EDITED TRANSCRIPT
MRIN - Q2 2019 Marin Software Inc Earnings Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Greetings, and welcome to the Marin Software Second Quarter 2019 Earnings Conference Call. (Operator Instructions)

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Brad Kinnish, Marin's CFO. Thank you. Brad, you may begin.

Brad Kinnish *- Marin Software Incorporated - CFO*

Thank you. Good afternoon, everyone, and welcome to Marin Software's Second 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, our expectations about our ability to improve customer retention and new business bookings return to growth; our ability to manage our expenses and cash resources; impact of investments in product and technology; progress in product development efforts; product capabilities; and future financial results. We make these statements as of August 8, 2019, and disclaim any duty to update them. For more information regarding these and other risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in these forward-looking statements as well as risks related to our business in general, we refer you to the section entitled Risk Factors in our most recent report on Form 10-Q 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 in our second 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 second quarter results and our outlook for Q3.

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.

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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, and we do have some green shoots appearing from our efforts, even if not yet apparent in our financials.

As part of our commitment to innovation, I'll highlight that, as was the case earlier in the year, close to half of our headcount was in technology at quarter's end.

As announced in today's earnings release, Q2 revenues came in at $12.5 million, which was above the high end of our guidance but still down from the prior year. We also outperformed on our forecast operating loss. Our cash balance at the end of Q2 was $10.9 million, which was up $2 million from Q1. We will continue to manage our cash use closely, balancing investments and cost savings, and we are committed to making sure that Marin is adequately funded.

Marin seeks to be an ally in digital for the world's leading brands and their agencies. Customers and prospects traverse a range of channels, devices and publishers online on their path to purchase. Marketers need a cross-channel platform to engage at all points of this customer journey, and as we have highlighted, the walled gardens of Google, Facebook and Amazon do not play well together, leaving brands to connect the dots on their own.

Marin helps these advertisers to measure, manage and optimize their online advertising investments to maximize their results, to acquire customers and to drive revenue.

Tools from the publishers understandably focus on how to enable a given advertiser to spend more money on ads from that particular publisher. Marin search is a performance layer to supplement their capabilities and to provide an objective independent measurement of advertising performance.

As we have highlighted in previous discussions, can you imagine a publisher toolset informing an advertiser that his or her marginal dollars should be invested on a competitor's platform? 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 Marine will be rewarded for its leadership as the online advertising management category evolves to this new state.

As we invest in product innovation, we are creating more compelling reasons for brands and their agencies to select Marin. A key part of our efforts to return to growth has been the development of MarinOne, our next-generation cross-channel platform built on 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. We spent much of the past quarter tuning the platform as we expanded the number of advertisers who have access to MarinOne. We are now moving our focus to expanding the feature set in MarinOne to deliver additional innovative functionality to drive advertiser performance and efficiency.

An example of this functionality is our newly released Keyword-by-Device reporting in MarinOne, which provides a detailed understanding of mobile ad effectiveness, an important insight to advertisers in a mobile-first world.

With the core development of MarinOne complete, we are now rolling the platform and its capabilities out to customers and our developing case studies to showcase the ability of MarinOne to deliver incremental performance for brands.

We recently published a case study with a long-time Marin customer, Premier Farnell, a global technology leader with over 80 years of experience in the high service distribution of technology, products and solutions for electronic system design, production, maintenance and repair. Their multichannel approach includes 48 transactional websites, contact centers, a field sales force and online community. With over 40 markets selling

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over 900,000 electronic components, operating Premier Farnell's page search and shopping campaigns at scale is a constant challenge for their in-house team.

Premier Farnell requires advertising automation at a global scale to ensure they're getting the best performance from their digital marketing campaigns. With the adoption of MarinOne bidding for a portion of their program, Premier Farnell's revenue grew by 33% while cost decreased by 20% when compared to 4 other markets not included in the bidding test. The results were driven by MarinOne bidding's improved clustering algorithms, which are designed to make significant more accurate predictions. MarinOne bidding leverages entirely new optimization algorithms that combine the latest in machine learning with detailed data on account performance to improve predictions and drive better performance for paid search accounts.

With early results such as these, we continue to believe that MarinOne will play a growing role in our efforts to improve customer retention and new business bookings later in 2019.

MarinOne bidding is a key area of investment with significant effort focused on Marin's support for Google's upcoming shift to impression share metrics and away from position-based bidding. Marin expects to be a leader in this new type of bidding when it debuts later this year and will help advertisers to make a seamless transition from targeting position to targeting impression share while giving greater visibility and control than Google's own tools offer.

Our goal with MarinOne is to enable brands to measure, manage and optimize their online advertising investments across the leading publishers in search, social and e-commerce. As part of these efforts, you'll recall last quarter that we debuted bidding support for Apple Search Ads, which provides our customers with leading optimization capabilities in this emerging channel.

I am pleased to share that in Q2, we added support for LinkedIn reporting, which helps marketers looking to leverage LinkedIn's audience data, measure LinkedIn performance alongside other media channels, resulting in smarter cross-channel budget allocation.

Our industry is adjusting to new privacy initiatives from Apple with its Intelligent Tracking Prevention, or ITP, on the popular Safari browser, and Google with similar changes for its Chrome browser. Marin is well positioned to help our customers to successfully navigate these changes. We believe proper measurement is the foundation of advertising performance, and we will continue to invest to enable our customers to accurately view their program performance across channels, devices and publishers.

This past quarter, Marin released an ITP impact analysis tool, which estimates missing conversion data on the Safari browser, providing advertisers with a more accurate view of the impact of their online advertising investments. By partnering with Marin to leverage our first-party ad tracking technology, including server-to-server integration, advertisers are able to leverage the actual results from their advertising activities instead of estimates or proxies as provided by some competing solutions. Publisher tools do not offer this functionality as they don't want to highlight the shortcomings of their solutions and hope that advertisers will just accept estimates in lieu of actuals.

We continue to invest in our support for Amazon Advertising, and this quarter, we expanded our Amazon Sponsored Brand support with the new campaign creation tool and added algorithmic bidding capability. Marin also built a Linking Wizard for seamless onboarding of new Amazon-sponsored products campaigns. These investments are designed to save marketers' time and increase the performance of the Amazon Advertising investments. As a fast growing channel, brands are looking for tools that enable them to scale-up their programs, and Marin is investing to support their needs.

Showcasing our ability to add value for advertisers with Amazon Advertising, we are pleased to debut a case study for Marin customer, Intertwine, a leading digital agency, who leverage Marin's Amazon algorithmic bidding capabilities to scale up their Sponsored Brands program while increasing sales by 191%. Marin's Amazon bidding offering operates on top of Amazon's own auction signals automation and augments overall returns for marketers.

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.

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As brands seek to maximize the returns from their online advertising investments, we believe they should leverage both the publisher auction signals as well as their own first-party data, which includes new versus existing, active versus lapsed, lifetime versus transaction value, off-line conversion and other advertiser-specific data.

Marin's open flexible architecture, supplemented by our highly experienced teams, enables advertisers to unlock this data to drive incremental performance. Publisher solutions generally are designed for the many and do not support this bespoke integration with advertisers forced to fit into cookie-cutter optimization approaches that may not be best suited to meet their program goals.

As part of our cross-channel performance focus, we launched Marin's Cross-Channel Audience Hub, which gives users the ability to automatically sync CRM Audience Lists across Google and Facebook within the same workflow. We see audiences as a key area where integrated cross-channel functionality can deliver better performance and time savings. This is industry-leading functionality that both saves marketers' time and enables them to drive growth and incremental performance from their valuable first-party data.

As we engage with brands around the world, all agree that cross-channel coordination of marketing investments is a worthy goal. But as we have highlighted before, many marketers are not organized from a team workflow or data perspective to make cross-channel marketing a reality.

Marin is taking it is a goal to offer compelling easy-to-use cross-channel solutions that deliver incremental performance. In this spirit, Marin is able to link search and social channel investments to deliver results. In the past quarter, we debuted a highly successful customer case study with Kiwi.com, a popular travel booking site that provides a fare aggregator, a metasearch engine and booking for discounted flights, trains, hotels and car rental with 24/7 customer support.

Kiwi.com was able to use search intent audiences on Facebook to drive a 29% incremental lift in return on advertising spend with a 20% decrease in search cost per lead and 6% increase in conversions. The Kiwi team incorporated Marin's search intent audiences into their campaign strategy to automatically create and update Facebook custom audiences based on intent demonstrated through search engine activity. This involves a twofold use case, show ads to consumers who have searched for specific keywords in a search channel on Facebook, a form of retargeting using the search channel signal; and use Facebook's targeting capabilities to find more lookalikes based on the search audience data set.

The team also used these signals to tailor ads and to build personalize creative's using Facebook video ads to improve overall engagement and conversion. This unique Marin functionality gave Kiwi.com the ability to cast a wider net for the customer journey to attract more prospects and to convert them profitably.

In the coming quarters, we expect to showcase more examples of performance and cross-channel success from customer adoption of MarinOne. 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 second quarter financial results and our outlook for the third 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 equipment. Let me start with revenue.

For the second quarter of 2019, Marin generated $12.5 million in revenue, beating the high end of our guidance for the quarter by $1 million. Q2 '19 revenues were down 12% compared with Q2 '18. Our revenue during Q2 was aided by lower churn than forecast as well as higher Google partnership revenue. Google partnership revenue during the quarter came in at $3 million. And each of the last 3 quarters, we have shown an improved rate of decline when compared to the prior year period. The reduced levels of decline are important as we seek to stabilize our revenue as an initial step before we can return to growth. Our geographic split for the second quarter revenue was 74% U.S. and 26% 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 second quarter, our non-GAAP operating loss was $2.6 million as compared to a loss of $6.3 million for the second quarter of 2018. The $2.6 million operating loss was $900,000 better than the high end of our guidance for the quarter.

During the quarter, we continued to take meaningful steps to reduce our overall cost structure. Our total headcount at end of the quarter at 272 down from 292 at year-end. Similarly, our overall non-GAAP operating expenses were down 30% on a year-over-year basis. During the remainder of 2019, we will continue to align our cost with revenue as we seek to operate at breakeven.

In terms of our balance sheet, we saw a cash increase of $2 million over the previous quarter. Our cash balance has benefited from strong collections of accounts receivable and effective working capital management. In addition, we received $1.5 million of net proceeds from the sale of 570,000 shares under our ATM program.

Now moving on to our outlook. For Q3, we expect revenues to be in the range of $10.8 million to $11.3 million, and non-GAAP operating loss is expected to be in the range of $3 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 after the end of Q3 2019.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.