

Q4 & FY 2016 Earnings Call

February 21, 2017

Important Information

- This presentation contains forward-looking statements within the meaning of the U.S. federal securities laws that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, our results may differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact could be deemed forward-looking, including, without limitation, statements regarding: predictions for future growth, our possible or assumed future results of operations; estimates of service revenue opportunity under management and annual contract value; our ability to improve our customers' renewal rates, margins and profitability; our ability to increase our revenue and contribution margin over time from new and existing customers; business strategies; technology and product development; competitive position; the effects of competition; third party and company estimates of market sizes; our long term business model; economic, industry and market trends; potential growth vectors and opportunities; comparative models; and statements about partnerships or acquisitions.
- Typically, these statements contain words such as "if," "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "opportunity" and similar expressions.
- You are cautioned that the forward-looking statements in this presentation are based on estimates and information available to us at the time of this presentation. These statements are subject to risks and uncertainties that could cause actual results and events to differ materially and are not guarantees of future performance. We undertake no obligation, and do not currently intend to update the forward-looking statements to reflect subsequent events or circumstances. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in our periodic reports and registration statements filed with the Securities and Exchange Commission, which can be accessed at <http://www.sec.gov>.
- This presentation refers to certain non-GAAP financial metrics. See the GAAP to non-GAAP reconciliation tables contained herein and our earnings release posted on the Investor Relations portion of the ServiceSource website for a reconciliation of the non-GAAP metrics to the closest GAAP financial measures.

Q4'16 Non-GAAP Operating Expenses*

Non-GAAP

In \$ millions except EPS	Q4 2016	Q4 2015
Cost of Revenue	39.8	38.5
<i>% of Revenue</i>	58%	59%
Sales & Marketing	10.3	11.3
<i>% of revenue</i>	15%	17%
Research & Development	2.0	3.3
<i>% of revenue</i>	3%	5%
General & Administration	12.6	11.3
<i>% of revenue</i>	18%	17%
Total Expenses	64.8	64.4
<i>% of revenue</i>	94%	99%
Adjusted EBITDA	\$ 5.7	\$ 2.3
<i>% of revenue</i>	8%	3%
Non-GAAP Net Income / (Loss)	1.7	0.3
Non-GAAP EPS	0.02	0.00
Shares used in calculating basic net loss	87.5	86.3

* Financials are **Non-GAAP** and exclude, where appropriate, stock-based compensation expense, amortization of internally developed software and purchased intangibles, litigation reserve, impairment of cost basis equity investment, the Scout revenue haircut and non-cash expenses relating to the convertible note.

Q1'17 Guidance – Key Metrics*

<i>In \$ millions except EPS</i>	Q1 Low		Q1 High	
Revenue Range	\$	55.0	\$	58.0
<i>y/y growth</i>		-8%		-3%
Gross Margin		31%		34%
Operating Expense (% of revenue)		40%		40%
Adjusted EBITDA		(4.0)		(1.0)
Non-GAAP Net Income (Loss)		(3.5)		(1.5)
Non-GAAP EPS		(0.04)		(0.02)
Free Cash Flow	\$	(7.0)	\$	(4.0)

* Financials are **Non-GAAP** and exclude, where appropriate, stock-based compensation expense, amortization of internally developed software and purchased intangibles and non-cash expenses relating to the convertible note.

FY'17 Guidance – Key Metrics*

<i>In \$ millions except EPS</i>	FY Low		FY High	
Revenue Range	\$	248.0	\$	258.0
<i>y/y growth</i>		-2%		2%
Gross Margin		38%		40%
Operating Expense (% of revenue)		37%		38%
Adjusted EBITDA		11.0		15.0
Non-GAAP Net Income (Loss)		2.0		5.0
Non-GAAP EPS		0.02		0.06
Free Cash Flow	\$	(12.0)	\$	(8.0)

* Financials are **Non-GAAP** and exclude, where appropriate, stock-based compensation expense, acquisition related costs, amortization of internally developed software and purchased intangibles, litigation reserve, impairment of cost basis equity investment, the Scout revenue haircut and non-cash expenses relating to the convertible note.

Q1'17 GAAP to non-GAAP Reconciliation Tables

Q1'17 GAAP to Non GAAP – Gross Margin

GROSS MARGIN - GAAP TO NON-GAAP RECONCILIATION

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2017
(In thousands)	
(Unaudited)	
GAAP Gross Profit	\$14,400 - \$17,000
Non-GAAP adjustments:	
Stock-based compensation (A)	400
Amortization of internally-developed software (B)	2,000
Amortization of purchased intangible assets (C)	300
Non-GAAP Gross Profit	<u>\$17,100 - \$19,700</u>
GAAP Gross Margin	<u>26% - 29%</u>
Non-GAAP adjustments:	
Stock-based compensation (A)	1%
Amortization of internally-developed software (B)	3%
Amortization of purchased intangible assets (C)	1%
Non-GAAP Gross Margin	<u>31% - 34%</u>
<i>Certain totals may not add due to rounding</i>	

Q1'17 GAAP to Non GAAP – Net Loss & EPS

GAAP to Non-GAAP Reconciliation

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31, 2017	(Unaudited)	Three Months Ended March 31, 2017
(In thousands) (Unaudited)			
GAAP net loss	(\$14,500) - (\$11,500)	GAAP basic net loss per share	(\$0.16) - (\$0.13)
Non-GAAP adjustments:		Non-GAAP adjustments:	
Stock-based compensation	(A) 3,500	Stock-based compensation	(A) 0.04
Amortization of internally-developed software	(B) 2,300	Amortization of internally-developed software	(B) 0.03
Amortization of purchased intangible assets	(C) 400	Amortization of purchased intangible assets	(C) 0.00
Non-cash interest expense	(D) 2,300	Non-cash interest expense	(D) 0.03
Income tax effect on non-GAAP adjustments and impact of normalizing the effective income tax rate	(E) \$2,500 - \$1,500	Income tax effect on non-GAAP adjustments and impact of normalizing the effective income tax rate	(E) \$0.03 - \$0.02
Non-GAAP net loss	(\$3,500) - (\$1,500)	Non-GAAP basic net income per share	(F) <u>(\$0.04) - (\$0.02)</u>
		<i>Certain totals may not add due to rounding</i>	
		Shares used in calculating basic net loss per share on a non-GAAP basis	<u>88,400</u>

Q1'17 Net Loss to EBITDA

Reconciliation of Net Loss to Adjusted EBITDA

(In thousands)

(Unaudited)

(In thousands)

(Unaudited)

Three Months

Ended

March 31,

2017

Net loss range	(\$14,500) - (\$11,500)
Income tax (benefit) provision	(400)
Interest & other expense, net	2,800
Depreciation & Amortization	4,600
EBITDA range	(\$7,500) - (\$4,500)
Stock-based compensation	3,500
Adjustments to revenues	-
Adjusted EBITDA range	(\$4,000) - (\$1,000)

Q1'17 Cash Flow from Operations to Free Cash Flow

ServiceSource International, Inc.
Supplemental Cash Flow Information
Free cash flow analysis, a non-GAAP measure
(in thousands)

	Three Months Ended March 31, 2017
(In thousands)	
(Unaudited)	
Non-GAAP net cash provided by operating activities	(\$2,500) - \$500
Less:	
Capital expenditures	\$4,500
FX adjustment	-
Free cash flow	<u>(\$7,000) - (\$4,000)</u>

FY'17 GAAP to non-GAAP Reconciliation Tables

FY'17 GAAP to Non GAAP – Gross Margin

GROSS MARGIN - GAAP TO NON-GAAP RECONCILIATION

(In thousands)

(Unaudited)

(In thousands)		Twelve Months Ended
(Unaudited)		December 31,
		2017
GAAP Gross Profit		\$79,200 - \$88,200
Non-GAAP adjustments:		
Stock-based compensation	(A)	2,100
Amortization of internally-developed software	(B)	11,400
Amortization of purchased intangible assets	(C)	1,500
Non-GAAP Gross Profit		<u>\$94,200 - \$103,200</u>
GAAP Gross Margin		<u>32% - 34%</u>
Non-GAAP adjustments:		
Stock-based compensation	(A)	1%
Amortization of internally-developed software	(B)	4%
Amortization of purchased intangible assets	(C)	1%
Non-GAAP Gross Margin		<u>38% - 40%</u>

Certain totals may not add due to rounding

FY'17 GAAP to Non GAAP – Net Loss & EPS

GAAP to Non-GAAP Reconciliation

(In thousands, except per share data)

(Unaudited)

(In thousands) (Unaudited)	<u>Twelve Months Ended December 31, 2017</u>	
GAAP net loss		(\$39,500) - (\$35,500)
Non-GAAP adjustments:		
Stock-based compensation	(A)	18,400
Amortization of internally-developed software	(B)	12,300
Amortization of purchased intangible assets	(C)	1,600
Non-cash interest expense	(D)	9,400
Income tax effect on non-GAAP adjustments and impact of normalizing the effective income tax rate	(E)	(\$200) - (\$1,200)
Non-GAAP net income		\$2,000 - \$5,000

(Unaudited)

	<u>Twelve Months Ended December 31, 2017</u>	
GAAP basic net loss per share		(\$0.44) - (\$0.40)
Non-GAAP adjustments:		
Stock-based compensation	(A)	0.21
Amortization of internally-developed software	(B)	0.14
Amortization of purchased intangible assets	(C)	0.02
Non-cash interest expense	(D)	0.11
Income tax effect on non-GAAP adjustments and impact of normalizing the effective income tax rate	(E)	(\$0.0) - (\$0.01)
Non-GAAP basic net income per share	(F)	<u>\$0.02 - \$0.06</u>
<i>Certain totals may not add due to rounding</i>		
Shares used in calculating basic net loss per share on a non-GAAP basis		<u>89,000</u>

FY'17 Net Loss to EBITDA

Reconciliation of Net Loss to Adjusted EBITDA

(In thousands)

(Unaudited)

(In thousands)

(Unaudited)

Twelve Months Ended

December 31,

2017

Net loss range	(\$39,500) - (\$35,500)
Income tax (benefit) provision	(1,600)
Interest & other expense, net	11,600
Depreciation & Amortization	22,100
EBITDA range	(\$7,400) - (\$3,400)
Stock-based compensation	18,400
Adjustments to revenues	-
Adjusted EBITDA range	\$11,000 - \$15,000

FY'17 Cash Flow from Operations to Free Cash Flow

Supplemental Cash Flow Information

Free cash flow analysis, a non-GAAP measure
(in thousands)

	Twelve Months Ended December 31, 2017
(In thousands)	
(Unaudited)	
Non-GAAP net cash provided by operating activities	\$8,000 - \$12,000
Less:	
Capital expenditures	\$20,000
FX adjustment	-
Free cash flow	<u>(\$12,000) - (\$8,000)</u>

Footnotes

(A) Stock-based compensation. Included in our GAAP presentation of cost of revenue and operating expenses, stock-based compensation consists of expenses for stock options and awards and purchase rights under our stock purchase plan. We exclude stock-based compensation expense from our non-GAAP measures because some investors may view it as not reflective of our core operating performance as it is a non-cash expense.

(B) Amortization of internally-developed software. Included in our GAAP presentation of cost of revenue and operating expenses, amortization of internally-developed software reflects non-cash expense for certain software purchases and software developed or obtained for internal use. We exclude these expenses from our non-GAAP measures because we believe they are not indicative of our core operating performance.

(C) Amortization of Purchased Intangibles. Included in our GAAP presentation of gross margin and operating expenses is amortization of purchased intangible assets. We believe amortization of acquisition-related intangible assets, such as the amortization of the cost associated with an acquired company's research and development efforts, trade names and customer relationships, as items arising from pre-acquisition activities determined at the time of an acquisition. While these intangible assets are continually evaluated for impairment, amortization of the cost of purchased intangibles is a static expense, one that is not typically affected by operations during any particular period.

Footnotes (cont.)

(D) Non-cash interest expense. Under GAAP, we are required to separately account for liability (debt) and equity (conversion option) components of the \$150 million convertible senior notes that were issued in August 2013. Accordingly, for GAAP purposes we are required to recognize effective interest expense on our convertible senior notes which includes interest cost related to the amortization of debt issuance costs and the contractual 1.5% interest rate of the note. The difference between the effective interest expense and the contractual interest expense is excluded from our assessment of our operating performance because we believe that this non-cash expense is not indicative of ongoing operating performance. We believe that the exclusion of the non-cash interest expense provides investors a view of our core operating performance.

(E) Income tax effect on non-GAAP adjustments as well as the impact of normalizing the effective income tax rate. This adjusts (i) the provision for income taxes to reflect the effect of the non-GAAP items A, B, C, D, and E noted above on our non-GAAP net loss; (ii) the income tax rate to a normalized effective tax rate of 40%; and (iii) non-GAAP earnings per share based on a fully-diluted share count.

(F) For this per share reconciliation, basic share count was used.