

# 2Q 2018

OTELLO CORPORATION ASA

# Agenda

- **Executive Summary & Operational Review (CEO, Lars Boilesen)**
- Financial Review (CFO, Petter Lade)
- AdColony Performance (Vikas Gulati, EVP - Global Performance)
- AdColony Brand/Exchange (Jude O'Connor - General Manager, Brand, North America)
- Closing Comments (CEO, Lars Boilesen)

# Executive Summary

# Quarterly highlights

Financial metric (USD million)	2Q18	2Q17	1Q18
Total revenue	72.2	108.4	71.4
Adj. EBITDA*	1.7	2.6	0.7

- Revenue down in AdColony versus 2Q17, but up versus 1Q18
- Bemobi revenue growth of 11% vs. 2Q17 despite significant negative FX impact
- Profit (Adj. EBITDA) slightly down versus 2Q17, but up versus 1Q18

• \*For further information regarding Adjusted EBITDA and other alternative performance measures used by Otello, see Note 9 of the interim condensed financial statements

# Operational Review

# AdColony – Turnaround continues

- **Revenue**

- Performance business still struggling, but revenue stabilizing
- Brand business up 10% versus 1Q18 and profitable in the quarter

- **Cost**

- OPEX reduced by over 40%, tracking ahead of \$90m annual run-rate goal
- Headcount reduced from 700+ to 350
- Primary savings now coming from offices, marketing and hosting

# AdColony – Organization



- Streamlined organization which is now stable with low turnover
- Reduced # managers & management levels such as COO, EVP HR, EVP Finance, EVP Marketing

# AdColony – Status

- We are seeing revenue growth, but it will be slow improvement during the coming months
- Significant cost savings have been completed, but we will continue to look for additional cost savings
- Products rolling out, making us more competitive

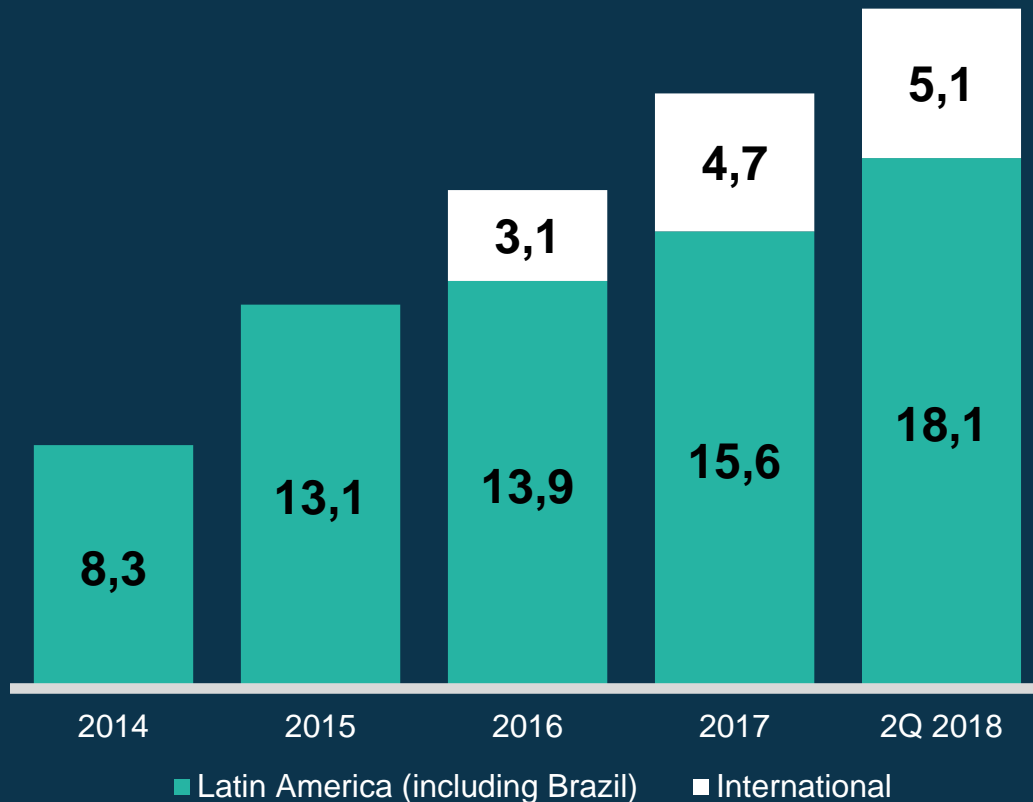


# Bemobi – Solid revenue growth

Revenue (USD million)	2Q 2018	2Q 2017	Comments
LATAM	<b>10.1</b>	10.1	Fx impacted revenue negatively by \$1.2m (BRL vs USD)
International	<b>3.6</b>	2.2	Strong growth of Apps Club with healthy diversification of channels
<b>Total</b>	<b>13.7</b>	12.3	Revenue would have been a record \$14.9m, up 20%+ without negative FX impact

# Bemobi – Subscriber growth driving revenue and scale

Number of subscribers (million)



- Strong growth in both LATAM and International subscribers versus 2Q17
- Greater focus on quality of users with higher ARPU
- Revenue growth to lag subscriber growth as Bemobi ramps up monetization of new users

# Bemobi –

## Customer status and growth

### Apps Club

63 operators live

- 23 operators in Latam
- 13 operators in South Asia
- 14 operators in South-East Asia
- 9 operators in CIS
- 4 operators in Africa

New launches in Q2 with CellC South Africa, Telenor Myanmar and Cellcard Cambodia. Plan is to launch 11 more in 2018

### NDNC

9 NDNC portals live in ROW:

- Vodafone Ukraine
- Banglalink Bangladesh
- MTS Belarus
- Tata India
- Grameenphone Bangladesh
- Ncell Nepal
- Idea India (POC) (Q1)
- Vodafone India (Q1)
- Telenor PK (Q2)

11 more planned for 2018

### RoW Distribution (Subscriber base from Q2 2017 to Q2 2018)

- Opera Mini 29%, down from 65% (less dependency on one channel)
- NDNC channel has grown from 6% to 17% (strategic)
- Digital acquisitions (CPA/rev share) grew from 6% to 47%
- Operator driven acquisitions decreased from 17% to 5%.
- App stores/OMS/Other from 6% to 2%

**User growth driver =>** Continuous improvements and optimizations of conversion through different channels, launch of NDNC portals and investments into Digital acquisitions (CPA/rev share). Planning Launch of new products (Kids Club, Security, Dating, Health, etc)—but still no significant revenues expected from these new products 2H2018

**Revenue growth driver =>** optimization of conversions, billing rates, pricing adjustments, data bundles launches and churn optimization.

**OPEX growth (phase 1) => Subscriber growth (phase 2) => Revenue growth (phase 3)**

# Bemobi – Positive impact from new agreement

- Strong alignment and better use of global resources
- Global workshops and one team with same goal
- Replicating LATAM product portfolio and rolling it out to International markets
- Conclusions of earn-out and underlying revenue growth of 20% open doors to strategic opportunities in 2019

# Opera TV (Vewd)

- Have offer to sell Otello's 27-28.5% ownership
- Legal dispute with majority shareholder and holding company
- Granted expedited trial in UK, legal proceedings happened mid July
- Awaiting verdict

# Financial Review

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# Otello Corporation 2Q18

(USD million)	2Q 2018	2Q 2017	1Q 2018
<b>Revenue</b>	<b>72.2</b>	<b>108.4</b>	<b>71.4</b>
Publisher and revenue share cost	(42.6)	(64.0)	(40.8)
Payroll and related expenses	(15.8)	(24.8)	(15.3)
Stock-based compensation expenses	(0.1)	(2.1)	1.6
Depreciation and amortization expenses	(7.5)	(10.4)	(7.3)
Other operating expenses	(12.2)	(17.6)	(14.5)
<b>Total operating expenses</b>	<b>(78.1)</b>	<b>(118.3)</b>	<b>(76.3)</b>
<b>Adjusted EBITDA*</b>	<b>1.7</b>	<b>2.6</b>	<b>0.7</b>
Operating profit (loss), (EBIT), excluding restructuring and impairment expenses	(5.9)	(9.9)	(5.0)
Restructuring and impairment expenses	(1.6)	(6.9)	0.0
Operating profit (loss), (EBIT)	(7.5)	(16.8)	(4.9)
Net financial items	5.3	(12.0)	(10.2)
Provision for taxes	0.0	7.4	18.9
Profit (loss)	(2.1)	(21.5)	3.8

Revenue down due to AdColony, partly offset by Bemobi

Cost program in AdColony ahead of target in 2Q18

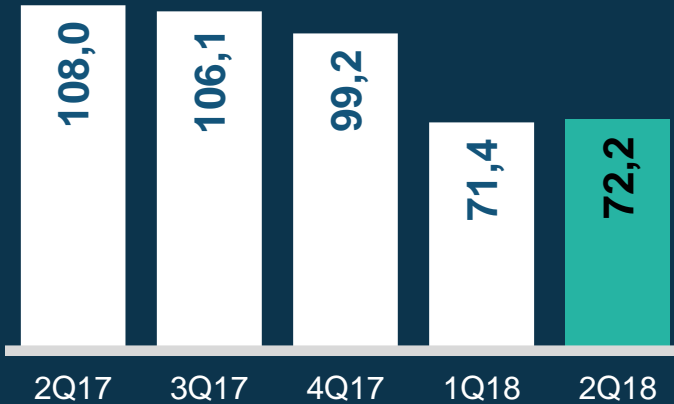
Adjusted EBITDA relative flat vs. 2Q17 and up from 1Q18

Positive Net financial items due to stronger USD vs. NOK

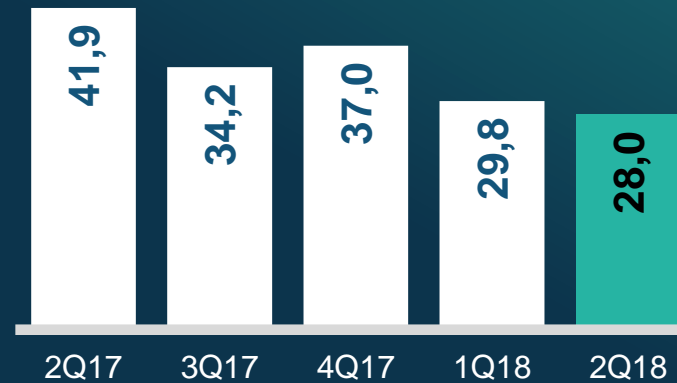


# Otello Corporation 2Q18

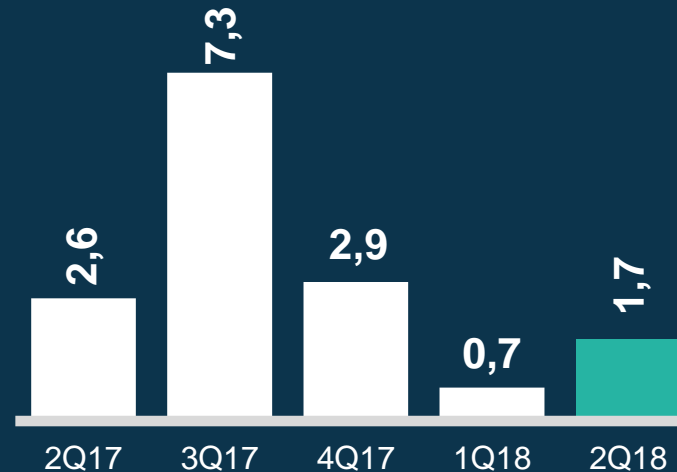
Revenue (USD million)



OPEX (USD million)



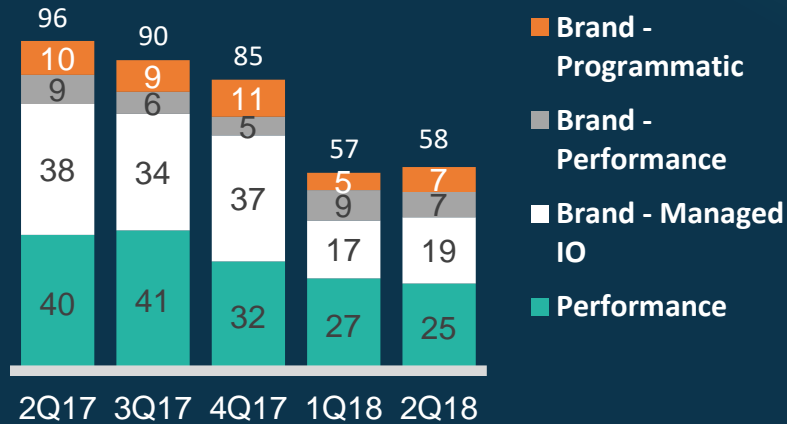
Adj. EBITDA (USD million)



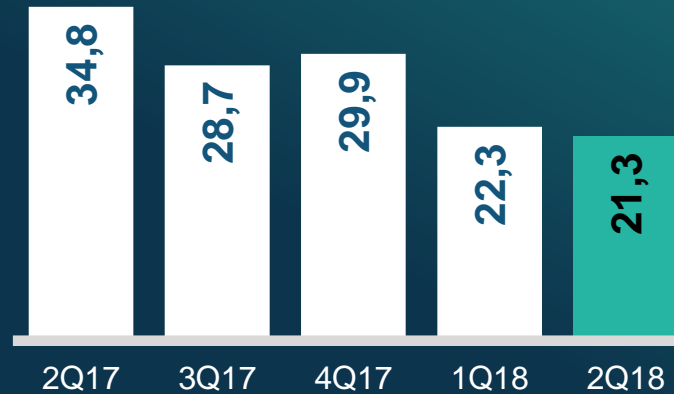
- Revenue down in 2Q18 vs 2Q17 due to AdColony, growth in Bemobi
- OPEX down YoY due to cost cuts in AdColony and Skyfire, with continued investments in Bemobi's international business
- Adj. EBITDA down mainly due to AdColony

# AdColony

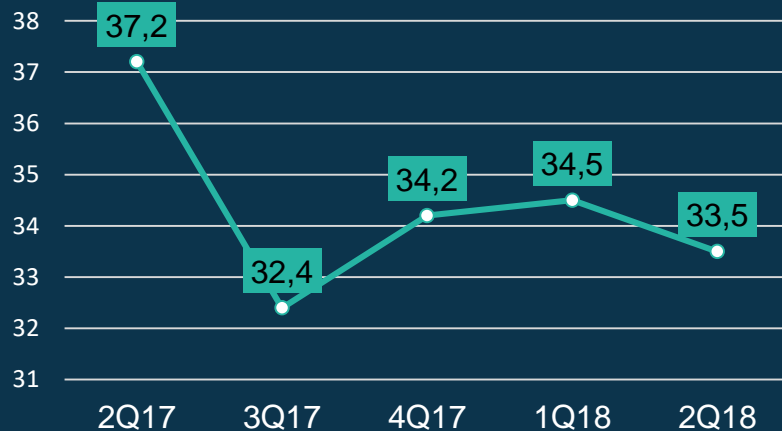
Revenue USD million)



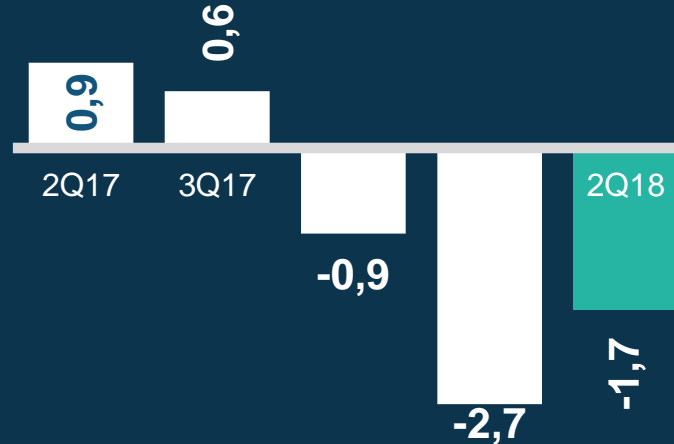
OPEX USD million)



Gross Margin %



Adj. EBITDA (USD million)



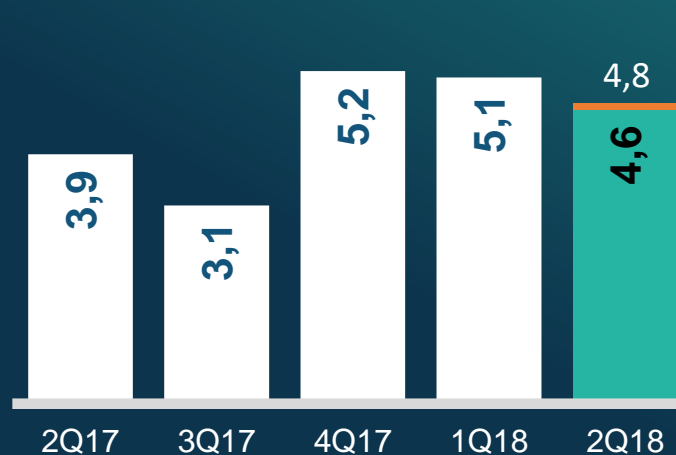
- 10% revenue growth in Brand vs. 1Q18
- Performance business still struggling and is lacking scale as we fix the product portfolio
- Strong gross margins in Brand offset by aggressive deals in Performance business
- Opex down significantly, now below \$90m annualized run-rate

# Bemobi

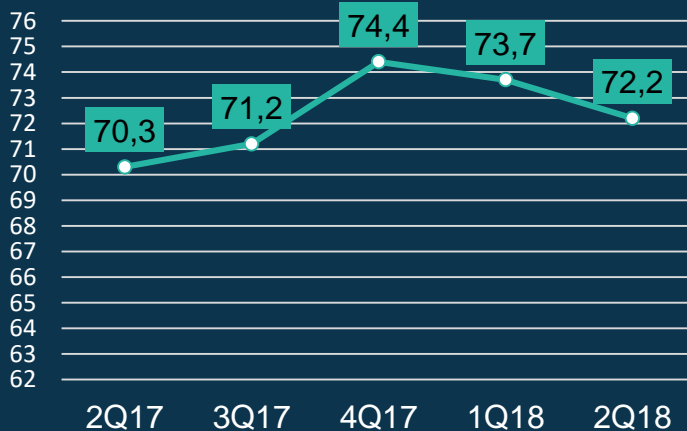
Revenue (USD million)



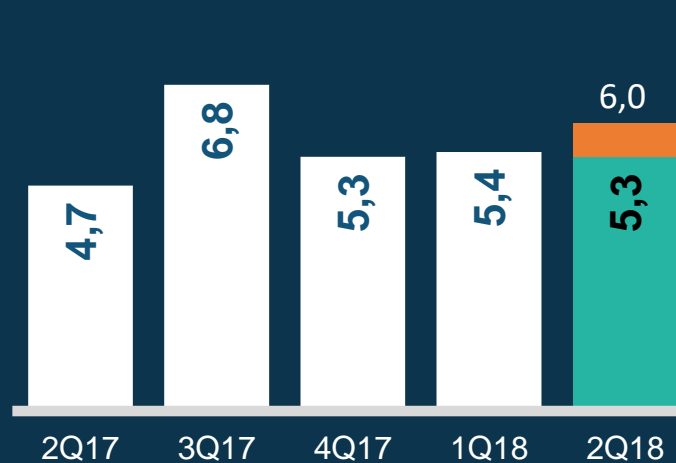
OPEX USD million)



Gross Margin %



Adj. EBITDA (USD million)

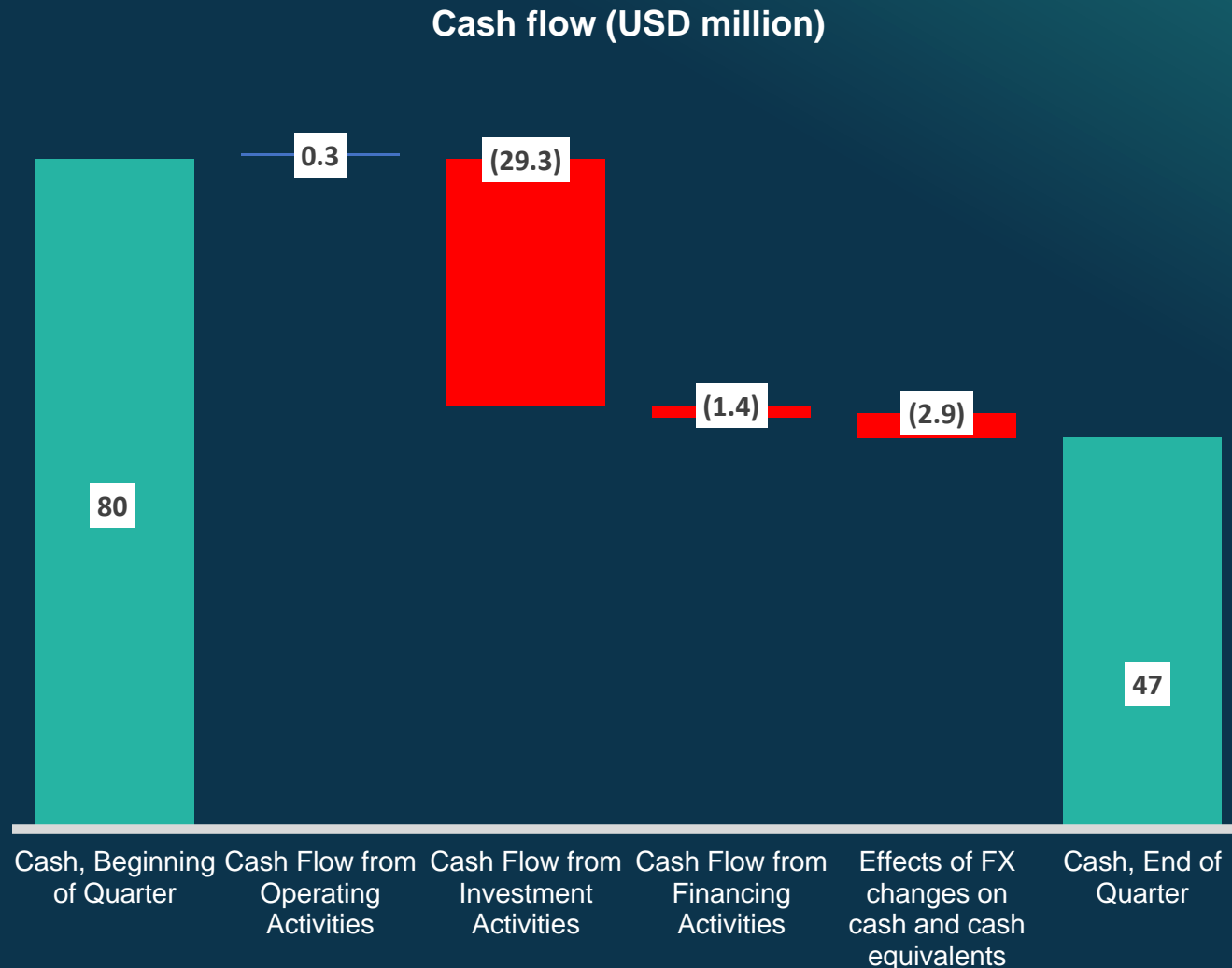


- Revenue impacted negatively \$1.2m due to adverse FX impact (BRL vs USD)
- 2Q18 revenue would have been a record \$14.9m with like for like FX rates as 2Q17
- OPEX up vs 2Q17 but down sequentially due to FX and more focused user acquisition
- Solid growth in Adj. EBITDA vs. 2Q17 and would have been \$6.0m with like for like FX rates as 2Q17



FX impact  
2Q18 vs 2Q17

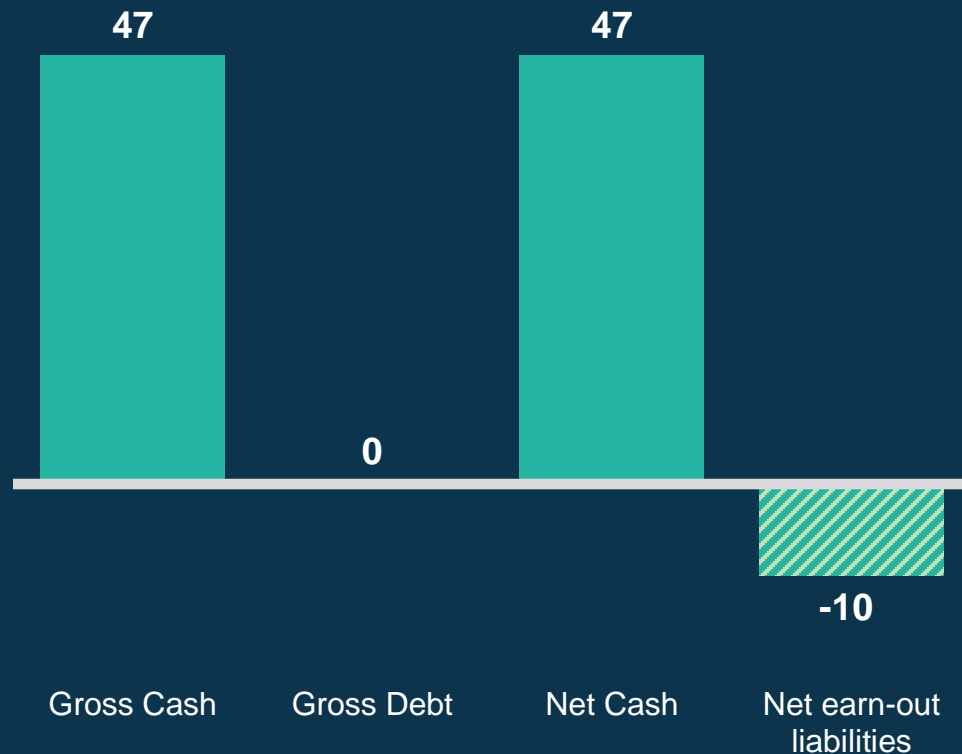
# Cash position



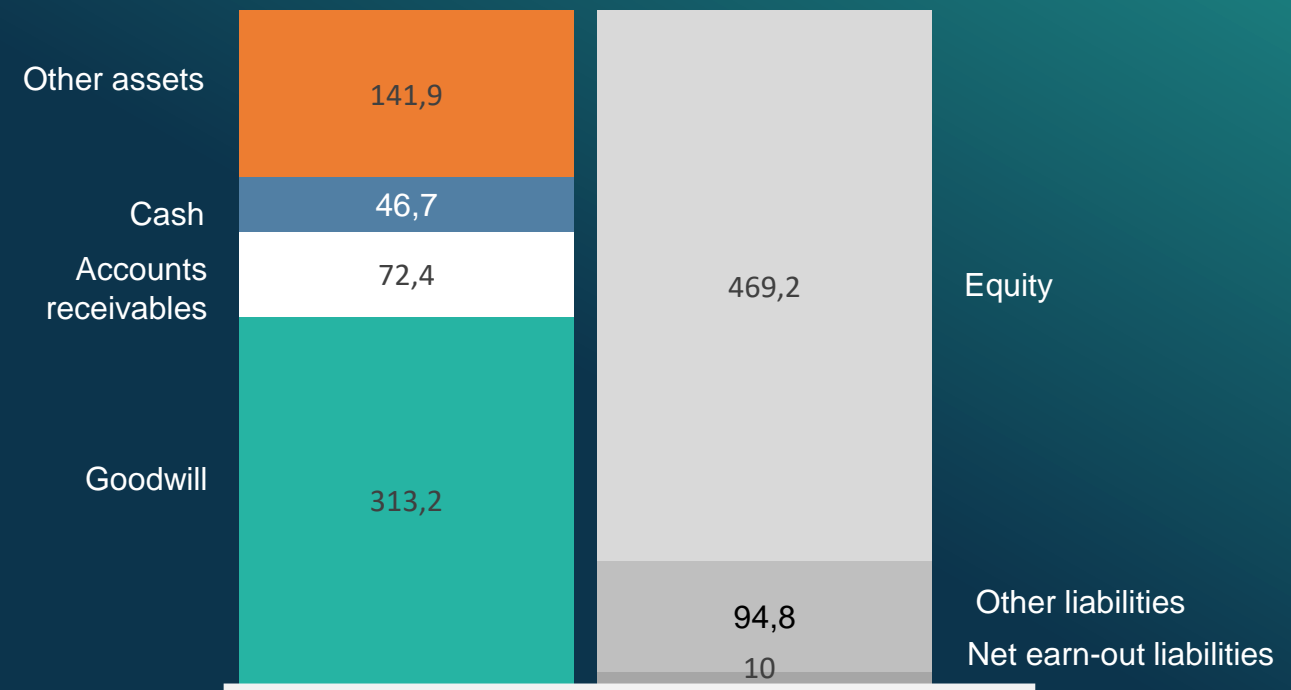
- Operating CF: USD 0.3 million
- Earn-out payments to BeMobi & Mobilike of USD 26.4 million
- CAPEX & Capitalized R&D: USD 2.8 million
- CF from financing: USD 1.4 million in share repurchases
- Cash end of quarter: USD 47 million

# Financial position – Strong net cash position

Financial Position (USD million)



Balance sheet USD million



# Outlook

## AdColony

3Q18 Revenue and Adj. EBITDA expected to be relatively similar to 2Q18

Aggressive pricing first half of 3Q18 temporarily lowers gross margin in 3Q18, mostly offset by lower OPEX

Sequential revenue growth and turning profitable\* in 4Q18

## BeMobi

2018 expected to show growth in revenue and Adj. EBITDA versus 2017 in local currency

FX volatility will impact 3Q18 vs 3Q17

\*Adj. EBITDA

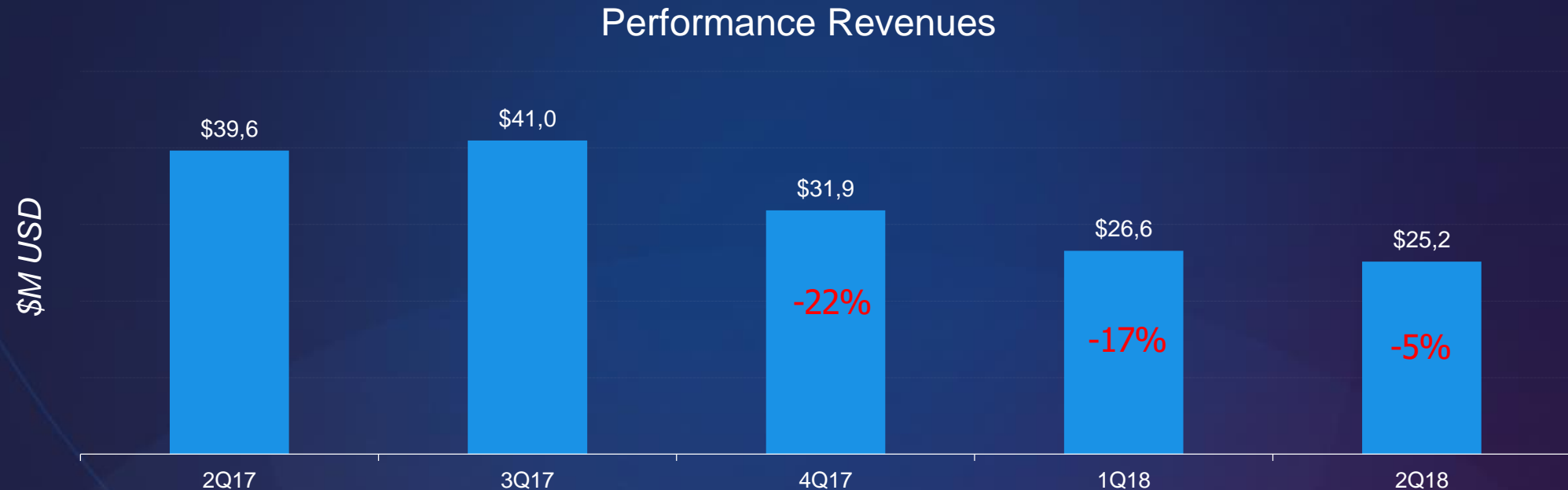
# AdColony

**Vikas Gulati**  
**EVP - Global Performance**



# Results: Performance Advertising

Summary: Q2 2018 Performance Revenues = \$25.2Mn (-5% vs. Q1'18)



- Consolidation in gaming with dominance of fewer bigger publishers. Limited blockbuster mobile game launches capping spend investment from advertisers
- Increased competition in publishing space as rewarded video space becomes crowded and app install business market becomes more mature
- Turnaround phase – arresting the rate of revenue decline and stable weekly revenue run rate





# Underlying Trends Impacting Performance Business



## Publisher Power

Gaming publishers are integrating multiple SDKs and trading on higher eCPMs with platforms



## Mediation

Supply behind mediation platforms using traditional waterfalls hiding true value of impressions



## Changing Buyer Dynamics

Limited blockbuster launches from big studios. Small and Mid sized developers have limited budgets and shift towards ROAS (return on ad spend) based buying



## New Formats

Rise of Playables and native competing with Rewarded Video inventory at AdColony



# Q2 Winners & Losers

Growth in key accounts offset by decay in existing accounts

## Winners

1. Early positive signs with growth in key strategic accounts in Q2
2. 34 New publishers on the platform, wins with new publishers despite high competition
3. Strategic Partnership with one of largest gaming engine companies in China, accelerate our expansion in domestic China

## Losers

1. Decline in spends of long standing advertisers as gaming titles mature and advertisers limit user acquisition spends
2. 2.1% decline in overall impression volume in Q2 vs. Q1, decay in existing publishers as some of old popular apps lose audience

Significant growth  
opportunity in supply  
from existing  
publishers &  
aggressive new  
business strategy  
**Focus in H2 2018**



# Product Efforts Focused On Improving Business KPIs

Improving impression rates, yields (eCPMs) for publishers & Core™ updates to improve install rates

- Tighter alignment between product and commercial team to build product features that deliver superior performance for publishers and advertisers
- Improvement in infrastructure to respond to publisher ad-requests faster
  - Improvement in impression play rates from 9% to 20%
  - Reduced the caching of videos by 80%
- Rolled out new toolset for publishing team to effectively manage yields for our publishers and drive growth in impression volumes
- Improvements continue on AdColony's Core™ yield optimization engine to improve accuracy leveraging new data science models to show right ads to the right users at the right time
  - IR jumped by 14.2% from June to July and continues to sustain which is really promising



# Commercial Priorities - H2 2018

Turnaround the performance business and set foundation to grow revenue again

## i. **New Business as a growth engine**

- Reorganize business team to focus on new business on both demand & supply. Massive push with commercial team and new incentive plan to bring new publishers and advertisers on the platform

## ii. **Execute on supply-first strategy and grow existing publisher accounts**

- Create optimal deal structure with publishers that locks volume and quality of supply
- Leverage on new toolset to deliver yields (eCPMs) to publishers that gives access on high performing supply on a sustainable basis

## iii. **Strong Demand & Supply Alignment**

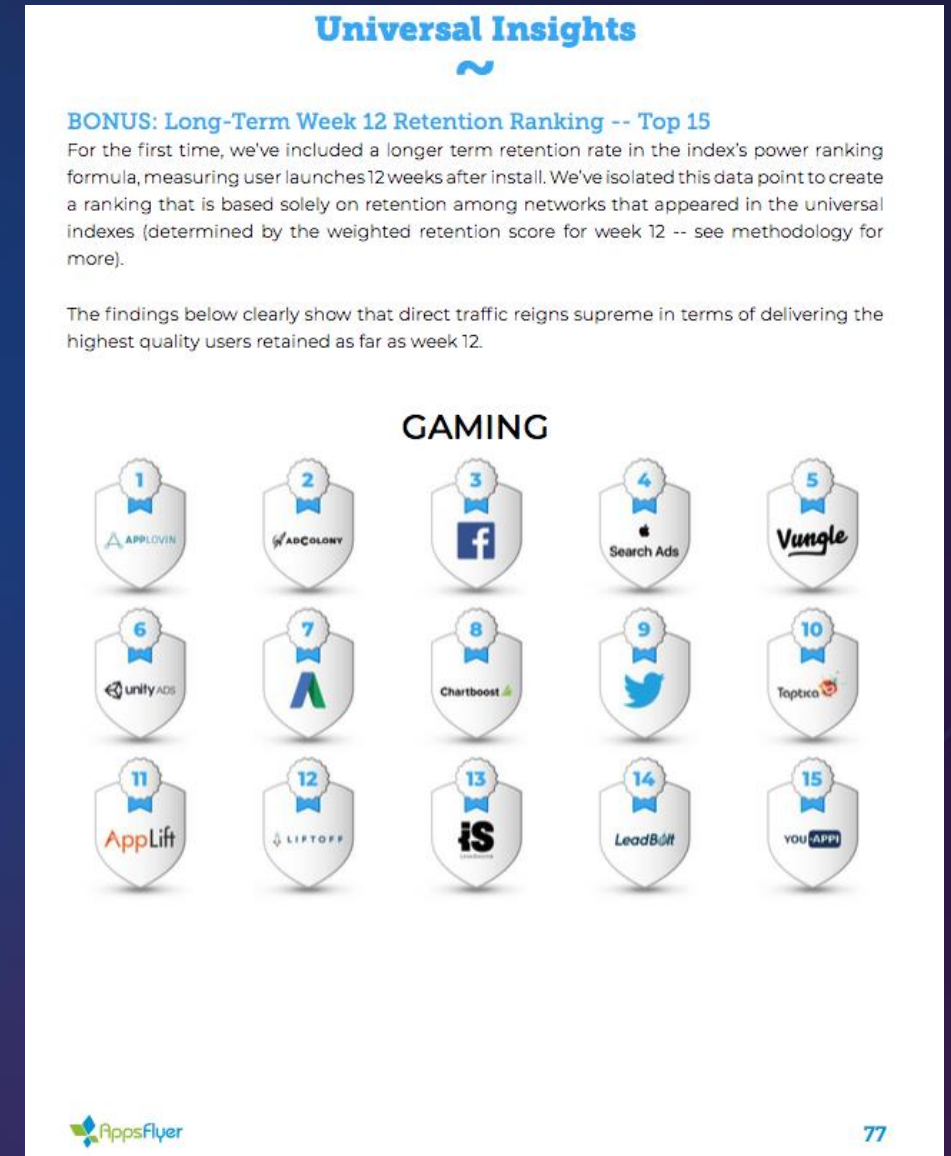
- OneTeam initiative to merge demand & supply team is showing promising results on growth of our biggest accounts. Team focus continues on granular optimization of supply and demand to grow revenues



# The Big Picture – Mobile Video & Performance



- i. Mobile Video is fastest growing format in the industry today at 65% ([IAB study](#))
- ii. Rewarded video is now widely accepted by developers and publishers, helps leverage advertising in the most non-intrusive way possible
- iii. AdColony's unique position in performance & brand business gives us competitive advantage with publishers to drive better yields and fill rates
- iv. In-app Video continues to be most effective tool for performance advertisers to drive app install and ROI – (Appsflyer Power Rankings in Q1)





# In Sum, Performance Business is in Transformation

Early positive signs in stability of revenue run rate on performance business

- Rewarded video continues to be most valuable channel for performance marketers and app install segment
- With a critical mass of publishers adopting the latest version of the SDK, many of the technical challenges experienced in Q4/Q1 have now passed
- Tighter alignment with product and tech team to support commercial growth efforts and improve business KPIs
- Clear focus on new Business, execution of Supply-First strategy combined with strong demand & supply alignment to drive revenue growth



# Global Brand Business

Jude O'Connor  
General Manager, US Brand

# Results: Brand Advertising

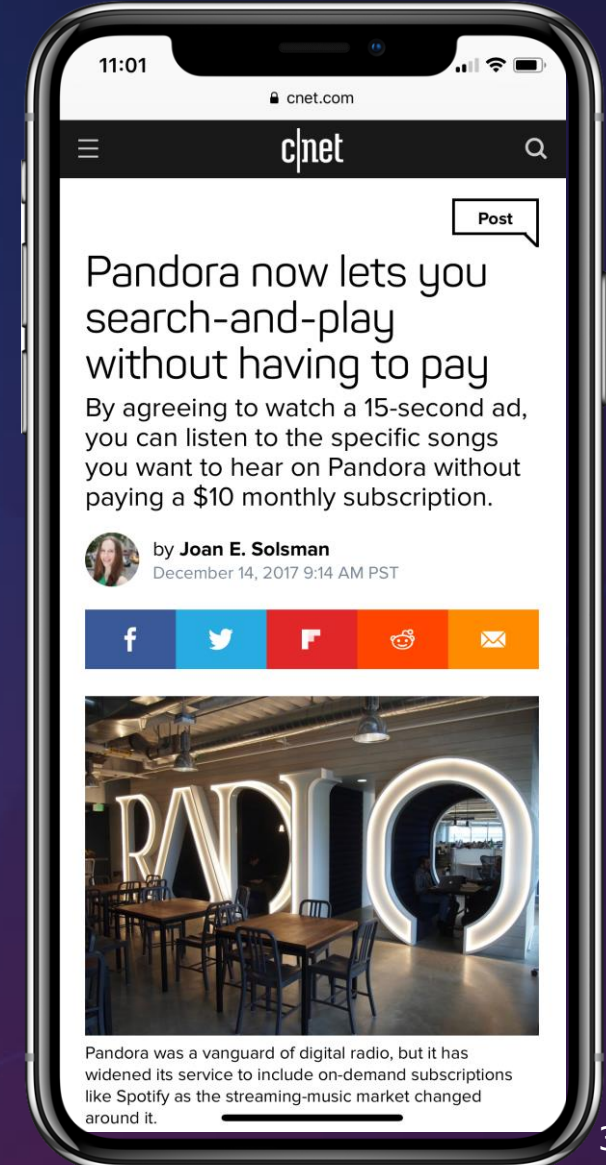
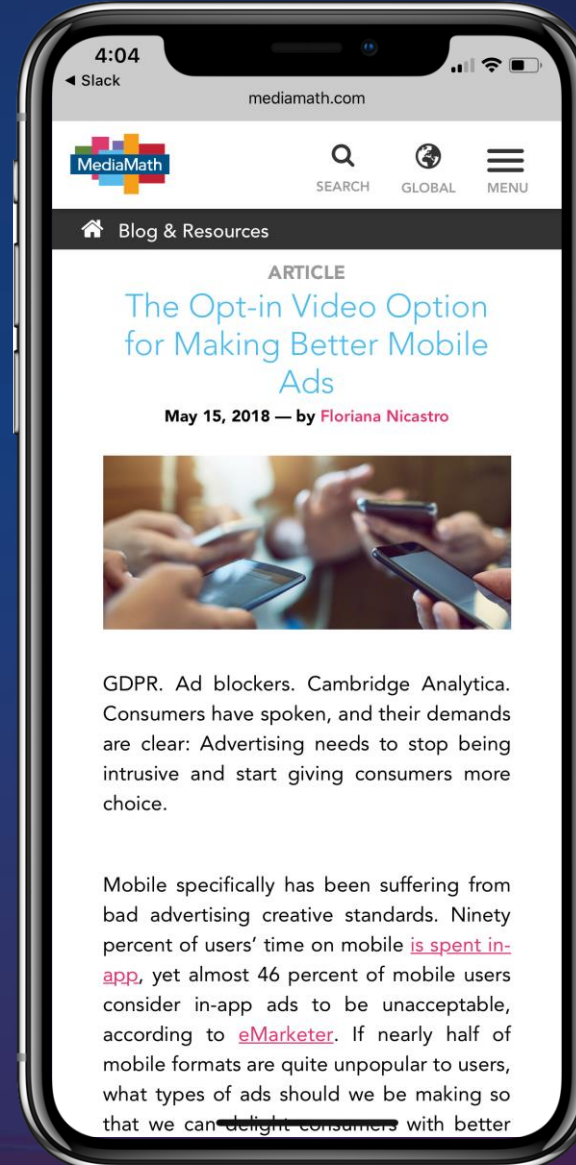
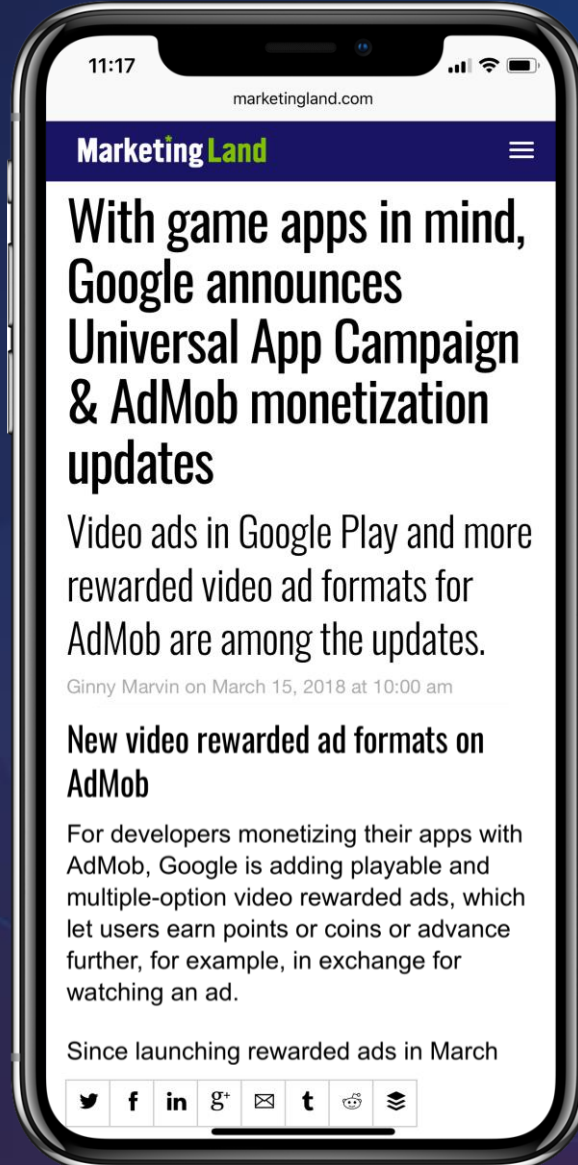
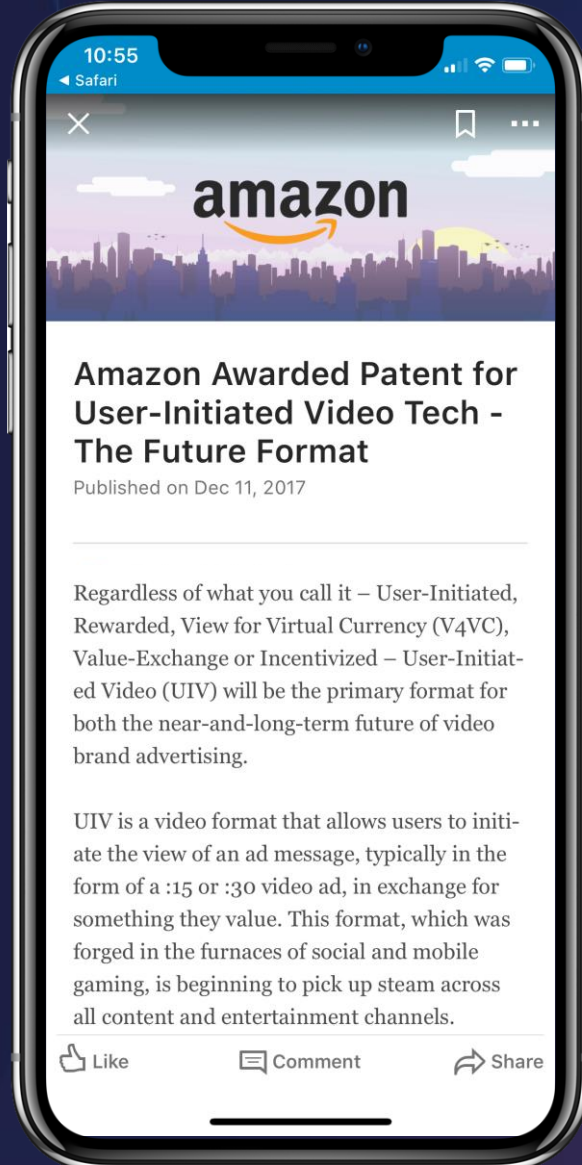


Revenue Source	Q2 2018	Q2 2018 Mix %
Brand (incl. IO and PMP)	\$19.2 <i>(up from \$16.7 in Q1)</i>	58% <i>(up from 55.5% in Q1)</i>
Brand Performance	\$7 <i>(down from \$8.6 in Q1)</i>	21% <i>(down from 28.5% in Q1)</i>
Programmatic Open Marketplace	\$7 <i>(up from \$4.8 in Q1)</i>	21% <i>(up from 16% in Q1)</i>
<b>TOTAL</b>	<b>\$33.2</b> <i>(up from \$30.1 in Q1)</i>	

- Global Brand revenue increased 10% quarter-over-quarter, while gross margin increased from 39% to 43%
- Programmatic revenue accounted for 34.4% of Brand revenue in Q2 vs. 27.5% of Brand revenue in Q1 and still represents our largest opportunity for growth. We have numerous Product and Tech projects in the works to further support and improve our Programmatic offerings
- We are currently at the mid-way point of Q3 and trending toward 5% growth quarter-over-quarter, and Global Brand's 3<sup>rd</sup> consecutive quarter of profitability



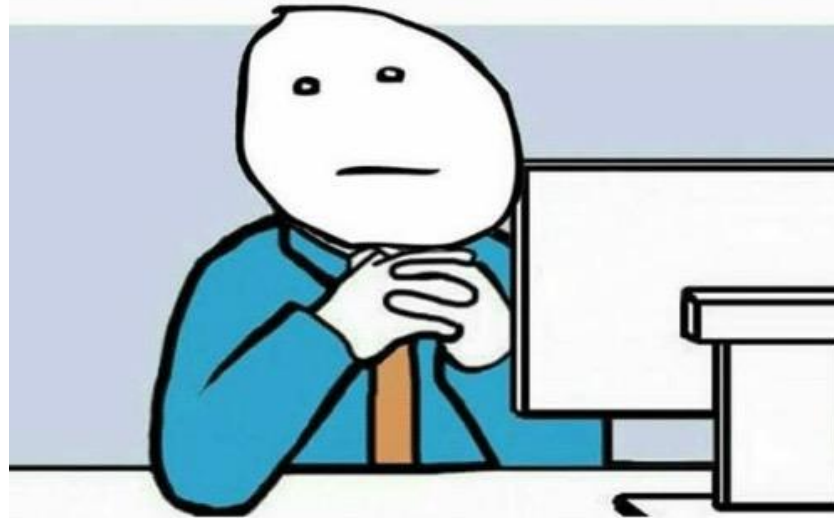
# The industry is recognizing the value of User-Initiated Video



# Consumers prefer User-Initiated Video ads over all others



The longest five seconds in  
anyone's life is ...

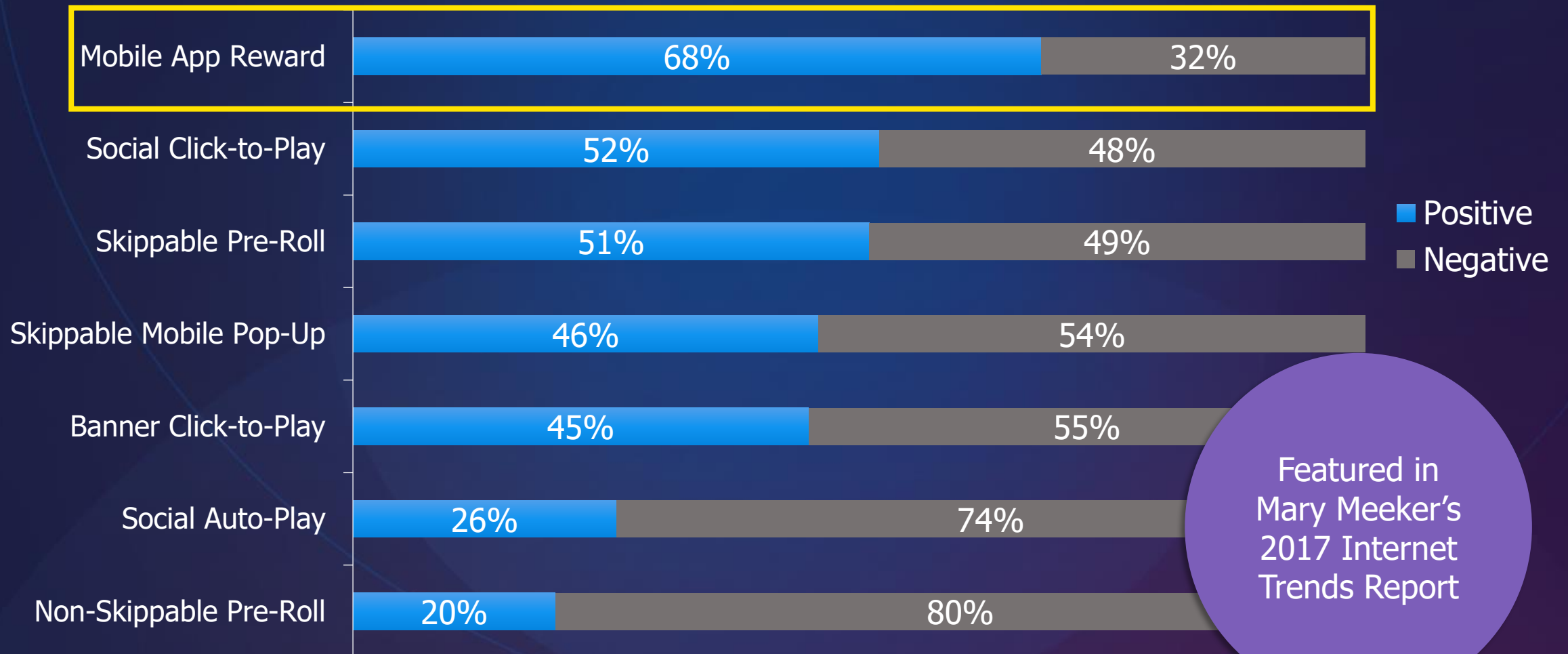


waiting to press the **Skip ad**  
button on YouTube

# Consumers prefer User-Initiated Video ads over all others



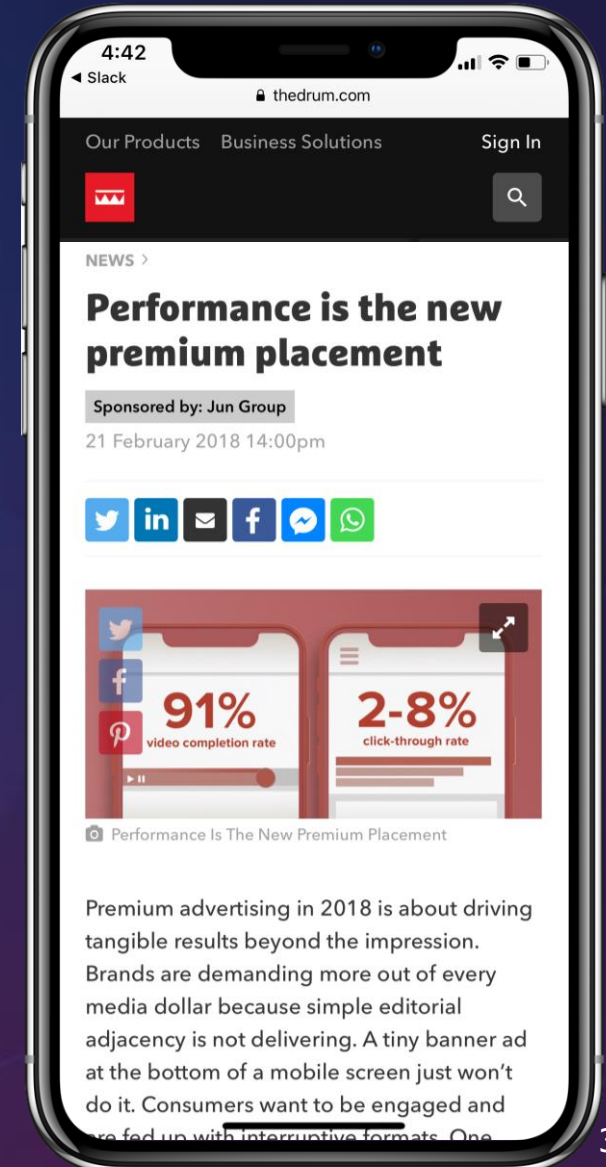
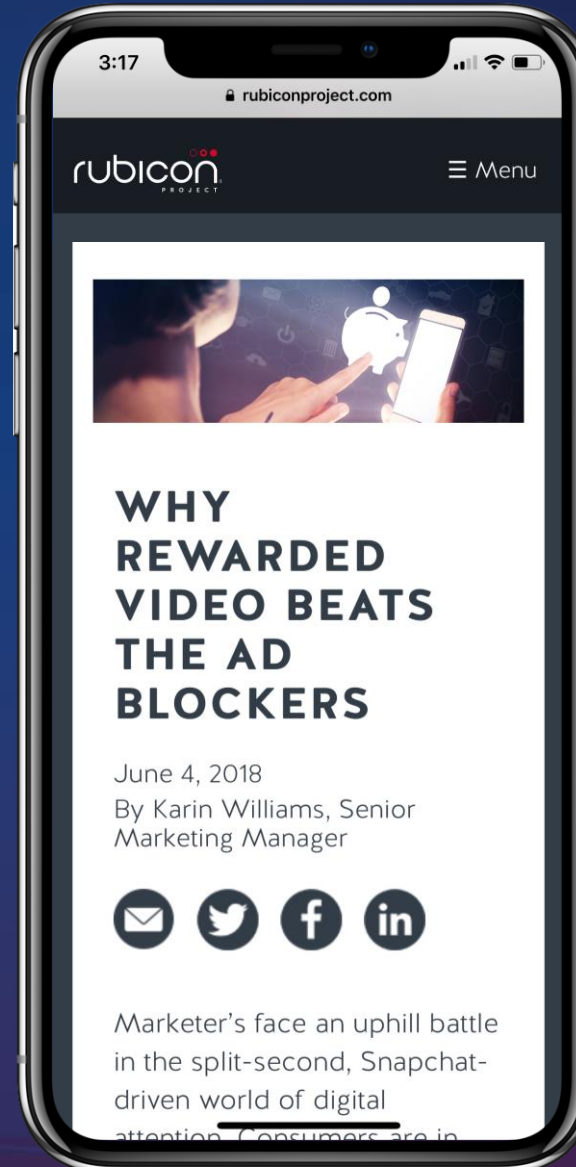
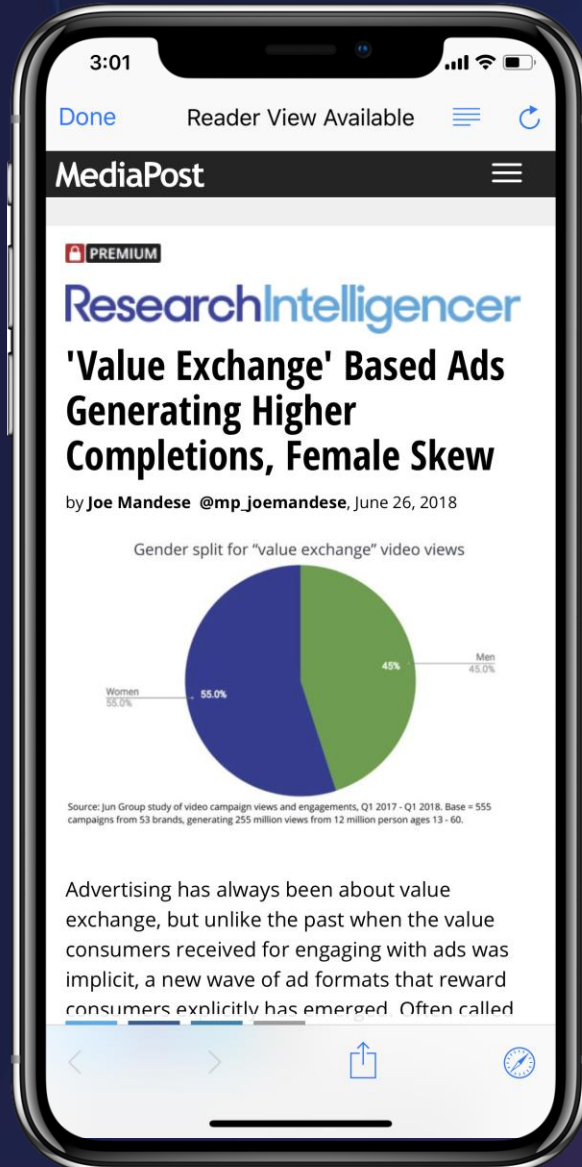
## Consumer attitudes towards various video advertising formats



Source: Mary Meeker 2017 Internet Trends Report



# The line between Brand and Performance is blurring

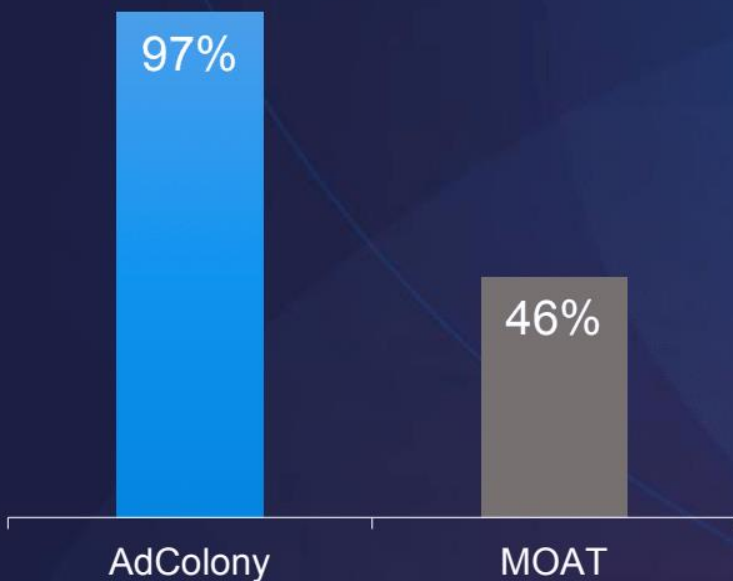


# User-Initiated Video delivers on Brand metrics that matter



## MOAT

Human & Viewable Rate  
Benchmarks

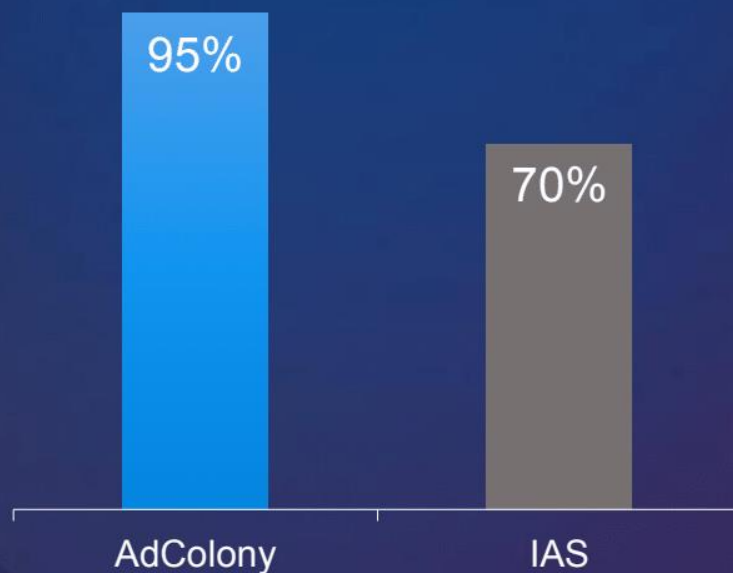


Source: AdColony MOAT Dashboard, February 2018

Source: MOAT Benchmarks, February 2018

## IAS Integral Ad Science

In-View Rate  
Benchmarks:

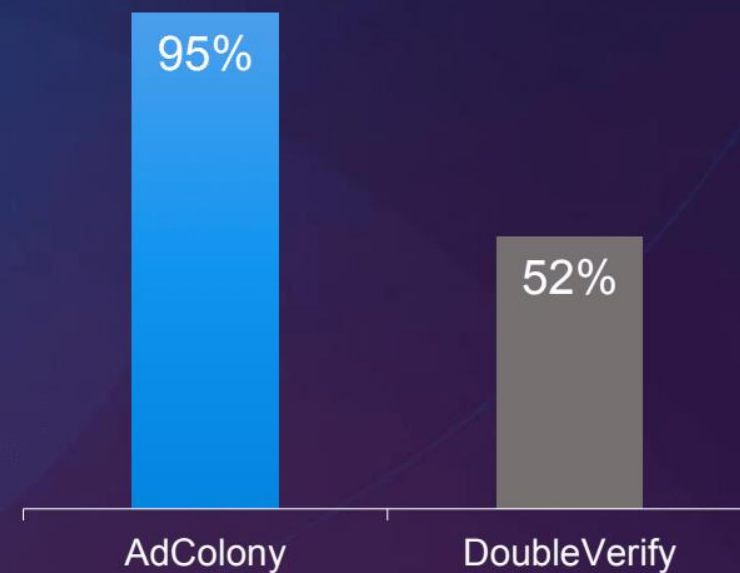


Source: AdColony IAS Dashboard, June 2018

Source: IAS 2H 2018 US Benchmarks, February 2018

## DV DoubleVerify

Authentic Viewable Rate  
Benchmarks



Source: AdColony DoubleVerify Dashboard, August 2018

# Q&A