Prepared Remarks of



Fourth Quarter 2020 Earnings Call

February 18, 2021

Chris Toth, Vice President Investor Relations

Thank you, Operator. Hello and good afternoon to everyone. Welcome to The Trade Desk fourth 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 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 and thank you everyone for joining us.

2020 was a uniquely challenging year from a variety of dimensions. At the same time, however, 2020 also represented an inflection point for our company. It was a year that advertisers became more deliberate with every advertising dollar, shifting spend toward the open internet. There were a lot of drivers of change in 2020, which included an unprecedented global pandemic, the rise of social justice issues, a divisive election in the US, and stronger economic pressures and higher levels of uncertainty weighing on nearly all of the consumers in the world. These drivers of change have already manifested themselves for marketers. Whether it's the accelerated shift to CTV or the demand for better cross channel measurement and ROI or brands and advertisers reassessing the value of user-generated content in their now more deliberate marketing plans.

I want to spend a few minutes today explaining what the 2020 inflection point means for our company and our industry moving forward. 2020 was a year that the world had more uncertainty and more change than usual. While at TTD, like the rest of the world, we'd like to get back to world that is a little more predictable and feels a bit more like what we called normal in 2019 — so much happened in 2020 both inside of our company and from external forces that better positions TTD for a bigger and brighter future. So, I need to give you my perspective on what happened in 2020 to show why I believe we're so well positioned in 2021 and beyond, as the digital advertising market matures and more marketers gravitate to the open internet.

Let me start with the highlight numbers. Spend on our platform in 2020 was nearly $4.2 billion, a record. Fourth quarter spend alone was over $1.6 billion, also a record. CTV spend more than doubled for the year. And once again, despite all the uncertainty of the year, we delivered strong

profitability highlighting the operating leverage we have in our business. We often benchmark our results against “the rule of 40” of other high growth companies of our size, where the health of a technology company is expressed as the sum of a company’s growth rate and EBITDA margin. 40% is healthy. In 2020, we finished over 60% all while we are investing in our future as fast as we can.

According to eMarketer, total global ad spending declined 4.5 percent last year. Spend on our platform grew 34 percent. Even amid the uncertainty of 2020, where all marketers re-evaluated their ad campaigns in some way, shape or form, they continue to shift spend and invest in ad opportunities that are dynamic and measurable.

We were able to drive this performance, and take so much share, even as some of the verticals we serve, such as travel, auto, entertainment and real estate, continue to be in a state of flux. They have all yet to fully recover. Obviously, we benefitted from the surge in political advertising last year, which represented a high single digit contribution to our growth in the fourth quarter. And by the way, we’re very proud of the work we did in political last year, especially our role in representing a better process for all political candidates. As many companies agonized over the role they should play, we were clear from the outset. We are an objective and independent platform, open to registered candidates on all sides. I continue to believe that data-driven advertising has an important role to play in the political arena. On a platform such as ours, candidates are more likely to focus on the substantive issues that voters care about, leveraging premium inventory versus the divisive user generated content often found on some social media platforms and some user generated content video platforms.

But even as we point out the political advertising surge we saw in 2020, political filled a hole for The Trade Desk that was left by other advertisers from other important vertical segments that

have not returned to their pre-pandemic levels. We expect them to improve through this year as, hopefully, we start to return to some new sense of normal.

More broadly, I fully expect that the trends we saw in 2020 continue to accelerate in the years ahead as advertisers increasingly gravitate to our platform.

To give you a sense of these trends, and of why I'm so optimistic, I want to cover three main areas.

First, I'd like to take a look at TV, and how 2020 was a turning point for many marketers and their massive TV ad campaigns. What's happening in TV is not limited to that channel. It's driving change across the ad ecosystem.

Second, it's important to focus for a minute on the future of relevant advertising, and in particular, how the industry is thinking about identity.

And third and finally, I want to summarize how these factors, among others, are critical as the ad industry starts to gravitate toward the open internet, a trend that I expect to accelerate in the years ahead.

So, first, the changing nature of TV. We've talked a lot over the last 12 months about how the pandemic accelerated trends that were already underway. But we couldn't have predicted quite how sharp that acceleration would be. With most consumers working from home, not surprisingly more and more of them are shifting from cable to streaming TV. The on-demand nature of streaming makes for a better experience. However, the new economic pressures weighing on the average consumer are also forcing an even bigger change. Whether you look at our

numbers, or Magna Global or eMarketer's estimates, the trend is undeniable. We are right around that point where there are more US households without a cable subscription than those with one. And that trend is not reversing. Dig a little deeper, and you'll find that younger generations, the 18- to 34-year-olds, highly coveted by many advertisers, have even less interest in cable. And if you look beyond the US, at Asia for example, you'll see in many markets that the notion of a big screen in the living room is less conventional. In Asia, premium video is often consumed on a mobile device.

But perhaps more important than all that data is where we go from here, because 2020 was a wake-up call to the advertising industry when it came to TV.

I can't put it any better than Marc Pritchard did, the Chief Brand Officer of P&G, the world's largest advertiser. I was on stage with him at CES a few weeks ago, virtually of course, and he talked about how 2020 has forced advertisers into a world of "constructive disruption".

He highlighted the Upfront process, which he described as a holdover from the 1950's, where TV ad campaigns were tied to new vehicle launches every Fall. He talked about the need to be more flexible, more real-time, to bring the same measurement techniques we've grown accustomed to in digital – to the world of TV. Ultimately, he and I believe we are heading toward an inevitable future where all advertising is, and I quote using his words, "digital, programmatic, data-driven and automatic."

By the way, he's not alone in his thinking about the upfronts. According to our research, 60 percent of linear TV ad buyers are planning to spend less at the upfronts this year. For these very same reasons.

One of them, the head of TV ad buying at a global life sciences company told us that “Traditional upfront media buying is the most disconnected area of media and business today.”

And it’s not just advertisers who are thinking differently. The content providers are too. On that same stage, Linda Yaccarino of NBC talked about how CTV has freed the network of the “handcuffs of legacy stuff” that was preventing them from delivering on the new data-driven needs of their advertisers. It’s liberating for the entire market.

And that’s one reason why CTV stood out in a year when, across the industry, overall ad spending was down. CTV was the strongest growth segment of the global ad market last year and the fastest growing channel on our platform as well.

And that’s because advertisers see their customers moving to streaming platforms, and they are learning that CTV offers a new kind of value. Advertisers can apply data to drive more precision and localized targeting than linear; they can measure performance in real-time, across platforms; they can pivot campaigns quickly based on performance feedback; and they can experiment with new formats. In a year when brands were challenged to adapt messaging, often on a highly local basis, based on rapidly changing circumstances, all these factors became compelling.

Take a large US Automotive research and ecommerce brand that needed to navigate the uncertainty of 2020 and, in particular, the economic fallout on their business because of the pandemic. This company needed more flexibility and agility. Throughout the year, they pulled as many dollars as they could out of their existing under-performing upfront contracts and linear budgets and moved those dollars to CTV on our platform. With their agency, they chose The Trade Desk platform for two main reasons. One was the ability to apply data-driven decisioning and measurement in real-time in order to adapt to rapidly changing market conditions. The

second was to access premium inventory at scale in specific local markets on networks such as NBC and Discovery.

This is not an isolated case. In fact, in 2020, more than 1,000 brands spent at least $100,000 on CTV on our platform. Those brands spending more than $1 million on our platform in 2020 more than doubled from a year ago.

When you factor in that CTV now has the scale to provide an alternative to the divisive user-generated content that often populates the big social and video platforms, you can see why CTV was the largest growth segment of the global advertising market last year.

But let me take this one step further. Until 2020, TV was the last bastion of analog advertising. At the same time, it is also the largest segment of the advertising pie. Marketers know that video is the best channel to win the hearts and minds of consumers. TV is where marketers spend the most money, and is often where the most creative talent resides within a brand. It's also where the power centers of an agency typically reside.

The market opportunity here is significant. Eventually, all TV advertising will be digital and programmatic. In fact, I believe premium video, in all its forms including CTV, will be half of the trillion-dollar advertising market in the not-too-distant future. CTV is a trojan horse for the acceleration of programmatic across the ad industry. And we're starting to see that play out now.

Which brings me to my second main topic, the future of relevant advertising and how the industry is coming together to forge a new path for identity.

This is not simply a question of updating you about Unified ID 2.0. I'll get to that. But before I do, I'm not sure we've been clear enough about a key point. Right now, many people are debating what identity solution has the best chance of replacing third party cookies, but I feel like we're often having the wrong conversation. Instead, we should be focused on the question of how to we make the open internet a symphony that maximizes the talents of every orchestra member, playing together. Rather than looking for a single solution, the most impressive work is done by those of us making solutions interoperable, creating a currency that can be used by all reputable players, and upgrading all the weaknesses of cookies.

Unified ID 2.0 is the new common currency for the open internet. One that respects privacy and improves consumer controls, while preserving the value exchange of relevant advertising. Unified ID 2.0 is also free. And as we speak it is being integrated into the transactional pipes of the entire open internet.

And that common currency is not just centered on identity. That's a key element, obviously. But the value of relevant advertising can only be preserved if this new currency allows for effective comparison and measurability across all advertising channels across the open internet. Ultimately, that's what advertisers care about the most. If you were to ask most of them, they'd probably say they expect the identity piece to get fixed, and they expect the key industry players, such as The Trade Desk, to figure that out for them. What advertisers really want, is a trusted system that solves the identity problem, while also solving for the measurement opportunity.

And if we get that right, once again, we prove out the value of the Open Internet versus the limitations of Walled Gardens, where measurement is typically some variation of grading your own homework.

And it's also why I'm so excited about the progress the industry has made with Unified ID 2.0. Pretty much the entire adtech ecosystem has signed on. Among SSP's, IndexExchange, Magnite, PubMatic, OpenX and SpotX are all on board. Criteo has become a great partner. Like us, they are all-in on UID2. Among data connectivity companies, LiveRamp and Neustar are integrating UID. Publishers such as MediaVine and FuboTV are now part of the UID community, along with The Washington Post and their Zeus technology platform that powers over 100 other media publishers including some of the leading daily newspapers in the US. Those are just the ones we've announced. There are many others that we're actively working with including publishers, advertisers, partners, large media companies, data companies, and even other DSPs.

But perhaps most telling about the future common currency of the internet, is the work we're doing with Nielsen. As you know, Nielsen is the gold standard in media measurement, especially for TV. But as the media world becomes more fragmented and more digital, they are overhauling their technology to stay at the bleeding edge. And Unified ID 2.0 will be a core element of that new offering. Why? Because like us, Nielsen believes that Unified ID 2.0 will become that new common currency of the open internet. They understand what an upgrade this represents to cookies.

In addition to the wide-ranging industry support for Unified ID 2.0, there's also been a lot of progress around independent governance. As we have said from the beginning, an identity solution is much bigger than any one company, including The Trade Desk. As you may have seen, UID2 has been submitted to the Partnership for Responsible Addressable Media – or PRAM -- for further community development and management. PRAM comprises the biggest advertising brands, the major agencies, and the leading adtech players in the world. PRAM was designed to oversee the administration of new identity tools that advance the open internet, such as UID. Governance of UID will ultimately be federated. And Prebid, an industry organization

committed to transparency and fairness in header bidding, has already signed on to be one of the governing organizations of UID.

What's also been very interesting about the evolution of UID 2.0 is not just the enthusiasm in the US, but also the demand to understand its application around the world. And to understand the importance of the interest worldwide, you need to appreciate how various privacy and consumer protection regulations have come into force around the world.

Take GDPR in Europe for example. GDPR was an important initiative to craft new legislation to protect consumers as the internet started to reach into every aspect of our lives. At its core, GDPR, like a great deal of privacy regulation we see around the world, is based on important philosophical principles. But it's not necessarily prescriptive. It's up to market participants to interpret GDPR and figure out what to do. Without prescription, and without case law, everyone is working on solutions that meet requirements and building that important body of use cases.

In my view, Unified ID 2.0 comes closest to meeting the evolving philosophical principles that we see getting legislated around the world, including in Europe. Not simply because it is highly secure and it moves control to the consumer's hands. But also because Unified ID 2.0 solves for the other key aspect of becoming a common currency for digital advertising – Unified ID 2.0 also allows for cross channel measurement across the entire open internet.

I have very deliberately focused on CTV and Identity so far, because they are transformative in how we think about the value of the open internet versus the smaller, less competitive internet that is primarily run inside of walled gardens. Which is the third main point I want to make with you this afternoon.

Until now, when we think about every new dollar that goes into digital advertising, we think about that dollar going into a Facebook or a Google first. Because these platforms are easy there's easy access to scale. The open internet has traditionally received the leftovers. But that dynamic is starting to change. At end-state, the first dollar goes to the open internet.

Why am I optimistic about this? Because in 2020, we started see the signs of the tide turning. It won't be overnight. It will take years. But it is starting to happen.

You only have to listen to Marc Pritchard and thousands of other major brand marketers, who we interact with every day – hear them talk about the importance of being deliberate, data-driven, and measurable across multiple platforms and channels. That can really only happen on the open internet.

- Walled Gardens are not the easy on-ramp for CTV. In fact, they often don't have access to the premium content most valued by marketers. And often targeting is limited and results are too.
- Relatedly, let's consider what happened in UGC in 2020. Last year brands became more aware than ever that their ads may be showing up against questionable user-generated content and the divisive viral discussions that UGC content can sometimes incite. Advertisers want an alternative, and in 2020 they started to look at CTV as the scalable, brand-safe platform that gets them the same reach – with better performance measurement.
- UID adoptions are even better than expected. Publishers, brands, suppliers, data companies, partners, and even competitors– everyone wants the open internet to operate with the highest level of privacy and consumer controls, while preserving the value exchange of relevant advertising through cross channel measurement. UID cracks

the code on that and it's inspiring to see the industry rally around a solution bigger than any one company. Now UID won't exist in isolation – in fact, I would argue that there will be a handful of other identity technologies in the market. That is ok, because the focus is on interoperability.

But perhaps nothing highlights this shift more than the news we announced a few weeks ago around our new partnership with Walmart.

The work we're doing with Walmart is actually indicative of an entire industry that is starting to shift to a data-first marketing model. This is significant for our business because, according to some estimates, the TAM for shopper marketing is well over $100 billion. Let me use Walmart to explain. Walmart is the world's largest retailer, after all, with the world's largest supply of shopper data, across a massive array of consumer products. For the first time, with this partnership, they are making that shopper data available to advertisers.

So Walmart suppliers, who happen to be among the world's leading advertisers, can now run digital ads, whether on mobile, desktop, CTV, audio, etc, and understand how shoppers are reacting to those ads. By that I mean which ones lead to sales and when. And advertisers can then refine those ad campaigns based on which ones work best, with which kinds of customers, at what times, in what channels, in what regions, and near which stores.

For consumer-packaged goods companies, this is something of a holy grail. They can adapt campaigns on the fly based on the data they get back on shopper reactions. So, the advertising process becomes more refined, more effective, and more valuable. This is especially true in Walmart's case because not only are they a fast-growing online retailer, but Walmart is also the largest brick and mortar retailer in the world. The integrated approach to data and measurement

will apply to both aspects of their business. If you're a major CPG, you may have many products, such as Tide laundry detergent or a Hershey chocolate bar, that are still sold primarily in a store. So this integrated approach is critical.

Because we are talking about some of the most valuable shopper data in the world, Walmart wants to be sure that data is managed securely, with all the appropriate consumer privacy controls. They could have built their own platform, which makes us even more honored that we have forged a partnership and are leveraging our scale together.

They are focused on the combination of Walmart shopper data and the technology and performance of The Trade Desk's platform. Not only does our platform provide the data controls Walmart demands, they know we are an independent and objective company, and they know their supplier clients already work with us and trust us.

And as I said, it's not just Walmart that's driving this shift in the retail industry. Most major retailers recognize the value and power of their shopper data. Those retailers are also working with us 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.

I'd like to wrap this up by trying to tie all this together.

As I said, marketers are driving a game-changing revolution in TV advertising based on conviction that they need to be more data-driven, more deliberate, and more measurable. Partly driven by this shift in TV advertising, major brands are now talking about the future being data-driven and programmatic, across all channels. I hear it from every customer I talk to. Across all industries. That new data-driven focus is also driving momentum around new identity solutions that not only boost consumer privacy, but also become a common currency that is key to cross-channel measurement. And you can see this playing out as companies such as Walmart, and the retail industry more broadly, are standardizing on The Trade Desk as they overhaul their digital marketing business.

It all points to the growing primacy of the open internet. And that's where we win. As this shift accelerates in the years ahead – and it will – we have an opportunity to become the de facto demand side platform for the open internet.

I am confident about our future. Now everything won't happen overnight, or in one quarter of course. But we've spent 10 years getting ready for this opportunity. It's why we continue to invest in our platform, with the biggest product launch in our history coming later this year – which is all centered on helping our clients drive value from their data across advertising channels. It's why we continue to focus so aggressively on international growth – this is a global shift, and I'm very excited that our international growth is now outpacing our North America growth. That's a very positive sign that we're investing in the right way, in the right places. And it's why we continue to work hard to drive the industry forward, with initiatives such as Unified ID 2.0. This work is critical to build trust as the shift to the open internet unfolds. It raises all boats. Including ours.

Our focus allows us to continue to exceed our expectations. As I said at the outset, 2020 was a very challenging year. But it was also a transformative one. For us and our industry. I could not be more excited about building on our progress in 2021.

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

Blake Grayson, CFO

Thank you Jeff, and good afternoon everyone.

As Jeff mentioned, we finished 2020 incredibly strong, capping off a solid year for our business despite the challenges faced around the world. Q4 revenue was $320 million, a 48% percent increase from a year ago. For full-year 2020, revenue was $836 million, a 26% increase from a year ago. We have been encouraged to see advertisers accelerate their shift to data-driven advertising in the second half of 2020. Our results reflect the ongoing strength of programmatic advertising and the value that The Trade Desk provides to thousands of agencies and brands as they work to connect with their customers across our platform every day.

With the strong top-line performance in Q4, we generated $153 million in adjusted EBITDA, or about 48% 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 again in Q4. EBITDA continues to benefit from temporarily lower than expected operating expense growth partly driven by the impacts related to COVID-19. Even recognizing that, I'm proud of our continued ability to substantially grow our top-line revenue while also producing meaningfully positive EBITDA.

From the channel perspective, Video, which includes CTV, led our growth in Q4 followed by Audio, Mobile, and Display which all grew in the double-digits on a year-over-year basis. As Jeff had mentioned, Connected TV continued to be our fastest growing channel.

Geographically in Q4, 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 again year-over-year in Q4. One anecdote we're excited about are early indicators of acceleration in Europe. Gross spend growth in Europe accelerated every month in Q4, and for the full quarter actually grew faster than North America after excluding spend associated with the US presidential election. It is still early days for us internationally, but we continue to expand our leadership team, and are optimistic about our trends there.

In terms of our verticals that represent at least 1% of our spend, nearly every category improved during the quarter. Health & Fitness, our largest vertical in 2020; Shopping which benefitted from the holiday season; Food & Drink and Home & Garden, all performed very well. Automotive was also particularly encouraging, as it bounced back quite a bit in Q4 versus the prior quarter. Travel continues to stand out in terms of delayed recovery and, while it improved slightly from Q3, still has a lot of room for growth that we expect will follow as the world returns to normal, whenever that happens.

And finally, as you can imagine, we had strong US political spend during the quarter. In Q4 political spend represented a high-single-digit percent share of our spend. For the full year 2020, political spend represented a mid-single digit percent share of our spend. And importantly this impact was felt beyond just the 2nd half of the year. For example, the Democratic primary races drove solid spend for us in Q1, as the month of February, in particular, was one of our stronger political spend months during the year.

Operating expenses were $213 million in Q4, up 31% year-over-year. I would like to remind you that due to the virtual environment, our operating expense growth continues to benefit from

lower-than-normal employee support costs including travel and corporate events which are running significantly lower than the prior year.

Income tax was a benefit of $45 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 $185 million or $3.71 per fully diluted share.

Net cash provided by operating activities was a record $168 million for Q4 and free cash flow was $149 million. The primary drivers were the increase in net income, as well a number of efficiencies gained in working capital, some that occurred throughout the year, including improvement in collections activity, better alignment of payables to receivables, and shorter payment terms primarily due to the political advertising environment.

DSOs exiting the quarter were 121 days, up 3 days from a year ago. DPOs were 101 days, up 7 days from a year ago.

We exited Q4 with a strong cash and liquidity position. Our balance sheet had $624 million in cash, cash equivalents and short-term investments at the end of the quarter. In early October, we paid off the remaining $72 million of our revolving line of credit that we drew down in the very early days of COVID-19 out of an abundance of caution. At the end of the quarter we had no revolver debt on the balance sheet.

Turning to our outlook for the first quarter. During the first month and a half, spend is strong and we are off to a great start to the year. We estimate Q1 revenue to be between $214 million and $217 million which would represent growth of between 33 to 35 percent on a year-over-year basis, a modest acceleration from our Q1 results in 2020. We estimate adjusted EBITDA to be at least $55 million in Q1. 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.

As we think about the full year, we are modeling for an improving digital advertising environment and expect a reasonable acceleration in our revenue growth. That said, our business still continues to be impacted by the COVID-19 pandemic that has significantly affected our advertisers and their demand for advertising. In addition, and this is important as you think about your models, we face relatively easier comps in the first half of 2021, especially in Q2, and then comp stronger performance in the second half of the year, in particular Q4, where we significantly benefitted from US political ad spend.

I want to say a few words about our expected operating expenses. Starting late in Q1 of 2020, we reduced the pace of our spending due to the uncertain operating environment. As we saw demand begin to return in May, we strategically started to increase the pace of our investments. While we have made some progress, as we think about 2021, we do expect to continue to increase our investments over the course of the year as we continue to invest in the long-term growth of the business.

We expect 2021 capital expenditures and capitalized software investments to be similar to what we incurred in 2020. We do expect data center and infrastructure spend to represent a larger share of our expenditures relative to office facilities compared to the prior year.

Share count is expected to be about 52 million as we exit 2021.

In summary, Q4 represented a strong finish to 2020. I can't say enough about how well the team is focusing on helping our customers, spinning the flywheel, and staying mindful of efficiency while driving material spend on our platform while we invest in, and scale, our business.

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