

The Trade Desk - Biggest shift in advertising in a generation

Introduction

The Trade Desk (TTD) is instigating the biggest shift in how advertising is delivered in more than a generation. All advertising is becoming digital and the consumption of media is fragmented across a multitude of content providers and devices. All television content is now provided digitally. This has led to huge opportunities and challenges for advertisers. There are now more opportunities to place relevant ads in front of people, however, they must catch the viewers attention across a wide variety of media channels. TTD has amalgamated the open internet outside of Google and Facebook giving advertisers a single platform to launch targeted ads wherever their target audience consumes media.

Biggest shift in advertising in more than a generation

TTD is instigating the biggest shift in the delivery of advertising in more than a generation. Their advances in programmatic advertising are sweeping the industry with software enabling the automation of buying, placing, and optimising media inventory. All media is becoming digital. Targeted ads allow demand side agencies to only pay for ads delivered to the right person at the right time. Consumers benefit with less ads and much greater relevance. The Trade Desk itself is now putting significant pressure on the Walled Gardens of Google and Facebook by amalgamating the open internet that's now bigger than both of them.

Total global advertising spend is currently \$726 billion and growing at 4% per annum. Programmatic is currently only \$34 billion but growing 5 times faster than the industry at 20% per year. TTD is growing twice that rate at 40% per annum. Before long, all advertising will be transacted programmatically positioning TTD in the fastest growing segment in one of the largest industries in the world.

The fastest pace, and perhaps the greatest potential for programmatic, lies in connected TV. People want a large variety of content and they want to consume it on demand. Connected TV allows them to do that and offers enormous value over traditional TV where consumers were forced to watch whatever happened to be on at the time. That value add is seeing an enormous shift from linear TV to connected TV and poses challenges and opportunities for advertisers. TV has become another device, along with mobile and desktop, for consuming

online media. Programmatic allows media agencies to deliver the most relevant ad to the most relevant person at the right time and across all media sources. With such diversity of content it makes little sense for them to choose a single or even a handful of content producers such as ESPN, Fox, and Disney. What's required is a method to cover all content wherever and whenever their target audience is consuming media. That's what TTD does.

TTD delivers more value to ad buyers than Google or Facebook

TTD is a self-serve platform that allows media buyers access to 4.7 million ad spots every second across different media sources such as websites, channels, shows, stations and streams. Rather than paying the same price for every ad impression, advertisers can deliberately target a precise audience cost effectively as the platform performs a real-time auction to price those spots as the media content loads. TTD has data on individuals preferences allowing media agencies to target their ads to the right people rather than blanketing a multitude of irrelevant people greatly increasing their ROI. But here's the key difference, TTD knows a person's age, gender, location and buying habits but it doesn't know who they are. TTD has no need to hold names, emails or phone numbers and this is its core advantage. Facebook and Google, by the inherent nature of their business models, identifies people and this is their downfall. The biggest issue facing big tech and advertising today is privacy. Media agencies don't want the liability of having customer ID data.

The other issue for Facebook and Google is the rise of connected TV, that is the digitisation of all TV and movie content producers that together make up a size that rivals Google and Facebook. That's giving media buyers a real choice. TTD has aggregated the open internet on their platform. If you go to Google they will sell you google stock, if you go to Facebook they will sell you Facebook stock, if you go to TTD you have access to every content producer outside of Google and Facebook. For example Amazon, ESP, Disney, Hulu, Fox, Spotify, Baidu, Alibaba and Tencent. That aggregation through TTD is giving advertisers the power to simultaneously interact with billions of people.

Strong Partnerships

TTD is building its business on strong partnerships with the biggest players in advertising. Its customers are receiving real value with a retention rate of 95% now in its 22nd quarter. Some of those partnerships are highlighted below.

- Amazon - TTD partnered with Amazon Publisher Services. TTD now has 100% access to Amazon's third party content provider Firesetick.
- Disney - The Disney partnership works through Disney bundles with include Disney + ESPN + Hulu
- Chinese Media - Partnership across Baidu, Alibaba, and Tencent
- Audio - Partnership with Spotify and Pandora

TTD now services the advertising requirements of 60% of Fortune 500 companies. It is also embedded in the fastest growing regions in the world such as Vietnam of 125% revenue growth yoy. Premium inventory partnerships have also been made in Thailand with access to Channel 7, Channel 3 and TrueID TV (second largest broadcaster in Thailand) and VTV (largest free to air broadcaster in Vietnam).

Competition small and fragmented

TTD competes with other demand side platform providers however these are much smaller, privately-held companies or divisions of well-established companies like AT&T, Google, and Adobe. No programmatic company has positioned itself as an aggregator of the open internet and none come close to the size and amount of value added as TTD.

Exceptional business model with financials to match

The strength of TTD's value add and partnerships becomes quantifiable in its financials. Revenue is currently growing at 42% per annum with ROIC at 26%. Its current profitability is notable given the enormous spend required to keep up with growth demand. In Q2 2019 operating spend was increased by \$41m over the previous year or 50% more with EBITDA margins maintained at 36%, higher than most SaaS companies. The exception profitability despite the expense of supporting sustained growth is shown below in Chart One.

TTD Revenue and Funds From Operations 2014 to 2018.

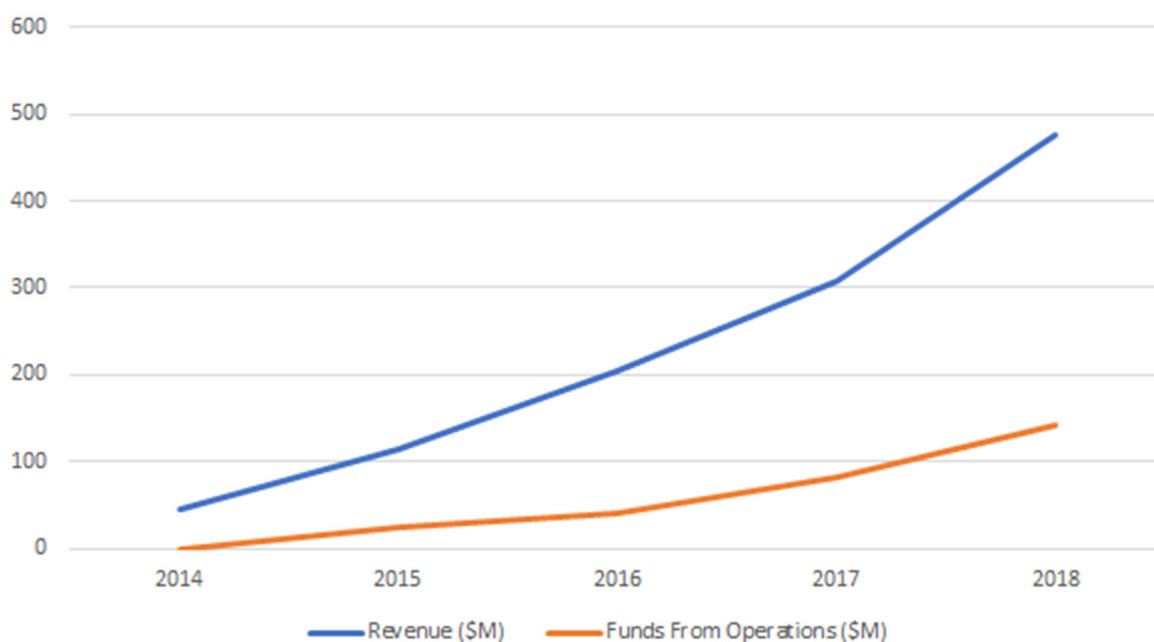


Chart One. TTD's Exception Revenue Growth With Profitable And Growing Funds From Operations (Note EOFY is Dec, FY19 data not available at the time of writing).

Valuation and entry price

We had followed TTD for many months and completed our analysis around October 2018, the stock looked overpriced at that time. The severe market downturn of January 2019 provided quite a gift in bringing quality stocks like TTD down with it and so we were able to make initial purchases on 04/01/2019, 22/01/2019. We made a subsequent purchase on 01/07/2019 as shown in Chart Two below.

TTD Stock Price And Entry Points

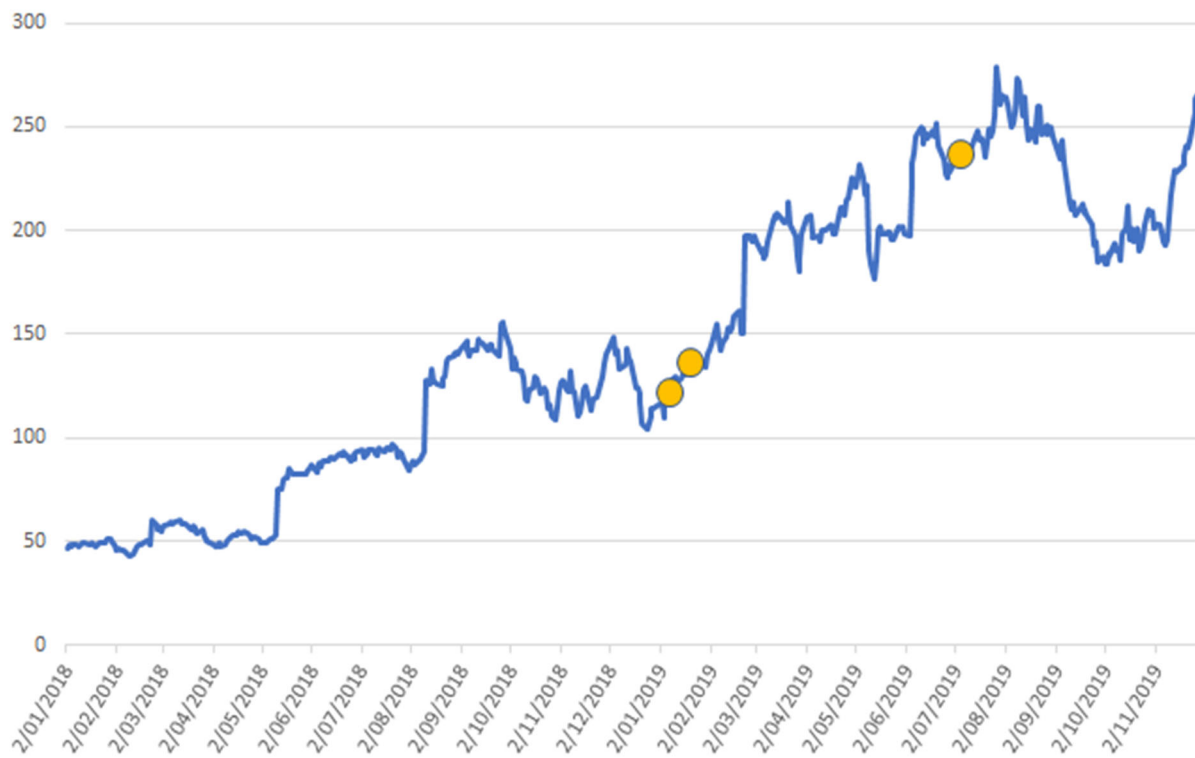


Chart Two. TTD stock price from January 2018 to time of writing, November 2019, with stock purchases on 04/01/2019, 22/01/2019 and 01/07/2019.