Good day, and welcome to the Rubicon Project Fourth Quarter 2017 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Nick Kormeluk of Investor Relations. Please, go ahead.

Nick Kormeluk

Thank you, Rachel, and good afternoon, everyone. Welcome to Rubicon Project’s Fourth Quarter 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. I would like to point out that we have posted slides to accompany today’s presentation on our website.

Before we get started, I would like to remind you that our prepared remarks and answers to questions will include information that might be considered to be forward-looking statements, including, but not limited to statements concerning our anticipated financial performance, including without limitation, revenue, advertising spend, profitability, net income loss, adjusted EBITDA, earnings per share and cash flow; strategic objectives, including focus on header bidding, mobile, video and private marketplace opportunities; investments in our business; development of our technology; introduction of new offerings; the impact of our acquisition of nToggle and its traffic shaping technology on our business; scope and duration of client relationships; our fees; business mix; sales growth; client utilization of our offerings; our competitive differentiation; our leadership position in the industry; our market share, market conditions, trends and opportunities; user reach; certain statements regarding future operational performance measures, including ad requests, fill rate, advertising spend, take rate, paid impressions and average CPM; and factors that could affect these and other aspects of our business. These statements are not guarantees of future performance; they reflect our current views with respect to future events and are based on assumptions and estimates and subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements.

A discussion of these and other risks, uncertainties and assumptions is set forth in the company's periodic reports filed with the SEC, including our 2017 annual report on Form 10-K and quarterly reports on Form 10-Q for the entire -- for the 3 quarters of 2017 under the headings Risk Factors and Management's Discussion Analysis of Financial Conditions and Results of Operations. We undertake no obligation to update forward-looking statements or relevant risks.

Our commentary today will begin -- 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 www.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 onetime 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 and 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 Michael. Please, go ahead.

Michael G. Barrett - The Rubicon Project, Inc. - President, CEO & Director

Thank you, Nick. This marks my first full year at Rubicon Project. I was clear when I arrived in March 2017 that the market had moved and that Rubicon Project’s late adoption of header bidding had severely eroded its market position. The team and I immediately set out to recapture Rubicon Project’s lost market share by gaining greater access to inventory, through increasing the number of header bidding installs on our platform and garnering more ad spend for that new inventory on our exchange by offering our buyers and sellers greater transparency and choice. It soon became apparent that in order to win back that market share, we were also going to had to become more competitive in our revenue model. So in 2017, we lowered our total take rate and ultimately, eliminated all our buyer fees. This is the new normal in which we need to operate Rubicon Project today, and I’m pleased to say it’s working. We have already seen positive momentum, including nearly doubling of our access to inventory, a year-over-year increase in the quarterly amount paid to sellers, stabilization in our take rate since eliminating buyer fees on November 1, 2017, and most importantly, a return to year-over-year growth in some key areas in 2018.

Let me get into some of the details. In Q1 2018, we are seeing 2x the inventory that we saw in Q1 2017. This is due to our multipronged approach to gaining access to net new inventory. First, we now have more than 700 header bidding connections that result in more than 50% of our revenue. This compares to just over 300 installations at the end of 2016. We are seeing a very positive reception for Rubicon Project’s Prebid solution and remain excited about our pipeline for 2018. Second, we continue to grow our partnerships with Google and their exchange bidding technology, also known as eBay, which we expect will also enable us to access net new inventory in markets outside the United States as well as with Amazon and their transparent advertising marketplace technology, also known as TAM. We have also seen a continued increase in the aggregate amount of money that we paid to our sellers, thanks to our header bidding efforts and strategic decision to eliminate our buyer fees. In fact, the Q4 amounts paid to sellers increased by more than 30% since Q3 2017 and is up 5% year-over-year. And we are continuing to see positive momentum in 2018. Ad spend growth in Q1 2018 will grow year-over-year for the first time since Q2 2016. Our take rate has remained stable since we eliminated our buyer fees on November 1, 2017, and we anticipate that it will remain at or above the 11.5% in the near term. We believe that Q1 2017 was the low point of ad spend, and we also believe that Q1 2018 will be the low point for revenue.

Revenue is still down significantly year-over-year because of our fee reduction. But we remain optimistic that as we grow our amounts paid to sellers, we elevate in preference with our sellers, which in turn leads to more and better inventory and ultimately, converts to revenue. In the meantime, we’ve recognized that we need to make a change to our cost structure. That is why, we started off Q1 2018 with some significant cost reductions to meaningfully improve our financial performance. Starting in January and continuing with additional position eliminations we announced today, we have restructured our internal operations by eliminating approximately 100 positions through team consolidation and delaying and rearchitecting our technology. These actions plus reductions in other OpEx and CapEx reduce our total cost structure by $44 million, or 23% based on a Q4 2017 annual run rate level of $190 million and combined OpEx and CapEx. As a result, we expect to be adjusted EBITDA positive in Q4 of this year. We are confident that these cuts are the right thing to do to bring our cost structure in line with our revenue and together with our strategic initiatives, will help position us to return to profitability, continue our technology leadership and grow our client relationships in overall business.

Header bidding and take rates were not the only strategic initiatives that we executed on in 2017 to address the opportunity in this large and growing market. In September, we announced that we began testing different types of auction dynamics across header bidding. And in January of this year, we completed that testing and made the move to a first price auction dynamic in our header bidding auctions for 2 reasons: first, it’s transparent, buyers pay what they bid; and second, it improves buyers access to inventory by making it easier to compete, with first price bids from other demand sources in the final option. We were also the first-to-market with a bid optimization feature for buyers called Estimated Market Rate or EMR for short. This feature looks for opportunities to reduce a buyer’s bid while maintaining high win rates and offers buyers the ability to choose the method that produces the best outcome for their business. We developed EMR because we’ve recognized that some buyer platforms hadn’t
yet optimized their bidding logic for peer first price. Based on an algorithm that monitors existing market conditions against our vast data set of auction outcomes, EMR is an easy way for buyers to adjust to the world of first price auctions without incurring major technical work. Additionally, EMR contributes to increased revenue in more stable, predictable demand for our sellers. We are pleased to announce that since launching EMR, roughly half of our DSPs are using this tool. All of these enhancements to our platform, in combination with the completed U.S. rollout of nToggle, which is our traffic filtering technology for buyers, give advertisers more buying power on the Rubicon Project Exchange and give buyers better control over which ad request they see, ensuring only what they deem are the most valuable impressions in audiences are sent to them for their bid. Our decisions to deliver greater transparency and choice to our clients, by eliminating buyer fees and offering solutions like EMR has become a cornerstone for our business strategy. And the Programmatic Advertising market has never been more attractive. Thanks to header bidding, we are now able to see more of a premium sellers’ inventory, not just the remnant inventory or what is left over from the seller’s direct sales team. According to eMarketer, by 2019, more than 4 and 5 U.S. digital display ad dollars will flow via automated means. That amounts to more than $45 billion in 2018, up from an estimated $35.5 billion in 2017. The continued emphasis on ad quality and brand safety has resulted in a shift of more ad dollars to both programmatic guaranteed and private marketplace or PMP deals via automated advertising platforms. This shift is expected to result in 80% of the programmatic ad spend being spent within programmatic guaranteed and PMP deals by 2019. Additionally, nearly 80% of programmatic ad spend is expected to be spent on mobile ads in 2019, with 77% of all U.S. digital video ad spend expected to move programmatically by 2019.

In 2017, more than half of the ad spend transacted on Rubicon Project’s Exchange was in the growth areas that eMarketer outlined in their research. Private marketplaces in Programmatic Guaranteed, mobile and video with the largest contributor to this area being mobile. Mobile ad spend grew more than 27% sequentially in Q4 2017 and was up by 18% Q4 2017 year-over-year. Video was greater than 50% in 2017 on an annualized basis. We expect to see similar growth trajectory for our private marketplaces and guaranteed private marketplaces in 2018 as they have been enhanced to more effectively compete in header bidding auctions through Rubicon Project’s Prebid solutions. And as I noted, we remain excited about our 2018 pipeline for Prebid as it continues to attract premium and emerging technology sellers, including BuzzFeed, one of our newest additions in one of the comScore Top 50.

With that, I will hand things over to David, who’ll go into greater detail regarding our financial performance in Q4 2017.

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David L. Day - The Rubicon Project, Inc. - CFO

Thanks, Michael. As Michael discussed, we took major steps in Q4 and Q1 to bolster our competitive position in the market and to improve our financial performance. I’ll start with the move to improve our competitive position. As stated on our last call, we eliminated our buyer fees effective November 1. While this move further reduced revenue and lowered our go-forward take rate, we are being confident that this action along with other actions we’ve taken, including technology investments, auction dynamics, transparency and ongoing investments and quality, will continue to drive increased market share. As Michael mentioned, we also took steps to lower our operating and capital expenditures. I’ll briefly cover Q4 results before discussing cost reduction and recent financial trends in more detail.

Turning to our results. For the fourth quarter of 2017, we generated $246 million in advertising spend, up 26% sequentially, $31.4 million in revenue. Adjusted EBITDA loss was $6.2 million and a loss of $0.28 per share in non-GAAP EPS. The 26% total advertising spend increase in Q4 versus Q3 was slightly higher than the 20% sequential increase we indicated in our last earnings call, driven by strong seasonality across both desktop and mobile. Total ad spend was lower than prior year by 11%.

If you look at a slightly different metric we refer to as amounts paid to sellers, or APS, which is ultimately what publishers measure our success by, we had an APS increase on a year-over-year basis of 5% in Q4. This marks the first such increase since Q2 of 2016. Desktop represented 53% of ad spend mix in the fourth quarter. Mobile’s 47% ad spend share was up from 36% a year ago, representing an 18% year-over-year increase, driven by mobile app. Non-GAAP net revenue for the fourth quarter declined 11% sequentially from Q3 2017, due to a decrease in take rate, attributable to removal of our buyer fees mentioned earlier, partially offset by the seasonal increase in ad spend. Our average take rate was 12.8% during the fourth quarter of 2017, a decrease of 530 basis points sequentially. Our Q4 2017 exit take rate was 11.6%. Take rate is defined as revenue divided by total ad spend.
Operating expenses for the fourth quarter of 2017 were $56 million, down from $95 million in the same period a year ago, representing a decrease of 41%. On an adjusted EBITDA basis, operating expenses for the fourth quarter were $37.6 million or flattish sequentially and down from $45.2 million in the same period a year ago, reflecting the impact of our cost-cutting initiatives from late 2016 and 2017. Net loss was $23.8 million in the fourth quarter of 2017 as compared to net loss of $21.2 million in the fourth quarter of 2016. The slight increase in net loss year-over-year is the result of lower GAAP revenue, offset by lower operating expenses. Adjusted EBITDA loss was $6.2 million in the fourth quarter of 2017 as compared to positive adjusted EBITDA of $21.7 million reported in the same period 1 year ago. The decrease in adjusted EBITDA was driven primarily by a decrease in revenue, partially offset by lower cash costs, as previously discussed. Diluted GAAP loss per share was $0.48 for the fourth quarter of 2017 compared to diluted GAAP loss per share of $0.44 in the same period in 2016. Non-GAAP loss per share in the fourth quarter of 2017 was $0.28 compared to non-GAAP earnings per share of $0.37 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 $19.7 million for the fourth quarter of 2017 and totaled $40.4 million for the full year 2017. We closed the fourth quarter of 2017 with $131.6 million in cash and marketable securities, a decrease of $7.4 million from the quarter ended September 30, 2017. This reduction resulted from $25.9 million of combined cash operating losses and capital expenditures during the quarter, offset by beneficial cash conversion cycle or the spread between payables and receivables.

Free cash flow for the fourth quarter of 2017 was negative $7.4 million for the reasons stated above as compared to negative free cash flow of $15.1 million during the third quarter of 2017. Primarily, as a result of the closure of our intent marketing offering in early 2017, we added significantly to our tax net operating losses. As of December 31, 2017, our total federal NOLs were approximately $240 million, resulting in a tax affected federal benefit calculation of $50 million, which reflects the new U.S. corporate tax rate of 21%. Our total potential tax affected NOL benefit adding state and Canadian benefits to this federal amount is approximately $65 million.

I will now discuss our cost reduction efforts in more detail. The headline here, which Michael mentioned, is that we expect to be profitable on an adjusted EBITDA basis in Q4 this year. The cost reduction actions we announced today, together with other measures taken earlier this quarter, will result in a reduction of $44 million, or 23% from our total Q4 2017 annualized cost structure of $190 million. The $190 million is composed of the Q4 2017 adjusted EBITDA operating expenses on an annualized basis and the full year 2017 capital expenditures. The reduction is a result of the elimination of approximately 100 positions and other operating cost refinements. Our actions include reductions to bring our general and administrative operations into better alignment with the current size of the business as well as in sales and technical personnel as a result of off-shoring certain development functions, organizational delayering and restructuring and reducing investment in unprofitable projects. We expect that our adjusted EBITDA OpEx will be below $32 million per quarter in the latter half of the year. And that our full year 2018 CapEx will be less than $20 million or down 50% from 2017.

I will now provide color on some key performance metrics for Q1, and in certain cases for future periods with somewhat more specificity due to our proximity to the end of the first quarter. We expected ad spend in Q1 will come in at greater than $205 million, or in excess of 7% year-over-year growth. And more notably, we have been experiencing double-digit year-over-year ad spend growth since early February. We expect the take rate to remain at or exceed 11.5% for the near term as it has remained since we eliminated our buyer fees on November 1. As a result, we expect Q1 2018 revenue to be above $23 million. Excluding the onetime cash severance-related costs of $3 million, Q1 2018 adjusted EBITDA operating expenses are expected to be slightly lower than Q4 at less than $38 million. We will realize the full benefit of our reductions in Q3 and Q4, which we estimate will result in a quarterly run rate for adjusted EBITDA operating expenses below $32 million per quarter. We expect the CapEx will decrease, as stated earlier, to less than $20 million, representing a 50% decrease from 2017. The reduction is due to relatively higher levels of investment in prior years to ad capacity. The onetime rollout costs of approximately $5 million related to nToggle in the second half of 2017 that won’t recur, and improvements to how we process and manage increases in ad request volume.

We expect Q1 2018 cash and marketable securities to end above $120 million, although cash conversion cycle timing may impact this balance. We will continue our focus to preserve cash through execution of our plan, to grow revenue and control cost. We’ve taken cost-cutting measures that we believe are prudent, and that we believe balance the right sizing of our cost structure without unduly impacting growth prospects as we look to return Rubicon Project to positive adjusted EBITDA in Q4 of 2018. We are encouraged by recent momentum in ad spend growth, and we will remain vigilant in managing our costs. We remain confident and optimistic that our numerous initiatives, including the elimination of our buyer fees, will continue to increase supply, improve our fill rate, offer the lowest cost per transaction and drive market share gain.
I'll now turn the call over to Michael for some closing remarks.

Michael G. Barrett - The Rubicon Project, Inc. - President, CEO & Director

Thank you, David. Before we jump into Q&A, I'd like to reiterate that we are very pleased to not only start to see positive signs of growth in our business, but that we also took the necessary actions to return us to positive adjusted EBITDA by the end of the year. However, we believe it is paramount for us to continue to lead in transparency, trust, client service and invest in key growth areas to win business with buyers and deliver a meaningful revenue growth for our sellers. 2017 was a year filled with change for the team at Rubicon Project, and I could not be prouder to have a team managed to not only navigate that change, but also execute on our strategic initiatives. The results that we saw in Q4 and are beginning to see this quarter are indications that their hard work is paying off.

With that, let's open the line for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Jason Kreyer with Craig-Hallum.

Jason Michael Kreyer - Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst

So just wondering if you can double-click on the cost reduction plan a little bit. Obviously, you're seeing a nice bounce back in advertising spend so far this year. So I'm just wondering if you can give some more detail on what the sources are of that cost reduction relative to the growth areas in the business?

Michael G. Barrett - The Rubicon Project, Inc. - President, CEO & Director

Sure. Obviously, given the state of the business, our focus was on limiting that impact on revenues and growth. A couple of areas of priority: one, in particular, on the general and administrative side, we built up a structure to be a much larger company. And so we took efforts to streamline back office as it were, so a chunk of that activity came from there. On the technology and sales and marketing side, we've increased some of our off-shoring activities. We've also found improvements in our product road map where we've cut unprofitable projects. And to a large part, we've restructured and delayered management.

Jason Michael Kreyer - Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst

Okay, that's very helpful. Some commentary on first price auctions so that's been almost 2 months since you made that conversion. Can you give us any numbers to support or at least something qualitative on what you've seen in CPMs over that time and any changes to win rates?

Michael G. Barrett - The Rubicon Project, Inc. - President, CEO & Director

Jason, I think that we're -- obviously, it's relatively early. At a highest level, we are finding that we are much more competitive in the downstream auction process with first price. And we're also finding that, with EMR enabled with the 50% of the DSP partners that we are talking about that we're finding a really nice balance of kind of on the yield curve of winning percentage for the buyer at a price that also works for the campaign that they're initiating. I think we're probably a little early in the process to talk specifics about specific win rates as it relates to first price and CPMs, but attendant with the increase in ad spend on our platform, you can imagine that there has been a positive impact on both CPMs and win rates with first price and EMR being enabled.
Okay. Can you give us some feedback on what you've heard from customers since the November change in in-take rate and what the feedback is?  

Yes, I think generally speaking, the reaction across the industry on the buy side has been very positive, because as I stated in my scripted remarks, with first price's very little obfuscation, you bid a number, you win an impression, that's the number you pay. Where in second price auctions, there's all sorts of flavors in second, price, and folks aren't completely aware when they're buying in a second price environment, exactly what the true mechanics are so that they can rate their algorithms for it. So I think that when we announced first price and others in the industry went in that direction, on the buyer standpoint, it was genuinely pleased that it was occurring, not without some reservation, if you've been working with the DSP, these algorithms are constructed for second price auctions and all of a sudden now you're bidding into first price auction some undesirable effects can occur. And that was really the driving force between -- behind the creation of EMR, knowing full well that some of our buyers wouldn't yet be prepared to bid shape themselves and be used to a first price, we've said, hey use our tool to do it, and that has been a universally positive feedback. So I think across the board, people feel as though the industry is moving in the right direction in this case, that there is no chicanery occurring, that it is in the best interest of buyer and seller. And now that it's under -- now that we've done the testing, and we've implemented for several months now, it kind of feels like it's about refinement, not about blowing it up and trying to find another method.

Okay, last one from me. Just you gave the commentary on what you're seeing in ad spend year-to-date. Are there any significant deltas between what you're seeing in desktop versus mobile? And then just in terms of take rates, do you expect that spread between desktop and mobile to kind of remain consistent, as we go forward?  

Yes. Mobile is growing at about rapid pace than desktop, so we continue that -- we expect that trend to continue. And in the near term, I think we expect that spread to remain -- it's fairly small now, but between mobile and desktop.

Couple of questions, if I could. I guess first for Michael. With the ads that [TXT] initiative and there are lot more brands kind of taking control in auditing their supply chain and only working with white-listed vendors. Are you seeing benefit or at least some bifurcation in the market that you think you're there -- you're benefiting from?  

Yes. Matthew, it's early days for us to see the direct benefit in numbers, but there's no question in terms of the level of conversations we've been involved with brands directly and some of the top tier buyers about their insistence that they're not buying any non-ads that [TXT] inventory is a big, big positive for us. And additionally, any other efforts that have the industry becoming more transparent, have the industry focus on rates and have the industry focus on quality, those are all tailwinds for us. And whether or not we've seen any of that represented in any kind of Q1 forecast that we alluded to, I think the best is yet to come on that stuff for us.
Matthew Corey Thornton - SunTrust Robinson Humphrey, Inc., Research Division - VP
Got you. And then may be just one more for Michael and then I'll jump over to David. In the inventory type, you've talked a lot about video, I mean, in the past, you've talked about audio, and I think you've even talked about in-app as a percentage of mobile. Would you be willing to kind of just give us some sizing as to where they stand in the mix these days?

David L. Day - The Rubicon Project, Inc. - CFO
So I'll just answer the video side. We're not sharing absolute amounts, but it's quickest growing, more rapid growing part of the company and grew over 50% year-over-year.

Michael G. Barrett - The Rubicon Project, Inc. - President, CEO & Director
I think the biggest growth, again, in mobile to is app inventory versus mobile web as well.

Matthew Corey Thornton - SunTrust Robinson Humphrey, Inc., Research Division - VP
Okay, perfect. And then Michael, you guys talked about returning to ad spend growth in 1Q, EBITDA growth in 4Q. Are you expecting revenue to return to growth sometime in the back half of the year? And then also any commentary around just how you are thinking about the cash balance may be over the course of 2018, and if that could inflect as well. Any color there would be helpful?

David L. Day - The Rubicon Project, Inc. - CFO
Yes, we -- sorry, David, we expected revenue should return to growth by the Q4. And again, it's early days. So depending on the pace of ad spend growth, as initiatives that Michael talked about continue to take root and grow, potential to -- for that to happen perhaps earlier. I'm sorry, what's the -- you had the second half to that, what was that?

Matthew Corey Thornton - SunTrust Robinson Humphrey, Inc., Research Division - VP
Yes. It was just how we should think about cash over the course of the year now for a one housekeeping item in there as well. David, you mentioned an exit run rate on the take rate, I didn't quite catch that?

David L. Day - The Rubicon Project, Inc. - CFO
Yes, -- sorry. Okay. Yes, so we expect take rate -- we exited the quarter at 11.6%, this should stay at 11.5% or above in the near term for sure. And cash, we spend all that counting cash, should talk about it. Yes, cash, as mentioned, we expect that to end Q1 at about $120 million. That's subject to some of our working capital or cash conversion cycle timing. How that plays out the rest of the year, I think you can look at -- if you look at now our cost base and what -- how revenue would track to get to adjusted EBITDA positive at the end of the year, you can sort of figure out what level of cash burn we might have and take it from there.

Operator
The next question comes from Kerry Rice with Needham & Company.
Christian Kerrigan Rice - Needham & Company, LLC, Research Division - Senior Analyst

May be just a couple of questions on competitive environment and maybe the impact are to take rates. So you dropped the take rates or you dropped the buy side fees and it seems like at least some of your competitors followed suit. Is there any sense that them following suit caused you to take rates lower even further more quickly or you feel good about that, and you're just kind of resetting the industry as a whole? And then second, kind of on take rate is you see the small spread between mobile and desktop. And I was curious, if you looked at the private marketplaces, guaranteed, maybe video, are the take rates significantly different there in that. If we see that grow, that will add some buoyancy to take rate or at least sustain those take rates? And then the final third question is, as we -- with ad spending kind of showing some growth, revenue showing some growth towards the end of the year, should we kind of think about just the seasonality and the trends throughout the year being more like historical trends versus kind of what we've seen through 2016 and may be through 2017?

Michael G. Barrett - The Rubicon Project, Inc. - President, CEO & Director

Sure, Kerry. I'll hit the first one and then maybe David you can talk about the ad spend piece. But so from a competitive environment, we hope to -- our desire was by eliminating buy side fees, it would put our competitors at still charge buy side fees in a uncomfortable position and perhaps make them eliminate buy side fees as well, which has occurred. We think that the long-term impact on their businesses will be as dramatical as ours. And the calculus is that their balance sheets aren't as strong as ours and it may very much accelerate the consolidation that we've been talking about. So that's one of the desired effects. As far as that causing a price war in terms of take rates, I think we've been clear that when we eliminated the buy side fees is there a sell side fees and those fees have been very constant over the last decade and very well publicized and contractually committed from the sellers. And so we are not seeing pressure from the sell side -- from a rate standpoint. As a matter of fact, I think as David said, there is some hope that 11.5% isn't just the bottom, but there may be some beneficial basis point movement there throughout the year. So no, Kerry, we're not anticipating another round of take rate more so to speak. You had mentioned product mix, and I think we've always been very clear that take rate is impacted by product mix, PMP is generally speaking less take rate than our open market product. And, therefore, product mix can have a definite impact on take rate generally speaking not positive. So you kind of alluded what if you did more in mobile, could that walk the take rate up. And in general, when we say there is a product mix going on a take rate, generally speaking, it means that we're trading off a lower take rate for a higher CPM. The net revenue benefited -- at Rubicon Project might be the same, but the take rate is slightly different. And so we don't see product mix driving take rate up. What we see if take rate were to increase its direct negotiations with our sellers having them pay a fair market take rate that's reasonable for the industry. And then you had a question, I'm sorry, about ad spend and revenue.

David L. Day - The Rubicon Project, Inc. - CFO

Seasonality.

Unidentified Company Representative

Yes. Just I'll comment on the take rate as well. We've factored in, as Michael mentioned, PMP (inaudible) slightly lower take rate. We've factored in that exchange in our outlook that -- in the near term that rates will stay at 11.5%.

David L. Day - The Rubicon Project, Inc. - CFO

10x or about. And then from a seasonality perspective, that's exactly right. It's a good second question. We are returning to what we think is more normal seasonality versus the last year and a half of different trends.

Operator

And this concludes our question-and-answer session. I would like to turn the conference back over to Michael Barrett for any closing remarks.
Thank you so much for all for dialing and listening to our Q4 earnings. We look forward to seeing some of you on our upcoming nondeal roadshow in early April and providing our Q1 results on May the 3rd. We also have a number of investor marketing events in May following earnings when we look forward to meeting with many of you. So thank you for your time this afternoon and look forward to seeing you in weeks coming ahead.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.