VIAVID communications simplified.

Tremor Video

Second Quarter 2015 Earnings Conference Call

August 06, 2015

CORPORATE PARTICIPANTS

Andrew Posen, *Senior Director, Investor Relations*

Bill Day, *Chief Executive Officer*

CONFERENCE CALL PARTICIPANTS

Jason Helfstein, *Oppenheimer & Co.*

Brian Fitzgerald, *Jefferies & Co.*

Yoni Yadgaran, *Credit Suisse*

Michael Graham, *Canaccord Genuity*

PRESENTATION

Operator:

Greetings and welcome to the Tremor Video Second Quarter 2015 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 press star, zero on your telephone keypad. As a reminder this conference is been recorded. I would now like to turn the conference over to your host, Mr. Andrew Posen, Senior Director of Investor Relations. Thank you. You may begin.

Andrew Posen:

Good afternoon. Welcome to Tremor Video's second quarter 2015 earnings call. Joining me today to discuss our results is Bill Day, President and CEO.

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 16, 2015, and 10-Q filed with the SEC on May 11, 2015, as well as future filings and reports by the Company, including its Form 10-Q for the period ended June 30, 2015.

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

Bill Day:

Thanks, Andrew and welcome to our second quarter 2015 earnings call. The results that we're reporting today speak to the continued execution of our strategy as the premium video market players. We reported record revenue of $46.1 million and record gross profit of $18 million for the quarter. Our Adjusted EBITDA was a loss of $1.3 million and ahead of our guidance as we continue to be on track to achieving our global of run rate breakeven by the end of the year.

This morning we announced the expansion of our platform into the Asia Pacific market with the acquisition of TVN, a leading provider of Programmatic Video Advertising Solutions in the region. We also announced that we have hired a new CFO who'll continue to drive the execution of our strategy. John Rego will be joining us in early September. John is a seasoned finance executive with more than 30 year's experience, he is the former CFO of Vonage and AppSense and currently the CFO of Virgin Galactic. He will make a great addition to our Team.

Our results today reflect the continued momentum in our Programmatic business, which is growing steadily, representing more in 30% of our revenue in Q2, up from 18% in Q1 and 6% in Q2 last year. We are also seeing continued strength in our proprietary higher functioning All-Screen performance-based products which are growing rapidly and accelerating their financial contribution. This quarter, Performance Based products represented 33% of our revenue, the largest percentage contribution since Q2, 2013. Our All-Screen product represented 47% of our revenue in Q2, 2015, up from 21% in Q2, 2014, its first quarter of availability. Eliminating any overlap performance-based product and all screen combined represented 58% of our total revenue in the quarter.

We saw significant growth from clients who have previously spent using one product or the other but are now combining the benefits of the two, using All-Screen to buy performance-based products. Together, these innovative products represent a powerful use of our data and technology, where advertisers are able to set a single campaign goal and take only for guaranteed results while our technology finds the right viewer in real time on whenever screen they're watching video.

Revenue for campaigns using performance-based buying across all screens grew 33% in absolute dollars sequentially from last quarter. This speaks to our ability to offer buyers innovative and differentiated products that command premium pricing. It also demonstrates Tremor Video's ability to leverage the increasing viewer adoption in Mobile Video into brand centric solution our clients crave.

Our publisher platform continues to demonstrate strong traction with over 150 publishers currently live on our SSP, more than double that from last quarter. We remain focused on expanding our deep relationships with premium content providers as evidenced by the addition of Bloomberg and Tribune Publishing to our platform and renewals of our exclusive deals with World Wrestling Entertainment and NBC Local.

This morning we announced another milestone for Tremor Video, our acquisition of Australian-based TVN, a leading provider of Programmatic Video Solutions in the Asia Pacific region. Founded in 2010, TVN has 14 employees and offices located in Sydney, Melbourne and Singapore. They conduct business in nine countries. Like us, they are focused entirely on video and have developed deep relationships with some of the largest premium publishers in that region. The acquisition represents our interest in the high growth APAC advertising market and we believe creates a powerful combination of TVN's recognized Programmatic expertise and our SSP platform.

Let's turn to the financials now. Our second quarter continued the solid trends that we saw at the beginning of the year. Q2 revenue of $46.1 million was a record and increased 5% compared to $43.7 million in Q2 last year, the prior record. Revenue through the first six months of the year was $86.7 million, an increase of 10% from the first six months of 2014. In addition to our record revenue this quarter, we also reported record gross profit of $18 million, up 22% from Q2 2014 and gross profit of $34.2 million through the first six months of the year, up 28% from the first six months of 2014.

Programmatic revenue increased throughout the year contributing 30% of revenue for the quarter and 25% through the first six months of 2015. Our gross margin for the quarter increased to 39% compared to 34% in Q2 2014 as continued improvements in execution and greater contribution from our proprietary higher functioning products, more than offset typically lower take rates from Programmatic platforms. As a result eCPMs for guaranteed buys were 20% higher than the prior year quarter.

Adjusted EBITDA for Q2 was a loss of $1.3 million, ahead of our guidance and was better than the Adjusted EBITDA loss of $2.3 million in Q2, 2014.

Net loss in the first quarter was $5.2 million, compared to—in Q2, 2015 was $5.2 million compared to a net loss of $5.4 million in Q2, 2014. Basic and diluted net loss per share for the quarter was $0.10 compared to a loss of $0.11 per share in Q2, 2014.

In Q2 2015 Adjusted EBITDA per share was a loss of $0.03 compared to a loss of $0.05 per share in Q2, 2014. Total operating expenses for the quarter increased in absolute dollars to $23.1 million from $20.1 million, and as a percent of revenue for 50% in the quarter from 46% in 2014.

The increase in our operating expenses predominantly due to the headcount that we add in the first half of 2014 to support our new Programmatic platforms. We've largely kept our headcount flat since the middle of last year while growing revenue which demonstrates the quality of our technology and highlights our ability to generate operating leverage in the business.

I'd like to finish our call with our thoughts regarding Q3 and our expectations for 2015. We expect that our Q3 revenue will be in the range of $49 million to $52 million and then non-GAAP Adjusted EBITDA will be in the range of a loss between $1 million and $3 million. We are reiterating our guidance for the full year with revenue in the range of $195 million to 200 million and non-GAAP Adjusted EBITDA for the year of loss of $3 million to $7 million. Our guidance for 2015 reflects a sequential growth in our Programmatic offerings as well as the more typical seasonal spending pattern that is heavily weighted towards Q3 and Q4.

As our Q2 Adjusted EBITDA results show and our guidance illustrates, we expect to achieve positive Adjusted EBITDA by year end. We will include the results of our TVN acquisition in our financials going forward in Q3 and Q4 2015. We do not believe that this acquisition will materially impact our results relative to our guidance. Weighted average basic share count is estimated to be $51.8 million for Q3 and $51.7 million for the year.

In summary, Q2 was another strong quarter highlighting our ability to deliver on our guidance and execute on our strategy as the Premium Video Marketplace. We are seeing momentum in our Programmatic business and further traction with our proprietary higher functioning, higher margin products. We welcome John Rego as our new CFO and look forward to his participation in the Q3 earnings call.

We'll now open the line for questions.

Operator:

At this time we'll be conducting a question-and-answer session. If you would like to ask a question press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may push 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. One moment please while we poll for questions.

The first question comes from the line of Jason Helfstein from Oppenheimer. Please proceed with your question.

Jason Helfstein:

Thanks. A few questions. So I figure I'll start with revenue so just to be clear, the 21% revenue is Programmatic, you're booking that as net, I think, and so if that's the case why aren't we seeing kind of more of an improvement in gross margin. So maybe just can you talk about kind of what were the drivers for gross margin in the quarter, given again more Programmatic, more licensing, I think would help gross margin? Maybe I'll just go one at the time, so let`s just go on with that?

Bill Day:

Yes, I mean just to clarify, with 30% Programmatic spend in Q2 and net booked gross, not net. So we don't book Programmatic expense—Programmatic revenue net, we book it gross.

Jason Helfstein:

Okay, and then the guidance does suggest you're making a pretty big bet on the fourth quarter revenues and margins. So can you talk about where your confidence is coming from for the servicing revenue and I assume the leverage is coming from COGS and sales and marketing?

Bill Day:

You're talking about -- It's specifically about revenue or about—specifically about revenue or about…

Jason Helfstein:

Well both. I mean the guidance assumes revenue really accelerates, right and then EBITDA guidance also assumes a better margin, so just want some of the dynamics specifically for fourth quarter?

Bill Day:

Yes. Starting with the revenue, right. I think as we said, I think in the past our focus is always across the year and spending across the year as opposed to across the quarter typically, and I think as we've expected this year we expect to see a larger percent of contribution in Q3 and Q4 than we have in the prior year and that continues to be the case. I think our guidance for Q3 reflects that, based on those numbers would suggest about a 25% to 30% growth rate over Q3 of last year and even expected stronger than that in Q4.

So that's one thing. The traditional business we see, it's more seasonally skewing this year. Again I think I made the point in the last earnings call that sometimes this is just driven by product introductions, and things that clients do. They don't necessarily spend in the same timing in last year that they will, based on different needs of their business. The second thing I think to overlay on top of that is the impact of our Programmatic growth, and so you take the traditional business that it's skewing that way combined with the fact that we expect to see increasing contribution from Programmatic throughout the year quarterly. These (inaudible) the revenue expectations we put forward in guidance.

From an operating leverage standpoints then I think you take that guidance from revenue standpoint you play it against gross margin expectations that we have and continued, I think OpEx, leverage that we see here somewhat driven by Programmatic and the ability to run the business more efficiently from a Programmatic, leveraging the Programmatic tools ourselves, somewhat driven by just, I think, strong financial controls and you get the outcomes in our guidance.

Jason Helfstein:

So then one more big picture and then just a housekeeping on the acquisition. So why you think clients choose to put inventory on your SSP versus others and then typically how many SSPs do you think like the typical client is using at once? Then the other question. Just the acquisition does that have any revenue impact on the third or fourth quarter?

Bill Day:

All right. So I am taking notes, there are couple of things there. As far with the SSP, we believe right now clients, and we know clients are using multiple SSPs, but we believe overtime that will probably consolidate to a single video SSP. We believe that video is different than display, and so that the SSPs in display can have tremendous success but will have a hard time performing well in video and catering to the needs of video publishers because their needs are so different. So our goal clearly as a Company is to be long-term that video SSP partner for, at least the premium end of the market, the publishers we have historically excelled with. The differentiating factors then really come down to the root technology and then capabilities that we've learned through our premium business. So the technology comes down to scalability, speed, products, so we recently just in the last week have announced real time data, so its ability on a real time basis for people to make changes in how they print our inventory for it and see the immediate impact and the option to how those changes impact of revenue as a product.

So I think technology is the chunk of that and to some extent there is an advantage being a newer entrant to Internet space because we've been able to build our SSP on top of the latest technology compared to competitors whose technology is relatively older. The other thing is the inter-play between our SSP and our media business. So our media business, if you will, the demand side of our business and the relationships we've had for years with these premium publishers have, I think, given us a tremendous advantage to do two things right, build the trust factor that allows us to be the partner they want to work with, to understand how to leverage Programmatic, and also allows us the package relationships between our demand, that we bring to the equation and our partner demand so that we have the most compelling revenue opportunity for the publisher.

TVN impact, I think the best way to think about TVN from a financial standpoint is that it's a small company. So its strategic value to the Company exceeds like potential (phon) value and particularly we think about because the financials are strong, we didn't buy for its—current sort of financial progress, if you will. We bought it because we believe that TVN in combination with our capabilities and our SSP is where the magic's really to going to happen and you're going to unleash the financial impact. That's probably, we don't see that sort of magic as the rest of this year, really focused on integration, we don't expect to see that magic particularly this year. I think really when it's all said and done it's incorporated deeply into how we run our Programmatic product here so the way you'll see the impact of TVN is just increasing acceleration of our Programmatic traction as a businesses.

Nonetheless they do generate some revenue, and so we believe pretty comfortably that while their is revenue small, it'll cover their OpEx and so we also feel comfortable that they're not going to sort of increase our burn in any way from an EBITDA standpoint, and that gives us the comfort around the EBITDA guidance we provided as well, hope that helps Jason.

Jason Helfstein:

Yes, no it's good. Thank you.

Operator:

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

Brian Fitzgerald:

Thanks. Maybe a little bit more on the TVN acquisition. It's a sign of your continued focus on international expansion. You've mentioned before that the market is developing internationally well. Can you give us some more color on the state of Programmatic Video Adoption outside of the US, maybe relative to what you saw happen in the US and then a couple of other follow-ups?

Bill Day:

Yes, I think one of the big catalysts, I think for this year beyond just the development of market is really our ability to have those Programmatic platforms in market. So it allows us to open up new markets we think in a capital efficient way and/or do acquisitions or create partnerships to open those markets. So that was one thing that's sort of specific to our Company and why we've been turning up the heat there. I think the other thing that's gone on in the market themselves is that we've seen markets that a year or two ago were small and to some extent slow at adopting Programmatic, they sort of functioned in a way that sort of the business has always happened. Have become much more rapid adopters of Programmatic. In fact we believe that Australia is actually a bit more lean toward the actual adoption of Programmatic than US.

So it's a smaller market but it fits sort of the characteristics around aAoption that we find really exciting. So that combined with the ability to partner with the TVN Team now has gotten us really excited about our ability to have much bigger impact in Australia.

Brian Fitzgerald:

Great, and then my kind of follow-up was, two really. As a percentage of your business, where do you see performance-based pricing going longer-term, what's a mature kind of percentage that's performance based? Maybe the same for your All-Screen product, does that reached an 80:20 rule? Thanks.

Bill Day:

Yes, so I think the way I saw—I'll share how we think about it internally because I think it's helpful, from an internal standpoint too. As we've been communicating the last couple of quarters, we communicate not only each independently but the overlap between the two, we reported there was 58% of all revenue was associated with either our performance-based product, All-Screen or both. Importantly that or both category has grown 33% sequentially quarter-to-quarter. So we see clients not only adopting it but they are sort of deepening their commitment through adopting multiple layers, if you will, which makes them, we believe even stickier and more special. It will grow more. We don't provide any specific guidance, we definitely believe there is more headroom there, there are also reasons why it won't go to 100% of revenue, particularly as Programmatic comes on, but because it—and I'll expand on that actually because Programmatic to some extent is not as powerful because of its open nature, that it's based on open RTB.

So our strategic value as a Company, I think is continue to figure out how we do those things like All-Screen and drive them into the Programmatic platforms in a way that advantages us across the Board and so you see that, an example of that in our DSP, is the ability to take viewability. So one performance-based product we have is ability to pay only for viewable impressions, and take that capability and drive that into our DSP so that our DSP platform for buyers allows buyers to optimize on viewability, not just buy for viewability but optimize against viewability which we believe we are the only DSP out there with that capability.

Is that helpful, I know I am not giving you a specific number. We definitely see it is as something we can continue to grow but not to the extent where it will become near 100%.

Brian Fitzgerald:

No, that's very helpful.

Operator:

Our next question comes from the line of Yoni Yadgaran from Credit Suisse. Please go ahead with your question.

Yoni Yadgaran:

Hey, guys. So over to last quarter or two we've definitely seen the OTT space heat up to an extent with content owners warming up to the notion of essentially kind of monetizing their content online via a subscription model. Any thoughts on whether that will evolve to more of a hybrid ad driven model as well, and that timeframe? Then as a follow-up where do you think Tremor is kind of positioned in that type of environment where some of the publishers that you guys are already working with for their online sites would potentially be partners in monetizing their OTT offerings?

Bill Day:

Great question, very, very simple statement about OTT. We love and we believe very strongly that while there is while much of the talk right now is about subscription models around OTT that the market, meaning the consumer that would pay, in many cases can't bear the sort of intended subscription. So that there is going to be an increasing opportunity for advertising as part of the overall business model for almost all of the OTT player. We see some players discussing it right off the bat that they recognize that advertising has to be part OTT. But it's not going to be anything like television, traditional linear television where it's a controlled environment where you can impose a sort of ad load you have on the viewer on television. So the ads are going to have to be fewer in number, better and each one's got to work much, much better which means in a nutshell, it's a perfect recipe for the kind of capabilities we have historically displayed in online video.

So our approach to OTT, I think also, if you understand what we've done with All-Screen, All-Screen combined desktop video, mobile tablet, any connected device and we see OTT fitting in All-Screen. So importantly I think from a go-to-market standpoint, we don't have to become TV sales people, and that won't be our approach. Our approach will continue to be, we can detect signals and derive on a real time basis an understanding of where the ad should run, including on over-the-top offerings and then place that ad real time based on that being the best place for the ad to run. So we think we are well positioned to be a strong partner to publishers. As you pointed out, many of them are existing partners who are now extending into OTT and our capabilities will play well with those publishers.

Yoni Yadgaran:

All right. Good luck, guys.

Operator:

As a reminder if you would like to ask a question, it's star, one on your telephone keypad.

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

Michael Graham:

Thank you. I have a couple. The first is you can comment on the Managed service growth versus Self-service growth? You had laid out an expectation of 20% managed service growth before and I just wonder if you still feel that's achievable? Then I just want to ask a bigger picture question, Bill about consolidation in the industry and just how you feel about Tremor's goals and ambitions to kind of go for the long-term in the Company or can you get to where you want to be that way or just how you're thinking about all the moving parts in the industry? Thanks.

Bill Day:

Great. So Managed service (inaudible), if anything the business has become, from our perspective the prospect in the near-term is going to become more opportunistic around Managed service but the definition of Managed service is changing to become more Programmatic. So in simplest terms the I/O business continues to sort of go away and be replaced by solutions that don't involve the buyers necessarily manning the desktop, turning all the dials and constantly watching their campaign but relying on our technology and our Team to do that for them.

So it means that an increasing amount of our business is running through our DSP on a Managed basis and we think that—we continue to think that can be a growth business, as we said that in the past around the 20 percentish that we've communicated. So Managed service I think is still, when you hear people talking about Programmatic, in almost all cases they mean Managed service, from that standpoint. We do see people switching rapidly and as you can imagine, in some cases Programmatic is getting that business with customers we have not worked with in a long time and some cases never before. In other cases they're switching—and the spend is accretive. In other cases they're switching, and it's purely switching dollars from sort of the I/O business and into the Programmatic business from that standpoint. I think from that standpoint it's all good, because we believe that over the long term, and that's why we look at years not quarters principally, we believe this is going to allow us to expand our share of wallet because now we have a broader product set to really participate in all the ways that people spend their money.

I think that in some ways it plays into the second question you asked about. I think the companies in—not ours alone—the companies that have video expertise across into Programmatic, I believe particularly Premium Video expertise are strategically well positioned. With many I think companies that will want to work with us, partner with us, maybe more. That said, our approach has always been that this is a market that easily projects itself into the $20 billion size by 2020 and probably another 50% on top of that outside the US. So $30 billion and that kind of market which I think those kind of markets are very rare by the way, those type of markets present an opportunity for companies like ours to organically grow to be the scale to operate into independently long-term. So we believe with the investments we've made and continue to execute this strategy which is spot on, we're focusing on video, focusing on understanding how to make really video perform to brand marketers in a Programmatic way.

It's going to continue to really power the ability for us to grow this business and execute strongly. So think in many ways we're in a great position because we have the ability to partner with bigger companies who I think value our expertise and at the same point can continue to chart our own course.

Michael Graham:

Okay. All right. Thanks for that, Bill.

Operator:

There are no further questions at this time. Would you like to make any closing remarks?

Bill Day:

Yes. So first thanks very much. I appreciate your time today. Thanks for joining us. As I said at the beginning of the call we're pleased with our results today and through the first six months of the whole year. We've seen real traction and momentum in our Programmatic business and continuing our push to profitability. So I look forward to speaking with many of you over the coming year. Thank you.

Operator:

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