

August 14, 2017

# Fusion Reports Second Quarter 2017 Financial Results

## Business Services Revenue Grew 40% and Adjusted EBITDA Grew 66% Year over Year

NEW YORK, NY -- (Marketwired) -- 08/14/17 -- [Fusion](#) (NASDAQ: FSNN), a leading cloud services provider, today announced financial results for the three and six months ended June 30, 2017.

### *Second Quarter Financial and Operational Highlights*

- Business Services segment revenue grew 40% year over year to \$30.0 million, of which over 86% was contracted and recurring. Consolidated revenue grew 23% to \$38.1 million, compared to \$31.0 million in Q2 2016
- Consolidated gross margin increased approximately 270 basis points to 45.1%, compared to 42.4% in Q2 2016
- Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") grew 66% to \$3.7 million, compared to \$2.2 million in Q2 2016 and grew 13% compared to \$3.3 million in Q1 2017 (see definition and further discussion about the presentation of Adjusted EBITDA, a non-GAAP measurement, below)
- Ended the quarter with approximately 13,100 Business Services customers and approximately \$13.4 million in total contract value in backlog
- Ended the quarter with an average monthly revenue per customer ("ARPU") of \$751, compared to \$539 at June 30, 2016 and \$732 at March 31, 2017
- Ended the quarter with monthly churn of 0.9%, compared to 1.0% in Q2 2016 and 1.0% in Q1 2017
- Reduced the Company's senior debt balance by \$4.6 million year to date, as the Company made scheduled principal payments and paid down its revolving credit facility during the quarter
- Announced the formation of Fusion Global Services, which will combine Fusion's Carrier Services division with XComIP, LLC, enhancing Fusion's focus on its Business Services segment and reducing operating expense, thereby improving the Company's consolidated margin profile
- Completed the implementations of a new operations support system (OSS) and unified billing platform
- Launched a new and enhanced customer portal for Fusion's leading-edge SD-WAN (Software Defined Wide Area Network) cloud network solution
- Added to the Russell Microcap Index, one of the most widely followed equity investment benchmarks for emerging growth companies

"Fusion continued to improve its financial performance as demonstrated by our strong results in the second quarter," said Matthew Rosen, Fusion's CEO. "By executing on our strategy, we delivered solid year-over-year growth in revenue and Adjusted EBITDA by leveraging our market position as the single source for the cloud, our unified service delivery platform, and our robust nationwide network. The investments we have made in our highly scalable platform and our sales and marketing organization have enabled us to expand our margins efficiently as we grow both organically and through acquisition. Furthermore, the implementation of our new OSS system, which we completed during the second quarter, will improve Fusion's operational efficiency, reduce the time between sales and revenue recognition, and allow us to integrate acquisitions faster and more easily.

"I am also pleased to note that Fusion produced nearly 11% year-over-year revenue growth in Business Services, excluding the contribution from our Aptix acquisition which closed last November. We achieved this through a combination of solid sales bookings, installations and customer novations. In addition, our M&A pipeline remains solid, and we continue to anticipate closing one to two acquisitions per year to drive significant growth in our customer base, revenue and cash flow."

Michael Bauer, Fusion's CFO, said, "In the first half of this year, we reduced our outstanding debt by \$4.6 million through principal payments and repayments against our revolver. At quarter end, our full \$5.0 million revolver was undrawn and available. Also, we remained focused on taking meaningful steps to simplify our capital structure and improve our financial flexibility in the coming quarters.

"The Aptix acquisition has been fully integrated and we have achieved the full run-rate of our expected cost synergies. And, with our expanded Business Services platform and our robust sales and M&A pipelines, Fusion is well positioned to achieve its intermediate financial goals of \$200 million in annual revenue and \$30 million in annual

Adjusted EBITDA."

### **Second Quarter 2017 Financial Results**

Fusion's consolidated revenue grew 23% in Q2 2017 to \$38.1 million, compared to \$31.0 million in Q2 2016, due to an increase in the Company's Business Services segment revenue. Business Services revenue grew 40% to \$30.0 million, compared to \$21.4 million in Q2 2016, primarily due to the acquisition of Aptix which closed in November 2016. Carrier Services segment revenue in Q2 2017 was \$8.1 million, compared to \$9.6 million in Q2 2016, primarily due to a decline in the total minutes of traffic carried on Fusion's network.

Consolidated gross margin in Q2 2017 was 45.1%, an increase of approximately 270 basis points compared to 42.4% in Q2 2016, primarily due to a greater proportion of Business Services revenue in consolidated revenue. Business Services segment gross margin of 56.7% decreased slightly from 59.3% in Q2 2016, primarily due to the addition of lower margin revenue from new customers the Company began servicing during the second quarter. Carrier Services segment gross margin was 2.4% compared to 4.8% in Q2 2016.

Net loss attributable to common shareholders in Q2 2017 was \$3.1 million, or \$(0.14) per share on a basic and diluted basis, compared to net loss in Q2 2016 of \$3.0 million, or \$(0.20) per share on a basic and diluted basis.

Adjusted EBITDA grew 66% in Q2 2017 to \$3.7 million, compared to \$2.2 million in Q2 2016, and grew 13% compared to \$3.3 million in Q1 2017, due primarily to revenue growth and the achievement of additional synergies associated with the acquisition of Aptix.

Capital expenditures in Q2 2017 totaled \$1.4 million, or 3.6% of revenue. Capital expenditures in the first half of 2017 totaled \$2.3 million, or 3.2% of revenue.

Cash at June 30, 2017 totaled \$2.4 million, compared to \$7.2 million at December 31, 2016. During 2017, the Company made \$4.6 million in debt pay downs, reducing its outstanding term loan balance by \$1.6 million and completely repaying the \$3.0 million outstanding on its revolving credit facility. As of June 30, 2017, the Company's full \$5.0 million revolving credit facility was undrawn and available.

Further details about the Company's financial results are available in its quarterly report on Form 10-Q, which is available in the investor relations section of the Company's website at [ir.fusionconnect.com](http://ir.fusionconnect.com).

### **Conference Call Information**

Fusion CEO Matthew Rosen and CFO Michael Bauer will host a conference call today to discuss its Q2 2017 financial results, followed by a question and answer period. To access the call, please use the following information:

Date: Monday, August 14, 2017

Time: 4:30 p.m. ET / 1:30 p.m. PT

Dial-in: (888) 427-9411 (domestic) / (913) 981-5526 (international); Conference ID 4384178

Webcast: [ir.fusionconnect.com](http://ir.fusionconnect.com) under "Events"

Participants should dial in 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 (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**  
**(Unaudited)**

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Revenues</b>	\$ 38,089,006	\$ 31,041,047	\$ 73,900,882	\$ 64,835,296
Cost of revenues (exclusive of depreciation and amortization, shown separately below)	20,901,548	17,865,570	40,172,461	38,397,081
<b>Gross profit</b>	17,187,458	13,175,477	33,728,421	26,438,215
Depreciation and amortization	3,600,609	3,031,890	7,437,757	5,948,153
Selling, general and administrative expenses	14,330,934	11,270,013	28,465,809	22,694,799
Total operating expenses	17,931,543	14,301,903	35,903,566	28,642,952
<b>Operating loss</b>	(744,085)	(1,126,426)	(2,175,145)	(2,204,737)
<b>Other (expenses) income:</b>				
Interest expense	(2,172,084)	(1,624,669)	(4,264,396)	(3,252,633)
Gain on change in fair value of derivative liability	113,779	45,642	73,334	228,042
Loss on disposal of property and equipment	(65,250)	(11,996)	(92,050)	(72,818)
Other income, net	13,365	37,111	129,845	88,263
Total other expenses	(2,110,190)	(1,553,912)	(4,153,267)	(3,009,146)
<b>Loss before income taxes</b>	(2,854,275)	(2,680,338)	(6,328,412)	(5,213,883)
Provision for income taxes	(23,100)	-	(30,911)	-
<b>Net loss</b>	(2,877,375)	(2,680,338)	(6,359,323)	(5,213,883)
Preferred stock dividends in arrears	(240,498)	(284,839)	(1,494,607)	(1,816,821)
<b>Net loss attributable to common stockholders</b>	<u>\$ (3,117,873)</u>	<u>\$ (2,965,177)</u>	<u>\$ (7,853,930)</u>	<u>\$ (7,030,704)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.14)</u>	<u>\$ (0.20)</u>	<u>\$ (0.36)</u>	<u>\$ (0.49)</u>
<b>Weighted average common shares outstanding:</b>				
Basic and diluted	<u>22,408,335</u>	<u>14,864,768</u>	<u>21,562,714</u>	<u>14,306,170</u>

**FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**

	<u>June 30,</u>	<u>December 31,</u>
	<u>2017</u>	<u>2016</u>
	(Unaudited)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,407,317	\$ 7,221,910
Accounts receivable, net of allowance for doubtful accounts	9,486,904	9,359,876
Prepaid expenses and other current assets	1,707,268	1,084,209
<b>Total current assets</b>	<u>13,601,489</u>	<u>17,665,995</u>

Property and equipment, net	13,850,574	14,248,915
Security deposits	612,299	630,373
Restricted cash	27,153	27,153
Goodwill	35,286,629	35,689,215
Intangible assets, net	60,975,789	63,617,471
Other assets	60,527	77,117
<b>TOTAL ASSETS</b>	<b>\$ 124,414,460</b>	<b>\$ 131,956,239</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Term loan - current portion	\$ 4,875,000	\$ 2,979,167
Obligations under asset purchase agreements - current portion	911,370	546,488
Equipment financing obligations	1,238,986	1,002,578
Accounts payable and accrued expenses	20,692,741	19,722,838
<b>Total current liabilities</b>	<b>27,718,097</b>	<b>24,251,071</b>
<b>Long-term liabilities:</b>		
Notes payable - non-related parties, net of discount	31,692,383	31,431,602
Notes payable - related parties	903,583	875,750
Term loan	57,341,519	60,731,204
Indebtedness under revolving credit facility	-	3,000,000
Obligations under asset purchase agreements	1,290,811	890,811
Equipment financing obligations	983,364	1,237,083
Derivative liabilities	262,542	348,650
<b>Total liabilities</b>	<b>120,192,299</b>	<b>122,766,171</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity (deficit):</b>		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, 14,341 and 17,299 shares issued and outstanding	143	174
Common stock, \$0.01 par value, 90,000,000 shares authorized, 22,505,365 and 20,642,028 shares issued and outstanding	225,054	206,422
Capital in excess of par value	193,605,847	192,233,032
Accumulated deficit	(189,608,883)	(183,249,560)
<b>Total stockholders' equity</b>	<b>4,222,161</b>	<b>9,190,068</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 124,414,460</b>	<b>\$ 131,956,239</b>

**FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**Reconciliation of Net Loss to EBITDA and Adjusted EBITDA**  
**(Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	2017	2016	2017	2016
<b>Net (loss)</b>	\$ (2,877,375)	\$ (2,680,338)	\$ (6,359,323)	\$ (5,213,883)
Interest expense and other financing costs	2,167,124	1,624,923	4,275,759	3,252,915
Income tax benefit	23,100	-	30,911	-
Depreciation and amortization	3,600,609	3,031,890	7,437,757	5,948,153
<b>EBITDA</b>	<b>2,913,457</b>	<b>1,976,475</b>	<b>5,385,104</b>	<b>3,987,185</b>
Acquisition transaction expenses	602,603	71,439	925,242	163,809
Change in fair value of derivative liability	(113,779)	(45,642)	(73,334)	(228,042)
(Gain) loss on disposal of property and equipment	65,250	11,996	92,050	72,818
Non-recurring employee related expenses	-	-	-	535,500
Stock based compensation expense	225,500	207,712	622,892	458,496
<b>Adjusted EBITDA</b>	<b>\$ 3,693,031</b>	<b>\$ 2,221,980</b>	<b>\$ 6,951,954</b>	<b>\$ 4,989,766</b>

**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 services 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](http://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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