Prepared Remarks of



Third Quarter 2020 Earnings Call

November 5, 2020

Chris Toth, Vice President Investor Relations

Thank you, Operator. Hello and good afternoon to everyone. Welcome to The Trade Desk third quarter 2020 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, the Q4 holiday season 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.

Jeff Green, Founder and CEO

Hello everyone and thank you for joining us.

We are excited to announce the results of our third quarter. Despite the headwinds of a global pandemic, we had healthy growth in the third quarter, up 32% year-over-year, far surpassing our own expectations.

2020 is a year where agility matters more than ever. In this environment, marketers have come to more fully appreciate the power of data-driven advertising. And as that happens, we are becoming indispensable. We have developed closer relationships with the biggest brands and agencies in the world, and we are winning more business with both new and existing customers.

In addition, we continue to see rapid growth in key channels, such as Connected TV, which grew more than 100% year-over-year. This was a very encouraging quarter, not only in terms of our revenue and market share growth, but also what it signals about our growth opportunity moving forward.

While our growth is very encouraging, we are still operating at a time of great uncertainty for many industries. But even in the midst of that uncertainty, we are clear that our role is to help our customers drive economic recovery. Advertising is an engine of economic growth. And our customers know that their campaigns can fuel growth and drive market share gains for their brand. And because of that, during times of uncertainty, they become much more deliberate.

That's not to say this is a straight-line recovery for our customers. It's not. Often our customers are still being hurt by the global pandemic and the economic consequences of most people staying home. But while we are a long way from being completely out of the woods, I do believe that in 2020 so far, we have gained more marketshare, or said another way, grabbed more land, than at any point in our company's history. We've accomplished this because advertisers have been more deliberate, and we are a part of the solution that helps them manage uncertainty and

chart a path to growth. Our rate of grabbing and in Q3 might be the biggest bullish indicator we have produced as a publicly traded company. Market share gains in 2020 is a testament to the strength of our value proposition and of our customer relationships.

That's what makes me more proud of our performance in the third quarter than any other quarter in The Trade Desk's history. Our team navigated uncertainty and helped the most sophisticated advertisers fuel their recovery with new approaches to channels such as CTV. I'll come back to CTV in a few minutes.

Before I do that, I want to give color about the third quarter, because I think it will give insight as to why I'm so bullish on our future.

Since April, we have been focused on understanding where we are on the economic recovery curve. Some industries, such as CPG, pharma and healthcare, were on the leading edge of that curve, as we would expect. In fact, some companies in those industries never fully shut down their digital advertising campaigns. Others are a little farther back. Restaurants and retailers, for example. They needed to advertise that they were open and message what their new normal looked like in terms of pick-up and delivery services. However, their businesses have not yet completely returned to "normal". And then further down the curve, of course, you have other industries like auto, airlines and hospitality, that remain in various early stages of recovery.

My bullishness isn't because I think the macro environment is back to normal. We all know it's not true. Our positivity about our company's future is driven by the share gains that are happening during this time of uncertainty, and the numbers show it. We've spoken in the past about our 95% plus retention rate. We're seeing no deviation from that. In fact, I would assert that customers are relying on us more and more. I see that not only in our growth numbers and the trends underneath those numbers, but also in the conversations I'm having with advertisers every day.

So today I'd like to break this discussion down in three ways.

First, how we have seen advertisers become more deliberate in 2020, and what that has meant for us.

Second, how the tipping point in TV has proven a major factor to our growth in 2020.

And three, how all this adds up to the few things I'm most excited about for our future, especially starting in 2021.

Let's start with the first item. Advertisers have become more deliberate. Brands and agencies that advertise more effectively, who leverage data to be more nimble and agile, are gaining share. Period.

In 2020, almost every marketer and every large brand is being asked to do more with less. Every advertising dollar has to be accounted for. CFOs are more involved in Marketing and advertising decisions than they've been in years. They've become a lot more focused on what business value is created by advertising. That means advertisers have to focus on ad opportunities that are measurable and comparable – where the business ROI can be understood and proven.

As companies reactivated their ad campaigns, they had an opportunity to let the world know that they are there, and open for business and in what capacity. But because the world changed so fast in March and April, advertisers quickly realized that effective advertising requires new levels of agility. Now, national brand campaigns had to be complemented by highly local campaigns, specific to the circumstances in a particular region or state. There was a much greater focus on reaching specific audiences with specific messages. The need for agility impacted more than campaign planning and management teams. Creative teams had to suddenly develop content in days versus months to take account for the constantly changing environment.

Combine those two factors – the need for new kinds of agility, and the need to prove ROI – and you can recognize how marketers today need to be not only be much more deliberate, but also much more data driven.

To some extent, this is history repeating itself. There are parallels to the 2008/2009 recession, when programmatic advertising first came on the radar for most marketers. Back then, Display and Mobile advertising were the big winners. They won despite being weaker at winning hearts and minds than video, tv, or audio. They won share because they were measurable and comparable, and marketers could prove effectiveness with credibility. Fast-forward 12 years to the present, and digital is leading the recovery, instead of just supplementing it. While marketers were incented to dip their toes in the waters of data, and data driven advertising 12 years ago, today they are all-in, across all advertising channels.

And for the first time, advertisers are aggressively committing to the Open Internet because of the scale and results of connected TV and premium video.

I maintain my prediction that eventually all premium video will eventually make up about half of the global advertising pie. Now that advertisers can apply data to their premium video campaigns, where hearts and minds truly are won, the long-term opportunity for The Trade Desk could not be more promising.

Let me put some additional data behind these assertions. We recently surveyed more than 200 top advertisers. Around 85% of them said they are under new pressure from CFO's to justify marketing spend and to measure against business goals. 50 percent are now having their typical measurement techniques questioned. As a result, almost all of them intend to adopt data-driven measurement strategies.

This shift to be more deliberate has been a major driver of our growth this year. But we also see it play out in terms of business performance for those companies that prioritize data-driven

advertising. And we see that industry by industry. In consumer-packaged goods for example, those companies that maintained spend on our platform through the uncertainty, performed better from a revenue growth perspective than those that slowed or suspended spending.

Over the past three months, one CPG company lifted their same store sales for one of their brands by over 40% utilizing a combination of CTV, mobile and PC advertising. We have seen similar patterns show up across industries, whether it's pharma, fast food, retail or technology.

So, those companies that are advertising effectively are gaining share.

And as I said, if you want one particularly potent microcosm of this in our industry, you only have to look at what's happening with TV.

Which brings me to my second main point, how 2020 will go down in media history as a tipping point in TV.

Our CTV spend grew more than 100% year-over-year in the third quarter, as advertisers follow consumers to streaming platforms.

That consumer shift has created a tipping point. The number of US households with traditional cable TV subscriptions is dropping to below 80 million this year. According to eMarketer, 77.6 million US households will have cable TV packages this year, down about 7.5% year-over-year. That's a rapid acceleration from the 3% decline that they had been predicting at the beginning of the year. In addition, CNBC recently reported that at least three large U.S. media companies expect the number of U.S. households that subscribe to linear TV bundles will fall to about 50 million in the next 5 years. That is about a 40% drop. At the same time, advertisers will be able to reach more than 80 million US households via CTV on our platform this year. The crossover of household reach on our platform vs linear TV bundles subscriptions is only going to widen. And that's because on-demand streaming content is more convenient to viewers, and because many US households remain under considerable economic pressure and are abandoning their

expensive cable TV packages. That live sports remains in a state of flux only adds to the acceleration in cord-cutting.

All of this, of course, has massive implications for broadcasters and advertisers.

Marc Pritchard, Chief Brand Officer at P&G, the world's largest advertiser, dropped a bombshell at the ANA conference a few weeks ago. He said that P&G would be moving away from the Upfront model of TV ad buying. With TV advertising going digital, it makes no sense to make massive, uninformed bets just because that's the way it's always been done for decades. Now they can apply data to those decisions and be more deliberate. Relatedly, he also said that programmatic is their fastest growing advertising channel, which speaks to how P&G, and other advertisers, want to apply data and optimize campaigns across all channels.

P&G is not alone of course. Advertisers such as Unilever and Mastercard are calling for similar rethinks of archaic TV advertising processes. We are also seeing other brands move away from the upfronts and look for more agile data-driven options. That's why we're working with our customers to create digital alternatives to processes such as the upfronts, which can provide them with a more efficient, data-driven and transparent forward market for TV inventory.

While these shifts in the TV landscape may have taken a few years in a normal business climate, 2020 accelerated this disruption and innovation into a few months.

This transformation of TV isn't the only reason I'm so confident about our growth opportunities in 2021 and beyond. Which brings us to the third main topic I want to cover today: why I am so bullish about our future.

It is impossible to talk about the future of The Trade Desk or the future of the Open Internet without talking about connected TV.

That's because the shift to CTV is helping reinforce advertiser conviction that there is a compelling alternative to walled gardens. Like last quarter, I have spent a disproportionate

amount of my time over the last few months meeting with agencies and brands. The first question invariably concerns helping them shift from user-generated content (UGC) to premium TV content. That's because they are increasingly wary of the divisive nature of UGC, as we discussed last time. In fact, in that same survey of 200 advertisers which I referenced earlier, 90% said they plan to shift ad dollars away from UGC. Indeed, we have won tens of millions of dollars of spend from UGC platforms in the last quarter alone. And we expect these trends to continue.

We're also winning business from linear TV and expect to continue to grab share from that $250 billion worldwide TV market. In the third quarter, one ecommerce giant saw an eleven-times return on ad spend for CTV on our platform. As a result of that performance, they shifted ten percent of their linear budget to CTV. We're seeing similar shifts across our customer base.

But the other side of the CTV coin is the massive surge on the supply side. Broadcasters are all pivoting to CTV. If you listened to Linda Yaccarino, Chairman of Advertising and Partnerships at NBC Universal, at our recent Groundswell Festival, you would have heard her talking about how the TV model has changed permanently. She is working with advertisers in new ways to bridge the world of linear to the incremental reach of CTV, recognizing that they no longer think about advertising in terms of particular content, but in terms of reaching a particular audience. By the way, we've heard the same refrain from all broadcasters, whether it's Disney, Hulu, Channel 4 in the UK, ProSieben in Germany, and so on.

As you know, over the last few years we have invested heavily to be ready for this opportunity. Indeed, you've heard me say before that the last 10 years has been a dress rehearsal for this moment. Through our comprehensive CTV partnerships, we have access to pretty much all CTV inventory. And increasingly, these are partnerships that offer direct access to that inventory. This includes both broadcasters themselves or partners such as Magnite or Freewheel. Our customers

are prioritizing these partnerships because they maximize yield management and provide transparent access to a wide range of broadcaster inventory.

By contrast, broadcast TV is a ticking time bomb where the economics are unsustainable. The ad to content ratio creates a terrible viewer experience. The cost of cable for the consumer is high. So, not surprisingly, the move to CTV is accelerating on the supplier side, as well as the consumer side.

Another reason I'm so bullish on our future is product. In 2021, we will launch one of the biggest upgrades to our system in company history. The release is called Solimar. As some of you saw in 2018, we delivered a massive upgrade to our platform which accelerated our marketshare gains. That one was called Next Wave. We are still relentlessly committed to innovating and staying on the leading edge of our industry. We never take leadership for granted and we are always looking to improve our platform and deepen our relationship with our customers.

Solimar will include a better user interface – one that brings all our customers buying and planning tools together for greater ease of use. We're making it easier than ever to onboard and deploy their first party data. We're improving data management. We'll continue to expand our identity products around the world. We'll make planning on our platform even better, with a focus on ingesting and achieving customer-specific goals. And we'll release a meaningful, integrated upgrade to Koa, the machine learnings and AI engine that is always powering campaigns, even if users are away from their keyboards. Finally, this launch will include a new measurement marketplace that provides advertisers with more transparent reporting. This represents an even more compelling measurement alternative to walled gardens -- who continue to grade their own homework.

Everything about this release points to the primacy of first party data – and the ability to unlock the value of that data in an ad campaign, especially CTV.

The third reason I'm so optimistic about our future is that we have deepened our relationships with brands. This is in addition to our core agency relationships. Brands understand they need to maximize the value of their first party data and scale its deployment across their marketing function. And increasingly, brands understand the power of data-driven advertising to drive growth. Programmatic is no longer simply a line item on the media plan. It's a central part of the planning process. In most cases, brands will continue to work hand in hand with their agencies, but the amount of brand resources applied to this is growing every quarter.

Fourth, I'm very confident about our international growth. Early on in the pandemic, many of our international markets slowed down first. But since we started seeing the green shoots of recovery, many of them have returned to very healthy year-on-year growth, including Tokyo and Paris, which have grown spend over 100% year-over year in Q3. The same dynamics that are happening here in the US, are happening around the world. Innovation and disruption have been accelerated. And in many cases, with their advertising ecosystems much more concentrated than in the US, these markets have the opportunity to leap ahead quickly in areas such as CTV.

Lastly, I am extremely confident in TTDs future because of the industry-wide movement that is galvanizing around the Open Internet. Even that phrase — "The Open Internet" — was something that only a few of us were using with any confidence a few years ago. But it's now a movement that has gained considerable momentum. The most important manifestation of this is the collaboration that is now happening outside of the walled gardens – the likes of which we've never seen before. Brands are looking for alternatives to walled gardens, and alternatives to UGC, and alternatives to broadcast TV, and alternatives that are data driven, and of course, alternatives that can be measured objectively. All of which points to the value of the Open Internet. And all of which also means that once again, the secular tail winds are getting stronger for The Trade Desk.

Let me start to wrap this up by discussing some of the pressing items facing The Trade Desk and the Open Internet right now.

I want to touch on the recent anti-trust actions against Google, as many of you have asked about this, particularly in terms of what it might mean for us and the future of cookies.

It's very difficult to predict what ultimately will transpire, or what remedies might be, if any. All we do know is that it will likely take years, and that it will almost certainly create some level of distraction and change for Google.

Ultimately, it doesn't change anything about our strategy. We are focused on offering a compelling alternative to walled gardens. One that enables a free and better Open Internet for all participants: advertisers, data-providers, content providers and consumers. We're trying to distribute power among the competitive media market, not control the market. And as we have seen this year, there is growing demand for such an alternative to walled gardens that can execute at scale across every channel, worldwide. The market will not allow Google to be the only company to offer effective ad targeting. There is too much collaboration and understanding of what's at stake for that to happen.

As a key element in creating that compelling alternative, we have architected a new identity framework for the entire Open Internet, Unified ID 2.0. It raises all boats. Simply put, it creates a better open and competitive internet -- one that also improves privacy controls for consumers. We have done this with the help and collaboration of players across the Open Internet including governing and regulating bodies such as the IAB. Large publishers are implementing this solution now. Some of the biggest names on the internet are asking to be involved. The leaders of ad tech companies are working together to make this a success. This is much bigger than The Trade Desk. This is industry-wide collaboration on a level we've never seen before in our industry. Because of that, regardless of what Google ends up doing with cookies, we believe

the industry will have a better, upgraded alternative for identity that more effectively explains the value exchange of the internet and provides users with greater control and privacy.

I firmly believe that Unified ID 2.0 will reach a critical mass of adoption next year. And in doing so, as an industry, we will have created a viable, scaled alternative to third party cookies – one that is also browser and device agnostic. It's an upgrade across the board. The footprint of IDs that we're already working with is massive. In the last few days you've heard that LiveRamp and Criteo will make their identity solutions interoperable with this. You've heard that Nielsen will be working with us to deploy Unified ID 2.0 for cross channel measurement. And in the coming weeks, you'll start to hear from more advertisers and major publishers who are now part of this industry collaboration. If I could have fictionalized how this would go, and the response from the market, I couldn't have written a more compelling story than what's actually happening.

On a related note, I know some of you will have questions about Apple's recent moves regarding IDFA. We anticipate most users will ultimately opt into IDFA in order to continue to enjoy the personalization of apps across their devices. That includes apps such as Spotify, Dropbox, LinkedIn, Netflix, Facebook, or thousands of other apps.

The last topic I would like to touch on is our most recent proxy filing. Our board has proposed several amendments, which, if approved, would ultimately mean that our dual class share structure will sunset or terminate in five years. I don't want to go over the proposals specifically here today. There will be time to do that in another forum. But I would like to provide a little context as to why the Board has made this recommendation.

Many of you have been with us for our entire four years as a public company. In that time, we've significantly increased our market valuation by thousands of percentage points.

In light of that growth, sometimes it's hard to remember, but if you cast your mind back four years, you'll recall that there was a lot of skepticism around our industry, and around our prospects. Ad Tech, as an industry, was loathed on Wall Street.

Over those four years, we have delivered significant shareholder returns. But we've also brought a new level of appreciation and respect for our industry and our role in pioneering the future of media as well.

It didn't happen overnight. We climbed out of that "ad tech penalty box" by making promises and setting expectations – and then meeting them, consistently, quarter after quarter. Because we knew we needed to build your trust. And that trust helped us provide you with a consistent view of our long-term strategy.

The trust between The Trade Desk and its shareholders is extremely important. Because when you think about areas such as CTV, identity, upgrading our platform, international growth – these are not short term or ad-hoc decisions. These are decisions borne of long-term strategic plan.

The next five years will be critical in our history. As advertisers increasingly consider the value of the Open Internet, and embrace an alternative to the walled gardens, the next five years will go a long way in determining the winners and losers. Our Board has determined that these changes will enable the company to continue to have that long-term, strategic focus.

Maintaining that focus maximizes our chances of continuing to deliver exceptional shareholder value. I just wanted to provide that brief context as I know that many of you would appreciate that perspective, having been with us for the long haul.

Let me wrap up by coming back to where I started. We are highly encouraged by our strong performance in the third quarter. I've never been more proud of our team's performance than in this quarter. The team has done so much to set up our future and the future of the Open Internet. Because of that performance year-to-date, we're even more bullish about our ability to

gain market share moving forward. Advertisers are becoming more deliberate with every ad dollar they spend, and shifts in key channels, such as TV, are only accelerating that trend. This makes our platform indispensable for our customers and partners.

As Linda Yaccarino said at our recent Groundswell Festival, when asked about why she spends so much time with The Trade Desk, she said and I quote, “it’s because they are leading me to the future.”

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

Blake Grayson, CFO

Thank you and good afternoon everyone.

We continue to operate in an uncertain and challenging environment. However, as Jeff mentioned we are seeing advertisers accelerate their shift to data-driven advertising in 2020. I am really encouraged not only by this shift, but also by our company's execution during this period of uncertainty by working closely with our customers, and our results demonstrate our solid operational performance.

For Q3, revenue was $216 million representing an increase of 32% year-over-year. This represented a 45-percentage point acceleration from Q2. We benefitted from several trends that helped us significantly exceed our expectations. One: existing advertisers shifted more spend to our platform during the quarter. This included CTV which offers the ability for advertisers to apply data to their TV ad campaigns in ways that are simply not possible with linear. Two: we won a significant amount of new business from our competition, enabling us to gain share. And Three: political spend steadily ramped up throughout the quarter and was particularly strong in the month of September.

With the strong top-line performance in Q3, we generated $77 million in adjusted EBITDA, or about 36% of revenue. As you have seen historically, when we outperform on the top-line, we often see that outperformance drop down to EBITDA, which it did in Q3. EBITDA also benefitted from temporarily lower than expected operating expense growth.

From the channel perspective, in Q3 we continued to see improvements across all of our channels. For the quarter, spend in our Mobile, Video, which includes Connected TV, Display and Audio channels all grew on a year-over-year basis. Connected TV spend was the strongest, growing over 100% in Q3 on a year-over-year basis.

Geographically in Q3, similar to last quarter, North America represented 88% percent of spend and International represented 12% of spend. All of our major regions, North America, APAC and Europe grew spend well into the double-digits year-over-year in Q3.

In terms of our verticals that represent at least 1% of our spend, nearly every category improved during the quarter, with many exhibiting strong resilience in the face of the economic uncertainty that Jeff discussed. In particular, Health & Fitness, our largest vertical in 2019, as well as Technology & Computing, Food and Drink and Home and Garden, all performed well. Automotive showed consistent improvement as well during the quarter ending with double-digit growth in Q3. Travel still remained negative on a year-over-year basis but even that category showed relative improvement during the quarter and has improved on a year-over-year basis vs. Q2 performance. Shopping also showed a noticeable turnaround in Q3 ending with growth well into the double digits. And finally, as you can imagine, we have seen strong political spend in the month of September and also into October. However, it is fair to assume that we will still end 2020 as we had previously indicated, with political spend representing a mid-single digit share as a percent of our spend.

Operating expenses were $173 million in Q3, up 22% year-over-year. Although faster than we invested in Q2, our operating expense growth was a bit lower than expected due to a number of factors. First, our employee support costs including travel and corporate events ran lower and are down materially from the prior year due to the virtual environment. Second, our bad debt expense for the quarter was lower than we had originally assumed, partially due to strong receivables health. The aging of our receivables actually improved slightly year-over-year despite the volatile economic environment, which we're obviously pleased with. Third, while we continue to produce positive net hiring every month and grew headcount in double-digits year-over-year in Q3, we did not ramp our hiring as quickly as we had hoped, also partially due to the virtual environment.

Income tax expense was $1.3 million in the quarter mainly due to the increase in profitability in the quarter which was partially offset by employee stock-based awards, the timing of which can be variable.

Adjusted Net income for the quarter was $62.7 million or $1.27 per fully diluted share.

Net cash provided by operating activities was $88.5 million for Q3 and free cash flow was $66.5 million. The primary driver was the increase in net income and the change in working capital that can vary from quarter to quarter depending on the timing of payments and receivables.

DSOs exiting the quarter were 101 days, up 5 days from a year ago. DPOs were 82 days, also up 5 days from a year ago.

We exited Q3 with a strong cash and liquidity position. Our balance sheet had $557 million in cash, cash equivalents and short-term investments at the end of the quarter. In Q3 we paid down $70 million in debt, or about half of our revolving line of credit that we drew down against in the very early days of COVID-19 out of an abundance of caution. Since the end of Q3, we have paid down the remaining $72 million of our outstanding line, and as of today we have no revolver debt on the balance sheet.

I am going to use the remainder of the time today to discuss Q4. Please be aware, our business continues to be impacted by the COVID-19 pandemic that has significantly impacted advertiser demand. Q4 has historically been our strongest quarter driven by holiday ad spend. However, we continue to face a period of higher uncertainty in our business outlook. Assuming that the economy continues to improve and we do not have any major Covid related setbacks that impact historically strong holiday ad spend, we estimate Q4 revenue to be between $287 million and $291 million which would represent growth of between 33 to 35 percent on a year-over-year basis, a modest acceleration from our Q3 results. Under this assumption, we estimate adjusted

EBITDA to be at least $115 million in Q4. I would remind you that the relative strength in our EBITDA forecast is in part due to the virtual environment our teams are working in.

While there is continued uncertainty about the economic environment, we are pleased with our momentum and we remain highly optimistic about the long-term growth prospects for our business.

We believe we have the structure in place to accelerate growth and scale our business efficiently as economic conditions improve and are cautiously optimistic about continued measured improvement through Q4 and into 2021.

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