Tremor Video
Third Quarter 2014 Earnings Conference
November 6, 2014

Operator: Greetings and welcome to the Tremor Video Third Quarter 2014 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, Mr. Posen. You may begin.

Andrew Posen: Good afternoon, welcome to Tremor Video's third 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 28, 2014, 10-Q filed with the SEC on June 20, 2014, and 10-Q filed with the SEC on August 14, 2014, as well as future filings and reports by the Company including its Form 10-Q for the period ended September 30, 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.

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

Bill Day: Thanks, Andrew, and welcome to our third quarter 2014 earnings call. Our results this quarter reflects strong performance from our media network and further investments in our programmatic platform where we are beginning to sign and integrate customers.

In Q3, we reported revenue of 39 million, in line with our guidance, up 11% from the prior-year period. Adjusted EBITDA was a loss of 2.3 million, ahead of guidance. Through the first nine months of the year our revenue is up more than 23% from last year.

With the launch of our DSP and SSP we now have an end-to-end platform end market that enables us to provide advertisers with a full suite of buying options for brand performance and we can do that two ways, whether it's through our High-Touch managed service business, which encompasses our premium media network sold directly through our sales force or programmatically via a third party demand sources, or alternatively we can sell brand performance through our self-service DSP and SSP platform.

We believe that this combined manage and self-service offering is more powerful than any standalone solution in the market. Our managed service business continued to show strong results in the quarter driven by the great success of our all-screen products, the strength of our measurement tools, and further adoption of our performance-based products such as CPE, Cost-Per-Engagement, and CPS, Cost-Per-Brand-Shift.

All-screen users have proprietary algorithms to find the right viewer regardless of the screen, whether desktop, smartphone, tablet, or connected TV. In addition to targeting the optimal screen in real time, our technology provides reach and frequency reporting by screen. Clearly it's a hit with our clients as it accounted for 33% of total revenue in Q3, only four months after its launch. Our performance-based products continue to grow as a percentage of revenue approaching 30%. In addition to being higher margin product, we believe that our all-screen and performance-based products clearly differentiate us from competitors. We expect our managed service business to continue to grow as more clients look to leverage programmatic technologies while relying on a trusted partner to manage delivery of their campaign.

eMarketer predicts 40% of US video ads to be fully programmatic by 2015 (ph) or $3.8 billion. That means $5.8 billion are estimated to be submitted through non-programmatic channels, roughly equivalent to the entire projected US video ad spend this year. We believe that we are uniquely positioned to go after this $5.8 billion of spend through our managed service offering anchored by a team that is ranked number one in advertiser satisfaction for two straight years by Ad Perception, a leading industry's research firm. Tremor Video knows the managed service business better than any other video technology company.

On the other end of the spectrum we are also developing and marketing an end-to-end self-service platform for advertisers and publishers targeted at that predicted 3.8 billion US programmatic ad spend in 2015. We believe that our buy and sell side platform business will be largely complementary to our existing managed service business will help us generate higher revenue growth rates and diversify our total revenue in the future.

In Q3, approximately 10% of our total revenue was programmatic derived from the combination of our managed and self-service offering. In addition, we've just crossed a major milestone with our DSP, signing a master service agreement with Varick Media. Our SSP is also gaining traction with publisher partners as we seek to extend our longstanding relationships to encompass programmatic selling. Our SSP allows publishers to connect with an array of integrated demand sources including Google Bid Manager, Rocket Fuel, TubeMogul, Turn, Videology, IgnitionOne, and DataXu in addition to the Tremor DSP.

Key to our success is ensuring that our advertising clients have access to the highest quality premium environment to drive grand performance. Since the last earnings call we added mobile inventory from the New York Times and a new exclusive deal with National Geographic for both mobile and desktop impression. In addition, we renewed our exclusive agreements with CBS TV, Stars Media, and Rodell (ph) among others.

We continue to believe that our brand performance technology has scarce premium inventory represent a significant barrier to entry from potential ad tech competitors in display and search, as well as differentiate us from those in video. In conclusion, I am pleased with our results, the continued growth of our premium managed service business, and the progress of our self-service platform. Our brand performance expertise, advanced measurement tools, exclusive partner relationships, and programmatic product suite position us to capture advertising spend in whatever form it materializes over the next several years.

With that I would like to turn the call over to Todd, who will talk you through the financials in more detail.

Todd Sloan: Thanks Bill, and thanks everyone for joining us today as we share our Q3 highlights and financial results. I am going to spend a few minutes walking you through the drivers of the quarter, before I go into our outlook for the rest of the year.

We're continuing to make great strides against our strategic initiatives and are beginning to see the early impact of our investments. Our SSP launched this quarter and our DSP is continuing to build traction, including the MSA we recently signed with Varick Media. Our product strategy continues to be oriented towards providing a full suite of buying solutions for brand performance and the improvements we saw this quarter in our margin and the momentum we have in our all-screen product reflect this progress.

Our revenue for the quarter was 39 million, an increase of 11% compared to 35.3 million in Q3 last year. Through the first nine months of the year we reported revenue of 117.6 million, up 23% from the same period last year. Our gross margin during the quarter increased to 38% from 34% last quarter, driven by an improved product mix including the impact of all-screen and performance-based products.

In the third quarter, our all-screen product represented 33% of our total revenue, a substantial increase from last quarter's 21%. Performance-based buying also increased sequentially representing 28% of our revenue compared to 27% last quarter.

As we have communicated in prior quarters, our 2014 plan has been to make substantial investments in the development and launch of programmatic initiatives that we expect will lead to greater revenue diversity and growth. These investments drove our bottom line results lower in the quarter relative to last year. Adjusted EBITDA was a loss of 2.3 million compared to Adjusted EBITDA of 100,000 in Q3 2013.

Net loss was 5.5 million compared to net loss of 2.2 million in Q3 of 2013. Basic and diluted net loss per share was $0.11 compared to $0.05 per share in Q3 2013. Non-GAAP basic and diluted Adjusted EBITDA per share was a loss of $0.04 per share compared to breakeven Adjusted EBITDA per share in Q3 2013.

I would like to highlight a few operating metrics driving our financial results. On a rolling 12-month basis ended Q3 2014, our retention rate for existing clients was 89%, up from 88% from the prior year's last 12 months. On a rolling 12-month basis ending Q3 2014, we saw average spend per account increase 30% from the same 12-month period last year. Our eCPMs increased by 14% 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 now accommodates all variations.

Now I would like to discuss our key financial operating metrics. Total operating expenses during the quarter including stock-based compensation increased from the prior-year period on an absolute dollar basis from 16.6 million to 20.4 million and as the percentage of revenue from 47% to 52%, reflecting ongoing investments in the business and our continued growth as we enhance our platform and build out our programmatic business.

Our platform investments are reflected in the technology and development cost which increased from 8% to 11% of revenue. Our sales and marketing costs as a percentage of revenue were largely in line with the same quarter last year. Our G&A expenses increased from 8% to 10% of revenue predominantly due to our overall growth.

I'd like to finish our call with our thoughts regarding financial expectations for the reminder of 2014. For the third consecutive quarter this year we are reiterating our full year guidance for revenue which we expect to be in the range of 158 to 163 million and for non-GAAP adjusted EBITDA which we expect to be a loss for the year of 11 million to 8 million. Weighted average basic share count is estimated to be 50.8 million for the year.

In summary, through the first nine months of the year, we have executed on our strategy and focused on building a full stack video advertising technology solution including a strong managed service business with a self-service platform that enables to us to touch all aspects of digital video advertising spend. We believe that the combination of our deep relationships with premium publishers, brand advertisers and agencies, strong technology, and high quality offering such as our all-screen and performance-based products put us in a great strategic position.

We'll now open the line for questions. Operator?

Operator: Thank you. We will now be conducting 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 is star, one to register your questions at this time.

The first question today is coming from Brian Fitz of Jefferies. Please proceed with your question.

Brian Fitzgerald: Bill, in terms of the overall industry can you talk to what you are seeing from advertisers with respect to their budgets, was there a bit of a holdback in dollars in Q3 from your perspective and do you anticipate a flood of dollars into the tail end of Q4? Then just separately, can you provide more specifics around your cross device monetization efforts, is pricing better on one device versus another? Thanks.

Bill Day: Yes, so we didn't particularly see a holdback of dollars but I think given that we are reiterating our guidance, we still feel very good about this year. I mean I think, what you see going on right now like broadly reported across a lot of media is that a lot of dollars are up for grabs as buyers are really starting to rethink how they spend their money. Whether that plays out in Q4 or that plays out more broadly over 2015, I think is yet to be seen but I think we still remain very bullish about what's going on there. I think we're particularly more bullish based on the fact that the scatter market appears to have more money in it and I think as we've said in the past scatters this year and going forward includes online videos, so we're a potential recipient of that spin. I think from a screen standpoint we've made the point just in general that that all-screen accomplishment and the penetration is good that is at the higher price point we don't get specific into the pricing but at the higher price point then the non all-screen buying and higher margin than non all-screen buying. So it's largely contributory, very analogous to performance-based buying as we've talked about performance-based buying in the past. Is that helpful to what you're asking about?

Brian Fitzgerald: Yes, very much so. Thanks.

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

Yoni Yadgaran: Hi, guys. So, I believe we, I think, last quarter but maybe (inaudible) some sort of update in terms of have you guys seen any major sea (ph) changes in terms of supply and demand in the space, particularly with among the in terms of the premium tier and what sort of the larger operators are doing?

Bill Day: Major sea changes, no. I don't think so. We've had for quite a while as you know our strategy around working with some of the biggest premium publishers. They continue to be aggressive investors in video and so good partners meaning that they are investing and driving and building audience and monetizing audience that moves over to video sometimes from their television business. So, I think that's just continues. I think we look to with our SSP capitalize on their intent to sell programmatically although that initiative right now is small, so right now as we push our product we're at the forefront of that as I see it and that most of the money that they sell is still based on the more traditional sort of selling pattern but we expect that to change. We certainly think that programmatic is going to become a bigger part of what publishers do in past. Buyers have been very programmatically driven and I think the point of my comment was just to remind people that while you can make it seem that they are very programmatically driven, there's no marketing firm out there predicting that 100% of buying is going to go to programmatic and based on the growth of video, it's clear that both programmatic spending and non-programmatic spending are going to grow dramatically between 2014 and 2018 and so, we're excited now really to have the full products in market to be able to capitalize on that spend, no matter how it's done.

Yoni Yadgaran: Got it. Thanks guys.

Operator: Thank you. Our next question is coming from Jason Helfstein with Oppenheimer. Please proceed with your question.

Jason Helfstein: Thanks, I have two questions. One can you talk a bit about on the economic on the programmatic on that 10%, typically what kind of gross margins you see on that? Then secondarily, one of the things in the ad tech industry right is, everybody is trying to make the most robust set of tools and, you know, they are trying to have tools that make you appealing for the publishers to give you inventory and then tools that maybe appealing to the advertisers so that they want to buy through you. I mean, given that you are thinking right now I mean as far your solution does seem to be leaning more towards the advertiser side but how do you think of yourself kind of on the supply side versus the demand side and then on the demand side give us a reason why like an advertiser would choose you guys versus like another video DSP? Thanks.

Bill Day: Yes, okay a lot of different things. I will take the second part and let Todd pick up the first part about the sort of composition of programmatic. I think everybody wants to develop the best tools. We've actually said we're doing both right, we're certainly demand-side focused. We talked about that the win with Varick Media where we've got a Team that's been embedded market selling the solution there and really the DSP differentiation can come down to a number of different factors. So, one of the great capabilities we have right now that differentiate versus a competitor is our analytic. So the VHA product that you know is a licensing product is really underpinned by superior analytics that many, many agencies find is incredibly helpful towards making the actual buying decisions. So those analytics are built into our DSP and represent a sort of strong differentiating factor.

Second is that our brand performance bidder (inaudible) and do with our DSP you can buy on things like brand shift or engagement that—or viewability even that are difficult or not available to buy on it with competitive DSP and I think that gets back to understanding that in our belief, agencies are going to want multiple partners, not one partner and so you just have to have a rationale for getting shelf space at the agency and we believe we have a strong rationale for doing that. The other side of it is the publisher side, we've historically been very, very strong with publishers from a media standpoint certainly and with the SSP in market we now have we believe the best technology-based solution for selling for a sell side platform for those publishers as they want to go programmatic or need to go programmatic based on their agency relations to conduct those transaction whether they're open RTB (ph), sort of guaranteed or private marketplace transactions, we can handle and do that and what we've done I guess not so quietly is we've built a team, a sales team around that product as well headed by Manish Jha who we announced as the new hire in the quarter. So, where we stand now at the end of Q3 going into

Q4, really with not just a product to attack both the demand and the supply side, but the team that have been operating on both sides as well.

So, I think in the end, there is a lot of leverage to play on both sides of the equation. Great last example then I'll let Todd take the first question that you asked. If you think about the DSP, one of the great differentiating factors for the DSP beyond the two I mentioned is the quality of inventory and so as we can work with publishers and incorporate them into our ecosystem based on our platform capabilities and our media capabilities that we've leveraged in the past, that creates opportunities for unique inventory in our DSP that isn't available to other DSPs and becomes another differencing factor. Todd if you want to talk about the programmatic revenue?

Todd Sloan: Yes, so the composition of the 10% programmatic number is a few pieces that comes from our ability to work with other partner DSPs in the industry, taking spend from the agency trading desk directly as we work with the agencies, also has a little bit early stage of some of our own revenue coming from our own DSP and the early launch of the SSP. So it's an aggregation of all four of those different pieces that make up the 10%. The margin is really it's mixed, it's mixed across all the different pieces and it depends on, you know, the relationship and how we're working with the each of the different pieces of that spend.

Jason Helfstein: Thank you.

Operator: Thank you. Our next question is coming from Michael Graham of Canaccord Genuity. Please proceed with your question.

Michael Graham: Thanks, hey guys, congrats on the gross margin performance in the quarter. Just wondered if you could drill down on that a little bit because you said performance-based was only 28% of revenue versus 27%; I thought that was like a key gross margin driver. So what else happened to drive gross margins up so much sequentially? Then I know it's early but I just wanted to see if you had any initial thoughts about 2015, it looks like consensus is expecting you guys to grow at about 25% next year and on the top line I just wanted to see if you wanted to share any early thoughts about that? Thanks very much.

Bill Day: Yes, sure Michael, so the gross margin it's actually a combination of the revenue mix which includes a performance-based pricing up a little bit I guess from the previous quarter and year-over-year comparison as well, but also the all-screen product, so the all-screen product has obviously gained a lot of adoption for us, it's up to 33% of our revenue and it's also a good margin product. So the combination of those two on the revenue side as well as really we're increasing, we've talked about this is, all this different spend that comes into us and our ability to execute, if you will, against that spend and perform better and drive better results as we've talked about when we talked to you earlier in the year when we said driving more efficiencies through the demo spend but we're driving efficiencies through each of the buying models and that's having some effect on gross margin as well. So it's really those three pieces combined. As far as 2015, no we're not putting any numbers out there for 2015 just yet. We'll get through the end of this year and we'll do that in the opening call next year when we report on Q4 results. But we do expect this market and I think we've talked about it and I think the industry prognosticators if you will talked about the growth in the video advertising market and there is numbers out there that are in that 25% CAGR range. We're not putting any numbers out there yet but we're certainly going to see why we can't continue to maintain share and grow at the market rates.

Michael Graham: Okay, all right, thanks very much guys.

Operator: Thank you. At this time I'd like to turn the floor back over to Mr. Day for any concluding remarks.

Bill Day: Thanks, we know everyone's really busy so we thank you very much for attending our call and look forward to reporting further progress to you in future quarters. Thanks again.

Operator: Ladies and gentlemen thank you for your participation. This concludes today's teleconference. You may disconnect your lines at this time and have a wonderful day.