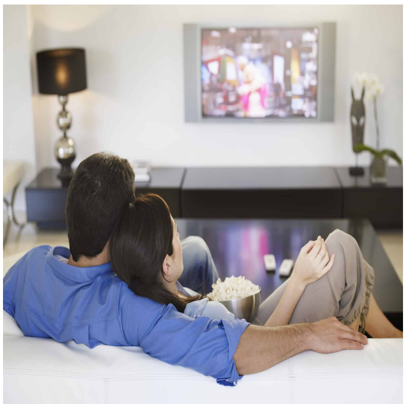

Stop Worrying About the TV Streaming War and Buy The Trade Desk

Description

There has been a lot of conversation lately about **Netflix** (NASDAQ: NFLX) and whether the tidal wave of competing services — from the likes of **Disney** (NYSE: DIS), **Apple** (NASDAQ: AAPL), and **Comcast** (NASDAQ: CMCSA), to name just a few — will end its bullish narrative. I've contributed to the chorus of voices, explaining why I'm not interested in Netflix right now. Many disagree with me, but that's OK — I'm prepared to be proven wrong about Netflix.

But one thing everyone can agree on is that connected TV (CTV) — meaning video delivered via the internet — is the way of the future. And one company that will surely benefit no matter who comes out on top in the streaming wars is **The Trade Desk** (NASDAQ: TTD).

Subscriptions vs. ads

Everyone knows the Netflix format: A monthly subscription gets users unlimited access to a massive library of shows and movies, all advertising-free. It's a model that has been and continues to be imitated, but often less successfully.

Another model is emerging though, one supported primarily by advertising with a low or nonexistent monthly subscription fee.Â **Alphabet**'s (NASDAQ: GOOGL)(NASDAQ: GOOG) YouTube is a prominent example — watch an ad, and access to the video is granted. Google's top team has admitted it has work to do on its imperfect video platform, but the obvious massive success of YouTube has been deemed worthy of imitation.

Disney-controlled Hulu has an ad-supported model, and **AT&T**'s DirecTV NOW and **Dish Network**'s Sling TV are both internet-delivered and feature advertising. Many of the channels available on **Roku** feature advertising. And more options are on the way, like Comcast's Peacock streaming TV platform, launching in April 2020, and its already-existing Xfinity Roku-like device.

All of this is to say there's a massive shift going on. Between changing consumer trends and the proliferation of connected devices, including smart TVs, CTV is a fast-growing industry. Some 60% of U.S. households now own smart TVs, and yet the vast majority of TV ad spending still goes the way of traditional cable and broadcast television. Thus, while new subscription services that are ad-free are still coming out, ad-supported is growing even faster. CTV is of particular interest to advertisers because of the ability to customize and tailor ads to an internet audience, something not possible with the mass media of the past. Targeted ads like those delivered via internet-based TV are called programmatic advertising.

A dress rehearsal for CTV

That's where the Trade Desk comes in. The company operates an exchange for optimizing ad purchasing in a programmatic digital-based format. Digital data-driven programmatic ads have been a boon for the small tech company. CEO Jeff Green cited research from Magna Global that programmatic ads are growing at a 20%-per-year rate, compared with just 4% for digital overall.

But CTV is something else entirely. This is what Green said on the Q2 2019 earnings call:

> Connected TV spend growth was also amazing, growing nearly three times from a year ago. I have said before, we will likely never see a channel larger and more full of opportunity than we have right now in CTV. Much of what we've done over the last decade has simply been a dress rehearsal for the digital shift happening in TV right now.

Trade Desk doesn't provide specific numbers for its CTV sales, but the opportunity is nevertheless massive. Global ad spend is somewhere in the ballpark of $725 billion, and not quite half of it is digital. That's changing fast, though. Half of the global spend is via some sort of video, again most of it the traditional variety. The efficiency of data-driven programmatic ads has led Trade Desk and others to believe that most digital advertising will go that direction over the next decade, and CTV is obviously a big catalyst of that — in developed countries like the U.S., as well in emerging economies where advertising budgets and product profit margins leave little room for error or guesswork.

Put simply, CTV is in its infancy, and ad spending on the platform is on its way to eventually becoming an industry worth hundreds of billions of dollars. No matter who wins the battle — I'm of the opinion that entertainment and media will remain a highly fragmented mess as it always has been, even though Netflix was an early pioneer — digital advertisers have the most to gain. Trade Desk plays in several digital platforms, but it's still a tiny company valued at just $9.4 billion, going for much less than in the recent past thanks to a widespread small tech stock sell-off.

Granted, Trade Desk does trade at a premium price: The company is barely free cash flow positive, as it is spending heavily to maximize its growth, and the price to sales ratio values the stock at 16.8 times the last 12 months worth of revenue. This one is all about the long-term, though, and the company's greater-than-40% sales expansion this year illustrates the massive transitional story taking shape. Indeed, let's agree to talk less about Netflix, Disney, Apple, and all the other TV streamers stepping all over each other, and more about The Trade Desk.

CATEGORY

1. Investing
2. Tech Stocks

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TICKERS GLOBAL

1. NASDAQ:AAPL (Apple Inc.)
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3. NASDAQ:GOOG (Alphabet)
4. NASDAQ:GOOGL (Alphabet Inc.)
5. NASDAQ:NFLX (Netflix, Inc.)
6. NASDAQ:TTD (The Trade Desk)
7. NYSE:DIS (The Walt Disney Company)

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Date
2025/09/14
Date Created
2019/09/21
Author
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