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Q4 2019 Rubicon Project Inc Earnings Call

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PRESENTATION

Operator

Good day and welcome to the Rubicon Project Fourth Quarter Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Mr. Nick Kormeluk, Vice President of Investor Relations. Please go ahead.

Nick Kormeluk *The Rubicon Project, Inc. - VP of IR & Head of Global Real Estate*

Thank you, operator, and good afternoon, everyone. Welcome to Rubicon Project's Fourth Quarter 2019 Earnings Conference Call. On this call, we will discuss results of operations and financial expectations for Rubicon Project only on a stand-alone basis since the merger with Telaria has not yet closed.

As a reminder, this conference call is being recorded. Joining me on the call today are Michael Barrett, President and CEO; and David Day, our CFO. I would like to point out that we have posted financial highlight slides to our Investor Relations website to accompany today's presentation.

Before we get started, I would like to remind you that our prepared remarks and answers to questions will include information that might be considered to be forward-looking statements, including, but not limited to, statements concerning our anticipated financial performance and strategic objectives. These statements are not guarantees of future performance. They reflect our current views with respect to future events and are based on assumptions and estimates and subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from expectations or results projected or implied by forward-looking statements.

A discussion of these and other risks, uncertainties and assumptions is set forth in the company's periodic reports filed with the SEC, including our joint proxy statement or prospectus filed on Form S-4, the 2019 annual report on Form 10-K and previous filings. We undertake no obligation to update forward-looking statements or relevant risks.

Our commentary today will include non-GAAP financial measures. Reconciliations between GAAP and non-GAAP metrics for our reported results can be found in our earnings press release and the financial highlights deck that is posted on our Investor Relations website. We define cash flow as adjusted EBITDA less capital expenditures, which excludes changes in working capital.

At times, in response to your questions, we may also offer incremental metrics to provide greater insights into the dynamics of our business. Please be advised that this additional detail may be onetime in nature, and we may or may not provide an update on the future of these metrics.

I encourage you to visit our Investor Relations website to access our press release, financial highlights deck, periodic SEC reports and webcast replay of today's call to learn more about Rubicon Project.

I will now turn the call over to you, Michael. Please go ahead.



Michael G. Barrett *The Rubicon Project, Inc. - President, CEO & Director*

Thank you, Nick. We are pleased to report Q4 revenue of \$48 million, which is at the top of our range, reflecting year-over-year revenue growth of 17%. Additionally, our Q4 bottom line came in very strong with \$15.3 million of adjusted EBITDA, carrying a 32% margin. This is reflective of the financial leverage we have in our business model.

Our strategic focus remains unchanged, and our long-term growth opportunities are greatly enhanced with the pending merger with Telaria. Shortly after announcing the merger, we had a chance in early January to meet with just about all of our largest customers at CES, at which we received overwhelmingly positive support and feedback for the announced transaction.

The shareholder vote for both companies is scheduled for March 30, and we expect the merger to close in early April. The merger rationale is primarily driven by the scale and strength of the omnichannel combined business and the opportunity in CTV, our belief that ad-supported CTV is gaining attention in market and is at an inflection point for growth.

Our decision to merge with Telaria instead of building a CTV product was based on the time and challenge to build, a later market entry date if we did build and real risk that in a segment that has higher customer concentration, the sales cycle for a new entrant could be considerably longer than what we are accustomed to. We believe an added opportunity is the potential revenue synergy in traditional web video, which Telaria refers to as mobile and desktop video. Rubicon has invested in and grown its web video business substantially over the last few years, building expertise in prebid and header in the same manner Telaria has built expertise in CTV. Because of this investment, we are optimistic about the potential revenue synergies in mobile and desktop video across the integrated companies post close.

This is a market that MAGNA estimates will grow at a CAGR of 22% through 2023 and reach over \$57 billion. Rubicon and Telaria's combined video revenues across all screens will approach half of the combined company's total revenue. Video revenue for Rubicon Project was \$28.6 million in 2019 and grew 43% year-over-year, representing over 18% of total revenue. We continue to feel strongly that video will be a long-term growth engine for our business.

Our other 2 growth drivers remain the same, even though a bit overshadowed at the moment by CTV and broader video. These are SPO and Demand Manager. SPO, or Supply Path Optimization, efforts have picked up since the start of the year, following a typical pause that happens in Q4 every year. Historically, we've been pitted against other generalist exchanges, while CTV providers were addressed separately given their unique and limited inventory supply. Following the merger, we will both be one of the top 3 CTV players and the only scaled omnichannel provider with CTV, which we believe puts us in a much stronger competitive position. Think of this as CTV combined with broad inventory, scale, tools, analytics, privacy, identity, prebid and header expertise.

Our third growth driver is Demand Manager. As you may know, this is a tool based on prebid, which is the open source standard that's used by hundreds of the world's largest sellers and respected across the ecosystem for its transparency and flexibility. Demand Manager helps publishers improve monetization through a user interface that assists with campaign, configuration, optimization and analytics. We are pleased to have delivered initial revenue for Demand Manager in Q4. We closed the year with 86 live contracts. Revenue is not yet material, and our plan is to steadily grow it in 2020. We expect Demand Manager revenue to exceed \$5 million in 2020. The current fee structure includes fees based on total spend that the tool manages and, on average, are in the low single digits. Our fee structure also includes CPM-based pricing.

We are thrilled to be building this business with what we believe is the largest prebid group of engineers in the industry following our RTK acquisition in Q4. We are very pleased with our pipeline, customer account growth to date and the opportunity for publishers to grow their Demand Manager volumes with us for several years after onboarding. The opportunity grows as prebid gains more momentum in video, mobile app and especially when server-side header bidding gains traction.

Specifically in server-side header, publishers will need to decide whether to further invest in additional engineering talent and additional serving costs on their own or choose Demand Manager. Although the revenue builds slowly, it is steady, high-margin, predictable and, therefore, extremely valuable to us. It will also allow us to deepen our strategic relationships with publishers as we improve their



monetization. Our top accounts include the likes of Univision, AutoTrader, Business Insider, Discovery, Everyday Health, iHeart, Los Angeles Times, Publishers Clearing House and Redbox. With our combined Demand Manager and RTK offerings, we're able to address the needs of large enterprise publishers, midsized pubs as well as small resource-constrained pubs that need help with monetization and engineering resources.

In total, we are extremely pleased with where we are today and encouraged by the strength of our pipeline and growth prospects for our Demand Manager business. This is a very exciting time for us as a company, and I am thrilled to be given the honor of leading the company and serving on the Board after the close of the Telaria merger. We have a great opportunity to be the clear leader of the sell-side, deliver big upside to customers, build additional value for shareholders and provide rewarding work for our employees.

With that, I will hand things over to David, who will go into greater detail regarding our Q4 financial performance.

David L. Day *The Rubicon Project, Inc. - CFO*

Thanks, Michael. For the full year 2019, we delivered \$156 million in revenue, a 25% increase over the prior year, and generated \$26 million in positive adjusted EBITDA, a \$37 million improvement over 2018. This represents a 17% adjusted EBITDA margin for the full year 2019. Ad spend for the year came in at \$1.12 billion versus \$992 million in 2018, representing a growth rate of 13%. Take rate for the full year was 14%, which is slightly higher than the last take rate we reported of 13.8% in Q4 of 2018.

As Michael mentioned, we are very happy with our results for Q4. We delivered \$48.5 million in revenue, the top end of our guidance range, representing a 17% increase year-over-year. More importantly, we continue to grow adjusted EBITDA, which reached \$15.3 million in Q4 2019 for a margin of 32%.

The Q4 year-over-year increase in revenue was driven by broad strength across our business, led by video, mobile and audio. Our mobile revenue grew 22%. Our desktop revenue grew 11%. And mobile app and audio revenue continued to be growth drivers in the quarter.

Operating expenses, which, in our case, includes cost of revenue, for the fourth quarter of 2019 were \$47.5 million, higher compared to the same period a year ago driven primarily by onetime Telaria deal-related costs. On an adjusted EBITDA basis, operating expenses, including cost of revenue, for the fourth quarter were \$33.2 million as compared to \$31.5 million in Q3 2019, as compared to the \$31.5 million in Q4 2018. This was in line with the total adjusted EBITDA operating expenses we expected, as noted on our last call, and included RTK-related costs, which closed early in fourth quarter.

We continue to benefit from the traffic shaping, filtering and general efficiency gains we discussed on our Q3 call. As a result, our gross margin for the fourth quarter was 73%, up from 63% in the same period a year ago. Onetime deal-related costs in Q4 totaled \$2 million and are excluded from adjusted EBITDA.

Net income was \$1.5 million in the fourth quarter of 2019 as compared to a net loss of \$2.2 million in the fourth quarter of 2018. As I mentioned earlier, adjusted EBITDA was \$15.3 million, which represents a 32% margin compared to adjusted EBITDA of \$9.9 million reported in the same period 1 year ago. The improvements in net income and adjusted EBITDA were driven primarily by higher revenues.

GAAP diluted earnings per share was \$0.03 for the fourth quarter of 2019 compared to GAAP loss per share of \$0.04 in the same period in 2018. Non-GAAP diluted earnings per share in the fourth quarter of 2019 was \$0.17 compared to non-GAAP diluted earnings per share of \$0.03 reported for the same period in 2018.

Capital expenditures, including purchases of property and equipment as well as capitalized internally used software development costs, were \$6.4 million for the fourth quarter of 2019 and totaled \$20 million for full year 2019, in line with our guidance.

We closed the fourth quarter with \$89 million in cash, an increase of \$4 million from the \$85 million balance at the end of Q3. This cash increase comes after using \$11 million for the purchase of RTK. As a reminder, our cash and marketable security balances can swing disproportionately both up and down compared to the run rate of our business since we collect and pay the gross amount of flow-through to our sellers while we record revenue on a net basis. For the quarter, we had approximately \$9 million of positive cash



flow, excluding changes in working capital, which we calculate as adjusted EBITDA less CapEx.

As of December 31, 2019, our total federal tax NOLs were approximately \$289 million, resulting in a potential tax-affected federal benefit of \$61 million, reflecting the U.S. corporate tax rate of 21%. Realization of these benefits would be subject to adequate taxable income generation and potential usage restrictions under tax regulations.

I'll now share some indications for our first quarter expectations. These expectations exclude any impact of the pending merger with Telaria as it is expected to close in early April. We expect revenue for the first quarter to be in the range of \$37 million to \$38 million. We expect that adjusted EBITDA operating expenses in Q1, including cost of revenue, will be approximately \$35 million. This represents some capacity investment and additional personnel-related costs. We expect that onetime deal-related expenses will be approximately \$1.5 million in the first quarter, which will be excluded from adjusted EBITDA.

We expect Q1 2020 CapEx to be approximately \$5 million and expect that CapEx on a stand-alone basis for the full year 2020 would be slightly higher than the \$20 million level we've had the last 2 years. We expect to share an annual CapEx expectation for the merged companies once the Telaria transaction closes and we have an updated combined plan.

We are very excited about the next chapter in our journey post combination with Telaria. We continue to demonstrate the leverage in our financial model and are confident in our long-term growth prospects.

With that, let's open the line for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Jason Kreyer from Craig-Hallum.

Jason Michael Kreyer *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Michael, I just wanted to start out on the topic of third-party cookies in Google Chrome. A lot has been talked about that. I'm not sure specifically if you've got a gauge on what the implications are for Rubicon Project, but just wondering if you can maybe talk about how you're viewing cookies and any implications, if you see any.

Michael G. Barrett *The Rubicon Project, Inc. - President, CEO & Director*

Yes. Jason, obviously, very topical question. So to put it in perspective, we've been operating in a cookie-less world for over 2/3 of our inventory for some time. As you know, in mobile app and in other forms of media, that cookies aren't being used. And therefore, we've been able to figure out with our buyers how to monetize that inventory.

The other point is that when we go through instances like a GDPR and when there's disruptions that involve the cookie mechanisms, we're not sold out as an exchange. And so generally speaking, what occurs is that budgets aren't decreased. They just are able to acquire more media because the media decreases in value.

So I think that generally speaking, we're well prepared for a future where cookies are completely deprecated. There is not a clear path for the industry right now. There are several initiatives. And as we've said in the past, we partake in all of them. But we do feel that it's a pretty interesting time to be an agent of the publisher, to be on the sell-side because what's very clear is in any solution going forward, it very much involves the unambiguous consent of the user who the publisher owns that relationship. And those cookies, those markers, those identifiers, under no circumstances of any initiative by iOS or Safari or Chrome are being eliminated.

So we think we're actually in a really good position to help the open web, to help our publishers and to work with the buying community to figure out a new table as it were to continue the programmatic advances.



Jason Michael Kreyer *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Great. I'm going to try to kind of mesh together a few different questions on Demand Manager, just given we've kind of waited for some public commentary on that. But I guess, one, just any pushback that you're hearing on adoption on it? Two, kind of what the sales process is in terms of are you going to existing customers? Or can you use this as a wedge for publishers you're not working with yet? And then three, on the analytics component here, I know part of the concept is that this can help people that can help a publisher optimize which exchanges work the best. So I'm just wondering if you're seeing any benefits to the traditional exchange business from those that adopted Demand Manager.

Michael G. Barrett *The Rubicon Project, Inc. - President, CEO & Director*

Yes. Great question, Jason. I'll try to hit them. As far as pushback is concerned, I think what we've learned in market is what we suspected going in, and that is our biggest competitor is prebid, so publishers who think they have it handled with the open source software coupled with internal engineering resources. And as we always said, if that's our biggest competitor, we feel really, really good long term because this definitely gets more complicated as prebid grows in scope and, as we move to server to server, is really going to tax internal resources to keep up and monetize at the highest level of efficiency.

As far as the sales process is concerned, it's a great question. I would suspect that at these early stages of our sales process, that it's the clients that we already are doing business with that -- we have said that this doesn't involve additional resources, additional cost of goods sold. And so, therefore, what we're doing is going to the folks that know us, like us and converting them to paid businesses from Demand Manager.

And as it relates to analytics, too early to tell. And I would say that what we've learned in the sales process, not necessarily just the upfront but the implementation and then the go-live, is that it's a -- like any software sale, it's a measured process. We -- our folks go live with Demand Manager, and sometimes they only safen a sliver of the traffic through to get used to it, to test it. It's primarily a desktop, even though there's mobile web components and mobile app components to it. But I just think that as prebid grows and gets more robust and more diversified in terms of the media types it excels at, we stand to be in a really good position going forward.

Jason Michael Kreyer *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst*

Okay. And I'm going to squeeze in one more, just on Connected TV as you'll be heavily in the mix here in the next few weeks. We've seen more consolidation in the space. I mean Pluto taken out last year and then, I guess, XUMO in the last day or 2 with some other rumors like to be out there. So just kind of wondering, as that consolidates, what is your take on that? And in a post-merger world, what do you see as the opportunity as those providers consolidate?

Michael G. Barrett *The Rubicon Project, Inc. - President, CEO & Director*

Yes. Great question. And I think that -- obviously, we'll let Telaria speak to their direct experiences. But I think it's, net-net, a very positive for the whole industry, including our slice of it. It shows that it's only growing in appeal to media owners. You'll note that the recent acquisitions are all ad-supported with no plans to deprecate the ad supporting and turn it into subscription. So AVOD seems to be the particular flavor of the day, so that bodes well for us. I think, in some instances, it may be bought by someone that's attempting to do a walled garden. In others, it's an immediate opportunity plus-plus because there'll be more subscribers, more traffic. Net-net, it's going to be positive because I think as we've discussed this, Jason, it's really hard to create a walled garden. You have to have a monopoly on the media type. Search is a great example, Google had monopoly. Facebook is a great example, they have monopoly in social. No one has a monopoly on video. And I really do think that the walled garden attempts to build their own moat and not allow external demand to come in will be short lived in the marketplace. So I think this is all just positive for our thesis and our post-merger opportunities.

Operator

The next question comes from Lee Krowl from B. Riley FBR.

Lee T. Krowl *B. Riley FBR, Inc., Research Division - Associate Analyst*

Just want to start off quick. So these questions have already been asked, but another kind of industry question. Any impact year-to-date from CCPA and/or some of the regulatory scrutiny that's been placed against the walled gardens?

Michael G. Barrett *The Rubicon Project, Inc. - President, CEO & Director*

No direct impact, obviously, on our radar screen, working closely with being compliant. The impact of the investigations into some of the players, those are long cycles, long term. They don't really -- the marketplace doesn't react overnight, budgets don't shift overnight. So I think that, generally speaking, it's business as usual for us. And of course, you have GDP 2.0 coming up. And so that's interesting as well. But all of this is -- we've been through it already in Europe, and I think we're well positioned going forward.

Lee T. Krowl *B. Riley FBR, Inc., Research Division - Associate Analyst*

Got it. And then just on the quarterly dynamics for Q4. Curious your thoughts on maybe kind of delineating between typical seasonality and possible share gains relative to peers.

Michael G. Barrett *The Rubicon Project, Inc. - President, CEO & Director*

Yes. I don't think anything has really changed there, and that's why we're so excited about Telaria. We've been talking about SPO, SPO, consolidation, consolidation, and it is occurring. Don't get me wrong. If you talk to the losers in the consolidation, they feel it.

Our point was that it's gotten down to 10 platforms, 8 platforms, but it still hasn't gotten down to the number where million -- hundreds of millions of dollars of spend to displace. And in fairness to the marketplace, I mean, there is a certain sameness of a Rubicon premerger with Telaria with competitors like Index and PubMatic and OpenX, although we would like to say that there's not that much sameness, but let's give the buyer some pass on that one. But if there's no mistaking going forward now.

And so what we really do think is that this, along with all the other work we've done, is the culmination of our efforts to accelerate this Supply Path Optimization. So long way of saying, I think the best is yet to come in that we might have a modest tailwind from consolidation to date, but none of it that we can point a finger on and say, boom, that spend came directly from that person who cut out that person.

Lee T. Krowl *B. Riley FBR, Inc., Research Division - Associate Analyst*

Got it. Fair enough. And then just on RTK, you closed it early last quarter, and I think the expectation was to have a fully integrated product by Q1. Curious if that time line is still intact. And I guess now that you have RTK under the hood, anything different in terms of the sales cycle? Or who else you're talking to from a publisher's perspective?

Michael G. Barrett *The Rubicon Project, Inc. - President, CEO & Director*

Yes. So the integration planning is going slightly ahead, so we're excited about that. There are 2 different teams in market. We're together as a unified voice. Whether every last piece of the integration in terms of the interface to the back end has been completed, that's not the case. But the idea was in Q1 to be in market, not confuse customers and be a unified force, be able to be facile in terms of pricing model and be able to tap into some of the strengths of reporting in analytics that RTK brought to it.

So everything is tracking very well. And we're, as I said in the script, super excited about the pipeline and the longer-term prospects. I think our learning has been signing the contract is one thing, implementing it is another thing and getting it to total revenue maximization is the third thing, and we're getting better at it with each implementation.

Operator

The next question comes from Matthew Thornton from SunTrust.

Matthew Corey Thornton *SunTrust Robinson Humphrey, Inc., Research Division - VP*

Congrats on the results. Maybe a couple, if I could. First, when you think about linearity in 2020 versus '19, anything you'd call out? And related to that, how are you thinking about political and any tailwind that could provide later in the year? I guess that's kind of the first question.

And then just 2 housekeeping questions. The \$5 million bogey for Demand Manager, does that include revenue acquired via RTK? And the second housekeeping question, David, the \$35 million in adjusted EBITDA costs, I think that already excludes the \$1.5 million onetime deal costs. But I just want to make sure that I heard that right.



Michael G. Barrett *The Rubicon Project, Inc. - President, CEO & Director*

Great. Matt, could you rephrase or repeat question number one? I didn't catch it, the linearity.

Matthew Corey Thornton *SunTrust Robinson Humphrey, Inc., Research Division - VP*

Yes. Just thinking about 2020, as we go through the year versus 2019, anything you'd call out just in terms of how this year might shape relative to last year? And related to that, where I was really going with this is any tailwind you're kind of expecting in this year from political ad spend?

Michael G. Barrett *The Rubicon Project, Inc. - President, CEO & Director*

Yes. So we've seen a modest gain in political ad spend. But again, given how varied our platform is and how many different campaigns are going at any given time, we're less likely to be having to struggle against these comps next year when there's not a general election or a primary season like we're seeing right now.

So my sense is that the biggest story of 2020 is obviously going to be the merger, right, to close the deal. We're working hard on doing the planning that we can within regulatory guidelines, hit the ground running. And we really -- we talked a lot -- we've talked a little bit about the cost synergies that we can see clearly and been a little bit vague on the revenue synergies just because of the lack of not getting the 2 teams together rolling at the sleeves. But it's becoming increasingly clear that there's this sweet spot of premium global brands, publishers, that would still benefit from an omnichannel approach, a CTV plus-plus-plus-plus, and that's -- we're really excited about that.

So obviously, more to talk about that in the coming quarters. But yes, Matt, to me, I think that's the biggest change for us is the new look of NewCo going forward and all the fun we're going to have with the opportunities in market. And there was an RTK question, Dave?

David L. Day *The Rubicon Project, Inc. - CFO*

Yes. So our guide on Demand Manager revenue. So RTK has folded into Demand Manager. That's all one business, and so that includes all activity. So pretty small base and growing throughout the year. And you were right on with the \$35 million in adjusted EBITDA costs. That does exclude the \$1.5 million in deal costs.

Matthew Corey Thornton *SunTrust Robinson Humphrey, Inc., Research Division - VP*

Perfect. And then maybe just one quick follow-on. Dave, I think you rattled off -- or actually, Michael, I think you had rattled off the 4 kind of closest comps -- or 3 other closest comps on the display SSP side. On the video side, is it really Telaria, SpotX, FreeWheel and anyone else that's out there? Or is it really those 3 that are at the table on that side of the house?

Michael G. Barrett *The Rubicon Project, Inc. - President, CEO & Director*

No. Those are the clear leaders, for sure. Those are who we think about when we think about the competition in that space.

Operator

The next question comes from Kyle Evans from Stephens.

Kyle William Evans *Stephens Inc., Research Division - MD*

Michael, how long after you get Telaria closed, you mentioned April, could we expect to see some synergies around their desktop mobile business, which has been shrinking?

Michael G. Barrett *The Rubicon Project, Inc. - President, CEO & Director*

Yes. It's obviously front burner. Hard to put a finger on it, but I would say it's a top priority post close. And I think we have some decisions to make, the types of pipes that we have into the supply, into the demand. Our platform makes more sense from a cost-efficient standpoint, their platform. But those are decisions we're going to drive to pretty quickly and hope to see tangible results in the not-too-distant future post close.

Kyle William Evans *Stephens Inc., Research Division - MD*

Great. Just maybe one for David. There were -- there was a lot of kind of -- or maybe you. There was a lot of discussion last quarter around inventory management and app-ads.txt. And so is that Jason, and I was just wondering kind of what the -- -- I haven't heard anything about that on this quarter. Wondering what the long tail impact of those 3 moving parts were from 3Q.

David L. Day *The Rubicon Project, Inc. - CFO*

Yes, it's really stabilized, I think. So there were the initial impacts. We haven't seen further degradation. And we think, if anything, over time, there's probably some value that may be left -- being left on the table there and that buyers may work back the other direction, but nothing really significant.

Kyle William Evans *Stephens Inc., Research Division - MD*

Great. Michael, you mentioned how excited you are about Demand Manager. I think we understand the basic value proposition and the revenue models there. Could you back up -- and I mean, I think it's smart to give us a small target for '20, but can you back up and talk about maybe what the total addressable market looks like there and how Demand Manager could kind of phase into other types of inventory that maybe isn't touched on today and what you think it could look like in the out years?

Michael G. Barrett *The Rubicon Project, Inc. - President, CEO & Director*

Yes. I mean we don't have like back of the envelope or hard numbers. But if you think about -- let's step back for a second. The header bidding came about is this phenomenon, that was really manufactured by proprietary ad tech companies to help publishers in their monetization quest, the whole idea of this unified auction. The -- it was great. It was somewhat liberating from the waterfall, from a historic standpoint, but it quickly became trading one black box for another black box. And when prebid -- the genesis of prebid was like, this is silly. We figured out a way for publishers to make more money, but why are we going back to the proprietary nontransparent black box approach, and then prebid hits the CNN, and now it's universally adopted across the board by any major publisher.

And so, therefore, it's already embedded in -- so that's part of the sales process. It's -- usually, it's a 2-step process. Convince some of your software is really good and then have them pay you for it. In this instance, they're already using the software. Now we just want them to pay us for our version of it, which is pure prebid, 100%, with our analytics and configuration tools and more and more to come, added on to it.

So I really do think the cause for excitement is anyone who's a client of Rubicon today is a prospect for Demand Manager. And as I said before, the ones that aren't using Demand Manager aren't necessarily using another paid version of prebid, they're using prebid, the open source product. And I think the game really steps up when prebid becomes the choice for mobile app monetization as well, right? And so that's a server-to-server game. And that's quite complicated. You're talking about acquiring servers if you're a publisher. You're talking about paying for the servers, operating those servers. And so we really feel excited that the inroads that we made today are impressive.

But boy, the game change is exponentially downstream, and we are perfectly positioned to take advantage of that to help our publishing partners make the most money they possibly can. And at the end of the day, have them incur less costs because it's only going to get more costly from an engineered perspective, from a hardware perspective. So we're really excited about the overall prospects. And hopefully, that answers your question without giving you any metrics.

Kyle William Evans *Stephens Inc., Research Division - MD*

Congratulations. One last one. You mentioned kind of a lag in SPO around the holidays in 4Q. Are there conversely other quarters in the year where you expect to see some of your smaller competitors fall by the wayside?

Michael G. Barrett *The Rubicon Project, Inc. - President, CEO & Director*

I would say that the reason why no one does anything in Q4 is because there's just so much at stake in terms of the seasonality of the spend. So I would say that we'll see the inroads Q1 through Q3, and then it will freeze again. And again, as I said, I think it's business as usual up until the merger. And then we go to market as a combined value proposition to buyers and to sellers. And I think that, that is what can help accelerate the SPO. So post close of the company, but we'd be disappointed if we didn't see movement in 2020.



Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Michael Barrett for any closing remarks.

Michael G. Barrett *The Rubicon Project, Inc. - President, CEO & Director*

Thanks, everyone, for joining us. We're very happy to deliver strong Q4 results and a strong guide for Q1 while closing a transformational merger with Telaria. We are deep in planning mode and look forward to hit the ground running following the close of the deal. We're even more excited about how the combined company goes to market and the long-term growth prospects of the business. We look forward to seeing many of you in a couple of weeks at the SunTrust Conference. Thank you for joining us for our Q4 results call, and have a good evening.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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