Tremor Video
First Quarter 2014 Earnings Conference Call
May 6, 2014

Operator: Greetings, ladies and gentlemen, and welcome to the Tremor Video First Quarter 2014 Earnings 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 would now like to turn the conference over to your host, Mr. Andrew Posen. Thank you, sir. You may begin.

Andrew Posen: Good afternoon. Welcome to Tremor Video's First Quarter 2014 Earnings Call. Joining me today to discuss our results are Bill Day, President and CEO, and Todd Sloan, CFO.

Before we begin, I would like to take this opportunity to remind you that during the course of this call, Management will make forward-looking statements, which are subject to various risks and uncertainties. Actual results and the timing of certain events may differ materially from the results or timing predicted or implied by such forward-looking statements and reported results should not be considered as an indication of future performance. Further information regarding the factors that could affect the Company's financial results is included in filings it makes with the Securities and Exchange Commission from time to time, including the section entitled Risk Factors in the Company's 10-K filed with the SEC on March 28th, 2014, and future filings and reports by the Company, including its Form 10-Q for the period ended March 31st, 2014.

Also, I would like to remind you that during the course of this conference call we will discuss non-GAAP measures in talking about the Company's performance. Reconciliations to the most directly comparable GAAP financial measures are provided in the tables in the press release which is available on our website.

This conference call is also being broadcast on the Internet and is available through the Investor Relations section of the Tremor Video website.

And now I'll turn the call over to Bill Day, Tremor Video's President and CEO.

Bill Day: Thanks, Andrew, and welcome to our First Quarter 2014 Earnings Call. I am pleased with our announced results that were meaningfully ahead of our guidance on revenue and Adjusted EBITDA.

In Q1 we reported 34.9 million in revenue, a 41% increase from the prior year period. For the quarter, Adjusted EBITDA was a loss of $4.6 million, reflecting our ongoing investments in our technology and premium publisher partnerships and our continued pursuit of television dollars. While we're happy with Q1 growth, we continue to encourage you to look at our business on an annualized basis due to the typical fluctuations of advertising spends.

Now I'd like to update you on the progress that we're making towards our goal of providing a complete programmatic solution to drive brand performance across all screens. We believe this strategy furthers our ability to offer clients the most effective solution in the market to manage the challenges increasingly brought on by device fragmentation. In April, we announced the launch of the first automated all-screen optimization solution for video advertising. Advertisers using our patented technology VideoHub declare a campaign goal and allow VideoHub to programmatically deliver ads where they work most effectively, whether on desktop, tablets, Smartphones, or connected TVs. This means that strategists and buyers no longer need to predict the right amount of their budgets to allocate to each screen, but instead, let our technology deliver the optimal mix across all devices. We believe that Tremor Video is the first and only video technology company that price, target, optimize, and report on video campaigns across all devices with a single placement.

We're off to a great start with a total of 31 brand advertisers currently utilizing our all-screen technology including Six Flags and Media Storm, our pilot partners. This is the last quarter that we will break out simply mobile revenue. Beginning in Q2, we will report the per cent of spend purchase to run against all screens.

As you know, our technology often uses proprietary signals for targeting in optimization decisions. The value of social media data in this ongoing effort cannot be understated. That is why we established an exclusive partnership with Affinity Answers, a social media affinities tracking firm, which will allow VideoHub to target consumers who have a higher propensity to purchase our client's brands. At the core of this innovative initiative is mutual affinity between people and the brands they love and our ability to effectively target video ads based on these affinities.

Last quarter we told you that several clients are beta testing our DSP technology. In Q2 we are live, with clients buying against goals including standard digital metrics such as click-through rates or completions. But more importantly, our DSP offers target and against brand health goals such as engagement in competitive preference. The launch of our VideoHub DSP allows us to offer brand performance to our clients in whatever form they want to buy it, whether as a self-service platform or as a managed service through our direct sales force. Look for an official DSP launch party later in Q2.

I believe that our revenue growth of over 40% in Q1, despite the fact that our programmatic initiatives are just starting to ramp up, underscores the strong appetite for our brand performance solution. Our VideoHub DSP full stack solution includes ad serving, analytics and buying. Clients are using our tools to support programmatic buying, balancing the three key variables essential for brand advertising – reach, price and brand performance. Brand performance includes ad viewability. Tremor Video still has the only streaming video viewability solution accredited by the Media Ratings Council and users of our platform have access to our eQ score which lets the buyer rank and compare the viewability, player size, and completion rate for the ad impressions they deliver across the entirety of their buy.

Some additional exciting programmatic news. In response to a strong demand from our premium publisher partners we intend to launch a supply side platform or SSP later this year. This SSP will offer premium publishers the three things they seek most: a trusted partner to bring them complementary demand for their sales team, which we've been doing for years; analytics on the performance of the directly sold campaigns so they can negotiate better with buyers; and a platform that simplifies their internal work flow and automates their sales efforts programmatically. We believe we are in a unique position to provide this offering given our deep and often exclusive relationships with premium publisher partners.

In Q1 we further expanded our premium content and publisher roster, adding an exclusive partnership with PUCV. In addition, Twitch joined our growing number of cross-screen partnerships and Pac 12 Network went live for both mobile and desktop. As you know we have exclusive relationships with over 200 premium publishers across all screens which ensures that our clients have access to the best environment to promote the strongest brand performance of their ads. We are actively working to extend these relationships to encompass all of our programmatic offerings as well.

In conclusion, I would like to underscore that we believe that the major market—what we believe is the major market opportunity for Tremor Video. Four years ago, video advertising was nascent, even on desktops, at $1.4 billion. Today eMarketer is forecasting a $6 billion video market for 2014 with acceleration to more than $12 billion by 2018, half of that being mobile. We expect TV advertisers to power this tremendous growth and both advertisers and publishers are pushing to improve their brand effectiveness and preparedness. We believe that we are well-positioned strategically to capitalize on this trend by our patented VideoHub technology platform, deep partnerships with brand advertisers and premium publishers of TV content and our growing programmatic capabilities.

With that, I'll turn the call over to Todd to take you through this quarter's financial results in more detail.

Todd Sloan: Thanks, Bill, and thanks everyone for joining us today as we share our Q1 highlights and financial results.

I'm going to spend a few minutes walking you through the drivers of the quarter before I provide guidance for Q2 and update our full-year 2014.

Our results this quarter reflect the steady improvements and investments that we are making across our business. We are focused on offering brand advertisers a full stack of buying solutions that enable them to achieve their brand objectives. This array of product solutions has varying characteristics and margin profiles. Our investments in off-screen technology and our programmatic initiatives underscore this commitment and position us well to capture video adverting spend in whatever phone brand advertisers choose.

Our revenue for Q1 was 34.9 million, an increase of 41% compared to 24.8 million in Q1 last year. In the first quarter, 23% of revenue was from performance-based products, roughly in line with the percent we saw in the second half of 2013. Demo buying continues to take spend from higher margin performance-based products in the short term. However, in Q2, we are achieving a better sales mix with revenue contribution from performance-based products. We are also seeing incremental improvements in our ability to optimize campaign delivery for demo buys. These improvements are reflected in the sequential increase in our gross margin this quarter, 34.2%, up from 33.7% in Q4.

Mobile revenue was 13% of total revenue in the quarter compared to 9% of revenue in the same quarter last year. As Bill said earlier, this is the last quarter where we will be separately reporting our mobile revenue percentage. Going forward we will be focusing on the contribution from our all-screen initiative.

Adjusted EBITDA was a loss of 4.6 million in the quarter, compared to Adjusted EBITDA loss of 2.8 million in Q1, 2013. Net loss was $7.2 million compared to net loss of $5.2 million in Q1 of 2013. Basic and diluted net loss per share was $0.14 compared to $0.67 per share in Q1 2013.

Non-GAAP basic and diluted Adjusted EBITDA per share was a loss of $0.09 per share compared to $0.36 per share in Q1, 2013.

Basic and diluted net loss per share for Q1 2014 is based on 50.3 million weighted average shares of common stock outstanding as of March 31, 2014. Basic and diluted net loss per share for Q1 2013 was based on 7.7 million weighted average shares of common stock outstanding as of March 31st, 2013.

I would like to highlight a few non-financial operating metrics driving our financial results. Our media revenue is influenced by impression volume and when we saw impression volume increased by 76% in Q1 this year versus Q1 2013. Excluding demo buys, our eCPMs decreased by 7% from the same period last year.

As brand advertisers look for varied ways to meet their objectives, their campaigns are taking on a broader dispersion of price points and our product suite will now accommodate all variations.

In the last 12 months revenue ending Q1 2014, our retention rate for existing clients was 85%. This compares to 80% from the prior year's last 12 months revenue ending Q1 2013. The average spend per account also trended higher. On a rolling 12-month basis ending Q1 2014, we saw average spend per account increase 22% for the same 12-month period last year.

Now I'd like to discuss our key operating metrics. Total operating expenses during the quarter including stock-based compensation increased on an absolute dollar basis compared to the prior year's period from $16 million to $19 million, but as a percentage of revenue decreased from 64% to 55%. Similarly, our G&A and sales and marketing expense while rising on an absolute dollar basis declined as a percentage of revenue from 12% and 36% to 11% and 27%, respectively. These results highlight the leverage that we have been able to achieve in these categories.

Technology and development costs were 4.3 million for the quarter or 12% of revenue compared to $2.7 million in the same period last year or 11% of revenue, reflecting our continued investment in our platform and technology initiatives. Importantly, note that technology and development expenses increased by 61% compared to the prior year quarter, while sales and marketing and G&A expenses increased by only 7% and 27% compared to the prior year period to the prior year period, respectively.

I'd like to finish our call with our thoughts regarding financial expectations for the second quarter and an update on our views for the full year.

For the second quarter we expect revenue to be in the range of 39 to 41 million and non-GAAP Adjusted EBITDA in the range of a loss of 5.8 to 4.8 million. Weighted average basic share count is estimated to be

50.5 million for the quarter. For the full year, we are increasing our revenue guidance to be in the range of 158 million to 163 million, up from the previous range of 155 to 160 million.

We are keeping our expectations for non-GAAP Adjusted EBITDA loss for the year consistent with what we provided last quarter, in the range of 11 million to 8 million loss.

Two-thousand fourteen is a year of continued investment. While we estimate revenue to increase, it will be offset by continued investment in technology development efforts and increased spend in high quality inventory from premium publishers. Weighted average basis share count is estimated be 50.8 million for the full year.

In summary, we are off to a very strong start to the year and we're very excited about our results and the strategic initiatives we have recently announced. We believe that our new all-screen capabilities, our recently launched DSP, our upcoming SSP and the increasingly strategic partnership with brand name content companies put us in a great competitive position for the remainder of 2014.

Thank you for joining us today. We will now open the line for questions. Operator?

Operator: Thank you. Ladies and gentlemen 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 your question from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from the line of Brian Fitzgerald with Jefferies. Please proceed with your question.

Brian Fitzgerald: Thanks, guys. I wanted to drill down a bit on are the different types of advertisers, different verticals which are more prone to or be attracted to engagement versus non-engagement. Then maybe could you also give us a general sense of kind of your breaks by vertical composition business-wise?

Bill Day: Sure. That's great.

So historically, we did see a dispersion between verticals that were maybe more prone to adopting the engagement model, and so the greatest example there is the entertainment vertical really where a ton of our business is priced through a performance model, whether it's engagement or video complete or viewable, 100% viewable and 100% complete. There are just a number of different models that are selling strongly into the entertainment vertical. I think I've said this in the past, that between YouTube and Tremor Videos' entertainment offerings a big chunk of the total entertainment spend in video travels between those two companies. The thing we've seen in the last year really is engagement and now cost-per-shift and cost-per-conquest start to become more evenly distributed across many of our clients, and so whether that's automotive or package goods, retail, we've seen it across the board. So it really now comes down to the issue, I think, of whether that particular pricing model resonates with the buyer and what they're trying to achieve on an individual campaign as opposed to it being driven by one vertical or another.

From a vertical breakdown standpoint, I'm going to just comment a little bit on color and then I'll let Todd sort of lay out the overall picture. From a color standpoint, Q1 was a strong quarter, but particularly packaged goods, so CPG and entertainment being particularly strong to call out in terms of success driving Q1 overachievement.

Todd, do you want to add anything to that in terms of the overall layout?

Todd Sloan: Yes. So, one thing that we've always emphasized is that we're very diversified across many different verticals. The largest for us is CPG, but even in CPG there is so much diversification; it breaks down into health and beauty, it breaks down into food and beverage and underneath those categories it breaks down pretty heavily. So CPG is the largest for us. We also have a very large presence and entertainment for a number of reasons, one of which Bill just highlighted. We also have a solid presence in auto and we're in retail and there are many verticals. So our focus has always been strong diversification across all the verticals and that supports because think about the different cycles for all these verticals - some can be up. So the auto industry can be down but supported by the CPG industry and vice versa, so it's good to stay diversified across all these categories.

Brian Fitzgerald: Great. Thanks, Bill. Thanks, Todd.

Operator: Thank you. Our next question comes from the line of Jason Helfstein with Oppenheimer & Co. Please proceed with your question.

Jason Helfstein: Thanks. Just talk a little bit about as the new products roll out, how you think that impacts the financial model due to the gross margins of some of these new products coming in lower but then ultimately you try to offset that with, or more than offset that, with higher gross revenues given it should give you access to additional demand and in inventory. Can you just talk about how you see the dynamics playing out the rest of the year as these new products come online? That's question one.

Question two, can you comment on what percent of revenue either is currently or you expect in the second quarter from the DSP? Just trying to understand how material that is. Then last question, can you just clarify just the commentary around in-stream was, I think, around the different products wasn't exactly clear. Are you guys doing kind of that? Is there more in-stream back in the business? So if you can clarify that. Thanks.

Bill Day: I think you mean in-banner not in-stream

Jason Helfstein: Banner sorry, in-banner, yes.

Bill Day: No, the business is 99 point something percent in-stream still. So when Todd talked about sort of the diversity in terms of revenue stream that still pretty much holds from an in-stream standpoint. Yes, we do some in banner but it's really driven by client request at this point where it's part of their strategy as opposed to something that we go out and directly sell. I can answer that one. Todd, you probably want to talk about the margin impact of programmatic.

Todd Sloan: Yes. So the programmatic products, second half of the year launched. I mean we just launched DSP; that will have more of an impact in the second half of the year. To your point on the gross net issue, so the world is—most of the world is still viewing and trading at gross so depending on what your take would be off of gross would impact what your percent margin would be. I think it's varied out there right now. I think it depends on the quality of your technology and your ability to negotiate through that to determine what your ultimate take is. But I think overall, I think in general, it probably and for those that are doing it, it's going to be 30% and below at this point if you trade at gross. So this is something that we are looking at closely and we haven't made full decisions on this yet. There is still time to play this out for us and how we price this and what that take is so I think, that's the way to probably look at that.

Jason Helfstein: Okay and then I mean just how can we think about the guidance? Are you assuming any revenues from the new product in the full year guidance?

Bill Day: So we've been, as we said in the past, we are staying very conservative on this for now. The sales cycle is more or like a SaaS sales cycles so it's a longer sales cycle that takes place, so gaining adoption and predicting volume on that so it's to come, if you will. So we are staying pretty conservative on that so far.

Jason Helfstein: Got it, and then just lastly, just to reiterate, you said in the comments that you are expecting performance advertising to increase as a percent of the mix as we move through the year correct?

Bill Day: Yes, so our expectation is that it would get back into the mid 30% range.

Jason Helfstein: Okay. Thank you.

Operator: Thank you. Our next question comes from line of Yoni Yadgaran with Credit Suisse. Please proceed with your question.

Yoni Yadgaran: Hey this is Yoni on for Stephen. We were just wondering if you have seen any pushback as you guys kind of roll out your programmatic offering on the DSP side? If you've seen any pushbacks from publishers in terms of making their inventory available via more programmatic types of solutions. Have you heard any concerns from your publishing clients or customers?

Bill Day: Yes, absolutely. Ao a lot of our publisher partners, to be very honest with you, in general don't participate in programmatic solutions very widely or at all in the marketplace right now for a number of reasons, but that's I think the opportunity for Tremor Video, right? It's because, A, we have strong partnerships with them that go for years and the fact that we are building SSP capabilities that cater to their needs that probably look more like private market places as opposed to public exchanges that I think we are going to be very successful in pushing the SSP product forward.

It's not any difference than a different sort of mountain we had to climb in the past where publishers generally were not willing to allow their network partner to share any of the information about what ads ran where on their sites because of their concern about sales conflict with their direct sales force, and we were able to break that down as really, as far as I know, the only network that's allowed by these publishers to tell the advertisers which ads ran on which sites.

So I think, in general, they have a lot of trepidation. They have seen how things have sort of worked in other parts of the advertising ecosystem and they want to do video right, but that's, again, I think where our depth of partnership and expertise around working with them and their type of inventory gives us a distinct advantage.

Yoni Yadgaran: Okay guys. Thanks.

Operator: Thank you. Our next question comes from the line of Michael Graham with Canaccord. Please proceed with your question.

Michael Graham: Thanks. Hey guys and congrats on the quarter. I have a couple of questions. I'll maybe just ask them and let you answer and then

I'll ask the next one. The first is can you comment on any bundling activity on the part of your premium publishers, the partners and their sales forces, kind of the phenomenon that hit part of Q3 last year. Like have you seen them bundling inventory together with linear TV inventory still? Is that process still going on or have you seen it stopping or just any comment there? That's the first question.

Bill Day: Yes, I think with the results we reported today we sort of stand behind the statement we made at the time of the Q3 report that that was a speed bump rather than something that was more continuous. There is certainly is bundling going on. So the partners we work with sell directly, but they also sell increasingly in conjunction with their television sales, so it's definitely going on.

The thing that was more material in that Q3 timeframe was really the handoff at certain agencies with respect to responsibility of the buying decision and that's getting sort of slowed down while they were figuring out the television upfronts. We're past that. I think things are pretty straightforward. We continue to see, I think as we've said in the past, 20% to 50% of our inventory in any particular quarter be composed by our premium and exclusive relationships; Q1 was no different from that, so it sort of smooth sailing from that sales point going forward.

Michael Graham: Okay, thanks. Tthen just on going back to Jason's question about, I guess about licensing more broadly. Six months ago, the vision of the licensing business was VideoHub for Advertisers and VideoHub for Publishers and I guess with the advent of the DSP business I'm just wondering, like, do you still expect—like as you look forward, I know you are being conservative about what to expect from the new products, but how do you see the components of the licensing business overall? Was the old view of the licensing business, is that reflected in your full year guidance?

Bill Day: I'll let Todd talk about guidance, but in general we continue to feel strongly about the licensing business. To understand and sort of clarify as a platform customer if you use our DSP you will receive the analytics provided by VHA, VideoHub for Advertisers, as part of the DSP offering. So it's not like you have to make a two-step decision. It's all put together for you: the ability to buy on metrics as well as understanding the analytics around your buying. That said, we believe there are still a number of agencies who maybe won't use our DSP or they are not buying programmatically or otherwise, they require a sort of customized solution for analytics that complements their buying strategy.

So I think for both—and I think there is an analogous situation on the publisher's side as well. So it's built modularly. We can sort of put things together break them apart as required and I think we still feel like in some ways, being in the buying and selling platform business will actually aid our ability to drive increasing licensing as opposed to being in the licensing business alone. Todd, I'll let you talk to the guidance question.

Todd Sloan: Yes. I think they're clearly—to Bill's point, the analytics offering is still a standalone product and can and will get traction in the market and has gotten some traction in the market. So to the extent that you ask if those numbers are in the model, yes, they are part of being the overall forecast, so it's is not just the media business but also the analytics, the ability for clients to take just analytics. But to the extent that our DSP is sold in the analytics, for those campaigns that they choose to use the DSP for the analytics are part of the DSP product. So in that side of the business that's where I am staying conservative.

When you think about licensing as a whole all of these products would contribute to that, so that is something that we think about as far as the licensing business separate from the media business would include DSP, VHA, standalone. So it includes all of that, yes.

Bill Day: I think again the power of what we are doing is the ability to put solutions together to meet the needs of the customer which sometimes encompasses media as well as licensing and we believe in the future will often encompass buying as well. We weren't ready in this earnings call to announce specifics but we were able to close a second top five holding company deal for VHA in Q1. So I think that underscores our ability to continue to scale the analytics licensing business itself and maybe we'll have more specifics around that detail to talk about in the future.

Michael Graham: Okay. That's helpful. Then just a last quick one, if I could? Just any comment, Todd, that you want to make around linearity of revenue in the quarter and sort of how the visibility of the business is either changing or not changing. Just how confident are you sort of the near-term Q2 outlook relative to the visibility that you had over the last few quarters? Thanks a lot.

Todd Sloan: Yes, sure. I mean I would say that consistently we enter a quarter with about 60% visibility and that hasn't really changed. I think even if you look at earlier quarters, having that visibility is pretty consistent. I'm fairly confident about what we can project into the next couple of quarters, so I think it's—I guess I'll say it's consistent again.

Michael Graham: Right. Thanks guys.

Operator: Thank you. Once again, ladies and gentlemen, if you'd like to ask a question please press star, one, on your telephone keypad.

Our next question comes from the line of Wayne Brown, Private Investor. Please proceed with your question.

Wayne Brown: Hi, gentlemen. I wish if you could speak for a moment about just the macro environment in the industry that you have. Is there an opportunity looking at possible consolidations or acquisitions given the large cash position that the company maintains and do you see some accretive opportunities and looking at trying to improve shareholder value since the IPO?

Bill Day: Yes, I mean, I think I can—it's Bill. One of the most exciting things about where we operate is the fact that it's video, and as I said, increasingly video is going to be driven by the television dollars sort of crossing over into the video unit, which is very different than how the first several billion dollars of video growth occurred and the company is super well, I think, positioned to compete forward-looking in a world that's driven by television dollars than maybe it was even in the first couple of years of the video market where it was driven by sort of reallocation of display advertising.

From a use of proceeds standpoint, we have a very active corporative effort where we look at a number of things and occasionally do things, as Todd has talked to you in prior earnings calls, and so we think it's part of the path to success. We continue to believe that our organic growth plan including the rollout of the new products we have talked about today is spot-on in terms of delivering the shareholder value you talked about.

Operator: Thank you. At this time, there are no further questions. I would like to turn the floor back to Management for any closing comments.

Bill Day: Well, again, I just want to reiterate that we're pleased with our Q1 results and look forward to a successful 2014. Thanks everyone.

Operator: Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.