



Tremor Video

First Quarter 2016 Earnings Conference Call

May 5, 2016

CORPORATE PARTICIPANTS

Andrew Posen, *Senior Director, Investor Relations*

Bill Day, *Chief Executive Officer*

John Rego, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Austin Moldow, *Canaccord*

Brian Fitzgerald, *Jefferies*

Murali Sankar, *Boenning & Scattergood*

PRESENTATION

Operator:

Greetings and welcome to the Tremor Video First Quarter 2016 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.

It is now my pleasure to introduce your host, Andrew Posen, Senior Director of Investor Relations. Thank you, sir. You may begin.

Andrew Posen:

Good afternoon and welcome to Tremor Video's First Quarter 2016 Earnings Call.

I'd like to take this opportunity to remind you that during the course of these presentations, 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 10-Q filed with the SEC on May 11, 2015 and 10-Q filed with the SEC on August 10, 2015, and its Form 10-Q for the period ended September 30, 2015, filed with the SEC on November 9, 2015, its Annual Report on Form 10-K for the period ending December 31, 2015 filed with the SEC on March 15, 2016 as well as future filings and reports by the Company including its Form 10-Q for the period ended March 31, 2016.

Also, I would like to remind you that 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, or in the Appendix to the presentation which is available on our website.

This presentation is being broadcast on the Internet and is available through the Investor Relations section of the Tremor Video website. 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 2016 earnings call. We've gotten off to a strong start to 2016, and for the tenth consecutive quarter delivered results in line or better than our guidance. Q1 reflects the ongoing success of our strategy as the premium video market players. To emphasize our conviction in our business we recently announced a \$15 million share repurchase program which we expect to begin when our trading window opens next week.

Our two growth levers, programmatic spend and higher-function buying grew over 70% on a combined basis year-over-year, driving our total spend to \$51.2 million, a 26% increase. Together they accounted for 90% of our total spend, the programmatic contributing 51% of all spend compared to only 18% in the prior-year quarter.

This strong performance reflects an acceleration in the shift of client spend towards our programmatic and higher-function products and away from our legacy media network business. We believe that this trend will continue throughout 2016 as more clients embrace our differentiated platforms. Our sell side platform continues to experience rapid growth and we believe we are the leading innovator in this strategically important space. During the quarter we added several new features designed to give sellers greater control and transparency around the monetization of their properties. Our creative review feature allows sellers to review and approve specific ads that will be displayed on their sites so that they can fully manage their desired user experience, just as networks do in television. We also introduced a feature that enables sellers to better control ad frequency, ensuring that viewers don't experience ad fatigue and optimizing advertising creative diversity.

These enhancements are specifically designed to serve the specialized needs of premium sellers, who want advance tools that tightly control the ad experience without sacrificing their ability to increase yield through programmatic demand channels. We continue to see rapid adoption of our seller platform and recently added partners such as Gawker and Mashable. To underscore our focus on the growth of mobile video, I'm excited to announce that we recently entered into a strategic partnership with Unity Technologies, the leading development platform of 2D, 3D, AR and VR games and experiences. Unity has selected our SSP to power the programmatic monetization of its premium game inventory and we believe the partnership is a unique opportunity given viewer time spent and engagement with mobile games.

On our buy side platform we continue to make investments to further our leadership position in the area of real-time viewability optimization. In Q1 we announced that we are the first Company to integrate the Integral Ad Science quality engine for video to power real time viewability optimization. This unique integration allows our buyer platform to make smarter decisions by collecting viewability of event data and evaluating impressions in real time within the video session. In the quarter we also expanded our partnership with Moat to enable our clients to optimize campaigns with MRC-accredited viewability metrics across mobile devices and apps. This partnership provides our clients access to in-app viewability and audience attention measurement in real time and further strengthens the quality of our algorithm's decision making across all screens.

We continue to increase the sophistication of our higher-function buying products. Our proximity plus targeting when combining with all-screen finds consumers based on real world actions and uses a combination of beacon and mobile geo-location data to know which locations they visit and for how long. Our social affinity targeting is another buying model in which we leverage our technology and data partnerships to target viewers based on active engagement on social networks and uncover mutual connections to create custom targeting channels. We believe that our brand performance capabilities are increasingly extensible into our programmatic products, and will serve as strong differentiators for our self-service business.

In August of last year we announced our acquisition of TVN as a base for our operations in APAC. We've been extremely pleased with the speed and success in which we've been able to integrate TVN into our global operations. We recently furthered our expansion in the region, opening offices in New Zealand and Malaysia. We believe that these markets are ripe for growth as digital advertising spend has not yet caught up with the significant increase in digital video viewing, especially on mobile devices. We will continue to explore opportunities for future international expansion as we look to scale our programmatic platforms.

In an increasingly global manner, clients are using our software platforms as sellers maximizing ad yield, as buyers maximizing brand effectiveness, or as an open marketplace connecting the two. We support clients wherever they buy and sell, whether on a self-service basis turning the dials themselves or on a fully managed basis through our white glove service. In either case they have access to the suite of innovative products that we bring to the marketplace.

Digital video advertising continues to emerge as the pre-eminent global growth market in advertising. Based on our internal projections we see digital video ad spend increasing to over \$62 billion by 2025, a greater than 15% compound annual growth rate. We believe that this exciting market opportunity and our differentiated growth drivers positions us well for future revenue and profit growth.

Now I'd like to turn the call over to John, who'll walk you through the financials before we take questions.

John Rego:

Thanks, Bill. I want to reiterate that we reported results, that for the tenth consecutive quarter were ahead of or in-line with our expectations. Before diving deeper, I'd like to remind everyone of the accounting change that we disclosed last quarter. We determined that revenue from our sell side platform should be booked net of inventory costs, rather than on a gross basis as had been previously reported. Last quarter we began reporting total spend to accompany GAAP revenue in order to enable a reconciliation to our prior disclosure. Total spend is equal to our previous reporting of revenue and is defined as the aggregate growth spend transacted through our platforms.

We calculate total spend by adding back cost of inventory of our SSP to GAAP revenue. We believe that total spend is a very important metric for the Company as it represents the volume of transactions that we support via all of our products. Total spend increased 26% year-over-year to \$51.2 million ahead of our guidance. Revenue of \$34.6 million was in-line with guidance and Adjusted EBITDA of a loss of \$4.2 million was at the upper end of our guidance.

As Bill mentioned earlier, combined programmatic and higher function spend grew over 70% compared to the same period last year, more than offsetting the greater than expected decline in our legacy media network, which decreased 62% compared to the same period last year. Programmatic spend was \$26.1 million in Q1 2016, up more than 3.5 times from Q1 2015. Our higher function products increased to \$20 million, up from \$19.7 million in Q1 of last year. Collectively, these growth drivers represented 90% of our total spend in the first quarter, up from 66% in the same period last year. Our legacy media network only

represented 10% of this quarter's total spend. As we told you last quarter, we expect this business to continue to diminish as a percentage of spend.

Revenue decreased 9% year-over-year to \$34.6 million while our gross profit increased slightly year-over-year to \$16.2 million. Our gross margins increased significantly to 46.9% compared to 42.6% for the prior-year period. The decrease in our revenue and increase in our gross margin largely reflects a shift in the mix of total spend being transacted from our buyer platform, in particular our legacy media network to our seller platform. Revenue from our SSP is book net of inventory cost compared to our buyer platform, which we report on a gross basis.

Shifts in spend towards our SSP therefore result in lower contributions to our GAAP revenue and an increase in our reported gross margins. We believe the change in revenue accounting obscures the true growth of our business and that total spend is a more accurate metric for measuring the adoption of our technology in the market. We've included a slide in the Q1 financial highlights presentation on our website that shows the specific impact of both the accounting change and mix shift on total spend and GAAP revenue.

In the first quarter we reported an Adjusted EBITDA loss of \$4.2 million, essentially flat compared to last year's results. Our net loss in the first quarter was \$11.1 million compared to a net loss of \$7 million in the same quarter in 2015. Basic and diluted net loss per share for the quarter was \$0.21 compared to a loss of \$0.14 per share in Q1 2015. Total core operating expenses for the quarter, excluding non-cash items, increased to \$22.5 million from \$20.1 million in Q1 of last year but decreased as a percentage of total spend to 44% in the quarter from 50% in the first quarter of 2015.

Now before I talk about our outlook I wanted to spend a couple of minutes on our balance sheet. We ended the quarter with \$98.1 million of available liquidity, including \$65.6 million of working capital and our \$32.5 million line of credit. We continue to believe that we will have positive (inaudible) share repurchase program that we expect to execute over an 18 month period. We believe that our strong balance sheet and cash position enable us to return value to shareholders through share repurchases while still affording us the ability to pursue disciplined investments in future growth.

I'd like to finish with our expectations for the second quarter and the full year 2016. As we did last quarter, we're going to provide guidance for three key metrics; total spend, revenue, and Adjusted EBITDA. I want to emphasize that we believe total spend and Adjusted EBITDA represents the best metrics to measure the growth and progress of our business. In Q2, we expect total spend to be in the range of \$57 million to \$59 million; revenue to be in the range of \$39.5 million to \$41.5 million; and Adjusted EBITDA to be between breakeven and \$1 million. We are reiterating our full year guidance for total spend, which is expected to be between \$255 million and \$265 million; revenue to be between \$180 million and \$190 million and Adjusted EBITDA between breakeven and \$5 million. Weighted average basic share count is estimated to be 52.6 million for Q2 and 52.8 million for the year.

In summary, we started 2016 with significant momentum. We believe our programmatic business and propriety higher-function products will continue to drive our business forward. We will now open up the line for some questions.

Operator:

Thank you. At this time, we will conduct a question-and-answer session. If you would 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 your handset before pressing the star keys. Once again, that's star, one at this time. One moment while we poll for our first question.

Our first question comes from Michael Graham with Cannacord. Please proceed with your question. Mr. Graham your line is live.

Austin Moldow:

Hey, it's Austin on for Mike. Just a question on, I know you don't break out the DSP and SSP related revenue. But can you talk about how the two different products performed relative to your expectations in the quarter? Then just second one on your higher function tools being incorporated or being able to be used programmatically in the future. What's that product roadmap look like? Thanks.

John Rego:

Why don't I take this one with Bill? I mean I think often on spending pattern, programmatic is up 258% on the quarter. That's on spend. On the revenue side of the house it's up about 100%. So I think our expectations for programmatic still remain—still are extraordinarily good. At this point we're still not going to breakout between buy side/sell side, but I think Bill might give you some color on the second half of your question.

Bill Day:

Yes even referring—I mean, in terms of expectations and our thoughts, I think as we referenced and as you'll see in some of the slides we provided some additional transparency around revenue, that the legacy media networks declined faster than we thought. So in terms of overall buy side versus sell side, well as John said we don't provide a discrete breakout. I mean we have declared that we had expectations and that it actually declined faster than that. There was a headwind on that side of the business to be perfectly honest. You look at the higher-function buying, the programmatic businesses really grew at 20% revenue growth quarter-over-quarter or year-over-year, I should say, and then you face that headwind and that definitely hurt our revenue growth from that standpoint, but that's a declining business.

That's a business that's now only about \$5 million in the Q and so that's obviously (inaudible) going to get smaller and become less and less material to the business as time goes on. We're still excited about things we're talking about, things like real-time video viewability optimization and the ability to take tools like that, which have historically been high-function buying tools that we've used and sold in. So to be clear, what we're doing there is relatively unique competitively in the market place. The ability to not just work off historical data but use real-time data to refine targeting and optimization, both our integration with IAS and Moat for mobile is really, really unique stuff. So, that, as we said, is entirely indicative of the traditional high function, break the model, create new innovation and new business from that model. We see it an absolute path in something like viewability and real-time viewability optimization, for that they get built into our platform and are used by buyers whether it's platform-as-a-managed service or a self-service basis.

So I continue to believe like there are examples that we will show where we differentiate our products more and more based on that aptitude we have around optimization and high-function buying.

Austin Moldow:

All right.

John Rego:

Austin if you go to the—when you have time to the presentation on our website that accompanies this call, Pages 10 and 11 of that will show you that further breakdown between spend and revenue by the different lines of business.

Operator:

Our next question comes from Brian Fitzgerald with Jefferies. Please proceed with your question.

Brian Fitzgerald:

Thanks guys. A couple of questions, how has the integration of the SSP in the platform maybe increased or impacted your interactions with some of the more premium publishers? Have those relationships kind of evolved, what efficiencies are you seeing there, and then maybe Bill one other one on kind of within these constraints of programmatic video growth and what we think about kind of addressable TV, what are the barriers to adoption there, how quickly can that ramp?

Bill Day:

Great. Happy to talk to both. So I think what you are starting to see now, and it's exciting and I'll use the Unity deal as an example of it, is large premium publishers or publisher platforms, sometimes it's hard to distinguish between the two, but the large platforms are starting to think about using programmatic more strategically, not just simply clearing unsold inventory. So I just think Unity is a great example, it's really, really large. They're a great partner, because they are the market leader, they have over 5 million developers using the platform, that touches a billion users of the games across all those developers. So it's large from that standpoint and that's very interesting to us. They were looking for someone at a different league of scalability, I'll say than some of the other partners we've seen so far, and assessed the platform and made a decision around that.

Then the thing I find really exciting in this case is it's taking the CPI, the cost per install model which has been the majority of the advertising revenue associated with gaming and really looking for now how you complement that revenue stream with brand advertising, our sort of bread and butter. So I think, I don't want to oversell it, it's still early days in terms of the sort of the bigger premium guys. Obviously they still sell a lot of their inventory on an upfront basis. But they're increasingly looking at leveraging platforms like ours to do more and more sophisticated selling and audience selling. I think just the Unity deal, or announcement of Unity I think is a great example of that. It sort of puts an exclamation point on that, on that traction.

The programmatic TV, so as we said, it's not a tomorrow thing. I mean we've really seen the opportunity with television as leveraging optimization, not just workflow, which means it's code for saying, it's hard, not easy, because optimization means you have to get access to data and then it involves also looking at how the plumbing works traditionally, and how that can coexist and connect to the plumbing that powers digital video right now. We continue to feel like this is much more of a second half of 2017 contributor, which doesn't mean we're not investing and building the capability now, but laying things out. I think in term of being material for the business I continue to think it's 18 months, we have right now for it to be material for the business. There may be ways to penetrate aspects of the linear market prior to then, but that will involve doing something simpler than what we ultimately aspire to.

We aspire to integrate linear into everything we do from a buying/selling standpoint rather having it as a separate channel and having it very, very integrated. That said as we think about growth drivers for this year I think one of the takeaways from Q1 is we're exactly where we wanted to be, between 25% and 30% growth. Our guidance set for Q2 is the high end is 30% total spend growth. The real catalyst for growth this year probably into the beginning of next year are programmatic video. We're still making programmatic video work on the buy and the sell side and scaling that up. We are still super bullish about

that and mobile video. I mean mobile continues to grow and very important component of what we do and I think again the Unity deal only underscores our commitment to being a leader in mobile video going forward. Brian is that helpful?

Brian Fitzgerald:

Yes, no, it's very helpful. Thanks Bill.

Operator:

Thank you. Our next question comes from Murali Sankar with Boenning & Scattergood. Please proceed with your question

Murali Sankar:

Hi, I wanted to ask, I think, two questions. One, related to what you're talking about in terms of upfront purchases. With the new fronts underway, video's getting broader and broader attention, how do you see the impact of larger and more upfront commitments to your position in the industry? Does it run counter to the notion of programmatic? As programmatic becomes a larger portion of your spend how do you think about managing your balance sheet since you, on the receivable side, take more risk than you would get in, at least in, GAAP revenues? How do you think about that?

Bill Day:

I'll let John talk to the second one. For the first one, I think the upfront in video; it's a component of what happened. I don't want to assume it's going to be the majority of the component with the industry never mind for us. I continue to feel like there this creative tension between the traditional upfront environment that television's really circulated around. But as a reminder I mean a large amount of television isn't sold for the upfront, and then sort of real-time optimization, the sort of real time immediacy and flexibility that programmatic video provides. So our focus has been on programmatic video. Certainly we have upfront commitments with some partners. But we've never represented being like a large chunk of how we operate and I think as we become more and more programmatic we've seen I think a consistency of spend, a consistency between either our demand as it becomes more programmatic or the partner demand through all the other DSPs that we've integrated with.

There is consistency of spend to programmatic that creates a degree of visibility that is improvement frankly over what we've had historically through some of the legacy network business. But I don't think that becomes an upfront. I don't think that the majority of the dollars get traded in the upfront Google and YouTube, Facebook have an O&O that's large enough, I think to command that sort of attention and it will be something that they can capitalize on but even for them it's probably not the majority of how they'll earn their revenue in video and certainly not for us. John, any comments about whether the receivables you're seeing any difference in receivables from the programmatic versus non-programmatic?

John Rego:

Yes, no, and I think couple of things to point out, when our customers be, no matter what side of the business side that they're on, they're premium players with really good credit ratings. Our DSO remains slightly south of 90 days that's where it's been from almost inception. I've got a credit and collection team here that does a really fine job as you will note by the lack of bad debt on my financial statements. So I don't really feel any pressure or attention there and I don't think it's anything that I'm too concerned about perspectively.

Murali Sankar:

Okay, thank you.

Operator:

Thank you. At this time I would like to turn the call back over to Mr. Bill Day for closing comments.

Bill Day:

Okay so thank you very much everyone for joining us today. As I said at the beginning of the call we're very pleased with our results, starting out the year strongly. Our programmatic and higher function products continue to demonstrate the strength of our business as the premium video marketplace. Look forward to speaking with many of you over the coming months and weeks.

Operator:

Thank you. This does conclude today's teleconference. Thank you for your participation, and have a great day.