



Think Media:

Interview: Marin Software Co-Founder And CEO, Christopher Lien

THINK SUMMARY:

We recently had an opportunity to interview Christopher Lien, Co-founder and CEO of Marin Software. The company is a leading provider of enterprise-class paid search management software. Marin, which is focused on marketers who spend at least \$50,000 per month on paid search, appears to be helping to drive significant SEM efficiency and ROI improvement for large search marketers and agencies. Though the company is still small (with single-digit revenue in FY08 expected to quadruple in FY09, according to Mr. Lien), Marin and start-up companies with similar models could drive incremental growth opportunities across the paid search publisher ecosystem, as more advanced software platforms allow marketers to 1) manage more keywords and bid at the keyword level, 2) spend more efficiently across all three leading search engines, and 3) in-source their SEM activities, freeing up agency commissions, which can be parlayed into incremental search spend. We see Marin's SEM software innovations benefiting Google most significantly, and, to a lesser extent, Yahoo!, and Microsoft.

KEY POINTS:

The following is a transcript of our interview with Mr. Lien.

ThinkPanmure (TP): Can you explain the main problem that your business solves and why customers and investors should care about Marin Software?

Christopher Lien (CL): Marin Software's mission is to deliver the leading paid search management application to advertisers and agencies. Marin Search Marketer addresses the end-to-end needs of larger search marketers—workflow, campaign management, analysis, and optimization. For search marketers spending \$50,000 per month and greater, we solve the pain of managing paid search programs across the three leading search engines—Google, Yahoo!, and MSN. Imagine you have to manage 250,000 keywords on three search engines and match daily costs for each keyword on each search engine back to the business event (sale, lead form completion, etc.). Now imagine you want to analyze this performance so that you can understand how your search marketing is performing and then based on that analysis you want to make informed bids on each of those keywords. One quickly arrives at a level of data and detail that is overwhelming and that requires an enterprise-class paid search management application such as ours.

TP: Who is your target customer, and could you share a couple of your key customers?

CL: Our target customer is a search advertiser or agency who spends \$50,000 per month and more on paid search. Our average customer spends in the low six figures per month on paid search, and we have customers who spend well into the seven figures per month on paid search. Our direct customers include Zappos and ZipRealty, and our agency customers include Avenue A | Razorfish and Range Online.

Reason for Report:

Industry Update

William Morrison

415-249-1989,
wmorrison@thinkpanmure.com

Michael Huang

415-249-2923, mhuang@thinkpanmure.com

Atul Bagga

415-249-6362, abagga@thinkpanmure.com

Robert Coolbrith

415-249-6363,
rcoolbrith@thinkpanmure.com



TP: What type of ROI do you deliver? Do your results and algorithms improve the longer you work with a customer?

CL: The ROI we deliver is measured via improved financial performance and time savings. We typically improve financial performance by helping our customers to bid at the keyword level, to bid on all three search engines, and to fully develop their keyword universe. The time savings that our software delivers results from its having been purpose-built for search marketing tasks; for example, automatic URL generation, bulk generation and upload of new keywords, interactive reporting, keyword-level bid optimization, etc. Our patent-pending bidding algorithm uses Bayesian estimation to bid at the keyword level. We don't require 90 days of data burn-in to make informed bids due to the approach that we've taken. Clients very much appreciate that within a day or two, the application is able to begin bidding. As the data history for a given keyword builds, the application applies this additional information with the more recent data more heavily weighted.

TP: Can you give some sense about the size of the addressable market? And how sophisticated is the end-customer in your view, and is it getting easier to sell your solutions?

CL: Paid search was approximately \$12 billion in the U.S. in 2007 and is projected to grow to \$27 billion by 2011. Overseas is another 60% and is growing nearly 25% annually versus the 17% annual rate of growth in the U.S. Our end-customer—larger search advertisers and agencies—is fairly sophisticated in that search has been around for several years and is a proven part of the marketing mix. Selling our application is relatively straightforward in that we target the person who runs the paid search program. We have a clear buyer who has a compelling, unsolved business problem. We are finding it increasingly easier to sell our solution in that as search becomes more important to marketing programs, the need to properly manage paid search via an application also grows.

TP: There's been some concern with the health of the economy and macro headwinds. How are demand trends and customer willingness to spend versus a year ago?

CL: Google is the best proxy for the health of paid search, and they continue to have strong growth. Across our customers and prospects, there is a universal desire to spend more money via paid search consistent with business goals, e.g., margin, cost per lead, cost per customer acquired, etc. We see the same desire to grow spend as we saw a year ago, which is due to the trackability of paid search. A marketer can know what he or she has "bought" for each click, which is simply not true with most other media units.

TP: Help us understand the software technology and your secret sauce. What's the key source of differentiation that is challenging to replicate?

CL: We've tackled a few significant challenges to empower today's search marketer. At its core, each night our application stitches together at the keyword level from the three publishers the cost data with the revenue or conversion data from the customer. Imagine doing this for 500,000 keywords each night, and then calculate new keyword level bids and push those back out to the three publishers before the morning. In addition, we've captured in software, the repetitive tasks that a sophisticated search marketer needs to perform across workflow, analysis, and optimization. We like to say that we have brought together world-class search marketers with similarly-skilled software developers.

TP: Are there any compelling new service offerings or features and functionality that you're working on that we should be paying attention to?

CL: Our product roadmap is informed heavily by our customers and also by our own observations about customers and how they use Marin Search Marketer. As a SaaS application, we typically have major new releases quarterly. As to what is coming out, we don't preview the new features outside of NDA.

TP: Are you SaaS only or are you delivered on premise only? Multi-tenant or single instance?

CL: We are a SaaS multi-tenant architecture application.

TP: What is your sales model? Direct sales? Are there any key partners that you work with?

CL: We have a direct sales model that begins with in-house lead generation, an on-line demo, and then a 30-day full featured free trial. Our key partners are our agency partners. We expect to create a Marin-ecosystem in the coming year of complementary service providers, e.g., e-commerce application providers, analytics providers, etc.

TP: What is your pricing model and the average deal size and term length?

CL: Our pricing is a percentage of monthly search spend, beginning with a 5% tier for up to \$100,000 per month of spend and decreasing to 2% for a search spender at the \$2,000,000/month spend level. Our pricing is month-to-month with no upfront or set-up fees. We have to win our clients each month, which leads to a high-performing software application and sales/support organization. Certain clients have requested longer-term contracts to provide them with a more-predictable cost of ownership, and we have put those in place as well. We seek to be very transparent in our business practices, and



we list our pricing on our Website.

TP: Who are the competitors that you see most often? Who represents the greatest competitive threat?

CL: Our main competitor is Excel and the publisher ad centers. In nearly all of our trials, we are the only application that the prospect is evaluating. Part of that is Marin's ease-of-trial implementation, and part of that is our emerging leadership in the enterprise-class paid search management space. Our biggest competitive threat is our own ability to execute and deliver on our customer promise of an enterprise-class paid search management application. We believe if we do both of these well, then Marin will do well, too.

TP: When you look out over the next couple years, what do you see as the biggest potential challenge for Marin software?

CL: We are experiencing a period of extremely high growth, so our biggest challenges are scaling and executing as we build out our customer base. We like to say that these are high-class challenges, and they certainly make coming into work very exciting for our team.

TP: Could you give us a sense of how big you guys are and how fast you guys are growing? What's the biggest constraint on growth?

CL: We began selling our software in September 2007 and will end 2008 with sales in the single digit millions. In 2009, we expect to more than quadruple our 2008 sales given our 90% or greater customer retention and the recurring subscription service nature of our business model.

TP: Where do you see yourselves when you look out three years from now (public company, part of another platform, etc.)?

CL: Our focus now is on execution and delivering for our customers and trial prospects. Three or more years from now, a sale or being public are both potential options for Marin. But first things, first, as we like to say among our management team—and that is execution.

TEP: Why can't (or hasn't) Google or Yahoo! built a compelling search engine marketing management platform similar to what they've done in the analytics and audience measurement spaces?

CL: I don't know that there is anything that Google, Yahoo!, or MSN couldn't do if they focused on it, so I don't entirely agree with your question. One impediment to a publisher building their own search management application is the desire among customers for a Switzerland-like provider where the customer can store his/her revenue and cost data from all three publishers. Each of Google, Yahoo!, and MSN has built compelling point tools to help to better manage search, e.g., Google AdWords Editor, but they also need to build tools for the entire market instead of just focusing on the needs of their largest advertisers (as Marin has chosen to do). Marin helps advertisers and agencies to spend more money on paid search, so we enjoy good relations with the search publishers. Each of them has been supportive of our efforts.

TEP: What are the biggest challenges that your customers are facing in today's environment?

CL: It's a common theme in on-line marketing—using data to drive business decisions. We find in search that without a search management application, customers are buried in spreadsheets and drowning in data. So much so, that doing any meaningful analysis to then drive business decisions is very time consuming if not impossible.

TEP: Would you prefer to see the market continue to shift in Google's favor or would you like to see a strong #2 player in the market?

CL: Typically, markets are better served when there are two or more vibrant competitors, but Marin can continue to thrive in an ever more Google-centric world. Clearly, such a world lowers the value of cross-publisher analysis, but Marin offers much other functionality that customers value highly—change history logs, bid optimization, keyword and URL generation, detailed analysis, etc.

TEP: What is your opinion about the prospect of a Microsoft/Yahoo! merger? Would it be good for your clients and/or Marin?

CL: We believe that Microsoft ultimately acquires Yahoo!, as the business logic is too compelling to ignore. But who really knows given personalities clearly have come into play. In general, search advertisers would like a stronger #2 to Google, which is what a combined Microsoft/Yahoo! would provide. At Marin, we believe regardless of the number of publishers, we can provide compelling application value to large search advertisers and agencies.

TP: Which of the big three search players delivers the best ROI for your customers? Google? Microsoft? Or Yahoo!?

CL: ROI by publisher truly varies for each customer. Google is clearly the volume leader, with Yahoo! second, and MSN third, which is a function of search query market share and query monetization. If customers could only have one publisher,



nearly all would pick Google.

TP: What is the size of your addressable customer market? You've said that you target companies that spend more than \$50,000/month on search. How many companies are there spending above that level according to your research?

CL: Search is the most-trackable of all media channels, and yet the industry does not publish much in the way of advertiser counts. Our own research, which we have run by each of Google, Yahoo!, and MSN, leads us to believe that there are over 100,000 advertisers who spend \$50,000 and up on paid search in the U.S. What the precise numbers are, only a committee of those three could reveal. And as I mentioned earlier, overseas is another 60%, with the U.K., France, and Germany the next three largest near-term search markets. Medium-term, Asia, driven by China, Japan, and Korea, will become larger than Europe.

TP: There are a number of start-up companies that are trying to make display advertising more like search. Could you ever see Marin get into the CPA/CPC display advertising market over time?

CL: Marin's technology and our application have been focused on search, but our ability to match cost and revenue data from disparate sources to then power workflow, analysis, and optimization doesn't need to be limited to search. We're focused for now on executing on the paid search management application opportunity (which as I mentioned earlier is a very large one), but some day we could move into other media units using our current architecture. Each year, marketers are demanding more and more data to improve the ability to track the ROI of their marketing spend. As more data is exposed, then we are back to that earlier problem of how does one make sense of the data to drive decisions. So we'll see if we move into other media units, but it wouldn't be for some period of time given the opportunity that we have in paid search. Thanks very much for this opportunity to discuss the paid search market, Marin Software and Marin Search Marketer.



COMPANIES MENTIONED IN THIS REPORT:

Company	Exchange	Symbol	Price	Rating	Price Target
Google, Inc.	NASDAQ	GOOG	\$450.26	Acc	\$550.00
Yahoo!	NASDAQ	YHOO	\$17.75	Sell	\$18.00

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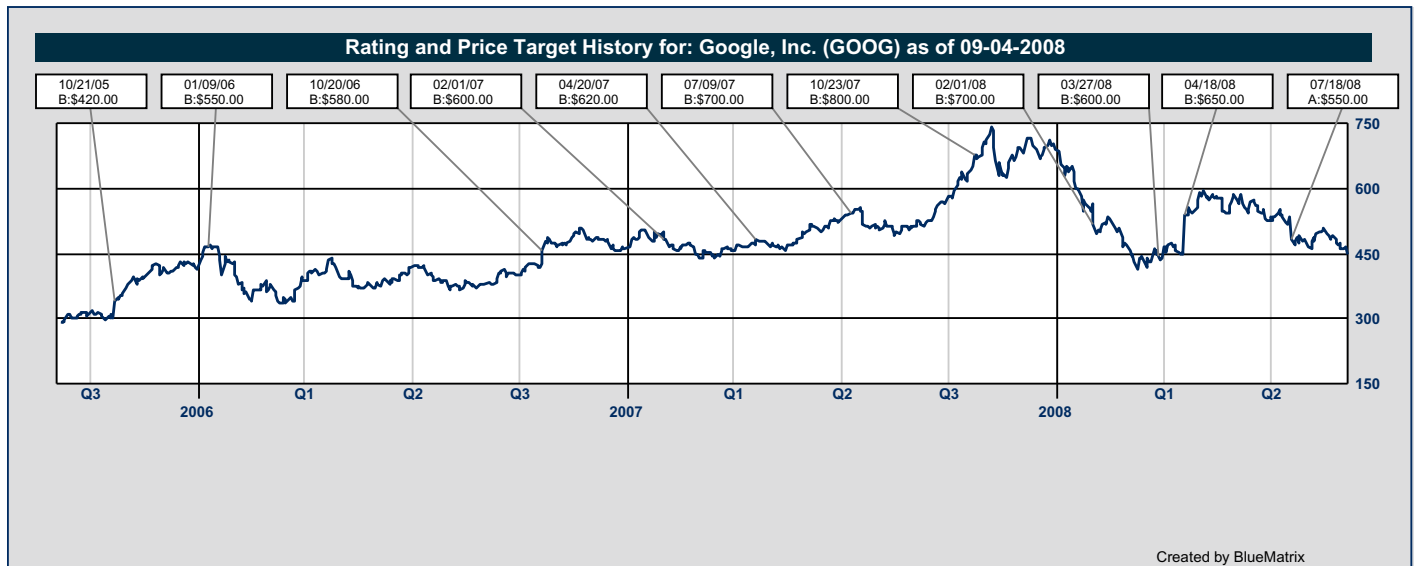
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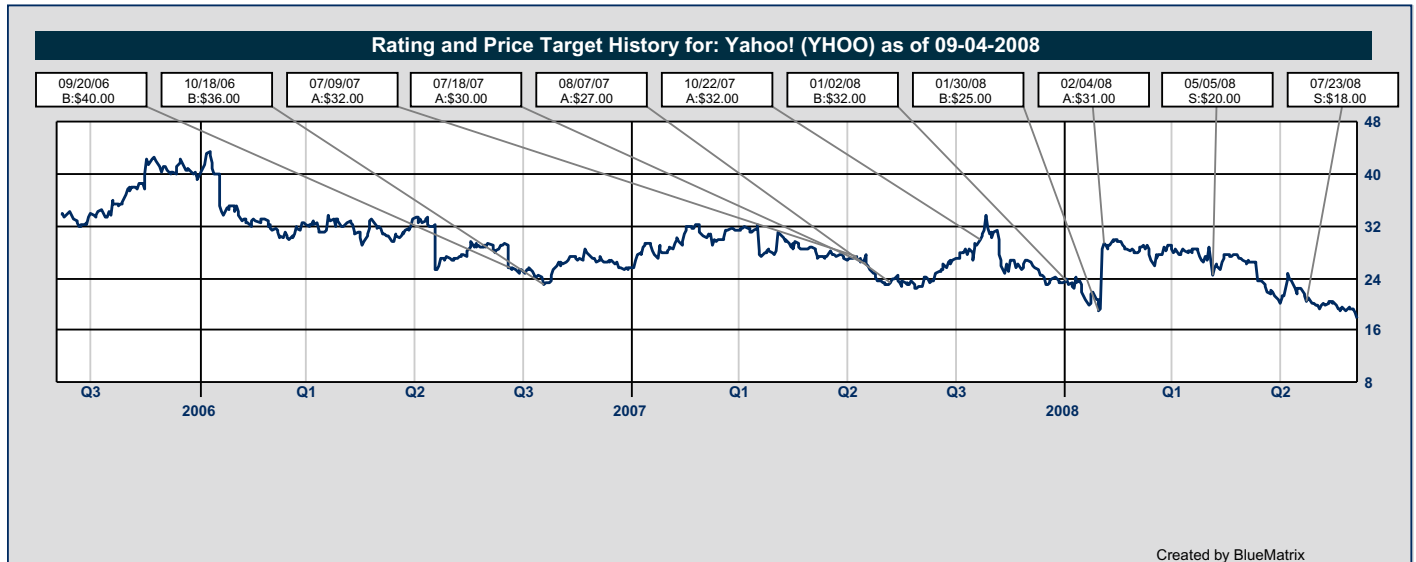
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HOLD [Acc]	65	28.14	5	7.69
SELL [S/SoF]	28	12.12	0	0.00

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