

RPX Corporation Q3 2017 Earnings Call

October 30, 2017

Martin Roberts, Chief Executive Officer
David Anderson, 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,
- we may not be successful with our new initiatives, and
- we may not be able to attract new clients and retain existing clients with respect to our patent risk management and discovery services.

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.

Highlights from Q3 2017 Earnings Call

▶ Strong performance in quarter

- Total revenue of \$85.7 million (vs. \$88.5 million in Q3 2016)
- Subscription revenue of \$62.3 million (vs. \$62.4 million in Q3 2016)
- Discovery revenue of \$21.1 million (vs. \$18.0 million in Q3 2016)
- Fee-related revenue of \$2.3 million
- Q3 2017 adjusted EBITDA-NPS^[1] of \$44.2 million
- Cash, cash equivalents and short-term investments of \$267.5 million at quarter end

▶ Balanced approach to capital allocation

- Establishing a regular quarterly dividend of \$0.05/share
- No change in approach to share repurchase: \$57.1 million remaining on \$150 million authorization
- Plan to pay off term loan during Q4
- Investment in our growth strategy

▶ Continued focus on emerging business opportunities within patent business, and discovery

- Broadening our patent risk management segment's mission beyond NPE risk management in the US
 - Serve corporate IP departments across all stages of the IP lifecycle
 - Emerging opportunities in new licensing models, tech-enabled IP services, and foreign jurisdictions
- Continued focus on cross-sell and expansion of US review for discovery services

^[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>	Q4 2017	FY 2017
Subscription Revenue		\$245 - \$246
Discovery Revenue		\$77 - \$79
Total Subscription & Discovery Revenue	\$77 - \$80	\$322 - \$325
Fee-Related Revenue	\$0 - \$2	\$3 - \$5
Total Revenue	\$77 - \$82	\$325 - \$330
Cost of Revenue ^[1]		\$203 - \$205
SG&A ^[1]		\$67 - \$70
Operating Income ^[1]	\$9 - \$12	\$54 - \$57
Net Income ^[1]	\$6 - \$8	\$36 - \$38
Patent risk management adjusted EBITDA ^[1]		\$196 - \$198
Discovery services adjusted EBITDA ^[1]		\$20 - \$22
Total adjusted EBITDA ^[1]	\$49 - \$53	\$216 - \$220
Net Patent Spend (NPS)		\$110 - \$115
Consolidated adjusted EBITDA less net patent spend ^[1]		\$101 - \$110
Effective Tax Rate ^[1]	35%	35%
WA Diluted Shares	50	50

^[1]Cost of Revenue, SG&A, operating income, net income, Adjusted EBITDA and effective tax rate are non-GAAP metrics.

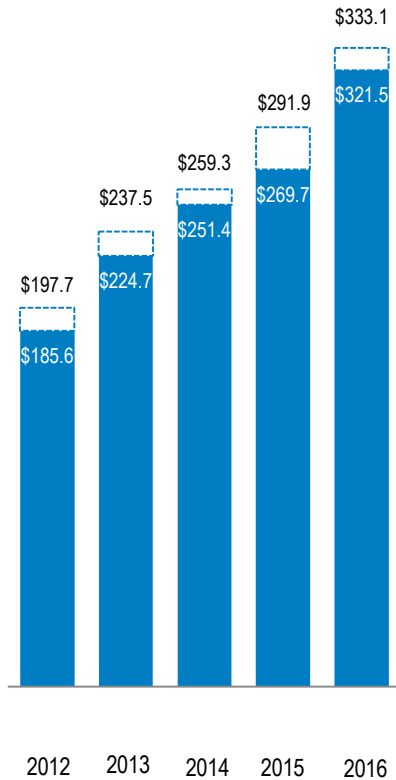
Quarterly Consolidated GAAP Results and Reconciliation of Net Income to Non-GAAP Adjusted EBITDA Less Net Patent Spend

(\$ in millions)

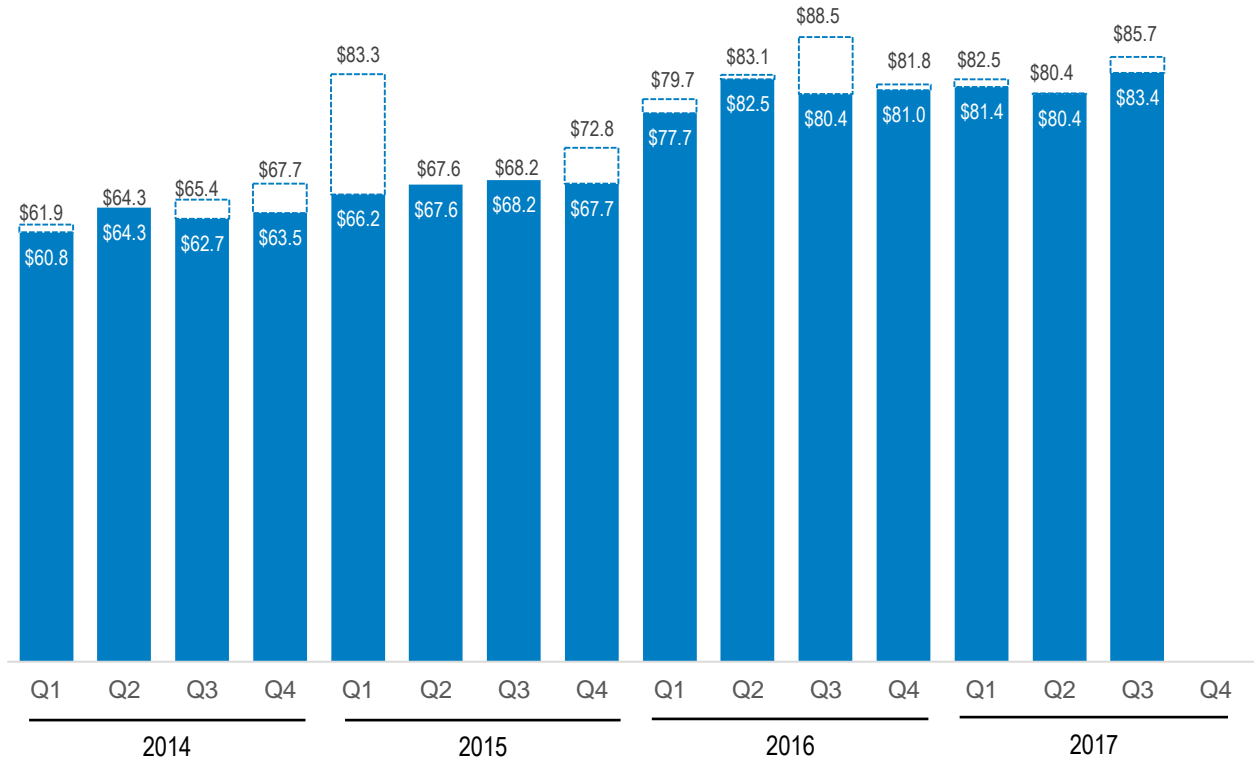
	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
Revenue					
Subscription revenue	\$ 62.4	\$ 62.7	\$ 63.4	\$ 61.6	\$ 62.3
Discovery revenue	<u>18.0</u>	<u>18.3</u>	<u>18.0</u>	<u>18.8</u>	<u>21.1</u>
Total subscription and discovery revenue	80.4	81.0	81.4	80.4	83.4
Fee-related revenue	<u>8.1</u>	<u>0.8</u>	<u>1.1</u>	<u>-</u>	<u>2.3</u>
Total revenue	\$ 88.5	\$ 81.8	\$ 82.5	\$ 80.4	\$ 85.7
Cost of revenue	50.8	49.7	51.3	51.1	52.3
Selling, general, and administrative expenses	<u>23.6</u>	<u>24.0</u>	<u>21.1</u>	<u>23.1</u>	<u>22.5</u>
Operating income	\$ 14.0	\$ 8.1	\$ 10.1	\$ 6.2	\$ 10.9
Interest and other income (expense), net	<u>(1.3)</u>	<u>(2.1)</u>	<u>(0.5)</u>	<u>0.4</u>	<u>0.1</u>
Income before taxes	12.8	6.0	9.6	6.6	11.0
Provision for income taxes	<u>4.7</u>	<u>4.2</u>	<u>3.6</u>	<u>2.4</u>	<u>4.6</u>
Net income	\$ 8.1	\$ 1.7	\$ 6.0	\$ 4.2	\$ 6.4
Net income	\$ 8.1	\$ 1.7	\$ 6.0	\$ 4.2	\$ 6.4
Provision for income taxes	4.7	4.2	3.6	2.4	4.6
Interest and other (income) expense, net	1.3	2.1	0.5	(0.4)	(0.1)
Depreciation and amortization	43.7	42.3	42.9	42.9	42.4
Stock-based compensation (including payroll taxes)	<u>4.3</u>	<u>4.2</u>	<u>2.9</u>	<u>4.5</u>	<u>3.9</u>
Non-GAAP Adjusted EBITDA	62.1	54.6	55.9	53.6	57.2
NPS	<u>34.8</u>	<u>45.5</u>	<u>31.1</u>	<u>10.5</u>	<u>13.0</u>
Non-GAAP Adjusted EBITDA - NPS	\$ 27.3	\$ 9.1	\$ 24.8	\$ 43.1	\$ 44.2

Revenue

Annual
(\$ in millions)



Quarterly
(\$ in millions)



Subscription and discovery services revenue^[1]

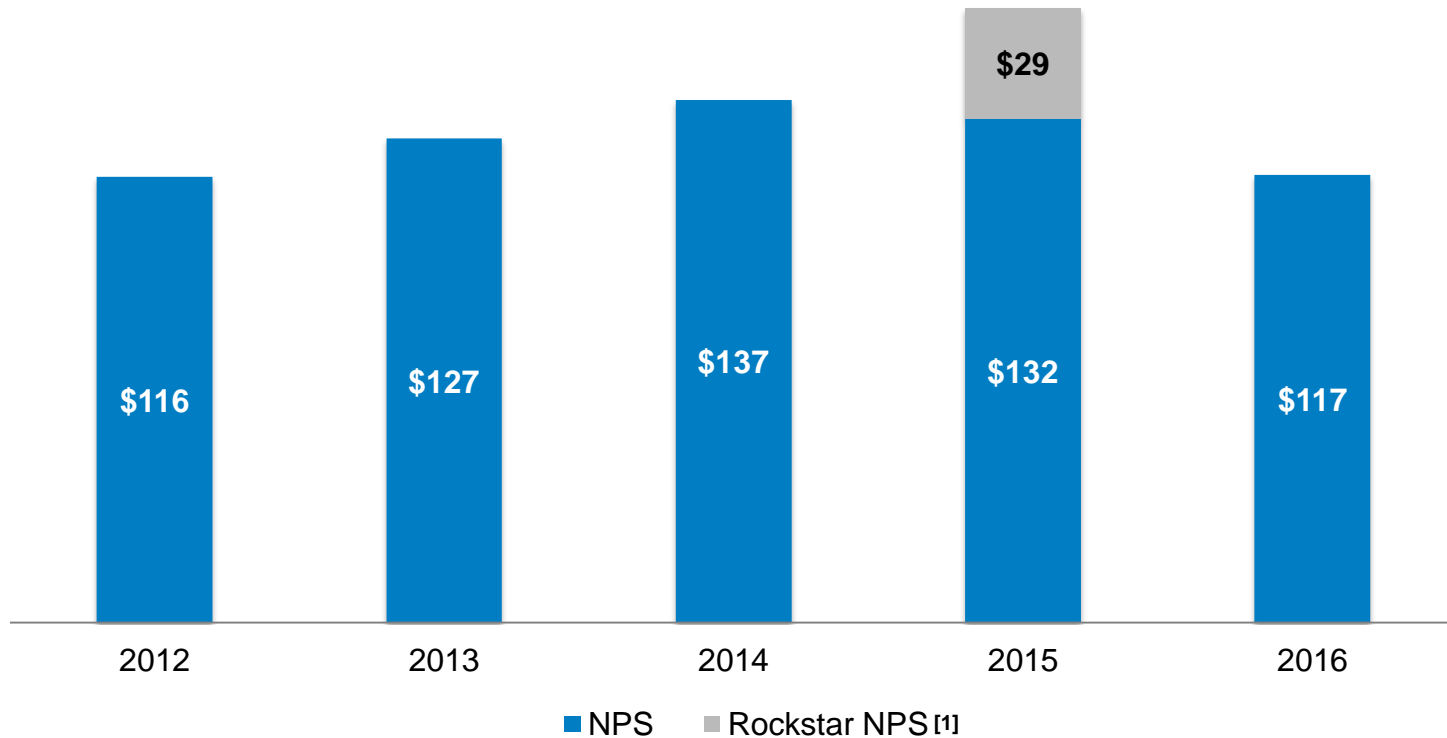


Fee-related revenue

^[1] Inventus acquisition closed 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)

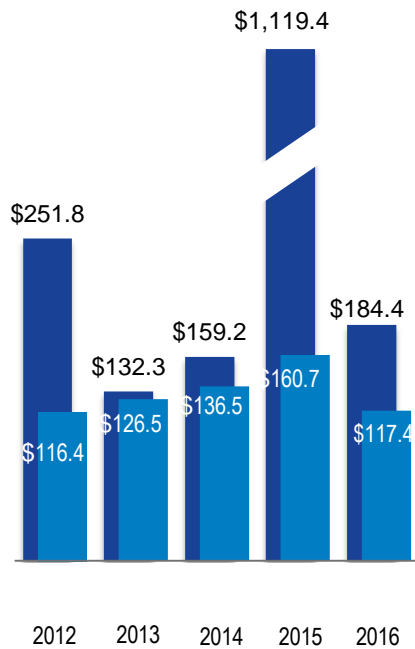
(\$ in millions)



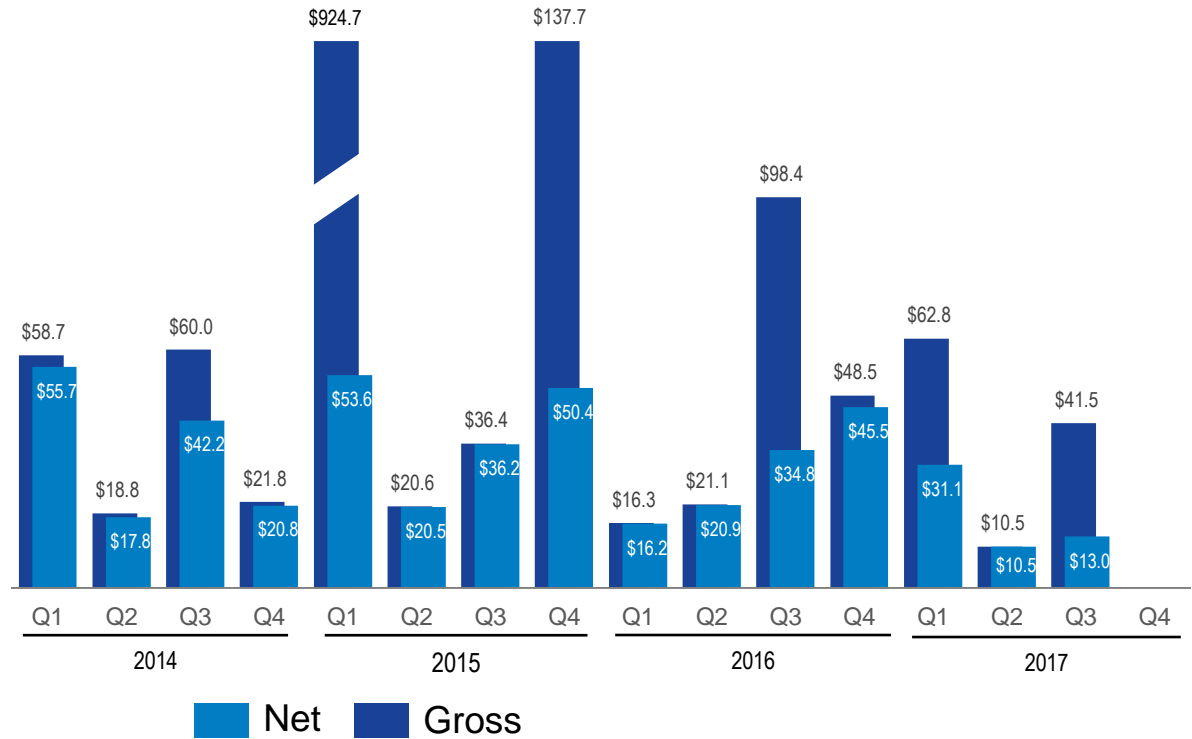
[1] 2014 excludes a \$25 million deposit made in December 2014 for acquisition of the Rockstar patent assets, which were acquired for a net purchase price of \$29 million and closed in January 2015.

Gross and Net Patent Spend^[1]

Annual
(\$ in millions)



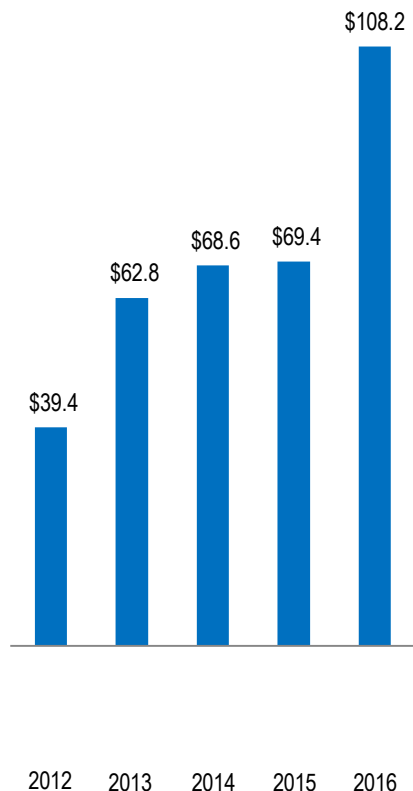
Quarterly
(\$ in millions)



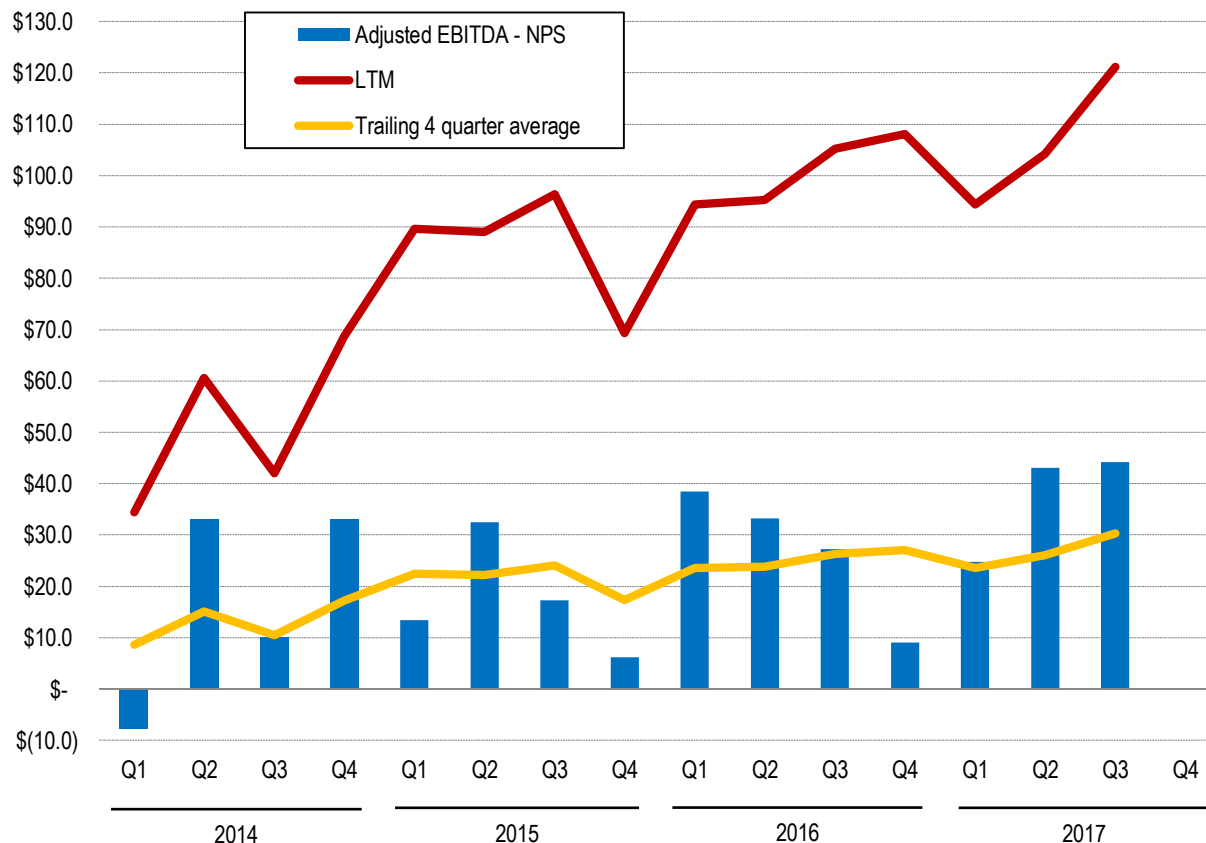
^[1] 2014 excludes a \$25 million deposit made in December 2014 for acquisition of the Rockstar patent assets, which were acquired for a net purchase price of \$29 million and closed in January 2015.

Adjusted EBITDA – NPS^[1,2,3]

Annual (\$ in millions)



Quarterly (\$ in millions)



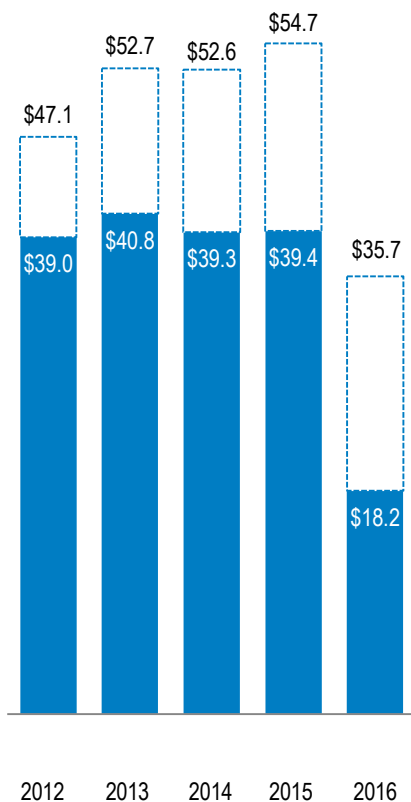
^[1] Adjusted EBITDA less Net Patent Spend (NPS) is a non-GAAP metric. Refer to page 14 for reconciliation.

^[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.

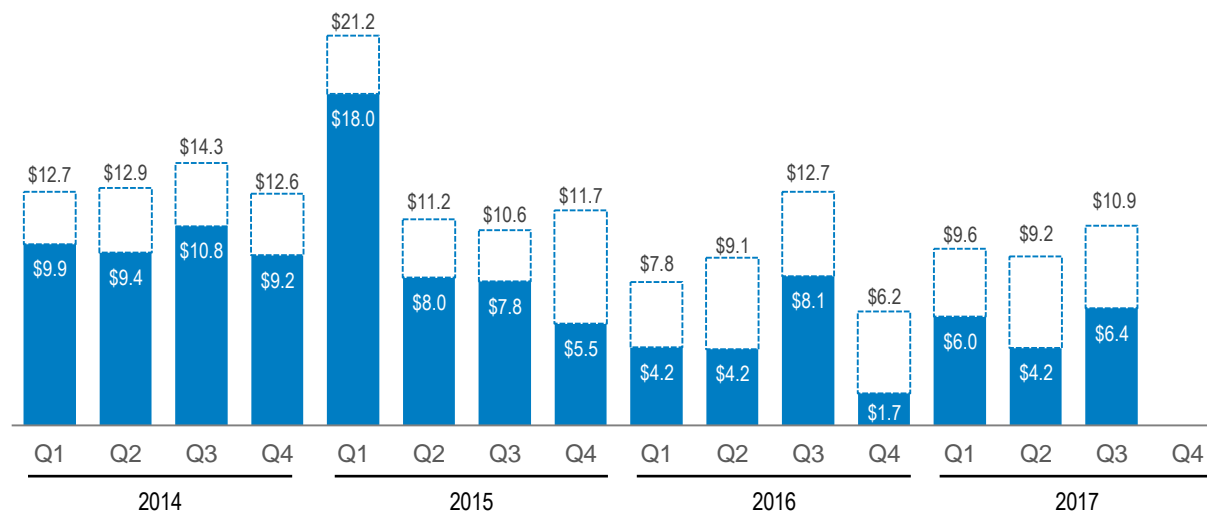
^[3] Inventus acquisition closed on January 22, 2016; Adjusted EBITDA less NPS for Q1 2016 reflects a partial quarter contribution.

Net Income – GAAP and Non-GAAP^[1,2]

Annual
(\$ in millions)



Quarterly
(\$ in millions)

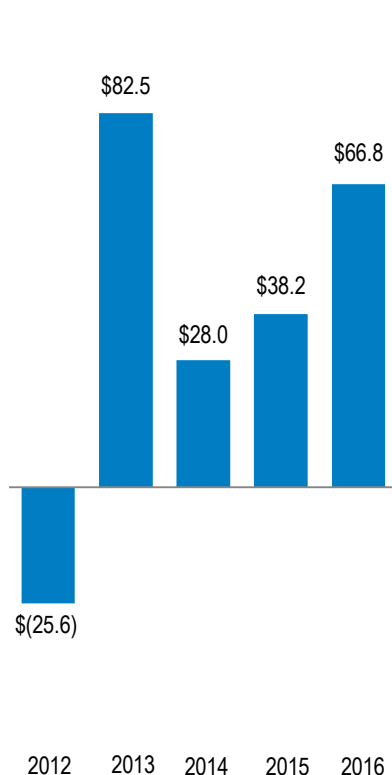


^[1] Inventus acquisition closed on January 22, 2016; Net Income for Q1 2016 reflects a partial quarter contribution.

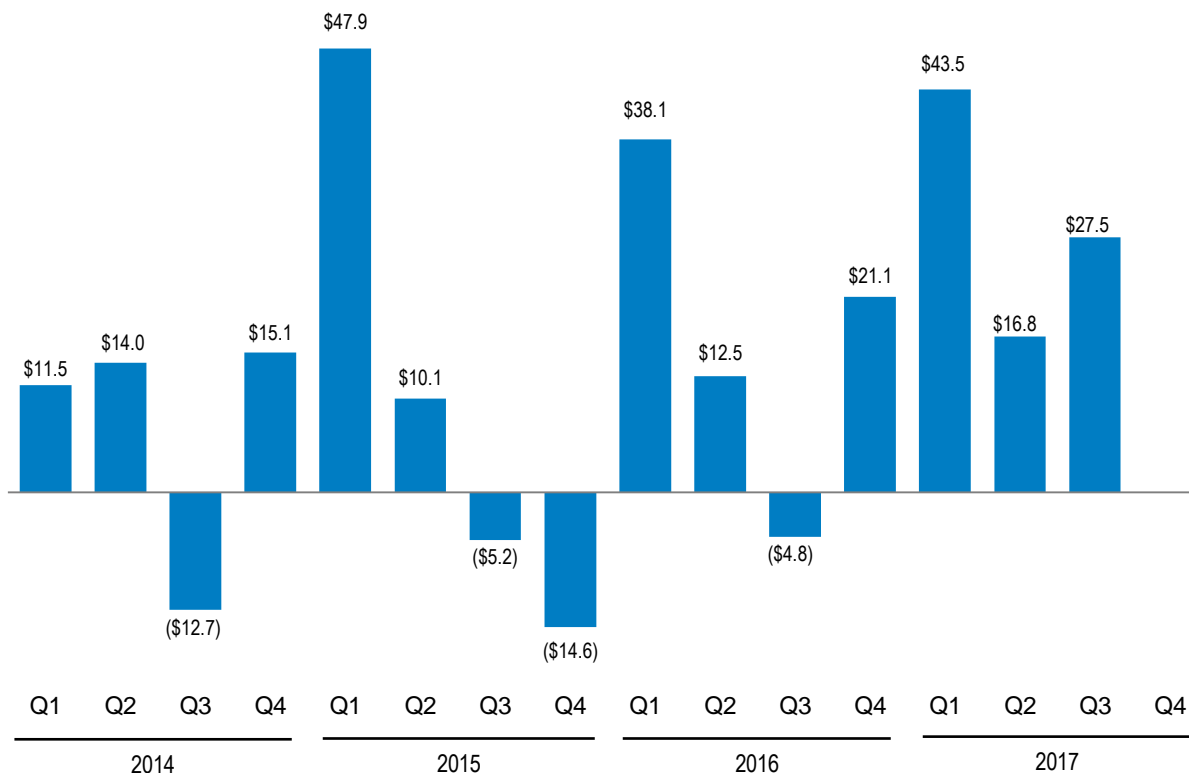
^[2] Net Income is a non-GAAP metric. Refer to pages 13 -14 for reconciliations.

Free Cash Flow^[1,2]

Annual (\$ in millions)



Quarterly (\$ in millions)

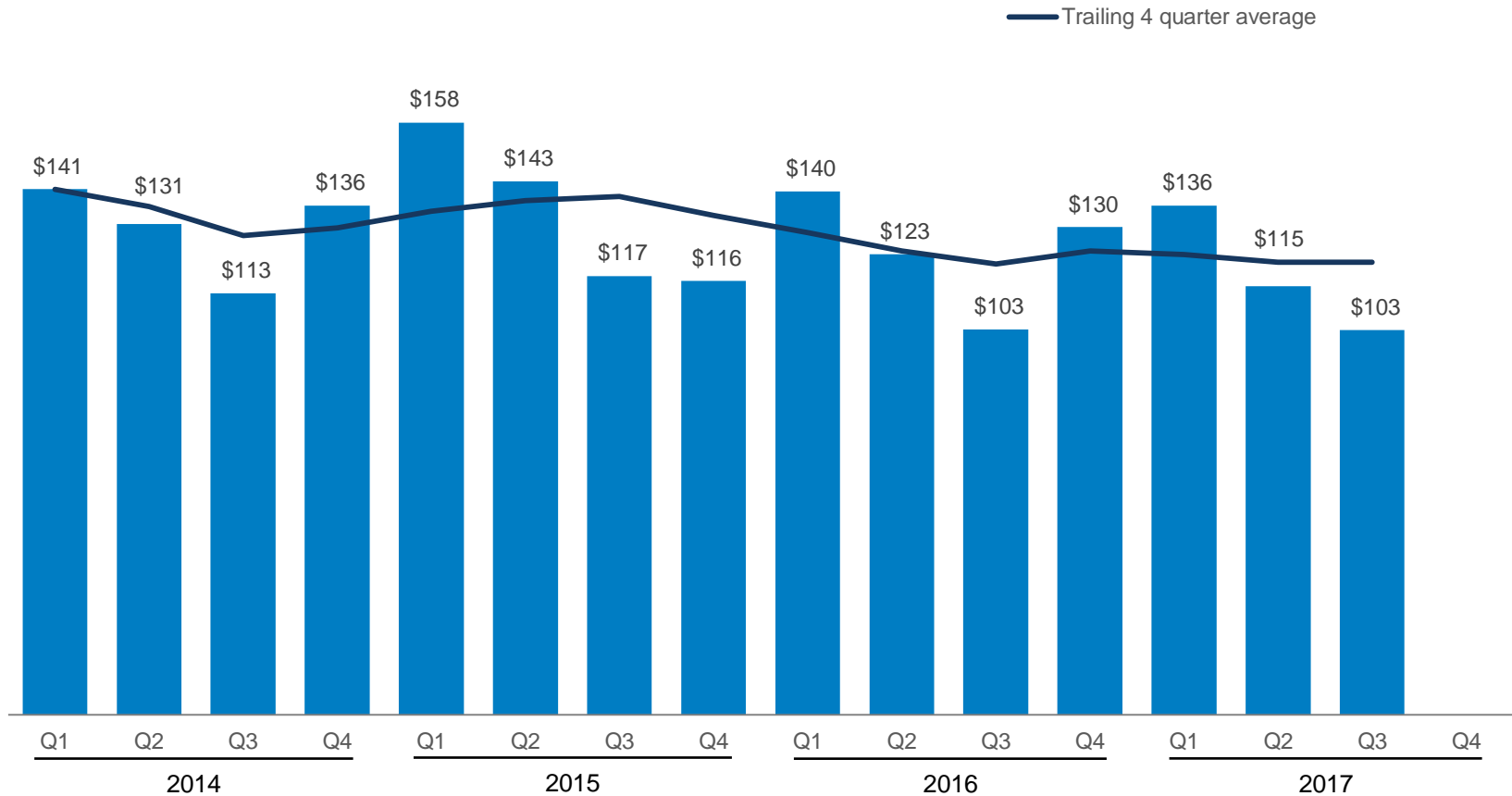


^[1] Free cash flow is defined as operating cash flow minus capital expenditures (i.e. purchases of intangible assets, property and equipment, patent assets and patent assets acquired in a business combination). 2014 excludes a \$25 million deposit made in December 2014 for acquisition of the Rockstar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

	Q3 2017	Q3 2016
Net income	\$ 6.4	\$ 8.1
Stock-based compensation ^[1]	3.9	4.3
Amortization of acquired intangible assets ^[2]	2.1	2.5
Income tax adjustments ^[3]	(1.5)	(2.2)
Non-GAAP net income	<u>\$ 10.9</u>	<u>\$ 12.7</u>
Non-GAAP net income per share:		
Basic	<u>\$ 0.22</u>	<u>\$ 0.26</u>
Diluted	<u>\$ 0.22</u>	<u>\$ 0.25</u>
Weighted-average shares:		
Basic	<u>49.6</u>	<u>49.7</u>
Diluted	<u>50.3</u>	<u>50.2</u>

	Q3 2017	Q3 2016
Cost of revenue	\$ 52.3	\$ 50.8
Stock-based compensation ^[1]	(0.1)	-
Amortization of acquired intangible assets ^[2]	(0.5)	(0.5)
Non-GAAP cost of revenue	<u>\$ 51.7</u>	<u>\$ 50.3</u>

	Q3 2017	Q3 2016
Selling, general and administrative expenses	\$ 22.5	\$ 23.6
Stock-based compensation ^[1]	(3.7)	(4.3)
Amortization of acquired intangible assets ^[2]	(1.6)	(1.9)
Non-GAAP selling, general and administrative expenses	<u>\$ 17.2</u>	<u>\$ 17.4</u>

	Q3 2017	Q3 2016
Interest and other income (expense), net	\$ 0.1	\$ (1.3)
Non-GAAP interest and other income (expense), net	<u>\$ 0.1</u>	<u>\$ (1.3)</u>

^[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] 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)

	Q3 2016			Q3 2017		
	Patent Risk Management	Discovery Services	Consolidated	Patent Risk Management	Discovery Services	Consolidated
Net income	\$ 6.6	\$ 1.6	\$ 8.1	\$ 4.1	\$ 2.2	\$ 6.4
Provision for income taxes	4.1	0.5	4.7	3.2	1.4	4.6
Interest and other (income) expense, net	0.6	0.6	1.3	0.5	(0.6)	(0.1)
Depreciation and amortization	41.2	2.5	43.7	39.9	2.5	42.4
Stock-based compensation	4.2	0.1	4.3	3.4	0.5	3.9
Non-GAAP Adjusted EBITDA	56.8	5.3	62.1	51.2	6.0	57.2
Net patent spend (NPS)	(34.8)	-	(34.8)	(13.0)	-	(13.0)
Non-GAAP Adjusted EBITDA - NPS	\$ 22.0	\$ 5.3	\$ 27.3	\$ 38.1	\$ 6.0	\$ 44.2