

**Tremor Video**  
**Second Quarter 2014 Earnings Conference Call**  
**August 06, 2014**

**Operator:** Greetings and welcome to the Tremor Video Second 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 and welcome to Tremor Video's second 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'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 we make 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 and 10-Q filed with the SEC on May 15, 2014, as well as future filings and reports by the Company including its Form 10-Q for the period ended June 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'd like to turn the call over to Bill Day, Tremor Video's President and CEO.

**Bill Day:** Thanks, Andrew and welcome to our second quarter 2014 earnings call. I am excited about the numbers we are reporting today, which include record quarterly revenue.

Furthermore, we believe that the market opportunity for our solutions is growing as TV buyers continue to migrate into digital video. Our strategic investments in both building a complete programmatic solution to elevate video brand performance and in deepening relationships with premium publishers are aimed at capturing this spend.

For the third consecutive quarter, we were ahead of our guidance on revenue and Adjusted EBITDA. In Q2, we reported a record \$43.7 million in revenue, a 23% increase from the prior year period. Adjusted EBITDA was a loss of \$2.3 million, reflecting top line strength and further investments in our technology and premium inventory.

Our results for the first half of the year continued apace ahead of our expectations with revenues up more than 30% from last year. We are very encouraged with the progress we made with our programmatic business in Q2.

Last quarter we told you that we went live with clients on the VideoHub DSP platform and we have since seen continued client adoption. Our VideoHub SSP is also well on its way to launching and we expect to have several publishers in beta by the end of the third quarter.

We are currently using our SSP to officially manage programmatic campaigns purchased on our media network and are seeing strong results as we continue to integrate with additional DSPs and other demand sources.

In addition, our all-screen product has experienced rapid adoption. This product allows media advertisers to declare a campaign goal and let our VideoHub technology do the work, programmatically delivering ads to find the right viewer on whatever device they are watching video. All-screen is clear appeal for brand marketers enabling them to set unified reach and frequency goals across targeted devices. The number of advertisers using the product in Q2 increased to 56, up significantly since last we spoke. All-screen revenue accounted for 21% of revenue in Q2, its first quarter of commercial availability.

Our roster of premium publisher partners continues to grow. We renewed our exclusive desktop and mobile video partnership with the NFL and extended our exclusive partnership with Viacom 2 Mobile. We also signed an exclusive partnership for mobile with NBC local. We're actively

working to extend our premium publisher relationships to encompass all of our programmatic solutions.

During the quarter, we took additional steps to ensure that our advertising clients have access to the highest quality premium environments to drive brand performance. This means providing full transparency to our clients, ensuring that their ads are fully viewable and aggressively combating fraud.

We recently announced two new partnerships that underscore this commitment. First, we partnered with DoubleVerify to provide always on network wide advanced fraud protection services, which are designed to preemptively identify and eliminate thought-based impressions. We believe that we are the first video company to make this service available for all campaigns running through our platforms.

Secondly, we announced a partnership with Veri-Site. Veri-Site Solution identifies rogue websites by covering such risk areas as intellectual property infringement and pirated content. These recent initiatives only augment our existing leadership position. We have been reporting transparent placements and performance results in VideoHub for years and we were the first video ad-tech company to be accredited by the MRC for viewability report.

We believe that our initiatives are on fraud protection, anti-piracy, viewability and transparency are key to capturing TV dollars as these buyers demand and expect premium—as these buyers demand and expect premium brand safe environments.

Recent data from e-marketers supports that continued acceleration and shift have spend towards digital video. Estimates for 2016 US video spend were increased for the second time since December, up nearly 15% to \$9.5 billion with nearly 40% of that spend coming from mobile video.

We believe that our all-screen capabilities and our commitment to brand performance technology solutions position us well to capture an increasing share of this spend.

In conclusion, I'm excited with the quarter's results, the steady progress we're making towards our programmatic solution and the continued growth of our premium media business.

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

**Todd Sloan:** Thanks Bill, and thanks everyone for joining us today as we share our Q2 highlights and financial results.

Let me 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 are pleased with our quarterly results and our performance for the first six months of the year. For the third consecutive quarter, we reported results that were ahead of our guidance.

We've been making steady progress on all of our major initiatives to provide advertisers with a full suite of buying options for brand performance including increased utilization of our all-screen product, growth in our performance-based products and continued adoption of our DSP.

We're also happy to announce that we're ahead of schedule with our SSP. As I've emphasized many times in the past, we provide an array of product solutions with varying characteristics and margin profiles and our results reflect the execution of this strategy.

Our revenue for Q2 was a record 43.7 million, an increase of 23% compared to 35.5 million in Q2 last year. Through the first six months of the year, we reported revenue of 78.6 million, up 30% from the same period last year.

In the second quarter, we saw significant adoption of our all-screen product with revenue representing 20% of our total revenue. Performance-based buying also increased sequentially, representing 27% of our revenue compared to 23% last quarter. Our gross margin during the quarter was 34% and reflects the varied mix of our product offerings combined with our ongoing investment and the quality of our premium publisher mix. This was evidenced by recent extensions and renewals of our exclusive partnerships with the NFL and Viacom.

Our continued strategic investments and our programmatic initiatives combined with the overall growth of our business and cost associated with being a public Company drove our bottom-line results lower relative to last year.

Adjusted EBITDA was a loss of 2.3 million in the quarter, compared to Adjusted EBITDA of 2 million in Q2 2013. Net loss was 5.4 million, compared to net loss of 273,000 in Q2 of 2013. Basic and diluted net loss per share was \$0.11 compared to \$0.04 per share in Q2 2013.

Non-GAAP basic and diluted Adjusted EBITDA per share was a loss of \$0.05 per share, compared to Adjusted EBITDA per share of \$0.26 basic and \$0.05 diluted in Q2 2013.

Now, I would like to highlight a few operating metrics driving our financial results. On a rolling 12-month basis ended Q2 2014, our retention rate for existing clients was 86%, down slightly from 89% for the prior year's last 12 months revenue growth. Revenue growth from new accounts outpaced growth from existing accounts. On a rolling 12-month basis ending Q2 2014, we saw average spend per account increase 11% from the same 12-month period last year. Excluding demo buys, our eCPMs decreased by 5% 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'd like to discuss our key financial operating metrics. Total operating expense during the quarter including stock-based compensation increased on an absolute dollar basis compared to the prior year period from 16.7 million to 20.1 million, but decreased as a percentage of revenue from 47% to 46%.

The investments we've been making in our platform are reflected in the technology and development cost, which increased from 8% to 9% of revenue. We continue to get leverage on our sales and marketing expenses which declined as a percentage of revenue from 28% to 25%.

Our G&A expense increased from 7% to 8% of revenue, predominantly driven by the added cost associated with being a public Company.

I'd like to finish our call with our thoughts regarding financial expectations for the third quarter and our views for the full year. For the third quarter, we expect revenue to be in the range of 39 to 41 million and non-GAAP Adjusted EBITDA in the range of a loss of 4 million to 3 million. Weighted average basic share count is estimated to be 51 million for the quarter.

For the full year, we are reiterating our revenue guidance, which we expect to be in the range of 158 to 163 million. We're also keeping our expectations for non-GAAP Adjusted EBITDA loss for the year consistent with the range we provided last quarter of 11 to 8 million.

In summary, through the first six months of the year, we have executed on our strategy and delivered above our expectations. Our focus this year continues to be on building out and gaining adoption of our

programmatic initiatives as we look to position Tremor to capitalize on the evolving online video market. We believe that the success of our all-screen product, further traction with our performance based products and continued progress developing our full technology stack, put us in a great competitive position for the second half and into next year.

Thank you for joining us today. We'll now open the line for questions. Operator?

**Operator:** Thank you. At this time, we will be conducting a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. The 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. One moment, while we poll for questions.

Our first question is from Stephen Ju from Credit Suisse. Please state your question.

**Stephen Ju:** Thanks. Hi Bill. So I think we've talked about this topic before just—but wondering as to your update and industry perspective at the same site (ph). Yes, we're always used to thinking about inventory constraints for streaming video, but now it seems like there are quite a few large Internet operators that are, I guess focusing on this sector and adding supply, particularly YouTube as well as Facebook. So I'm just wondering from where you sit, how does this change the industry dynamics if at all? Okay. Thanks.

**Bill Day:** Thanks Stephen. I think it's the same. While YouTube and Facebook are adding inventory, first of all, it's not immediate as we've seen sort of Facebook take quite a while in terms of how they roll out the inventory solution. The second thing is that it often—I think in the case of Facebook—is really geared to be something that's more like a roadblock if you will, taking advantage of their reach as opposed to something that's sort of immersive in stream advertising like we do.

So in my take for Facebook particularly, it's as likely to create an opportunity to rationalize TV dollars mapping into video because Facebook has great capabilities around reach and frequency and our focus has been more around brand performance and really sort of maximizing the performance of advertising within streaming video.

For YouTube, I think again, it's just—I guess I consider what they consider premium or what they consider sort of their premium, is a little different than what we consider our premium and the way that we sell is a bit different. We've competed with YouTube and Google. We work

with YouTube and Google pretty closely both AdEx and Bid Manager now. So I think in the end, the great thing about video is that supply and demand are much more balanced and demand is increasing as I said; the e-marketer numbers are projected to increase and what you see now is that supply is sort of swinging back with new sources of supply coming in.

Net, net, that's super, super healthy for pricing and it's super healthy for the overall development of the space.

**Stephen Ju:** Thanks.

**Operator:** Our next question is from Brian Fitz from Jefferies. Please proceed with your question.

**Brian Fitz:** Great. Thanks for the questions. Can you give us any color around early uptake of some of the new CPE pricing efforts that you've recently launched such as Cost-Per-Brand-Shift and Cost-Per-Conquest? Also what type of advertisers have typically purchased those types and what's the uptake with engagement buying thus far? Thanks so much.

**Bill Day:** Okay. Yes, I can do that. So we don't break out specific subcomponents, but as Todd reported, we're up 27% from 23% and similarly CPS and CPQ, so that's Cost-Per-Shift and Cost-Per-Conquest have increased or helped us increase our percent. CPE is still a majority, whether it's in mobile, or a desktop. We've gotten buyers comfortable with that and have been selling that for years. The new ones are ramping up. They're not really vertically focused in that we see that the need for brand lift if you will and brand shift really can cut across a bunch of different verticals.

It really comes down again to marketing situations where the customer set is very well defined, the competitive set is very well defined, and typically the marketer really has to grow revenue by shifting share from a competitor directly and that's where those products fit in.

From a simple standpoint, I'll say that there's a lot of upside thus for us to continue to sell in CPS and CPQ as part of our strategy to take 27% this quarter towards as we said 30%-ish around the end of the year or the second half of the year and then towards our long-term goal. Our long-term goal remains the same for our performance-based products. So 40 to 50% of our revenue being based in performance based products. Digital buyers have bought off on it already, as you've seen TV buyers start to come into fray. They tend to buy demo or demographics and our goal is to up-sell them as we've done with digital buyers and having these products gives us that sort of broader suite to up-sell them with.

Todd, do you have anything you want to add to that?

**Todd Sloan:** Yes I think you've heard us talk about—we have a variety of different products out there with a lot of different price points and a lot of different margin characteristics, which is taking advantage of the way brand marketers want to spend, however they want to spend.

But on the performance-based products, they are on the higher end of the spectrum for us from a price point so—and they continue to deliver that size, that quality of pricing. So nothing's eroded at all on price point as it relates to any of the performance based products.

**Brian Fitz:** Great, thanks guys for the color. Appreciate it.

**Operator:** Our next question is from Jason Helfstein with Oppenheimer.

**Jason Helfstein:** Thanks, two questions. Just first, as you are having discussions with publishers about joining your SSP, and what's been the general feedback to the extent that if you launch basically SSP and also effectively have a DSP or buying platform, are both sides of the house okay with that?

Then secondly, specific to the guidance, it does suggest that you're looking for improving operating leverage in the fourth quarter. Are you expecting that to be driven by gross margins or is that other Op ex leverage? Thanks.

**Todd Sloan:** So the feedback, we've gotten good feedback on SSP and the advantage we have in the market is we are deep with these publishers already. So it's not us coming as a new player they haven't worked with before and sort of initiating sales call number one. I can't stress that enough with publishers.

Our belief continues to be publishers are looking for one partner and a partner that spans the ability is that—include the platform for SSP, a monetization partner for media and inventory that we've traditioned down the path and analytics, which we've done with some partners as well; all three fit together really, really well.

Having seen the sensitivity you referred to, I'll just say that we run the groups with the appropriate care. So they're separated if there's data involved or things like that and take that all very seriously.

But have not had publishers express any queasiness about the fact that we're in the DSP business and therefore for an SSP that that would somehow bother them. So it hasn't been an issue slowing us down so far.



**Bill Day:** Yes and on the guidance side, I'd say it's a combination of gross margin dollar contributions and operating leverage across the operating expenses. So as we've discussed, you continue to see operating expenses as a percentage of revenue decline. So we are gaining leverage out of different operating expense line items.

**Jason Helfstein:** Thank you.

**Operator:** Our next question is from Michael Graham from Canaccord Genuity.

**Maria Ripps:** Hi, this is Maria Ripps for Mike. Thank you for taking my question. Just to follow-up on the SSP question, how are you thinking about pricing in this segment initially and when should we expect it to be a material revenue contributor?

**Bill Day:** So pricing, for lots of reasons, I don't think we're ready to release any statements about pricing yet. I mean there are sort of norms out there in the space but the space has predominantly been focused on display and pricing might be different for video. So I don't think we're ready to talk about that yet in terms of how we price the product. Could you repeat the second part again Maria?

**Todd Sloan:** She said contributor. So (cross talking) follow-up on what Bill was saying, so obviously we're receptive to market, market conditions on pricing. So we'll price accordingly. Now, as far as material contribution, I think you've heard us say it in the past that this year is mostly about building out the product, it's a longer sales cycle, gaining adoption with clients.

So we don't expect this year to have any material contribution to revenue. Obviously we have 100 million plus media business. So material would require significant upside and we're not expecting that in—for the balance of this year, we expect it to be more of a material contribution in 2015.

**Maria Ripps:** Mm-hmm. Thank you. Todd, would you be able to give us eCPM including demo buying?

**Todd Sloan:** Yes. So, right. So I think I said in my prepared remarks that it was down about 5% excluding demo, but including demo it's probably more like in the 10% range.

Again when you think about the multiple products that we have and the way you calculate effective CPMs, that has a lot to do with the delivery expectations and while we have—we had some challenge in the fourth quarter last year. We're doing much better on execution and delivering upon demo campaigns throughout the course of this year and I think we've reached a

good place for that, so—but as an effective CPM product, it is definitely lower than what our performance based products are.

**Bill Day:** I think the point, I'll just reiterate there is as Todd said, we're doing much better, but if you look back to a year ago when demo really didn't exist in our pricing mix, that's the real factor. It isn't a factor where we're seeing an erosion. We've actually seen productivity increase. It's just that it's a bigger chunk of our overall mix now one year later.

**Todd Sloan:** Right so, from a—right. To reiterate, the comp isn't fair comp because it's not apples-to-apples.

**Maria Ripps:** Great. Thank you.

**Operator:** There are no more questions at this time. I'd like to turn the floor back to Mr. Bill Day for any closing remarks.

**Bill Day:** We continue to thank you for your support and as I said, we're excited about the progress we've made and talking to you about continued and future results. Thank you.

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