

November 13, 2017

# Fusion Reports Third Quarter 2017 Financial Results

## Business Services Revenue Grew 38% YoY, Driving 147% Growth in Adjusted EBITDA

NEW YORK, Nov. 13, 2017 (GLOBE NEWSWIRE) -- [Fusion](#) (NASDAQ:FSNN), a leading cloud services provider, today announced financial results for the third quarter ended September 30, 2017.

### Third Quarter 2017 Highlights

- Business Services segment revenue grew 38% year-over-year to \$29.3 million, over 90% of which was recurring, and grew 10% year-over-year excluding the contribution from last year's Aptix acquisition
- Consolidated revenue grew 21% year-over-year to \$36.4 million
- Consolidated gross margin increased approximately 350 basis points to 45.7%, compared to 42.2% in Q3 2016
- Net loss attributable to common shareholders totaled \$(3.9) million, or \$(0.18) per share on a basic and diluted basis in Q3 2017, compared to \$(3.4) million, or \$(0.23) per share on a basic and diluted basis in Q3 2016
- Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") grew 147% year-over-year to \$4.2 million, and grew 13% sequentially (see definition and further discussion about the presentation of Adjusted EBITDA, a non-GAAP measurement, below)
- Unlevered Free Cash Flow, defined as Adjusted EBITDA less capital expenditures, was \$2.6 million, compared to \$0.2 million in Q3 2016
- New monthly recurring revenue ("MRR") bookings were approximately \$296,000, up 8% year-over-year and up 13% sequentially, while the total contract value in backlog was \$13.1 million at September 30, 2017
- Ended the quarter with approximately 13,300 Business Services customers with an average monthly revenue per customer ("ARPU") of \$731, compared to \$568 at September 30, 2016
- Monthly churn was 0.9% at the end of the quarter, compared to 1.1% at the end of Q3 2016
- Announced the signing of a definitive agreement to acquire the Cloud and Business Services business of Birch Communications Holdings, Inc., and made significant progress toward obtaining the approvals and securing the capital required to complete the deal
- Completed the formation of Fusion Global Services, a joint venture which combined Fusion's Carrier Services division with the Carrier Services business of XComIP, LLC

"Fusion continued to deliver solid financial performance during the third quarter of 2017, with nearly 40% growth in Business Services revenue and nearly 150% growth in Adjusted EBITDA, thanks to the contribution from the Aptix acquisition as well as solid sales bookings and installations, customer novations, and continued low churn," said Matthew Rosen, Fusion's CEO. "These results clearly demonstrate the power of our compelling strategy as the single source for the cloud.

"Since we announced our definitive agreement to acquire the Cloud and Business Services business of Birch in late August, both companies have been planning for the integration of our people, products, networks, and systems to ensure that the combined company – which will be one of the largest cloud services providers in North America – is positioned to begin realizing the benefits of the combination immediately after closing. We have also made substantial progress on the steps required to complete the transaction, including antitrust filings and filings with the FCC and a number of state regulatory agencies, and we expect to file the preliminary proxy this week. Given the upcoming holiday season, we believe that the process of obtaining regulatory approvals will take the close of the acquisition into the first quarter of 2018," Mr. Rosen stated.

Michael Bauer, Fusion's CFO, said, "We are very excited to complete the Birch transaction. The combined company is projected to have approximately \$575 million in pro forma annual revenue and over \$150 million in pro forma

annual Adjusted EBITDA, including over \$20 million in expected cost synergies.

“We expect the transaction to be significantly accretive immediately upon closing, to considerably lower our leverage ratio and improve our financial flexibility, and to generate strong positive free cash flow on an ongoing basis,” Mr. Bauer concluded.

### **Third Quarter 2017 Financial Results**

Fusion’s consolidated revenue grew 21% in Q3 2017 to \$36.4 million, compared to \$30.2 million in Q3 2016, due to an increase in the Company’s Business Services segment revenue. Business Services segment revenue grew 38% to \$29.3 million, compared to \$21.3 million in Q3 2016, primarily due to the acquisition of Aptix which closed in November 2016. Carrier Services segment revenue was \$7.1 million, down 20% compared to \$8.9 million in Q3 2016.

Consolidated gross margin was 45.7%, compared to 42.2% in Q3 2016. The increase was due to a higher mix of Business Services revenue, which generates a substantially higher margin than Carrier Services revenue, in 2017 as compared to 2016. Business Services gross margin was 55.5% in Q3 2017, compared to 58.0% in Q3 2016, primarily due to the addition of lower margin revenue from certain new customers the Company began servicing during the first half of 2017. Carrier Services gross margin was 5.0% compared to 4.3% in Q3 2016.

Net loss attributable to common shareholders in Q3 2017 was \$(3.9) million, or (\$0.18) per share on a basic and diluted basis, compared to net loss in Q3 2016 of \$(3.4) million, or (\$0.23) per share on a basic and diluted basis.

Adjusted EBITDA grew 147% to \$4.2 million, compared to \$1.7 million in Q3 2016, due primarily to revenue growth and a continued focus on cost controls.

Capital expenditures in Q3 2017 totaled \$1.6 million, or 4.4% of revenue. Capital expenditures in the first nine months of 2017 totaled \$3.9 million, or 3.6% of revenue.

Unlevered free cash flow was \$2.6 million in Q3 2017, compared to \$0.2 million in Q3 2016.

Cash at September 30, 2017, totaled \$2.3 million, compared to \$7.2 million at December 31, 2016. During 2017, the Company made \$2.4 million in senior debt principal payments, and reduced its revolving credit facility balance by \$1.5 million. The Company’s \$5.0 million revolving credit facility had an outstanding balance of \$1.5 million at September 30, 2017, compared to \$3.0 million outstanding at December 31, 2016.

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 Q3 2017 financial results, followed by a question and answer period. To access the call, please use the following information:

Date:	Monday, November 13, 2017
Time:	4:30 p.m. ET / 1:30 p.m. PT
U.S. Toll Free:	1-888-857-6932
U.S. Toll/International:	1-913-312-1473
Conference ID:	2969072
Webcast:	<a href="http://ir.fusionconnect.com">ir.fusionconnect.com</a> 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.

#### FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

##### Consolidated Statements of Operations (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Revenues</b>	\$ 36,355,187	\$ 30,159,019	\$ 110,256,069	\$ 95,041,024
Cost of revenues (exclusive of depreciation and amortization, shown separately below)	19,749,188	17,431,477	59,921,649	55,875,267
<b>Gross profit</b>	16,605,999	12,727,542	50,334,420	39,165,757
Depreciation and amortization	3,711,253	2,998,628	11,149,010	8,946,781
Selling, general and administrative expenses	13,649,349	11,408,048	42,115,158	34,102,847
Total operating expenses	17,360,602	14,406,676	53,264,168	43,049,628
<b>Operating loss</b>	(754,603 )	(1,679,134 )	(2,929,748 )	(3,883,871 )
<b>Other (expenses) income:</b>				
Interest expense	(2,204,520 )	(1,625,195 )	(6,468,916 )	(4,877,828 )
Gain on change in fair value of derivative liability	(617,820 )	152,057	(544,486 )	380,099
Loss on disposal of property and equipment	(161,037 )	(13,959 )	(253,087 )	(86,777 )
Other income, net	47,694	32,028	177,539	120,291
<b>Loss before income taxes</b>	(3,690,286 )	(3,134,203 )	(10,018,698 )	(8,348,086 )
Provision for income taxes	(10,200 )	(10,951 )	(41,111 )	(10,951 )
<b>Net loss</b>	(3,700,486 )	(3,145,154 )	(10,059,809 )	(8,359,037 )
Less: Net income attributable to non-controlling interest	(2,724 )	-	(2,724 )	-
Net loss attributable to Fusion Telecommunications	(3,703,210 )	(3,145,154 )	(10,062,533 )	(8,359,037 )
Preferred stock dividends in arrears	(241,191 )	(285,646 )	(1,735,798 )	(2,102,467 )
<b>Net loss attributable to common stockholders</b>	\$ (3,944,401 )	\$ (3,430,800 )	\$ (11,798,331 )	\$ (10,461,504 )
<b>Basic and diluted loss per common share</b>	\$ (0.18 )	\$ (0.23 )	\$ (0.54 )	\$ (0.72 )
<b>Weighted average common shares outstanding:</b>				
Basic and diluted	22,352,341	14,990,816	21,828,816	14,536,893

#### FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

##### Consolidated Balance Sheets

	September 30,	December 31,
	2017	2016
	(Unaudited)	
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 2,341,634	\$ 7,221,910
Accounts receivable, net of allowance for doubtful accounts	14,359,639	9,359,876
Prepaid expenses and other current assets	1,776,072	1,084,209
<b>Total current assets</b>	18,477,345	17,665,995
Property and equipment, net	13,769,882	14,248,915
Security deposits	615,585	630,373
Restricted cash	27,153	27,153
Goodwill	34,773,629	35,689,215
Intangible assets, net	58,760,920	63,617,471
Other assets	52,231	77,117

<b>TOTAL ASSETS</b>	<u>\$ 126,476,745</u>	<u>\$ 131,956,239</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Term loan – current portion	\$ 5,687,500	\$ 2,979,167
Obligations under asset purchase agreements – current portion	603,192	546,488
Equipment financing obligations	1,186,115	1,002,578
Accounts payable and accrued expenses	<u>25,674,946</u>	<u>19,722,838</u>
<b>Total current liabilities</b>	<u>33,151,753</u>	<u>24,251,071</u>
<b>Long-term liabilities:</b>		
Notes payable - non-related parties, net of discount	31,822,773	31,431,602
Notes payable - related parties	918,135	875,750
Term loan	55,782,094	60,731,204
Indebtedness under revolving credit facility	1,500,000	3,000,000
Obligations under asset purchase agreements	1,265,811	890,811
Equipment financing obligations	716,005	1,237,083
Derivative liabilities	<u>760,965</u>	<u>348,650</u>
<b>Total liabilities</b>	<u>125,917,536</u>	<u>122,766,171</u>
<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, 22,296,683 and 20,642,028 shares issued and outstanding	222,967	206,422
Capital in excess of par value	193,642,257	192,233,032
Accumulated deficit	<u>(193,312,093 )</u>	<u>(183,249,560 )</u>
Total Fusion Telecommunications International, Inc. stockholders' equity	553,274	9,190,068
Non-controlling interest	<u>5,935</u>	<u>-</u>
<b>Total stockholders' equity</b>	<u>559,209</u>	<u>9,190,068</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 126,476,745</u>	<u>\$ 131,956,239</u>

#### FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

##### Reconciliation of Net Loss to EBITDA and Adjusted EBITDA (Unaudited)

	Three Months Ended September		Nine Months Ended September 30,	
	2017	2016	2017	2016
<b>Net loss attributable to Fusion Telecommunications International, Inc.</b>	\$ (3,703,210 )	\$ (3,145,154 )	\$ (10,062,533 )	\$ (8,359,037 )
Interest expense and other financing costs	2,216,608	1,625,413	6,492,368	4,878,328
Provision for income taxes	10,200	10,951	41,111	10,951
Depreciation and amortization	<u>3,711,253</u>	<u>2,998,628</u>	<u>11,149,010</u>	<u>8,946,781</u>
<b>EBITDA</b>	2,234,851	1,489,838	7,619,956	5,477,023
Acquisition transaction expenses	878,069	111,900	1,803,311	275,710
Change in fair value of derivative liability	617,821	(152,057 )	544,486	(380,099 )
(Gain) loss on disposal of property and equipment	161,037	13,958	253,087	86,777
Non-recurring employee related expenses	-	-	-	535,500
Stock based compensation expense	<u>286,221</u>	<u>228,040</u>	<u>909,113</u>	<u>686,535</u>
<b>Adjusted EBITDA</b>	<u>\$ 4,177,999</u>	<u>\$ 1,691,679</u>	<u>\$ 11,129,953</u>	<u>\$ 6,681,446</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 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 the capital necessary to fund its acquisition of Birch Communications Holdings, Inc., its ability to obtain the required approvals necessary to close that transaction, and its ability to integrate that business following the closing; 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 Annual Report on Form 10-K or Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission, the information contained in the Annual Report on Form 10-K or Quarterly Reports on Form 10-Q governs.

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