or CTV, or Google's decision to deprecate cookies for the browsing internet. This is a discussion about how the internet pays for itself. It is also a discussion about control. Is the internet going to be controlled by a few large tech companies? Or will power be distributed and will choice sit with consumers and their relationship with each content owner?

We launched the UID2 project with the goal to improve the internet. This is NOT merely a marketing campaign about how deeply we care about consumers, the quality of the internet, or consumer privacy. Of course, we deeply value all of those things, which is why this is not about marketing but about action. It is a movement. We are working with the leaders in the Open

Internet to build a better internet. We want consumers to have control in a privacy-forward manner that transcends a single company's ecosystem.

And that's why Identity continues to be the hottest topic of conversation in our industry. It feels like every media outlet, from The Wall Street Journal to the advertising trades, is covering identity these days. Google has issued several blogs over the past couple of months, clarifying their position on identity.   They plan to use a Google log-in as a core part of their identity solution, but at the same time, in some cases, they been critical of others doing something very similar.

While we'd like to see Google support the open internet more publicly, given DoubleClick is one of the most important open internet players, they are doing a good thing by making privacy a priority – for Google. Fortunately for The Trade Desk, since founding the company back in 2009, the health of the entire digital advertising ecosystem has been a core value of our company. We care deeply about improving the entire internet, not just our small corner of it. We have a guiding principle that informs every product we ship: what do I, as a consumer, want the experience to be for me? for my family? We answer these questions first. And then of course work to make sure everything conforms to both the letter and spirit of the law.

UID2 is built for consumers –with better content and an internet where power is distributed, not consolidated. It is designed to operate with a clear consent framework, better explanations about the value exchange of free content, and improved consumer controls.

We have always believed that taking a consumer first approach is the only way to address identity over the long term -- in a way that meets the growing regulatory and consumer focus on privacy. We're skeptical about solutions that lean on opaque cohorts or solutions that try to make decisions for consumers instead of providing consumer choice. We do not believe those options are sustainable as privacy-conscious in the long-term. They don't empower consumers sufficiently.

And that's also why the open internet is rapidly adopting UID2. Because this is much bigger than The Trade Desk. UID2 is about a better internet. It will be open-sourced with independent governance. Personally, I was inspired this last quarter when working directly with Arthur, the CEO of Publicis, to make sure their ID and UID2 were interoperable. Like Arthur, there are so many people and leaders across the open internet that are engaging with us and recognize the significance of this moment. The momentum behind UID2 is beyond anything I could have scripted, and for me, it's probably the most inspiring movement that I've experienced in this industry.

I don't think I've explained well to Wall Street how UID2 has gotten so much scale so quickly and why I'm so positive about this movement. Let me try to add more clarity.

Remember how UID works – Consumers sign in once, with their email address, and then opt-in, site by site, just once per site or app or channel. This is a significant improvement of the consumer internet experience today, where intrusive toasts, or "cookie pop-ups", appear on almost every premium content site and seemingly every time you go there.

Some have mistakenly thought that UID2 is an SSO or Single Sign On. And that we are trying to build something like Gmail with the hope of attracting billions to a new brand and new consumer facing log-in service. It isn't. It is a common ID that can be used by many different advertisers and publishers. It often originates from publishers with existing sign-on systems. Consumers can then engage with privacy settings and opt-outs directly from the services they know. While we're partnering with several industry leaders like Criteo to build a new SSO to help medium and smaller publishers, those efforts are innovations on top of UID2.

With UID2, that first email authentication provides the consumer with the explanation of the value exchange of the internet. The goal is to make it consistent and clear. And with adoption by a who's who of leading publishers and supply side partners, the UID2 community has already achieved significant scale. UID2 does not need some magic number of single-sign-ons to be on par with the billions of cookies out there to be successful. We are already seeing widespread adoption by integrating with existing publisher sign-on systems.

The Wall Street Journal reported 50 million UID2 authenticated users in the U.S. a couple of months ago, and we have seen more partners adopt since then, multiplying that user number. And remember, we are only a few weeks into beta testing. The list of publishers, advertisers and data partners that are currently in the integration process or committed to UID2 is larger than those that we've announced publicly. The progress we've made on UID2, the momentum we are seeing, is all beyond anything we could have envisioned this early.

I'm so glad to have worked with executives at the biggest brands and biggest agencies and biggest TV companies and biggest websites to implement something bigger than any one of us. It is an honor to partner with so many companies and see UID2 evolve as something that belongs to the community.

And this is not just a U.S. phenomenon. Even though we are earlier in the journey outside the United States, we're seeing rapid progress in key markets such as Australia, Southeast Asia and in Europe, with major publishers and advertisers joining this industry-wide effort.

I'm convinced that over the past month, the momentum behind UID2 has only been hastened by Google's latest position statements. Those "blogs" galvanized an entire industry on a new approach. The Trade Desk, our agency partners, advertisers and premium content partners care deeply about consumer privacy. Remember that most major brands and many premium content providers have a decades-long relationship with their consumers. I've never met a large brand or content owner that wants to ever violate consumer trust, or even just be seen to violate trust. They've worked so hard to build that trust over many years. And that's why trusted brands such as Hershey have declared their support for UID2. And because of our commitment to trust and transparency, many content owners are happy to partner and share data with companies like The Trade Desk. It's the companies in the middle that they're concerned about.

That's why we're excited about one of the innovations we're building on top of UID2. It's being developed initially for certain broadcast networks and it's called Double Encryption for Publishers, or DEP. DEP allows publishers to encrypt UID2 and only unencrypt it for designated parties such as a particular advertiser or partner. DEP protects against data leakage and the publisher has the power to control the process with precision. As such, DEP is an important innovation for publishers as they integrate their sign-on process into a broader eco-system. This can be used to prevent a company in the middle, even an ad serving walled garden, from taking data or insight.

By the way, this is just one example of how UID2 allows for innovation on top of the core open-source technology. In this way, UID2 will ultimately prove to be an innovation that supports more than just today's privacy expectations.

At the same time, it's also important to note how UID2 can accelerate the goals of the California Consumer Privacy Act and Europe's GDPR. We believe that UID2 best meets the evolving regulatory principles around privacy that are being put into place around the world. Most of these regulatory frameworks are not necessarily prescriptive. So, you have to focus on the principles. And those principles focus on consumer control. Which is the design point of UID2. In many ways, we believe UID2 is the vehicle that enables regulations such as GDPR to realize their full potential.

Another important aspect of UID2, beyond the core identity service, is its emerging role as a new common currency of the open internet. Advertisers have the ability to deterministically measure more effectively across channels, and to better manage frequency across channels and devices in a way that is simply not possible with cookies, for example.

It's also in this context that our partnership with Publicis becomes important. Publicis recently announced that they would make their Epsilon Core ID interoperable with UID2 and that The Trade Desk would become the exclusive third-party DSP for Publicis' Core ID solutions. The

Epsilon core ID graph includes IDs for more than 250 million users and a wide range of onsite and offsite data.

The ability to integrate with this kind of offsite data is critical as advertisers think about activating their own first party data in a new identity environment. Whether we are talking business performance measurement, or broadening audience segments, or brand safety, partnerships with companies such as Publicis and WalMart are so important to realizing the full potential of data-driven advertising. And there are many more in the works.

Take the shopper marketing industry as an example. According to some estimates, the TAM for shopper marketing is well over $100 billion. More and more retailers are recognizing the value and power of their shopper data. Listen to almost any retailer earnings conference call these days and you now hear how companies want to "activate our first-party data" or "monetize their proprietary data." Retailers are starting to work with us on strategies to liberate data so their suppliers can market more effectively in a secure, privacy-safe way. The go-to-market approach for each retailer may be slightly different. But the common thread is that these retailers understand that the only way to realize the full value of their data is on the open internet. There's no point building walls around it. Brands will, over time, always gravitate to places where they can be deliberate and where they can measure ad impressions across channels.

There are some companies – mostly those with a dominant, walled garden approach – that believe the internet can be controlled by a few. Then there's the rest of us, who believe that an open, competitive internet marketplace is the only real, viable approach that preserves value and opportunity for all participants.

By the way, I don't think there's anything in the advertising world that will unite fierce competitors today more than this principle. Many of our largest customers are fierce adversaries with each other every single day. But they agree on this. And we are honored to be working with all of them to improve privacy standards and practices across the internet. We all agree that the open internet is the best way to activate first party data, and to measure campaign performance against real business goals with a much clearer understanding of actual consumer actions.

Which brings me to the third point I want to cover today, the launch of our new Solimar platform later this summer, which incorporates many of these principles.

Just think about the pressures that today's marketers are under:

- Proving the ROI of every advertising dollar – which means advertisers want better measurement and the ability to tie measurement to actual business outcomes like sales in a Walmart store, or foot traffic onto an auto dealership.
- Activating valuable first party data, in a secure way, that respects consumer privacy – all in a new identity environment.
- And completely rethinking how to approach TV advertising, which is the largest channel for many of our advertisers.

Solimar has been many years in the making and is the biggest platform upgrade in our history. And it has been designed and engineered to meet these evolving needs of the modern marketer.

For one thing, the UX is completely redesigned. It brings all the features of our platform together in a very easy-to-use interface. It starts with your goals as a marketer – whether those are marketing goals or business goals or some combination. Better, more expressive, more detailed goal setting at the outset means that the KOA artificial intelligence systems can be more effective for the media trader – optimizing campaigns on the fly.

Solimar will have the industry's easiest on-ramps for our customers' valuable first party data. In a new identity environment, that data becomes even more important, but advertisers want to unleash it in a secure, trusted environment. Solimar provides that, and innovations such as UID2 and DEP will only increase advertiser trust in the platform.

And Solimar is a closed-loop system. It does more of the work for you, engaging a much richer measurement marketplace incorporating onsite and offsite data so an advertiser can better tie a marketing campaign to real business outcomes. Again, think about the shopper data example. Advertisers want to understand how their campaigns are driving in-store sales. We are building that offsite data into Solimar – whether it's retail stores or auto dealerships or ticket sales or any other form of business performance data – so the advertising campaign can seamlessly optimize for those business goals.

In doing so, Solimar liberates the media trader to focus on campaign performance, rather than having to turn the dials on every aspect of campaign management. Solimar can manage the details allowing the media trader to focus on more strategic objectives.

So, with the Solimar launch, we will be heading into the second half of the year with a great deal of excitement and momentum about our ability to best serve the needs of the modern marketer.

And let me wrap things up on this point.

We are off to a very positive start in 2021, exceeding our expectations. And that's because advertisers are increasingly gravitating to our platform as the default demand side platform of the open internet.

But we are not resting on our laurels. As you know, we are consistently investing in our business so that we can continue to lead our industry. Whether that's international expansion, innovative partnerships with companies such as Walmart and Publicis, new channels such as CTV, major platform upgrades such as Solimar, or integrating valuable new data and measurement capabilities.

And all of those investment decisions are informed by the emerging needs of our customers – advertising agencies and major brand advertisers of the world. They are becoming more data-driven in everything that they do. And their expectations of how they can unleash data are only growing.

And that, more than anything, is what makes me so excited and confident about the future. We are excited to compete for every digital advertising dollar. When we compete, we usually win.

With that, let me hand it over to Blake to cover the financials.

Blake Grayson, CFO

Thank you Jeff, and good afternoon everyone.

As you have seen in our results, 2021 has started out strong, despite the lingering challenges faced around the world. Q1 revenue was $220 million, a 37% percent increase from a year ago. Excluding political spend related to the US elections last year which represented a mid-single digital percent share of our business in Q1 2020, revenue increased around 42% y/y in Q1 of this year. This represents a material acceleration on a sequential basis from Q4 2020, after excluding election spend. In Q1 we benefitted from continued improvement in the digital advertising environment from both agencies and brands. Growth was broad-based across all regions and channels with particular strength from CTV, which again led our growth from a channel perspective. Our year-over-year revenue growth also benefitted from lapping Covid related headwinds that we experienced toward the end of March last year.

With the continued strong top-line performance in Q1, we generated $70.5 million in adjusted EBITDA, or about 32% of revenue. EBITDA continues to benefit from temporarily lower than expected operating expenses partly driven by the virtual environment. This includes items such as travel and live company events that have not yet started to resume. Even recognizing that, I'm proud of our continued ability to consistently grow our top-line revenue while generating meaningfully positive EBITDA and cash flow.

From the channel perspective, Video, Audio, Mobile and Display all grew well into the double digits in Q1. Video, which includes CTV, again led our growth during the quarter followed by Audio.

Geographically, North America represented 87% percent of spend and International represented 13% of spend. International's overall share grew slightly from Q4 and the prior year due to faster growth in APAC and Europe relative to North America. That said, spend growth accelerated in all of our major regions as North America, APAC and Europe grew spend well into the double-digits again year-over-year in Q1. Our offices in Europe showed particularly encouraging results, as each office grew spend faster year-over-year in Q1 than total company spend. In APAC, Shanghai, Hong Kong and Tokyo spend all more than doubled. It is still early days for us internationally, but we are optimistic on the trends we are seeing at the start of 2021.

In terms of the verticals that represent at least 1% of our spend, the majority of them grew in double digits during the quarter. Home & Garden, Technology and Computing, and Shopping were all very strong, with both Home & Garden and Technology and Computing more than doubling during the quarter. Automotive continued its return, growing faster than the rest of the business during the months of February and March. While improving, the Travel and Entertainment verticals still lag compared to others, but both are showing signs of promise so far in Q2. There is still a lot of recovery ahead of us in these segments and we are starting to see potential signs of optimism.

Operating expenses were $212 million in Q1, up 41% year-over-year. The growth in operating expenses in Q1 was primarily driven by stock-based compensation. Operating expenses excluding stock-based compensation grew 26% year-over-year. A majority of the growth in stock-based compensation expense in Q1 was related to the company's employee stock purchase plan. We currently estimate that stock-based compensation growth should moderate from current levels in the second half of the year.

Income tax was a benefit of $14.6 million in the quarter mainly due to the tax benefits associated with employee stock-based awards, the timing of which can be variable.

Adjusted Net income for the quarter was $70 million or $1.41 per fully diluted share.

Net cash provided by operating activities was $75 million in Q1 and free cash flow was $61 million.

DSOs exiting the quarter were 93 days, up a day from a year ago. DPOs were 75 days, up 6 days from a year ago.

We exited Q1 with a strong cash and liquidity position. Our balance sheet had $680 million in cash, cash equivalents and short-term investments at the end of the quarter. We have no debt on the balance sheet.

In addition, our board of directors has approved a 10:1 stock split to make the stock more accessible to our employees and to a broader base of investors. Trading of The Trade Desk stock will begin on a stock-split adjusted basis on June 17, 2021.

Turning to our outlook for the second quarter. We expect Q2 year-over-year total revenue growth to significantly accelerate relative to the growth rate we saw in Q1 as we lap slower growth related to the pandemic during the second quarter of 2020. We estimate Q2 revenue to be between $259 million and $262 million which would represent growth of between 86 percent to 88 percent on a year-over-year basis. We estimate adjusted EBITDA to be at least $84 million in Q2. I would remind you that the relative strength in our EBITDA forecast continues to benefit due to the virtual environment our teams are working in.

As we think about the full year, we continue to model for an improving digital advertising environment, and we continue to expect a reasonable acceleration in our revenue growth relative to 2020.

That said, in the second half of 2021, we expect year-over-year total revenue growth rates to decelerate significantly on a sequential basis as we lap periods of increasingly strong growth. In particular, our Q4 growth rate will comp against the significant spend we generated in Q4 of last year driven by the rebound in digital advertising as well as material US political election spend that we benefitted from in that period. If you recall, US political election spend represented a high-single-digit percent share of our total spend in Q4 of 2020.

In closing, while the past year has been far different from anything we could have expected, we continued to grab share and deliver sustainable top line growth and profitability all while building better relationships with our customers and partners. I'm extremely proud of the way that our employees navigated the challenges of the past year with grit, resilience and with an unwavering commitment to our values as a company.

That concludes our prepared remarks. And with that, operator, let's open up the call for questions.