



Tremor Video

First Quarter 2017 Earnings Conference Call

May 9, 2017

CORPORATE PARTICIPANTS

Andrew Posen, *Senior Director, Investor Relations*

Paul Caine, *Interim Chief Executive Officer*

John Rego, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

John, *Jefferies*

Chris, *Credit Suisse*

Austin, *Canaccord Genuity*

PRESENTATION

Operator:

Greetings, and welcome to the Tremor Video First Quarter 2017 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I'd now like to turn the conference call over to your host Andrew Posen, Senior Director, Head of Investor Relations.

Andrew Posen:

Good morning. Welcome to Tremor Video's first quarter 2017 earnings call. During the course of today's call, we may make forward-looking statements, including statements regarding Tremor Video's future financial and operating results, future market conditions, and Management's plans and objectives for future operations. These forward-looking statements are not historical facts but rather are based on the Company's current expectations and beliefs, and are based on information currently available to us. The outcome of the events described in these forward-looking statements is subject to known and unknown risks and uncertainties that could cause actual results to differ materially from the results anticipated by these forward-looking statements, including but not limited to those factors contained in the Risk Factor section of the Company's annual report on Form 10-K for the period ending December 31, 2016, filed with the SEC on March 10, 2017, as well as future filings and reports by the Company including its Form 10-Q for the period ended March 31, 2017.

All information provided in this conference call is as of today, May 9, 2017. Except as required by law, we undertake no obligation to update publicly any forward-looking statement made on this call to conform the statement to actual results or changes in our expectations.

Our commentary today will include non-GAAP financial measures. We believe that the use of these non-GAAP financial measures provides an additional tool for investors to use in understanding Company performance, but note that these measures should not be considered in isolation from or as a substitute for financial information prepared in accordance with GAAP. Reconciliations between GAAP and non-GAAP metrics for our reported results can be found in our earnings press release issued today, a copy of which can be found on our website.

Now, I'll turn the call over to Paul Caine, Tremor Video's Interim CEO.

Paul Caine:

Thank you, Andrew, and now I welcome you to our first quarter 2017 earnings call. I'm excited to share the progress our team continues to make by delivering another successful quarter, exceeding our guidance across revenue, total spend and Adjusted EBITDA.

We saw continued momentum in our Programmatic business, significantly extending the depth and quality of our publisher relationships and delivered impressive year-over-year growth in higher function buying, which includes our advanced Data and TV targeting solutions, as well as our all-screen optimization.

We continue to embed our category of leading software technology with a growing list of industry leading publishers who are playing an important role in the evolving video landscape, including Hulu and DISH.

Overall, our successful performance this quarter reflects the health of our business and the strength of our team. Our total spend grew 19% from the first quarter last year to \$61 million with Programmatic and Higher Function growing 23% combined, now representing 93% of our total spend. We are also proud of our continued expense discipline, driving further improvements in our operating leverage, resulting in substantial year-over-year gains in our Adjusted EBITDA.

Our SSP continues to earn great attention from both buyers and sellers. Premium brands are committing to us as a trusted partner who can provide the tools and real time analytics necessary to navigate the Programmatic video ecosystem. We remain focused on adding quality, brand safe and unique inventory sources to share our commitment to delivering value and ease of mind for our demand partners.

As further proof, we are excited to share that we were just awarded this month the number one spot for the first time on Picalate's Video Seller Trust Index, reflecting our market position.

Tremor Video continues to differentiate and lead through its OTT capabilities. Consumer behaviour is rapidly shifting towards television convergence and Tremor Video is well prepared for this tipping point.

As we announced last quarter, we're incredibly excited that after a lengthy technology review process, Hulu selected our SSP to exclusively power it's advanced TV advertising solutions across all screens and devices. Hulu's commitment to Tremor Video speaks to the best in class SSP that we built and the quality of our engineering and customer service teams.

Through our flexible open architecture platform, we are able to build custom solutions to power their specific automation requirements. We are also partnering with Sling TV to enable Programmatic selling of live TV. Recently, Sling TV announced that our SSP helped drive a 51% increase in their Programmatic revenue around the NCAA tournament through private marketplace packages.

We continue to make great progress broadening our footprint in the emerging categories of gaming and live streaming. As mobile consumers deepen their engagement with these kinds of videos, and the

audiences expand beyond experiential into mainstream, Tremor Video is well positioned with quality supply for buyers who follow suit.

Moving to the demand side, we saw strong growth in our higher function buying products, which grew 37% year-over-year to \$27.4 million. A significant contributor to those results was the success of our TV retargeting solution, which allows marketers across all verticals to synchronize their digital video and linear TV advertising.

By tapping into precise real-time TV viewership data, we empower marketers to extend the reach of their TV campaign into digital and mobile platforms where we provide incremental analytics where they can accurately measure engagement, attribution and effectiveness across the combined video platforms. We also continue to see strong contribution from our all-screen product, which allows advertisers to seamlessly buy high value, viewable and fraud free inventory across all devices, including CTV and OTT.

In closing, we had a strong quarter and I am incredibly proud of our team's ability to maintain our focus, execute on our strategy and drive strong results during this period. With respect to our CEO search, we are in late stage discussions with a small number of impressive candidates and hope to have an announcement in the near future.

Now, I will turn the call over to John to walk you through the financials in more detail and to provide our outlook for Q2 and the remainder of the year.

John Rego:

Thanks, Paul. Q1 was a great start to the year, beating guidance across all key metrics. During the quarter, we reported revenue of \$41.4 million, up 20%, total spend of \$60.9 million, up 19%, and improved our Adjusted EBITDA loss from \$4.2 million in Q1 '16 to a loss of \$2.4 million.

Our results this quarter were driven by growth in our higher function buying products, which increased 37% from the same period last year. Our Programmatic platform business increased 11% from the same period last year. Collectively, Programmatic and Higher Function buying represented 93% of our total spend in the quarter and our legacy ad network represented 7%.

We did not see a significant impact from Methbot due to our stringent publisher quality controls. However, we believe that it did cause ripple effects in the market that resulted in some buyers delaying their Programmatic spend to start the quarter. We saw a noticeable uptick in the performance of our SSP as the quarter progressed and buyers turned to us as a trusted source of fraud free Programmatic inventory.

Our gross profit increased 19% from Q1 last year to \$19.4 million, while our gross margin remained relatively flat year-over-year. Adjusted EBITDA was a loss of \$2.4 million, a significant improvement from last year's loss of \$4.2 million, as we maintained our strict focus on cost management and continued to drive operating leverage while scaling our business.

Total core operating expenses, which exclude non-cash items decreased as a percentage of total spend to 37% from 44% during the same period last year. Our net loss for the quarter was \$6.9 million, compared to a net loss of \$11.1 million in Q1 of last year. Basic and diluted net loss per share for the quarter was \$0.14.

In regards to our balance sheet, we ended the quarter with \$84 million of available liquidity, including \$49 million of working capital and a \$35 million line of credit. During the first quarter, we repurchased approximately 984,000 shares for a total of \$2.4 million.

I'd like to finish with our expectations for the second quarter and the full year. We expect total spend in the second quarter to be between \$66 million and \$70 million, revenue between \$38 million and \$42 million and then Adjusted EBITDA to be between a \$2 million loss and a \$1 million profit.

We are raising our full year guidance to reflect the strength of our first quarter and strong expectations for our second quarter. We now expect total spend to be between \$320 million and \$330 million, a 28% increase at the midpoint of the range, revenue to be between \$182 million and \$192 million and Adjusted EBITDA between \$3 million and \$7 million.

Weighted average basic share count is estimated to be \$50.1 million for Q2 and \$50.3 million for the year. We started 2017 with good momentum, with continued growth in our top line and expense discipline driving operating leverage.

We'll now open up the line for questions.

Operator:

At this time, we will be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star key.

Our first question is from Brian Fitzgerald from Jefferies. You may begin

John:

Hi, guys. This is John on for Brian. Thanks for taking the question. First off, congrats on the quarter. Secondly, just wanted to touch a little bit, I think one of the hot topics in Programmatic video this quarter has been just around brand safety. Maybe if you guys could touch a little bit on kind of your marketplace differentiates itself and kind of what you've been hearing from some of your more premium brands that having come into the marketplace for some of the video inventory? Thank you.

Paul Caine:

So, brand safety continues to be a major priority for Tremor Video. We have many controls in place to control that the inventory is safe—that our software is specifically designed to do that and we've been really working with our publishers to ensure that that continues.

Being that is a priority for us, we are not seeing much of the impact of others—however we did see how some of the safety issues did drop, some early concerns in the quarter across advertisers and it did affect the total industry spend, but in the end it didn't affect Tremor as much, and we saw the return toward the end of the quarter.

John:

Great. Thanks guys.

Operator:

Our next question is from Stephen Ju from Credit Suisse.

Chris:

Hey, guys. This is Chris on for Stephen. Thanks for taking the question. The mix and spend this quarter was a little bit different versus what we expected. Will you talk about kind of the deceleration in Programmatic with what looks like to be sequentially flat dollars in a higher function kind of what the puts and takes there were? Thanks.

John Rego:

Yes. So, a couple of things. So, high function buying has certainly been a big winner for the quarter. As Paul was alluding to, we did see a little bit of a slowdown in Programmatic in the first half of the quarter. I believe strongly that had a lot to do with advertisers concern over the Methbot issue, which happened in December of '16.

But the good news is we saw that trend start to reverse itself probably on day 45, day 46 of the quarter and Programmatic started to tick back up to where we would like to see it. So, I think we saw that little bit of a Programmatic issue, it seems to have reversed itself and aside from that High Function just had a stellar quarter.

Chris:

Okay. Thank you.

Operator

Our next question is from Michael Graham with Canaccord Genuity.

Austin:

Hi. It's Austin on for my Mike. Two questions if I may. The first is around take rates. I'm wondering what the trend has been, specifically in for your SSP if you're raising those somehow or if there's been some compression, competition of some sorts. Then on the DSP, is there anything to comment on regarding your very impressive MSAs signed last year? Thanks.

John Rego:

Okay. So, thanks Austin, this is John. On the take rates, we still see no pressure in the individual product line take rates, although the blended take rate does get impacted by the change in mix. You'll notice that in Q1 take rates you know, on a blended basis seem to have gone up a little bit, and that's due to the killer quarter for High Function buying, but again, no particular pricing pressure. So, it's really just a function of mix shift. If you remember back in the Analyst Day of 2016, we gave some forward direction that we thought; ultimately we'll get down to a blended 30%. Obviously we're not there, we're at around 37%, but that still holds true. It's going to be a function of the mix.

As to the DSP, as you know in the second half of last year, we announced that we had done five MSAs out of the seven major holding companies. That's starting to have an impact. It's great to get the MSA, that's a license to go out and ask for business. Now the team is out there asking for business, but it's not at the MSA level, it's in the individual agencies within the mega agency. So, a lot of work still to be done, but the outlook looks positive from where we sit.

Operator:

Ladies and gentlemen, we have reached the end of our question-and-answer session. I would like to turn the call back over to Management for closing remarks.

Paul Caine:

Thank you, Operator. I want to thank everyone for their questions, and I'd also like to thank each of you for joining us this morning. Now in summary, we're proud of our first quarter results and we do remain confident in the Company's future. Twenty seventeen is off to a great financial start and we are well poised given Tremor Video's strong technology stack and ability to innovate. Thank you for your participation in the call this morning and we look forward to updating you in the months ahead.

Operator:

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.