Thank you, Gary, and good afternoon, everyone.

Welcome to Rubicon Project's first quarter fiscal year 2017 earnings conference call. As a reminder, this conference call is being recorded. Joining me on the call today are Michael Barrett, President and CEO; and David Day, our CFO.

Before we get started, I would like to remind you 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, 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 rates, capital investment and organizational development and competitive position, and market conditions, trends, and growth expectations, including growth in header bidding, Orders, mobile and video.

Forward-looking statements involve risks and uncertainties and assumptions, and actual results may differ materially 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's Discussion and Analysis of 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 may be 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 to learn more about Rubicon Project.

I will now turn the call over to you, Michael. Please go ahead.
Michael G. Barrett—President and Chief Executive Officer

Thank you, Erica. And good afternoon everyone, welcome to our Q1 2017 earnings call.

Overview

As many of you know, I started this role a little over a month ago. Thus far, much of my attention has been focused on getting out and meeting with as many customers as possible. Many of these customers I have known and worked with previously. But regardless, what was important was to listen to their perspective. They offered consistent feedback.

First, that Rubicon Project has a great a reputation as an innovative company and customers still believe in us and are excited by our strategy and product roadmap. But we have been slow to respond to market changes from a product perspective and organizational turnover had created some uncertainty about our future.

We have been focused on responding to these issues for the past several months. While our work is not finished. It is important to note from my conversations with customers that they have noticed a marked improvement in the products we have brought to market in the last few months and our service. We have instilled a new and greater confidence in our working partnerships with them. This confidence speaks directly to the incredible work and dedication delivered by every member of the team at Rubicon Project, it means that a renewed focus on the customer has not gone unnoticed.

Outlook and Industry Market Dynamics

As we look forward to the future, we will remain focused on building stronger relationships with leading publishers, application developers, DSPs and agencies. Our goal is to operate more efficiently at scale, continue to innovate for a mobile-first world and ultimately return to revenue growth in 2018.

I have found the conversations with customers incredibly encouraging, these customers, both the buyers and sellers of advertising, need our technology and scale to effectively monetize their businesses, reach their target audiences and achieve real ROI. Rubicon Project is well positioned strategically in the marketplace as the independent and inherently neutral global exchange for advertising.

The technology Rubicon Project has built over the past 10 years powers hundreds of marketplaces including open, private, and direct marketplaces and processes more than 50 trillion bid requests and related responses each month among more than 1 million websites, 60,000 applications and 500,000 advertisers.

We enable all of these websites, applications and advertisers to connect to our marketplaces through a variety of integration types. These integration types make it easy to buy and sell ad
inventory for desktop display, mobile web, mobile in-app, native, video, digital out-of-home, over-the-top non-linear TV, games, audio streaming, and more reaching more than 1 billion Internet users across more than 50% of their digital experience. But it doesn't end there. There is still much more work to be done, and we are committed to continuing to innovate and invest in our platform to improve our products and to develop next generation technologies that will leave the future of advertising, as we have already done for a decade.

As an example, we recently went out in the market stating our support of the industry-wide adoption of Prebid.js an open source wrapper for header bidding. This is an inherently neutral, adaptable, and transparent solution that is constantly updated and maintained by members of the ad tech community. And today, 90% of our sellers that currently use a header bidding wrapper have chosen the open sourced Prebid.js technology to better enable monetization of their inventory.

This is an important milestone, as Prebid.js offers buyers and sellers the ability to participate in a truly open, fair and unified marketplace. And since the technology is open sourced and maintained by multiple members of the ad tech community, it also delivers a solution that is constantly updated to evolve to market innovations and shifts. Rubicon Project's participation in Prebid.js has helped to push the technology to the forefront and catalyze its adoption by other industry participants.

And with more participants comes more impressions that are made available to the buyers utilizing our global exchange, resulting in a win-win for all participants. We are dedicated to bringing that same open source and unified marketplace technology to the server side later this year. We plan to make further investments in existing and new technologies that will drive greater efficiencies for our customers and ultimately attract more spend to the market. This starts with deploying our engineering and sales resources in the strategic growth areas of mobile, video and Orders.

In our cloud infrastructure, we continue to invest in our ability to operate at scale and optimize our algorithms to capture and monetize as much supply as possible, matching buyers with the inventory and audiences they want most, and connecting sellers with the buyers that best align to their brand and revenue goals. These investments not only give us a competitive edge by driving better performance for our customers and lowering variable costs, but are also a competitive differentiator and a competitive barrier.

Closing Remarks

Lastly, we believe there is an opportunity to accelerate our market share capture by continuing to optimize our business and processes. Today, I have a clear grasp on the situation and market dynamics that we are facing, and I'm excited about the evolving plan that we currently have in place. I look forward to sharing greater details on our plans the next time we speak, as well as the be far more developed in our plan and strategy. We have a lot to focus on and we are in our early days turning this business around. In sum, we believe we are in a strong position to capitalize on our scale and the powerful network effects that are the byproduct of operating a
global exchange.

With that, I will hand things over to David for an update on our financial results.

David L. Day—Chief Financial Officer

Thanks, Michael. As we have over the past several quarters, we experienced continued revenue declines due to the competitive challenges we face. We are working diligently to recapture our market position as we invest in our growth initiatives and rebuild supply. For the near term, however, we expect uncertain market conditions to persist and to negatively impact our financial results.

Q1 2017 Results

For the first quarter of 2017, we generated a $191.5 million in advertising spend, $46 million in GAAP revenue, $45.4 million in non-GAAP net revenue, $1.1 million of adjusted EBITDA, and a loss of $0.16 per share in non-GAAP EPS.

Ad Spend, Revenue & Take Rate

Total advertising spend declined 23% year-over-year, driven primarily by desktop ad spend, which was lower than prior year by 29%. Total mobile ad spend declined 8% year-over-year, driven by mobile web, which is subject to many of the same challenges we face in our desktop business. Mobile app ad spend, which is an area of focus for us, grew slightly versus prior year. Ad spend was composed of 35% mobile and 65% desktop for the first quarter, in line with Q4 of 2016 and reflective of our continued shift to mobile when compared to Q1 of 2016 when mobile made up 30% of total ad spend.

Non-GAAP net revenue for the first quarter declined 29% year-over-year, somewhat greater than ad spend due to lower take rates, which are defined as non-GAAP net revenue divided by total ad spend. Our take rate was 23.7% in the first quarter of 2017, a decrease of 190 basis points from the first quarter of 2016 and a decrease of 40 basis points sequentially. The year-over-year decline in take rate is a function of several factors. First, our mix of ad spend via Orders grew and Orders carries a lower take rate than our RTB business. Next, we continue to scale ad spend via our FastLane and Ex API [Exchange API] integration types, and these carried lower RTB take rates than our traditional business.

Finally, the decline over the previous year in our intent marketing business culminating in our exit from that business in the first quarter contributed to the lower take rate, as that solution carried a higher take rate than any of our other revenue streams. On a sequential basis, the decrease in take rate was primarily due to the exit of intent marketing with FastLane and Ex API mix also contributing.

Note that intent marketing generated $1.3 million in GAAP revenue and $700,000 in non-GAAP net revenue in the period. We do not anticipate revenues from intent marketing going forward.
Our first quarter 2017 revenue results was slightly higher than anticipated, due to a slightly higher than expected finish to the quarter in ad spend. However, we are still experiencing unpredictable spending patterns as we transition to emerging solutions.

**Operating Expenses**

Operating expenses for the first quarter of 2017 were $61 million, down from $71.1 million in the same period a year ago. Note that these expenses included approximately $5 million of non-recurring cash costs associated with the exit from intent marketing and with our executive management and related restructuring in the first quarter.

On an adjusted EBITDA basis, operating expenses for the first quarter were $44.3 million, down from $48.1 million in the same period a year ago, reflecting the impact of our cost cutting initiatives from the last several quarters. Note that the operating expenses in our adjusted EBITDA calculation for the first quarter of 2017 include the $5 million in non-recurring cash cost mentioned earlier.

**Net Income & AEBITDA**

Net loss was $15.8 million in the first quarter of 2017, compared to net income of $2.3 million in the first quarter of 2016. The change in net income year-over-year was due primarily to lower net revenue, partially offset by reduced operating expenses. Additionally, the first quarter of 2017 included an income tax provision of $0.4 million, compared to an income tax benefit of $4.3 million in the first quarter of 2016.

Adjusted EBITDA was $1.1 million in the first quarter of 2017, as compared to $15.5 million recorded in the same period one year ago. The decrease in adjusted EBITDA was driven primarily by a decrease in non-GAAP net revenue, partially offset by lower costs as previously discussed.

**GAAP EPS & Non-GAAP EPS**

Diluted GAAP loss per share was $0.33 for the first quarter of 2017 compared to diluted GAAP income of $0.05 in the same period in 2016. Non-GAAP loss per share in the first quarter of 2017 was $0.16 compared to net income of $0.22 reported for the same period in 2016.

Capital expenditures including purchases of property and equipment as well as capitalized internal use software development costs were $5.4 million for the first quarter of 2017. We closed the first quarter of 2017 with $188 million in cash and marketable securities, slightly lower from the quarter ended December 31, 2016, and up $21 million from the quarter ended March 31, 2016.

**CapEx & Balance Sheet**

Free cash flow for the first quarter of 2017 was negative $2.5 million as compared to a negative
$3.2 million during the fourth quarter 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 discussed last quarter, we are not providing formal guidance at this time. We are reiterating our general trends for the remainder of 2017;

- We continue to expect significant sequential take rate declines at a level more significant than what we have reported in recent quarters.
- We expect adjusted EBITDA operating expenses to grow on a sequential basis for the remainder of 2017 as we continue to reinvest in engineering and product initiatives, particularly in the second half of the year, which will offset some of the savings from our restructuring activities.
- We expect CapEx spend levels in 2017 to be similar to 2016.

**Closing Remarks**

In summary, our balance sheet remains strong, and we continue our focus on the important investments and initiatives that we believe will help us return to growth in the future.

I'll now turn the call over to Michael for some closing remarks.

**Michael G. Barrett—President, Chief Executive Officer**

Thank you, David. As I noted in our last earnings call, my motivation for coming to Rubicon Project was to be able to revitalize, and reenergize the company in the customer channel that has played a significant role in advancing the advertising industry. I am extremely encouraged by what I've seen to-date. Rubicon Project has a strong leadership position, a strong balance sheet, and an aggressive and innovative product strategy, and we are well positioned as the independent global exchange for advertising.

Now, we will turn the call over to the operator to begin the question-and-answer session. Thank you.