

RPX Corporation Q4 2016 Earnings Call

February 14, 2017

Martin Roberts, Interim 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 – Q4 2016

- ▶ **Q4 2016 GAAP revenue of \$81.8 million vs. \$72.8 million in Q4 2015**
 - Subscription revenue of \$62.7 million vs. \$67.7 million in Q4 2015
 - Discovery revenue of \$18.3 million
 - Fee-related revenue of \$0.8 million

- ▶ **Q4 GAAP 2016 Net Income of \$1.7 million**
 - Non-GAAP Net Income of \$6.2 million

- ▶ **Q4 2016 Non-GAAP Adjusted EBITDA-NPS^[1] of \$9.1 million**

- ▶ **Cash, cash equivalents and short-term investments of \$191.0 million at quarter end**

- ▶ **Q4 Patent Risk Management client count of 348**
 - 20 net client additions
 - More than 150 insurance policy holders

^[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.

Current Guidance – Non-GAAP

<i>in millions</i>	FY 2017	Q1 2017
Subscription Revenue	\$240 - \$250	
Discovery Revenue	\$70 - \$79	
Total Subscription & Discovery Revenue	\$310 - \$329	\$79 - \$81
Fee-Related Revenue	\$5 - \$15	\$1
Total Revenue	\$315 - \$344	\$80 - \$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
RPX Adjusted EBITDA ^[1]	\$183 - \$199	
Discovery Adjusted EBITDA ^[1]	\$19 - \$23	
Consolidated Adjusted EBITDA ^[1]	\$202 - \$222	\$51 - \$52
Net Patent Spend (NPS)	\$110 - \$115	
Adjusted EBITDA-NPS ^[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 Results

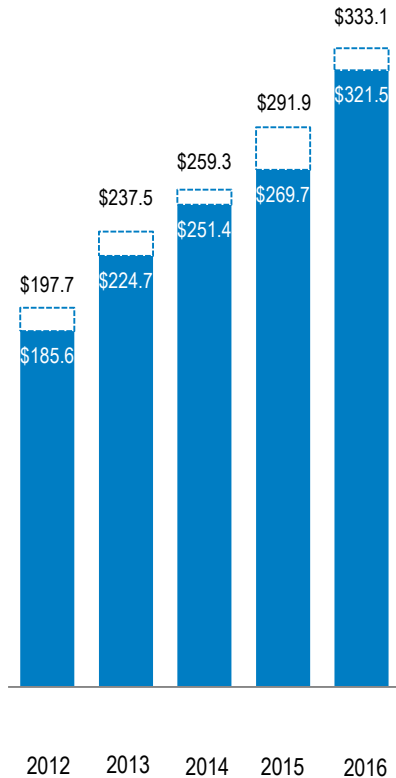
(\$ in millions)

	Q4 2015	Q1 2016 ^[1]	Q2 2016	Q3 2016	Q4 2016
Revenue					
Subscription revenue	\$ 67.7	\$ 67.1	\$ 63.2	\$ 62.4	\$ 62.7
Discovery Services revenue	-	10.6	19.3	18.0	18.3
Total Subscription and Discovery revenue	67.7	77.7	82.5	80.4	81.0
Advisory fees and other revenue	5.1	2.0	0.6	8.1	0.8
Total revenue	\$ 72.8	\$ 79.7	\$ 83.1	\$ 88.5	\$ 81.8
Cost of revenue	39.5	47.7	49.1	50.8	49.7
Selling, general, and administrative expenses	20.2	26.9	25.9	23.6	24.0
Operating income	\$ 13.2	\$ 5.2	\$ 8.1	\$ 14.0	\$ 8.1
Other income (expense)	(2.6)	1.8	(1.5)	(1.3)	(2.1)
Income before taxes	10.5	7.0	6.6	12.8	6.0
Provision for income taxes	5.0	2.7	2.4	4.7	4.2
Net income	\$ 5.5	\$ 4.2	\$ 4.2	\$ 8.1	\$ 1.7
Net income	\$ 5.5	\$ 4.2	\$ 4.2	\$ 8.1	\$ 1.7
Provision for income taxes	5.0	2.7	2.4	4.7	4.2
Other (income) expense, net	2.6	(1.8)	1.5	1.3	2.1
Depreciation and amortization	38.8	44.6	41.0	43.7	42.3
Stock-based compensation (including payroll taxes)	4.5	5.0	5.0	4.3	4.2
Adjusted Non-GAAP EBITDA	56.5	54.8	54.1	62.1	54.6
NPS	50.4	16.2	20.9	34.8	45.5
Adjusted Non-GAAP EBITDA - NPS	\$ 6.1	\$ 38.5	\$ 33.3	\$ 27.3	\$ 9.1

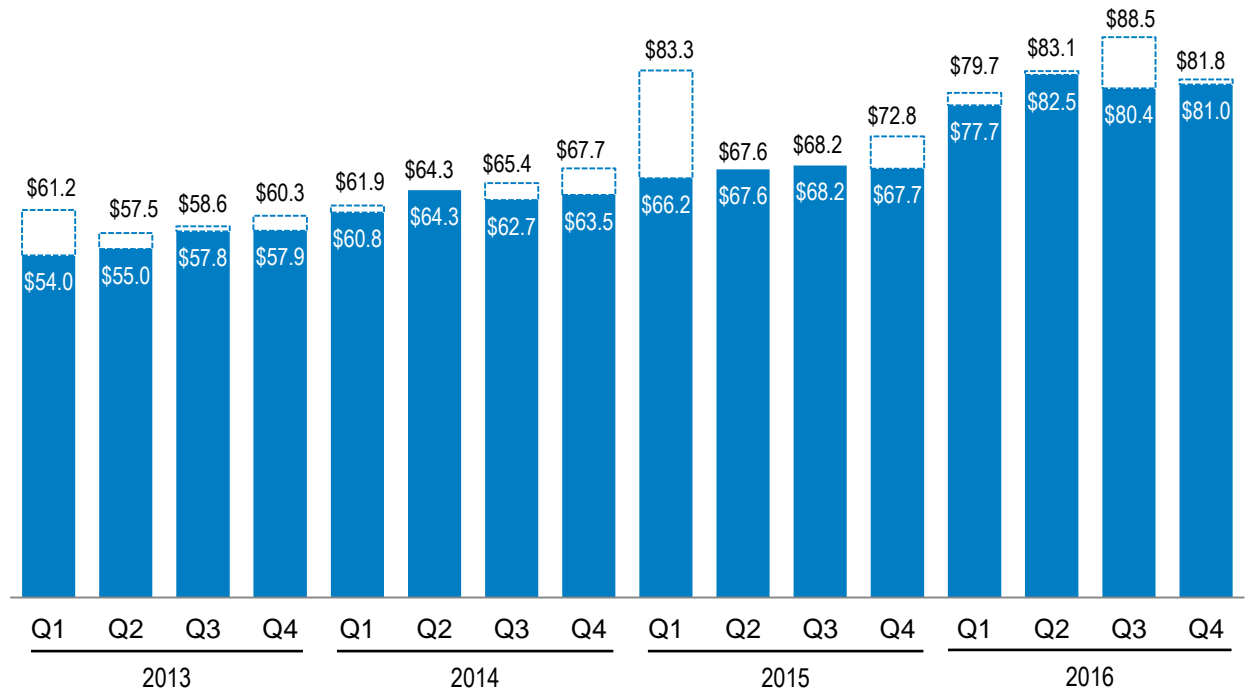
^[1]Inventus acquisition closed on January 22, 2016; amounts reflect partial quarter contribution.

Revenue

Annual
(\$ in millions)



Quarterly
(\$ in millions)

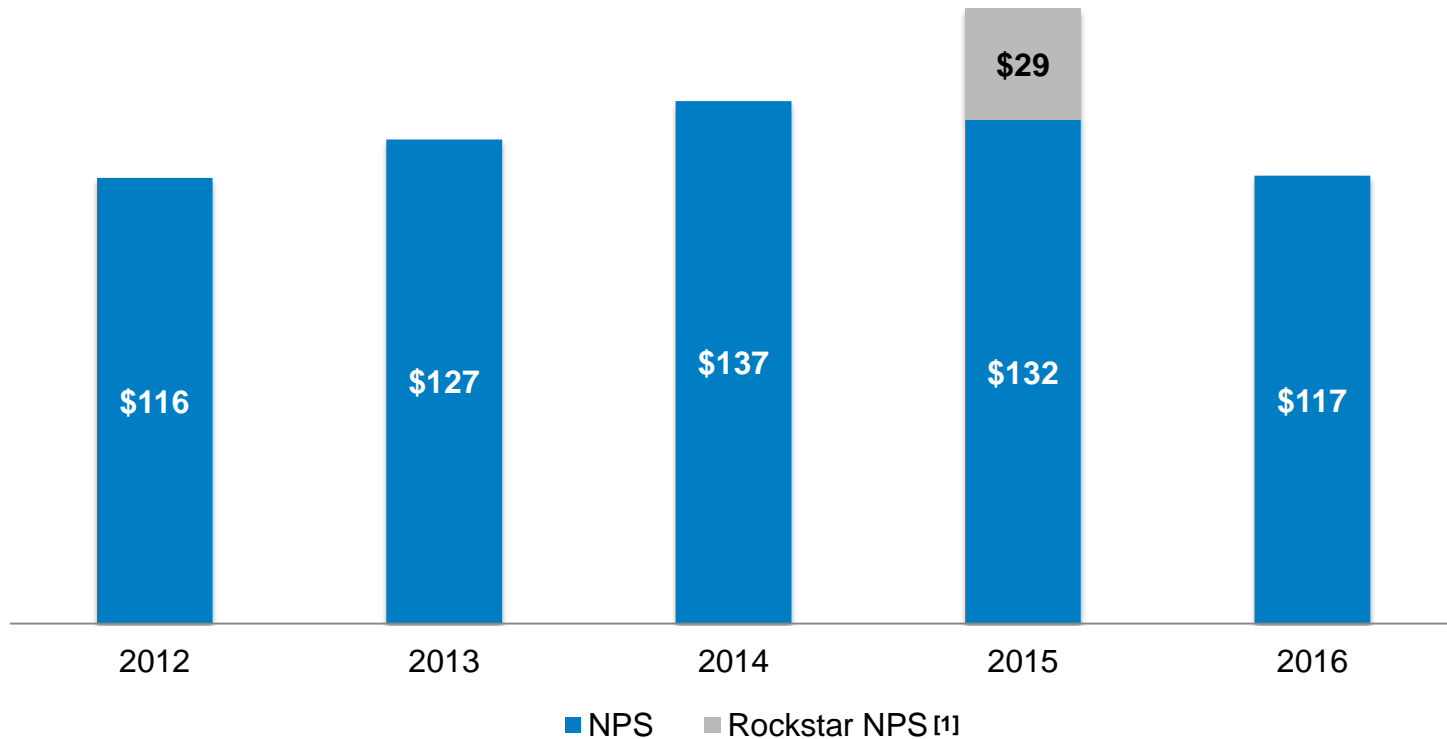


Subscription and discovery revenue^[1]
 Fee-related revenue

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

Net Patent Spend (NPS)

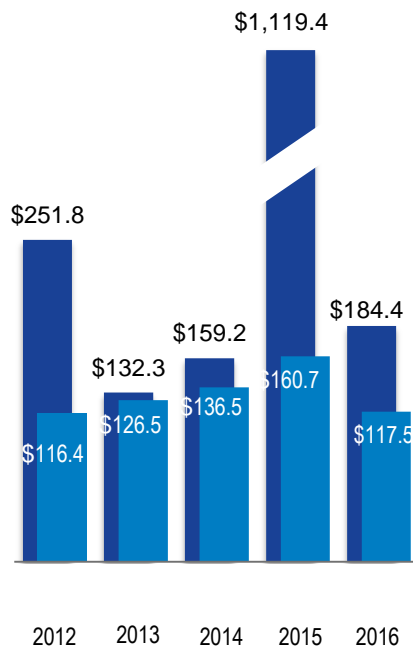
(\$ in millions)



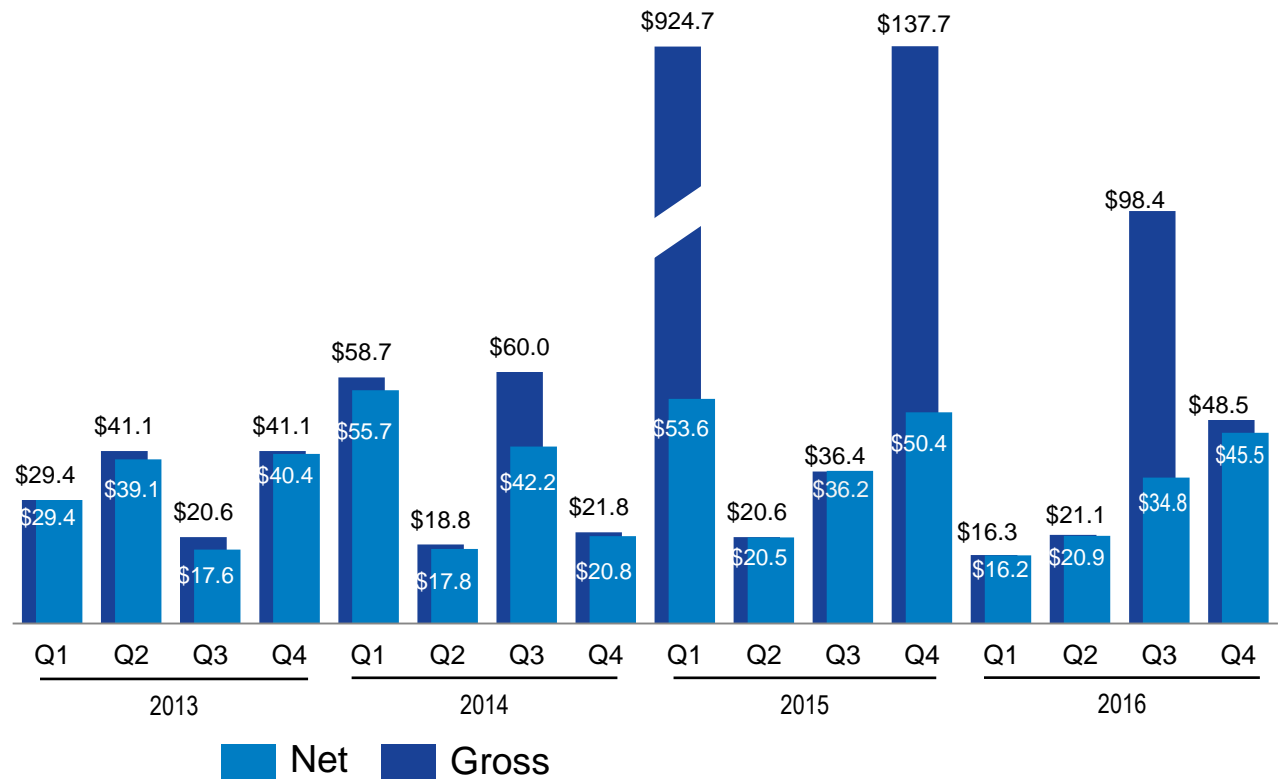
[1] 2014 excludes a \$25 million deposit made in December 2014 for acquisition of the Rockstar patent assets, which were acquired for a net purchase price of \$29 million and closed in January 2015.

Gross and Net Patent Spend^[1]

Annual
(\$ in millions)



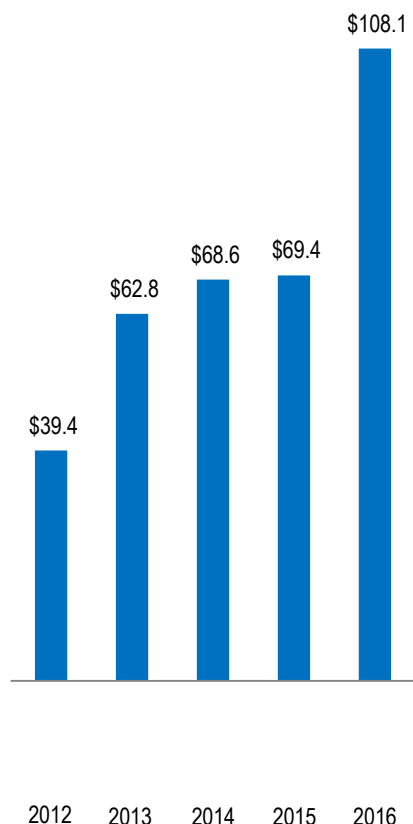
Quarterly
(\$ in millions)



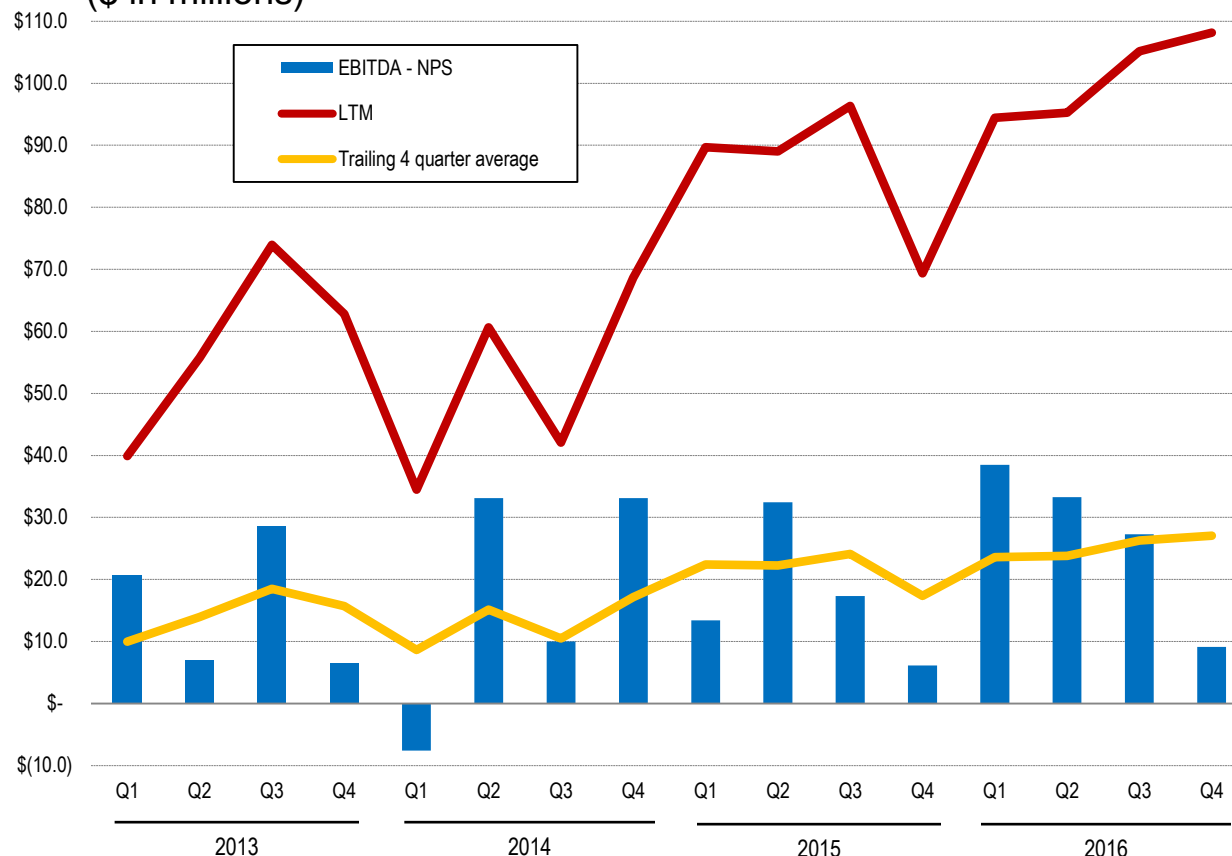
^[1] 2014 excludes a \$25 million deposit made in December 2014 for acquisition of the Rockstar patent assets, which were acquired for a net purchase price of \$29 million and closed in January 2015.

Non-GAAP Adjusted EBITDA – NPS^[1,2,3]

Annual
(\$ in millions)



Quarterly
(\$ in millions)



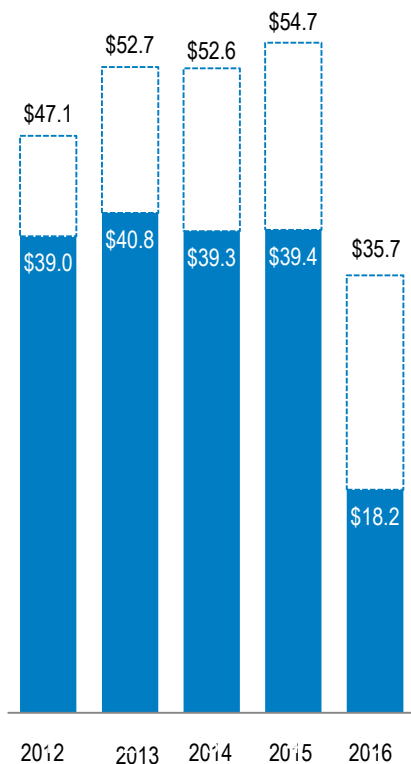
^[1] Adjusted EBITDA less Net Patent Spend (NPS) is a non-GAAP metric. Refer to page 13 for reconciliation.

^[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.

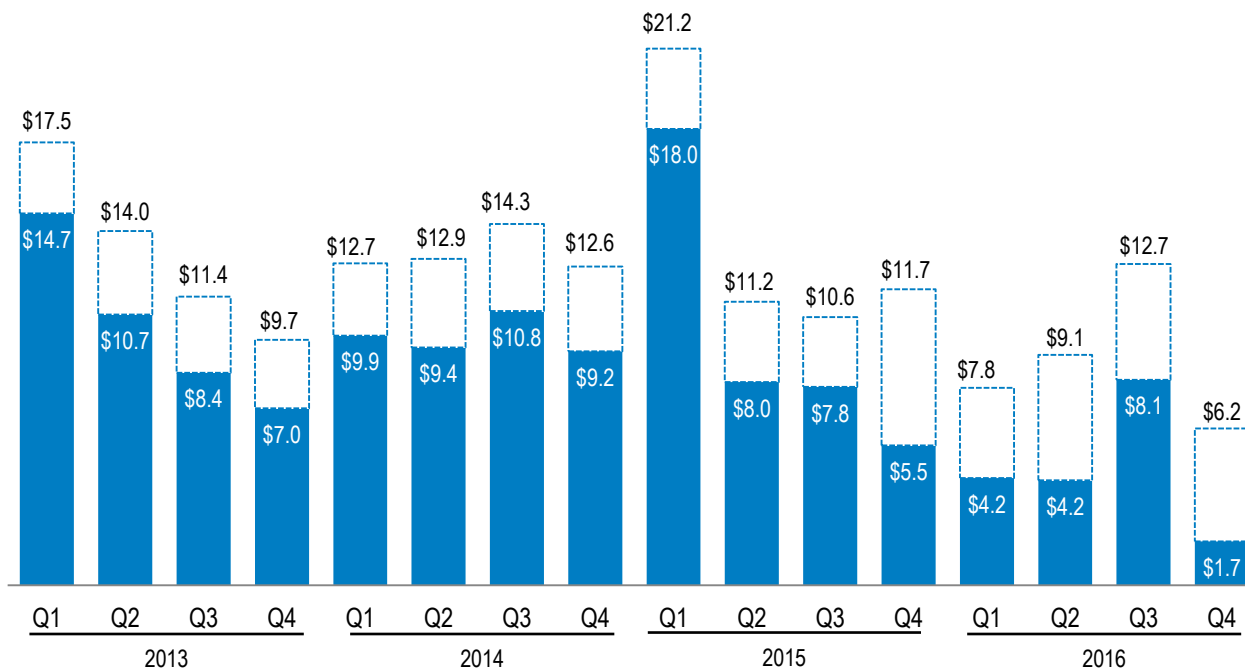
^[3] Inventus acquisition closed on January 22, 2016; Adjusted EBITDA less NPS for Q1 2016 reflects a partial quarter contribution.

Net Income – GAAP and Non-GAAP^[1]

Annual
(\$ in millions)



Quarterly
(\$ in millions)

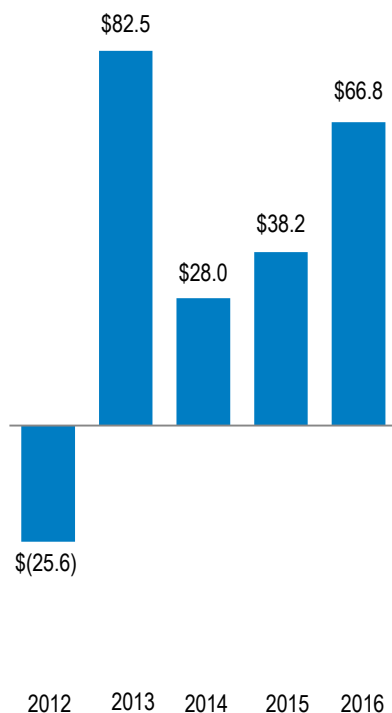


^[1] Inventus acquisition closed on January 22, 2016; Net Income for Q1 2016 reflects a partial quarter contribution.

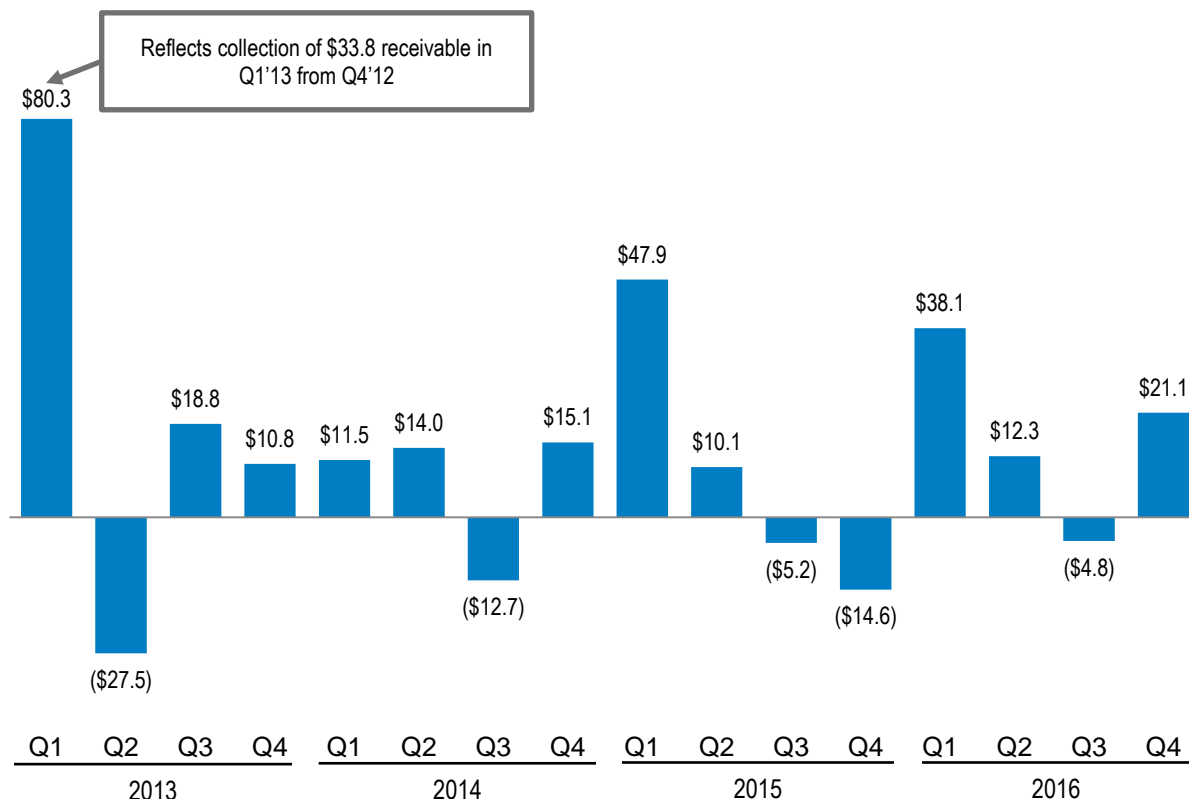
^[2] Net Income is non-GAAP metrics. Refer to pages 13 -14 for reconciliations.

Free Cash Flow^[1,2]

Annual (\$ in millions)



Quarterly (\$ in millions)



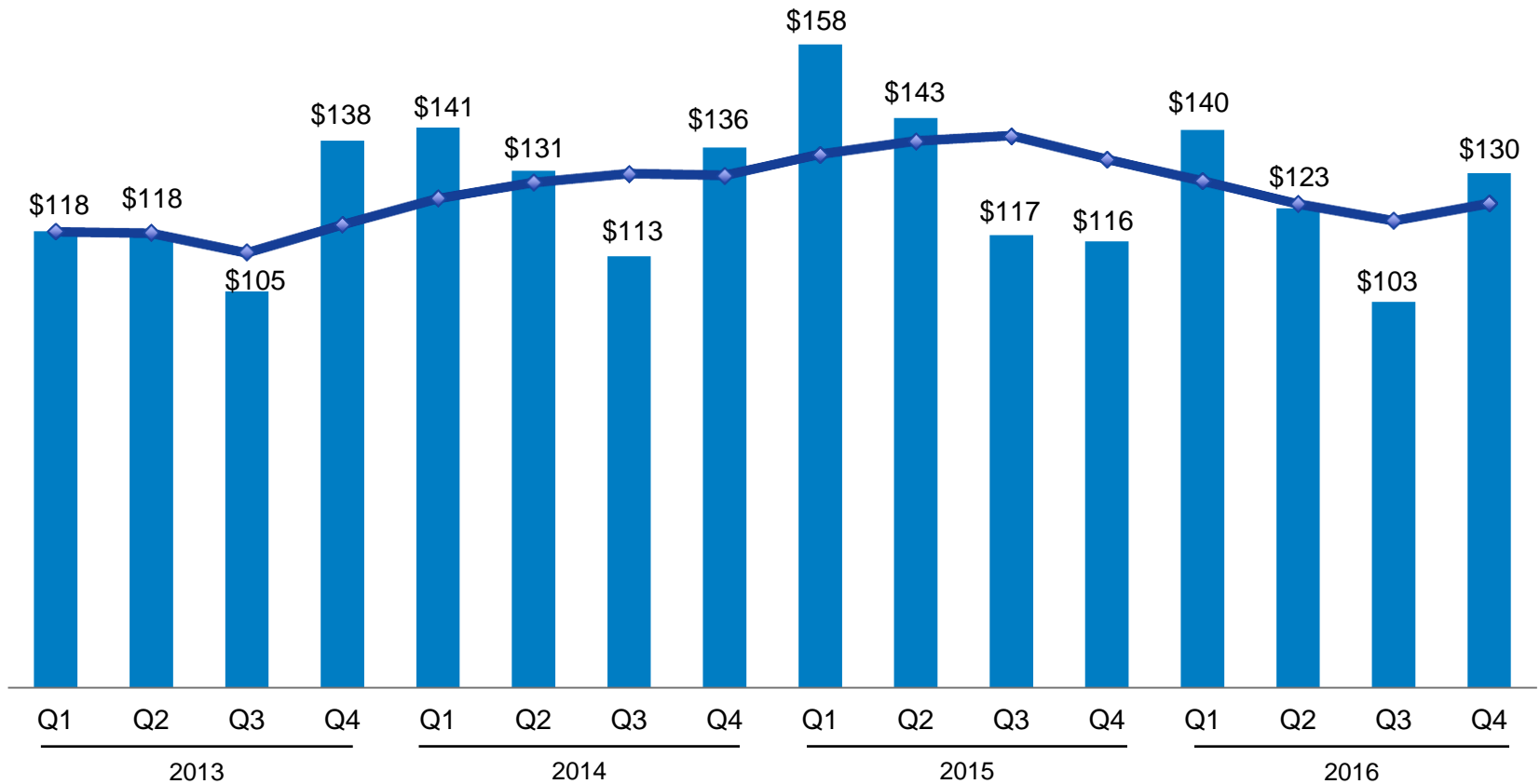
^[1] Free cash flow is defined as operating cash flow minus capital expenditures (i.e. purchases of intangible assets, property and equipment, patent assets and patent assets acquired in a business combination). 2014 excludes a \$25 million deposit made in December 2014 for acquisition of the Rockstar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

◆ Trailing 4 quarter average



GAAP to Non-GAAP Reconciliation

(\$ in millions, except per share data)

	Q4 2016	Q4 2015		Q4 2016	Q4 2015
Net income	\$ 1.7	\$ 5.5	Cost of revenue	\$ 49.7	\$ 39.5
Stock-based compensation ^[1]	4.2	4.5	Amortization of acquired intangible assets	(0.5)	(0.1)
Amortization of acquired intangible assets ^[2]	2.4	0.4	Non-GAAP cost of revenue	\$ 49.2	\$ 39.4
Fair value adjustment on deferred payment obligations ^[3]	-	(0.7)			
Gain on extinguishment of deferred payment obligations ^[3]	-	(3.0)			
Other-than-temporary impairment on short-term investments ^[3]	-	3.2			
Realized loss on exchange of short-term investments ^[3]	-	3.3	Selling, general and administrative expenses	\$ 24.0	\$ 20.2
Income tax adjustments ^[4]	(2.2)	(1.6)	Stock-based compensation ^[1]	(4.2)	(4.5)
Non-GAAP net income	\$ 6.2	\$ 11.7	Amortization of acquired intangible assets ^[2]	(1.9)	(0.4)
			Non-GAAP selling, general and administrative expenses	\$ 17.9	\$ 15.3
Non-GAAP net income per share:					
Basic	\$ 0.13	\$ 0.22			
Diluted	\$ 0.12	\$ 0.21	Interest and other income (expense), net	\$ (2.1)	\$ (2.6)
			Fair value adjustment on deferred payment obligations	-	(0.7)
Weighted-average shares:			Gain on extinguishment of deferred payment obligations	-	(3.0)
Basic	49.1	54.3	Other-than-temporary impairment on short-term investments	-	3.2
Diluted	49.6	55.0	Realized loss on exchange of short-term investments	-	3.3
			Non-GAAP interest and other income (expense), net	\$ (2.1)	\$ 0.2

^[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 and gains on extinguishment related to its deferred payment obligations and realized losses on exchanges of short-term investments 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)

	Q4 2015		Q4 2016		
	Patent Risk Management		Patent Risk Management	Discovery Services	Consolidated
Net Income	\$	5.5	\$ 1.2	\$ 0.5	\$ 1.7
Provision for income taxes		5.0	3.6	0.6	4.2
Other (income) expense		2.6	0.8	1.3	2.1
Patent amortization		38.9	39.1	0.0	39.1
Depreciation and amortization		0.8	0.8	2.4	3.2
Stock-based compensation (including payroll taxes)		4.5	4.1	0.1	4.2
Adjusted Non-GAAP EBITDA	\$	57.3	\$ 49.6	\$ 5.0	\$ 54.6
NPS		50.3	45.5	0.0	45.5
Adjusted Non-GAAP EBITDA - NPS	\$	7.0	\$ 4.1	\$ 5.0	\$ 9.1