Telaria, Inc.	Symbol: TLRA
Analyst	Stephen Clarke
Buy below	$7.07
Sell above	$10.10
Probability of Price Increase	91%
Last Price	$7.83
Intrinsic Value	$8.08
Target Dividends	$0.00
Target Price	$8.84

Share Price Performance

Legend: Volume (red) — TLRA (black) — Information Technology (blue)

Description

Telaria, Inc. provides a software platform for publishers to manage and monetize video advertising in the United States.

Sector	Information Technology
Industry	Software
Last Guidance	December 11, 2018
Next earnings date	November 5, 2019

People

Caine, Paul, Executive Chairman of the Board	
Zagorski, Mark, CEO & Director	
Rego, John, Senior VP & CFO	
Evans, Katie, Senior VP & COO	
Lee, Steven, Co-Founder and Senior Advisor	
Roberts, Rama, Senior VP & CTO	

Top Competitors

The Rubicon Project, Inc.	The Rubicon Project, Inc.
Digital Turbine, Inc.	QuinStreet, Inc.
Synacor, Inc.	Cardlytics, Inc.
The Trade Desk, Inc.	MDC Partners Inc.
Opera Limited	Frontera Group, Inc.

Market Statistics

Market Capitalization (mil)	$359.59
Last Price per share	$7.83
52 week high	$10.66
52-week low	$2.56
Volatility	56.83%
Daily volume (mil)	0.60
Short interest	5.11%
Days to cover short interest	2.30
Beta	1.12

Financials

Profitability	TLRA (LTM)	TLRA Historical	Peers' Median (LTM)
Return on Capital	5.5%		
Adjusted EBITDA Margin	5.0%	45.98%	47.98%
Return on Equity	-0.8%		
Adjusted Net margin	-1.0%		

Invested Funds	TLRA (LTM)	TLRA Historical	Peers' Median (LTM)
Cash/Capital			
NWC/Capital			
Operating Assets/Capital			
Goodwill/Capital			

Capital Structure	TLRA (LTM)	TLRA Historical	Peers' Median (LTM)
Total Debt/(Market Cap.+ Other Claims on Capital)			
Minority Interest/(Market Cap.+ Other Claims on Capital)			
Preferred Equity/(Market Cap.+ Other Claims on Capital)			
CGFS Credit Rating	D		C
Credit Rating Model	b- to b		b- to b
Probability of Default Model	b+ to bb-		b+ to bb-
Likely Current Cost of Debt	#DIV/0!		6.05%
Likely Current Cost of Equity (Cost of Debt + MRP)	#DIV/0!		11.55%
Likely Current WACC	#VALUE!		#VALUE!

Investment Thesis
UNIQUE LONG-TERM GROWTH PROSPECTS AND MARGIN EXPANSION

I am initiating coverage of Telaria, Inc. with a BUY at market value and a 1-Year Target Price of $8.08. TLRA is a leading sell-side advertising mediator, and they are taking great advantage of the growing Connected TV (CTV) market. They sold their demand side in 2017. According to eMarketer, the percentage of CTV users has grew from 51.7% to 55.5% between 2017 and 2018, and is projected to grow to 59.4% by 2021. Ad impressions on CTV grew from 15% of total impressions in Q4 2017 to 44% in Q4 2018. Going into the future, cord cutting will continue at growring rate, and eMarketer says that right now 30% of US households are unreachable through traditional TV. They believe that number will grow to 41% in 2022. Revenue has growin impressively over the last 4 years, growing from $29.1 million in 2016 to $55.2 million in 2018. In Q2 2019, they posted their first positive EBITDA in any Q2, and are projecting to land between a -$1 million EBITDA to breakeven for 2019 as a whole. They have no debt in their capital structure, and operating expenses are decreasing as a % of sales.

For the long:

1. Partnered with growing, low cost content providers
Telaria is partnered with a number of content providers who make their revenue solely from advertising. Programs like Xumo, Tubi, and Crackle are free programs that rely on advertisers. Their other partners include Hulu, Philo, A&E, Sling, MLB, Fox News, ABC News, and Sinclair's NewsON. There has also been increasing international expansion, as they hold solid market share in the APAC and are growing in Brazil and Canada. While most of their revenue growth has been driven by partnerships they already had expanding their digital advertising budgets, these new partnerships should drive more of that growth as they too become more comfortable expanding their digital advertising budget.

2. Use strong technology and data sources to optimize publisher yield
Telaria uses their transparency to their advantage. They offer their technology to their publishers for them to manage their own inventory with the data and analytics provided by Telaria. They also have a transparent fee that only applies to publishers, so publishers will get a full and accurate view of how their inventory space is being valued and optimized. Telaria has also partnered with Nielsen, and this makes the transition from Traditional TV to CTV much easier for publishers to understand and optimize. Considering the already strong performance, the reputation Telaria will build with big publishers will only encourage more spending on CTV advertising, and will encourage publishers to do it through Telaria.

3. Growth in CTV is young and will only get faster
As mentioned before, CTV is on a sharp rise. In Q2, CTV revenue increased 133% YOY, and comprises 39% of total revenue(revenue also includes mobile and desktop services). CTV advertising is not only growing, but also is sold at a higher price than mobile and desktop advertising, as well as traditional advertising. This suggests potentially accelerating revenue growth, and matching this with declining operating expenses as a % of sales will be good for their already increasing EBITDA.

For the short:
1. Competition in CTV may grow with bigger rivals
According to eMarketer, Youtube consumption still remains largest on mobile and desktop. If Youtube consumption were to start growing more in CTV, that would pose a greater threat of large companies like Google to jump into the CTV space, and they use their own ad companies. Right now, the CTV market remains small with companies like SpotX and FreeWheels.

2. Q3 Earnings coming up short
Q3 tends to slow down, and Telaria is projecting less revenue growth and a breakeven EBITDA at best. If these numbers come in low, that could drive down the price in the short term, and slow down projections going forward.

Key Catalysts for price change
· Growth in CTV ownership
· Price has jumped with Quarterly Earnings results, could happen again, especially with adjusted Q3 projections after strong Q2.
· Large companies entering in to the CTV market
Valuation

Ownership   Change in Ownership (over the past "Number" months)

Shares outstanding (mil)	45.93	
Weighted Diluted shares outstanding (mil)	48.39	
Options and Warrants (Shares equivalent)	4.19	
% shares held by institutions	63%	"INPUT from BB"
% shares held by investments Managers	43%	"INPUT from BB"
% shares held by hedge funds	25.57%	"INPUT from BB"
% shares held by VC/PE firms	16.619%	"INPUT from BB"
% shares held by insiders	3.12%	-36.10%
Poison Pill and Type	NONE	

Quarterly Earning Surprises (Actual/Median Estimates)

Revenue	Last 5 quarters
6/30/2018	$49.72 (-1.3%)
9/30/2018	$53.912 (2.9%)
12/31/2018	$78.624 (25.3%)
3/31/2019	$54.488 (14.8%)
6/30/2019	$72.864 (13.9%)
History:	Last 6 years
Mean Surprise	-9.06%
99th percentile "surprise" range	-114% to 96%

EBITDA	Last 5 quarters
6/30/2018	$-12.088 (88.9%)
9/30/2018	$-8.152 (411.4%)
12/31/2018	$2.816 (-14.2%)
3/31/2019	$-19.276 (50%)
6/30/2019	$-9.292 (284.3%)
History:	Last 6 years
Mean Surprise	261.58%
99th percentile "surprise" range	-431% to 954%

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Cost of Capital Estimates

	CGFS Credit Rating	Credit Rating Model	Probability of Default ModelModel
Implied Cost of Borrowing (TLRA)	7.7%	6.4%	5.7%
Implied Cost of Borrowing (Peers)	6.4%	6.1%	6.0%
	Base Year	Explicit Period (15 years)	Continuing Period
Cost of New Debt Estimate	6.68%	6.68%	6.68%
Country Risk Premium Estimate	5.50%	5.50%	5.50%
Cost of Equity Estimate	12.18%	12.18%	12.18%
WACC Estimate	11.60%	11.60%	11.60%

Forecast Assumptions

Fiscal Year	Revenue Growth	EBITDA Margin	CAPEX/Revenue	DPR/CAPEX	Other	
Base Year (Actual)	26.00%	-7.5%	5.0%	1.31	SBC/Revenue	7.83%
year 1	23.49%	4.4%	2.0%	1.00		Constant/same as LTM
year 2	24.81%	12.6%	3.1%	0.81	Lease term	10
year 3	17.39%	23.4%	3.1%	0.82	Rent Expense/Revenue	8.62%
year 4	15.84%	30.1%	3.1%	0.84		Tappers off to historical average
year 5	14.18%	35.9%	3.1%	0.85	R&D life	10
year 6	13.28%	34.4%	3.1%	0.86	R&D Expense/Revenue	17.00%
year 7	12.20%	33.0%	3.1%	0.88		Constant/same as LTM
year 8	11.13%	31.5%	3.0%	0.89	LIFO Reserve	Tappers off to zero
year 9	10.05%	30.0%	3.0%	0.90	Non-operating pension costs	Tappers off to zero
year 10	8.98%	28.6%	3.0%	0.92	Net financing pensions costs	Tappers off to zero
year 11	7.90%	27.1%	3.0%	0.93	Overfunded pension plans	Tappers off to zero
year 12	6.82%	25.7%	3.0%	0.95	Capitalized interests	Constant/same as LTM
year 13	5.75%	24.2%	3.0%	0.96	Dividends/Revenue	0.00%
year 14	4.67%	22.8%	3.0%	0.97	Tax Rate	25.00%
year 15	3.59%	19.8%	2.9%	0.99		
Continuing Period	2.52%	19.8%	3%	1.00		

Simulation Assumptions

Random Variables	Distribution Assumption	MAX	Likely	MIN
Deviations in annual Revenue Growth--Expl. Per.	Triangular	1.61%	0%	-0.56%
Deviations in annual Revenue Growth --Cont. Per.	Normal	1.52%	0%	-1.52%
Deviations from EBITDA Margin base annual estimates	Triangular	16.02%	0%	-16.02%
Deviations from CAPEX/Revenue base annual estimates	Triangular	0.52%	0%	-0.97%
Deviations from Kd base annual estimates	Triangular	2.46%	0%	-2.66%
Deviations from CRP base annual estimates	Triangular	1.82%	0%	-1.92%
Deviations from TEV/Revenue base estimate	Triangular	10.07	0%	-2.42
Deviations from TEV/Revenue base estimate	Triangular	23.69	0%	-9.59
Change in P/BV (TTM)	Triangular	10.85	0%	-3.14
Change in P/E (FW)	Triangular	24.17	0%	-10.40
Recovery Rate	Triangular	10.00%	0%	-10%

Sensitivity: Price Variance Attribution Analysis

12.83%	Revenue growth
2.93%	EBITDA Margin
62.03%	CAPEX/Rev
17.70%	Discount Rate
0.00%	TEV/Rev
0.00%	TEV/EBITDA
0.07%	P/BV
0.00%	P/E
4.32%	Asset Recovery Rate

Valuation

DCF Valuation

	Base	Explicit Period (Average)	Continuing Period
Revenues	$55.20	$177.68	$303.21
Net Margin	-1%	24%	31%
LFCF	$11.48	$43.80	$90.30
Ke	12.18%	12.18%	12.18%
ROE	-0.80%	29.62%	12.18%

Relative Valuation

	Median Justified Multiple	Basis	Implied Equity Value
EV/Rev (FW)	2.9x	$73.87	$222.94
EV/EBITDA (FW)	19.3x	$5.53	$114.50
P/BV (TTM)	4.4x	$104.81	$462.62
P/E (FW)	39.2x	$4.76	$186.91

Intrinsic Value Distribution--Probability (Upside)=91%

Histogram x-axis: $6.44, $6.73, $7.03, $7.32, $7.61, $7.91, $8.20, $8.50, $8.79, $9.09, $9.38, $9.68, $9.97, $10.27, $10.56, $10.85, $11.15, $11.44, $11.74, $12.03

Asset Based Valuation

Recovery Rate	80%
Capital	$385.11
Intangibles	$13.40
Claims	$56.66
Implied Equity Value	$240.71

Valuation Summary	Intrinsic Value	Target Price	Model Weight
DCF Valuation	$ 8.66	$ 9.42	80%
EV/Rev (FW)	$ 4.24	$ 4.73	0%
EV/EBITDA (FW)	$ 2.18	$ 2.43	0%
P/BV (TTM)	$ 8.80	$ 9.82	10%
P/E (FW)	$ 3.55	$ 3.97	0%
Asset Based Valuation	$ 4.58	$ 5.11	10%
Price per Share	$ 8.27	$ 9.03	100%