

Initiating Coverage:

# The Trade Desk Inc.

Trading ads, trading innovation, or simply trading normally?

**Key Take-away:** Every business is driven by sales, and The Trade Desk (TTD) provides an optimized way for business to maximize sales through their programmatic advertising services. With demand increasing within this space, TTD has become a major player that is relied upon by hundreds of advertising agencies as well as major companies. For instance, outstanding partnerships with some of the biggest streaming services such as Netflix and Disney have TTD positioned to continue increasing their revenue. However, the market may have already baked in this growth into TTD's high valuation, which combined with increasing programmatic advertising competition, could leave TTD in danger of slowed growth. They will have to rely on strong customer retention on top of continuing to gain new business with innovative technology in a growing market.

**Connected TV is the Future:** It's no secret that cable is losing its grasp on homes today, but that doesn't mean television isn't still here to stay. Connected TV (CTV), television that streams content through the internet, is rapidly becoming more prevalent in the industry, particularly one that remains one of the largest spenders for advertisement buyers. For these media and content companies that utilize CTVs, very few use only subscription-based plans. Many of them, like Netflix, for instance, are turning to a hybrid approach where advertising is becoming more utilized. TTD stands to further gain from this trend as they have proven to be a reliable leader within programmatic advertising. Additionally, they are looking to make their mark on the CTV operating system (OS) market, with the November announcement of their own OS, Ventura. TTD claims Ventura will address issues with user experience and ad supply chains that current CTV OS face.

**Strong UID2 Demand:** With third-party cookies largely phased out and less effective than ever, companies are looking for a more modern solution for their targeted advertising needs. This has led to an increasing demand for TTD's premier technology, UID2. This software has become the framework of choice for companies using digital marketing to target advertisements to specific users across all their devices. Additionally, UID2 can do it in an efficient and safe manner, as it protects user privacy by keeping their identities anonymous. UID2 has been at the forefront of TTD's growth, and we envision further widescale implementation of this technology.

**Valuation:** We initiate coverage with a \$125 PT.



Consortium Equity Research  
TMT | Digital Advertising  
December 23<sup>rd</sup>, 2024

Stock Rating: Equal Weight

Price Target: \$125.00

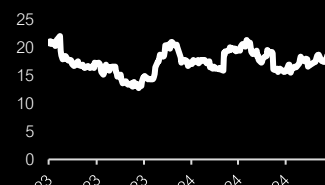
Price: \$121.67

Potential Upside/Downside: 2.7%

Ticker(s): \$TTD

Market Cap: \$60.05b  
Shares Outstanding: 494mm  
Free Float (%): 90.70%  
Dividend Yield: N/A

1 Year History



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## Peer Comparisons

### Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
AppLovin Corporation (NasdaqGS:APP)	\$ 113,011	\$ 115,953	101.8x	\$ 4,290	\$ 1,976
Criteo S.A. (NasdaqGS:CRTO)	\$ 2,250	\$ 2,166	25.0x	\$ 1,947	\$ 240
Magnite, Inc. (NasdaqGS:MGNI)	\$ 2,362	\$ 2,594	141.1x	\$ 661	\$ 91
Pinterest, Inc. (NYSE:PINS)	\$ 20,491	\$ 18,203	97.3x	\$ 3,473	\$ 177
<b>The Trade Desk, Inc.</b>	<b>\$ 63,449</b>	<b>\$ 62,010</b>	<b>207.3x</b>	<b>\$ 2,310</b>	<b>\$ 446</b>

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
AppLovin Corporation (NasdaqGS:APP)	58.68	73.9%	46.1%	35.8%	41.5%
Criteo S.A. (NasdaqGS:CRTO)	9.03	49.2%	12.3%	8.6%	(0.1%)
Magnite, Inc. (NasdaqGS:MGNI)	28.53	60.5%	13.7%	7.0%	8.7%
Pinterest, Inc. (NYSE:PINS)	102.78	78.9%	5.1%	4.5%	17.7%
<b>The Trade Desk, Inc.</b>	<b>138.97</b>	<b>81.1%</b>	<b>19.3%</b>	<b>16.3%</b>	<b>26.1%</b>

High	138.97x	81.1%	46.1%	35.8%	41.5%
75th Percentile	102.78x	78.9%	19.3%	16.3%	26.1%
<b>Average</b>	<b>67.60x</b>	<b>68.7%</b>	<b>19.3%</b>	<b>14.4%</b>	<b>18.8%</b>
<b>Median</b>	<b>58.68x</b>	<b>73.9%</b>	<b>13.7%</b>	<b>8.6%</b>	<b>17.7%</b>
25th Percentile	28.53x	60.5%	12.3%	7.0%	8.7%
Low	9.03x	49.2%	5.1%	4.5%	-0.1%

### The Trade Desk, Inc. Valuation

Implied Enterprise Value (25th Percentile)	\$ 12,731
<b>Implied Enterprise Value (Median)</b>	<b>\$ 26,183</b>
Implied Enterprise Value (75th Percentile)	\$ 45,862
Implied Share Price (25th Percentile)	27.6746413
<b>Implied Share Price (Median)</b>	<b>\$ 54.93</b>
Implied Share Price (75th Percentile)	94.79867543

Source: (CapIQ)

## Company Overview

**AdTech Space:** At its core, The Trade Desk (TTD) is a digital advertising service company that provides customized service and platforms to each of its clients through innovative technology. Primarily, they allow ad buyers to manage and optimize their campaigns on TTD's cloud service across a wide variety of formats and devices. This means their client base mainly consists of advertising agencies as well as other service providers for these agencies. Their clients specifically look to TTD for programmatic advertising inventory and data that allows for maximum ad reach. TTD charges based on a percentage of the total money spent on digital ads using their service, so the more money spent on advertising directly leads to more revenue, boding well for their future cash flow.

**Technological Innovation:** The way TTD attracts clients and how they will continue to do so all stems from their leading technologies within the AdTech space. As I mentioned before, their UID2 technology allows companies to identify single users across all their devices, which will continue to be valuable to advertisers in a world where everyone has multiple devices. Additionally, their Kokai platform integrates AI into an intuitive, user-friendly ad buying platform. Kokai provides access to millions of ad impressions

at any given second, so users know which impressions to buy at any moment that can reach the target audience. Finally, Ventura, a new technology just announced in November of 2024, is a connected TV (CTV) operating system (OS) that provides a transparent and more efficient way for CTV advertisers to create personalized ad experiences. It is meant to address current inefficiencies with ad supply chains and user interfaces, features TTD hopes can help it gain streaming OS market share.

**Expansion Plan:** Looking ahead, TTD seeks to capitalize on the increase in spending on digital advertising as well as the quickly rising popularity of CTV. Additionally, they've expressed a desire to expand more into the international advertising space, as just 11% of their revenue comes from outside North America while 67% of all ad spend is outside North America. Another area they are currently finding success in is retail marketing with many large retailers looking to create their own advertisement ecosystems for online customers.

## Industry Overview

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**Connected TV In, Cable Out:** "Cutting the cord" is far and away the defining trend within the media and television landscape, still going strong from over a decade ago. In fact, in 2023, over 60% of US households reported not having a traditional cable TV subscription, which was a 7% increase from the previous year. Ever since the peak of cable in 2010, there has been a steady decrease year after year, a trend that experts see continuing. Streaming services offer much greater flexibility and customizability for consumers, reshaping the advertising industry as a result. In particular, CTV ad spend is through the roof, as it's expected to reach \$30.1 billion by the end of 2024, an increase of 22.4% from 2023. Furthermore, by 2027, streaming is expected to account for 68% of all TV ad spend, which is a huge for TTD's upside.

**AI Boom Into ... Advertising?** All the talk for the last few years within tech has been Nvidia and the AI boom. We know, it sounds repetitive at this point. However, it would be negligent not to mention it, as it has very real effects on the digital advertising space that could benefit TTD greatly. Globally, the market for AI-driven marketing is projected to grow from \$41.9 billion in 2023 to a massive \$220.1 billion in 2030, representing a 26.7% compound annual growth rate (CAGR). This continued investment into AI represents a larger shift into predictive and data-driven analysis that all businesses are looking to utilize. For marketing specifically, increasing AI computing power is reflected in improvements in ad campaign optimization, where ads are targeted for specific audiences at certain times, channels, and places.

**Future of Cookies and Data Privacy:** Google has had plans to completely phase out cookies in their Chrome browser since 2020, but they have faced many delays and pushbacks. This process finally started making progress in early 2024 until Google announced in July that they were completely stopping cookie deprecation within Chrome. While this means that advertisers can still use third-party cookies to a certain degree, their effectiveness has taken a permanent turn for the worse. Increasing data privacy protection and regulation has left many companies looking for non-cookie options to still allow for effective targeted advertising. Thus, technologies that allow for non-identifying user tracking such as TTD's UID2 should prove more fruitful in a more data-protected and transparent future.

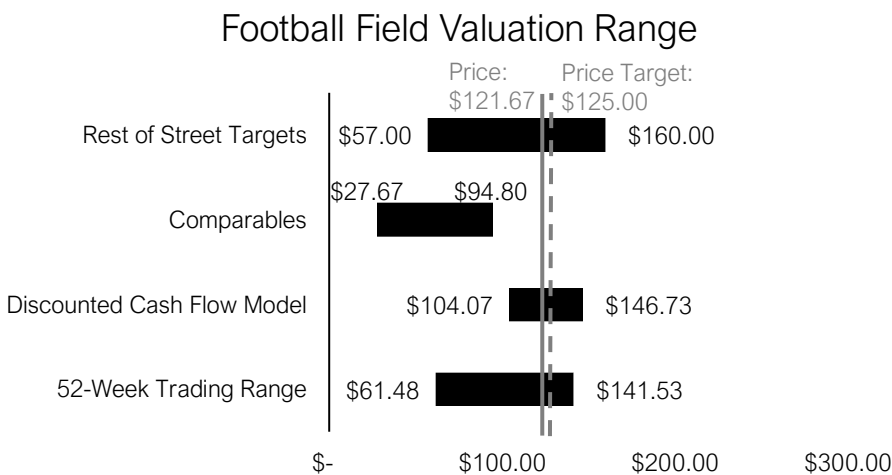
Investment Thesis

**Massive Market:** TTD has the benefit of working in one of the largest addressable markets in the world in advertising. According to their estimates, the entire global advertising space exceeds a whopping \$1 trillion, which leaves TTD with massive room for growth and expansion. We believe the continued diversification of their business model, particularly by leveraging partnerships with major Connected TV players as well as the digitization of retail marketing, will allow them to secure more high-profile clients and expand deeper into the \$1 trillion space as a mainstream player.

**Tempered Q3 Earnings:** TTD’s third quarter earnings were by no means bad. In fact, they still beat out expert projections across the board with \$628M in revenue and \$0.41 adjusted EPS, up 1.2% and 4%, respectively, on estimates. However, we believe these earnings may not be enough to continue justifying their incredibly high valuation, which has investors banking on even faster-paced growth. TTD forecasts Q4 revenue of \$756M, which would place their Q4 YoY revenue growth at 24.8% and FY24 YoY revenue growth at 26.4%. At a current enterprise value of \$60.3B, their EV/FQ3 LTM revenue multiple is 26.1x, which in our eyes is a steep valuation, even for an impressive growth rate.

Price Target & Valuation

Our analysis gives \$TTD a price target of \$125.00 and an Equal Weight rating.



Our Price Target: **\$125.00**

Our PT is based on TTD’s continued CTV expansion at an organic rate, following the trend away from cable. They also solidify themselves in the lower upside retail marketing space within an improving economy, affording them a safety net of sustained revenue growth.

Our Upside Case: **\$145.00**

Our upside case is based on TTD capturing significant digital advertising market share in strong macroeconomic conditions, as advertisement budgets explode, and consumers switch to CTVs at increased rates. Additionally, UID2 becomes an essential framework for companies searching for consumer identity solutions.

Our Downside Case: **\$105.00**

Our downside case sees TTD unable to sustain their strong revenue growth due to unfavorable macroeconomic conditions, leading to cuts in advertising spending. Additionally, they lose digital advertising market share to more established companies as well as emerging startups in a highly competitive space.



## Potential Downsides to Our Rating

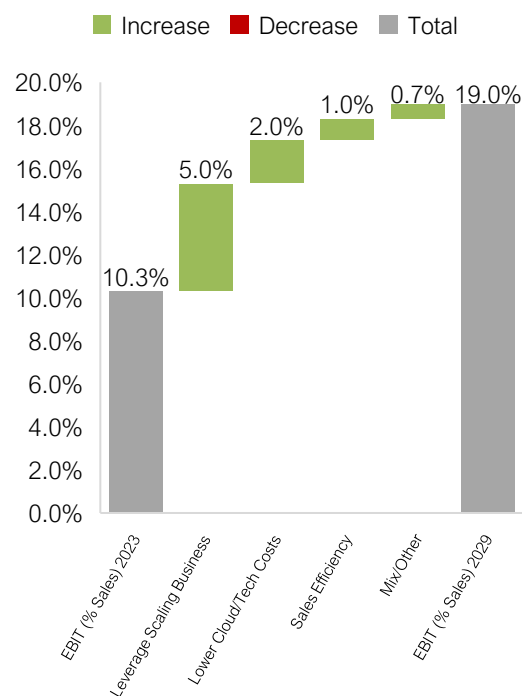
**Low Client Retention/Expansion:** In an increasingly competitive market with many tech giants looking to grasp market share within the AdTech space, TTD could fail to reach their lofty growth expectations. Huge AI tech players like Google and Meta have both recently invested more into programmatic advertisement services, and in TTD’s current position, they must not only retain the vast majority of their clients but also continuously add new ones. If they at all falter in growing their client base, their high-paced growth will suffer.

**Cookies Still Allowed:** When Google was still planning on deprecating all cookies from their Chrome browser, it was projected to be a huge boost to TTD’s UID2 sales, as we foresaw a large switchover with many companies starting to use UID2 as a replacement. However, with Google now saying cookies will no longer be fully banned on chrome, it could lead to lower UID2 sales for TTD, which we saw as one of their primary growth drivers.

**Steep Valuation:** A huge part of the risk with TTD is not inherently with the company’s business model or with the market itself: it’s simply that at their current valuation, it’s unreasonable to expect significantly more growth in stock price. With a NTM Forward PEG ratio of 3.59 (using 2025 EPS growth rate estimates), this falls much higher than a comfortable PEG ratio, even for high-growth companies. Additionally, their Price-to-Sales ratio of 26.5 falls much higher than their 3y, 5y, and 7y median ratios, which have historically been times when the stock is in an overvalued state. We see their current stock price as an assumption of high future growth, and any doubt that investors see with TTD being able to sustain this growth could cause a large drop in stock price.

## Projections

EBIT Waterfall Chart



Income Statement (\$mm)	2023A	2024E	2025E	2026E	2027E	CAGR%
Revenue	1,946	2,463	3,076	3,788	4,600	24.0%
EBITDA	267	526	666	833	1,027	40.1%
EBIT	201	441	557	695	854	43.7%
EBIAT	104	243	141	40	111	1.7%

Margin & Growth Data	2023A	2024E	2025E	2026E	2027E	AVG%
EBITDA Margin	13.7%	21.4%	21.7%	22.0%	22.3%	20.2%
EBIT Margin	10.3%	17.9%	18.1%	18.3%	18.6%	16.6%
Revenue Growth	23.3%	26.6%	24.9%	23.2%	21.4%	23.9%
EBIT Growth	76.3%	120.2%	26.2%	24.7%	22.9%	54.1%

Valuation Metrics	2023A	2024E	2025E	2026E	2027E	AVG%
P/FCF	497.1x	493.8x	243.6x	171.1x	124.2x	306.0x
EV/Sales	30.4x	24.0x	19.2x	15.6x	12.9x	20.4x
EV/EBITDA	221.5x	112.4x	88.7x	71.0x	57.6x	110.2x
FCF Yield	0.2%	0.2%	0.4%	0.6%	0.8%	0.4%

## About \$TTD

The Trade Desk, Inc. (NASDAQ: TTD), founded in 2009 and headquartered in Ventura, California, operates as a leading technology company specializing in programmatic advertising. The company provides a cloud-based platform that empowers buyers of advertising to create, manage, and optimize digital ad campaigns across various channels, including mobile, display, video, connected TV (CTV), and social media. Operating globally, The Trade Desk serves clients in North America, Europe, Asia-Pacific, and other regions, focusing on transparency, data-driven insights, and superior campaign performance. Its key purpose is to revolutionize the advertising landscape by enabling brands, agencies, and content creators to leverage advanced data and artificial intelligence tools for highly targeted and effective audience engagement.

## Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities. **Overweight** means the analyst team believes the stock price will outperform the coverage industry (TMT, Healthcare, Industrial, Consumer, FIG) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry. **Underweight** means the team expects underperformance relative to the industry.

## Appendix

The Trade Desk, Inc.  
Discounted Cash Flow

Active Case:	2 Base
Current Share Price	\$121.67

DCF Analysis (\$mm)											
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029
Stub						0.02	0.02	0.02	0.02	0.02	0.02
Discount Period						0.01	0.52	1.52	2.52	3.52	4.52
Revenue	661.10	836.00	1,196.50	1,577.80	1,946.10	2,463.00	3,068.41	3,760.64	4,533.07	5,372.60	6,259.08
Revenue Growth	#REF!	26%	43%	32%	23%	27%	25%	23%	21%	19%	17%
EBIT	112.20	144.20	124.80	113.70	200.50	441.49	549.86	674.66	814.14	965.99	1,126.63
EBIT Margin	17%	17%	10%	7%	10%	18%	18%	18%	18%	18%	18%
Tax Expense	7.90	(98.40)	(15.70)	74.00	89.10	138.20	115.47	141.68	170.97	202.86	236.59
Effective Tax Rate	7%	-68%	-13%	65%	44%	31%	21%	21%	21%	21%	21%
NOPAT	104.30	242.60	140.50	39.70	111.40	303.29	434.39	532.98	643.17	763.13	890.04
D&A	16.20	22.60	37.20	47.40	66.40	84.41	108.67	137.50	170.94	208.75	250.36
Capex	35.70	74.10	54.80	84.20	46.80	114.39	132.42	149.92	165.81	178.85	187.77
Changes in NWC	143.10	(29.00)	126.30	46.40	56.20	151.70	169.60	184.10	193.27	195.12	187.77
UFCF	211.70	139.50	212.00	1.90	120.80	121.61	241.04	336.46	455.02	597.91	764.86
PV of FCF						121.48	228.64	288.43	352.53	418.65	484.01

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.24%
Beta	1.44
Risk Free Rate	4.60%
Cost of Equity	10.65%
Weighted Average Cost of Debt	0.00%
Tax Rate	20.00%
Cost of Debt	0.00%
Total Equity	\$60,053
Total Debt	(\$928)
Equity/Total Capitalization	99.51%
Debt/Total Capitalization	0.49%
WACC	10.65%

Terminal Value	
Perpetuity Growth Method	
2029 FCF	\$765
Growth	0.00%
Terminal Value	\$7,182.31
PV of Terminal Value	4544.991706
PV of Projection Period	\$1,894
PV of Terminal Value	\$4,545
Implied TEV	\$6,439
(-) Debt	\$293
(+) Cash	\$1,222
Implied Equity Value	\$7,367
Basic Shares Outstanding	494
Implied Share Price	14.92590074
Upside/Downside	-87.7%

Implied BF EV/EBIT	14.58
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Terminal Value	
Exit Multiple Method	
2029 Revenue	\$6,259
EV/Sales Exit Multiple	15x
Terminal Value	\$93,886
PV of Terminal Value	\$59,411.53
PV of Projection Period	\$1,894
PV of Terminal Value	\$59,412
Implied TEV	\$61,305
(-) Debt	\$293
(+) Cash	\$1,222
Implied Equity Value	\$62,234
Diluted Shares Outstanding	494
Implied Share Price	\$126.09
Upside/Downside	3.6%

Implied PGR	-0.81%
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Blended Share Price	
Perpetuity Growth Method	0%
Exit Multiple Method	100%
Blended Share Price	\$126.09
Upside/Downside	3.6%