



QuinStreet Reports Second Quarter Fiscal Year 2018 Financial Results

January 31, 2018

- **Reports revenue growth of 33% year-over-year**
- **Continues margin progress; delivers adjusted EBITDA of 8%**
- **Raises full fiscal year 2018 revenue outlook to 20% growth**

FOSTER CITY, Calif., Jan. 31, 2018 (GLOBE NEWSWIRE) -- QuinStreet, Inc. (Nasdaq:QNST), a leader in performance marketing products and technologies, today announced financial results for the second fiscal quarter ended December 31, 2017.

For the second quarter, the Company reported revenue of \$87.5 million, an increase of 33% year-over-year, and GAAP net income of \$1.9 million, or \$0.04 per share. Adjusted net income for the second quarter was \$3.7 million, or \$0.07 per share, and adjusted EBITDA was \$6.6 million, or 8% of revenue.

The Company generated \$7.3 million in operating cash flow and \$5.6 million in normalized free cash flow in the second quarter and closed the period with \$42.4 million in cash and no debt. During the quarter, the Company acquired the auto insurance, home insurance, mortgage, and technology assets of Katch, LLC, an online performance marketing company, for \$14 million in cash.

"Results were strong again in the second quarter. Revenue was up 33% year-over-year, and adjusted EBITDA margin was 8%," commented Doug Valenti, QuinStreet CEO. "Momentum in our business continues to be propelled by the roll-out and execution of the product and media strategies developed over the past few years, and by clients shifting more spending to digital media and performance marketing."

"We expect these general themes to continue. We are raising our revenue growth outlook for the full fiscal year to approximately 20%, with adjusted EBITDA margin of about 8%," concluded Valenti.

Reconciliations of adjusted net income to GAAP net income, adjusted EBITDA to GAAP net income and normalized free cash flow to net cash provided by operating activities are included in the accompanying tables.

Conference Call Today at 2:00 P.M. PT

The Company will host a conference call and corresponding live webcast at 2:00 P.M. PT today. To access the conference call, dial +1 (888) 271.8595 or +1 (719) 457.2615 for international callers. The webcast will be available live on the investor relations section of the Company's website at <http://investor.quinstreet.com> and via replay beginning approximately two hours after the completion of the call by registering online at <https://event.mymeetingroom.com>. The conference call replay will be available through Wednesday, February 7, 2018 at 4:30 P.M. PT.

Non-GAAP Financial Measures

This release and the accompanying tables include a discussion of adjusted EBITDA, adjusted net income, adjusted diluted net income per share, free cash flow and normalized free cash flow, all of which are non-GAAP financial measures that are provided as a complement to results provided in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The term "adjusted EBITDA" refers to a financial measure that we define as net income (loss) less provision for (benefit from) taxes, depreciation expense, amortization expense, stock-based compensation expense, interest and other (income) expense, net, restructuring expense, external expenses related to the material weakness disclosed in our Annual Report on Form 10-K, and acquisition related expense. The term "adjusted net income" refers to a financial measure that we define as net income (loss) adjusted for amortization expense, stock-based compensation expense, restructuring expense, external expenses related to the material weakness disclosed in our Annual Report on Form 10-K, and acquisition related expense, net of estimated taxes calculated based on the estimated annual statutory tax rate. Due to the effects of our deferred tax asset valuation allowance and our historical net operating losses, our annual effective tax rate is not meaningful as our income tax amounts for each period are not directly correlated to the amount of income or losses before income taxes for such period. The term "adjusted diluted net income per share" refers to a financial measure that we define as adjusted net income (loss) divided by weighted average diluted shares outstanding. The term "free cash flow" refers to a financial measure that we define as net cash provided by operating activities, less capital expenditures and internal software development costs. The term "normalized free cash flow" refers to free cash flow less changes in operating assets and liabilities. These non-GAAP measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP results. In addition, our definition of adjusted EBITDA, adjusted net income, adjusted diluted net income per share, free cash flow and normalized free cash flow may not be comparable to the definitions as reported by other companies.

We believe adjusted EBITDA, adjusted net income and adjusted diluted net income per share are relevant and useful information because they provide us and investors with additional measurements to analyze the Company's operating performance.

Adjusted EBITDA is useful to us and investors because (i) we seek to manage our business to a level of adjusted EBITDA as a percentage of net revenue, (ii) it is used internally by us for planning purposes, including preparation of internal budgets; to allocate resources; to evaluate the effectiveness of operational strategies and capital expenditures as well as the capacity to service debt, (iii) it is a key basis upon which we assess our operating performance, (iv) it is one of the primary metrics investors use in evaluating Internet marketing companies, (v) it is a factor in determining compensation, and (vi) it is an element of certain financial covenants under our historical borrowing arrangements. In addition, we believe adjusted EBITDA and similar measures are widely used by investors, securities analysts, ratings agencies and other interested parties in our industry as a measure of financial performance, debt-service capabilities and as a metric for analyzing company valuations.

We use adjusted EBITDA as a key performance measure because we believe it facilitates operating performance comparisons from period to period by excluding potential differences caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or fluctuations in permanent differences or discrete quarterly items), non-recurring charges, certain other items that we do not believe are indicative of core operating activities (such as restructuring expense, external expenses related to the material weakness disclosed in our Annual Report on Form 10-K, acquisition related expense, and other income and expense) and the non-cash impact of depreciation expense, amortization expense and stock-based compensation expense.

Adjusted net income and adjusted diluted net income per share are useful to us and investors because they present an additional measurement of our financial performance, taking into account depreciation, which we believe is an ongoing cost of doing business, but excluding the impact of certain non-cash expenses (stock-based compensation and amortization of intangible assets), non-recurring charges and certain other items that we do not believe are indicative of core operating activities. We believe that analysts and investors use adjusted net income and adjusted diluted net income per share as supplemental measures to evaluate the overall operating performance of companies in our industry.

Free cash flow is useful to investors and us because it represents the cash that our business generates from operations, before taking into account cash movements that are non-operational, and is a metric commonly used in our industry to understand the underlying cash generating capacity of a company's financial model. Normalized free cash flow is useful as it removes the fluctuations in operating assets and liabilities that occur in any given quarter due to the timing of payments and therefore helps investors understand the underlying cash flow of the business as a quarterly metric and the cash flow generation potential of the business model. We believe that analysts and investors use free cash flow multiples as a metric for analyzing company valuations in our industry.

We intend to provide these non-GAAP financial measures as part of our future earnings discussions and, therefore, the inclusion of these non-GAAP financial measures will provide consistency in our financial reporting. A reconciliation of these non-GAAP measures to GAAP is provided in the accompanying tables.

Legal Notice Regarding Forward Looking Statements

This press release and its attachments contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 that involve risks and uncertainties. Words such as "estimate", "will", "believe", "intend", "potential" and similar expressions are intended to identify forward-looking statements. These forward-looking statements include the statements in quotations from management in this press release, as well as any statements regarding the Company's anticipated financial results, growth, strategic and operational plans and results of analyses on impairment charges. The Company's actual results may differ materially from those anticipated in these forward-looking statements. Factors that may contribute to such differences include, but are not limited to: the impact of changes in industry standards and government regulation including, but not limited to investigation or enforcement activities of the Department of Education, the Federal Trade Commission and other regulatory agencies; the Company's ability to maintain and increase client marketing spend; the Company's ability to maintain and increase the number of visitors to its websites and to convert those visitors and those to its third-party publishers' websites into client prospects in a cost-effective manner; the impact of the current economic climate on the Company's business; the Company's ability to access and monetize Internet users on mobile devices; the Company's ability to attract and retain qualified executives and employees; the Company's ability to compete effectively against others in the online marketing and media industry both for client budget and access to third-party media; the Company's ability to identify and manage acquisitions; and the impact and costs of any alleged failure by the Company to comply with government regulations and industry standards. More information about potential factors that could affect the Company's business and financial results are contained in the Company's annual report on Form 10-K and quarterly reports on Form 10-Q as filed with the Securities and Exchange Commission ("SEC"). Additional information will also be set forth in the Company's quarterly report on Form 10-Q for the quarter ended December 31, 2017, which will be filed with the SEC. The Company does not intend and undertakes no duty to release publicly any updates or revisions to any forward-looking statements contained herein.

About QuinStreet

QuinStreet, Inc. (Nasdaq:QNST) is one of the largest Internet performance marketing and media companies in the world. QuinStreet is committed to providing consumers and businesses with the information they need to research, find and select the products, services and brands that meet their needs. For more information, please visit www.QuinStreet.com.

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QUINSTREET, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (In thousands) (Unaudited)

	December 31, 2017	June 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 42,406	\$ 49,571
Accounts receivable, net	48,717	44,059
Prepaid expenses and other assets	6,798	6,225
Total current assets	97,921	99,855

Property and equipment, net	4,687	5,613
Goodwill	62,283	56,118
Other intangible assets, net	10,243	4,105
Other assets, noncurrent	8,138	8,617
Total assets	<u>\$ 183,272</u>	<u>\$ 174,308</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 25,381	\$ 25,205
Accrued liabilities	29,768	26,223
Deferred revenue	730	1,126
Total current liabilities	<u>55,879</u>	<u>52,554</u>
Other liabilities, noncurrent	<u>2,486</u>	<u>3,672</u>
Total liabilities	<u>58,365</u>	<u>56,226</u>
Stockholders' equity:		
Common stock	46	45
Additional paid-in capital	266,982	263,533
Accumulated other comprehensive loss	(480)	(463)
Accumulated deficit	<u>(141,641)</u>	<u>(145,033)</u>
Total stockholders' equity	<u>124,907</u>	<u>118,082</u>
Total liabilities and stockholders' equity	<u>\$ 183,272</u>	<u>\$ 174,308</u>

QUINSTREET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net revenue	\$ 87,494	\$ 65,610	\$ 174,912	\$ 139,048
Cost of revenue ⁽¹⁾	<u>75,239</u>	<u>61,657</u>	<u>151,179</u>	<u>129,465</u>
Gross profit	12,255	3,953	23,733	9,583
Operating expenses: ⁽¹⁾				
Product development	3,475	3,314	6,689	7,268
Sales and marketing	2,597	2,168	5,044	4,758
General and administrative	4,511	3,794	8,971	7,825
Restructuring charges	—	2,403	—	2,403
Operating income (loss)	<u>1,672</u>	<u>(7,726)</u>	<u>3,029</u>	<u>(12,671)</u>
Interest income	36	36	73	57
Interest expense	—	(135)	—	(291)
Other income (expense), net	<u>243</u>	<u>(25)</u>	<u>286</u>	<u>110</u>
Income (loss) before taxes	1,951	(7,850)	3,388	(12,795)
(Provision for) benefit from taxes	<u>(4)</u>	<u>—</u>	<u>4</u>	<u>1,376</u>
Net income (loss)	<u>\$ 1,947</u>	<u>\$ (7,850)</u>	<u>\$ 3,392</u>	<u>\$ (11,419)</u>
Net income (loss) per share:				
Basic	<u>\$ 0.04</u>	<u>\$ (0.17)</u>	<u>\$ 0.07</u>	<u>\$ (0.25)</u>
Diluted	<u>\$ 0.04</u>	<u>\$ (0.17)</u>	<u>\$ 0.07</u>	<u>\$ (0.25)</u>

Weighted average shares used in computing net income (loss) per share:

Basic	45,974	45,731	45,776	45,700
Diluted	49,614	45,731	48,172	45,700

(1) Cost of revenue and operating expenses include stock-based compensation expense as follows:

Cost of revenue	\$	1,001	\$	728	\$	1,926	\$	1,699
Product development		484		471		960		1,007
Sales and marketing		306		220		605		577
General and administrative		772		681		1,509		1,424
Restructuring charges		—		42		—		42

QUINSTREET, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Cash Flows from Operating Activities				
Net income (loss)	\$ 1,947	\$ (7,850)	\$ 3,392	\$ (11,419)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	1,810	2,950	4,071	6,323
Provision for sales returns and doubtful accounts receivable	102	116	241	211
Stock-based compensation	2,563	2,142	5,000	4,749
Other adjustments, net	(272)	9	(272)	(147)
Changes in assets and liabilities:				
Accounts receivable	76	3,069	(4,899)	5,889
Prepaid expenses and other assets	668	1,134	(44)	560
Accounts payable	(2,106)	(49)	169	627
Accrued liabilities	3,658	(719)	3,543	(4,502)
Deferred revenue	(104)	212	(396)	49
Other liabilities, noncurrent	(1,047)	(131)	(1,186)	(250)
Net cash provided by operating activities	7,295	883	9,619	2,090
Cash Flows from Investing Activities				
Capital expenditures	(75)	(203)	(199)	(604)
Business acquisitions	(14,154)	—	(14,154)	—
Internal software development costs	(518)	(487)	(1,061)	(1,182)
Other investing activities	224	(44)	224	46
Net cash used in investing activities	(14,523)	(734)	(15,190)	(1,740)
Cash Flows from Financing Activities				
Proceeds from exercise of common stock options	898	—	898	—
Withholding taxes related to release of restricted stock, net of share settlement	(1,109)	(189)	(1,835)	(536)
Repurchases of common stock	(522)	(1,043)	(647)	(1,043)
Repayment of revolving loan facility	—	(15,000)	—	(15,000)
Net cash used in financing activities	(733)	(16,232)	(1,584)	(16,579)
Effect of exchange rate changes on cash and cash equivalents	—	13	(10)	15
Net decrease in cash and cash equivalents	(7,961)	(16,070)	(7,165)	(16,214)
Cash and cash equivalents at beginning of period	50,367	53,566	49,571	53,710

Cash and cash equivalents at end of period

\$ 42,406 \$ 37,496 \$ 42,406 \$ 37,496

QUINSTREET, INC.
RECONCILIATION OF NET INCOME (LOSS) TO
ADJUSTED NET INCOME (LOSS)
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Net income (loss)	\$ 1,947	\$ (7,850)	\$ 3,392	\$ (11,419)
Amortization of intangible assets	717	1,691	1,851	3,639
Stock-based compensation	2,563	2,100	5,000	4,707
Material weakness related expense	—	—	528	—
Acquisition costs	524	—	524	—
Restructuring	—	2,403	—	2,403
Tax impact after non-GAAP items	(2,070)	—	(4,066)	—
Adjusted net income (loss)	<u>\$ 3,681</u>	<u>\$ (1,656)</u>	<u>\$ 7,229</u>	<u>\$ (670)</u>
Adjusted diluted net income (loss) per share	<u>\$ 0.07</u>	<u>\$ (0.04)</u>	<u>\$ 0.15</u>	<u>\$ (0.01)</u>
Weighted average shares used in computing adjusted diluted net income (loss) per share	49,614	45,731	48,172	45,700

QUINSTREET, INC.
RECONCILIATION OF NET INCOME (LOSS) TO
ADJUSTED EBITDA
(In thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Net income (loss)	\$ 1,947	\$ (7,850)	\$ 3,392	\$ (11,419)
Interest and other (income) expense, net	(279)	124	(359)	124
Provision for (benefit from) taxes	4	—	(4)	(1,376)
Depreciation and amortization	1,810	2,950	4,071	6,323
Stock-based compensation	2,563	2,100	5,000	4,707
Material weakness related expense	—	—	528	—
Acquisition costs	524	—	524	—
Restructuring	—	2,403	—	2,403
Adjusted EBITDA	<u>\$ 6,569</u>	<u>\$ (273)</u>	<u>\$ 13,152</u>	<u>\$ 762</u>

QUINSTREET, INC.
RECONCILIATION OF NET CASH PROVIDED BY
OPERATING ACTIVITIES TO FREE CASH FLOW
AND NORMALIZED FREE CASH FLOW
(In thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Net cash provided by operating activities	\$ 7,295	\$ 883	\$ 9,619	\$ 2,090
Capital expenditures	(75)	(203)	(199)	(604)
Internal software development costs	(518)	(487)	(1,061)	(1,182)
Free cash flow	\$ 6,702	\$ 193	\$ 8,359	\$ 304
Changes in operating assets and liabilities	(1,145)	(3,516)	2,813	(2,373)
Normalized free cash flow	\$ 5,557	\$ (3,323)	\$ 11,172	\$ (2,069)

Source: QuinStreet, Inc.