

The Trade Desk

Biggest shift in advertising in a generation

INTRODUCTION

The Trade Desk (TTD) is driving 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. 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 viewer's 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.

Sustainability Thesis

TTD is causing significant disruption in the advertising industry because of its focus on data privacy. In gathering consumer data, TTD insists on de-identification. They know a person's age, gender, location, and buying habits but not who they are. This is in stark contrast to Facebook and Google whose business model is inherently ingrained in personal identification.

We see this as a vital evolution of the norms under which technology companies operate. For social media, and the ad trading that funds it, to be sustainable it must address the issue of sharing people's private information.

TTD is also a market-leader in targeting. This is a targeting ability that results in consumers receiving advertising that is more relevant and beneficial to them. Advertisers are now pulling stock from Facebook and Google and placing with TTD for the very reason that it eliminates privacy risk and has industry-leading targeting.

As with most digital-first companies, TTD isn't involved in manufacturing and production of goods. No significant raw materials are consumed by the company. We view the dematerialisation of as many industries as possible as a vital step on the path to sustainability.

The company has a 'Code of Conduct and Ethics' which requires it to comply with applicable governmental laws, rules and regulations. Given the nature of its business, the company is unlikely to contravene any environmental laws, rules and regulations.

Considering the ESG factors and industry trends which are mainly tailwinds for TTD, we believe the company is on a sustainable growth path. We'd like to see more efforts by the company to reduce its ecological footprint and more reporting on any such initiatives. We don't believe any adjustment is required to future cash flows based on our ESG analysis and, in fact, this analysis strengthens our confidence in the future of the company.

Biggest Shift in Advertising in More Than a Generation

TTD is driving 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 pay only for ads delivered to the right person at the right time. Consumers benefit, with fewer ads and much greater relevance. TTD 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, notwithstanding the temporary effects of Covid, is \$726 billion and growing at 4% per annum. Programmatic advertising is currently only \$106 billion but growing 5 times faster than the industry at 20% per year. TTD is growing at 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 advertising, 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 are forced to watch whatever happens to be on at the time of viewing.

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 advertising 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 and the digitisation of all TV and movie content. Together, this group makes up a size that rivals Google and Facebook, and it'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, they have access to: Amazon, ESPN, Disney, Hulu, Fox, Spotify, Baidu, Alibaba and Tencent. It's giving advertisers the power to simultaneously interact with billions of people.

Strong Partnerships

TTD is building its business on a foundation of strong partnerships with the biggest players in advertising. Its customers are receiving real value with a retention rate of 95% now in its 23rd 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 Firestick.
- **Disney** - The Disney partnership works through Disney bundles which 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, with 125% revenue growth year-on-year.

Premium inventory partnerships have also been made in Thailand with access to Channel 7, Channel 3 and TrueID TV (the second largest broadcaster in Thailand) and VTV (the 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 advertising company has positioned itself as an aggregator of the open internet and none come close to the size and amount of value-add 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 18% pre Covid. The advertising industry has been impacted by Covid and TTD June 2020 growth was -13%. This is a temporary situation. Its underlying profitability is notable, given the enormous spend required to keep up with growth demand.

The exceptional profitability, despite the expense of supporting sustained growth, is shown below in Chart One.

TTD Revenue and Funds from Operations 2014 to 2019

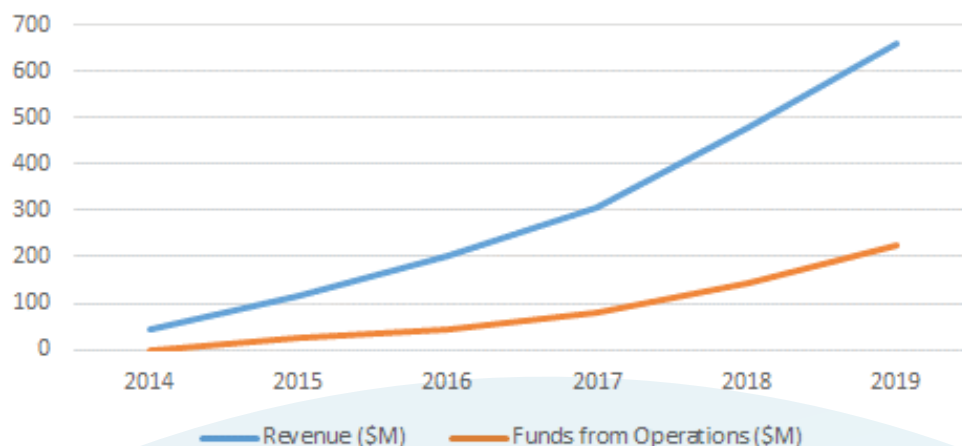


Chart One. TTD's exceptional revenue growth with profitable and growing funds from operations (Note: EOFY is Dec, FY20 data not available at the time of writing).

Valuation and Entry Price

We had followed TTD for many months and completed our analysis around October 2018; the stock was 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 and 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, September 2020, with stock purchases on 04/01/2019, 22/01/2019 and 01/07/2019.