*Prepared Remarks of*




**Fourth Quarter 2019 Earnings Call**

**February 27, 2020**

**Chris Toth, Vice President Investor Relations**

Thank you, Operator. Hello and good afternoon. Welcome to The Trade Desk Fourth Quarter and Fiscal Year 2019 earnings conference call. On the call today from our Ventura headquarters is Founder and CEO Jeff Green and on his first earnings call as Chief Financial Officer is 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, 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.

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

**Jeff Green, Founder and CEO**

You've all seen the results, but let me just cover a couple of highlights that I think are particularly noteworthy. Total spend on our platform in 2019 was a record $3.1 billion. Spend in Q4 topped $1 billion, the first time we have EVER crossed the billion-dollar mark in a single quarter. This record spend helped drive revenue growth of 39% for the year.

And our Adjusted EBITDA margin was 32%, marking the fourth year in a row above 30%. Net income was $108 million. We have been GAAP profitable every year since 2013. These results are highly encouraging. We continue to generate strong revenue growth while we also deliver profitability that is significantly higher than almost all other comparable software and internet companies our size. We will also continue to look for ways to invest that profitability to accelerate our growth.

With all of that said about 2019, I'm even more excited about 2020. I've never felt more confident heading into a new year. That's because as the largest independent DSP in the world, I believe we are uniquely positioned to grow and grab share regardless of any changes to the regulatory or tech environment. I'm expecting spend growth to accelerate this year to 35.7% vs 33% last year. We project that will drive revenue growth of at least 30.5% and EBITDA margin of at least 30%.

Part of our confidence comes from the amazing progress we made in 2019. Whether it's bringing more and more advertisers onto our platform. Or the tremendous growth we've seen across our inventory availability. Or the explosion of CTV and how that is transforming advertising. Or the growth of the use of data on our platform which grew 65% year-over-year. I'm amazed at how far

we've come. And so quickly. The progress we made in 2019 puts us in a great position to grab share not only in 2020, but well into the future.

I want to spend a few minutes getting into these points in more detail. I believe that, in many ways, we're at a watershed moment in our industry, and for our business. I say that not simply because of the revolutionary impact of emerging trends such as CTV, but also because we're at a point where we no longer have to make the case for data driven advertising. Advertisers get it. They understand it and they want to apply it. It's no longer a question of "what the hell is this thing," but it's more a question of "how can I do more with you."

While advertising is about $725 Billion dollars today, we expect it to pass 1 trillion dollars in about 7 years. We continue to assert what have from the beginning: data-driven decisioning is the future, and the objective and more transparent companies who manage to gain scale will be the dominant force of the new advertising market that exists on the other side of digital transformation.

On the inventory side, if you gave me a blank sheet of paper a year ago and told me to predict what a successful year could look like, I would have never come close to what we actually accomplished. In 2019, we exceeded every one of our goals to bring on premium inventory. The mantra of our inventory team, led by Tim Sims, is to be first and go fast. This is so important because adding massive scale in areas such as CTV, audio and mobile is a great leading indicator of future spend on our platform. If you look at CTV specifically, an advertiser can reach over 30 billion premium inventory impressions every day from nearly every major content provider. That means there was exponentially more inventory available in 2019 than the year before.

Here are just a few of the inventory highlights from 2019:

We became the first DSP to integrate with Amazon Publisher Services. We expect this relationship to continue to grow in 2020.

We were the first DSP to launch live sports with Disney programmatically.

We were the first independent DSP to run programmatic guaranteed audio with Spotify globally.

In Europe, we integrated with Channel 4, Sky Germany, Prosieben, RTL, Mediaset, TFI and RakutenTV. That's like the Champions League of European media.

It's a similar story in Asia, where we became one of the first DSPs to integrate with many of the region's top media providers, such as TVer in Japan. In Southeast Asia we have added over 13 new premium TV partners. These include VTV in Vietnam, True ID TV in Thailand and HooQ across all Southeast Asia.

One last one, which I think is particularly insightful and important. We became the first DSP to "go-live" with Freewheel's Unified Yield products. This is effectively header bidding for TV.

Let me explain. The ad ecosystem is not too dissimilar from the equities market. Supply and demand isn't always measured completely. When an order is placed or an impression is sold, it may not be routed in a way that maximizes yield. Banks or walled gardens may route the impression in a way that doesn't narrow the gap between the market price and the transacted price. Header bidding is a technology that allows the demand side to access all ad impressions and bid on them. It collapses the siloed supply and demand so that the market is purer, cleaner, and fairer. It was pioneered in display advertising but now CTV content providers, working with us, are starting to adopt something very similar. And Freewheel has progressed the quality of transactions in CTV by creating a header-bidding like product. This is important because traditionally, TV media sales have followed the classic waterfall method, which silos demand. Direct sales teams sell the highest valued inventory to the largest buyers first, and then so on

down the waterfall. As more TV content shifts to connected devices, header bidding augments this process. Buyers like The Trade Desk can now compete for every impression. That means we can bring more demand. And suppliers get to consider all the demand at once, which increases CPMs and improves forecasting for publishers. Where we work with Freewheel's Unified Yield, we have seen spend increase up to 5X. So we're convinced this will have a big impact on TV over the coming years.

I know we've talked quite a bit about CTV on these calls in the past, but we are in the middle of a once in a lifetime consumer shift to connected devices and streaming content. That's driving all providers to rapidly develop and deploy streaming services, many of them working with us to maximize ad demand. We are seeing this translate to spend on our platform. CTV spend grew 137% in 2019 and current trends indicate it will double again in 2020.

If any of you were at CES this year, you would have been impressed by the scale of this transformation. But you would also have seen that we are ONLY in the very early stages. There's a whole section of CES that is devoted to the future of marketing, and this year, CTV was the largest topic of conversation. And what you heard was advertisers looking to devote more of their TV campaigns to CTV, and content providers racing to make more of their inventory available. I was on stage there with Linda Yaccarino, Chairman, Advertising and Partnerships at NBCUniversal. We shared our common view that this is the year where the industry starts making that accelerated shift to Connected TV, which will transform everything about TV advertising. Whether it's the application of data, measurement, or the traditional upfront process. Of course, we're already seeing this shift as major new platforms come online, including NBC's Peacock.

Live sports are also a major driver, as broadcasters look to CTV to optimize the unpredictability of live events. Many said that sports would be the anchor for linear TV and would slow viewer migration to CTV consumption. In 2019, we disproved that thesis. Last year, we ran ads in nearly

every major sporting event. While this merely scratched the surface, it provided very compelling proof and case studies for what data driven advertising can produce for live content. Needless to say, in 2020 we expect this trend to continue.

Switching gears. On the demand side, there was a noticeable shift in 2019 in terms of how advertisers are looking at the value we provide. As I said earlier, we have spent much of our ten-year history making the case for data driven advertising. That started to change in 2019. Today, advertisers get it. And as more channels get digitized, such as TV, they want to apply more data across all their campaigns. They want to do more with us. As a result, in 2019 we saw more advertisers shift their budgets. In the last 12 months about 70% of the Adage Top 200 advertisers spent at least $100k on our platform.

Early in 2020 we are seeing that trend continue. To-date spend has been particularly strong in North America. In 2020, we expect more large brands on our platform than ever before. That's one of the big reasons why we expect spend growth to accelerate in 2020. Advertisers are shifting spend from large search and social media platforms onto our platform. Much of the spend is expected to go to newer channels such as CTV and audio. For example, we recently signed a major new agreement with a large multinational life sciences company. They are shifting a significant portion of their advertising spend away from the Walled Gardens. That's a common thread among many of our new or growing advertisers. In 2019 the number of MSAs with brands doubled. We expect similar trends in the future.

I do want to point out that the overwhelming majority of brands that do sign MSAs with us directly continue to work with their agencies. As you know, we have always been close partners to the agencies. And this won't change. But we also expect more and more brands to sign with us directly so that they can control the activation of their data as their programmatic spend

continues to grow. But they will continue to lean on their agencies for guidance, strategy, and global execution.

So why is this shift occurring?

As advertisers commit more campaign dollars to data driven advertising, attributes such as transparency and objectivity become more important. And advertisers understand The Trade Desk is the most transparent and objective platform in the market today. This is even more relevant in the context of issues such as privacy and identity.

Let me take a few minutes to explain.

First, the market has been testing the virtue of the walled garden strategy. To be clear, the term "walled garden" describes platforms who do not provide or enable measurement of performance of their advertising outside of their own four walls. You can only access their inventory through them and only review results as measured by them. They get to grade their own homework. What the last 10 years has proven is that this strategy can work well if you have majority market share -- if you own most of the social media ads or most of search ads or most of the UGC (User-Generated Content) video ads -- then a company can afford to say "buy it my way or not at all". But that only works if you're big enough so that marketers are afraid NOT to buy from you.

In TV, this market share concentration does not exist. No studio, no channel, no cable company, no MVPD, no one has the leverage to pull that off in TV. And because we think video in all its forms will be about half the trillion-dollar advertising pie, we predict that CTV will be the quantum leap forward that eventually forces all walled gardens to change course.

While the economics of CTV are putting pressure on walled gardens, so is the state of the privacy debate.

As you all know, there are regulations such as CCPA and GDPR. As well as actions from tech companies such as Apple, Google and Firefox to alter the role of cookies. All of these get reported and over time it starts to feel as if the advertising industry is lurking around every dark corner looking to violate a consumer's privacy to steal their data or something like it. But that's not what advertisers are trying to do. It's not even how they think about it.

I've spoken to hundreds of CMOs, many of those at the biggest brands in the world. I've yet to meet one that doesn't care deeply about building trust with consumers. They know that they're in the business of building relationships between them and consumers. I've never met one that is throwing caution to the wind on privacy.

Because I've always been in the business of aligning my interest with the buy side, I also care deeply about consumer privacy. I care about as a global citizen, as a consumer, and as CEO of a data-driven tech company. In fact, we have thought about privacy from the very beginning when we founded The Trade Desk 10 years ago. It has helped us prepare for GDPR and CCPA and browser changes without significantly disrupting our technology or business practices.

Just because Facebook and Google gather your most personal information, does not mean that advertisers have any interest in acting or trading on that information. Quite the opposite. In most cases, brands are servicing a long-lasting relationship that is incredibly important to them. They understand the risks inherent in compromising consumer privacy.

What advertisers are squarely focused on is how to drive better, more relevant ads, that help fund the great internet experience we all enjoy, while simultaneously protecting consumer privacy. Outside our industry, these motivations are often misunderstood.

At the core of our value is the trust that advertisers have in us, at The Trade Desk, to put their first party data to work. Through their first party data, they can model who their most loyal customers

are, by product. They can understand what kinds of characteristics are common across those loyal customers. And they can use those data models to find where those patterns exist elsewhere in the market, in order to reach their next million customers. And that kind of data modelling can be done, on our platform, without ever having to know any directly identifiable information about the consumer.

Advertisers know that we can help them do their modelling work with a limited amount of data or a vast amount of data.

If we operate in a world with less data, we're darn good at that. Our whole system is built around making objective choices with limited data. We do that with many of the impressions we see today. In these environments we already deliver high ROIs for advertisers.

If we get more data. Fantastic. Our platform can ingest as much data as you possibly can use in a privacy safe way already. We do that now better than anyone. We are committed, responsible stewards of consumers', agencies', partners' and advertisers' data. In this way, we are completely aligned with what advertisers are doing. We only use data in a way that builds trust.

With this in mind, let me give you my opinion regarding Google Chrome. Google is between a rock and a hard place right now. They are under pressure from regulators and from other tech companies such as Apple, who block third party cookies. Even if Google creates an environment that only provides for a high level of targeting within the browser that they control, the value exchange of the internet does not change. And what that means is that advertisers and content providers will have to find new ways to fund content through relevant advertising. The LA Times can't tolerate a 50% drop in CPM's just because of a change in policy at Google. In one scenario, a content provider may then ask for consent for a reader's email address on every visit. Then they'll work with the ecosystem to build new identity models to better monetize content.

To The Trade Desk, it really doesn't matter what the identity model or approach is. We'll be successful regardless. In fact, I could make the case that we become indispensable in that latter scenario. The next two years will be fascinating, and fully engaged with Google and the rest of the ad ecosystem. Even though the cookie-based internet does not represent the bulk of our business, and is certainly not part of the faster growing segments of our business like CTV or mobile in-app, it's important and we'll be fully engaged on behalf of our advertisers.

Advertisers view us as their representatives. And we will continue to represent them in the discussion on identity technology. Because we only represent the buyside, and because we don't own any media or a media platform, they know we are objective and represent their interests. They know we will protect their data. And they know that we won't allow anyone to trade in directly identifiable information on our platform.

As advertisers make major platform decisions about where to run their campaigns, I hope this explains why our objective approach is a significant driver of demand for us.

By the way, this objectivity point is also critical in another fast-growing segment of our business – and that's in political advertising.

The 2016 presidential election cycle saw candidates start to leverage data driven advertising. For the 2020 cycle, nearly every candidate is using it. We're starting to see more spend in this segment which we expect will increase as the year progresses.

As you know, some tech platforms have decided to sit out or limit their role in political advertising process. At The Trade Desk, it's a very different decision. We are not a free social media platform where bad actors can easily engage and spread misinformation. We only deal in paid advertising. That, combined with our vetting processes, microtargeting limits and our commitment to objectivity, mean that we're rapidly becoming a preferred platform for major political campaigns.

I've covered a lot of ground, but I think it's all important to understand what's going on in our industry, and our position within it. We really are firing on all cylinders as we enter 2020.

First, as I said earlier, I could not be more excited about our inventory growth in 2019. We have always operated under the inventory model that "if you build it, they will come." The economic model of our business means that it cannot grow without growth in premium content. In 2019, we laid more groundwork for demand growth than any year previously. And I focus so much on CTV because, as we discussed, advertisers view CTV as way to break their dependence on Walled Gardens. It's why, if current trends continue, we expect CTV spend to double in 2020.

Second, we have more large advertisers on our platform than ever before. About 75% of the AdAge Top 200 Advertisers spent at least 100K on our platform in the last 12 months. Even with this momentum, we still see significant growth potential as data-driven advertising becomes an ever-larger element of their campaigns. As a result, their current spend with us is still small relative to what we expect them to do moving forward.

Third is political. We expect The Trade Desk to be a preferred platform for all the major campaigns as they ramp up spending through the year.

And finally, global expansion. We have made significant investments outside the US over the last two years and will continue to do so. We believe we are in a strong position to grow international again in 2020.

The Trade Desk is very well positioned as the advertising industry evolves. Our business model hasn't changed since we began 10 years ago. It was founded on the belief that advertisers would demand an open and objective platform as they optimized their growing digital ad campaigns. With every passing year, as marketers embrace data driven advertising, that belief gets validated further.

We are executing well. We are poised for more growth. 2019 was an excellent year. We expect 2020 to be even stronger.

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

**Blake Grayson, CFO**

Thanks, Jeff, and good afternoon, everyone.

I want to start out by saying that I am thrilled to be a part of The Trade Desk. I joined the company because I so optimistic about the opportunity in front of us. It's rare, in my opinion, to find a company with such a unique value proposition in such a large and growing available market. It's also rare to find a company that can grow at a rapid rate, while producing profitable growth, even as we try to invest in the right areas as quickly as we can. I also have been very impressed with the team Jeff has assembled. I am excited to be part of this journey and I look forward to helping The Trade Desk scale to a much larger company.

As Jeff mentioned, 2019 was a strong year for The Trade Desk as we continued our strong growth trajectory, ending the year with more than $3.1 billion in spend on our platform and $661 million in revenue. We also ended the year with adjusted EBITDA of nearly $214 million and GAAP Net income of over $108 million, marking the 7th straight year of positive GAAP net income.

The Trade Desk's ability to give advertisers an alternative to large search and social media platforms was on full display in the fourth quarter. Q4 revenue expanded 35% year-over year to $215.9 million. We saw strong spend growth during the holiday season in our Audio, Connected TV and Mobile in-App channels. In Q4, we spend in both North America and International spend accelerate vs Q3. 89% of our fourth quarter spend came from existing customers who have been with us for over a year.

Turning now to our expenses. All comparisons are on a year-over year basis unless otherwise noted.

Total operating expenses in Q4 increased to $163 million, up 46%. Platform operations, or effectively our cost of revenue, increased 34% driven primarily by the increasing QPS our platform sees. As a percent of revenue our platform operations is decreasing year-over-year. We expect more improvement in 2020 which I will talk about in a few minutes. Technology and development grew 36% driven by increased investments in our platform. Sales and Marketing grew 59% driven primarily by an increase in account management and business development.

Finally, G&A grew 61%. We expect to see the most leverage improvement in our G&A in 2020 and certainly over time as we scale the business.

Adjusted EBITDA was a record $83.5 million in Q4 representing a 39% margin. Adjusted Net income for the quarter was $71.6 million or $1.49 per fully diluted share.

We closed the year with $255 million in cash and short-term investments. Our DSOs ended the year at 118 days, and our DPOs were 94 days.

Finally, I would like to share our guidance for the first quarter and 2020 and preview our focus areas of investment.

For Q1 we expect revenue to be $169 million and adjusted EBITDA to be $35 million. And for 2020, we expect the full year revenue to be at least $863 million on total gross spend of at least $4.24 billion and adjusted EBITDA to be at least $259 million or about 30% of revenue.

For 2020, we expect total Operating Expenses of $752 million and we expect our full-year tax rate to be about 25% percent. We expect stock-based compensation expense for the year to be about 13% of revenue. And finally, share count is expected to be about 50 million as we exit 2020.

From over the decade I spent at Amazon, I believe in actively managing how and where we allocate capital within the company toward areas that can drive growth and efficiency not only in 2020 but in the years beyond. Let me preview a few areas I am very excited about.

First is in our people that can drive incremental spend on our platform. We will aggressively add more business development and account management employees. This includes both in North America and International. With the massive available market in front of us and the generational shift to connected TV, you should expect Sales and Marketing to generally grow a little faster than revenue growth over the next few years.

The second is product expansion on our platform. One thing our customers have come to expect from us is more product and functionality on our platform. It is why the company relaunched its platform in June of 2018. It is also why we will continue to invest heavily in technology and development as we keep our focus on the customer and build features and functionality that generate better ROIs for media buyers and their clients. That should spin our flywheel even faster. In the coming year and beyond one should expect to see more capability in CTV and better tools for measurement and contextual targeting for example.

And third is in our platform operations. As our QPS increases, our cost to serve also increases. However, we have the opportunity to improve our efficiency and lower our platform operations expenses even more as we scale. This includes improving the management of our data centers, managing the cost of our outside cloud computing partners in addition to investing into efficiency initiatives that can reduce our cost to serve per impression over time.

I can tell you from the relatively short time I have been here that we are 100% focused on building the best products and services we can for our customers, rapidly gaining share in programmatic while it's still in its infancy, and building for the long term, not the next quarter. We already invest today in the areas we believe have the most potential. I look forward to helping the team move even faster and more efficiently than it does today, and am very excited about the opportunities we have ahead of us.

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

**Jeff Green, Founder and CEO**

In closing, let me reiterate that we are off to a great start to the year. Our expectations for spend acceleration in 2020 demonstrate the trust advertisers place in us. Our objectivity is more valuable to advertisers than ever. We are even more bullish on our future than we were a year ago. The opportunities in areas such as CTV give us confidence that we will continue to aggressively take share. Our investments are paying off. When we see surprises, they typically are to the upside. We believe The Trade Desk is best-positioned to realize continued growth in our industry for this year, next year, and beyond.

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