Tremor Video Fourth Quarter and Full Year 2015 Earnings Review
March 3, 2016

Andrew Posen: (Audio in progress) 2015 earnings call and Investor Day. 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 sections entitled Risk Factors in the company's 10-K, filed with the SEC on March 16th, 2015, and 10-Q, filed with the SEC on May 11th, 2015, 10-Q filed with the SEC on August 10th, 2015, and its Form 10-Q for the period ended September 30th, 2015, filed with the SEC on November 9th, 2015, as well as future filings and reports by the company, including its Annual Report on Form 10-K for the period ended December 31st, 2015.

Also, I'd 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 Tremor Video website.

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

Bill Day: Thanks, Andrew, and welcome to all of you who were able to make it to our headquarters. We're doing things a little bit differently today with our first-ever Investor Day. John and I will briefly review our results and highlights before taking questions from the room, and then diving into our Investor Day presentations.

All of the presentations for this afternoon are available on our Investor Relations website, and we invite you to follow along with the slides that you can download.

For the ninth consecutive quarter, we are delivering results that are better or in line with our guidance and reflect the successful execution of our strategy as the premium video marketplace. I am pleased with the strength and quality of our earnings this year, driven by significant outperformance of our programmatic business and continued innovation in our higher function non-programmatic products.

We delivered record results this quarter, including revenue of $51.8 million on total spend of $67.9 million, up 24% and 62%, respectively, year-over-year.

We were also profitable this quarter, with adjusted EBITDA of $2.1 million, as increasing operating leverage is driving our revenue growth to the bottom line.

As we shared with you last quarter, we're seeing a substantive change in our revenue composition towards programmatic and proprietary higher-function products, more than offsetting the secular shift away from our media network business.

For the fourth quarter-- for the quarter, our programmatic spend represented 47% of our total spend, compared to 14% in the same period a year ago. For the full year, programmatic spend was 35% of our business, compared to under 9% in 2014.

We believe that programmatic revenue will contribute more than 50% of total spend in 2016. Our supply-side platform continues to experience strong adoption, with 364 publishers currently live, including Warner Brothers and NBC local. We're continuing to work towards increasing the number of agencies and clients transacting through our buyer platform, building on the MSAs we have signed with Amnet and Varick Media, while continuing to pursue additional agreements with several of the other major agency holding companies.

Our other strong growth driver, proprietary higher-function products, continue to show strength, growing 37% in 2015. We see higher-function buying as a source of innovation, and proof that our technology is resonating with buyers.

We believe these brand-optimization capabilities are extendable into our programmatic product, and will serve as strong differentiators for our self-service business.

In conclusion, I'm very pleased with our results this year, and the consistent execution of our strategy. We believe that we are poised to deliver further success in 2016, based on the significant momentum we have in the market exiting 2015.

Now I'd like to turn the presentation over to John, who will walk you through the financials before we take questions and then kick off our Investor Day.

John Rego: Well, thanks, Bill.

2015 was a very strong year for Tremor Video. We reported results that were ahead of our expectations for both the quarter and the year across revenue and adjusted EBITDA. Before diving deeper into our results, I'd like to take a few minutes to discuss the accounting change that we disclosed this morning.

Considering the rapid expansion and evolution of our SSP throughout 2015, and our expectations for its continued growth, we reevaluated the accounting treatment of our SSP as it relates to principal agent considerations around the recording of revenue, and although we provide a number of services to buyers, we believe our SSP primarily provides value to sellers of advertising and that the sellers are our ultimate customer.

Therefore, we determined that we are not the primary obligor in the SSP transaction, and that such revenue should be booked, net of inventory costs, rather than on a gross basis, as had been previously reported.

As a result of this correction, we've restated our financial statements for the first three quarters of 2015. We provided the restated quarters in the tables at the back of the earnings release.

This restatement has the impact of lowering revenue and cost of revenue in equal amounts. There was no impact on our reported gross profit, net loss, or adjusted EBITDA.

To enable ease of comparison against our prior reporting and our guidance for 2015, we'll now be reporting total spend to accompany GAAP revenue. Total spend is equal to our previous reporting of revenue and is defined as the aggregate gross spend transacted through our platforms.

Full-year total spend, was $203.9 million, up 28% from 2014. In the fourth quarter, total spend increased 62%, year-over-year, to $67.9 million.

Full-year revenue was $173.8 million, up 9% from last year. In the fourth quarter, revenue increased 24% year-over-year to $51.8 million. The growth rate of our revenues relative to last year was significantly affected by the accounting change that I just discussed.

Our reported revenue for the year is $30.1 million lower than it would have been had we not modified our revenue recognition policy. Full-year gross profit was $74.6 million, up 29% from 2014, and in the fourth quarter gross profit increased 42% year-over-year to $22.8 million.

And while the change in revenue classification did not affect our gross profit, our gross margins increased significantly to 43% as a result of the reduction in our reported revenue.

Our full-year adjusted EBITDA was a loss of $4.6 million, a significant improvement from last year. For the forth quarter, we reported adjusted EBITDA of $2.1 million, up from a loss of $1.8 million in the same period in 2014.

Turning to slide 6, you can see that the increase in total spend was largely driven by our programmatic business, which contributed 35% of our total spend in 2015, compared to 9% in 2014. Programmatic spend was $32.1 million in Q4 2015, up more than 5 times from Q4 2014. Our higher-function products increased to $25.7 million, up 22% from Q4 last year.

Collectively, these growth drivers represented 85% of our total spend in the fourth quarter, up from 65% in the same period last year.

Our non-programmatic media network business decreased 32% compared to the prior year quarter, and continued to trend lower as a percentage of total spend, contributing 15% this year. This compares to 35% of our total spend in last year's fourth quarter.

Our net loss in the fourth quarter was $2.4 million, compared to a net loss of $5.4 in the same quarter in 2014. Basic and diluted net loss per share for the quarter was $0.05, compared to a loss of $0.11 per share in Q4 2014.

Full-year operating expenses were $117.3 million, which includes last quarter's non-cash impairment charge of $22.7 million. Excluding that non-cash charge, operating expenses increased 17% from 2014. Total operating expenses for the quarter increased to $24.9 million from $21.4 million in Q4 last year, but decreased as a percent of total spend to 37% in the quarter, from 51% a year ago.

I want to finish with a review of our expectations for the first quarter and the full year 2016. In order to enable better period-over-period comparisons, we're now providing guidance with three key metrics -- total spend, revenue, and adjusted EBITDA.

In Q1, we expect total spend to be in the range of $48 million to $50 million, revenue to be in the range of $34 million to $36 million, and adjusted EBITDA to be between a loss of $5 million to a loss of $4 million.

For the full year, we expect total spend to be between $255 million and $265 million, revenue to be between $180 million and $190 million, and adjusted EBITDA profit between breakeven and $5 million.

Our guidance reflects what we believe is a typical seasonal spending pattern that is weighted towards the second half of the year. Weighted average basic share count is estimated to be $52.4 million for Q1, and $52.8 million for the year.

In summary, we ended 2015 with significant momentum, and excellent results. We believe our programmatic business and proprietary higher-function products will continue to drive our business forward.

We're now going to open the floor for questions about the statements so far, and there'll be additional time to ask questions throughout our Investor Day presentation.

Thank you.

Jason Helfstein: I could start off. Jason Helfstein from Oppenheimer. So, we saw stability in the media networks business in the quarter. Maybe talk about how much of that was seasonal?

We also saw in the quarter the gross profit grew very nicely, year-over-year, and just talk about kind of how you see that evolving seasonally over the next few quarters?

Thanks.

Bill Day: Sorry. So, Jason's question, first, was about the media network business, which was essentially flat on a dollar spend basis. It decreased as a percent of revenue, given how much revenue grew in Q4. I think, as John will lay out later on, our expectation for that business is that while it won't go away immediately, there are definitely clients who are still buying it -- and, again, the kind of things that fit that are CPM buys, demographically targeted buys -- that that will become an increasingly small percent of our overall revenue, and fairly rapidly.

Anything you want to add on that?

John Rego: Particularly on the gross profit piece that you asked, when we get into my presentation later on today, I'm going to give some thoughts, prospectively, of how we should be looking at. So, I'll ask you to hold that one 'til this afternoon.

Jason Helfstein: Okay.

Bill Day: That concludes the earnings call portion of our day.