Why You Should Buy The Trade Desk

Tom Gardner | October 20, 2017 | Buy Recommendation

CURRENT PRICE: TTD $ 417.70 ↑ $ 14.90 (3.7%) Ćŵąŏ Ǵ ǀ Ŷŕ Ḃ≈ÃǑǴ ̀Ȁǹ Ąǫ Ąį ǀ ïŅ ὺ

TOM GARDNER'S OCTOBER 2017 RECOMMENDATION:

*Since 2002, Motley Fool co-founder **Tom Gardner** (TMFTomG) has beaten the S&P 500 by 48.2 percentage points for Stock Advisor members. Tom, a native of Washington, D.C., graduated with an honors degree in English and creative writing from Brown University in 1990.*

THE TRADE DESK IN 1 MINUTE

What It Does

The Trade Desk operates a cloud-based technology platform that lets ad buyers optimize their spending, getting the right ads in front of the right shoppers at the right time.

Company Guide

- **Industry:** Software
- **Asset Class:** Mid
- **Region:** US
- **Price on June 21, 2020:** $ 402.80

Key Data

- **Headquarters:** Ventura, CA, US
- **Sector:** Technology
- **Market Cap:** $3B

Add TTD to Your Favorites

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See Why Tom Likes The Trade Desk

Advertising is at the start of a once-in-a-generation shift, and **The Trade Desk** (NASDAQ: TTD) is leading the way. As a pioneer in programmatic advertising, it's perfecting a model that's not only more efficient, but also more aligned with its customers. I think its early success and visionary leadership signal big things to come.

The basic mechanics of The Trade Desk's cloud-based business are simple enough. The Trade Desk provides a platform to access ad inventory in a variety of channels — Web, social, mobile, video, audio, and more. Then it lets ad agencies purchase that inventory, with the promise of being more effective at reaching a targeted audience, and offering more granular feedback about an ad's effectiveness. If you want to sell shoes, for instance, the platform's algorithms will make sure your ad ends up in front of someone looking to buy shoes. Suddenly advertisers can do a lot better than just throwing a dart at the 18-to-49 demographic.

This ad space is sold at cost — there's no arbitrage. Instead, the company makes money by signing one-year master service agreements with clients based on a percentage of ad spend.

This position in the value chain might seem perilous. "Why wouldn't ad sellers — say, Google AdSense — just sell directly to ad buyers?" you may ask. Google can do this — and does, via its DoubleClick platform. But Google is beholden to two masters — not just the advertisers, but also the websites, apps, and more that have ad space to sell.

The Trade Desk, meanwhile, is beholden only to ad buyers. By being completely transparent about pricing arrangements — and not profiting from them — it has gained the confidence of some of the biggest advertising agencies. Global powerhouses **Omnicom** (NYSE: OMC), **WPP** (NASDAQ: WPPGY), and **Publicis Groupe** (NASDAQOTH: PUBGY) accounted for 39% of gross billings last year.

By keeping its customers happy (and locked in for a year at a time), The Trade Desk has kept its retention rate above 95%. That also means the company benefits from an enviable flow of data, which helps it update its software regularly (47 times last year alone) and make its ad targeting even more precise, feeding a beautiful network effect.

Knowing programmatic advertising's potential for highly targeted advertising, and The Trade Desk's skill at giving its customers what they want, you might think both would be ubiquitous. They aren't — yet. Almost $652 billion was spent globally on advertising last year. Of that, only 3% was spent via programmatic advertising. And out of that $19 billion slice, The Trade Desk had a 5% market share.

If The Trade Desk did nothing but maintain its position, it would still have powerful momentum behind it. Industry publications predict overall spending on programmatic advertising will double by 2020. TV specifically could be a major growth driver, with programmatic ads expected to grow *72-fold* between 2015 and 2019, to $17.3 billion! But The Trade Desk has much more in mind as it plans for the future of the industry.

See Why You Should Invest in The Trade Desk Now

With a huge market opportunity, a great software platform, and an ever-growing storehouse of data, The Trade Desk has earned the right to dream big. CEO and co-founder Jeff Green has an ambitious plan to collect more data for targeted ads than **Facebook** (NASDAQ: FB) and Google. He's arranged for partnerships with at least one major telecom provider and up to a dozen major publishers on the Internet to collect data outside of Facebook and Google's sandbox (the company hasn't released named yet). And as The Trade Desk takes on this challenge, it's armed with a strong balance sheet.

Green's vision is a big part of our investing thesis. With 16.6% of shares outstanding and roughly 44% of voting power, he's all in on this company. He has also created an admirable culture, with a 100% approval rating as CEO, and a near-perfect 4.8-star rating on Glassdoor.com.

It helps that The Trade Desk has performed well so far. Its revenue has been growing at a 100% annualized clip since the beginning of 2014. And free cash flow totaled $25.8 million over the past 12 months despite increased spending this year. That has strengthened the company's balance sheet, which shows a net cash position of $89 million. In other words, The Trade Desk is on solid financial footing, and poised to take advantage of the massive long-term trend toward programmatic advertising.

There are still real challenges to overcome. The Trade Desk has tenuous relationships on both sides of its business: The ad agencies providing the bulk of revenue may fear becoming obsolete thanks to The Trade Desk's technology. While it has worked hard to stress the fact that it wouldn't do that — The Trade Desk claims to be "an enabler, not a disruptor" — that doesn't eliminate such fears. On the other side, Facebook and Google — who likely provide a substantial chunk of inventory — may not look kindly upon The Trade Desk's attempts at aggregating a superior data set. Being in the ad space and knowing that these two won't be friends is daunting, to say the least.

That's why I recommend a little Foolish diversification here. The Trade Desk is a great addition for investors committed to owning more than 30 stocks; holding them for five-plus years; buying no initial position above 5%; and enduring some volatility along the way. In a little over a year as a public company, The Trade Desk has returned over 110% for shareholders. Along the way, however, the stock has sunk more than 5% in a day on 12 different occasions.

Still here? Good. Now is an excellent time for patient investors to start putting their cash behind the massive future of programmatic advertising, and The Trade Desk is ready to make good on its opportunity.

Recent Price: **$64.53** | Website: **The Trade Desk investor relations** | Market Cap: **$2.6 billion**

Risk Tolerance

While this stock is too new to have a meaningful beta, it's moved 5% or more on 34 separate trading days, so you can count on volatility.

Risk Rating: The Trade Desk scores 12 out of 25

Dividend

The Trade Desk doesn't pay a dividend.

Time Frame

We suggest for holding for five years or longer.

Team Tom's Latest Best Buys Now: See why these five built-to-last businesses are great ideas for new investments.

Brian Stoffel contributed to this report.

The Trade Desk's stock is priced around $65 at the time of our recommendation. We think it has great potential and is a good buy anywhere around this price. Consider buying in thirds to get a potentially better average price.

See David's Recommendation »

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