Bonnie McBride, Investor Relations

Thank you, and good afternoon, everyone. Welcome to Rubicon Project's fourth quarter fiscal year 2016 earnings conference call. As a reminder, this conference call is being recorded. Joining me today are Frank Addante, Founder and Chairman; Michael Barrett, the company's newly appointed President and CEO; and David Day, our CFO.

Before we get started, I would like to remind your that our prepared remarks and answers to questions will include expectations, predictions, estimates, and other information that might be considered to be forward-looking statements including, but not limited to, guidance we are providing and other non-historical statements related to our anticipated financial performance, operating and strategic plans, expectations regarding new initiatives, our relationships and business with buyers and sellers using our platform, competitive differentiation, fees and take rate, capital investment and organizational development and competitive position, and market conditions and trends and growth expectations, including growth in header bidding, orders, mobile and video.

Forward-looking statements involve risks, uncertainties and assumptions, and actual results may differ significantly from the results suggested by forward-looking statements for various reasons, including without limitation, if such risks or uncertainties materialize or assumptions prove to be inaccurate. Further, we may adjust our plans and expectations in response to market conditions or other factors. Reported results should not be considered an indication of future performance.

A discussion of these and other risks, uncertainties and assumptions is set forth in the company's periodic reports under the headings Risk Factors and Management Discussion of Analysis and Financial Conditions and Results of Operations. We undertake no obligation to update forward-looking statements or relevant risks.

Our commentary today will include non-GAAP financial measures. Reconciliations between GAAP and non-GAAP metrics for our reported results can be found in our earnings press release, and in the financial highlights deck, which we have posted to the Investor Relations website at investor.rubiconproject.com. At times, in response to your questions, we may offer incremental metrics to provide greater insights into the dynamics of our business. Please be advised that this additional detail maybe one-time in nature, and we may or may not provide an update on the future of these metrics. I encourage you to visit our Investor Relations website to access our press release, financial highlights deck, periodic SEC reports and webcast replay of today's call or to learn more about Rubicon Project.
I will now turn the call over to you, Frank.

**Frank Addante, Founder and Chairman**

Thank you, Bonnie, and good afternoon, everyone.

I’m excited to welcome Michael Barrett joining David and me on today’s call. Michael is joining us, as our new CEO, this week. I will speak more about the context and led to our decision to ask Michael to join the team. But before I talk about the state of the business, I would like to say that we are pleased that our financial results in Q4 came in within the range of outlook that we provided at last quarter.

**Q4 and Year 2016 Summary**

Our fourth quarter wrapped up a difficult, but a highly productive year for Rubicon Project. As the team faced multiple challenges throughout the year and met them head on, enabling us to further expand our platform. In addition to the success we have seen in mobile video and in orders, we are now beginning to see very promising results in header bidding. The difficult decisions and changes we made in 2016 have resulted in our company reinvigorated with focus. We now have all of our resources, capital and attention committed to our most important business, the ad exchange.

Over the past couple of quarters we’ve gone through a lot of effort to restructure the company, so we can successfully transition our platform to best serve the ad exchange. This includes our accelerated products introduction of FastLane, our organizational changes and our decision to divest the entire marketing business. To move forward in the right direction and return to revenue growth, we must continue to build strong relationships with publishers and application developers, operate at scale and continue our transition to build technologies required in a mobile-first world.

**Introduction of Michael Barrett**

With that, I'm excited to have Michael Barrett joining us as CEO. Michael and I are very aligned on vision and he is a perfect cultural fit to the company. Which is why I decided to approach Michael about joining Rubicon Project to be our CEO. I've known Michael for 10 years. He is a proven advertising executive and he has a strong personal brand with customers.

He deeply understands our space and demands of our customers, having worked as Chief Revenue Officer at Yahoo and Fox. As CEO, he successfully led a supply side platform Admeld that competed directly with Rubicon Project for years before he sold it to Google. He continued on with Google's advertising business and then joined Millennial Media, a mobile-only marketplace as CEO, which was later acquired by Verizon AOL.
And now Michael Barrett is joining Rubicon Project as CEO to own and lead the operations and execution of our business strategy as we focus on continuing to grow Rubicon Project. It's the largest independent global exchange for advertising.

I will continue to be a very active, engaged and passionate Chairman. The best way I can serve our team, shareholders and our mission is by having the bandwidth to look forward and guide our future. And by paving a path to the future through thought leadership and evangelizing our vision. Michael's arrival will enable this additional bandwidth and I'm excited to partner with him and Tom Kershaw, our CTO to execute against Rubicon Project's strategic, operational and product roadmap.

Before we talk about the success we've had with our strategic growth areas, I'd like to start by sharing why we remain confident that the strength of our global exchange, premium marketplace, and strong balance sheet uniquely positioned us to win.

**Outlook and Industry Market Dynamics**

In a $600 billion global ad market, there continues to be a tremendous opportunity for an independent global exchange. Our customers need the technology and the scale that Rubicon Project offers to compete with walled gardens and to offer consumers a better advertising experience. Rubicon Project continues to be well positioned strategically, as the independent and inherently neutral global exchange. Our strategy for growth has always been to attract the most supply or impressions from the world's top publishers and application developers to our marketplace.

And that is why in 2017, we will be focusing our efforts on increasing market share of supply. Signing up more publishers, application developers and getting us much inventory into our exchange as possible, which we believe will result in revenue growth in the future. As we continue through 2017, we plan to invest in engineering technologies and deploying our sales resources in the strategic growth areas of mobile, video and orders.

We plan to continue to optimize our algorithms for header bidding, to capture and monetize as much supply as possible. We believe that there is an immediate window of opportunity to accelerate our market share capture of supply. Therefore, we also plan to continue to evolve and optimize our business and pricing models to focus first on accelerating market share capture of supply and then growing revenue.

We are a marketplace business, driven by marketplace network effects, using access to supply from header bidding was a significant factor that stunted our growth in 2016. We've made great progress in solving the problems access to supply. We have now grown the number of ad requests that is supply, to our exchange by
more than 50% from last year. Investing in market share capture of supply this year is our number priority, and we believe that this will lead to revenue growth just as it has in the past.

We will also continue to prioritize investments in our proprietary cloud computing infrastructure, which not only gives us a competitive edge by driving better performance for our customers, but also becomes a competitive differentiator and a competitive barrier. Our investments in our own cloud enable us to bring on more bidders creating more demand and more differentiated ad spend.

We're also able to operate our platform incredibly efficiently. You've seen this through the leverage in our business in the past that has driven our profit, and going forward, we plan to continue to leverage this further to capture more market share profitably. Our smaller competitors will have a tough time competing with our infrastructure, scale and efficiency.

_Growth Drivers_

Now let's talk about the business drivers, specifically around the dynamics of a global exchange and what drives growth. Supply creates gravity for demand, and we've seen this strategy work again and again over the last 10 years. Every product Rubicon Project launched has followed this model of beginning with supply. This is why it's so important that we focus on capturing market share of supply this year, setting the stage for our return of revenue growth in the future.

Let me give you some examples as to how this strategy has worked successfully in the past. In our first three years, Rubicon Project's ad network optimization technology grew to more than 500 customers and billions of impressions by focusing on signing publishers and gaining access to supply of ad impressions first.

Our RTB then grew from zero in 2011 to $620 million of cumulative revenue through 2016; again, focusing on market share capture of supply first. Orders, which we pioneered in 2014, has a 71% GAAP revenue CAGR since we achieved critical mass of supply. And mobile in 2015 and 2016 alone represented almost $600 million in ad spend, growing faster since its launch than RTB did over a similar period of time. Video continues to grow, with more than half of our top 100 customers using our ad exchange for video and the ad spend is following. And in 2016, FastLane has grown from zero to more than $120 million of advertising spend in just over three quarters, with more than 300 deployments.

All of these strategies were successful by focusing on capturing market share access to supply first, with revenue growth coming over time. Even our name Rubicon Project originated from this strategy. We figuratively crossed the river when we started by focusing on publishers and supply of ad impressions.
While just about every other company in the advertising business has focused on advertisers, we cross the river to focus on publishers and gaining access to supply. To this end, we're making great progress on market share capture of supply.

Consider that in 2016, we increased the number of impressions available on our global exchange by 50% year-over-year. We sold or upsold more than 400 new customer deals. And in Q4 alone, we processed approximately 45 trillion transactions, all this while continuing to maintain a strong balance sheet with nearly $200 million in cash today, enabling us to strategically invest for growth.

Closing Remarks

As I said at the beginning of this call, I remain very excited by the advertising industry and by Rubicon Project's future growth potential. The value of an independent global exchange cannot be overstated and we look forward to the next phase of growth.

I've been super appreciative and proud to serve our team as CEO for the past 10 years. I love this company, and I'm proud to continue to serve our team and shareholders as Chairman and Founder.

With that, I'd like to turn over to Michael to say a few words before we get into the financials.

Michael Barrett, CEO and President

Thank you, Frank. I am very excited to be joining Rubicon Project and to work alongside you and the terrific team that you have built. As Frank noted in his comments, I've had the opportunity to compete against Rubicon Project, as well as be a customer, and have always been very impressed with the professionalism and industry leadership that you've shown over the years. So when Frank approached me, I was excited by the opportunity and I'm delighted to be a member of this team.

The advertising space, particularly the programmatic piece, continues to grow, both in size and importance to buyers and sellers. Rubicon Project is well positioned to capitalize on these trends. Yes, the industry is dynamic and this reality can lead to disruption.

Frank has spoken in the past about the challenges and opportunities that innovations like header bidding bring for Rubicon Project. I look forward to working with our customers and team to make sure we are delivering the best possible product and monetization capabilities going forward.
Rubicon Project has a strong leadership position, a strong balance sheet and an aggressive and innovative product strategy. We are well positioned to become the leading independent global exchange for publishers, application developers and advertisers. I'll be heads down from the next few months, meeting with customers and our team. Soon after, I look forward to meeting with all of you. Again, thank you Frank, and the rest of the board for this opportunity.

David will now give an update on the company's financials.

David Day, CFO

Thanks, Michael, and welcome to the team. I'd like to start by saying that we're grateful for Frank's pioneering vision over the last 10 years, which has led Rubicon Project to the position in the industry that we enjoy today. I look forward to Frank's continuing involvement with the company, and I'm excited to work together with Michael.

Financial Overview Full Year 2016 Results

For the full year 2016, we generated over $1 billion in advertising spend, $278.2 million in GAAP revenue, $256.1 million in non-GAAP net revenue, $70.9 million in adjusted EBITDA and $1.07 per share in non-GAAP EPS. We executed well against our revised goals for the fourth quarter, which took into account the continued year-over-year decline in desktop advertising.

Revenue and Non-GAAP Financial Measures Related to Revenue

Advertising spend for the fourth quarter of 2016 was $277.1 million. GAAP revenue for the fourth quarter was $72.7 million and non-GAAP net revenue for the fourth quarter was $66.9 million. The decline in advertising spend of 18% year-over-year during the fourth quarter of 2016 was driven primarily by a continued decline in desktop, which declined 23% year-over-year to $178.2 million.

We also experienced a decline of 5% year-over-year in total mobile advertising spend to $98.9 million. This is a result of declines in our mobile web business, which still represents the majority of our total mobile business, in contrast to our mobile app business, where we expect more promising growth in the future.

Advertising spend was composed of 36% mobile and 64% desktop for the fourth quarter of 2016, compared to 31% mobile and 69% desktop a year ago, reflecting our continued shift towards mobile.

While we've historically shared additional advertising spend of detail for real-time bidding and orders, we will no longer be sharing those details for a couple of reasons. From a product perspective, we are focused on
developing additional products for our buyers that will further allow them to discover and transact based on extended audiences across our platform on a guaranteed basis. As these products emerge, orders and RTB distinction will become less relevant. In addition, continuing to provide this information would also require us to provide associated revenue detail and could expose sensitive pricing strategies to our competitors.

Non-GAAP net revenue for the fourth quarter declined 20% year-over-year or slightly more than advertising spend due to lower take rates, which are defined as non-GAAP net revenue divided by total advertising spend. Take rates decreased 80 basis points to 24.1% in the fourth quarter of 2016 from year ago period. And also decreased 80 basis points on a sequential quarter basis from the third quarter.

**Take Rate**

Take rate decreased primarily due to an increase in the overall mix of ad spend through orders, which has a lower take rate than RTB. Additionally, take rate declined due to ad spend mix shift towards FastLane and Exchange API, which carried lower RTB take rates than our traditional business, due to auction dynamics and pricing strategies related to those APIs. We also began testing various pricing strategies in the fourth quarter, which had an impact on take rates.

Our fourth quarter advertising spend and revenue results include results from our static solution, which we exited in the third quarter of 2016, and from our intent marketing solution, which we exited in the first quarter of 2017. To assist understanding our results in the context of our ongoing activities, we are also providing as-adjusted advertising spend, revenue and take rate as though the static and intent marketing solutions were discontinued at the beginning of calendar year 2015.

Note also that intent marketing was the only component of our revenue reported on a gross basis. Thus GAAP revenue and non-GAAP net revenue are the same after excluding these solutions on an as-adjusted basis and will be the same in the future.

Therefore, on an as-adjusted basis for the fourth quarter of 2016, advertising spend would have been $266 million, and GAAP revenue would have been $62.4 million. For the full year 2016, advertising spend would have been $955.1 million, and GAAP revenue would have been $234.6 million. And take rate would have been 23.5% in the fourth quarter of 2016, compared to 25% for the same period in 2015, and compared to 24.4% in the third quarter of 2016.
Operating Expenses

Operating expenses for the fourth quarter of 2016 were $94.6 million. Note that these expenses included a $23.5 million non-cash impairment charge on intangible assets related to customer relationships and development technology, which was caused by our exit for our intent marketing activities, and a $3.3 million restructuring charge related to our workforce reduction in the fourth quarter. Excluding these two effects from impairment and restructuring, operating expenses for the fourth quarter of 2016 would have decreased year-over-year by $8 million or 11%.

On an adjusted EBITDA basis, operating expenses for the fourth quarter were $45.2 million, a decrease of $2.6 million compared to the fourth quarter of 2015, reflecting savings associated with lower head count, driven by cost management initiatives, including our workforce reduction in November. Note that the operating expenses and our adjusted EBITDA calculation include the $3.3 million in restructuring costs mentioned earlier.

Net loss was $21.2 million in the fourth quarter of 2016, compared to net income of $20.4 million in the fourth quarter of 2015. The change in net income was driven primarily by the non-cash impairment charge associated with our intent marketing exit of $23.5 million and the $3.3 million restructuring charge and by lower net revenue, partially offset by other reduced operating expenses.

Adjusted EBITDA was $21.7 million in the fourth quarter 2016, representing a year-over-year decrease of $14.3 million. Note that we exclude the $23.5 million non-cash impairment charge associated with our intent marketing exit, but we do not exclude the $3.3 million in restructuring costs, mentioned earlier in our adjusted EBITDA calculation. The decrease in adjusted EBITDA was driven primarily by decreases in revenue mentioned earlier, partially offset by lower cost.

Diluted GAAP loss per share was $0.44 for the fourth quarter of 2016, compared to diluted GAAP income per share of $0.43 in the same period in 2015. Non-GAAP earnings per share in the fourth quarter of 2016 was $0.37, compared to $0.74 reported for the same in 2015. These amounts included an estimated tax impact based on the expense items reconciling between net income and non-GAAP net income. We had not previously included any estimated tax impact, and thus have now adjusted historical amounts to also reflect an estimated tax impact for consistency.

CapEx and Balance Sheet

Capital expenditures including purchases of property and equipment as well capitalized internally use software development costs were $14.5 million for the fourth quarter of 2016 and $33.4 million for the full year 2016. We
closed the period with a $190 million in cash and marketable securities, down $3.2 million from September 30, 2016.

Free cash flow was a negative $3.2 million during the fourth quarter of 2016 and a positive $26.7 million during the full year of 2016. We calculate free cash flow as net cash provided by operating activities less capital expenditures including capitalized software development costs.

**Guidance**

As we migrate from our traditional reliance on desktop display towards our growth initiatives including mobile, video, orders, header bidding and other emerging opportunities. We expect we will continue to experience uncertainty with respect to the timing and financial impact of these initiatives.

Accordingly, we will provide guidance for the first quarter of 2017. However, we are not providing specific guidance for the full year 2017 at this time. In addition, we do not expect to provide quarterly guidance in subsequent quarters.

**For the first quarter of 2017, we expect the following:**

- GAAP revenue to be between $41 million and $45 million.
- Non-GAAP net revenue to be between $41 million and $44 million.
- Adjusted EBITDA to be between negative $6 million and negative $4 million. Note that this range includes the impact of non-recurring costs of approximately $5 million associated with the exit from our intent marketing solution and with our executive management restructuring.
- Non-GAAP EPS to be between negative $0.26 and negative $0.22 per share, based on approximately 48 million forecasted weighted average shares, and roughly $6 million in CapEx spend. This guidance includes intent marketing GAAP revenue of approximately $1.5 million and non-GAAP net revenue of approximately $500,000 during the first quarter of 2017.

**Directionally for the remainder of 2017, we anticipate:**

- Take rates may decline sequentially at a rate similar or greater than what was seen during the fourth quarter of 2016, driven by factors discussed previously.
- That we will realize efficiencies in operating expenses driven by our previous restructuring activities and ongoing cost management measures, such that adjusted EBITDA operating expenses may grow only marginally on a sequential quarter basis after adjusting for first quarter restructuring costs, and the CapEx spend levels may be similar to 2016.
Closing Remarks

As we look forward, we remain optimistic about our long-term growth prospects. We occupy a strategic position in a dynamic and growing global marketplace. And with the appointment of Michael Barrett as CEO, have further strengthened our already strong management and technical team. We will continue to prudently manage our financial resources and to protect our balance sheet, while making the right investments to position us well for longer term success.

**Frank Addante, Founder and Chairman**

Summary

Thank you, David. I spoke earlier about why I feel – why we feel positive about our product innovation and our execution in capturing market share of supply, both key drivers for our future success. Well, it's clear we still have some work to do to get this optimism reflected in the financials, we believe that by building on the strong positions we have in mobile, video and orders, and continuing the accelerated progress we're making in FastLane, we will emerge as the leading independent global exchange.

Before I open it up for questions, I want to reiterate my excitement, that Michael's joining our team. He is a proven leader and has the operational experience in strong customer brand. We're lucky to have him on board.

With that, we'll now open up the call for questions.

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