

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MRIN - Q4 2019 Marin Software Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 27, 2020 / 10:00PM GMT



CORPORATE PARTICIPANTS

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

Robert Bertz *Marin Software Incorporated - CFO & Principal Accounting Officer*

PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the Marin Software Fourth Quarter 2019 Financial Results Conference Call. (Operator Instructions) And the conference is being recorded. I would now like to turn the conference over to Mr. Bob Bertz, Chief Financial Officer. Please go ahead, sir.

Robert Bertz - *Marin Software Incorporated - CFO & Principal Accounting Officer*

Thank you. Good afternoon, everyone, and welcome to Marin Software's Fourth Quarter 2019 Earnings Conference Call. My name is Bob Bertz, I'm Marin's CFO. And 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. The release can also be obtained on our website at investors.marinsoftware.com. 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 and return to growth, our ability to manage our expenses and cash resources, the impact of investments in product and technology, progress on product development efforts, product capabilities and future financial results. We make these statements as of February 27, 2020, 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 reports on Form 10-Q and Form 10-K as well as our other SEC filings.

This presentation contains certain financial performance metrics that are different from the financial measures calculated in accordance with GAAP and may also 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 fourth 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, Bob. 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. Bob will then provide additional detail on our fourth quarter and full year results and our outlook for the first quarter.

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. We call this platform MarinOne.

Our efforts to return Marin to growth are taking longer than any of us would have preferred, and our revenues continue to be under pressure. At the same time, we continue to believe that our strategy is sound and that our initiatives will show results in the coming quarters. Additionally, there are some green shoots present, even if not yet sufficient to return Marin to growth. Our view is that as we deliver a more compelling product to our market, then good results will follow. As such, we continue to invest a substantial amount in product development to better meet the needs of the digital marketer.

As announced in today's earnings release, Q4 revenues came in at \$11.4 million, which was \$1 million above the high end of our guidance but still down from the prior year. We also did better on our forecasted operating loss. Our cash balance at the end of Q4 was \$12.1 million, reflecting the proceeds from the sale of our Perfect Audience business and our ongoing commitment to manage costs. We will continue to monitor 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 focused on how to enable a given advertiser to spend more money on ads from that particular publisher. Marin serves as 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 tool set informing an advertiser that his or her marginal dollar 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 Marin 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.

We continue to invest in the development and adoption of MarinOne, our next-generation cross-channel advertising platform. Having made MarinOne available to all customers last year, in Q4, we released improvements so that advertisers can spend more of each day on our new platform. These include better consistency for users navigating between Marin Search and MarinOne and the addition of cross-client reports that save users' time by allowing them to analyze performance across multiple clients, reducing the need for external aggregation or analysis. Improved bulk management tools further save time by enabling advertisers to make changes across publishers and channels with a single upload.

Reporting in MarinOne is now more powerful. Users can easily edit saved reports and aggregate performance by dimension or metadata tags on the Devices tab. Migrating these widely used features or workflow efficiencies from Marin Search into MarinOne will enable us to start driving the adoption of MarinOne as the primary tool for our advertisers.

Marin continues to invest in MarinOne bidding as a key area where Marin can add value to complement publisher functionality. In 2019, Google switched from providing average position to impression shared data for keywords. These new metrics, also known as prominence metrics, allow advertisers to focus on driving awareness with their search campaign. We released our awareness targeting bidding strategy in Q3 and followed this in Q4 with added support for Google's prominence metrics in MarinOne.

We gave advertisers a broader view of their branding initiatives by automatically rolling out performance by keyword, keyword grid, group grid and campaign grid. This gives our customers a faster way to aggregate the data and gain a true understanding of where their ads appear on the search engine results page or SERP.

Continuing on the bidding theme, the bid strategy side panel was enhanced in Q4, allowing users expanded options for setting up their bid strategies, offering a level of control and transparency not found in native publisher tools.

We continue to invest in our support for Amazon advertising. In this past quarter, we have improved our campaign management for Amazon Sponsored Product Ads. This works in conjunction with our bidding algorithm, report building and dimension support, giving Marin more end-to-end functionality than the native Amazon advertising tool.

As I mentioned last quarter, Marin continues to work with participants in the Amazon Attribution beta, which provides advertisers with insights into how their marketing investments outside of Amazon contribute to shopping activity on Amazon. Brands advertising on Google, Facebook and other channels can see how many conversions occurred on Amazon, giving them a more accurate understanding of the ROI on those investments.

Providing advertisers access to new ad types is an ongoing mission for us. And one of the new types we added this quarter was Microsoft local inventory ads placement, giving advertisers extended reach in the Bing ecosystem. These location-aware ads are an increasingly important part of an omnichannel marketing strategy for retailers.

As we discussed last time, we believe brands should leverage both the publisher auction signals as well as their own first-party data. Marin's open, flexible architecture, supplemented by our highly experienced field 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 standard optimization approaches that may not be best suited to their specific business situation.

Our work with Verisure, the second largest home alarm provider in the world, is a great example of how we connect customer data with the brand's advertising investments to deliver results. The Verisure and Marin partnership started when Verisure was looking for a flexible advertising platform that would increase their volumes, decrease cost per lead and save time relative to using Facebook's Power Editor alone. As the majority of Verisure's sales happen off-line, the digital marketing team had little visibility into the true impact of Facebook Campaign performance. They chose Marin Software as the partner to measure Verisure's off-line event data so that the team could easily connect the company's CRM system into Marin Social and close the loop between digitally captured leads and nondigital or off-line conversions.

By targeting higher intent users with Facebook lead ads and improving campaign structure, Verisure reduced its cost per lead or CPL by 33%. Leveraging Marin's budgeting tools, they were able to achieve a further 7% decrease in CPL. In order to measure some of these efficiencies, the team performed a split test with the budget allocation tool, which show that campaigns using this feature delivered a 16% lower cost per lead.

Our work with Intertwine Interactive is another example of how we help advertisers achieve success with the e-commerce advertising efforts. The agency was working with a retail client to increase their investment in Amazon Advertising with a multi-tiered approach. This included sponsored brands to compete for valuable top-of-search results page placement for key brand terms as well as both automatic and manually targeted sponsored products. These sponsored product campaigns included a roster of product-specific keywords, which, for manual targeting, required granular bid optimization per keyword.

Intertwine connected their Amazon advertising campaigns to Marin in order to leverage its best-in-class reporting suite and patented bid algorithm to drive results for their clients. The team set up automated bidding for their sponsored products campaigns to collectively bid programmatically to hit their advertising cost of sale or ACOS and volume targets. Marin Bidding quickly provided the growth the team was looking for. Since activating, overall Amazon advertising investment grew 236% compared to previous levels without Marin Bidding.

The team also saw a 75% increase in average weekly conversion volume, and has continued to scale and build on the early successes by expanding the program. Corresponding ad attributed sales increased 191%, alongside the weekly conversion volume growth.

As Marin continues to invest in the e-commerce category, I also would add that we now have completed development of our initial support for Walmart advertising using their API functionality, and we expect to become an approved partner in the coming months. Marin's ability to support Walmart ads will offer our customers access to another leading publisher to drive more revenue while saving time versus siloed management of this channel.

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 Bob will review our fourth quarter financial results and our outlook for the first quarter of 2020.

Robert Bertz - *Marin Software Incorporated - CFO & Principal Accounting Officer*

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.

For the fourth quarter of 2019, Marin generated \$11.4 million in revenue, beating the high end of our guidance for the quarter by \$1 million but down 28% compared to Q4 of 2018. Our revenue during Q4 benefited from better-than-forecasted spend levels from our continuing customers, particularly over the holidays as well as our strategic partnership with Google and lower churn as compared to the first half of the year. These positives were partially offset by slower new bookings in the quarter.

For the full year, 2019 revenues totaled \$49 million, a year-over-year decrease of 16% as compared to \$58.6 million in 2018. Our geographic split for both fourth quarter and full year revenue was approximately 75% U.S. and 25% international.

Moving on to our operating results and the balance sheet. As a reminder, our financial statements and a reconciliation of our GAAP to non-GAAP financial measures can be found in our earnings release issued today. For the fourth quarter, our non-GAAP operating loss was \$2.1 million as compared to a loss of \$700,000 for the fourth quarter of 2018. The \$2.1 million operating loss was \$1.3 million better than the high end of our guidance. During the quarter, we continued to take meaningful steps to reduce our overall cost structure.

We ended the year with 229 total headcount, down 22% from 292 a year ago. Our overall non-GAAP operating expenses were down 18% on a year-over-year basis. We will continue to align our cost with revenue in 2020 as we seek to operate at breakeven.

In terms of our balance sheet, we ended 2019 with a total cash balance of \$12.1 million, representing a net increase in cash of \$2 million over the Q3 ending cash balance. The increase in cash includes approximately \$4.3 million in net proceeds from the sale of our Perfect Audience business, which was partially offset by our operating loss and capital expenditures.

Moving on to our outlook. For Q1 2020, we expect revenues to be in the range of \$8.3 million to \$8.8 million, and our non-GAAP operating loss is expected to be in the range of \$4.2 million to \$3.7 million.

This concludes our call for today. Thank you for your time, and we look forward to updating you again during our Q1 2020 earnings call.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Thomson Reuters. All Rights Reserved.