Digital Turbine

Guidance Conference Call

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CORPORATE PARTICIPANTS

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Bill Stone – *Chief Executive Office*

Andrew Schleimer – *Executive Vice President & Chief Financial Officer*

PRESENTATION

Operator
Good afternoon, everyone, and welcome to the Digital Turbine Financial Outlook Conference call. All participants will be in a listen-only mode. Should you need assistance, you may signal a conference specialist by pressing the * key followed by 0. After today's presentation there will be an opportunity for to ask questions. To ask a question you may press * and then 1. To withdraw your question, you may press * and 2. Please also note that today's event is being recorded.

At this time I'd like to turn the conference call over to Ms. Ghen Laraya, Vice President of Business and Legal Affairs. Ma'am please go ahead.

Ghen Laraya
Thank you and welcome everyone to Digital Turbine's Fiscal 2016 Financial Outlook Conference call. I'm Ghen Laraya. With me today are Bill Stone, Digital Turbine's Chief Executive Officer and Andrew Schleimer, our Executive Vice President and Chief Financial Officer.

Statements made on this call, including those during the question and session, may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations concerning matters that are not historical facts and include, for example, statements about guidance, expected revenue and profitability, product sales, market penetration, speed of customer adoption and orders, and overall business momentum. We caution investors that any forward-looking statements are based on beliefs and assumptions made by and information currently available to us. Such statements are based on assumptions and the actual outcome will be affected by known and unknown risks, trends, and uncertainties and factors that are beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance and some will inevitably prove to be incorrect. As a result, our actual future results may differ from our expectations and those differences may be material.

Please refer to the Safe Harbor statement included in today's press release, as well as Digital Turbine's periodic filings with the SEC, for a discussion of such risks and uncertainties. We are not undertaking any obligation to update any forward-looking statements.

In addition we will be discussing certain non-GAAP financial results including non-GAAP adjusted EBITDA. Non-GAAP measures are not substitutes for GAAP measures. Please refer to the press release issued earlier today for important information about the limitations on using non-GAAP measures as well as our past reconciliations of these non-GAAP financial results to the most comparable GAAP measures.

Please note that on March 6, 2015 Digital Turbine Inc., a Delaware corporation, acquired Appia Inc. Digital Turbine's current-year results are therefore not comparable to prior-year results and this call will include sequential comparisons unless otherwise noted.

Now, it is my pleasure to turn the call over to Mr. Bill Stone.

Bill Stone
Thanks, Ghen, and thank you all for joining our call. As we discussed in November, we wanted to take time as we entered the holiday selling season to provide investors better clarity and visibility on both the impact of the holidays and new customers on our business. When I look at the organic growth of our business today, we have some solid comps, whether it's measuring our business today against last year, last quarter, last month and even last week. Offshore business was solid, consistent top line

growth, strong fundamentals, and a business that is extremely close to being profitable this month. However, against our expectations, we expect more. We're not satisfied and we need to fix this by faster acceleration of our growth and better managing of expectations.

Since our last call we've gotten key insights into device yield, device sales, operational progress, customer demand and new customer launches. Let me briefly cover each of these topics and then turn the call over to Andrew to discuss the numbers and operational metrics in additional detail.

First, our business is showing strong underlying fundamentals. We believe the single biggest sign of health of our DT Media business is total device shield, as this metric drives both revenue and gross profit. We have previously guided the Street to $2.00 per device for the fiscal year. We are now seeing yields around the world trending over $2.00, even on those which we have increased slots. We expect to accrete to approximately $2.30 globally for the balance of the year as we gain attribution from applications installed in November and early December.

Due to targeting of applications today, over 50% of our total campaigns are cost per placement or CPP, but approximately 80% of our installs are CPI. This impacts the timing of when we recognize the revenue, as we expect material revenue recognition in the back part of this month and into January due to this dynamic. For example, a $2.00 CPI campaign with a 30% open rate is equal is $0.60 of revenue that can occur any time over a 60-day attribution period compared to a CPP campaign that can deliver $0.40 right at the device activation. We prefer the 50% higher revenue from the CPI campaign in that example even if it does not occur at device activation. Andrew will discuss some important details about attribution on these campaigns, but strategically our philosophy is to maximize revenue over the entire life of the device rather than a short-term view of getting revenue quickly and only at setup.

Second, with respect to device sales, Black Friday has evolved from a single day of sales to a longer season spread out over the entire holiday season. While we don't have any visibility into total devices sold or shipped by our partners, we did see a material lift in sales of devices on Ignite over the past few weeks compared to earlier in November. Still, we would characterize the pace of sales as disappointing against our projections, but are not yet sure if this is due to higher non-Ignite sales of devices, such as the Galaxy S5, slower Android sales or a combination of both. However, based upon input from our partners, we do expect to see increased promotional activity between now and the end of the year on Ignite-installed devices and are already seeing some of this beginning in just the past few days. We want to be conservative in forecasting it.

Third, with respect to execution, we have both experience and made major progress working through operational growing pains of scaling this business that arose during the holiday selling season. One of our larger partners had some of their own internal capacity issues that did limit our app delivery volumes on Black Friday. While these capacity issues will be solved with a long-term solution with that partner in the next 30 to 60 days, these short-term capacity issues did result in over 1.3 million applications not being delivered to consumers.

I was very proud of our technology and operational teams, who worked around the clock on both Thanksgiving and Black Friday weekend on creative ways to maximize the capacity we would deliver despite the partner's constraints. We are working on regrouping some of this lost revenue, but we need to ensure we do it without disrupting the customer experience. We're working through those technical details real time.

However without the great effort the impact would have been worse. And while these growing pains can be somewhat frustrating in the immediate term, they do demonstrate the competitive barriers to entry that our expertise and ability to solve these issues at scale present and how the operators and

OEMs are now increasing their reliance on us to collaborate with them on technical issues around app delivery and campaign management, which further increases the stickiness between us and the operator.

Fourth, on the topic of consumer demand, we have very solid demand for our product with an expansion of advertisers and are now running targeting at scale. For example, we are now running nearly 40 different campaigns targeted various segments on the Galaxy S6 with one of our larger distribution partners doing things like targeting customers over the age of 60 in Florida with a Walgreen's app or customers with higher household incomes in New York for the *New York Times* app.

Also I'm pleased to announce that we expect eBay to become a major CPP advertiser with us starting in January beginning with a $4 million commitment to Ignite. This is a tremendous validation of the strategy and the value that advertisers see with the home screen of the operator.

Fifth is regarding additional details on our upcoming customer launches, which is the primary factor in our outlook update. We expect Millicom in Latin America, MTS in Russia, Deutsche Telecom in four new countries and Cricket here in the United States to all contribute revenue for the March quarter. In particular, Millicom is a licensing versus advertising deal, so Millicom Ignite revenues will at 100% gross margin and Cricket will likely be launching with a software update to the Galaxy S6 versus on a new device. However, due to the more complex integration work required we are now assuming revenue for American Mobile on Ignite and AT&T to begin in the first quarter of fiscal year '17. We expect both AT&T and American Mobile to be material contributors to our fiscal '17.

For this fiscal year we did risk discount the launch dates of new partners, but clearly not enough, so we've materially adjusted our fiscal '16 outlook, in large part because of the timing of these launches. Our ability to execute and to perform against the expectations we created are our highest priorities and we understand that our ability to improve the latter is the key to our investors' near- and intermediate-term concerns. Before Andrew takes you through the detailed numbers, I want to highlight these key short-term metrics we are paying very close attention to between now and the end of the fiscal year.

First is our slot count. We are running eight today with most global partners and most all devices. We have opportunities to increase that to more than eight with some partners and there's always the possibility the partner could change their mind as these are not contractual commitments, but rather it's us and the partner seizing market opportunity.

Number two is device sales. As I mentioned earlier, we do expect device sell-through to pick up between now and the end of the year. In particular there's widespread speculation of new high-profile Android devices launching between now and March 31st. The timing of these devices and their impact in March or this fiscal year versus April, our next fiscal year, is a bit tricky to forecast if these rumored launch dates change.

Next is yield per device. I'm mentioned our solid progress already on yield. We do expect that to continue and drive higher. We are working hard on ensuring no further technical or operational disruptions to ensure success here.

On new partner launches, we have very modest expectations for new partner launches between now and the end of the fiscal year that'll contribute less than $1 million of revenue. We have removed any remaining risk on these launches in fiscal 2016's outlook and there are opportunities to pull some dates and devices into the fourth fiscal quarter and some very modest risk they could move.

On our content business, to hold costs flat, we are shifting our deployment of operating expenses from the Australian content business into data science, additional Ignite resources, and investing in the content and pay business in Southeast Asia and India. We expect these investments to all help bear fruit in the current quarter, but do expect the content business to begin to decline in Australia as a result of the shifting of investment. However, on a net basis, we do expect growth in the overall content business this fiscal year.

On Appia Core, although it's early days, we have recently launched our first real time bidding or RTB campaign. We expect this capability to be a key driver of both growth and margin expansion in the Appia Core business into fiscal '17 and beyond. In the immediate term it's an opportunity, as we have not forecasted any material incremental dollars of revenue against it. However, there's always a risk with RTB that you can bid more dollars for advertising than you receive back in revenue or app installs. We expect the Appia Core business to continue to deliver solid growth, but want to highlight this strategic shift in direction has begun.

And finally, I want to reemphasize what I mentioned at the top. In the bigger picture our model is working. The structural steps we have taken to drive long-term growth and profitability are all in place, setting us up very nicely for calendar 2016 and beyond. The short-term risks we are experiencing in the business do not reflect either the demand we are experiencing today or the long-term opportunities of this business. All of the major drivers of our business are heading in the right direction. Yield per device is trending in excess of $2.00. We have strong demand from advertisers, better targeting of advertisers, with more devices coming from new and existing customers. While the timing of all these variables coming together is taking much longer than we'd all have liked, it doesn't change the fact that they're coming together. Our business is very well positioned and now scaling.

With that, I'll turn it over to Andrew to take you through the details.

Andrew Schleimer
Thanks, Bill. I will give you some additional insight in how fiscal Q3 is progressing and the assumptions in our fiscal 2016 outlook and then we'll open up the call for your questions.

With respect to our December quarter progress, let me start by discussing the sequential growth in our DT Media business. We continue to experience very strong growth and improving underlying fundamentals in our core advertising business. To level set, in Q4 of 2015 on a pro forma basis, we achieved $1 million of DT Media revenues, followed by $3.2 million and $4.1 million respectively inQ1 and Q2 of 2016, a total of $7.3 million including professional services, even with the Q2 summer months generally being a seasonally quiet period for advertising. In fiscal Q3 we are experiencing increasing momentum in this business even with a greater trajectory stemming from the expansion of slots across US carriers and the resulting enhancement in yield Bill alluded to, coupled with an increase in device sell-through versus Q2, stemming from the holiday season.

The meaningfully increased potential for this revenue stream is apparent as the ramp in fiscal Q3 revenues, albeit at a slower pace than expected is primarily attributable to large US distribution partners, with marginal contribution from other carriers and OEMs who will come on stream in Q1 of fiscal '17. We expect this trajectory to continue through Q4, as we anticipate a full quarter of eight slots across US distributors versus only a partial expansion in Q3, as well as the positive impact of holiday sales attribution, which I'll touch upon in just a bit.

To put some numbers around this, we expect that DT Media revenues may increase up to approximately 200% in the second half of the year as compared to the $7.3 million in the first half of the year. With a lot of work still left to do, we are proud and remain highly enthused by the performance of this business over the last 12 months.

Rounding out our advertising business, Appia's Core December quarter has been positively impacted by continued growth in Asia Pacific and EMEA, specifically in China and Israel. As a result of very positive campaign performance in recent months, Appia was also able to secure increased budget commitments from key advertisers that contributed to increasing revenues. We expect to see Appia Core growth continue through the remainder of December and into January. Benefitting from these factors, plus overall higher bid rates and budgets related to seasonality.

The key priorities for the Appia Core business over the next two quarters will be to continue to scale distribution outside of the United States, which will drive incremental revenues and to continue to improve data science and products that we believe will, in turn, create differentiated advertising units in the marketplace that carry better gross margins by virtue of the premiums they command.

As Bill mentioned, we have all of these starting to launch RTB campaigns where we are bidding a fixed price for inventory. This strategic shift has begun and we expect this capability to be leveraged across our entire advertising network, will drive incremental growth and margin enhancement in the coming quarters.

Finally, in our content business, revenue this quarter is trending down versus Q2. We have invested behind and realized some new opportunities in Southeast Asia that will result in continued growth in the content business allowing it to stand on its own, a key priority of ours for each of our businesses. That said, while we remain excited about these opportunities, we must match efforts to value and allocate investment to areas where we have the greatest opportunity for value creation, being data science and additional Ignite resources. We do not expect the allocation of resources away from content to materially diminish growth prospects in the business and remain comfortable with growth in the high single digits on an ongoing basis.

We still have a lot of front of us between now and the end of the calendar year and fiscal year, with a number of factors potentially impacting the outcome of Q3, which Bill touched upon in his remarks; and to that end we have opted to focus our guidance on the full fiscal year ending March 31st. These factors include, number one, attribution. Recall that we are running both CPP cost per placement and CPI cost per install campaigns. For CPI, revenue is not recognized until the end user actually opens the preloaded application, the window for which, per our advertising agreements, is from 30 to 60 days. If a device is purchased in the holiday season and is under the Christmas tree, up to 80% of revenue given our current install rate may not be recognized until the January timeframe.

Number two, Bill touched upon a capacity issue, whereby approximately 1.3 million applications have yet to be delivered, a percentage of which will be delivered and revenue may be recouped. As we are working this issue real time, the timing for when revenue may actually be recognized could put us into the January timeframe as well.

Number three, finally, as we remain in constant communication with our distribution partners this time of year, we do expect to see increased promotional activity between now and December 31st, but again want to be conservative in forecasting it, as it yet to occur.

I think it's also important to briefly reference that we remain the March fiscal to account and capture these dynamics in the mobile advertising landscape. With more experience and empirical data, we will undoubtedly get smarter with regard to timing. However, these timing dynamics will impact revenue days, revenue weeks and perhaps revenue in a quarter, but not the fiscal year as a whole.

Moving on and with respect to our updated fiscal 2016 outlook, as set for in our press release issued in advance of this call, we have adjusted our fiscal '16 revenue outlook to a range of $90 million to $100 million, more than tripling fiscal '15 report revenue of $28 million and representing approximately 65% growth over the $58 million of pro forma '15 revenue, assuming we own Appia for the entirety of the fiscal year, both percentages relative to the midpoint of our revised guidance range. With actual reported revenue of $39.8 million through September 30th, our revised outlook implies approximately 40% sequential growth at the midpoint in the second half from the first half of the year, reflecting the increasing adoption of DT Media, as mentioned in my remarks up front.

The primary reason for our adjustment in outlook is a revision in the expected timing of device launches with major distributor partners such as American Mobile, which we now expect to launch in Q1 of '17 as well as the onboarding of Cricket, Millicom and MTS, which will occur later in Q4 than originally anticipated. The prior contribution of these distributors to Q4 and, in turn, to fiscal '16 along with AT&T, which we conveyed in September, which will be a Q1 launch, was meaningful. It's important to note and to stress that these are timing issues and not structural underlying issues in the business. These distributors will contribute to our revenues in a meaningful way in fiscal '17.

To give you some guidelines in how we think about our revenue ramp for the remainder of the year, within our second half outlook of $50 million to $60 million we would expect at the midpoint approximately 45% of our revenue to occur in fiscal Q3 and approximately 55% within fiscal Q4. This range implies sequential growth in Q4 over Q3, driven by the following factors.

Attribution of Q3 devices activated in Q4, as previously described, or activated in Q3 with, revenues recognized in Q4 as previously mentioned; the contribution of Cricket, MTS and Millicom, albeit less than original expectations; a full quarter of eight slots across US distribution partners; and most importantly, expected yields in excess of our previously stated $2.00 per device range. Finally, as the sequential growth would imply we expect to be adjusted EBITDA-positive for all of fiscal Q4. While we'll be very close to profitability on the same basis for the month of December through continued cost control and resource reallocation, we expect to turn the corner early in Q4, as revenues continue to ramp, DT Media contribution increases to enhance our gross margin profile and we continue to keep cash operating expenses in check at roughly $2.5 million per month.

Big picture here is we are starting to demonstrate the true operating leverage of this business, as we expect to grow revenues approximately 65% while keeping costs flat and generating gross profit to cover our cash costs and meaningfully reduce our cash burn. Looking beyond this fiscal year to fiscal '17, I would like to highlight a number of drivers that get us very excited about the prospects for continued solid growth.

DT Media's continued growth will be driven by positive quarter or prior-year quarter results from large US distribution partners with whom we will enter fiscal '17 at high device penetration as compared to April 1 of fiscal '16 and the onboarding of new distribution partners, including American Mobile, AT&T, and a more meaningful contribution from MTS, Millicom and Cricket. Growth in Appia Core, which will be driven by an increased focus and effort internationally, as well as RTB, and continued growth in high single digits in DT content by continued penetration of DT-paid customers in the Pacific rim and Australia, as well as new content business opportunities in Southeast Asia.

All taken together, we remain extremely enthusiastic about what we are building. We expect to exit fiscal '16 generating positive adjusted EBITDA, the trends in DT Media are strong. Our underlying fundamentals continue to improve. There is demand for our products and services. Adoption is happening and our results, albeit slower than expected, are improving each quarter.

To that end, we recently commenced our fiscal 2017 planning process and we will be presenting a plan to our audit committee and board in early calendar ’16, at which point we will revisit the discussion on formal guidance for next year.

That concludes our prepared remarks. Operator, would you please give instructions for Q&A?

QUESTIONS AND ANSWERS

Operator
Ladies and gentlemen, we will now begin the question and answer session. To ask a question, you may press * and then 1. If you’re using a speakerphone, we do ask that you please pick up your handset before pressing the keys to ensure the best sound quality. To withdraw your question, you may press * and 2. Again, it is * and then 1 to join the question queue.

Our first question today comes from Mike Malouf from Craig Hallum Capital Group. Please go ahead with your question.

Mike Malouf
Great, guys, thanks for taking my questions. I’m wondering if you could just give us a little bit of guidance on how you expect American Mobile, and separately AT&T, to ramp. I had thought previously you thought maybe American Mobile could turn on much quicker than some of the other carriers and then AT&T might be a little bit more gradual. That’s first.

Bill Stone
Yes, sure, Mike, this is Bill; I’ll take that. As it relates to American Mobile, we’re providing them a software drop in early January and then it’s a question of how to integrate that drop into their existing container application. We want to be conservative, given some of the integration issues and we haven’t launched yet and again, just looking at some of the things in our past and history, we wanted to make sure we’re setting the expectations with investors that we can recognize and start getting going with these guys in the following quarter, meaning the June quarter. But if we can pull that in, then obviously that would be a good news message. But just given the operational complexity and we haven’t gotten going yet, we felt it best to be much more prudent and conservative regarding American Mobile, but we do expect American Mobile to roll out very aggressively as we’re solving a pain point for them today, so this is not a green field launch for them. This is something where Ignite is helping them solve problems with their existing app, so we’re very excited about American Mobile and the potential that it brings.

Mike Malouf
So once they launch, the May revenue on a device basis will be roughly the same as it will be six months from now? It’s going to basically turn on like a light switch.

Bill Stone
No, it’s not going to turn on like a light switch, but what will happen is we expect it to turn on across the much broader set of devices more quickly than our other launches have. So if we want to compare that to our Verizon launches, where we started with a couple of devices and then it took us to basically six to nine months to get going across all the new devices, we expect something much more rapid than that with American Mobile. So, as I think I’ve mentioned on prior calls, they move more Android devices than Verizon and AT&T combined, so we’re very excited about that relationship and getting going; but we want to make sure that we don’t get over our skis from a forecasting and guidance perspective with that particular relationship.

Regarding AT&T, as I mentioned in my comments, we’re going to start with Cricket and we expect Cricket to contribute into the March quarter. And one of the things I know some investors have asked about in the past is why not start on devices that are already out in the marketplace, especially higher profile ones. And that's something we anticipate that we will be doing there, so we're excited about that relationship and getting going with them. With AT&T we're going to be launching with them with the startup wizard and there's a variety of integration activities that have to occur with AT&T; and we want to make sure that we're extremely conservative in how we're forecasting the timing with them since we don't have history.

However, with that being said, given the energy that AT&T has put into this relationship so far as well as the resources we've expended on it so far, we anticipate this being a very material contract for us into fiscal '17 and something that we anticipate will be across all of their Android devices, although at this early stage, I can't predict exactly what date that will be.

Mike Malouf
Okay, great, and then just a comment on the new guidance that you put out, it sounds like a lot of the revenue recognition that you're talking about within the third quarter and the fourth quarter and I think Andrew had a list of four or five impacts, but that whether it happens in the third and the fourth it'll happen over this quarter and next quarter. What is the real big impact on whether you come in at the $90 million or the $100 million, when it's all said and done, for the actual year?

Bill Stone
Yes, let me start with that, Mike, and then I'll turn it over to Andrew if he wants to add any color on it. I think there are probably three or four different factors there. One is just ensuring our forecasts are on the content and not the core business is what we believe it is. That has been stable. It has been consistent. Obviously, that trend we expect to continue, but in terms of opportunities and risk, that's one thing out there. I think the more material things will be, first, around slot count and ensuring that we maintain the current slot count with opportunities to expand it, which obviously drives yield per device. Second is just what will be the sell-through of new devices and in particular the timing of some high profile ones that are right around the March quarter timeframe and so the impact of those and exactly what happens in the March versus April for the fiscal year. That could be very material.

And then the final and perhaps largest metric is really around these new customer launches. And what we've done today is we've always risk discounted these launches. We have taken a much more conservative view than we have prior, so, for example, we had one large distribution partner that wanted to get going with us for the holidays this year when we put our guidance together. We felt that was aggressive. We haircut that to the March quarter. We've now since haircutted that to the June quarter to be much more cautious than just haircutting it by one quarter, just given the speed and things that we've seen happening around the integration there. So those are the types of things I think that, when you add all of those up across these new customers, that have really driven some of the changes in the guidance on a material basis.

Mike Malouf
Okay, thanks for the help.

Operator
Our next question comes from Brian Alger from Roth Capital Partners. Please go ahead with your question.

Brian Alger
Hi, guys, good afternoon. Following up on Mike's question, I'm trying to get at how much we've derisked the situation here. Obviously, it's a pretty big adjustment to the prior guidance and not to beat a dead horse, because you've outlined why the changes have been made, but what Mike and I are

trying to best understand is if there's risk to that $90 million and if so, where that risk may come from and what may cause the revenue line to come in the bottom half of the range versus the upper half.

Bill Stone
Yes, sure, Brian, so this is Bill. It's really going to be things like I just mentioned. Number one will be ensuring that we continue the yield, which will be driven by the slot count. That's not a contractual commitment, that's a market opportunity, but clearly it's benefitting our partners right now, so that would be one factor you'll continue to look for.

Second is just device sell-through and some of the things I mentioned earlier on new devices launching and sell-through between now and the balance of the year. Third, are the new partner launches, which I just described to give Mike a couple examples of around some here in the US and some in foreign lands. And then finally, was just around the Appia Core and content business assuming that our consistency and forecasting those businesses continue, so I think those are really the key drivers that will impact where we are within the range for the guidance today.

Brian Alger
All right and as a clarification, Andrew, I think you mentioned that content is currently trending down, due to some lower expenditures in the past. Seasonally that doesn't seem to jive. I'm trying to understand what's going on there and is it materially down or is it just slightly down versus prior expectation about how should we think about that trajectory?

Bill Stone
Brian, let me take the business part of it and I'll let Andrew hit the financials. The content business is, I would call it, very marginally down. It's not down in any material way, but this is really a function of the carrier app store business and our choice in Australia to begin investing those resources and costs to get this business to profitability in other areas where the business, we believe, will grow much faster into the future. We do see a material content growth happening in Southeast Asia and India as we go into the future, but as a particular instance, the content business in Australia, we're making some strategic decisions right now around where to allocate our capital; and we believe our capital is better allocated in the areas that we outlined. So we're not talking about anything material, but we are talking around some things around the edges for that particular business.

Andrew Schleimer
And I think the key point, Brian, just in terms of thinking about the future is, annual comps, this is a single-digit growth business. Obviously, before we do things like make investments to close the loop and integrate DT pay as a back end payment solution for Ignite-delivered applications, which is part of the broader strategy, we can think about the content business as a lower, less sexy, growth rate, but this particular quarter, for the reasons Bill mentioned, will be down marginally.

Brian Alger
Okay, and is that including adjustments for currency or is currency adjustment coming on top of that?

Andrew Schleimer
Yes, the currency has actually been more flat for this particular quarter than I think it has. I'm not following it everyday, but I don't think we've had some of the material swings that we've had in prior quarters; and so we're looking at this on a constant currency basis.

Brian Alger
Okay, I just wanted to be clear on that, okay, great. And the final piece that for me is as we look at American Mobile, it clearly has an enormous potential on Ignite, but my recollection was that we're

going to start campaigning via Appia against that install base before we got the Ignite launched. Is that still the expected plan?

Bill Stone
Yes, and Brian it is the plan. We've already been doing that for a number of months and are generating revenue today with American Mobile and, I believe, in most all of their countries and we're in the process of ramping and scaling those activities. All my comments earlier regarding American Mobile were specifically in regards to our Ignite and IQ products going inside their container application on new devices.

Brian Alger
Great, thanks for the clarifications.

Bill Stone
Thanks, Brian.

Operator
Our next question comes from Sameet Sinha from B. Riley. Please go ahead with your question.

Sameet Sinha
Yes, thank you, a couple of questions here. So, can you provide some additional clarity on Appia? If I remember from the last earnings call, you had indicated that there was some campaigns that had gotten pushed out, if you can provide some information there.

Secondly, now that you have had a few weeks of eight slots under your belt, can you talk about the incremental yields that you're seeing on the incremental flow force slots and do you think that over a period of time, as you have a learning curve effect kick in, do you think that those yields have room to go up and then I have a follow-up question. Thanks.

Bill Stone
Yes, sure, I'll take the yield one, but just to be clear that Andrew and I understood the first question when you mentioned around Appia, could you clarify that, Sameet?

Sameet Sinha
That's okay. I think on the earnings call you had mentioned that some campaigns got pushed out into the following quarters. I just wanted to get a sense. I think that you had indicated around people are waiting for more RTB-type solutions and there were some quality issues as well that you had hinted at. I know you've launched with RTB, so if you can give us kind of a sense of where all that stands.

Bill Stone
Yes, okay, yes, that was on the DT Media business, not the Appia Core, so I understand now. Regarding that question, we did see a number of campaigns where people wanted to ensure that we had targeting of scale. We had holiday devices and holiday device volume to get behind. As I mentioned in my prepared remarks, we're seeing that we're doing, for example, nearly 40 different campaigns today for the Galaxy S6 with targeting, where we're targeting specific segments, and so that capability that we're now doing is something that advertisers wanted to see it scale, so whether those are advertisers like Starbucks or advertisers like Walgreen's or advertisers like the *New York Times* and so on that really wanted to take advantage of the holiday season and our ability to do this at scale. And that's what we're seeing now.

The issue that we've had there is making sure that we have other campaigns to address these segments that aren't addressed by the targeted campaigns. And I think this gets into your second question around device yield as we add additional slots and so what we're seeing right now is no real material impact in terms of drop-off in terms of the revenue opportunity. As we add additional slots, because there is strong demand. The biggest thing that we've seen over the past few weeks are just largely operational and technical in nature.

Without getting too much into the technical weeds here on this call, we do see that you're doubling the payload of the apps. You're introducing a lot more capacity. You're introducing a lot more applications. You're introducing a lot more use cases of things that can happen in terms of how the apps get downloaded and attributed. And those kinds of details, really what we've seen so far, have been the gating and limiting factors in terms of simply just doubling the yield for the additional slots. And so those are all short-term things that we'll work through with our partners, but those have been the ones that we've been predominately focused over the past few weeks.

Sameet Sinha
Okay. Another question, you gave us a background between cost for install and cost for replace, those campaigns that you have. Can you talk about it historically, how that has trended? And it seems like you're more interested in the lifetime value, which is probably the right approach, but where to do you think the split between the mix could end up in, let's say, two or three quarters?

Bill Stone
Yes, we expect that the mix of CPP campaigns as a percentage of total is going to continue to increase. Today's it's roughly 50/50, but we have to ensure that campaigns where we don't have targeting that we can fill, and we want to fill those based upon the maximum revenue opportunity. And so, when you're not using targeting, we want to make sure that the advertiser is going to take less risks in terms of paying a guaranteed CPP, so we have data on certain generic applications, take for example a King Digital with an Candy Crush that's very widespread and something can done on CPI, something we can do at $2.00 with 30%-type open rates, that's a much preferred option than an advertiser taking a risk that's untargeted on a CPP. So as our targeting capability improves, we should expect CPP to continue to grow and the CPP rates that we're seeing today continue to accrete, but we have to make sure for the customers that are not targeted that we've got applications that cast a wide enough net to hit a variety of different segments.

Sameet Sinha
Thank you.

Operator
Our next question comes from John Hickman from Ladenberg. Please go ahead with your question.

John Hickman
Hi.

Bill Stone
Hi, John.

John Hickman
Andrew, can you hear me?

Andrew Schleimer
Yes, we can hear you loud and clear.

John Hickman
Okay. Okay, thanks. Could you discuss for us, it sounds like one of the big factors for your reduced revenue expectations, particularly for Q3, is device sell-through. Can you discuss some of the factors that are contributing to why the Androids haven't sold as well as maybe what you expected a few months back?

Bill Stone
Hi, John, it's Bill. Let me take that and then Andrew can jump in with any color here. I think there's a few different factors in play here and we don't have the answers since we're right in the midst of the holiday selling season right now. We should have much more clarity and visibility as we get our on our December earnings call early next year. But in terms of Android versus iOS market share, in terms of specific Ignite versus non-Ignite devices, in terms of what those are being sold through, would be a second variable.

A third variable would be promotional activity whether it's promotional activity by the partner or by the competitors. For example. I just saw one competitor launch today a buy one, get one free promotion on a Galaxy S7. We're seeing increased promotional activity for our partners, so those are all things that are going to drive mix of a medium-term sell-through all overarched by this Black Friday selling season becoming more extended versus being a single day. So I think those are really the factors that play. But in terms of assigning a percentage to each of those, I don't have enough facts and data today to really be able to do that.

John Hickman
So still [audio disruption], are new Android devices coming out with Ignite or are they still picking and choosing?

Bill Stone
No, they're all coming out with Ignite, but there are still some devices, like the older Motorola Droids or Droid Max's from last year or the Galaxy S5, devices like that, that were launched before we started putting it on new devices in April, so there's still some sell-through. What the exact percentages are I don't have any insight into that today.

John Hickman
Okay, thank you. That's it for me.

Operator
Our next question comes from Ilya Grozovsky from National Securities. Please go ahead with your question.

Ilya Grozovsky
Okay, thanks, guys. My question was, so how dynamic is the business right now, given that about two and a half weeks ago or so you guys had a conference call and you felt like you were not able to give us essentially this guidance and yet 20-ish days later, you are? I just want to understand how dynamic things are changing in the business. Thanks.

Bill Stone
Yes, sure, Ilya, there are a lot of sub-details, but really two main themes that I'd say that have happened over the past 30 days that have given us a lot more additional insight on the business. The first is just what do the holidays look like in terms of device sell-through and our ability to deliver additional slots and additional campaigns. Now we've been doing that. We've been doing that at scale. We got some visibility in devices and sell-through and we know what the historical numbers and

we can see what our actuals are against those and pro-rate those forward, so that would be number one.

Number two and the more material one, though, is in the last 30 days we've been very deep our product integration efforts with all the partners that I mentioned in my remarks; and so we now have much more definitive devices identified, launch dates, integration plans, etc that we've been able to work to a much higher degree of detail than we had 30 days ago. And in our original guidance we didn't have that same level of information or insight when we did the guidance earlier this calendar year. Now we've got much better insight into that and hence our ability to update the things around timing for those new partners.

Ilya Grozovsky
Okay, and then my other question was, on the 1.3 million apps that you said were not delivered around Black Friday, can you elaborate on that a little bit? When you're saying they weren't delivered, so are the slots on the phone you thought you would have eight and you essentially had only seven in those scenarios, or four or three? Can you just go into that a little more?

Bill Stone
Yes, sure, so there are some capacity issues in terms of how those applications get delivered by one partner that are different than how other partners have configured their networks for us. This particular configuration that the partner uses requires us to have more IP addresses to be able to deliver those apps on very high traffic or high volume hours within a day, say a Saturday afternoon or a Black Friday afternoon or whatever it happens to be. You run out of that capacity and therefore your ability to deliver all of those applications down to the consumer.

We've addressed this issue and have a fix in place going forward in terms of how that's going to be recognized and done at more scale, but that ability to not deliver those applications down to the device ends up does impact our results. We're looking at how much of that, as Andrew said, we can recoup.

For example, phones that are under Christmas trees right now the opportunity to redeliver those versus customers that have already activated their phones, so we don't disrupt the customer experience, so those are the kinds of technical details that we're working through real time. But in essence it was a very short-term capacity configuration issue with us working through with our partner.

Ilya Grozovsky
And what do you think that cost of that had it not happened, what kind of revenues are we talking about?

Andrew Schleimer
We're talking about low to mid hundreds of thousands. This is not multiple seven figures of revenue, but with the law of somewhat small numbers here on DT Media, it is relatively important that we go and attempt to recoup as much as possible.

Ilya Grozovsky
Got it, great, thank you, guys.

Operator
Our next question is a follow-up from Brian Alger from Roth Capital Partners. Please go ahead with your question.

Brian Alger

Hi, guys, just doing some math here, if I remember right, you guys said that the split between the call it fiscal Q3 and fiscal Q4 is roughly 45/55. Is that against the midpoint?

Andrew Schleimer
That's correct, Brian.

Brian Alger
Okay, so mathematically we're talking, if we use those numbers, 25 and 30, rounding?

Andrew Schleimer
That's correct.

Brian Alger
So, Q3, to do $25 million versus the October revenue run rate of $7.8 million effectively implies no growth in December and January?

Andrew Schleimer
How are you getting there, Brian? Basically what we're saying here is, given the range of reasonable values based upon what we know today, given some of the material issues that are impacting the timing of revenue. Clearly attribution, this capacity issue which we alluded to, distribution partners coming back to us with dynamics here that impact us on the back end of December, so our point that we're making here as we look at this as $50 million to $60 million in the back-half of the year, but to illustriously put some sort of goal posts around how to think about Q3 and Q4 we thought it would be prudent to talk about how that will be distributed at around the midpoint. This is not exact math here. It's somewhat art and science, hence why we gave the goal posts.

Brian Alger
Right, and I get that and that's why I'm asking the clarification because if we take a low point of the range and we still use 45 and 55, we had a month-on-month decline equated versus the 7.8, which, obviously, when you take 7.8 times 3, you get to a number that's just under $24 million. So again, my point being, are we just being really conservative here and in that 45% range, or is it just something that's really a broad swath, because what we've run into, Andrew, and I know you're very cognizant of this is, people taking these comments being literal and then holding you or me accountable to them. So I'm trying to understand with the best clarity possible why we think there's going to be such a material jump in the March quarter relative to December and what the lower bond of the guidance is here and if we're really at risk of having to ratchet this thing down again.

I'm sure you're facing the same questions I've been facing already and I just want to get our numbers aligned and I figured it's better do it on an open mic here.

Andrew Schleimer
I obviously appreciate that and I want to make sure that we're all aligned to make sure that we're not finding ourselves in this position in the future. What we attempted to do here, and again, it's more along the lines of setting ourselves up for how we view the rest of the year at $50 million to $60 million while we know there are a handful of things that bleed into January that are currently at our fingertips and we'll know a bit more when we get into January. But we are comfortable, obviously, with the range of 90 to 100 and in the prepared remarks I specifically called out an approximate illustrative split of 45 and 55 at the midpoint of the range. Obviously, revenue moves between the month of December and January, potentially quite materially, hence why we're providing some guidelines in order to just allow us to level set as to where we expect to be in December and then where we expect to be in March.

As we think about March and the things that will be driving sequential growth, the most important factors are obviously attribution, the contribution of the these new distributors and Cricket and MTS and Millicom, a full quarter of eight slots, which clearly we do not have in the December quarter and then further enhancement in yield, driven by just getting better at targeting and of course the increase of eight slots for the entire quarter.

Bill Stone
Brian, it's Bill. I just want to lift the lens up just a little bit here and make a couple macro points. When we're talking about in the first half to the second half of this year, we are talking about at the midpoint north of 60% top line growth, 200% growth at DT Media, op ex being flat despite that growth and a business that's getting to adjusted EBITDA profitability, so I'm not happy. I'm not satisfied with those trajectories, but I do want to make sure that we highlight the progress that is being made versus what was in the rear-view mirror.

Brian Alger
I appreciate it guys, thanks.

Operator
Our next question comes from Rick Sollman, who is a private investor. Please go ahead with your question.

Rick Sollman
My question has been asked and answered, thank you.

Operator
And ladies and gentlemen at this time we've reached the end of today's question and answer session. I'd like to turn the conference call back over to Mr. Stone for any closing remarks.

CONCLUSION

Bill Stone
Yes, thanks everyone for joining today's call. I wish everyone here happy holidays and we'll talk to you guys again when we report our December quarter early in the new year. Have a great evening. Thank you.

Operator
Ladies and gentlemen, that concludes today's conference call. We do thank you for attending. You may now disconnect your telephone lines.