Fyber

Meeting Title:	Fyber N.V. FY2016 Results Call
Speaker List:	Andreas Bodczek Heiner Luntz Ziv Elul

Coordinator: Good day, ladies and gentlemen and welcome to the Fyber Results Call for the Full Year 2016. Andreas Bodczek, Heiner Luntz and Ziv Elul will outline the financial and business results to you. After the presentation, you're invited to join the Q&A session.

With that, I'll hand it over to Mr. Bodczek. Please proceed.

A. Bodczek: Thank you. Good afternoon, everyone. Thank you for joining us today for Fyber's conference call to present the annual account for 2016. The company released its audited annual report on Thursday, July 27th, which can be downloaded from our website. Today we will walk you through some of the operational highlights, the financials of 2016, the performance of 2017 to date, as well as give an update on the integration process.

A note before we start the presentation, any forward-looking statements outlined in the presentation and the annual report are based on current expectations and are, as a result, subject to market risks and uncertainties. All statements are based on information available to the company as of the date of this presentation and are subject to the risks detailed in the risk section of the Annual Report 2016.

Handing over the responsibilities of the COO role to Ziv in July I would like to use this opportunity to briefly recap on the Company's growth story so far. In 2014 we embarked on an M&A-centric growth strategy, with the goal to transforming RNTS Media from a pure holding company of various digital assets into the focused provider of advertising technology for publishers and ad developers that the group resembles today.

Since the anchor investment in Fyber in 2014 we have successfully tracked against this vision, strengthening Fyber's offering and building out the Company's global footprint. The strategy outlined at that time depended on the issuance of convertible bonds and the acquisitions of strong players in the mobile ad space which form a deep-stack infrastructure that can service all publisher verticals.

In that context, 2016 and 2017 to date mark many important milestones. With Heyzap and Inneractive we've completed two further acquisitions which have significantly expanded the Company's technology offering and reach, for example demonstrated in the number of unique users we reach per month, which grew from 400 million to over 1.2 billion after the two acquisitions. Furthermore, management raised the gross revenue guidance twice during the year and Fyber still exceeded it and outperformed the wider market.

As has been the case with all acquisition-driven and organic investments of the last year, we have kept the focus on scalability and optimization. These measures are now paying off. Last year Q4 was the first quarter close to EBITDA break-even, at a negative €0.5 million and the second quarter of 2017 is the first profitable quarter in the Company's history, with adjusted EBITDA profit exceeding €1.2 million.

With that, management confirms the guidance for 2017, with revenues above €280 million and an adjusted EBITDA profit above €3 million. Another important milestone was the arrangement of financing that is sufficient to the Company's earnout payments for Heyzap and Inneractive and further organic growth until cash generation. Additionally, we restructured the €150 million convertible bonds, reducing the refinancing risk in 2020.

Over the course of the last nine months we have prepared the Company for the change in management. In building the new team we've ensured continuity as well as bringing together a new diverse skill set that can take the Company through the next stage of its growth. We're convinced that this new team of ad tech veterans and internationally experienced experts will lead the Company forward.

We have focused the Company on further growth and scalability, the success of which was proven in Q4 '16 and in Q2 '17, which is profitable. Therefore, we can confirm this year's guidance and set up strong guidance for next year with gross revenues above €360 million and a further improvement in profitability.

With that, I'll hand over to Heiner, who will speak in more detail to the financials of 2016 and the past months.

H. Luntz: Thank you very much, Andreas. Welcome, everyone to our call. We have published the financial statements belated, but I would like to point out that the audit of the financial statements has confirmed the numbers that we have already released in April, as preliminary numbers at that time. And I would also like to reiterate that the delay was not caused by the Company and did not relate to any challenges in the accounting or reporting of the Company. We have achieved a clean audit statement which should be re-confirmation for every investor that the financial statements are sound and our reporting is sound.

So, the numbers that we speak to today are actually a reiteration of what we have spoken about in April already, 69% revenue growth and under proportionate growth of the cost base have led to a reduction of our EBITDA loss for 2016 by more than 15%, which is a strong indication for the validity of the goal to scale into profits as we are capturing additional customers and markets and grow our revenues. However, we did have a higher cost base on depreciation due to data center and self-developed technology amortization, and the full year impact of the interest on the convertible bonds of which we had issued 100 million halfway through 2015, and another 50 million halfway through 2016, have compensated some of those improvements on the profitability at an EBITDA level.

Also, we have recorded higher tax expenses in 2016, which were 7.9 million higher than we had in the previous year, with some profitable units already paying taxes as well as deferred tax liabilities resulting from the acquisitions. These have overcompensated the improvements on the operations and thus led to an adjusted loss after tax on a pro forma basis of minus 22.1 million, which was down by about 50% against 2015.

When we look at the development of key indicators, gross revenue, gross margin, as well as adjusted EBITDA for 2015, 2016 and 2017, including preliminary numbers for the second quarter of 2017, as Andreas has just lined out, you can see that there is a consistent development quarter-over-quarter, however, with some seasonality creating a bit of a back and forth development.

The second quarter 2017 has been almost the strongest in revenue. We achieved a level that is very close to the Q4 of the previous year, which in line with seasonality is the strongest quarter in every year. We have achieved the best gross margin EUR development to date, with more than €20 million of gross margin created and for the first time in the history of the Company we have turned in an adjusted EBITDA profit of 1.2 million, which validates the goal of the overall development, with a profit for this year of €3 million being targeted.

When we look at the revenue development, you can see that the increase of revenues is witnessed specifically in the acquired units, Fyber RTB and Inneractive, while the platform business of the Fyber business acquired in 2014 is not growing as strongly. We have therefore also refocused our investment strategy for 2017 and beyond into these areas, specifically with video and programmatic taking a larger stake. In 2017 we also are focusing stronger on APAC growth with China investment, which China is so far only accounting for 6% of our revenue and therefore represents a huge potential for the future.

Looking at the revenue base by unit and product, we can see that since 2015 the diversification of ad formats as well as buying technology, which we have achieved through organic development with our strong development team, as well as through the acquisitions of Fyber RTB, Inneractive and Heyzap we have been able to increase our monthly revenue by more than 400% until the end of 2016. And this trend clearly did continue in 2017.

Now, as I said, we are focusing in our reporting mainly on pro forma numbers in which acquisitions are included as if they had happened on the first of January in the previous year already, as well as on adjusted numbers, which means we are taking some pieces out. You can see on this page the pieces that we have taken out in 2016, 7.8 million in total compared to 21.7 million in the previous year. We do this because we believe that these numbers, which are not recurring and mostly non-cash in nature are otherwise obscuring the operating performance of the Company.

The decrease in 2016 has been caused, to a large degree, by two large extraordinary incomes that we recorded, the first one being BigStar Global, where we had estimated the divestment to be more expensive to us than actually happened, and we had recorded reserves against this asset in 2015.

The second one is 8.7 million income from the revaluation of the Heyzap earnout as the aggressive criteria for the earnout could not be met by the old management team and therefore the earnout turned out to be a lot less expensive.

At the same time, we also incurred some increasing expenses. We have spent 8.9 million on the acquisitions of Heyzap as well as Inneractive, partly on the Inneractive side before the actual acquisition happened, but included here as we are taking the pro forma concept very seriously.

We also have 7.7 million of amortization of acquisition-related intangibles which result from the purchase price accounting for the three acquisitions, Fyber RTB, Inneractive and Heyzap, and are therefore non-discretionary.

As I said, we are looking at pro forma numbers to present our investors with the best like-for-like comparison of the development. However, as these are audited financials it also makes sense to look at the statutory financials on an IFRS basis in which actually only those things are recorded that relate to the periods in which we have full ownership of the various components.

So, these numbers on this page show this picture, and you can see that the revenue growth is even a lot stronger than in the pro forma view, as we are only counting acquisitions out of the date in which we acquired them and therefore compare them against the lower base for the prior year. We can also show very nicely in this picture that the scalability does work and we are on a good track to moving towards profitability. In total, the loss after tax of 25.9 million is one-third reduced against the prior year and also points out the direction for 2017.

Looking at the cash flow, cash has been a major item of our attention ever since the acquisition of Inneractive. As we have reported repeatedly, we knew that we would need to create additional cash, and as you can see in this statement here, we have spent 22.1 million on operating activities last year, mostly for the working capital increase due to the expanded business volume as well as due to the increased interest due to the convertible bond coupons having to be paid.

We've decreased our capital expenditure slightly, but we spent 70.1 million on the acquisitions that we pointed out several times, namely Heyzap and Inneractive. Forty-eight million were raised through the additional issuance of convertible bonds, 50 million was the gross amount there, so that in total we have used up 54.4 million of cash last year.

In 2017 we'll see these amounts substantially reduced. We are expecting that there will be less than €15 million of additional earnout payments, the earnout payment for Heyzap not being fully secured yet, it is still under negotiation, but we expect the total of Heyzap and Inneractive earnout to be substantially less than 15 million. Operating cash flow will improve as well, as we are integrating the companies, improving the profitability, as witnessed with 1.2 million of EBITDA in the second quarter.

The restructuring of the convertible bond that Andreas has already mentioned, will also improve the cash flow from the interest because we have achieved a waiver on the coupon for July as well as an overall reduced coupon from 5% to 3%. And we are expecting that the capex is going to be reduced or at the same level as in 2016 only. So, we have been able to secure two additional funding facilities, €7.5 million and $18 million, and this will see us through to sustainable profitability as well as cash flow generation and is therefore addressing the needs that we had specified last year already.

Finally, looking at the shareholders' equity as another important aspect of the financial statements, we do see a decrease from 144 million to 120 million in 2016 due to the loss after tax as well as the purchase of treasury shares in the divestment of Bigstar Global. However, we also have a couple items that increased the equity, namely, 4.2 million from capital reserves on convertible bonds tap issue, as well as some currency translation adjustments.

At €120.4 million the equity is still significant for a company on the brink of profitability and is considered to be sufficient to support the further growth of the Company, of which Ziv Elul will now provide you a picture. Thank you very much.

Z. Elul

Thanks, Heiner. As outlined by Andreas at the start of the presentation, Fyber has achieved many important milestones over the last months, including exceeding the guidance and delivering above market growth in 2016 and achieving the first profitable quarter in Q2 2017. Stepping back to assess what is driving the growth, we can see the following: Fyber offers a strong set of tools and platforms to digital publishers and app developers with a specific and unique focus on the publishing side and on the core growth drivers in digital advertising, such as mobile and video.

Fyber is a valuable partner to its publishers, optimizing the yield they generate from each ad impression. Through our extensive reach, now more than 1.2bn monthly unique users across many publishers, verticals and geos, we can create pull on the advertiser side.
This in turn contributes to the value we generate for publishers by having more demand and yielding higher incoming for the publishers. We re-invest some of this growth back into further improving our offering for publishers, therefore ensuring long-term growth and competitive edge through technological leadership and innovation.
This fly-wheel of positive interdependencies will be further enhanced after fully integrating all group companies.

There are several key reasons explaining why we decided to expedite the integration process. Currently, we still operate three sub-companies and the businesses are managed independently within these sub-companies, rather than focusing on the different products, geographies or target audiences.
Operating three platforms also means suboptimal capitalization of strategic opportunities and a partly redundant cost structure. Though many parts of the current offering are complementary, the integration will help us to further drive revenue synergies and to reduce and eliminate redundancies, both in our offerings, our costs, and the need for our partners to integrate with multiple entities.

Another disadvantage of having the different platforms is the lack of standardized mechanisms for unified tracking and measurement, making it difficult to prioritize investments across all group companies.

In order to make the integration successful, we have worked with external consultants to devise a structure, gradual plan to ensure the long-term success of the integration into one company.

As far as the CEO transition, we started the handover process 9 months ago to ensure continuity, and have now set in place one unified global management team for the entire group.

Given these reasons and in line with the integration plan we presented to you on the last call, our plan is to integrate into one unified profitable company under a strong differentiated brand. In particular, we plan to leverage the shared knowledge and assets, combine and optimize existing processes, and put in place a new functional organization design that will ensure the entire company culture and goals are aligned.

I'm happy to share with you that we've already been able to capitalize on several quick wins from the integration efforts. First, we identified several business synergies to increase top line revenue for the group:
Inneractive is now connected as a demand partner on Heyzap's mediation platform with first look on all Heyzap inventory.
It is also connected as a demand partner on Fyber's mediation platform and can monetize display ads, to complement Fyber's rewarded video demand.
The Direct sales team which sells to advertising agencies and direct brands will be selling all of Fyber N.V's inventory, for Fyber, Fyber RTB and Inneractive, which is expected to increase our appeal in the eyes of the potential clients.
Following the roll-out of the corporate management team, which I will show you shortly, we also started the integration of the general functions such as Marketing, Finance, HR and IT, and are also in the process of aligning towards a unified product roadmap for the group.
Finally, we have been able to achieve immediate cost savings by merging office space in cities where we have multiple teams such as San Francisco, New York, London and Beijing, co-sponsoring industry trade shows and sharing internal and external tools and services.

Fyber's new management board has been confirmed by the Extraordinary General Meeting last week. Following the meeting, I officially stepped into the CEO role, after a nine-month transition period with Andreas. We have been working very closely to ensure a smooth hand-over and are confident that we have achieved this.

In addition to the new management board, we are also proud to present our joint Corporate Management team. This is a strong, talented set of individuals who bring expertise in their fields. They are a combination of existing executives from one of the sub-companies and a few new executives in areas where we felt we needed reinforcement. This new unified leadership will support the Management Board in seamlessly executing the integration phase and driving further growth. At the end of the day it is people who will help us translate our vision into execution and we set out to find the best talent to take one these leadership roles and put together an experienced team.

Looking a bit further out, this slide presents you with the short, mid and longer-term milestones of our integration roadmap until the end of 2018
By the end of this year we will deliver on the remaining short-term integration goals as outlined, including further integration of shared services, the unified product roadmap and the reduction of redundant overhead.

In 2018 we will focus on rolling out a unified brand. We started by renaming RNTS Media N.V. to Fyber N.V., centralizing all group companies under the Fyber brand, and will conclude this process with a wider rebranding and sunsetting of all other brands within the group. 2018 will also see the roll-out of the joined product roadmap which is currently being developed and with that also the integration of the different business units, leveraging the cross-selling potential.

The last step will be the move towards a combined technology and data infrastructure, that will be delivered in several smaller milestones throughout the year, to be concluded by the end of 2018.

Given the strong performance of the first two quarters, which is largely based on the standalone growth of the separate business units, and the positive outlook on synergies we have not yet capitalized on we are confident in confirming our guidance for this year, and to add guidance at the same growth rate for 2018.

We are expecting to deliver gross revenue of above €280m in 2017 with an adjusted EBITDA profit of at least €3m. Next year, gross revenue is estimated to be over €360m. Moving forward, we believe that the growth in revenue will also be reflected in profitability. As we are now working on the budget for 2018, we expect to provide an updated forecast in September for the rest of the year and for 2018.

We are confident that the Company is in a strong position to capitalize on the vast market opportunity ahead of us and that we will be able to deliver on the ambitious growth and integration plans.

With that, I will thank you for your time, and over to the operator to open the call for your questions. Thank you.