



Marchex Announces Third Quarter 2019 Results

November 6, 2019

[Marchex, Inc.](#) (NASDAQ:MCHX), a leading provider of call analytics that drive, measure, and convert callers into customers, today announced its financial results for the third quarter ended September 30, 2019.

Q3 2019 Financial Highlights

- Revenue was \$24.8 million for the third quarter of 2019, compared to \$20.0 million for the third quarter of 2018.
- Core analytics revenue was \$13.5 million for the third quarter of 2019, compared to \$8.9 million for the third quarter of 2018.
- Net loss was \$1.2 million for the third quarter of 2019 or \$0.03 per diluted share. For the third quarter of 2018, net loss was \$0.5 million or \$0.01 per diluted share.

| | <u>Q3 2018</u> | <u>Q3 2019</u> |
|---|----------------|----------------|
| Revenue | \$20.0 million | \$24.8 million |
| Net cash provided by operating activities | \$2.3 million | \$1.9 million |
| Cash Balance | \$78.6 million | \$52.5 million |
| Non-GAAP Results¹: | | |
| Adjusted EBITDA | \$0.5 million | \$1.1 million |

- Adjusted non-GAAP income (loss) per share¹ for the third quarter of 2019 was \$0.01, compared to (\$0.00) for the third quarter of 2018.

¹ Reconciliations of non-GAAP measures are included in the financial tables attached to this press release and we encourage investors to examine the reconciling adjustments between the GAAP and non-GAAP measures.

Strategic Priorities Update

Grow New and Existing Client Relationships. In the third quarter, Marchex added various new clients across enterprise brands and SMB channels in verticals such as Auto, Health Care, Insurance and Home Services. It also launched 8 new pilots for the company's first Sales Edge solution, Sales Rescue, which launched in the third quarter.

Accelerate Product Innovation. Marchex recently announced that Clean Call, Marchex's robocall blocking solution, will now be powered by new a combination of artificial intelligence and voice biometric technology to prevent robocalls from clogging business lines. The new, patent pending Clean Call technology works by dynamically identifying new robocalls as they occur and uses that intelligence to detect, classify and block the calls. This expands Marchex's recently announced conversational AI technology that included a new voice biometric model that automatically determines the identity of the salesperson on a call. It performs "passive authentication," enabling identification of the salesperson via Marchex's AI-driven voice identification technology.

In the third quarter, Marchex additionally announced conversational AI technology that consists of a new suite of predictive AI models featuring more than 230 initial AI signals. The Marchex Innovation Development Lab (MIND) team continues to innovate in various ways to give businesses the ability to understand and respond in real time to the needs of customers over the course of their sales conversations. The proprietary AI is built on Marchex Stream, the new conversational data streaming and business intelligence platform announced in May that enables the processing of events and extraction of signals from conversations as they occur in real time, at scale.

During the third quarter, Marchex also launched Sales Edge, an AI-based suite of sales acceleration software solutions. With Sales Edge, businesses can analyze customer conversations, optimize their sales approaches and improve sales outcomes using automated tools to outperform their competition. The product suite launched with three initial products, Sales Edge Local, Sales Edge Enterprise, and Sales Edge Rescue. Sales Edge Rescue alerts businesses when potential buyers end conversations without making a purchase so the business can take real-time action to rescue the sales opportunity.

"Marchex is evolving to meet the growing needs of our customers, who are just beginning to understand the power and impact of unlocking consumer intent with Marchex's AI-driven technologies," said Mike Arends, Co-CEO and Chief Financial Officer. "During the third quarter, we introduced a new suite of sales insight and acceleration solutions to help businesses solve mission critical problems that surface from customer conversations. Sales Rescue, the first of the suite to launch, is meeting with favorable initial interest from customers. It is the first of a series of products directly informed by our customers' critical needs that we will be launching over the coming quarters. We believe these new conversational analytics and sales acceleration solutions can be a foundation for Marchex's expanded market opportunity and growth over the long-term."

Business Outlook

The following forward-looking statements reflect Marchex's expectations as of November 6, 2019.

- “Although the fourth quarter generally sees a meaningful sequential season decline in call volume, we anticipate core analytics to reflect continued growth on a year-over-year basis and be only modestly down or potentially in-line on a sequential basis with third quarter core analytics revenue of \$13.5 million,” said Arends.

Financial Guidance for the Fourth Quarter ending December 31, 2019

| | |
|--------------------------------|-----------------------------|
| Revenue | \$26 million or more |
| Income (loss) from operations | (\$3) million or better |
| Adjusted OIBA ^{1,2} | break-even or better |
| Adjusted EBITDA ^{1,2} | in the range of \$1 million |

2 Fourth quarter GAAP income (loss) from operations is expected to be (\$3) million or better, assuming stock-based compensation and amortization of intangibles between \$2.8 million and \$3 million for the quarter.

Conference Call and Webcast Information

Management will hold a conference call, starting at 5:00 p.m. ET on Wednesday, November 6, 2019, to discuss its third quarter ended September 30, 2019 financial results and other company updates. Access to the live webcast of the conference call will be available online from the Investors section of Marchex's website at www.marchex.com. An archived version of the webcast will also be available at the same location two hours after completion of the call.

About Marchex

[Marchex](http://www.marchex.com) understands the best customers are those who call your company - they convert faster, buy more, and churn less. Marchex provides solutions that help companies drive more calls, understand what happens on those calls, and convert more of those callers into customers. Our actionable intelligence strengthens the connection between companies and their customers, bridging the physical and digital world, to help brands maximize their marketing investments and operating efficiencies to acquire the best customers.

Please visit <http://www.marchex.com>, www.marchex.com/blog or [@marchex](https://twitter.com/marchex) on Twitter (Twitter.com/Marchex), where Marchex discloses material information from time to time about the company, its financial information, and its business.

Forward-Looking Statements:

This press release contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this press release regarding our strategy, future operations, future financial position, future revenues, other financial guidance, acquisitions, dispositions, projected costs, prospects, plans and objectives of management are forward-looking statements. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. There are a number of important factors that could cause Marchex's actual results to differ materially from those indicated by such forward-looking statements including but not limited to product demand, order cancellations and delays, competition and general economic conditions. These factors are described in greater detail in the "Risk Factors" section of our most recent periodic report and registration statement filed with the SEC. All of the information provided in this release is as of November 6, 2019 and Marchex undertakes no duty to update the information provided herein.

In the event the press release contains links to third-party websites or materials, the links are provided solely as a convenience to you. Marchex is not responsible for the content of linked third-party sites or materials and does not make any representations regarding the content or accuracy thereof.

Non-GAAP Financial Information:

To supplement Marchex's consolidated financial statements presented in accordance with GAAP and to provide clarity internally and externally, Marchex uses certain non-GAAP measures of financial performance and liquidity, including Adjusted OIBA, Adjusted EBITDA, and Adjusted non-GAAP income (loss) per share.

Adjusted OIBA represents income (loss) from operations excluding stock-based compensation expense, amortization of intangible assets from acquisitions, and acquisition related costs (benefit). This measure, among other things, is one of the primary metrics by which Marchex evaluates the performance of its business. Adjusted OIBA is the basis on which Marchex's internal budgets are based and by which Marchex's management is currently evaluated. Marchex believes these measures are useful to investors because they represent Marchex's consolidated operating results, taking into account depreciation and other intangible amortization, which Marchex believes is an ongoing cost of doing business, but excluding the effects of certain other expenses such as stock-based compensation, amortization of intangible assets from acquisitions, and acquisition related costs (benefit). **Adjusted EBITDA** represents income (loss) before interest, income taxes, depreciation, amortization, stock compensation expense and acquisition related costs (benefit). Marchex believes that Adjusted EBITDA is another alternative measure of liquidity to GAAP net cash provided by (used in) operating activities that provides meaningful supplemental information regarding liquidity and is used by Marchex's management to measure its ability to fund operations and its financing obligations. Financial analysts and investors may use Adjusted OIBA and Adjusted EBITDA to help with comparative financial evaluation to make informed investment decisions. **Adjusted non-GAAP income (loss) per share** represents Adjusted non-GAAP income (loss) divided by GAAP diluted shares outstanding. Adjusted non-GAAP income (loss) generally captures those items on the statement of operations that have been, or ultimately will be, settled in cash exclusive of certain items that are not indicative of Marchex's recurring core operating results and represents net income (loss) applicable to common stockholders plus the net of tax effects of: (1) stock-based compensation expense, (2) acquisition related costs (benefit), (3) interest and other income (expense), and (4) amortization of intangible assets from acquisitions. Financial analysts and investors may use Adjusted non-GAAP income (loss) per share to analyze Marchex's financial performance since these groups have historically used EPS related measures, along with other measures, to estimate the value of a company, to make informed investment decisions, and to evaluate a company's operating performance compared to that of other companies in its industry.

Marchex's management believes that investors should have access to, and Marchex is obligated to provide, the same set of tools that management uses in analyzing the company's results. These non-GAAP measures should be considered in addition to results prepared in accordance with GAAP, and should not be considered in isolation, as a substitute for, or superior to, GAAP results. Marchex's non-GAAP financial measures may be defined differently from time to time and may be defined differently than similar titled terms used by other companies, and accordingly, care should be exercised in understanding how Marchex defines its non-GAAP financial measures in this release. Marchex endeavors to compensate for the limitations of the non-GAAP measures presented by providing the comparable GAAP measure with equal or greater prominence, GAAP financial statements, and detailed descriptions of the reconciling items and adjustments, including quantifying such items, to derive the non-GAAP measure.

MARCHEX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2018 | 2019 | 2018 | 2019 |
| Revenue | \$ 20,006 | \$ 24,794 | \$ 62,120 | \$ 77,541 |
| Expenses: | | | | |
| Service costs (1) | 10,877 | 12,770 | 35,084 | 40,951 |
| Sales and marketing (1) | 3,330 | 3,971 | 10,275 | 12,172 |
| Product development (1) | 3,861 | 5,135 | 11,382 | 14,708 |
| General and administrative (1) | 2,570 | 3,130 | 8,083 | 9,939 |
| Amortization of intangible assets from acquisitions | — | 1,568 | — | 4,704 |
| Acquisition-related costs (benefit) | 110 | (432) | 110 | (710) |
| Total operating expenses | 20,748 | 26,142 | 64,934 | 81,764 |
| Loss from operations | (742) | (1,348) | (2,814) | (4,223) |
| Interest income and other, net | 296 | 189 | 805 | 592 |
| Loss before provision for income taxes | (446) | (1,159) | (2,009) | (3,631) |
| Income tax expense | 11 | 56 | 32 | (3) |
| Net loss applicable to common stockholders | \$ (457) | \$ (1,215) | \$ (2,041) | \$ (3,628) |

Basic and diluted net loss per Class A and Class B share applicable to common stockholders \$ (0.01) \$ (0.03) \$ (0.05) \$ (0.08)

Shares used to calculate basic net loss per share applicable to common stockholders:

| | | | | |
|---------|--------|--------|--------|--------|
| Class A | 5,056 | 4,661 | 5,056 | 4,838 |
| Class B | 36,127 | 40,984 | 37,243 | 40,459 |

Shares used to calculate diluted net loss per share applicable to common stockholders:

| | | | | |
|---------|--------|--------|--------|--------|
| Class A | 5,056 | 4,661 | 5,056 | 4,838 |
| Class B | 41,183 | 45,645 | 42,299 | 45,297 |

(1) Includes stock-based compensation allocated as follows:

| | | | | |
|----------------------------|--------|--------|----------|----------|
| Service costs | \$ 108 | \$ 36 | \$ 338 | \$ 131 |
| Sales and marketing | 125 | 180 | 411 | 529 |
| Product development | 94 | 72 | 276 | 215 |
| General and administrative | 375 | 535 | 1,310 | 1,275 |
| Total | \$ 702 | \$ 823 | \$ 2,335 | \$ 2,150 |

MARCHEX, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

| | December 31, | September 30, |
|---|---------------------|----------------------|
| | 2018 | 2019 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 45,230 | \$ 52,467 |
| Accounts receivable, net | 16,198 | 14,100 |
| Prepaid expenses and other current assets | 2,657 | 2,428 |
| Total current assets | 64,085 | 68,995 |

| | | |
|--|-------------------|-------------------|
| Property and equipment, net | 2,921 | 3,205 |
| Right-of-use lease asset | — | 6,146 |
| Other assets, net | 917 | 275 |
| Goodwill | 24,442 | 24,503 |
| Intangible assets from acquisitions, net | 20,697 | 15,993 |
| Total assets | <u>\$ 113,062</u> | <u>\$ 119,117</u> |

Liabilities and Stockholders' Equity

Current liabilities:

| | | |
|--|---------------|---------------|
| Accounts payable | \$ 5,968 | \$ 5,611 |
| Accrued expenses and other current liabilities | 5,807 | 6,265 |
| Current portion of acquisition-related liabilities | 1,215 | 844 |
| Deferred revenue and deposits | 1,782 | 1,902 |
| Lease liability current | — | 1,506 |
| Total current liabilities | <u>14,772</u> | <u>16,128</u> |

Other non-current liabilities

| | | |
|--|------------|----------|
| Deferred tax liabilities | 1,287 | 30 |
| Lease liability non-current | 1,531 | 1,537 |
| Non-current portion of acquisition-related liabilities | — | 6,034 |
| Total liabilities | <u>446</u> | <u>—</u> |
| | 18,036 | 23,729 |

Stockholders' equity:

| | | |
|--|-------------------|-------------------|
| Class A common stock | 53 | 49 |
| Class B common stock | 370 | 384 |
| Additional paid-in capital | 350,801 | 354,781 |
| Accumulated deficit | (256,198) | (259,826) |
| Total stockholders' equity | <u>95,026</u> | <u>95,388</u> |
| Total liabilities and stockholders' equity | <u>\$ 113,062</u> | <u>\$ 119,117</u> |

MARCHEX, INC. AND SUBSIDIARIES

(in thousands)

(unaudited)

Reconciliation of GAAP Loss from Operations to Adjusted Operating Income (Loss) Before Amortization (OIBA)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|---------------|------------------------------------|-----------------|
| | 2018 | 2019 | 2018 | 2019 |
| Loss from operations | \$ (742) | \$ (1,348) | \$ (2,814) | \$ (4,223) |
| Stock-based compensation | 702 | 823 | 2,335 | 2,150 |
| Amortization of intangible assets from acquisitions | — | 1,568 | — | 4,704 |
| Acquisition-related costs (benefit) | 110 | (432) | 110 | (710) |
| Adjusted OIBA | <u>\$ 70</u> | <u>\$ 611</u> | <u>\$ (369)</u> | <u>\$ 1,921</u> |

Reconciliation from Net Cash provided by (used in) Operating Activities to Adjusted EBITDA

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|-------------------|
| | 2018 | 2019 | 2018 | 2019 |
| Net cash provided by (used in) operating activities | \$ 2,325 | \$ 1,883 | \$ 4,062 | \$ 6,843 |
| Changes in assets and liabilities | (1,655) | (227) | (2,409) | (2,195) |
| Income tax expense | 11 | 56 | 32 | (3) |
| Acquisition-related costs (benefit) | 110 | (432) | 110 | (710) |
| Interest income and other, net | (296) | (189) | (805) | (592) |
| Adjusted EBITDA | <u>\$ 495</u> | <u>\$ 1,091</u> | <u>\$ 990</u> | <u>\$ 3,343</u> |
| Net cash used in investing activities | <u>\$ (545)</u> | <u>\$ (577)</u> | <u>\$ (2,156)</u> | <u>\$ (1,447)</u> |
| Net cash provided by (used in) financing activities | <u>\$ 22</u> | <u>\$ 145</u> | <u>\$ (27,491)</u> | <u>\$ 1,841</u> |

Revenue Reconciliation

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------------|------------------------------------|------------------|
| | 2018 | 2019 | 2018 | 2019 |
| Core Analytics revenue ¹ | \$ 8,896 | \$ 13,466 | \$ 24,531 | \$ 39,649 |
| Marketplace, Local Leads, and other analytics ² | 11,110 | 11,328 | 37,589 | 37,892 |
| Total Revenue | <u>\$ 20,006</u> | <u>\$ 24,794</u> | <u>\$ 62,120</u> | <u>\$ 77,541</u> |

¹ Core analytics revenue includes revenue from analytics customers, including those that are purchasing or buying products derived from the company's speech technology platform.

² Includes revenue from marketplace, local leads and from tests, consulting services or other analytics revenues that may continue for a limited time but are not anticipated to continue in future periods.

Certain immaterial reclassifications were made to the current presentation.

MARCHEX, INC. AND SUBSIDIARIES

Reconciliation of GAAP Net Loss per Share to Adjusted Non-GAAP Income (Loss) per Share (in thousands, except per share amounts) (unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------------|------------------------------------|-----------------|
| | 2018 | 2019 | 2018 | 2019 |
| Adjusted Non-GAAP loss per share | <u>\$ (0.00)</u> | <u>\$ 0.01</u> | <u>\$ (0.01)</u> | <u>\$ 0.03</u> |
| Net loss per share applicable to common stockholders - diluted (GAAP loss per share) | \$ (0.01) | \$ (0.03) | \$ (0.05) | \$ (0.08) |
| Shares used to calculate diluted net loss per share applicable to common stockholders | 41,183 | 45,645 | 42,299 | 45,297 |
| Net loss applicable to common stockholders | \$ (457) | \$ (1,215) | \$ (2,041) | \$ (3,628) |
| Stock-based compensation | 702 | 823 | 2,335 | 2,150 |
| Acquisition-related costs (benefit) | 110 | (432) | 110 | (710) |
| Amortization of intangible assets from acquisitions | — | 1,568 | — | 4,704 |
| Interest income and other, net | (296) | (189) | (805) | (592) |
| Estimated impact of income taxes | (192) | (192) | (119) | (596) |
| Adjusted Non-GAAP income (loss) | <u>\$ (133)</u> | <u>\$ 363</u> | <u>\$ (520)</u> | <u>\$ 1,328</u> |
| Adjusted Non-GAAP income (loss) per share | <u>\$ (0.00)</u> | <u>\$ 0.01</u> | <u>\$ (0.01)</u> | <u>\$ 0.03</u> |
| Shares used to calculate diluted net loss per share applicable to common stockholders (GAAP) | 41,183 | 45,645 | 42,299 | 45,297 |
| Weighted average stock options and common shares subject to purchase or cancellation (if applicable) | — | 545 | — | 793 |
| Diluted shares used to calculate Adjusted Non-GAAP income (loss) per share ¹ | <u>41,183</u> | <u>46,190</u> | <u>42,299</u> | <u>46,090</u> |

¹ For the purpose of computing the number of diluted shares for Adjusted Non-GAAP income (loss) per share, Marchex uses the accounting guidance that would be applicable for computing the number of diluted shares for GAAP net income (loss) per share.

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