November 13, 2018

Fusion Reports Third Quarter 2018 Financial Results

Revenue up 28% Year over Year; Additional Acquisition-related Cost Savings Now Expected to Drive At Least 30% Upside to Original Synergy Target

NEW YORK, Nov. 13, 2018 (GLOBE NEWSWIRE) -- Fusion (NASDAQ: FSNN), a leading cloud services provider, today announced financial results for the three and nine months ended September 30, 2018.

Third Quarter 2018 Highlights

- Revenue was $143.4 million, up 19% compared to $120.8 million in Q2 2018 and up 28% compared to $112.4 million in Q3 2017
- Gross margin was 49.1%, compared to 45.2% in Q2 2018 and 47.9% in Q3 2017
- Net loss attributable to common stockholders was $18.1 million, or $0.23 per share, compared to a net loss of $34.5 million, or $0.59 per share in Q2 2018 and a net loss of $1.5 million, or $0.06 per share in Q3 2017
- Excluding transaction and integration-related expenses, non-GAAP net loss attributable to common stockholders was $11.3 million, or $0.14 per share
- Adjusted EBITDA (a non-GAAP measure) was $30.6 million, or 21.3% of revenue, compared to $26.6 million in Q2 2018 and $30.1 million in Q3 2017
- Capital expenditures were 7.6% of revenue, compared to 8.8% of revenue in Q3 2017
- Unlevered Free Cash Flow (a non-GAAP measure), defined as Adjusted EBITDA less capital expenditures, was $19.7 million, or 13.7% of revenue
- Achieved integration-related cost synergies with an annualized run-rate of approximately $27 million exiting Q3 2018, representing 77% of the $35 million of targeted acquisition-related synergies within 12 months following the closings
- Fusion has identified additional integration-related synergy savings that were not part of its original estimate, and now expects to exceed its targeted synergies by at least 30%
- Average monthly revenue per customer (ARPU) was $303, compared to $309 in Q2 2018 and $298 in Q3 2017. Excluding Fusion's customer base in Canada, ARPU was $628
- Monthly Recurring Revenue (MRR) bookings were $2.1 million, up sequentially from $2.0 million in Q2 2018 (inclusive of the full Q2 2018 results)
- More than 80% of Fusion's total bookings in September consisted of higher margin services, while approximately 40% of these sales had an MRR over $1,000
- Approximately 55% of the MRR of all new bookings represented sales of multi-product solutions
- Strong progress in cross-selling and upselling, with nearly 30% growth in bookings to existing customers in Q3 2018 compared to Q2 2018
- Churn was 1.3%, compared to 1.5% in Q2 2018 and 2.3% in Q3 2017

- Significant improvement in the customer experience, as reflected in higher first call resolution rates, shorter call wait times, and higher CSAT (customer satisfaction) scores

Management Commentary

“The third quarter marked an important milestone for Fusion, as we are reporting our first full quarter of consolidated results following the closing of the Birch and MegaPath acquisitions, and our strong performance is beginning to demonstrate the power of our combined platform,” said Matthew Rosen, Fusion’s Chairman and Chief Executive Officer. “Our revenue trend has now largely been stabilized, and we showed sequential, month-over-month growth in MRR in September. Our churn rate improved materially, while bookings, backlog and ARPU were all solid. We exited the quarter having achieved 77% of our pre-merger synergy target, and since we have uncovered a substantial amount of additional integration-related cost savings, we now expect to outperform our original synergy target by at least 30%.

“We have a lot of exciting opportunities ahead of us thanks to our strong positioning in the market,” Mr. Rosen continued. “Our unique Single Source for the Cloud approach, combined with the benefits of our greater scale, has significantly enhanced our competitive advantage. The investments we’re making in our sales channels, service delivery and customer care are paying dividends. We are seeing more sales opportunities than ever before, especially for larger, higher ARPU deals for multiple services. Our cross-selling and upselling efforts have gotten off to a fantastic start, and we have the right strategy in place to gain a much larger share of our existing customers’ spend. Finally, we are advancing our technology leadership and innovation to launch new, disruptive software solutions in 2019, keeping Fusion ahead of the curve in the marketplace.”

Keith Soldan, Fusion’s Chief Financial Officer, said, “The strength of the third quarter results clearly illustrates execution of our strategic plan through enhanced distribution, selling multiple products as an integrated solution, with continued investment in high-ROI customer care initiatives, all while maximizing synergies and shareholder value. The continued successful execution of our plan, with growing Adjusted EBITDA and low capital expenditures, positions Fusion to deliver increasing levels of free cash flow in the quarters to come.

“We continue to expect an annualized revenue run rate of at least $575 million and an Adjusted EBITDA margin of 25% exiting the second quarter of 2019, with potential for upside to the margin,” continued Mr. Soldan.

Third Quarter 2018 Financial Results

Revenue was $143.4 million, up 28% compared to $112.4 million in Q3 2017. The increase was primarily due to the contribution of revenue from Fusion and MegaPath.

Gross margin was 49.1% for the three months ended September 30, 2018, compared to 47.9% in the year-ago period. The increase is primarily due to the realization of cost of revenue synergies within the quarter through network consolidation and network grooming throughout Fusion’s footprint, along with a slight shift in revenue mix due to accelerating sales of higher-margin cloud services.

Selling, General and Administrative expense was $46.8 million, compared to $26.8 million in Q3 2017. The increase was primarily due to the contribution from Fusion and MegaPath, and included $6.8 million of acquisition transaction and restructuring costs.

Net loss attributable to common stockholders was $18.1 million, or $0.23 per share on a basic and diluted basis, compared to net loss to common stockholders in Q3 2017 of $1.5 million, or $0.06 per share on a basic and diluted basis. Excluding acquisition transaction and restructuring costs, net loss attributable to common stockholders was $11.3 million, or $0.14 per share.

Adjusted EBITDA was $30.6 million, compared to $30.1 million in Q3 2017 (see definition and further discussion about the presentation of adjusted EBITDA, a non-GAAP term, below). Capital expenditures totaled $10.9 million, or 7.6% of revenue, compared to $9.9 million, or 8.8% of revenue in Q3 2017. Unlevered Free Cash Flow, defined as Adjusted EBITDA less capital expenditures, was $19.7 million, or 13.7% of revenue.

Total cash and equivalents at September 30, 2018 were $15.4 million, compared to $5.8 million at December 31, 2017. Fusion paid $6.9 million in principal amortization payments on its credit facilities during Q3 2018.

Further details about the Company's financial results are available in its quarterly report on Form 10-Q, which will be 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 the Company's financial results, followed by a question and answer period. To access the call, please use the following information:

Date:	Tuesday, November 13, 2018
Time:	4:30 p.m. ET, 1:30 p.m. PT
Toll-free dial-in number:	1-877-407-9716
International dial-in number:	1-201-493-6779
Live webcast link:	http://public.viavid.com/index.php?id=131755 or ir.fusionconnect.com under "Upcoming Events"

Interested parties should dial into the call 10 minutes prior to the start time and ask to be placed into the Fusion call. An operator will register your name and organization. If you have any difficulty connecting with the conference call, please contact MZ Group at 1-949-491-8235.

Use of Non-GAAP Financial Measurements

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

- Tables Follow -

FUSION CONNECT, INC. AND SUBSIDIARIES

Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenue	$ 143,428	$ 112,424	$ 367,142	$ 344,167
Cost of revenue (exclusive of depreciation and amortization, shown below)	72,981	58,552	194,297	184,451
Gross Profit	70,447	53,872	172,845	159,716
Operating expenses:				
Selling, general and administrative	46,788	26,830	113,555	88,164
Depreciation and amortization	19,946	16,824	51,387	50,466
Impairment losses on intangible assets	-	-	2,314	-
Foreign currency (gain) loss	(248)	(295)	263	(461)
Total operating expenses	66,486	43,359	167,519	138,169
Operating income	3,961	10,513	5,326	21,547
Other (expense) income:				
Interest expense, net	(21,647)	(11,405)	(51,017)	(32,886)
Loss on debt extinguishment	-	-	(14,414)	-
Other income	203	1	35	51
Total other expense	(21,444)	(11,404)	(65,396)	(32,835)

Loss before income taxes	(17,483)	(891)	(60,070)	(11,288)
Income tax (expense) benefit	(148)	(654)	4,721	(2,008)
Net loss from continuing operations	(17,631)	(1,545)	(55,349)	(13,296)
Net income (loss) from discontinued operations	-	(5,160)	6,218	(13,293)
Net loss	(17,631)	(6,705)	(49,131)	(26,589)
Other comprehensive income (loss):				
Cumulative translation adjustment	46	1,923	(1,405)	1,667
Comprehensive loss	$ (17,585)	$ (4,782)	$ (50,536)	$ (24,922)
Net loss from continuing operations	(17,631)	(1,545)	(55,349)	(13,296)
Preferred stock dividends	(467)	-	$ (1,254)	-
Net loss attributable to stockholders	$ (18,098)	$ (1,545)	$ (56,603)	$ (13,296)
Basic and diluted loss per common share from continuing operations	$ (0.23)	$ (0.06)	$ (1.05)	$ (0.53)
Basic and diluted (loss) income per common share from discontinued operations	$ -	$ (0.21)	$ 0.11	$ (0.53)
Basic and diluted weighted average common shares outstanding	78,435	25,161	54,143	25,161

FUSION CONNECT, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 2018 (unaudited)	December 31, 2017
Current assets:		
Cash and cash equivalents	$ 15,426	$ 5,757
Accounts receivable, net of allowance for doubtful accounts of $5,558 and $2,652, respectively	52,597	25,372
Accounts receivable - stockholders/employees	103	920
Prepaid expenses	11,276	6,290
Inventory, net	2,367	1,142
Other assets	4,483	2,505
Current assets of discontinued operations	-	40,038
Total current assets	86,252	82,024
Long-term assets:		
Property and equipment, net	120,612	106,557
Goodwill	218,151	89,806

Intangible assets, net	176,465	68,834
Other non-current assets	32,518	877
Total long-term assets	547,746	266,074
Total assets	$ 633,998	$ 348,098
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 75,500	$ 40,315
Accrued telecommunications costs	4,812	11,048
Deferred customer revenue	16,440	10,226
Other accrued liabilities	41,706	23,948
Current portion of capital leases	2,525	3,003
Current portion of long-term debt	30,779	26,500
Current liabilities from discontinued operations	-	34,864
Total current liabilities	171,762	149,904
Long-term liabilities:		
Non-current portion of long-term debt	589,433	410,736
Non-current portion of long-term capital lease	2,830	3,823
Other non-current liabilities	6,149	12,847
Total non-current liabilities	598,412	427,406
Stockholders' deficit:		
Preferred stock, $0.01 par value, 10,000 shares authorized, 15 and 0 shares issued and outstanding, respectively	-	-
Common stock, $0.01 par value; 150,000 shares authorized, 78,501 and 25,161 shares issued and outstanding	785	252
Additional paid-in capital	145,638	5,824
Accumulated deficit	(282,383)	(236,477)
Accumulated other comprehensive (loss) income	(216)	1,189
Total stockholders' deficit	(136,176)	(229,212)
Total liabilities and stockholders' deficit	$ 633,998	$ 348,098

FUSION CONNECT, INC. AND SUBSIDIARIES

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Net (loss) from continuing operations	$ (17,631)	$ (1,545)	$ (55,349)	$ (13,296)
Interest expense and other financing costs	21,647	11,405	51,017	32,886
Income tax (benefit) expense	148	654	(4,721)	2,008

Depreciation and amortization	19,946	16,824	51,387	50,466
EBITDA	$ 24,110	$ 27,338	$ 42,334	$ 72,064
Acquisition transaction expenses	13	262	10,655	262
Restructuring expenses	1,548	2,320	5,169	5,546
Transition expenses	4,914	-	5,581	-
Nonrecurring expenses	154	731	1,190	3,153
Stock based compensation expense	165	(30)	257	-
Foreign currency (gain) loss	(248)	(295)	263	(461)
Debt extinguishment	-	-	14,414	-
Impairment losses on intangible assets	-	-	2,314	-
Other expense (income)	(203)	(1)	(35)	(51)
GAAP adjustment to revenue	126	-	1,700	-
Adjusted EBITDA	$ 30,579	$ 30,325	$ 83,842	$ 80,513
Tax adjustment	-	(192)	-	(192)
Adjusted EBITDA net of tax exemption adjustment	$ 30,579	$ 30,133	$ 83,842	$ 80,321

About Fusion

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

Forward Looking Statements

Statements in this press release that are not purely historical facts, including statements regarding Fusion’s beliefs, expectations, intentions or strategies for the future, may be “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. 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 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 https://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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