



Tremor Video

Fourth Quarter 2016 Earnings Conference Call

February 9, 2017

CORPORATE PARTICIPANTS

Bill Day, *Chief Executive Officer (retired)*

Paul Caine, *Chief Executive Officer (interim)*

John Rego, *Chief Financial Officer*

Andrew Posen, *Senior Director, Investor Relations*

CONFERENCE CALL PARTICIPANTS

Alex Giaimo, *Jefferies*

Austin Moldow, *Canaccord Genuity*

Chris Parkinson, *Credit Suisse*

PRESENTATION

Operator:

Greetings, and welcome to the Tremor Video Fourth Quarter 2016 Earnings call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone today should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I'd now like to turn the conference call over to Andrew Posen, Senior Director of Investor Relations. Mr. Posen, you may begin.

Andrew Posen:

Thank you, Operator. Good morning. Welcome to Tremor Video's Fourth Quarter 2016 Earnings call. During the course of today's call, we may make forward-looking statements, including statements regarding Tremor Video's future financial and operating results, future market conditions, and Management's plan and objectives for future operations. These forward-looking statements are not historical facts but rather are based on the Company's current expectations and beliefs, and are based on information currently available to us. The outcome of the events described in these forward-looking statements is subject to known and unknown risks and uncertainties that could cause actual results to differ materially from the results anticipated by these forward-looking statements, including but not limited to those factors contained in the Risk Factor section of the Company's most recent annual report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 15, 2016, its Form 10-Q for the periods ended March 31, 2016, June 30, 2016, September 30, 2016 and our future SEC filings. All information provided in this conference call is as of today, February 9, 2017. Except as required by law, we undertake no obligation to update publicly any forward-looking statements made on this call to conform the statement to actual result or changes in our expectations.

Our commentary today will include non-GAAP financial measures. We believe that the use of these non-GAAP financial measures provides an additional tool for investors to use in understanding Company performance, but note that these measures should not be considered in isolation from or as a substitute for financial information prepared in accordance with GAAP. Reconciliations between GAAP and non-GAAP metrics in our reported results can be found in our earnings press release issued today, a copy of which can be found on our website.

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

Bill Day:

Thanks, Andrew, and welcome to our fourth quarter 2016 earnings call. I am proud to report great results which met or exceeded our expectations across all metrics, including record attainment for total spend, revenue, gross profit, and Adjusted EBITDA. In particular, our programmatic and higher function products continued to drive our growth with record results in the quarter. For the second consecutive quarter, we delivered positive EBITDA as we continued to benefit from operating leverage driven by the adoption of our programmatic buy and sell side software platforms, as well as strong expense discipline.

As you saw in today's press release and after long consideration, I have decided to leave my role as CEO. Our non-executive Chairman, Paul Caine, is leading the search for the next CEO and will be stepping in as the interim CEO during this transition. Paul is a proven leader and a proven media industry veteran with deep knowledge of Tremor Video's business, having been on the Company's Board since 2014. He is ideally suited to serve as interim CEO during this transition. Paul brings abundant energy and experience to his role and will work diligently for our shareholders, customers and employees. I look forward to working with him during the transition and will remain as strategic advisor through June 1.

I've had the honor and privilege of serving as CEO since 2008. I believe that my decision to make this change comes at a near-perfect time. Tremor Video is operating from a position of strength, poised to take further advantage of this dynamic marketplace. As evidenced in today's results, the Company is on a positive trajectory with a strong strategic road map. We believe we're on pace to achieve our long-term growth and profitability objectives.

Throughout the past year, we've talked about the consistent growth and adoption of our programmatic software platforms, especially our sell side platform. Programmatic platform spend increased more than 96% year-over-year to \$138 million and represented 54% of our total spend for the year, up from 35% of our total spend in 2015. Nearly 90% of our programmatic spend is self-service, up significantly from last year. The adoption of our SSP is becoming more global with new initiatives in the U.K. and Brazil complementing our leading presence in the APAC region. International business more than doubled in 2016 to 11% of total spend from 5% last year.

We have seen rapid adoption of our seller platform by new partners, as well as increased spend from existing clients. As an example, I'm very excited to announce that we recently entered into an exclusive two-year partnership with Hulu, the preeminent online video content provider at the forefront of transition of TV to digital video. Our partnership with Hulu coupled with our previously announced partnership with DISH Sling TV demonstrates our expertise in OTT monetization ahead of the widely anticipated shift in consumer behavior to connected devices. We also signed a number of premium partners, including AMC Network and GameLoft. We continue to execute against our goal of being the go-to global technology partner to power monetization for the most recognizable premium video brands.

Our buyer platform had a strong Q4 with increased agency trading desk adoption of our self-service DSP as well as strength in our higher function buying products, highlighted by our exclusive partnership with Alphonso. Alphonso is a data company that analyzes TV viewing behavior so that marketers can synchronize their digital and TV advertising. This is another example of how we use our higher function product to innovate advertising across screens.

Combined, our programmatic platform and higher function products represented more than 91% of our total spend in 2016. This spend grew 46% year-over-year versus 2015. We believe that we will continue to grow our business, and in conjunction with our ongoing focus on cost control, we'll be able to increase operating leverage and deliver profitable EBITDA in 2017. As a result, I believe that the Company is in a strong place, creating the most opportune time for me to hand over the reins to a new CEO.

I'd like to thank our outstanding employees and management team that have built Tremor Video into what it is today, and our clients for their business over the years. I also want to personally thank Paul Caine for stepping in as interim CEO and our Board of Directors for making this transition a smooth and successful one.

With that, I'd like to turn the call over to Paul, who will make a few comments before John walks you through the financials, and then we take questions.

Paul Caine:

Thank you, Bill. As Bill said, Tremor Video continues to be well positioned to take advantage of the growing online video marketplace, and we remain firmly focused on executing against our strategy. On a personal note and on behalf of the Board, I'd like to take a moment to thank Bill for his extensive contributions. We are indebted to him for his innovation and leadership as he guided our Company to its current position. Looking forward, I'm excited to continue that work and to work even more closely with our strong and very capable leadership team over the coming months.

We have commenced a comprehensive search to find our next CEO and have retained Heidrick & Struggles, a leading executive search firm to assist us. Our objective is to find the right leader as quickly as possible.

Now, I will turn the call over to John to walk you through the financials and close with our expectations for 2017.

John Rego:

Thanks, Paul. Q4 was a record quarter for us across all key metrics and provided an excellent finish to a strong year. During the quarter, we reported record revenue of \$53.8 million, record total spend of \$84.8 million, and record Adjusted EBITDA of \$3.5 million. Our full-year total spend was \$254.2 million, at the high end of our expectations, and that reflects 25% growth year-over-year. Revenue was \$166.8 million, well above our guidance, and Adjusted EBITDA was a loss of \$2 million, in line with our guidance.

Our strong results this year were once again driven by our programmatic platform business, which increased its total spend 96% in 2016. Our higher function buying also grew 6% in 2016 to \$93.5 million. Collectively, programmatic and higher function buying represented 91% of total spend in 2016 and our legacy ad network represented 9%.

Revenue decreased 4% in 2016 to \$166.8 million while our gross profit increased to \$76.3 million, and our gross margins increased to 46% compared with 43% last year. As we've mentioned on prior calls, our year-over-year revenue growth as well as our comparative gross margins are impacted by the mix shift of our business towards our seller platform, which is recorded on a net basis. Our blended take rate has decreased due to the shift in our business from managed service to self service; however, we are not seeing pricing pressure nor take rate pressure on a like-for-like basis.

We ended 2016 with an Adjusted EBITDA loss of \$2 million and were Adjusted EBITDA positive for the second half of 2016, including a record \$3.5 million in the fourth quarter. Throughout the year, we maintained our strict focus on cost management and continued to drive operating leverage while scaling our programmatic platform business. Total core operating expenses, which exclude non-cash items, decreased as a percentage of total spend to 33% from 40% last year.

Our net loss for the year was \$20.9 million compared to a net loss of \$43.2 million in 2015, which included a non-cash impairment charge of \$22.7 million related to our goodwill and certain intangible assets. Basic and diluted net loss per share for the year was \$0.40.

Now, before I talk about our outlook, I want to spend a moment on our balance sheet. We ended the quarter with \$91 million of available liquidity, including \$56 million of working capital and a \$35 million line of credit which we just renewed and increased. During the fourth quarter, we repurchased 2.1 million shares at an average price of \$2.15.

I want to finish with our expectations for Q1 as well as the full year. As we saw in 2015 and again in 2016, our business has consistently been stronger in the second half of the year, and we expect to see a similar trend for 2017. For the first quarter, we expect total spend to be between \$56 million and \$60 million, revenue to be between \$34 million and \$38 million, and Adjusted EBITDA to be between a loss of \$6 million and a loss of \$3 million. For the year, we expect total spend to be between \$315 million and \$325 million, which represents a 26% increase at the midpoint of the range. We expect revenue to be between \$180 million and \$190 million and Adjusted EBITDA between positive \$2 million and positive \$6 million. The weighted average basic share count is estimated to be 50.1 million for Q1 and 50.4 million for the year.

We are pleased with the strong results from our business in 2016 and we believe that we are on the right trajectory to deliver strong growth and profitable EBITDA for 2017.

Now, we're going to open the line for questions.

Operator:

Thank you. If you would like to ask a question today, please press star, one from your telephone keypad and 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 who are 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.

Thank you. Our first question comes from the line of Brian Fitzgerald with Jefferies. Please go ahead with your questions.

Alex Giaimo:

Hey, guys, this is Alex Giaimo calling in for Brian. Thanks for taking my question. Last quarter, you mentioned social media platforms perhaps becoming a focus area in the future. Is there any update in that regard, and then maybe just broadly speaking, in what way do you think those platforms can fit into your offering? Thanks.

Bill Day:

Yes, hi. Thanks for the question. We continue to work to be plugged into social media. It is not something we're announcing, any specific milestone on this earnings call. I think the way to think about it is we believe social should be part of both sides of our platform initiative, right, so we should be able to buy into social inventory through our DSP and potentially offer up social inventory on our SSP. I think, as we said, our focus—and we said this last time, too, right, our focus is really driving hard into OTT. Hulu is a great example of that, and social will follow likely after that.

Alex Giaimo:

Great, thank you.

Operator:

Our next question comes from the line of Michael Graham with Canaccord. Please go ahead with your questions.

Austin Moldow:

Hi, it's Austin on for Mike. Two questions, please. The first is how you're thinking about growth in the DSP versus the SSP in relation to your guidance, specifically in relation to your MSA assigned and, I don't know, how those are working out for you and how you think they'll factor in, in 2017. The second question is on your higher function buying. Can you talk about any services or products in there that are, I don't know, being worked on to become self-serve products, maybe your all-screen and how those are moving into the DSP functionality? Thanks.

Bill Day:

Exactly, so I think, again, the exciting news we had last quarter was really about getting the MSA set up so that we can grow DSP more readily, to start to be in line with where we've been from the SSP standpoint. The SSP sales continues to grow more strongly and that trend has continued, but we saw, I think, good evidence in Q4 of the DSP on a self-service basis starting to grow based on those MSAs, so we're very, I think, optimistic about how that will play out this year, now that we have those MSAs set up. So, that is factored into our guidance, both the fact that we expect continuing growth on the SSP and maybe winning some new clients. Our goal, again, on the SSP is really to be the global leader, and I think we're marching nicely towards that goal.

The DSP environment is more fragmented. It's hard for anybody to claim that they're the global leader right now, and we think that it's fragmented around customer needs. The customer need we've been particularly focused on, as you asked, and I'll transition to the second part of the question about high function buying, is really about how you can start to move down a path where customers can self activate higher function products, so not just buying on a CPM, inventory on a CPM. That's pretty straightforward and you can do that through a lot of partners. But how can you really start to activate against products like, as you said, our all-screen, products like eventually Alphonso, both of which sit in our plans, either as things we offer now or, in the case of Alphonso, things that, if it continues to pace the way we've seen it pace, will be something we build in from a self activation standpoint.

The big focus right now in terms of taking something that was historically in just the managed service sense is cost per viewable impression, so cost per viewable impression in essence allows someone only to pay when the impression was viewable throughout the play of the video and completed—and the video was completed. So, that is something now that customers can fully execute through the platform and do that entirely on a self service basis.

That's always been our argument, that the synergy between managed service and self service is a beautiful one, in that managed service allows you to innovate and try new things and build up a real business case around new buying models, and then you can leverage our self service platform to drive into a self service model and get the broadest market base adoption. I think we just—that'll be an ongoing thing, we'll talk about it probably in terms of things that we accomplish every quarter against that goal, but I think it puts the Company in a really productive place.

Hopefully that's helpful and answers your question.

Austin Moldow:

Yes, thank you.

Operator:

Our next question is from the line of Stephen Ju with Credit Suisse. Please proceed with your questions.

Chris Parkinson:

Hi, guys, it's Chris on for Stephen. So, as we think longer term, I think Crunchyroll just rolled out from an ad supported to a subscription model. Are there signs from your other inventory suppliers that they may try and monetize a subscription model versus kind of the traditional ad supported?

Bill Day:

Yes, this is always the pendulum swing, I think, of any advertising business. Paul is from publishing, and I think he's nodding, he has a similar experience. It's always a balance. I think, in the end, we have a strong belief that both will exist and do well. The idea that the market is going hard down on subscription only is not supported by the experience we have and the willingness of people to pay for only so many products, and the idea that things will be entirely only ad supported is probably not likely.

Again, our partnership we just announced with Hulu is a great example of a company that's pushing hard down both ad-supported and subscription supported services, DISH, similarly, right? So, I think our belief about advertising always has been that it's got to be really great. If it's not great, it's not going to fit because if there's a subscription based service, if you're showing too many ads or those ads aren't targeted well, if they're not delivered effectively, it becomes a net negative to the overall user experience and puts the seller, the publisher in a really tough position.

So, our focus on efficacy and showing the right ad the right time, the fewest number of ads with the highest yield for the seller, I think, fits nicely within that. We don't see anything in our now hundreds and hundreds of sellers we work with that suggests that there's any material shift towards subscription more than anything else that was going on prior.

Chris Parkinson:

Okay, thanks, guys.

Operator:

Thank you. I will now turn the conference back to Paul Caine for closing remarks.

Paul Caine:

Okay, thank you, Operator. I want to thank everyone for the questions. I'd also like to thank each of you for joining us this morning. In summary, we are very excited about our strong 2016 results and we're confident about the Company's future. We have entered 2017 in a great position and are well positioned to continue providing our customers the solutions that best deliver video advertising effectiveness and enable our partners to more efficiently monetize their inventory.

So, again, thank you for your participation in the call this morning, and we look forward to updating you in the months ahead.

Operator:

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