

May 10, 2017

Fusion Reports First Quarter 2017 Financial Results

Business Services Revenue Grew 32% Year over Year; Adjusted EBITDA of \$3.3 Million Grew 18% Year over Year and 49% Sequentially

NEW YORK, NY -- (Marketwired) -- 05/10/17 -- [Fusion](#) (NASDAQ: FSNN), a leading cloud services provider, today announced financial results for its first quarter ended March 31, 2017.

Highlights

- Consolidated revenue grew 6% to \$35.8 million, compared to \$33.8 million in Q1 2016, driven by a 32% increase in Business Services segment revenue to \$28.5 million, over 85% of which was contracted and recurring
- Excluding the contribution from Aptix, Business Services revenue grew 2.5% year-over-year
- Consolidated gross margin increased approximately 700 basis points to 46.2%, compared to 39.2% in Q1 2016
- Net loss attributable to common shareholders was \$4.7 million or \$(0.23) per share on a basic and diluted basis, compared to net loss in Q1 2016 of \$4.1 million or \$(0.30) per share on a basic and diluted basis
- Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") grew 18% to \$3.3 million, compared to \$2.8 million in Q1 2016, and grew 49% compared to \$2.2 million in Q4 2016 (see definition and further discussion about the presentation of Adjusted EBITDA, a non-GAAP term, below)
- Ended the quarter with approximately 13,600 Business Services customers and approximately \$11.4 million in total contract value in backlog
- Ended the quarter with an average monthly revenue per customer ("ARPU") of \$732, compared to \$557 at March 31, 2016 and \$695 at December 31, 2016
- Churn was 1.0%, compared to 1.0% in Q1 2016 and 0.8% in Q4 2016
- Reduced the number of outstanding shares of B-2 Preferred Stock by 24% through conversions to common stock, thereby reducing future dividend payment obligations
- Reduced the term loan balance by \$0.8 million as the Company commenced scheduled principal payments during the quarter
- Received a 2017 INTERNET TELEPHONY Product of the Year Award for Fusion Contact360 cloud contact center solution

Management Commentary

"The strong momentum from 2016 has accelerated into the first quarter of 2017, as demonstrated by our solid growth in both revenue and Adjusted EBITDA," said Matthew Rosen, Fusion's Chief Executive Officer. "Our first quarter results validate our sales and marketing initiatives and our investments in our service delivery platform that are now generating improved operating and financial performance. We also saw continued traction in delivering organic growth in our Business Services segment, as our key service metrics of ARPU and churn once again reflect the success of our strategy to sell multiple cloud services to our growing customer base.

"Our sales and M&A pipelines remain robust and position Fusion to achieve our intermediate financial goals of \$200 million in annual revenue and \$30 million in annual Adjusted EBITDA. In addition, we expect to continue de-levering our balance sheet by making scheduled principal payments on our indebtedness, expanding our Adjusted EBITDA with continued revenue growth, and executing on targeted acquisitions at attractive valuations. For all these reasons, we believe Fusion is poised to create substantial value for shareholders," Mr. Rosen continued.

Michael Bauer, Fusion's Chief Financial Officer, said, "During the first quarter, we converted a significant number of outstanding B-2 Preferred Stock into common stock, thereby reducing future dividend obligations. This brings the total amount of B-2 Preferred Stock that we have eliminated to approximately 60% of the original \$23 million issued. We intend to take meaningful steps to simplify our capital structure and improve our financial flexibility in the coming quarters.

"We are also making excellent progress on the integration of Aptix which should result in greater operating efficiencies, and we remain on track to realize the full run-rate of our expected cost synergies by the second half of 2017," Mr. Bauer concluded.

First Quarter 2017 Financial Results

Consolidated revenue grew 6% in Q1 2017 to \$35.8 million, compared to \$33.8 million in Q1 2016, due to an increase in the Company's Business Services segment revenue. Business Services revenue grew 32% in Q1 2017 to \$28.5 million, compared to \$21.6 million in Q1 2016, primarily due to the acquisition of Apptix. Carrier Services revenue in Q1 2017 was \$7.3 million, compared to \$12.2 million in Q1 2016, primarily due to a decline in the total minutes of traffic carried on Fusion's network.

Consolidated gross margin in Q1 2017 was 46.2%, an increase of approximately 700 basis points compared to 39.2% in Q1 2016, primarily due to a greater proportion of Business Services revenue in consolidated revenue. Business Services gross margin was 57.4%, compared to 59.0% in Q1 2016. Carrier Services gross margin was 2.7%, compared to 4.4% in Q1 2016.

Net loss attributable to common shareholders in Q1 2017 was \$4.7 million, or \$(0.23) per share on a basic and diluted basis, compared to net loss in Q1 2016 of \$4.1 million, or \$(0.30) per share on a basic and diluted basis.

Adjusted EBITDA grew 18% in Q1 2017 to \$3.3 million, compared to \$2.8 million in Q1 2016. Adjusted EBITDA grew 49% compared to \$2.2 million in Q4 2016, due primarily to the successful integration of Apptix and synergies achieved from the acquisition which closed in November 2016.

Cash at March 31, 2017 totaled \$6.6 million, compared to \$7.2 million at December 31, 2016. During Q1 2017, the Company made approximately \$813,000 in principal payments, reducing its outstanding term loan balance.

On March 31, 2017, the Company converted 2,958 shares of its Series B-2 Preferred Stock into 986,665 shares of common stock.

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.

Conference Call Information

Fusion will host a conference call today to discuss its Q1 2017 financial results, followed by a question and answer period. To access the call, please use the following information:

Date: Wednesday, May 10, 2017
Time: 4:30 p.m. ET / 1:30 p.m. PT
Dial-in: (844) 883-3892 (domestic) / (412) 317-9248 (international)
Webcast: 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.

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

**Consolidated Statements of Operations
(Unaudited)**

	Three Months Ended March 31,	
	2017	2016
Revenues	\$ 35,811,876	\$ 33,794,249
Cost of revenues (exclusive of depreciation and amortization, shown separately below)	19,270,913	20,531,511
Gross profit	16,540,963	13,262,738
Depreciation and amortization	3,837,148	2,916,263
Selling, general and administrative expenses (including stock-based compensation of \$224,647 and \$198,884, respectively)	14,134,875	11,424,786
Total operating expenses	17,972,023	14,341,049
Operating loss	(1,431,060)	(1,078,311)
Other (expenses) income:		
Interest expense	(2,092,312)	(1,627,964)
(Loss) gain on change in fair value of derivative liabilities	(40,445)	182,400
Loss on disposal of property and equipment	(26,800)	-
Other income, net	116,480	(9,670)
Total other expenses	(2,043,077)	(1,455,234)
Loss before income taxes	(3,474,137)	(2,533,545)
Provision for income taxes	(7,811)	-
Net loss	(3,481,948)	(2,533,545)
Preferred stock dividends	(1,254,109)	(1,531,982)
Net loss attributable to common stockholders	\$ (4,736,057)	\$ (4,065,527)
Basic and diluted loss per common share	\$ (0.23)	\$ (0.30)
Weighted average common shares outstanding:		
Basic and diluted	20,707,699	13,741,366

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	March 31, 2017	December 31, 2016
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,642,153	\$ 7,221,910
Accounts receivable, net of allowance for doubtful accounts of approximately \$690,000 and \$427,000, respectively	12,316,401	9,359,876
Prepaid expenses and other current assets	1,590,928	1,084,209
Total current assets	20,549,482	17,665,995
Property and equipment, net	13,520,740	14,248,915
Security deposits	630,373	630,373
Restricted cash	27,153	27,153
Goodwill	35,286,629	35,689,215
Intangible assets, net	63,190,659	63,617,471
Other assets	68,822	77,117
TOTAL ASSETS	\$ 133,273,858	\$ 131,956,239
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Term loan - current portion	\$ 4,062,500	\$ 2,979,167
Obligations under asset purchase agreements - current portion	912,212	546,488

Equipment financing obligations	1,041,466	1,002,578
Accounts payable and accrued expenses	23,347,554	19,722,838
Total current liabilities	<u>29,363,732</u>	<u>24,251,071</u>
Long-term liabilities:		
Notes payable - non-related parties, net of discount	31,561,993	31,431,602
Notes payable - related parties	889,413	875,750
Term loan	58,900,945	60,731,204
Indebtedness under revolving credit facility	3,000,000	3,000,000
Obligations under asset purchase agreements	1,315,811	890,811
Equipment financing obligations	974,701	1,237,083
Derivative liabilities	376,321	348,650
Total liabilities	<u>126,382,916</u>	<u>122,766,171</u>
Commitments and contingencies		
Stockholders' equity (deficit):		
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 and 50,000,000 shares authorized, 22,412,403 and 20,642,028 shares issued and outstanding	224,124	206,422
Capital in excess of par value	193,398,183	192,233,032
Accumulated deficit	(186,731,508)	(183,249,560)
Total stockholders' equity	<u>6,890,942</u>	<u>9,190,068</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 133,273,858</u>	<u>\$ 131,956,239</u>

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Reconciliation of Net Loss to EBITDA and Adjusted EBITDA

	Three Months Ended March 31,	
	<u>2017</u>	<u>2016</u>
Net loss	\$ (3,481,948)	\$ (2,533,545)
Interest expense and other financing costs	2,108,635	1,627,992
Income tax benefit	7,811	-
Depreciation and amortization	<u>3,837,148</u>	<u>2,916,263</u>
EBITDA	2,471,646	2,010,710
Acquisition and transaction expenses	322,639	92,370
Change in fair value of derivative liability	40,445	(182,400)
Loss on disposal of property and equipment	26,800	60,822
Non-recurring employment related expenses	-	535,500
Stock based compensation expense	397,392	250,785
Adjusted EBITDA	<u>\$ 3,258,922</u>	<u>\$ 2,767,787</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.

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.

Fusion Contact:

Brian Coyne
(212) 201-2404
[Email contact](#)

Investor Relations:

Chris Tyson
MZ North America
(949) 491-8235
[Email contact](#)

www.mzgroup.us

Source: Fusion