

ROCKET FUEL

# Q1 2017 Earnings Call

Supplemental Material as of  
May 9, 2017

 rocketfuel

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## CAUTIONS REGARDING FORWARD LOOKING STATEMENTS

This presentation contains “forward-looking” statements regarding future events and financial performance, including but not limited to our expectations for second quarter of 2017 non-GAAP net revenue, media margins and non-GAAP adjusted EBITDA.

These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from the results anticipated by such statements, including our limited operating history, particularly as a relatively new public company; fluctuations in our operating results, including but not limited to fluctuations due to seasonality; changes in customers; our history of losses; our ability to realize the expected benefits of our operating efficiency improvement plans; risks due to employee attrition and integration of new leadership and employees; risks associated with our growth, including growth outside of the U.S.; risks associated with margin shifts in the industry; our ability to adequately address competition, particularly from agency trading desks; our ability to serve the needs of agencies and agency holding companies and make the right investment decisions with regard to new products, technology and sales strategies; risks associated with maintaining or increasing sales to new and existing customers and maintaining customer satisfaction. Additional factors that could cause actual results to differ materially from those anticipated by our forward-looking statements are under the caption “Risk Factors” in our Quarterly Report on Form 10-Q filed with the SEC on May 9, 2017.

The statements in this presentation are made as of May 9, 2017, and we expressly disclaim any obligation to update any information contained in these forward-looking statements for any reason, except to the extent required by applicable law.

We encourage investors to consider all of our publicly filed materials before making an investment decision. Investors may get our most recent Form 10-Q, filed on May 9, 2017, and all other documents we file with the SEC, for free at [www.sec.gov](http://www.sec.gov).

## Q1'17 Financial Results Summary

- Non-GAAP Spend of \$99.1M declined 23% sequentially compared to \$128.0M in Q416, and declined 7% year-over-year compared to \$106.3M in Q116.
- GAAP Revenue of \$95.2M declined 24% sequentially compared to \$124.8M in Q416, and declined 9% year-over-year compared to \$104.7M in Q116.
- Non-GAAP Net Revenue of \$47.4M was down 23% sequentially compared to \$61.2M in Q416 and down 24% year-over-year compared to \$62.2M in Q116.
- Non-GAAP Operating Expenses of \$50.0M were down 9% sequentially compared to \$54.7M in Q416, and down 23% year-over-year compared to \$64.8M in Q116, reflecting our continued efforts to improve efficiency and the cost of our operations.
- Non-GAAP Adjusted EBITDA of \$(2.6)M was down sequentially compared to \$6.5M in Q416 and flat compared to \$(2.6)M in Q116.
- Non-GAAP Free Cash Flow of \$(18.6)M was \$11.1M lower compared to (\$7.5)M in Q1'16 due to higher working capital requirements and one-time restructuring costs.

Note: Non-GAAP measures are in addition to, not a substitute for or superior to, financial measures prepared in accordance with GAAP. A reconciliation of GAAP to Non-GAAP Financial Measures is provided in the appendix to this presentation.



# Definitions

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## **Non-GAAP Spend**

We define non-GAAP spend as GAAP revenue plus platform media costs for a portion of our sales arrangements (customers with revenue recognized on a net basis per GAAP). Media costs consist of costs for advertising impressions we purchase from advertising exchanges or other third parties.

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## **Media Services and Platform Solutions**

Media Services is our managed service offering where we execute Insertion Orders on behalf of agencies for their clients, and on behalf of direct clients. Platform Solutions include (i) what we have recently referred to as our self-serve DSP, (ii) our DMP technologies and (iii) professional services we provide to customers to help them implement and operate our platforms.

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## **Channel and Direct**

Channel is principally agencies. We are seeking to expand into other channel opportunities such as systems integrators, marketing services firms and resellers. Direct is when a customer purchases our solution from us directly.

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## **Brand and Direct Response**

Brand comprises video, including pTV. We are categorizing all non-video revenues into Direct Response. As we supplement our Brand offerings over time, we will disclose those additional offerings to the extent included in Brand revenue.

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## Summary Financial Metrics

	Q1'17	Q4'16	Q3'16	Q2'16	Q1'16
<b>Non-GAAP Spend</b>	\$ 99.1 M	\$ 128.0 M	\$ 112.3 M	\$ 118.4 M	\$ 106.3 M
<b>Revenue</b>	\$ 95.2 M	\$ 124.8 M	\$ 109.7 M	\$ 117.0 M	\$ 104.7 M
<b>Non-GAAP Net Revenue</b>	\$ 47.4 M	\$ 61.2 M	\$ 62.6 M	\$ 66.0 M	\$ 62.2 M
<b>Non-GAAP Operating Expenses</b>	\$ 50.0 M	\$ 54.7 M	\$ 56.0 M	\$ 61.8 M	\$ 64.8 M
<b>Non-GAAP Adjusted EBITDA</b>	\$ (2.6) M	\$ 6.5 M	\$ 6.6 M	\$ 4.2 M	\$ (2.6) M
<b>Non-GAAP Adjusted Net Loss</b>	\$ (12.1) M	\$ (4.0) M	\$ (3.6) M	\$ (6.7) M	\$ (12.0) M

Note: Non-GAAP measures are in addition to, not a substitute for or superior to, financial measures prepared in accordance with GAAP. A reconciliation of GAAP to Non-GAAP Financial Measures is provided in the appendix to this presentation.



## Non-GAAP Spend Breakdown

	Q1'17	Q4'16	Q3'16	Q2'16	Q1'16
<b>Geography</b>					
North America	78 %	81 %	82 %	78 %	80 %
International	22 %	19 %	18 %	22 %	20 %
<b>Product</b>					
Media Services	68 %	75 %	79 %	81 %	83 %
Platform Solutions (1)	32 %	25 %	21 %	19 %	17 %

Note: Breakouts based on Total Non-GAAP Spend vs earlier presentations which were based on GAAP Revenue. A reconciliation of GAAP to Non-GAAP Financial Measures is provided in the appendix to this presentation.

(1) Includes DSP Self-Serve, DMP and Professional Services revenues from supporting self-serve clients.



## Non-GAAP Spend Breakdown

	Q1'17	Q4'16	Q3'16	Q2'16	Q1'16
<b>Product</b>					
Direct Response	93 %	91 %	94 %	93 %	92 %
Brand (Video)	7 %	9 %	6 %	7 %	8 %
<b>Channel/Direct</b>					
Channel	73 %	72 %	73 %	72 %	71 %
Direct	27 %	28 %	27 %	28 %	29 %
<b>Customer Spend (1)</b>					
Top 50	69 %	60 %	60 %	54 %	53 %
Top 250	93 %	87 %	87 %	83 %	84 %

Note: Breakouts based on Total Non-GAAP Spend vs earlier presentations which were based on GAAP Revenue. A reconciliation of GAAP to Non-GAAP Financial Measures is provided in the appendix to this presentation.

(1) Platform customers and their advertisers are now treated as a single customer. Previously, advertisers of platform customers were considered separately. Percentages have been revised versus our Q1'16 presentation to reflect this change.



## Additional Financial Metrics

	Q1'17	Q4'16	Q3'16	Q2'16	Q1'16
<b>Cash and Cash Equivalents</b>	\$ 62.8 M	\$ 84.0 M	\$ 78.7 M	\$ 66.7 M	\$ 67.4 M
<b>Debt (1)</b>	\$ 86.0 M	\$ 86.2 M	\$ 87.8 M	\$ 78.9 M	\$ 80.5 M
<b>Capital Expenditures</b>	\$ (3.8) M	\$ (2.7) M	\$ (4.5) M	\$ (4.3) M	\$ (4.7) M
<b>Non-GAAP Free Cash Flow</b>	\$ (18.6) M	\$ 7.3 M	\$ 3.8 M	\$ 0.9 M	\$ (7.5) M
<b>DSO</b>	109	92	94	89	95
<b>Employee Headcount</b>	751	851	858	899	917

Note: Non-GAAP measures are in addition to, not a substitute for or superior to, financial measures prepared in accordance with GAAP.

A reconciliation of GAAP to Non-GAAP Financial Measures is provided in the appendix to this presentation.

(1) Includes capital lease obligations.





# Q2 2017 Financial Outlook

Q2 2017

<b>Non-GAAP Net Revenue</b>	\$42 - \$48 million
<b>Media Margins</b>	~1% to 2% point decline sequentially
<b>Non-GAAP Adjusted EBITDA</b>	\$(4) - \$2 million

## Reconciliation of GAAP to Non-GAAP Financial Measures

**Rocket Fuel Inc.**  
**UNAUDITED RECONCILIATION FROM GAAP REVENUE TO NON-GAAP SPEND**  
(In thousands)

	Three Months Ended				
	Mar 31, 2017	Dec 31, 2016	Sep 30, 2016	Jun 30, 2016	Mar 31, 2016
Revenue	\$ 95,172	\$ 124,830	\$ 109,720	\$ 116,968	\$ 104,745
Add: Media costs reduced by net basis accounting	3,895	3,168	2,590	1,433	1,523
Non-GAAP spend	<u>\$ 99,067</u>	<u>\$ 127,998</u>	<u>\$ 112,310</u>	<u>\$ 118,401</u>	<u>\$ 106,268</u>

Note: Non-GAAP spend is defined as GAAP revenue plus platform media costs for certain self-service DSP arrangements (customers with revenue recognized on a net basis per GAAP).



## Reconciliation of GAAP to Non-GAAP Financial Measures

**Rocket Fuel Inc.**  
**UNAUDITED RECONCILIATION FROM GAAP REVENUE TO NON-GAAP NET REVENUE**  
**(In thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Revenue	\$ 95,172	\$ 104,745
Less: Media costs	47,756	42,559
Non-GAAP net revenue	<u>\$ 47,416</u>	<u>\$ 62,186</u>

Note: Non-GAAP net revenue is defined as GAAP revenue less media costs. Media costs consist of costs for advertising impressions we purchase from real-time advertising exchanges or other third parties.



# Reconciliation of GAAP to Non-GAAP Financial Measures

**Rocket Fuel Inc.**  
**UNAUDITED RECONCILIATION FROM GAAP NET LOSS TO NON-GAAP ADJUSTED EBITDA**  
(In thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net loss	\$ (22,469)	\$ (20,773)
Adjustments:		
Interest expense	1,137	1,237
Income tax provision (benefit)	158	230
Amortization of intangibles	3,764	4,127
Amortization of capitalized software	3,005	2,290
Depreciation	5,774	5,847
Stock-based compensation expense	2,848	4,810
Other (income) expense, net	(552)	(194)
Restructuring expense	3,768	(199)
<b>Total adjustments</b>	<b>19,902</b>	<b>18,148</b>
<b>Non-GAAP adjusted EBITDA</b>	<b>\$ (2,567)</b>	<b>\$ (2,625)</b>

Note: Non-GAAP adjusted EBITDA is defined as GAAP net income (loss) before interest expense, other income (expense), net, income tax provision (benefit), depreciation and amortization expense (including amortization of capitalized software development expenses), stock-based compensation expense and related payroll taxes, acquisition and restructuring related expenses, and impairment charges.



# Reconciliation of GAAP to Non-GAAP Financial Measures

**Rocket Fuel Inc.**  
**UNAUDITED RECONCILIATION FROM GAAP NET LOSS TO NON-GAAP ADJUSTED NET  
 INCOME (LOSS)**  
**(In thousands, except per share data)**

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net loss	\$ (22,469)	\$ (20,773)
Stock-based compensation expense	2,848	4,810
Amortization of intangible assets	3,764	4,127
Restructuring expense	3,768	(199)
Non-GAAP adjusted net income (loss)	<u>\$ (12,089)</u>	<u>\$ (12,035)</u>
Basic and diluted net loss per share attributable to common stockholders	<u>\$ (0.49)</u>	<u>\$ (0.48)</u>
Non-GAAP adjusted net income (loss) per diluted share	<u>\$ (0.26)</u>	<u>\$ (0.28)</u>
Weighted average shares used in computing non-GAAP adjusted net income (loss) per diluted share	<u>46,261</u>	<u>43,601</u>

Note: Non-GAAP adjusted net income (loss) is defined as GAAP net income (loss) excluding stock-based compensation expense, amortization of intangible assets, impairment charges, acquisition and restructuring related expenses and the estimated tax impact of the foregoing items.



# Reconciliation of GAAP to Non-GAAP Financial Measures

**Rocket Fuel Inc.**  
**UNAUDITED RECONCILIATION FROM GAAP TOTAL COSTS AND EXPENSES TO NON-GAAP  
 OPERATING EXPENSES**  
**(In thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Total costs and expenses	\$ 116,898	\$ 124,245
Less media costs	47,756	42,559
Adjustments:		
Amortization of intangibles	3,764	4,127
Amortization of capitalized software	3,005	2,290
Depreciation	5,774	5,847
Stock-based compensation expense	2,848	4,810
Restructuring expense	3,768	(199)
Total adjustments	19,159	16,875
Non-GAAP operating expenses	<u>\$ 49,983</u>	<u>\$ 64,811</u>

Note: Non-GAAP operating expenses is defined as GAAP total costs and expenses less media costs, depreciation and amortization expense (including amortization of capitalized software development costs), impairment charges, stock-based compensation expense and related payroll taxes, and acquisition and restructuring related expense.



# Reconciliation of GAAP to Non-GAAP Financial Measures

**Rocket Fuel Inc.**  
**UNAUDITED RECONCILIATION FROM CASH PROVIDED BY (USED IN) OPERATING**  
**ACTIVITIES TO NON-GAAP FREE CASH FLOW**  
**(In thousands)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net cash used in operating activities	(14,793)	(2,754)
Less: Purchases of property, equipment and software	(1,264)	(1,787)
Less: Capitalized internal-use software development costs	(2,505)	(2,924)
Non-GAAP free cash flow	<u>\$ (18,562)</u>	<u>\$ (7,465)</u>
Net cash used in investing activities	(3,653)	(4,379)
Net cash used in financing activities	(2,844)	(3,955)

Note: Non-GAAP free cash flow is defined as net cash provided by (or used in) operating activities less the cash used for purchases of property, equipment and software and for capitalized internal-use software development costs.



# Reconciliation of GAAP to Non-GAAP Financial Measures

<u>Geography</u>	Q117	Q416	Q316	Q216	Q116		<u>Direct Response/Brand</u>	Q117	Q416	Q316	Q216	Q116
North America Revenue	79%	82%	83%	79%	81%		Direct Response Revenue	93%	91%	93%	93%	92%
Add: Impact of media costs reduced by net basis accounting	(1)%	(1)%	(1)%	(1)%	(1)%		Add: Impact of media costs reduced by net basis accounting	0%	0%	0%	0%	0%
North America Non-GAAP Spend	78%	81%	82%	78%	80%		Direct Response Non-GAAP Spend	93%	91%	94%	93%	92%
International Revenue	21%	18%	17%	21%	19%		Brand (Video) Revenue	7%	9%	7%	7%	8%
Add: Impact of media costs reduced by net basis accounting	1%	1%	1%	1%	1%		Add: Impact of media costs reduced by net basis accounting	(0)%	(0)%	(0)%	(0)%	(0)%
International Non-GAAP Spend	22%	19%	18%	22%	20%		Brand (Video) Non-GAAP Spend	7%	9%	6%	7%	8%
<u>Media Services/Platform Solutions</u>							<u>Channel/Direct</u>					
Media Services Revenue	71%	78%	81%	82%	84%		Channel Revenue	72%	71%	73%	71%	71%
Add: Impact of media costs reduced by net basis accounting	(3)%	(2)%	(2)%	(1)%	(1)%		Add: Impact of media costs reduced by net basis accounting	1%	2%	1%	0%	(0)%
Media Services Non-GAAP Spend	68%	75%	79%	81%	83%		Channel Non-GAAP Spend	73%	72%	73%	72%	71%
Platform Solutions Revenue	29%	22%	19%	18%	16%		Direct Revenue	28%	29%	27%	29%	29%
Add: Impact of media costs reduced by net basis accounting	3%	2%	2%	1%	1%		Add: Impact of media costs reduced by net basis accounting	(1)%	(2)%	(1)%	(0)%	0%
Platform Solutions Non-GAAP Spend	32%	25%	21%	19%	17%		Direct Non-GAAP Spend	27%	28%	27%	28%	29%
							<u>Top 50/250</u>					
							Top 50 Revenue	68%	59%	59%	53%	52%
							Add: Impact of media costs reduced by net basis accounting	1%	1%	1%	1%	1%
							Top 50 Non-GAAP Spend	69%	60%	60%	54%	53%
							Top 250 Revenue	93%	87%	86%	82%	83%
							Add: Impact of media costs reduced by net basis accounting	0%	0%	0%	1%	0%
							Top 250 Non-GAAP Spend	93%	87%	87%	83%	84%

Note: The difference between GAAP revenue and Non-GAAP spend represents platform media costs for a portion of our sales arrangements where revenue is recognized on a net basis per GAAP.

