Tremor Video
Fourth Quarter 2013 Earnings
February 20, 2014

Operator: Greetings, and welcome to the Tremor Video Fourth Quarter 2013 Earnings Conference. 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, Senior Director of Investor Relations for Tremor Video. Thank you. You may begin.

Andrew Posen: Good afternoon. Welcome to Tremor Video's Fourth Quarter 2013 Earnings Call. Joining me today to discuss our results are Bill Day, President and CEO, and Todd Sloan, CFO.

Before we begin, I'd 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-Q filed with the SEC on November 14th, 2013, and future filings and reports by the Company, including its annual report on Form 10-K for the year ended December 13th, 2013.

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 Fourth Quarter 2013 Earnings Call. I am pleased with our announced results that were meaningfully ahead of our updated guidance on revenue and ahead of guidance on adjusted EBITDA.

In Q4 we reported 36.3 million in revenue due to increased demand for our products in the second half of the quarter, a 12% increase from last year. Our annual revenue grew approximately 25% overall and 29% for in-stream revenue from 2012. We continue to believe that the best way to judge our business is on an annual basis, not quarterly.

We are pleased that our annual revenue results supported our 2013 goal of growing at the market or better. For the quarter, adjusted EBITDA was a loss of $1.5 million, reflecting our ongoing effort to drive operating leverage, offset by the gross margin impact of campaigns targeted on demographics or demo buying. The speed bump we referenced in our Q3 earnings call driven by the delayed TV upfronts was just that, and productivity improved throughout the remainder of Q4.

Our ability to optimize demo targeted campaigns has continued to improve such that we are now in a position to benefit from increased demand from TV buyers for demo buys. We expect this to continue throughout 2014 as agencies seek high-quality online video partners like Tremor Video to underpin their joint TV online video buying initiatives.

But improving the performance of demo buys is only part of our strategy. We have also been working with clients to extend their buying practices past demographics which target a proxy for their customer and take advantage of our performance-based products that target and pay only for reaching their actual customer.

In the fourth quarter, 25% of revenue was from performance-based products, an absolute dollar increase of 13% from the same period last year. A particular note, our introduction of Cost Per Viewable & Complete, or CPV&C, has been well-received by large brand advertisers such as AT&T and Comedy Central.

I'm also pleased to report that we continue to see great success in mobile. In the fourth quarter, rates for mobile remained higher than those for decked (ph) out video, consistent with our prior performance. Mobile revenue increased 69% from Q3 2013 and comprised 15% of total revenue in Q4. Thirty-seven percent of total Q4 revenue was derived from campaigns that included a mobile component. To support this growth, we continue to expand our premium content and publisher partnerships across all screens.

In Q4, we announced our exclusive partnership with Meredith Digital which includes premium inventories such as Allrecipes.com, BHG.com, and Parents.com. In addition to Meredith, we added Sony Crackle and USA Today Sports as exclusive partners, as well as premium partners such as Time Inc. and Fox Sports. Many of these partnerships cover desktop and mobile video, and in some cases connect to television.

We have also continued to expanding programmatic buying capabilities on the Tremor Video Network. We recently signed agreements with Adap.tv, Rocket Fuel and, Converse-in (ph), adding to the number of demands sources that will be able to buy programmatically through our network.

In summary, we believe that our success in Q4 leaves us strategically well-positioned to continue to deliver high-quality revenue growth that is increasingly driven by programmatic and performance-based climb (ph).

Last quarter I discussed our key initiatives for 2014. I want to update you on our progress on those initiatives and describe how they underpin our strategy and growth expectations.

In our view, digital media planters largely power the $4 billion of US online video advertising in 2013. The TV buyers, who have very different requirements than their digital counterparts, will increasingly contribute to the projected $8 billion video market in 2016. Beyond reaching the audience, these TV buyers specifically look for three things in online video: brand performance measurement optimization, premium placements and transparency and programmatic workflow.

Tremor Video has a track record of innovations for brand performance because we believe that marketers and agencies want more insight into brand effectiveness and creative performance.

In the fourth quarter, we added several new performance-based pricing models where advertisers only pay when their campaigns achieve measureable brand results. In addition to CBV&C, we added CBS, or Cost Per Shift, where advertisers are charged only when a consumer's brand favorability has positively shifted. We also added CPQ, our Cost Per Ton Quest, a pricing structure where advertisers pay only when a consumer's intent for a brand has been shifted from the direct competitive set.

Consistent with our screen agnostic approach, advertisers can now also take advantage of these new products in mobile. There's no greater indicator of the efficacy of our technology than our performance-based buying models. That's why we will soon offer brand advertisers the ability to buy per brand performance, both within and outside the Tremor Video Network through our recently announced DSP video connect, which is in beta test progressing towards launch. For many TV buyers, demo targeting is brand performance.

In the period since our last earnings call we have significantly improved our capabilities to optimize on demo targeting and now have greater access to the increasing TV budgets that are crossing over into streaming video. We believe we can convert demo buyers to performance-based buyers over time, similar to how we sold performance-based buying to digital buyers over the last two years.

The second key measure that TV buyers look for is premium and transparent ad placement. As I mentioned earlier, we are now replicating our desktop video lead by adding exclusive and premium partners in mobile video connected television. In addition, brand buyers have traditionally demanded transparency into the performance and placement of their ads. As you know, we offer complete transparency into where an advertiser's campaign runs and recently announced that we will provide viewability metrics as part of our standard reporting for every campaign.

We're the only company to be accredited for viewability measurements in digital video by the Media Ratings Council. Our high level of transparency ensures clients that their ads are being viewed for an entire duration, and as a result it re-enforces the fact that our media effort operates more like a buying platform than the traditional black box ad networks and displaying video.

The third item that TV buyers will require is programmatic workflow. Online video buying must be made simpler and more cost effective to allow buyers to be agnostic as to whether the ad runs in streaming video or TV. Our recently announced DSP for brand metrics, VideoHub Connect, and our continued expansion programmatic partnerships on the Tremor Video Network underscore our commitment to improving programmatic workflow. Through our programmatic investments we will soon have a full stack solution in a market that includes ad serving, analytics and buying that can be offered on either a managed or self-service basis.

When combined, these three requirements define premium programmatic. We believe that Tremor Video's premium relationship and technology platform initiatives will make us a leader in premium programmatic. This allows us to serve the needs of the TV buyers to increasingly contribute to that growth of online video market towards the projected $8 billion in 2016. We expect that 2014 will be a year of strong growth and aggressive investment for Tremor Video as we expand our offerings to be fully programmatic and build on our leadership providing premium solutions for brand advertisers.

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

Todd Sloan: Thanks, Bill. Thanks everyone for joining us today as we share our Q4 and full-year highlights and financial results. We let me spend a few minutes walking you through the drivers of the quarter before provide guidance for 2014.

The targets (ph) for this quarter were meaningfully higher than our expectations when we spoke to you last quarter. Our revenue for Q4 was 36.3 million, an increase of 12% compared to 32.5 million in Q4 last year. On a comparative basis, in-stream revenue was 35.5 million, an increase of 19% compared to 29.9 million in Q4 last year, which excludes in-banner and political advertising.

Performance-based pricing revenue was 25% of total revenue, down from mid-30s earlier in the year, reflecting in part the shift towards demo-based buying in the second half of the year. The change in the revenue mix from performance-based pricing to demo-based buying, negatively contributed to our gross margin which was 34% for the quarter.

As we deliver against demo buying, we are continuing to implement the number of initiatives geared towards improving the margin performance for these buys and we are seeing positive results in the beginning of this year.

Mobile revenue was 15% of total revenue in the quarter compared to 8% of revenue in the same quarter last year. Our revenue for the full-year was 131.8 million, an increase of 25.3% compared to 105.2 million in 2012. On a comparative basis, in-stream revenue was 128.2 million, an increase of 31% compared to 98.2 million in 2012 which excludes in-banner and political advertising.

Adjusted EBITDA was a loss of 1.5 million in the quarter compared to adjusted EBITDA of 1.3 million in Q4 of 2012. Net loss was 5.8 million, as compared to net loss of 1.1 million in the fourth quarter of 2012. Basic and diluted net loss per share was $0.12 compared to a net loss per share $0.14 in Q4 2012. Non-GAAP basic and diluted adjusted EBITDA per share was a loss of $0.03 per share compared to $0.17 basic and $0.03 diluted per share for Q4 2012. Basic and diluted net loss per share for Q4 2013 is based on 49.8 million weighted average shares of common stock outstanding, as of December 31st, 2013.

I'd like to highlight a few non-financial operating metrics driving our financial results. Our media revenue was influenced by impression volume and we did see impression volume increase by 30% in Q4 this year versus Q4 2012. Including demo-based campaigns, eCPMs declined by 14% compared to the prior year period, excluding campaigns bought with demo guarantees, our CPM's were generally consistent in Q4 compared to the same period a year ago. We also continued to see pricing in mobile higher than that of online pricing. We saw impression volume in our Licensing business grow 164% in Q4 this year versus last year.

Now I'd like to discuss some of our operating expense metrics. Our opportunity expenses increased during the quarter reflecting the growth of the Company, as well as investment we made in our platform and our people, including the addition of a team from Oplex (ph) in December to enhance our programmatic solutions. We continue to focus on investing in technology and increasing efficiencies in our sales and marketing and G&A functions as our business grows.

Total operating expense including stock-based compensation was 18.1 million for the quarter or 50% of revenue, as compared to 15.6 million or 48% of revenue in the same period last year due to costs associated with the growth of our Company and higher operating costs as a public company. Technology and development costs were 3.3 million for the quarter or 9% of revenue compared to 2.3 million in the same period last year or 7% of revenue. Sales and marketing costs were 10.2 million for the quarter or 28% of revenue compared to 9 million in the same period a year ago 28% of revenue. G&A expenses increased less than 2% over the same quarter in the prior year from 2.8 million or 9% of revenue to 2.9 million or 8% of revenue due to higher operating costs from being a public company, offset by the continued leverage of our G&A costs.

As of December 2013, we had 291 employees, increasing 16% from 215 at year-end 2012 which is consistent with our hiring plans as we continue to invest in our Product, Technology and Platform Teams. We ended the fourth quarter with 92.7 million in cash, cash equivalents and short-term investments compared to 96.3 million at the end of the prior quarter and 32.5 million at the end of 2012. Our net cash generated by operating activities for the year was 900,000 compared to a loss of 5.1 million for 2012 which reflects a shift from burning cash in operations during 2012 to generate positive cash flow in 2013.

I'd like to finish our call with our thoughts regarding financial expectations for the first quarter and full-year 2014. Bill spoke to the key drivers of our business and how we are well-positioned for 2014 as we continue to capture the opportunity of the market and become more fully programmatic, improve our performance with demo targeted buying and increase our penetration with performance-based buying. That translates into how we set our guidance for the year and for the first quarter.

We see four major spending patterns that will drive our results: standard CPM buying, performance-based buying, demo targeted buying and premium programmatic buying. Each of these has different revenue and margin profiles and we have been working to leverage our platform to generate consistent returns across all four categories. We are continuing to innovate and develop products in each of the four categories to access video spent however advertisers look to buy.

For the first quarter, we expect revenue to be in the range of 29 to 31 million and non-GAAP adjusted EBITDA in the range of a loss of 7.5 million to 6.5 million. Weighted average basic share count is estimated to be 50.4 million for the quarter. For the full-year we expect revenue to be in the range of 155 million to 160 million. We expect non-GAAP adjusted EBITDA loss for the year to be in the range of 11 to 8 million. While we estimate revenue to increase, it will be partially offset by increased investment in our development efforts and annualization of public company costs. Weighted average basic share count is estimated to be 51 million for the full-year.

In summary, we believe that the foundation we have built and the investments we are making put us in a great position for 2014. Thank you for joining us today. We will now open the line for questions. Operator?

Operator: Thank you. Ladies and gentlemen, at this time we will be conducting our 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 that your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For any participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

Our first question is coming from the line of Mr. Stephen Ju with Credit Suisse. Your line is now open. You may proceed with your question.

Stephen Ju: Hey, thank you. Hey, guys. So I'm struggling a little bit to reconcile your top and bottom line guidance for first quarter in the year. Seems like you're implying that CPMs are starting to recover in the first quarter. I guess sequentially (ph) at least, but in order to get to your EBITDA guidance it seems like you're assuming I guess the continued higher incidences as demo buying and hence (ph) an elevated media costs (ph) as a result. And, Todd, I mean you're offering full-year guidance here for 2014. I mean, what gives you the confidence to offer that long a perspective? Thanks.

Todd Sloan: Yes, so we're obviously projecting revenue to increase for, you know, with the range going from 21 to 29, so that's a nice increase over 2013 first quarter. You know, but as we continue to operate in these different products, you know, demo-based buying is considered to be part of our future and it is margin challenged, but we're continuing to operate pretty well within it and we're generating better results in Q1 than we have in the past. So, you know, when you look at the sequential from Q4 to Q1, there is always seasonality for us, so revenue's down year-over-year, but our operating expense base is pretty fixed, so it's a natural flow when you're seeing less revenue, less margin compared to Q4 that sits over a fixed operating expense base going from Q4 to Q1. You know, that puts some pressure on EBITDA.

Operator: Thank you. Our next question is coming from the line of Mr. Brian Pitz with Jefferies. Your line is now open. You may proceed with your question.

Brian Pitz: Thanks, guys. Can you talk to any new wins with publishers or advertisers and any—and how about any renewals on exclusive relationships that you have compared to what you had a couple of quarters ago? Then I've got a quick follow-up.

Bill Day: Yes, hey. It's Bill. Yes, so as I mentioned in the script, Meredith Digital, USA Today Sports, Time Inc.—we've had a number of wins that are, both, some exclusive and some nonexclusive, so we continue to rack them up and not lose them. The renewals we have—our space down and, again, pretty much later in the year from 2014—a number of our key agreements, as you know, were even in our third or fourth year of renewing and the publishers I think work with us for a lot of reasons that right now relate to us being the best partner for them from a sales standpoint and we think that, as we've said in the past, our ability to work to broaden that value equation to include platform support for their direct sales team as well as evident initially by our video for publishers offering that some of these publishers are licensing right now, is a really good tool for us to continue to make success. So again, in summary, I think we announced (ph) five or six new publisher partners in the quarter and I think very strong momentum around expanding the relationships with existing partners and renewals. Does that get to your question, Brian?

Brian Pitz: Yes. Yes. No, that's—earlier in the call. And then is there a way to really count how much of the traffic within network is coming from mobile and what those trends are? I know—it sounded, you know, it sounded more favorable, but if you could give us a little more color there; I think, Todd, you mentioned before the mobile pricing is higher than overall.

Bill Day: Yes. That's something we have said consistently, right, that we've been able to generate mobile pricing higher now for probably four quarters in a row, and so we are very lean toward with respect to mobile. Mobile to some extent is a stronger environment for our technology that adds value to both buyers and sellers; it's a more complicated fragmented environment and so growth—I mean, look, we're putting 15% in Q4. The market is forecasting a little bit over 30% by 2016 according to third parties, so we see ourselves growing faster right now in terms of driving adoption that then the pace of the overall market in mobile.

And the fact that over a third of our campaigns included some element of mobile where there's 100% mobile or a small percent mobile in 2000—in Q4 of 2013, I think, again is another strong statement that it's really getting included in a lot of what we do. On a platform side of the business, our intent is that the platforms we talk about, whether it's VideoHub Connect and DSC (ph) platforms, things like that, will be eventually mobile supporting as well. So everything we've do on a platform side is also designed to support mobile as well as online video.

Brian Pitz: Great. Thanks for the color guys. Appreciate it.

Bill Day: Okay.

Operator: Thank you. Our next question is coming from the line of Mr. Jason Helfstein with Oppenheimer. The line is now open. You may proceed with your question.

Jason Helfstein: Thanks. Two questions. The first, can you just go into a little more detail about the timing of the full-service programmatic offering; kind of when you expect that to be I guess in both kind of platform and full market deployment. Then secondly, just help us understand the cap ex outlook for 2014.

Bill Day: Sure. So I'll take the first part. So VideoHub Connect is the product that's being beta tested right now which means it's operational with nearly all the features we expect to launch. It's just a question of ramping out the test and the initial relationships. A number of demands partners for VideoHub Connect are in place and operational right now. One example, we mentioned in the past is Google AdX, but we've also mentioned SpotXchange Live Rail. From that standpoint, we expect that tests run a number of months and that launch occur before the end of the second quarter.

Todd Sloan: Yes, and on cap ex, Jason—so we're not a big cap ex spender. We spend less than a couple million dollars a year. We do see as we move into the programmatic offerings that, you know, we're going to be expanding some of our cap ex, but again, it's not, you know, of a real material consequence any of our cash balance, but, you know, adding data centers, some further cases, things like that with boxes in there, that's absolutely part of the plan, but it's not of real consequence.

Jason Helfstein: Just a quick follow-up. How much of self-serve, the programmatic is in the guidance?

Todd Sloan: So I'd like—so generally speaking—and I do want to go back to the second question that Stephen asked which is comparable to what you're asking as well. You know, so yes, we have new product offerings that are coming to market and coming to market, you know, in the second quarter as we've discussed all along. I would say that, you know, we're remaining relatively conservative there. They're new. We're looking—we're obviously aggressively out there beta testing and gaining some adoption there, but I'm going to stay very conservative on that side for now.

Jason Helfstein: Okay. Thanks.

Todd Sloan: And sort of to come back to Stephen's question—I apologize, Stephen, I—you know, we didn't get to answer your second question. So the question being, you know, visibility; what gives us that confidence? So you know we have consistently seen very strong relationships with the advertiser community and the agency community and that's, you know, credit to our sales team and we've obviously won awards in terms of being number one as recognized by the advertising community. So those relationships are very solid. We have, you know—and they're very open to our effective product offerings if you will, so, you know, we've got great products in market and more products are coming, strong relationships and that's really what gives us the confidence to project out into the balance of 2014.

Bill Day: Yes, and I'll just reiterate or at least add to Todd's comment that that's been a truism and really when we spoke at the end of Q3 we referenced it as a speed bump where what we're seeing in the market with respect to visibility was very different than what we've seen. As I said in my prepared comments, you know, I think in hindsight that turned out to be exactly the case. We—you know, the business has gotten better from that standpoint of visibility as Todd said, we have a number of strong initiatives underway that give us that confidence.

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

Bill Day: We would just as always thank you for your support and questions and we look forward to talking to many of you over the next several weeks.

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