

October 26<sup>th</sup>, 2017

**Company Name: TTD**

**Kevin Boland**

**Sector: Advertising**

**Industry: Technology**

**Current Price: \$62.57**

**Target Price: \$75.98**

**Company Description:** The Trade Desk is an advertising technology company that provides buyers with the tools and support to create, manage and optimize data-driven digital advertising campaigns. The company uses a self-service cloud base platform that offers improvements surrounding effectiveness, efficiency and reporting of advertising. By providing these key statistics, The Trade Desk is able to monetize advertising spend more effectively for advertising buyers.

## BUY

Current Price:	\$62.57
Target Price:	\$75.98
Market Cap:	2.55B
ROIC:	18.6%
WACC:	9.31%
EBITDA Margin:	25.5%
D/E:	.14

## Catalysts:

- **Short Term (within the year):** Q3 2017 Earnings combined with customer loyalty and increased spending
- **Mid Term (1-2 years):** Extension of reach in Television and focus on growth of Connected TV
- **Long Term (3+):** Continued expansion into international markets and an effective business model



### Thesis:

The Trade Desk is a relatively new company that has experienced tremendous growth over the past few years. The \$650 billion advertising industry is in need of a product that can eliminate unnecessary spending and provide a better representation of what works for a specific company in their marketing efforts. The Trade Desk's technology platform has demonstrated the ability to be this product. Clients of the company have shown their satisfaction through a high retention rate and continued spending on the platform. The Trade Desk is also positioned to profit off of the shift from traditional TV to Connected TV. The Connected TV channel is seen as a better and faster growing alternative. With the continued efforts in opening sales offices internationally, The Trade Desk will be more diversified and will have a better market share of this massive \$650 billion industry.

### Earnings Performance:

In Q2 2017, The Trade Desk increased revenues by 54% year-over-year to an all-time quarterly high of \$72.8 million. Adjusted EBITDA increased by 60% year-over-year to \$25 million. This figure translates to an EBITDA margin of 35%, which exceeded the company's own expectations. Net income, increased by 148% year-over-year to an all-time quarterly high of \$18.8 million. This increase also came at a time where the company was aggressively investing back into the business in areas of critical future growth. These staggering increases in revenues and relating figures can be attributed to a number of factors. For one, The Trade Desk was able to maintain their 95% customer retention rate for the 14<sup>th</sup> straight quarter. This speaks to the quality of the product as well as the loyalty of the customers. Another catalyst in revenue growth is the increased international growth. In Q2 2017, every single international office set all-time records in sales. Aside from revenue, operating expenses have scaled efficiently with the recent growth of the business. Increases in operating expenses are mainly due to increased investments in personnel, technology and development of other future plans. Looking ahead to next quarter,

...delivering substantial profitability

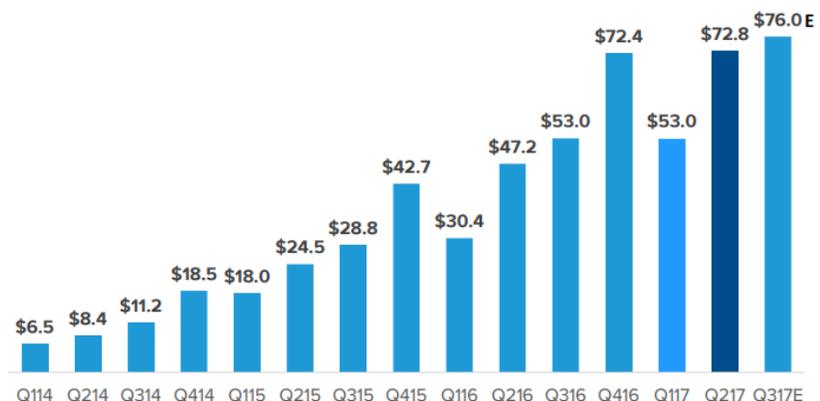
**Adj. EBITDA** (\$ in millions)



**GAAP Net Income** (\$ in millions)



**Revenue (1)**  
(\$ in millions)

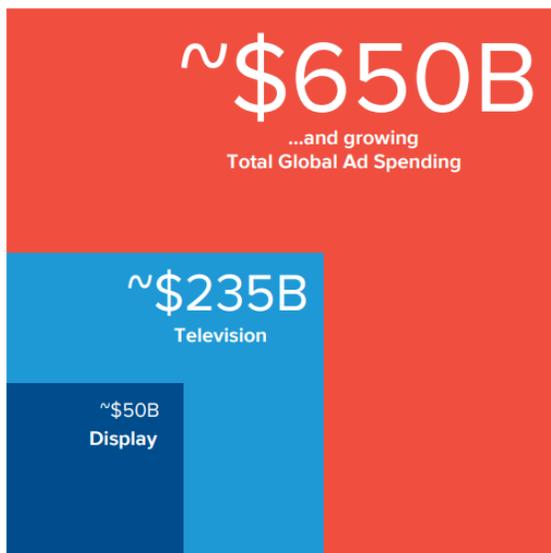


Looking ahead to next quarter,

The Trade Desk expects revenues to increase to \$76 million and adjusted EBITDA to be \$21 million or 27.6% of revenue. For the whole year, revenue is expected to be \$303 million and adjusted EBITDA to be \$88 million or 29% of revenue. Using the company’s expectations combined with first and second quarter results, revenues in Q4 2017 should reach \$101.2 million. This is seasonally their best quarter and would represent a 137% increase year-over year.

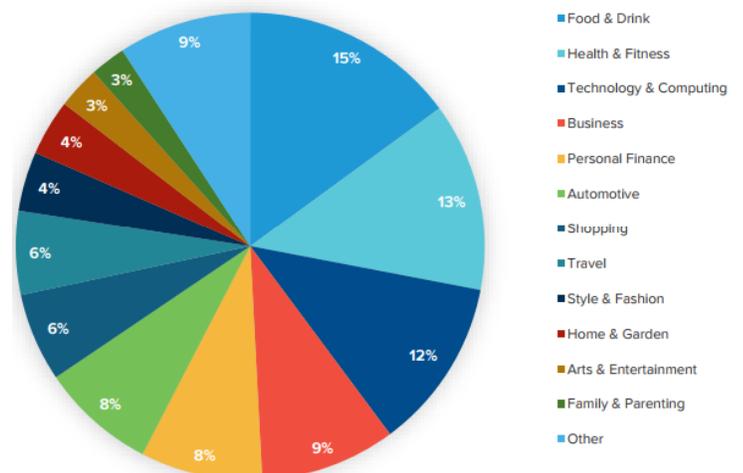
## Industry Outlook:

The Trade Desk is positioned in two industry’s that have shown growth over the years and point to signs of future growth as well. Technology is in high demand at the moment and that does not change for the \$650 billion advertising industry. A lot of money is being spent in advertising and companies must use it effectively in order to make this spending profitable. The rise of the internet has led to wholesale changes in the way media is consumed and monetized. Companies are seeking technology products, such as The Trade Desk, to make better sense of what works in their advertising and how spending can be better utilized. While the Trade Desk management recognizes that there will be fewer advertisements in the future, there will also be more relevant advertisements in order to eliminate wasted spending. This bodes well for The Trade Desk and its customers. By 2020 advertising spending is expected to grow to \$767.1 billion, with a large percentage of that stemming from digital advertising. While there has been and will continue to be wholesale shifts in advertising, the demand for advertising has not waived as companies need a way to promote their product and increase sales.



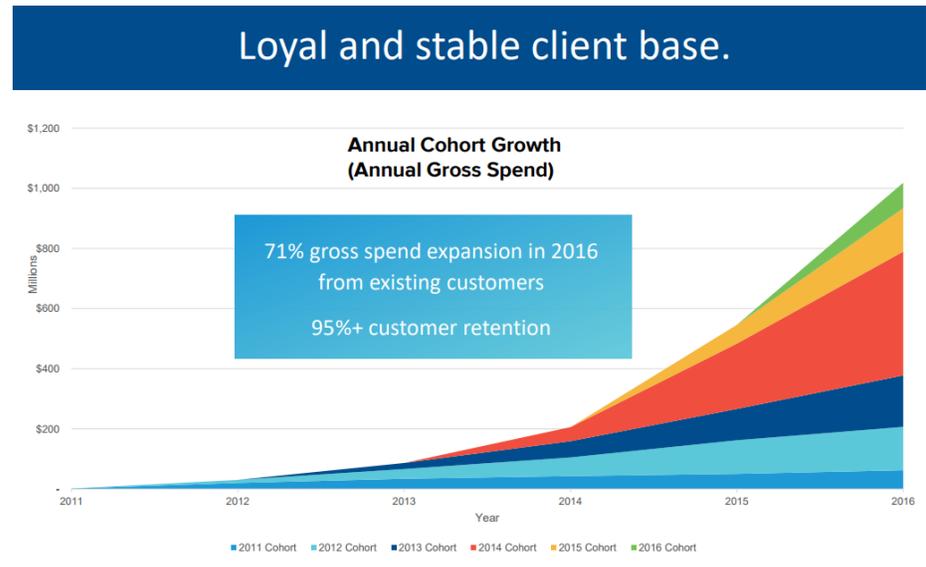
## Industry Concentration

2016



## Customer Base:

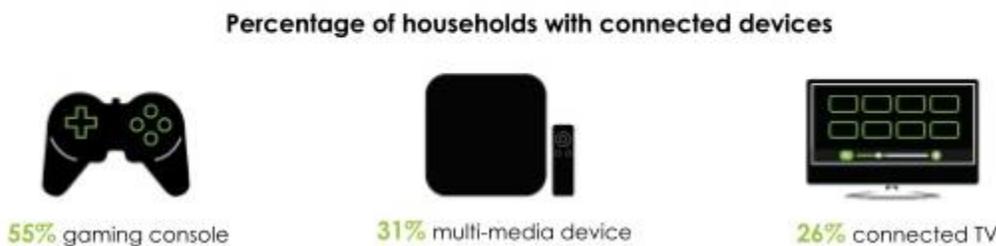
The Trade Desk has approximately 566 clients from some of the world's largest advertising agencies. One of the most impressive figures of the Q2 2017 earnings call was the 95% customer retention rate for the 14<sup>th</sup> straight quarter. This shows a consistent customer loyalty and product satisfaction level that can be maintained for years. Management credits the engineering and business teams syncing together in order to build more trust with clients. Because of this loyalty, The Trade Desk will most likely be consistent with their revenues as they have a solid base to work around. Over time, these clients grow their use of the platform. Customers from 2015 increased their spending on the platform by 71% in 2016. The Trade Desk sees upward spending from clients in areas banking, communications, food and beverage, automotive and consumer electronics. Customers also are using the platform more daily, as daily usage by 75% as compared to a year ago. At the moment, The Trade Desk is protected in sales thanks to their client base which gives room for further investment in the company.



## Television Advertising:

The Trade Desk sees TV as the greatest opportunity in the upcoming years. Television is the largest channel of advertising spending at \$235 billion. However, recent trends have shown a shift from traditional cable to Connected TV. Traditional cable TV is losing millions of subscribers every year to streaming, and more than half of people in their 20's have never even paid a cable bill. More advertisements are being shown to fewer people at a higher price than ever for Traditional TV. Connected TV is basically the fusion of television and the web,

**By 2018 over 75% of US households will have a Connected TV**



where people can stream different shows, use the internet and play games all from their TV. 64% of people in the U.S. own a Connected TV and a large percentage of that comes from younger people. For The Trade Desk, Connected

TV spending on their platform has increased by just under 200% year-over-year. Management firmly believes that this number will continue to rise as traditional TV viewing decreases more in the future. They also believe they are better positioned than any of their competitors to take advantage in this shift, due to their early and continued investments in this channel.

## International Expansion:

The Trade Desk has a proven loyal customer base within the United States. In order to capture a larger market, they have begun to open international sales offices. Advertising is a global need that exists for every company regardless of geographic location. The Trade Desk sees international expansion as a tremendous opportunity to penetrate massive markets that have the need for their product. They currently have 20 offices worldwide, with 11 being international. They have specifically targeted major media markets such as London, Singapore, Hamburg, Tokyo and Hong Kong. Countries like Indonesia are relatively untapped markets that have potential for massive opportunities, as they are nearly similar in population to the U.S. The Trade Desk captures market share by investing ahead, building trust and demonstrating advertisement value. This specific, targeted approach has produced excellent results so far. In Q2 2017, the year-over-year quarterly growth for international offices was 130%. While it takes time to reach maturity in these offices, older offices such as Hamburg and Tokyo broke out of the adoption phase and grew by 150% and 300% respectively. Across the board, all international offices had record quarters. These metrics are the reason why management has allocated capital internationally. About two-thirds of advertising spending comes from outside of the U.S. The Trade Desk will continue to follow this spending by growing and maturing their international presence.

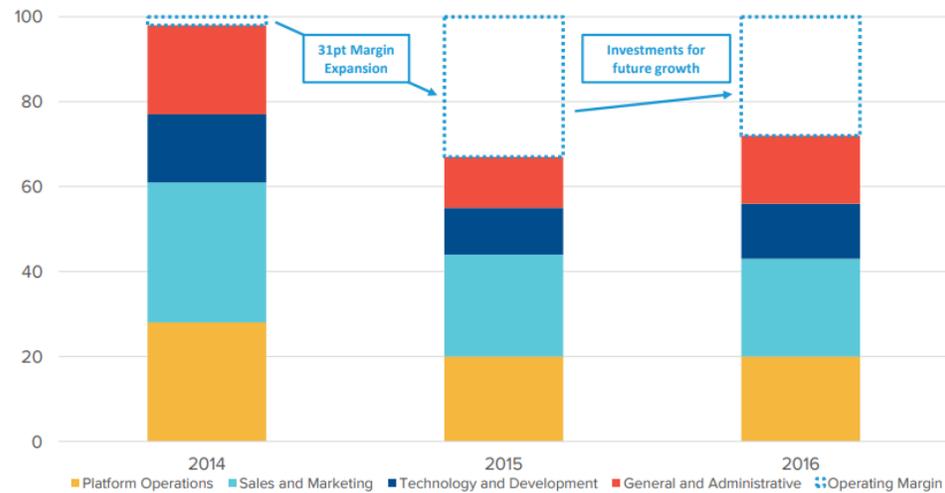
The Trade Desk is global.



## Business Model:

The Trade Desk's business model is something that management takes great pride in and place tremendous focus on. They believe that there does not need to be a choice between growth and profitability. Over the past three years, they have increased both growth and profitability. As seen in the chart below, EBITDA Margin is currently near the top of their competitors at 30.22%. During this time, operating spending was increased by over \$20 million. This means that their investment was up 65% over the previous year. Management sees this as a great position of strength as they are investing as aggressively as they can and still producing a top of the industry EBITDA margin.

Operating Income Margin and Expenses



Name (BICS Best Fit)	Sales Growth Yoy (%)	EBITDA Margin (%)	Sales (\$M)	GAAP EBITDA (\$M)	ROIC	WACC	EVA (\$M)	Operating Margin (%)
Median	3.06%	14.46%	940.05M	183.03M	15.50%	7.71%	10.39	12.49%
100) TRADE DESK INC/THE -C...	78.26%	30.22%	202.93M	61.32M	18.60%	9.31%	20.93	28.34%
101) SHUTTERSTOCK INC	16.27%	13.30%	494.32M	65.73M	10.84%	11.03%	-0.51	9.26%
102) ABV CONSULTING INC	--	-3476.15%	2.00k	-69.52k	81.59%	9.40%	-0.14	-3476.15%
103) MDC PARTNERS INC-A	4.49%	11.09%	1.39B	153.66M	4.25%	8.31%	-26.45	7.74%
104) NATIONAL CINEMEDIA INC	0.25%	47.45%	447.60M	212.40M	18.88%	5.83%	97.79	39.45%
105) INTERPUBLIC GROUP OF ...	3.06%	14.00%	7.85B	1.10B	15.16%	7.11%	356.17	11.95%
106) OMNICOM GROUP	1.87%	14.93%	15.42B	2.30B	15.84%	7.00%	797.62	13.03%
107) OUTFRONT MEDIA INC	0.01%	28.38%	1.51B	429.70M	6.14%	7.07%	-32.28	13.57%

## Conclusion:

The Trade Desk will continue to provide the advertising industry with the technology necessary to better understand their spending. With large industry wide shifts in advertising, comes great opportunity. By investing in Connected TV and expanding their international presence, The Trade Desk is positioned to grow with these changes. The Trade Desk is ahead of the curve in these areas and will continue to act on trends through innovation and investment. With the help of strong EBITDA margins and a loyal customer base, The Trade Desk will outperform their competitors and grow accordingly.

**The Trade Desk, Inc. (TTD)**

**CENTER FOR GLOBAL FINANCIAL STUDIES**

**BULLISH**

Analysis by Kevin Boland  
10/27/2017

Current Price: \$63.31  
Divident Yield: 0.0%

Intrinsic Value: \$65.63  
Target Price: \$75.98

Target 1 year Return: 20.01%  
Probability of Price Increase: 98.5%

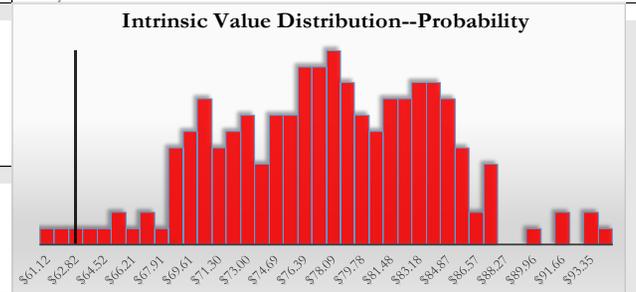


<b>Description</b>	
The Trade Desk, Inc., a technology company, operates a self-service cloud-based platform that enables advertising buyers to create, manage, and optimize data-driven digital advertising campaigns using their own teams in the United States and internationally.	
<b>General Information</b>	
Sector	Information Technology
Industry	Internet Software and Services
Last Guidance	November 3, 2015
Next earnings date	November 10, 2017
Estimated Country Risk Premium	7.57%
Effective Tax rate	24%
Effective Operating Tax rate	24%

<b>Market Data</b>	
Market Capitalization	\$2,581.86
Daily volume (mil)	0.52
Shares outstanding (mil)	40.78
Diluted shares outstanding (mil)	34.72
% shares held by institutions	81%
% shares held by investments Managers	50%
% shares held by hedge funds	9%
% shares held by insiders	20.37%
Short interest	9.69%
Days to cover short interest	4.06
52 week high	\$67.30
52-week low	\$22.00
Volatility	0.00%

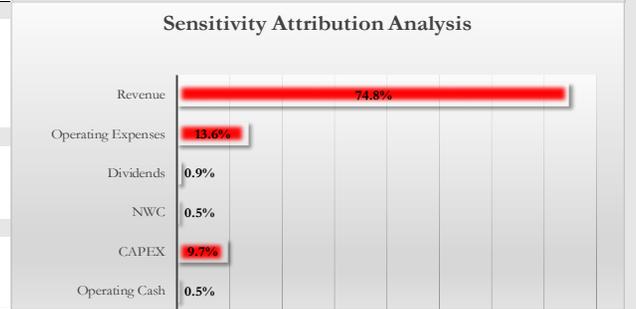
<b>Past Earning Surprises</b>	
Quarter ending	Revenue
6/30/2016	N/A
9/30/2016	0.68%
12/31/2016	16.23%
3/31/2017	21.25%
6/30/2017	28.7%
Mean	10.26%
Standard error	5.0%

<b>EBITDA</b>	
6/30/2016	N/A
9/30/2016	11.18%
12/31/2016	24.55%
3/31/2017	242.90%
6/30/2017	30.43%
Mean	77.26%
Standard error	55.4%



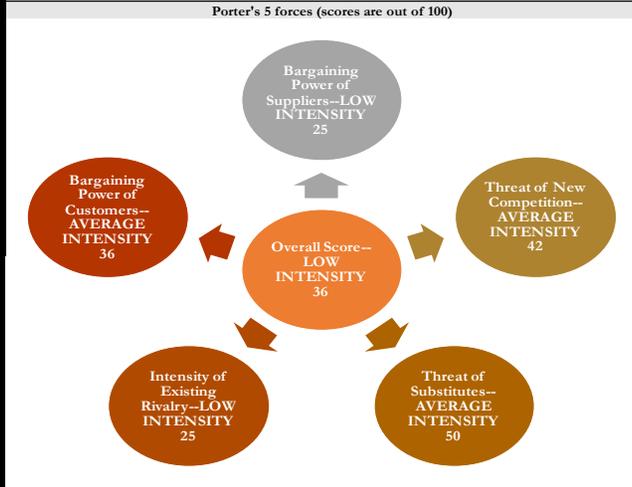
<b>Management</b>	
Green, Jeffrey	Co-Founder, Chairman, Presid
Ross, Paul	Chief Financial & Accounting
Perdue, Robert	COO & Director
Stempeck, Brian	Chief Client Officer
Pickles, David	Founder & CTO
Blackler, Mike	Vice President of Strategic

<b>Total compensations growth</b>	
6/30/2016	317.53% per annum over 1y
9/30/2016	234.1% per annum over 1y
12/31/2016	246.23% per annum over 1y
3/31/2017	244.62% per annum over 1y
6/30/2017	N/M
Mean	N/M
Standard error	N/M



<b>Profitability</b>	
Return on Capital (GAAP)	59.7%
Operating Margin	24%
Revenue/Capital (GAAP)	2.44
ROE (GAAP)	52.4%
Net margin	24.4%
Revenue/Book Value (GAAP)	2.14
<b>Invested Funds</b>	
Cash/Capital	48.4%
NWC/Capital	26.2%
Operating Assets/Capital	25.5%
Goodwill/Capital	0.0%
<b>Capital Structure</b>	
Total Debt/Market Capitalization	0.15
Cost of Existing Debt	6.0%
CGFS Rating (I-score, Z-score, and default Probability)	A
WACC	13.3%

<b>Peers</b>	
TrueCar, Inc.	N/M
Alphabet Inc.	N/M
MuleSoft, Inc.	N/M
Benefitfocus, Inc.	N/M
2U, Inc.	N/M
New Relic, Inc.	N/M
Yelp Inc.	N/M
Shutterstock, Inc.	N/M
<b>Total return to shareholders</b>	
6/30/2016	14.40%
9/30/2016	6.40%
12/31/2016	2.25
3/31/2017	203.8%
6/30/2017	20.4%
Mean	10.00



<b>Revenue Growth Forecast</b>	
Base Year	69%
6/30/2018	40%
6/30/2019	31%
6/30/2020	24%
6/30/2021	20%
6/30/2022	19%
6/30/2023	17%
6/30/2024	16%
6/30/2025	10%
6/30/2026	7%
6/30/2027	6%
Continuing Period	3%

<b>Valuation</b>	
<b>NOPAT Margin Forecast</b>	
Base Year	33.2%
6/30/2018	37.9%
6/30/2019	39.6%
6/30/2020	41.0%
6/30/2021	42.3%
6/30/2022	43.6%
6/30/2023	43.9%
6/30/2024	43.6%
6/30/2025	39.5%
6/30/2026	35.1%
6/30/2027	34.6%
Continuing Period	34.3%

<b>Return on Invested Capital Forecast</b>	
Base Year	35.9%
6/30/2018	38.6%
6/30/2019	40.3%
6/30/2020	41.3%
6/30/2021	42.8%
6/30/2022	45.3%
6/30/2023	46.8%
6/30/2024	47.6%
6/30/2025	42.9%
6/30/2026	38.2%
6/30/2027	38.2%
Continuing Period	37.8%

<b>Revenue to Capital Forecast</b>	
Base Year	1.08
6/30/2018	1.02
6/30/2019	1.02
6/30/2020	1.01
6/30/2021	1.01
6/30/2022	1.04
6/30/2023	1.07
6/30/2024	1.09
6/30/2025	1.09
6/30/2026	1.09
6/30/2027	1.10
Continuing Period	1.10
<b>WACC Forecast</b>	
Base Year	13.3%
6/30/2018	12.7%
6/30/2019	12.7%
6/30/2020	12.5%
6/30/2021	12.4%
6/30/2022	12.3%
6/30/2023	12.2%
6/30/2024	12.5%
6/30/2025	12.8%
6/30/2026	12.5%
6/30/2027	12.5%
Continuing Period	12.5%
<b>Price per share Forecast</b>	
Base Year	\$63.62
6/30/2018	\$73.80
6/30/2019	\$84.29
6/30/2020	\$95.63
6/30/2021	\$107.73
6/30/2022	\$120.54
6/30/2023	\$133.95
6/30/2024	\$148.17
6/30/2025	\$163.03
6/30/2026	\$177.71
6/30/2027	\$192.53
Continuing Period	\$192.53