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MRIN - Q1 2019 Marin Software Inc Earnings Call

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CORPORATE PARTICIPANTS

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Christopher A. Lien *Marin Software Incorporated - Founder, Chairman & CEO*

PRESENTATION

Operator

Greetings, and welcome to the Marin Software First Quarter 2019 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Brad Kinnish, Chief Financial Officer. Thank you, Mr. Kinnish. You may begin.

Brad Kinnish - *Marin Software Incorporated - CFO*

Thank you. Good afternoon, everyone, and welcome to Marin Software's First Quarter 2019 Earnings Conference Call. My name is Brad Kinnish, Marin's CFO. Joining me today is Chris Lien, Marin's CEO.

By now you should have received a copy of our earnings release which crossed the wire a short time ago. If you need a copy of the release, please go to investors.marinsoftware.com to find an electronic version. Call participants are advised that the audio of this conference call is being recorded for playback purposes and that this recording will be made available on the Investor Relations section of our website within a few hours.

Before we begin, I'd like to note that our discussion today will include forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. These forward-looking statements include statements about our business outlook and strategy, historical results that may suggest trends for our business, expectations about our ability to return to growth, impact of investments in product and technology, progress on product development efforts, product capabilities and future financial results. We make these statements as of May 9, 2019 and disclaim any duty to update them. For more information regarding these and other risks and uncertainties that could cause actual results to differ materially from those expressed or implied in these forward-looking statements as well as risks relating to our business in general, we refer you to the section entitled Risk Factors in our most recent report on Form 10-K and our other SEC filings.

This presentation contains certain financial performance measures that are different from financial measures calculated in accordance with GAAP and may be different from similar calculations or measures used by other companies. A quantitative reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures is available on our first quarter 2019 earnings release.

With that, let me turn the call over to Chris.

Christopher A. Lien - *Marin Software Incorporated - Founder, Chairman & CEO*

Thank you, Brad. Good afternoon, everyone, and thank you for joining our call today.

I'll review the quarter and provide an update on our initiatives to return Marin to growth. Brad will then provide additional detail on our first quarter results and our outlook for Q2.

As we have discussed before, we remain focused on returning Marin to growth and maximizing shareholder value. We intend to achieve this by delivering a leading cross-channel advertising management platform to enable brands and their agencies to grow and optimize returns from their online advertising investments.



While our top line financials remain challenged and these efforts have taken longer than we would have liked, I continue to believe that these initiatives will begin to show results later in 2019. As part of our commitment to innovation, I highlight that close to half of our head count was in technology at quarter's end.

As announced in today's earnings release, Q1 revenues came in at \$13.4 million, which was above the high end of our guidance but still down from the prior year. Our cash balance at the end of Q1 was \$8.9 million, which does not include the \$3.45 million payment to be received from Google pursuant to our revenue share agreement for Q1. We will continue to manage our cash use closely, balancing investments and cost savings.

As we have discussed in the past, Marin seeks to be an ally in digital for the world's leading brands and their agencies. With customers and prospects spending ever more time online across a range of channels, devices and publishers, brands face a very fragmented customer journey and need a solution that enables them to connect with their audiences to create awareness, convey information and ultimately drive purchase activity. These purchases may occur online or off-line, and the customer journey typically spans one or more of the Internet's walled gardens, Google, Facebook or Amazon and their related properties. Marketers face a real challenge in forming one view of their customer and how best to measure, manage and optimize their online advertising investments to maximize their results.

As an open, independent, cross-channel platform, Marin is well positioned to enable brands to connect the dots to maximize the return from their digital advertising investments to acquire customers and increase revenues. Marin's approach seeks to align, integrate and amplify the efforts of brands to advertise across the world's leading platforms.

Marin's advertiser focus role helps marketers to make better digital marketing investment decisions across Google, Facebook, Amazon and other publishers. Publisher tools do not provide impartial measures of advertising performance but rather are optimized to encourage advertisers to buy more ads with a given publisher. Marin serves as a performance layer to supplement the robust tools from the publishers and to provide an objective, independent measurement of advertising performance.

Can you imagine a publisher toolset informing an advertiser that his or her marginal dollar should be invested on a competitor's platform? Marin's reporting and analytics and optimization capabilities do not favor one publisher over another but instead provide an independent, data-driven view of advertiser performance.

As we have discussed in the past, we believe best-in-class advertisers will look to objective, independent third parties to measure performance and guide actions. Marin is uniquely positioned to meet this growing demand. But as we have shared before, our vision remains ahead of many brands and agencies who are not yet ready to make this change. Over time, we believe Marin's approach will become the new standard, and Marin will be rewarded for its leadership as the online advertising management category evolves to this new state.

Our vision is Marin as a performance layer, supplementing the publisher tools to enable brands to maximize the returns from their online advertising investments across search, social and e-commerce channels. It is with this online advertising landscape in mind that we are focused on initiatives to return Marin to growth.

A key driver of our return to growth has been Marin's development of MarinOne, our next-generation, cross-channel platform built on a big data infrastructure. As we shared last quarter, all Marin customers now have access to MarinOne which provides them with a leading cross-channel platform for their search, social and e-commerce advertising investments. This is a significant milestone for Marin's customers as we have spent more than 2 years developing MarinOne's underlying infrastructure, front end and functionality. Our focus has now shifted to tuning the platform as it becomes more widely adopted across Marin's customer base and moving to deliver additional innovative functionality to drive advertiser performance and efficiency.

With the initial delivery of MarinOne, we now are able to meet the needs of the modern marketer who seeks to leverage the most impactful advertising functionality from Google, Facebook and Amazon as well as other leading publishers across audiences, ad formats, intraday and geography. Additionally, MarinOne's big data infrastructure enables Marin to deliver these capabilities at scale globally for leading brands. And I also would highlight that MarinOne's microservices architecture enables Marine to develop new functionality more rapidly for customers. We believe that MarinOne should play a key role in improving our customer retention and new business bookings later in 2019.



I also am pleased to share that in the past quarter, Marin debuted bidding support for Apple Search Ads, which provides our customers with leading optimization capabilities in this emerging channel. As our industry adjusts to new privacy initiatives from Apple with its Intelligent Tracking Prevention, or ITP on the popular Safari browser and as Google readies a version of this for its Chrome browser, Marine is well positioned as your ally in digital to help our customers to successfully navigate these changes. Marin's first-party ad-tracking technology enables our advertiser to focus on program performance with accurate measurement and optimization that does not rely on estimates as is the case in some competing solutions.

As Marin's advertisers continue to increase their activity on Amazon, this past quarter, we were pleased to introduce support for our marketplace signals functionality. This added functionality posts relevant product-related information from Amazon, including ratings, price and number of reviews, to improve optimization. These extended attributes beyond clicks and conversions give advertisers more insights which they can in turn leverage to drive better performance.

We also debuted support for multi-edit functionality for Amazon Sponsored Products, which enables advertisers to more quickly manage their campaigns, freeing up time for more value-added activities. Lastly, for our global advertisers, we recently added support for Amazon Japan.

During the quarter, we upgraded Marin's Offline Connect functionality which enables advertisers to tie off-line and downstream conversion events back to online advertising activity to close the loop. As a majority of sales activity continues to occur off-line but with much of this activity beginning via an online ad, expanding these capabilities drives better performance for brands with an extended look-back window, tracker attributes and support and intraday support.

Marin also delivered full campaign management support of Google responsive search ads, or RSAs, which is a new format that leverages Google's machine learning to better tailor ads to each user. Marin's functionality saves advertisers time and streamlines the use of this ad format.

In addition, as part of our expanding support of audience targeting to drive better performance, we debuted functionality to enable automatic sinking of customer segments with Google audiences via Marin's Audience Hub solution. We see audiences as a high-value, cross-channel use case where integrated functionality can deliver better performance and time savings.

Adding to our cross-channel functionality, we expanded our TruePath attribution solution via proprietary data feed with Verizon Media Group, formerly known as Oath, whereby an advertiser can now see aggregated views and clicks across different devices and channels with de-duplicated conversions.

Among other benefits, this functionality results in more intelligent cross-channel budget allocation between search and native advertising. Our goal is to add impression of view-level data from as many publishers as we can in the coming years to give advertisers better insights into the entire conversion funnel. Importantly, Marin's TruePath methodology enables publishers to share this data while protecting user-level privacy.

Marin also continues to invest in our support of social advertising, and we debuted bulk operations for Facebook campaigns, which enables marketers to create campaigns in bulk and at scale. This functionality saves both time and drives better performance as social marketers need to constantly adjust their creative and ad targeting.

With MarinOne's delivery to our customers, Marin has reached an important initial milestone in our return to growth. Our efforts will now focus on customer adoption as well as tuning the platform for production use. Our innovation will be focused on amplifying the capabilities of publisher tools to deliver performance and efficiency to our advertisers that they can only obtain from Marin.

Despite our current challenges, I continue to believe that Marin has a tremendous opportunity and that our best days lie ahead.

And now Brad will review our first quarter financial results and our outlook for the second quarter of 2019.



Brad Kinnish - *Marin Software Incorporated - CFO*

Thank you, Chris. I'll provide an overview of our results and then share our forecast for the upcoming quarter. I'll begin with a review of our income statement.

Let me start with revenue. For the first quarter of 2019, Marin generated \$13.4 million in revenue, beating the high end of our guidance for the quarter by \$600,000. Q1 '19 revenues were down 13% compared with Q1 '18. Our revenue during Q1 was negatively impacted by lower seasonal spend, as is customary for us, and also impacted by customer churn and excessive new bookings.

In terms of positive impacts, our revenue benefited from our 3-year revenue share agreement with Google, which accounted for \$2.9 million of revenue in the quarter. A portion of our Google revenues are deferred under ASC 606, which results in Q1 revenues being less than the cash to be received with the difference accounted for as deferred revenue. Our geographic split for the first quarter was 75% U.S. and 25% international.

Now let me move on to the operating results and our balance sheet. As a reminder, our financials, including a reconciliation of our GAAP to non-GAAP financials, can be found in our earnings release.

For the first quarter, our non-GAAP operating loss was \$3.5 million as compared to a loss of \$6.2 million for the first quarter of 2018. The \$3.5 million operating loss was \$200,000 better than the high end of our guidance for the quarter.

Moving on to our balance sheet. We saw a cash decline of \$2.6 million during the quarter, which was slightly better than our cash burn during Q4. Our cash balance has benefited from strong overall customer collections and a \$3.9 million cash payment received from Google during Q1, and we will receive a cash payment of \$3.45 million from Google in Q2.

We also significantly paid down our accounts payable balances and paid certain other prepaid amounts during the quarter, which resulted in an overall cash decline. We expect our cash burn to moderate during the remainder of 2019.

We continue to take meaningful steps to reduce our overall cost structure. Our total head count ended the quarter at 280, down from 292 at year-end. Similarly, our overall non-GAAP operating expenses were down 22% on a year-over-year basis.

During 2019, we will continue to align our costs with revenue as we seek to operate at breakeven.

Now moving on to our outlook. For Q2, we expect revenues to be in the range of \$11 million to \$11.5 million, and non-GAAP operating loss is expected to be in the range of \$4.0 million to \$3.5 million.

That concludes our call for today. I want to thank you for your time, and we look forward to updating you again at the end of Q2 2019.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.



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