

March 20, 2017

Fusion Reports Fourth Quarter and Full Year 2016 Financial Results

Fourth Quarter Business Services Revenue Grew 41% and Adjusted EBITDA Grew 36%; 2016 Consolidated Revenue Grew 20% to \$122.0 Million

NEW YORK, NY -- (Marketwired) -- 03/20/17 -- [Fusion](#) (NASDAQ: FSNN), a leading cloud services provider, today announced financial results for its fourth quarter and full year ended December 31, 2016.

Fourth Quarter 2016 Highlights

- Consolidated revenue grew 8% to \$28.9 million, compared to \$26.8 million in Q4 2015, driven by a 41% increase in Business Services segment revenue to \$24.2 million
- Consolidated gross margin increased 850 basis points to 51.2%, compared to 42.7% in Q4 2015
- Adjusted EBITDA (a non-GAAP measure) grew 36% to \$2.2 million, compared to \$1.6 million in Q4 2015
- Completed the acquisition of Aptix, adding a high-quality business customer revenue base and advancing Fusion's leadership position in the rapidly expanding cloud computing market for SMB and Enterprise customers
- Closed a new \$70.0 million senior secured credit facility, at an interest rate of LIBOR (with no floor) + 5.00%, which replaced Fusion's previous \$40.0 million senior credit facility
- Signed new Business Services sales (bookings) with a total contract value of \$9.9 million, up 39% year-over-year
- Ended the quarter with approximately 13,300 Business Services customers and approximately \$393,000 of Business Services monthly recurring revenue (MRR) in backlog and representing \$13.4 million in total contract value, up 28% year over year
- Ended the quarter with an average monthly revenue per customer (ARPU) of \$679 and a churn rate of 0.8%, compared to \$568 and 1.1% at September 30, 2016 and \$544 and 0.7% at December 31, 2015
- Named to Deloitte's 2016 Technology Fast 500™, a ranking of the 500 fastest growing technology, media, telecommunications, life sciences and energy tech companies in North America

Full Year 2016 Highlights

- Consolidated revenue grew 20% to \$122.0 million, compared to \$101.7 million in 2015, driven by a 31% increase in Business Services segment revenue to \$86.6 million
- Adjusted EBITDA grew 9% to \$8.9 million, compared to \$8.2 million in 2015
- Expanded Fusion's product offering in the Contact Center market through the acquisition of Technology for Business Corporation (TFB) in March 2016
- Received a 2016 INTERNET TELEPHONY Product of the Year Award for Fusion360, Fusion's comprehensive and integrated cloud communications solution

Management Commentary

"Fusion delivered a strong fourth quarter highlighted by 41% year-over-year revenue growth in our Business Services segment," said Matthew Rosen, Fusion's Chief Executive Officer. "We continued to win large new multi-solution clients which we expect to deliver revenue and Adjusted EBITDA growth in the coming quarters, leveraging Fusion's position in the market as the single source for the cloud. Our key service metrics of ARPU and churn likewise demonstrated sequential improvement in the fourth quarter, thanks to the success of our recent acquisitions and our strategy of targeting larger customers with more complex requirements.

"We are also beginning to see our investments in sales and marketing bear fruit. During the fourth quarter, our organic sales strategy contributed to a 39% increase in the contract value of our bookings, and to a 66% increase over the last 12 months. Additionally, we expect the Aptix acquisition to further develop and enhance Fusion's growth platform. Together with our investments in sales and marketing and our robust M&A pipeline, these achievements give us confidence in our overall growth plans," Mr. Rosen continued.

"During the fourth quarter, we made significant strides toward achieving our intermediate goals of \$200 million in consolidated revenue, a 50% gross margin, and a 15% Adjusted EBITDA margin," said Michael Bauer, Fusion's Chief Financial Officer. "The Aptix acquisition, which closed on November 14, 2016, was a major milestone in this

effort, and our integration of the business is well under way. We anticipate realizing the full run-rate of our expected cost synergies by the second half of 2017."

Fourth Quarter 2016 Financial Results

Consolidated revenue grew 8% in Q4 2016 to \$28.9 million, compared to \$26.8 million in Q4 2015, primarily due to an increase in the company's Business Services segment.

Business Services revenue grew 41% in Q4 2016 to \$24.2 million, compared to \$17.1 million in Q4 2015, primarily due to the acquisitions of Fidelity and Aptix. Carrier Services revenue declined 51% in Q4 2016 to \$4.8 million, compared to \$9.8 million in the fourth quarter of 2015, primarily due to a decline in the total minutes of traffic carried on Fusion's network.

Consolidated gross margin increased by 850 basis points in Q4 2016 to 51.2%, compared to 42.7% in Q4 2015, primarily due to a greater proportion of Business Services revenue in consolidated revenue. Business Services gross margin was 60.0%, compared to 63.0% in Q4 2015, primarily due to the integration of Fidelity which carried a lower gross margin. Carrier Services gross margin was 7.0%, compared to 7.2% in the fourth quarter of 2015.

Net loss attributable to common shareholders in Q4 2016 was \$4.6 million, or \$0.26 per share per share on a basic and diluted basis, compared to net income in Q4 2015 of \$1.2 million, or \$0.12 per share on a basic and diluted basis. The income tax benefit in Q4 2016 was \$1.6 million compared to a benefit of \$7.7 million in Q4 2015.

Adjusted EBITDA grew 36% in Q4 2016 to \$2.2 million, compared to \$1.6 million in Q4 2015 (see definition and further discussion about the presentation of adjusted EBITDA, a non-GAAP term, below).

Full Year 2016 Financial Results

Consolidated revenue grew 20% in 2016 to \$122.0 million, compared to \$101.7 million in 2015. Business Services revenue grew 31% to \$86.6 million, compared to \$66.2 million in 2015, primarily due to the Fidelity and Aptix acquisitions. Carrier Services revenue was \$35.5 million in 2016 and 2015.

Consolidated gross margin was flat in 2016 at 44.2% versus 2015. Business Services gross margin was 60.4%, compared to 63.5% in 2015, primarily due to the inclusion of revenue from Fidelity which carried a lower gross margin. Carrier Services gross margin was 4.8%, compared to 8.2% in 2015, primarily driven by a decline in the volume of traffic terminated.

Net loss attributable to common shareholders in 2016 was \$15.1 million, or \$0.98 per share per share on a basic and diluted basis, compared to net loss in 2015 of \$9.8 million, or \$1.32 per share per share on a basic and diluted basis. The income tax benefit in 2016 was \$1.6 million compared to a benefit of \$7.7 million in 2015.

Adjusted EBITDA grew 9% in 2016 to \$8.9 million, compared to \$8.2 million in 2015.

Further details about the Company's financial results are available in its annual report on Form 10-K, which is available in the investor relations section of the Company's website at ir.fusionconnect.com.

Conference Call Information

Fusion CEO Matthew Rosen and CFO Michael Bauer will host a conference call today to discuss the Company's financial results, followed by a question and answer period.

Date: Monday, March 20, 2017

Time: 10:30 a.m. ET / 7:30 a.m. PT

Live / Archived Audio Webcast: ir.fusionconnect.com under "Upcoming Events"

Live Dial-in: 1 844.883.3892 (toll free) / 1 412.317.9248 (international)

Interested parties should dial into the call 10 minutes prior to the start time and ask to be placed into the Fusion call. An operator will register your name and organization. If you have any difficulty connecting with the conference call, please contact MZ Group at 1 949.491.8235.

Use of Non-GAAP Financial Measurements

The Company believes that EBITDA (earnings before interest, taxes, depreciation and amortization) is useful to investors because it is commonly used in the cloud communications industry to evaluate companies on the basis of operating performance and leverage. Adjusted EBITDA provides an adjusted view of EBITDA that takes into account certain significant non-recurring transactions, if any, such as impairment losses and expenses associated with pending acquisitions, which vary significantly between periods and are not recurring in nature, as well as certain recurring non-cash charges such as changes in fair value of the Company's derivative liabilities and stock-based compensation. The Company also believes that Adjusted EBITDA provides investors with a measure of the Company's operational and financial progress that corresponds with the measurements used by management as a basis for allocating resources and making other operating decisions. Although the Company uses Adjusted EBITDA as one of several financial measures to assess its operating performance, its use is limited as it excludes certain significant operating expenses. EBITDA and Adjusted EBITDA are not intended to represent cash flows for the periods presented, nor have they been presented as an alternative to operating income or as an indicator of operating performance and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In accordance with SEC Regulation G, the non-GAAP measurements in this press release have been reconciled to the nearest GAAP measurement, which can be viewed under the heading "Reconciliation of Net Loss to Adjusted EBITDA", immediately following the Consolidated Balance Sheets included in this press release.

- Tables Follow -

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

	Three Months Ended December		Twelve Months Ended December	
	31,		31,	
	2016	2015	2016	2015
Revenues	\$ 28,943,485	\$ 26,836,959	\$ 122,045,320	\$ 101,694,516
Cost of revenues, exclusive of depreciation and amortization, shown separately below	14,122,354	15,364,166	68,058,432	56,724,121
Gross profit	14,821,131	11,472,793	53,986,888	44,970,395
Depreciation and amortization	4,149,806	3,792,349	13,096,587	12,975,981
Selling, general and administrative expenses	14,422,076	11,629,911	48,524,923	41,009,107
Total operating expenses	18,571,882	15,422,260	61,621,510	53,985,088
Operating loss	(3,750,751)	(3,949,467)	(7,634,622)	(9,014,693)
Other (expenses) income:				
Interest expense	(1,864,315)	(1,412,637)	(6,742,143)	(6,062,923)
Loss on extinguishment of debt	(214,294)	-	(214,294)	(2,720,355)
Gain on change in fair value of derivative liabilities	(114,716)	(699,881)	265,383	1,843,997
Loss on disposal of property and equipment	(42,344)	(34,942)	(129,119)	(37,444)
Other income, net	8,696	42,186	128,987	101,057
Total other expenses	(2,226,973)	(2,105,274)	(6,691,186)	(6,875,668)
Loss before income taxes	(5,977,724)	(6,054,741)	(14,325,808)	(15,890,361)
Benefit from income taxes	1,620,436	7,660,536	1,609,485	7,660,536
Net (loss) income	(4,357,288)	1,605,795	(12,716,323)	(8,229,825)
Preferred stock dividends in arrears	(285,540)	(391,394)	(2,388,007)	(1,578,220)
Net (loss) attributable to common stockholders	<u>\$ (4,642,828)</u>	<u>\$ 1,214,401</u>	<u>\$ (15,104,330)</u>	<u>\$ (9,808,045)</u>
Loss applicable to common stockholders:				
Basic and diluted loss per common share	<u>\$ (0.26)</u>	<u>\$ 0.12</u>	<u>\$ (0.98)</u>	<u>\$ (1.32)</u>
Weighted average common shares outstanding:				
Basic and diluted	<u>18,014,151</u>	<u>9,894,916</u>	<u>15,406,184</u>	<u>8,873,766</u>

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,221,910	\$ 7,540,543
Accounts receivable, net of allowance for doubtful accounts of approximately \$427,000 and \$309,000, respectively	9,359,876	7,650,141
Prepaid expenses and other current assets	1,160,184	1,618,603
Total current assets	<u>17,741,970</u>	<u>16,809,287</u>
Property and equipment, net		
	<u>14,248,915</u>	<u>14,055,493</u>
Other assets:		
Security deposits	630,373	575,038
Restricted cash	27,153	165,123
Goodwill	35,689,215	27,060,297
Intangible assets, net	63,617,471	45,824,399
Other assets	77,117	9,808
Total other assets	<u>100,041,329</u>	<u>73,905,902</u>
TOTAL ASSETS	<u>\$ 132,032,214</u>	<u>\$ 104,499,445</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable - non-related parties	\$ 2,979,167	\$ 685,780
Obligations under asset purchase agreements - current portion	622,463	300,000
Equipment financing obligations	1,002,578	959,380
Accounts payable and accrued expenses	19,722,838	13,129,225
Total current liabilities	<u>24,327,046</u>	<u>15,074,385</u>
Long-term liabilities:		
Notes payable - non-related parties, net of discount	31,431,602	30,795,746
Notes payable - related parties	875,750	1,074,829
Term loan	60,731,204	24,728,762
Indebtedness under revolving credit facility	3,000,000	15,000,000
Obligations under asset purchase agreements	890,811	333,333
Equipment financing obligations	1,237,083	2,085,416
Derivative liabilities	348,650	953,005
Total liabilities	<u>122,842,146</u>	<u>90,045,476</u>
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, 17,299 and 23,324 shares issued and outstanding	174	234
Common stock, \$0.01 par value, 90,000,000 shares authorized, 20,642,028 and 12,788,971 shares issued and outstanding	206,422	127,890
Capital in excess of par value	192,233,032	184,859,082
Accumulated deficit	(183,249,560)	(170,533,237)
Total stockholders' equity	<u>9,190,068</u>	<u>14,453,969</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 132,032,214</u>	<u>\$ 104,499,445</u>

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Reconciliation of Net (Loss) Income to EBITDA and Adjusted EBITDA

	<u>Three Months Ended December 31,</u>		<u>Twelve Months Ended December 31,</u>	
	2016	2015	2016	2015
Net (loss) income	\$ (4,357,288)	\$ 1,605,795	\$ (12,716,323)	\$ (8,229,825)

Interest expense and other financing costs	1,864,599	1,423,491	6,742,927	6,113,270
Income tax benefit	<u>(1,620,436)</u>	<u>(7,660,536)</u>	<u>(1,609,485)</u>	<u>(7,660,536)</u>
Depreciation and amortization	<u>4,149,806</u>	<u>3,792,349</u>	<u>13,096,587</u>	<u>12,975,981</u>
EBITDA	36,681	(838,901)	5,513,706	3,198,890
Acquisition and transaction expenses	1,464,165	1,429,925	1,739,875	2,972,440
Change in fair value of derivative liability	114,716	699,881	(265,383)	(1,843,997)
Loss on disposal of property and equipment	42,344	34,942	129,119	37,444
Non-recurring employment related expenses	-	2,150	535,500	30,996
Legal settlements	-	-	-	108,360
Loss on extinguishment of debt	214,294	-	214,294	2,720,355
Stock based compensation expense	309,958	276,302	996,494	934,739
Adjusted EBITDA	<u>\$ 2,182,158</u>	<u>\$ 1,604,299</u>	<u>\$ 8,863,605</u>	<u>\$ 8,159,227</u>

About Fusion

[Fusion](#) (NASDAQ: FSNN), a leading provider of integrated cloud solutions to small, medium and large businesses, is the industry's single source for the cloud. Fusion's advanced, proprietary cloud service platform enables the integration of leading edge solutions in the cloud, including cloud communications, contact center, cloud connectivity, and cloud computing. Fusion's innovative, yet proven cloud solutions lower our customers' cost of ownership, and deliver new levels of security, flexibility, scalability, and speed of deployment. For more information, please visit www.fusionconnect.com.

Forward Looking Statements

Statements in this press release that are not purely historical facts, including statements regarding Fusion's beliefs, expectations, intentions or strategies for the future, may be "forward-looking statements" under the Private Securities Litigation Reform Act of 1996. Such statements consist of any statement other than a recitation of historical fact and may sometimes be identified by the use of forward-looking terminology such as "may", "expect", "anticipate", "intend", "estimate" or "continue" or the negative thereof or other variations thereof or comparable terminology. The reader is cautioned that all forward-looking statements are speculative, and there are certain risks and uncertainties that could cause actual events or results to differ from those referred to in such forward-looking statements. Important risks regarding the Company's business include the Company's ability to raise additional capital to execute its comprehensive business strategy; the integration of businesses and assets following an acquisition; the Company's ability to comply with covenants included in its senior debt agreements; competitors with broader product lines and greater resources; emergence into new markets; natural disasters, acts of war, terrorism or other events beyond the Company's control; and other factors identified by Fusion from time to time in its filings with the Securities and Exchange Commission, which are available through <http://www.sec.gov>. However, the reader is cautioned that Fusion's future performance could also be affected by risks and uncertainties not enumerated above.

In the event that there is any inconsistency between the information contained in this press release and the information set forth in Fusion's Form 10-K or 10-Q filed with the Securities and Exchange Commission, the information contained in the Form 10-K or 10-Q governs.

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Source: Fusion