

RPX Corporation Q1 2017 Earnings Call

May 2, 2017

Martin Roberts, Chief Executive Officer
Robert Heath, Chief Financial Officer

Safe Harbor

The following presentation contains forward-looking statements, including statements regarding our future financial performance and business strategy, our plans and objectives for future operations, and our expectations regarding the future growth of a market for patent risk mitigation, eDiscovery and other legal services.

These forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Many of the factors that could cause or contribute to such differences are described in the “Risk Factors” section of our most recent annual report on Form 10-K, and our quarterly reports on Form 10-Q, and our other filings with the SEC, including:

- we may experience significant quarterly fluctuations in our operating results,
- new legislation, regulations or court rulings related to enforcing patents could reduce the value of our service to clients or potential clients,
- we may not be able to compete effectively against others to attract new clients or acquire patent assets, and
- we may not be able to integrate the acquisition of Inventus Solutions, Inc. or effectively manage the combined business.

In light of these risks and uncertainties, the forward-looking statements contained in this presentation may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. We are not able, at this time, to provide a forward-looking reconciliation to GAAP outlook for the non-GAAP financial metric outlook because of the difficulty of estimating certain items that are excluded from the non-GAAP financial metrics. We do not intend, and undertake no duty, to update any forward-looking statements to reflect future events or circumstances.

Financial Highlights – Q1 2017

- ▶ **Q1 2017 revenue of \$82.5 million vs. \$79.7 million in Q1 2016**
 - Subscription revenue of \$63.4 million
 - Discovery revenue of \$18.0 million
 - Fee-related revenue of \$1.1 million

- ▶ **Q1 2017 GAAP Net Income of \$6.0 million**
 - Non-GAAP Net Income of \$9.6 million

- ▶ **Q1 2017 adjusted EBITDA-NPS^[1] of \$24.8 million**

- ▶ **Cash, cash equivalents and short-term investments of \$226.6 million at quarter end**

^[1]Adjusted EBITDA-NPS = net income exclusive of provision for income taxes, interest and other income (expense), net, stock-based compensation and related employer payroll taxes, depreciation, and amortization [less net patent spend]. See page 14 for reconciliation.

Current Guidance – Non-GAAP

<i>in millions</i>	FY 2017	Q2 2017
Subscription Revenue	\$240 - \$250	
Discovery Revenue	\$70 - \$79	
Total Subscription & Discovery Revenue	\$310 - \$329	\$79 - \$82
Fee-Related Revenue	\$5 - \$15	\$0
Total Revenue	\$315 - \$344	\$79 - \$82
Cost of Revenue ^[1]	\$193 - \$198	
SG&A ^[1]	\$73 - \$78	
Operating Income ^[1]	\$49 - \$68	\$9 - \$11
Net Income ^[1]	\$31 - \$42	\$5 - \$7
Patent risk management adjusted EBITDA ^[1]	\$183 - \$199	
Discovery services adjusted EBITDA ^[1]	\$19 - \$23	
Total adjusted EBITDA ^[1]	\$202 - \$222	\$51 - \$52
Net Patent Spend (NPS)	\$110 - \$115	
Consolidated adjusted EBITDA less net patent spend ^[1]	\$87 - \$112	
Effective Tax Rate ^[1]	37%	37%
WA Diluted Shares	50	49

^[1] Cost of Revenue, SG&A, Operating Profit, Net Income, Adjusted EBITDA and Effective Tax Rate are non-GAAP metrics.

Quarterly GAAP Results and Reconciliation of Net Income to Non-GAAP Adjusted EBITDA Less Net Patent Spend

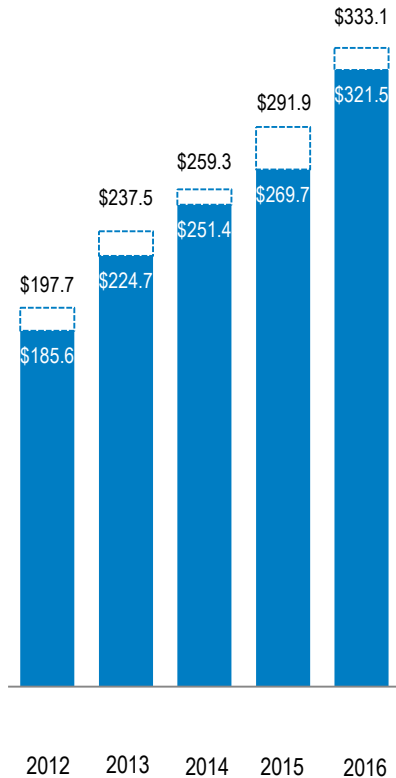
(\$ in millions)

	Q1 2016 ^[1]	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Revenue					
Subscription revenue	\$ 67.1	\$ 63.2	\$ 62.4	\$ 62.7	\$ 63.4
Discovery revenue	10.6	19.3	18.0	18.3	18.0
Total subscription and discovery revenue	77.7	82.5	80.4	81.0	81.4
Fee-related revenue	2.0	0.6	8.1	0.8	1.1
Total revenue	\$ 79.7	\$ 83.1	\$ 88.5	\$ 81.8	\$ 82.5
Cost of revenue	47.7	49.1	50.8	49.7	51.3
Selling, general, and administrative expenses	26.9	25.9	23.6	24.0	21.1
Operating income	\$ 5.2	\$ 8.1	\$ 14.0	\$ 8.1	\$ 10.1
Interest and other income (expense), net	1.8	(1.5)	(1.3)	(2.1)	(0.5)
Income before taxes	7.0	6.6	12.8	6.0	9.6
Provision for income taxes	2.7	2.4	4.7	4.2	3.6
Net income	\$ 4.2	\$ 4.2	\$ 8.1	\$ 1.7	\$ 6.0
Net income	\$ 4.2	\$ 4.2	\$ 8.1	\$ 1.7	\$ 6.0
Provision for income taxes	2.7	2.4	4.7	4.2	3.6
Interest and other (income) expense, net	(1.8)	1.5	1.3	2.1	0.5
Depreciation and amortization	44.6	41.0	43.7	42.3	42.9
Stock-based compensation (including payroll taxes)	5.0	5.0	4.3	4.2	2.9
Non-GAAP Adjusted EBITDA	54.8	54.1	62.1	54.6	55.9
NPS	16.2	20.9	34.8	45.5	31.1
Non-GAAP Adjusted EBITDA - NPS	\$ 38.5	\$ 33.3	\$ 27.3	\$ 9.1	\$ 24.8

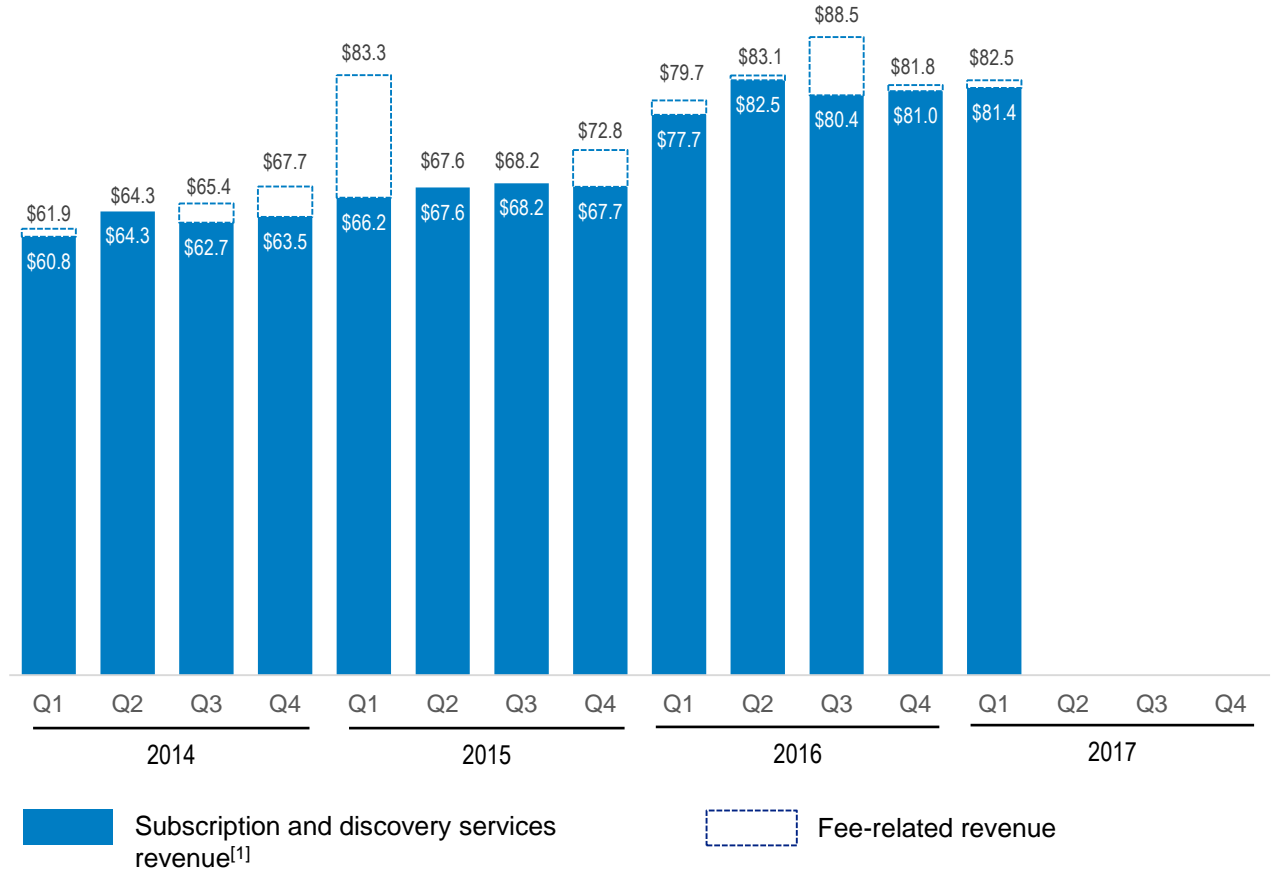
^[1]Inventus acquisition closed on January 22, 2016; amounts reflect partial quarter contribution.

Revenue

Annual
(\$ in millions)



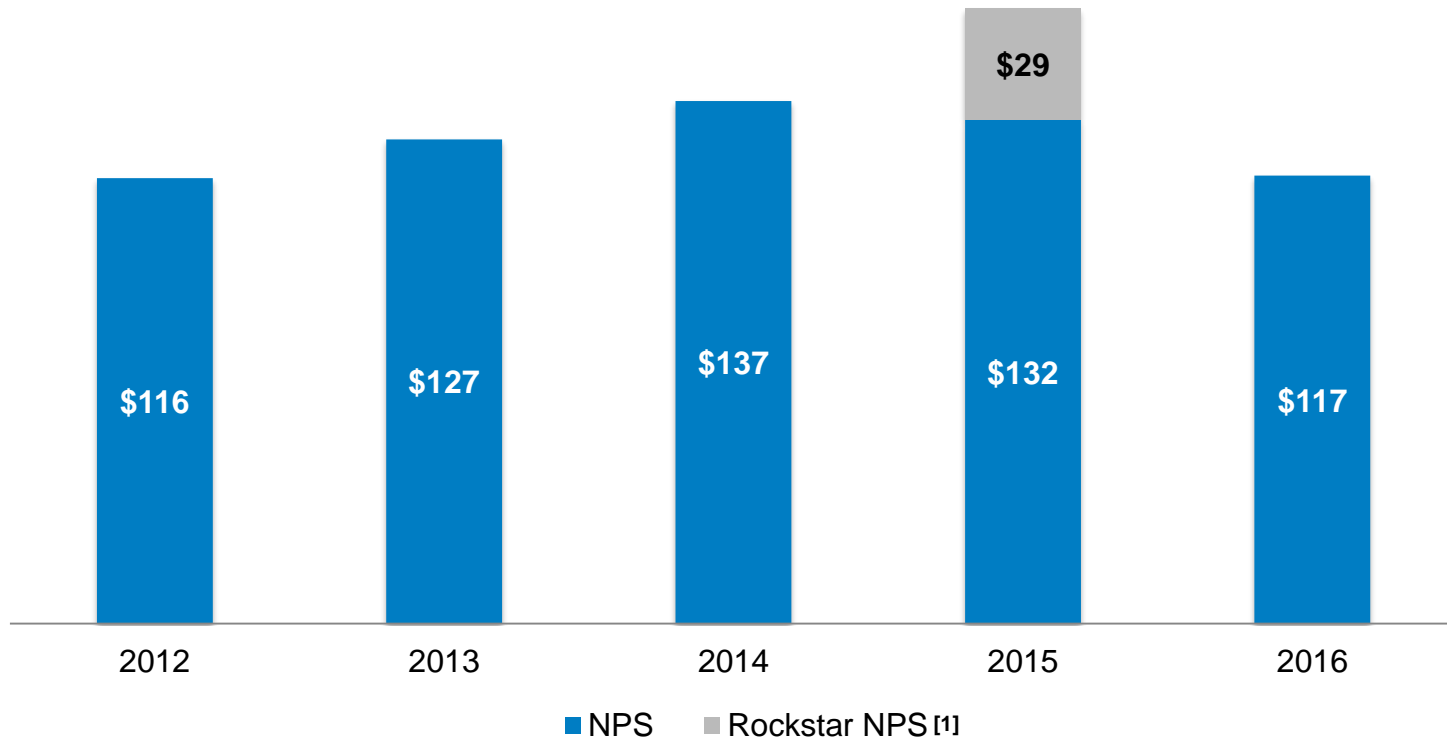
Quarterly
(\$ in millions)



^[1] Inventus acquisition closed on January 22, 2016, at which point we began recognizing revenue from discovery services. Revenue for Q1 2016 reflects a partial quarter contribution.

Net Patent Spend (NPS)

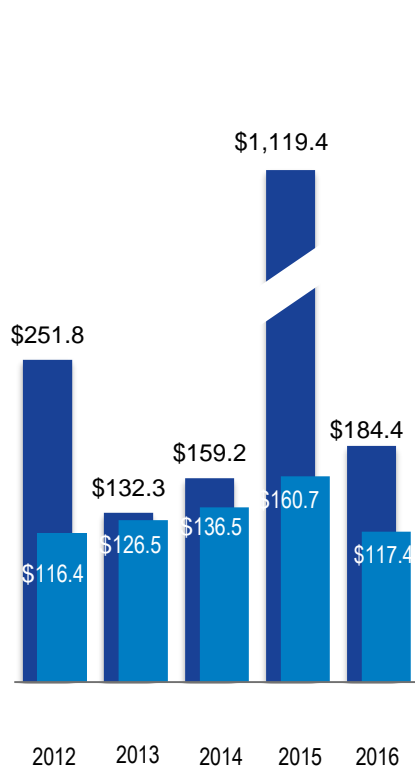
(\$ in millions)



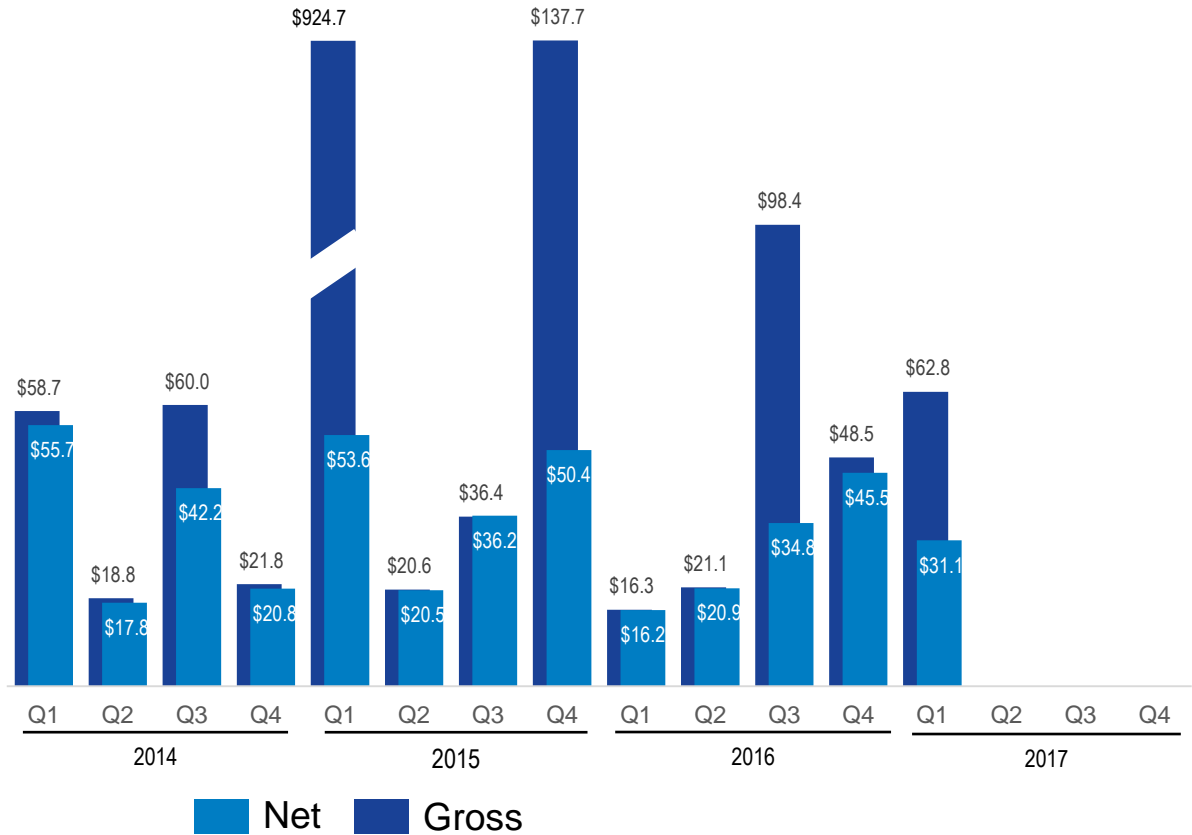
[1] 2014 excludes a \$25 million deposit made in December 2014 for acquisition of the Rockstar patent assets, which were acquired for a net purchase price of \$29 million and closed in January 2015.

Gross and Net Patent Spend^[1]

Annual
(\$ in millions)



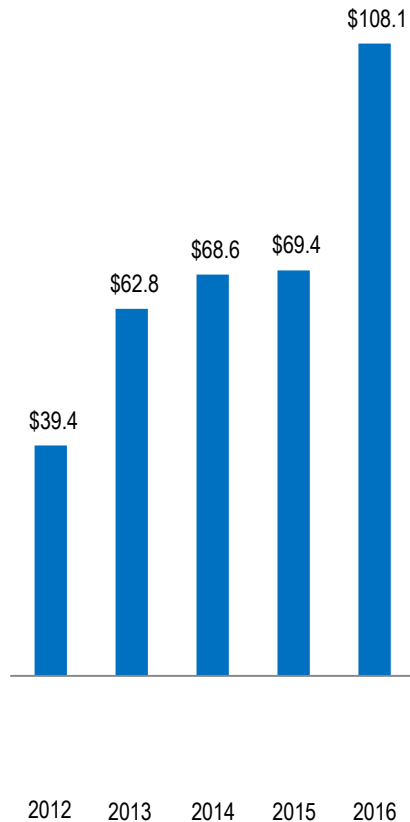
Quarterly
(\$ in millions)



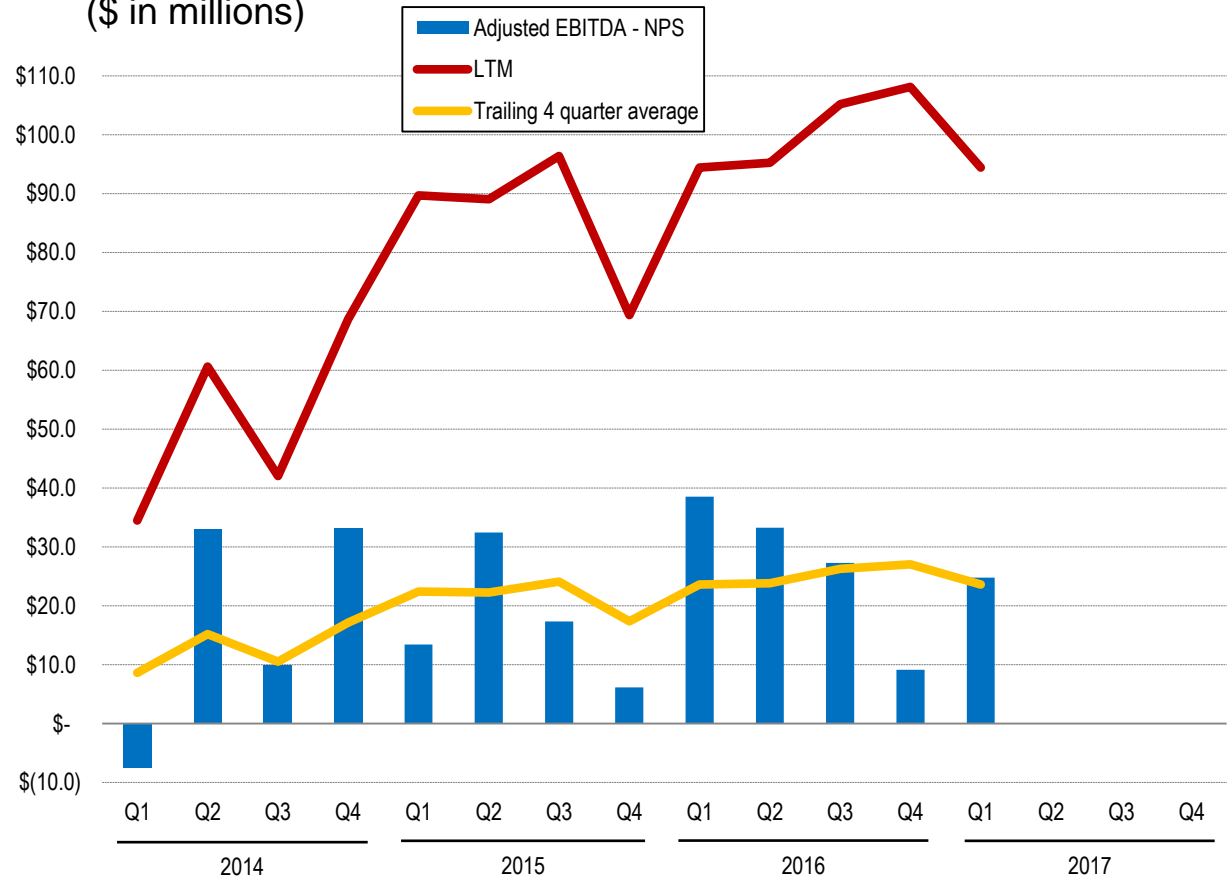
^[1] 2014 excludes a \$25 million deposit made in December 2014 for acquisition of the Rockstar patent assets, which were acquired for a net purchase price of \$29 million and closed in January 2015.

Adjusted EBITDA – NPS^[1,2,3]

Annual (\$ in millions)



Quarterly (\$ in millions)



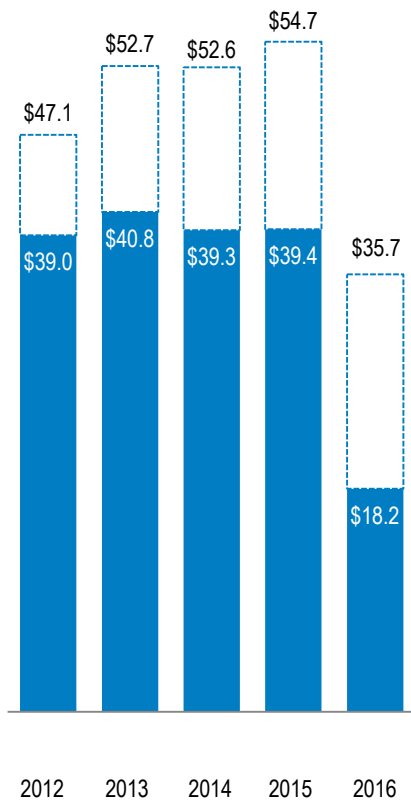
^[1] Adjusted EBITDA less Net Patent Spend (NPS) is a non-GAAP metric. Refer to page 14 for reconciliation.

^[2] 2014 excludes a \$25 million deposit made in December 2014 for acquisition of the Rockstar patent assets, which were acquired for a net purchase price of \$29 million and closed in January 2015.

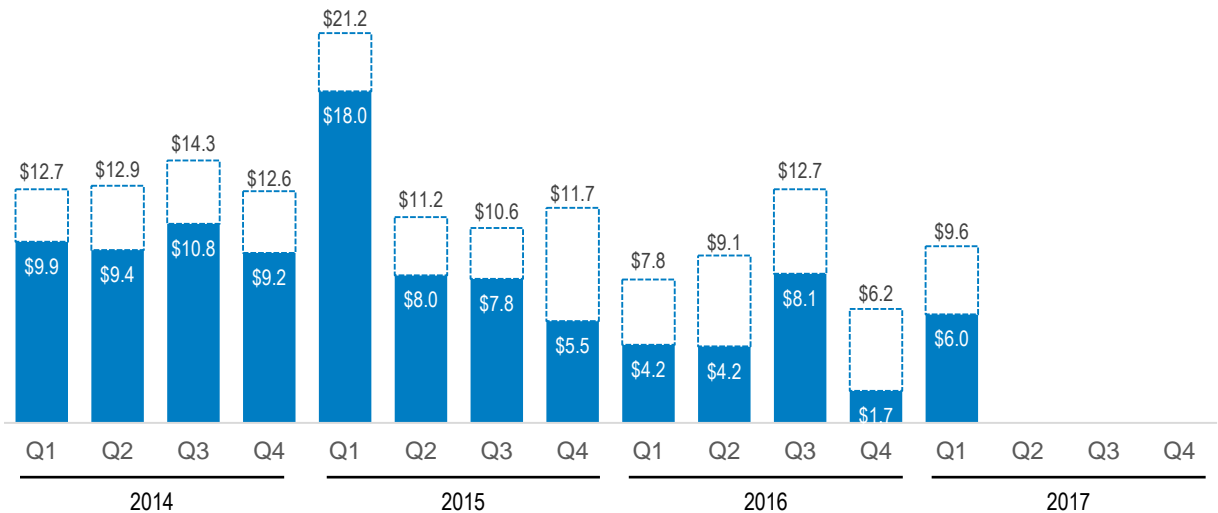
^[3] Inventus acquisition closed on January 22, 2016; Adjusted EBITDA less NPS for Q1 2016 reflects a partial quarter contribution.

Net Income – GAAP and Non-GAAP^[1]

Annual
(\$ in millions)



Quarterly
(\$ in millions)

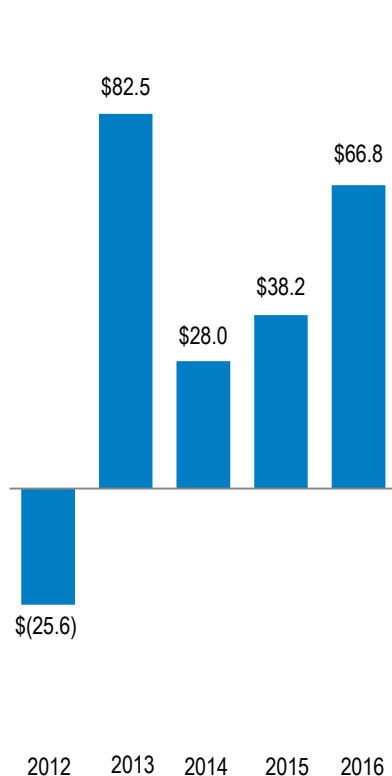


^[1] Inventus acquisition closed on January 22, 2016; Net Income for Q1 2016 reflects a partial quarter contribution.

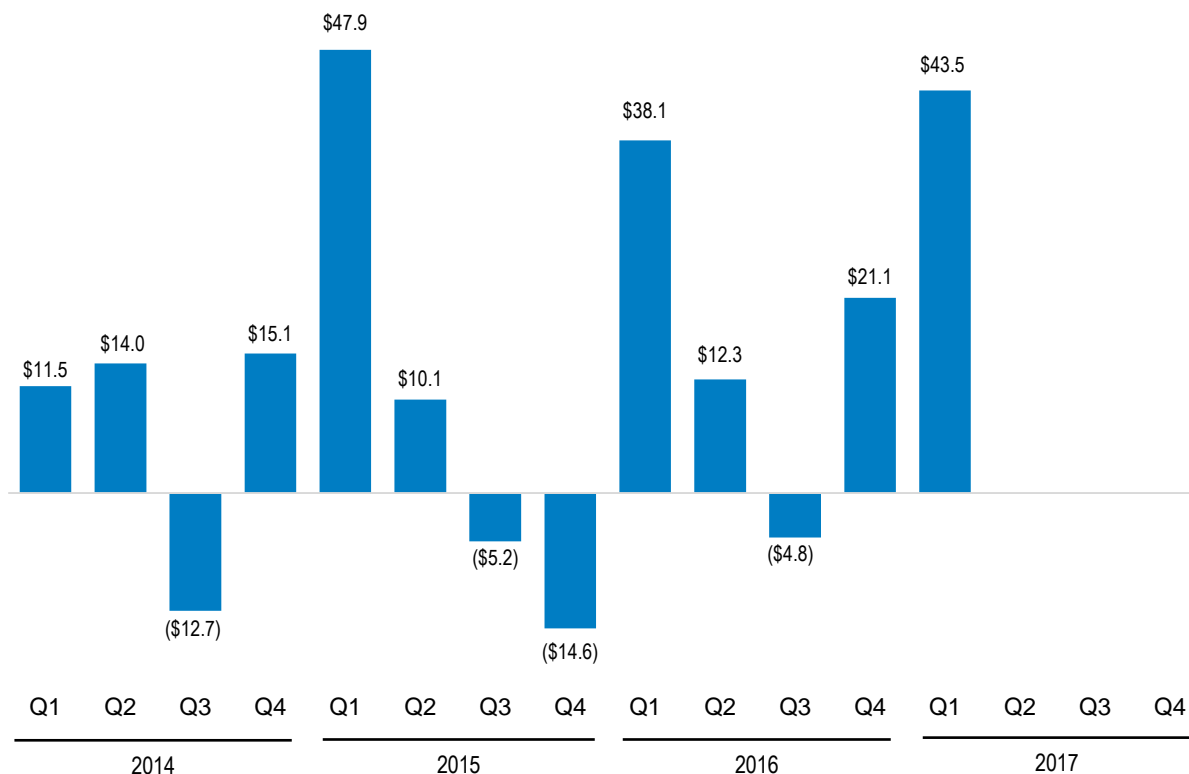
^[2] Net Income is a non-GAAP metric. Refer to pages 13 -14 for reconciliations.

Free Cash Flow^[1,2]

Annual (\$ in millions)



Quarterly (\$ in millions)

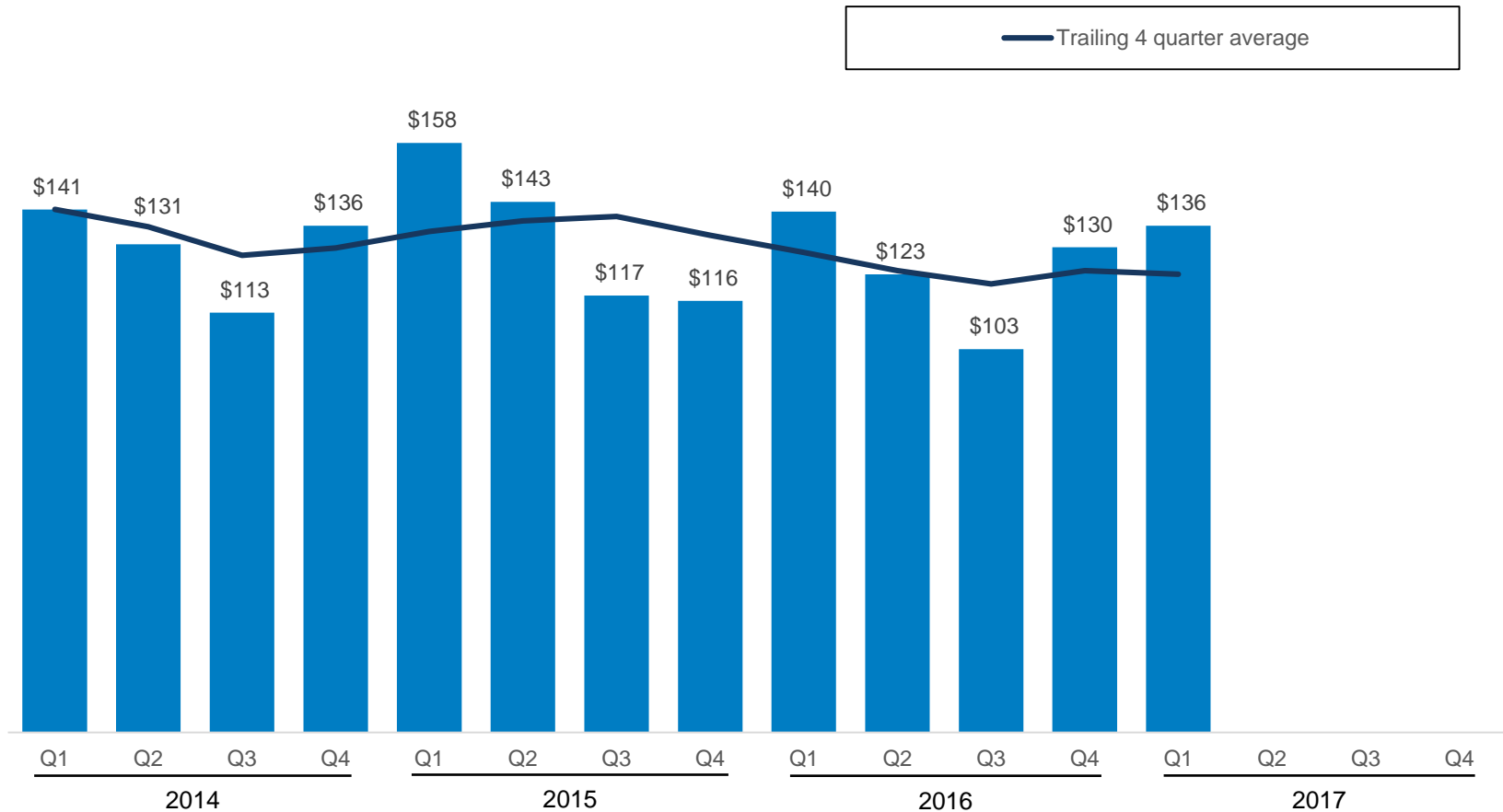


^[1] Free cash flow is defined as operating cash flow minus capital expenditures (i.e. purchases of intangible assets, property and equipment, patent assets and patent assets acquired in a business combination). 2014 excludes a \$25 million deposit made in December 2014 for acquisition of the Rockstar patent assets, which were acquired for a net purchase price of \$29 million and closed in January 2015.

^[2] Inventus acquisition closed on January 22, 2016; Free Cash Flow for Q1 2016 reflects a partial quarter contribution.

Deferred Revenue

(\$ in millions)



GAAP to Non-GAAP Reconciliation

(\$ in millions, except per share data)

	Q1 2017	Q1 2016		Q1 2017	Q1 2016
Net income	\$ 6.0	\$ 4.2	Cost of revenue	\$ 51.3	\$ 47.7
Stock-based compensation ^[1]	2.9	5.0	Stock-based compensation ^[1]	(0.1)	-
Amortization of acquired intangible assets ^[2]	2.3	2.2	Amortization of acquired intangible assets ^[2]	(0.5)	(0.5)
Fair value adjustment on deferred payment obligations ^[3]	-	(1.9)	Non-GAAP cost of revenue	\$ 50.7	\$ 47.2
Income tax adjustments ^[4]	(1.6)	(1.7)			
Non-GAAP net income	\$ 9.6	\$ 7.8			
Non-GAAP net income per share:			Selling, general and administrative expenses	\$ 21.1	\$ 26.9
Basic	\$ 0.20	\$ 0.15	Stock-based compensation ^[1]	(2.8)	(5.0)
Diluted	\$ 0.19	\$ 0.15	Amortization of acquired intangible assets ^[2]	(1.8)	(1.7)
			Non-GAAP selling, general and administrative expenses	\$ 16.5	\$ 20.2
Weighted-average shares:					
Basic	48.7	52.1	Interest and other income (expense), net	\$ (0.5)	\$ 1.8
Diluted	49.3	52.6	Fair value adjustment on deferred payment obligations ^[3]	-	(1.9)
			Non-GAAP interest and other income (expense), net	\$ (0.5)	\$ (0.1)

^[1] RPX excludes stock-based compensation and related employer payroll taxes from its non-GAAP financial measures.

^[2] RPX excludes amortization expense related to intangible assets (other than patents) acquired in conjunction with the acquisition of businesses from its non-GAAP financial measures.

^[3] RPX excludes fair value adjustments on its deferred payment obligations from its non-GAAP financial measures.

^[4] Amount reflects income taxes associated with the above noted non-GAAP exclusions.

Reconciliation of Net Income to Non-GAAP Adjusted EBITDA Less Net Patent Spend

(\$ in millions)

	Q1 2016			Q1 2017		
	Patent Risk Management	Discovery Services	Consolidated	Patent Risk Management	Discovery Services	Consolidated
Net income	\$ 3.7	\$ 0.6	\$ 4.2	\$ 4.7	\$ 1.3	\$ 6.0
Provision for income taxes	2.6	0.2	2.7	3.2	0.3	3.6
Interest and other (income) expense, net	(1.7)	(0.1)	(1.8)	0.6	(0.1)	0.5
Depreciation and amortization	42.7	1.9	44.6	40.5	2.4	42.9
Stock-based compensation	4.9	0.1	5.0	2.4	0.4	2.9
Non-GAAP Adjusted EBITDA	52.2	2.6	54.8	51.6	4.3	55.9
Net patent spend (NPS)	(16.2)	-	(16.2)	(31.1)	-	(31.1)
Adjusted EBITDA - NPS	\$ 35.9	\$ 2.6	\$ 38.5	\$ 20.4	\$ 4.3	\$ 24.8