[APPS] - Digital Turbine Fiscal First Quarter 2017 Earnings Conference Call
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Officers
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Bill Stone; CEO
Andrew Schleimer; EVP, CFO

Analysts
Mike Malouf; Craig-Hallum
Brian Alger; ROTH Capital Partners
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Presentation

Operator: Good afternoon, and welcome to the Digital Turbine fiscal first-quarter 2017 earnings conference call. (Operator Instructions).

Please note that this event is being recorded.

I would now like to turn the conference over to Senior Vice President of Capital Markets and Strategy, Brian Bartholomew. Please go ahead.

Brian Bartholomew: Thank you. Good afternoon, and welcome to the Digital Turbine first-quarter 2017 earnings conference call. Joining me today to discuss our results are Bill Stone, CEO, and Andrew Schleimer, CFO.

Before we get started, I would like to take this opportunity to remind you that our remarks today will include forward-looking statements. These forward-looking statements are based on our current assumptions, expectation, and beliefs, including projected operating metrics, future products and services, anticipated market demand, and other forward-looking topics.

Although we believe that our assumptions are reasonable, they are not guarantees of future performance, and some will inevitably prove to be incorrect.

Except as required by law, we undertake no obligation to update any forward-looking statements.

For a discussion of the specific risk factors that could cause our actual results to differ materially from those contemplated by our forward-looking statements, please refer to the documents we filed with the Securities and Exchange Commission.

Also, during this call, we will discuss non-GAAP measures of our performance. Non-GAAP measures are not substitutes for GAAP measures. Please refer to today's press release for important information about the limitations of using non-GAAP measures, as well as reconciliations of these non-GAAP financial results to the most comparable GAAP measures.

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

Bill Stone: Thanks, Brian, and thanks to all of you for joining us today.

I wanted to cover our four main areas in my remarks. First is providing an update on some new customer wins. Second will be to close out the June quarter. Third will be operational updates and new launches that will contribute to September and December operating results. And finally are some strategic comments about our business.

Andrew will take you through the numbers and also provide updates on other important financial issues, including our anticipated refinancing of the Company's short-term debt. We understand this is a material issue for investors to get clarity on.

Andrew will give you more details. But now that our 10-Q has been filed, I am very optimistic that this issue will have a solution in the next 30 days.

I want to begin my remarks by announcing a few customer wins. First is another Ignite win in India with Reliance Jio.

I've spoken many times about how important and strategic the Indian market is to us. Reliance Jio is another positive data point validating that strategy.

Jio's a ground-up 4G LTE network being funded primarily by billionaire Mukesh Ambani. Morgan Stanley has forecasted they expect Jio to add 30 million smartphones and subscribers this year and another 60 million new smartphones and subscribers over the next 24 months. Thus, it is a very material win for us.

Similar to our other Indian carrier partner, Airtel, it is a licensing deal where Jio will be paying us for the Ignite software at 100% gross margin to us, including minimum guarantees. Any potential advertising revenues would be incremental to the software licensing fees.

However, where Airtel is leveraging our Ignite SDK solution exclusively amongst the Indian operators similar to what American Movil has deployed, Jio will be leveraging our Ignite APT solution that is similar to the deployments here in North America.

We expect Jio to launch this calendar year.

Strategically, I want to highlight that you will continue to see additional announcements from us in the fast-growing Indian smartphone market, which has recently overtaken the US as the second largest in the world.

We now have line of sight to a material percentage of smartphones in India, having Ignite software on them as we get into 2017.

Combined with our pay offering in India, which I'll discuss later in my remarks, our Indian strategy is beginning to come together nicely.

Second is our relationship with Brightstar. For those of you not familiar with Brightstar, Brightstar is owned by SoftBank and is the largest distributor of smartphones in the world, handling device distribution for over 200 global wireless operators and over 40,000 retail locations, including retailers such as Walmart, Target, Best Buy, and also Apple stores where Brightstar manages the Apple devices returned to Apple stores which then get refurbished by Brightstar.

We expect to leverage Brightstar's unparalleled distribution footprint over the upcoming months. I'm very excited about this game-changing relationship to extend our global reach across new solutions, customers, and partners. And you will see numerous new wins where we leverage our Digital Turbine product portfolio with Brightstar's impressive global operator, OEM, and retail relationships.

Next is a new OEM win with Archos. Archos is a European OEM that sells approximately four million devices per year, primarily in Western Europe.

We anticipate launching in the next 90 days with our standard Ignite solutions across their device lineup. This agreement is a nice addition that helps us both scale in Europe, as well as grow our OEM business.

The strategic I want to make with all of these announcements and others we've discussed prior, is how we are improving our time to revenue with these new deals.

Verizon, AT&T, Deutsche Telekom, and American Movil, are all examples of great high-profile relationships for us, but are also examples of agreements that have taken a material amount of time and resources to launch.

We are now measuring implementation in days and weeks versus months and quarters. I will talk more about this later in my remarks.

Now to close out June, we finished the quarter at $24 million in revenue, which was up [4%] sequentially and 29% year over year. I'll break down the performance across our three business units, Content and Pay, A&P, and O&O.

First on Content and Pay, I was very pleased with our DT Pay and Content business contributing over $11.2 million of revenue, which was up 41% sequentially and 59% year over year.

We saw strong marketing from many new content providers in the quarter in advance of some operational changes made by Telstra in June.

This is recently offset by weaker marketing to see the impact of those changes. To eliminate any bad actors, Telstra has implemented a double opt-in policy for the purchasing of any new mobile services.

So, for example, if you see EA games for $10 a month, EA asks you to subscribe and then asks you again after you've agreed to subscribe to tick a box, recognizing you're subscribing with additional legal language.

Many content providers were concerned that seeing the tick box on a small screen would hurt take rates, and so they paused marketing in June and July until they assess the impact.

While content providers that paused marketing are finally getting comfortable with the take rates and beginning marketing again, our expectation is that this transitional pause will have an impact of roughly $1 million to $2 million in the current quarter.

This impact will be partially offset by our good growth in DT Pay in India, where we are now approaching $100,000 a month run rate.

Our A&P business performed below our expectations for the June quarter, as the spend of one of our customers continues to be curtailed.

More strategically, there continues to be a fundamental shift in the A&P business, as app-install programs increasingly transition from people to machines.

The structural solution to the shift is to pivot our A&P efforts more aggressively to realtime bidding, or RTB. We are making solid progress on this pivot, but it needs to grow faster to outrun the decline in the traditional A&P business.

We were at zero revenue in our RTB business six months ago, and are now at a low seven-figure run rate for this business today, but we need to accelerate that growth.

I'm excited about the possibilities that our unique Ignite Data will bring to our RTB initiatives to help us win and differentiate in the marketplace, and we have really data that validates this excitement.

We have learned that better targeting with Ignite Data equals better results, but we need to do it at scale. That is the major focus for us in the RTB business today. This involves scaling across more devices, more ad formats, more campaigns, more geographies, and more ad exchanges.

And finally, our O&O business generated $7 million in revenue for the June quarter. While this was down sequentially for a couple of specific reasons, most notably the timing of our S7 launch with a large North American operator, we are encouraged to have witnessed a rebound in the business late in the June quarter and into the current quarter. We are now live on the S7 with this particular operator, as well as with numerous others.

In particular, I want to highlight some specific operational updates across operators, advertisers, and OEMs.

First, we are once again seeing revenue growth with our largest North American operator. Our slot count varies between six to eight, depending upon device and time. And we're also now on the S7 and the S7 Edge. We will also be on the upcoming Note 7 at launch.

But we are also diversifying our revenues while also growing revenues with that largest operator partner. For example, in April, our largest North American partner was 76% of O&O revenue. In July, it was 61%, but had higher total revenue.

Specific international growth including partners such as Bouygues in France, Deutsche Telekom, MTS, BLU, Millicom, SingTel, Vodafone, and American Movil, are all contributing to these statistics.

With Deutsche Telekom, we are working on launching embedded base pushes this quarter in both Austria and Greece.

Millicom continues to be a steady performer, and we have recently put a plan in place with them to expand both their devices and countries. This is important, as it is a licensing deal at 100% gross margin to Digital Turbine.

We have also completed embedded base pushes across numerous operators and OEMs in the Americas, including American Movil, and they are contributing to revenue.

We are seeing device yields on embedded base pushes of roughly $1 here in the United States, and roughly $0.50 in Latin America.

We've now done pushes across many millions of devices to date, and expect to do many millions more in the remainder of the quarter.

Regarding AT&T, we expect to launch with AT&T in the next few weeks on multiple devices, and continue to launch as a stated feature on all new android devices as the year progresses.

AT&T is brandying the Ignite product as App Select. We have been working hard to integrate our software into their standardized device launch processes, which has taken a bit of time, but ensures we are part of their business-as-usual processes, which is a big positive.

While lengthening the time to revenue, I want to say that AT&T's been a terrific partner and is pursuing our relationship through a very strategic lens.

Regarding the Note 7, our software has been approved and it is on the device. But the exact timing is finalize some detailed internal AT&T production tests, in addition to some testing on some non-Digital Turbine applications, and these are being worked realtime.

This means I cannot provide an exact date today on when we will be live with App Select on the Note 7, but we will be on the device. We should have visibility on that exact date over the next seven to ten days.

We also continue to expand our horizons beyond mobile operators. BLU, InfoSonics, Archos, and Vizio are all examples of this.

We expect to continue to add global OEM partners over the next 90 days, as many OEMs are now calling us into accounts that were not even in our pipeline to [practically] approach.

The good news is that these implementations are vanilla, with little customization, which means faster time to revenue and strong gross margins.

Ignite Direct is now live and generating revenue in Southeast Asia. We have seen recent inbound interest for additional Ignite Direct deployments with multiple partners across multiple continents.

Globally, OEMs and operators want to solve for open devices, or devices that get distributed unlocked and the customer can simply pop a SIM card into the device versus it being locked to one operator. Ignite Direct solves this problem of app delivery to these devices for both the Apple iOS platform as well as android.

We see this solution as solving a big problem in the marketplace and see it as filling a natural gap in our portfolio between a traditional A&P publisher and our traditional Ignite deployments.

We're very encouraged that we're seeing inbound interest for this product, as it is solving a very clear problem in the marketplace.

Our revenue per device, or RPD, is consistent from our commentary on the June earnings call. It maintains at $1.70 per device. We are seeing revenue per slot, or RPS, of approximately $0.35 here in the United States and Australia, $0.28 in Europe, and approximately $0.10 in emerging markets such as India and Southeast Asia.

I expect to see accretion in these markets over time as seasonality, increased breadth, and improved scale all provide us better pricing.

On our June call, I talked about our strategic ad partners, including brands such as Uber, Starbucks, eBay, Hulu, and others that continue to be customers of ours.

We continue to add brands and advertisers to the Ignite platform, while existing brands spend additional dollars with us.

The major focus area now is working locally in international markets in Europe, Asia, and Latin America to bring local and international campaigns to our international partners. This is key for improved user experience and in scaling those international revenues.

Specifically, Lyft has been a great case study. Lyft started modestly with a $60,000 a month spend a few months ago. After they saw the data and our geo-targeting capabilities, they recently increased the rate they pay us, plus increased their total spend by 2.5 times, as their per-activated user metrics are now lower than other acquisition channels, including Facebook and Google.

We hear frequently that when app developers see diminishing returns from their Facebook and Google investments, that we are a natural next step in terms of better performance and volume.

In the immediate term, we remain intently focused on the building blocks of profitable top-line growth, namely, enhanced user experience, higher slot counts, additional partners and devices, and incremental bid rate increases with advertisers.

So from a guidance standpoint, it remains challenging to accurately forecast so many moving variables on a quarter-to-quarter basis.

Given the momentum of recent and expected launches with existing and new carrier and OEM partners, as well as the healthy demand from app developers and advertisers, particularly as the holiday season nears, we are comfortable forecasting sequential revenue growth for the remainder of 2016.

While margins and profitability will continue to be mix-dependent, we expect to be profitable on an adjusted EBITDA basis as we exit the September quarter. And, more importantly, we expect to generate positive cash flow in the December quarter.

Before I turn it over to Andrew, I know investor focus is on the immediate term with addressing the refinancing and solid execution being the top two priorities. We know this and agree with it, and that's why we're taking a very blue-collar, bring-your-lunch-pail-to-work attitude on the day-to-day business.

And as you've heard me say many times before, I view my job not just as solving immediate term issues, but also being able to look around the next corner and ensure we're positioned for the future.

On our last call, I had spent some time in my prepared remarks talking about the data insights we're able to gather from our products and how our data science will drive artificial intelligence, or AI, and predictive analytics that will enable us to differentiate and win.

But to win also requires execution at global scale. And as you can see with our launch at American Movil, our relationships with Brightstar, our new wins in India, you are now seeing additional data points of our global strategy and focusing on the right markets.

We're laser-focused here in North America, Latin America, and Indian, being some of the highest growth smartphone markets in the world, while continuing to be opportunistic in Southeast Asia, Australia, and Europe.

On upcoming calls and conferences, you'll continue to see additional data points on this focused approach, validating our strategy as we continue to grow and diversify our revenue streams.

So with that, I'll turn it over to Andrew.

Andrew Schleimer: Thanks, Bill. I'll start with a review of our financial results for the first quarter of fiscal 2017, and then focus on our balance sheet and outlook.

Please note that as we completed the acquisition of Appia on March 6, 2015, all fiscal first-quarter comparisons are on the same basis with prior periods noted.

Therefore, as first quarter fiscal 2017 is the first quarter in which we owned Appia for the entirety of all periods mentioned, we are making no references to prior-year pro forma results.

Revenue on the fiscal first quarter of $24 million increased approximately 4% sequentially and 29% year on year. These variances represent apples-to-apples comparisons and fully organic growth.

Advertising revenue of $12.8 million declined approximately 15% quarter over quarter. Within advertising, O&O revenue increased 117% year on year to $7 million, as we continued to scale Ignite across a greater number of operators and OEMs that we've partnered with over the past 12 months.

Sequentially, O&O declined 13% due to the lack of a seasonal benefit experienced in the March quarter from revenues directly related to holiday season attribution, which we estimate at approximately $1 million.

Revenue is otherwise flat on a sequential basis, despite growth being curtailed in the June quarter by the delayed Ignite launch on the Samsung Galaxy S7, which represented a large percentage of total device sell-through in the quarter and a lower average slot count with a large North American carrier.

Excluding this particular partner, O&O revenue grew approximately 150% sequentially as we made significant progress toward diversifying the business across carriers and OEMs, particularly outside of the United States.

Driving this growth, during the quarter we saw our first meaningful contributions from successful embedded base pushes of Ignite. We delivered the software and consequently applications, to devices already live in the marketplace with carriers, including Cricket and US Cellular.

As Bill mentioned, we expect this trend to continue as operators and OEMs become more aggressive in seeking to monetize their devices and as their end users demonstrate more acceptance of additional apps, which, of course, they can remove if they wish, so long as the application is relevant to them.

So far, such acceptance varies by demographic and, in turn, by mobile operator, and we expect embedded base pushes of our technology to be a more meaningful source of higher margin revenue going forward.

Further, our slot count with our major North American partner has largely rebounded. And, as you know, we are now fully deployed on the S7.

A&P revenue was $5.8 million in the quarter, down 17%. The quarter was down primarily due to a significant temporary shift in the percentage of budget allocations by two large advertisers from mobile user acquisition to other digital media, and from a general lull from mobile user acquisition budgets and rates related to seasonality, as well as increased competition from competing install networks.

On a more positive note, we continued to see momentum within our problematic realtime bidding initiatives for both user acquisition and re-engagement campaigns.

The industry continues to get increasingly sophisticated in the ability to measure and focus on lifetime value as the primary driver for marketing investments. As a result, we continue to invest in our data science, realtime bidding, and user engagement technologies that are rapidly evolving our proficiency to optimize on downstream quality metrics and deliver quality users at scale for our advertising partners.

As we mentioned in June, we expect stabilization in our core syndicated network business and contribution from RTB in the coming months, similar to the levels Bill alluded to.

Content revenue during the quarter totaled $11.2 million, representing 41% sequential growth and achieving a second consecutive all-time high for the business, up 59% from last year's second quarter.

Growth was driven by robust DT Pay revenue, which grew 43% quarter over quarter and 89% year on year. DT Pay generated record revenue of $10.7 million, or approximately 95% of total Content revenue during the quarter.

As Bill mentioned, we did see content providers pause in marketing in July following Telstra's operational changes, which we estimate will likely impact fiscal Q2 revenue.

As discussed, a large increase in Pay revenue in Australia resulted in record Content revenues. This increase was primarily attributable to extra advertising activity by a number of Content partners who increased their spend versus prior month holdbacks, as well as holdbacks at the end of their financial year.

The launch of DT Pay in India is progressing well, and we now have four partners live. And revenue is growing meaningfully month on month as we start to ramp up our operations in this market.

We have also launched Electronic Arts with Idea of Vodafone, as well as two local OEMs. The market in India is predominantly an open market for devices, and we are starting to work more closely with the local OEMs for distribution of our suite of products.

Marketplace revenues in Australia have somewhat stabilized this quarter. This is mainly due to some increased traffic to the services, driven by our largest services on Telstra.

GAAP gross margin during the quarter was 12%, below the 16% reported in our fiscal fourth quarter.

Excluding the amortization of intangibles, non-GAAP adjusted gross margin was 20% in the first quarter as compared to 25% for the fourth quarter, which included the benefit of approximately 300 basis points related to certain accrued cost-of-goods-sold reversals and other one-time items.

Excluding this fiscal Q4 benefit, the sequential decrease of approximately two percentage points in our non-GAAP adjusted gross margin was primarily driven by the mix shift towards content revenue from advertising revenue.

We expect gross margin to expand going forward as absolute O&O growth resumes through both growth with a major North American partner and greater diversification across additional carrier partners and OEM launches.

With such growth, will come accretion in gross margin as diversification will result in more favorable revenue terms as a larger share of our mix.

Total operating expenses for the quarter were $9.4 million, up slightly from $9 million in the preceding quarter. Total operating expenses, include non-cash items comprised of stock-based compensation and depreciation.

Total cash OpEx in the quarter was $7.9 million as compared to operating expenses on a cash basis of $7.3 million for Q4.

Included in first-quarter OpEx, among other things, were approximately $450,000 in audit-related costs, which we incur each year in Q1.

Furthermore, in April, we booked the reversal of the remainder of the purchase price from the Xyo acquisition as part of the settlement that absolved us from any further cash liability to the sellers.

The benefit from Xyo was subsequently offset by higher-than-expected bad debt expense from an A&P advertising partner who was taken over by its creditors, and other one-time costs related to the various extensions of our now short-term debt.

We expect to see operating expenses return to Q4 levels on a sequential basis, leveraging our top-line growth at higher gross margin, to build towards turning the corner to positive adjusted EBITDA exiting the September quarter.

Our demonstrated ability to scale our model, while keeping costs in line, underpins our confidence in achieving this objective.

Net loss for the first quarter was $7.4 million or $0.11 per share, based on 66.3 million weighted average shares outstanding. This compares to a net loss of five $5.8 million or $0.09 per share for the fiscal fourth quarter of 2016.

Non-GAAP adjusted EBITDA loss for the first quarter was $3.1 million as compared to a loss of $1.6 million for the fourth quarter of 2016.

The decrease in adjusted EBITDA as just mentioned, was a result of the inclusion of our audit-related costs in Q1, higher-than-anticipated bad debt expense partially offset from the Xyo settlement benefit, costs associated with the extension of debt, as well as the shift in revenue mix towards lower gross margin products, and absent any end-of-period benefit that we saw, yielding a 300 basis point improvement in gross profit in Q4.

We do not expect to see these one-time and audit-related fees in Qs 2 through Q4 and expect to resume growth in O&O at a higher overall margin profile.

Let's now move to the balance sheet. Cash and equivalents as of June 30th, were $9.4 million, and networking capital was negative $13.7 million.

If we excluded the classification of our North Atlantic sub-debt net of its discount, our working capital deficit would have been approximately $6 million, reflecting our efforts to maintain responsible investments in our future, while collecting receivables and managing our payables and, in turn, managing our liquidity.

We continue to remain laser-focused on maximizing our cash on hand through efficient working capital management.

Total debt stood at $10.7 million, net of discount, all of which is short-term, and there were no new net borrowings under our credit facility at quarter end.

Our short-term debt at June 30 is comprised of two facilities. First, a $3.3 million asset-backed revolver with Silicon Valley Bank. We have previously received an extension to the June 30 maturity, to August 14th, and are pleased to announce that we have reached an agreement to extend the maturity for another 45 days through the end of September.

We're in the process of finalizing documentation with SVB, who continues to be a terrific partner, and we will file an 8-K upon closing.

And second, of course, $8 million of subordinated debt with North Atlantic that is due to mature next March 2017.

With respect to refinancing our short-term debt, we have been working on solutions both temporary and short term and holistic and long term for a while.

While we are somewhat constrained in what we can discuss publicly today, the fact that we are driving forward revenue momentum and diversifying our revenue streams offers us a variety of financing options to consider.

As you can understand, because of timing, some of these options rest on the release of updated financials, including the filing of our 10-Q, which is now complete.

Further, the options we are considering seek to avoid the exercise of North Atlantic's penny warrant, which we have successfully deferred until the end of August.

We are continuing diligently in the refinancing process and are confident based on the tenor and late stage of the discussions we are having that we will have a solution in place imminently.

Now on to our outlook. On the strength of launches underway and planned throughout the remainder of our fiscal year with current and new carrier and OEM partners, as well as continue demand from app developers and advertisers, we expect to drive quarter-by-quarter sequential revenue growth through the remainder of 2016.

Further, as I alluded to above, we are targeting exiting the September quarter, adjusted EBITDA positive and based on continued revenue growth and building operating leverage, expect to generate positive cash flow in our December quarter.

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

Questions and Answers

Operator: (Operator Instructions). Mike Malouf with Craig-Hallum.

Mike Malouf: So can we talk a little bit about Appia? You know that's obviously come under a lot of pressure. And I know there's a couple of clients that have been pulling back.

But as you look out over the next year, can you give us a little bit of color on how you see this RTB sort of reinvigorating that growth? Or is this going to continue to you think sort of draw down from here just because of the competitive nature of the business and the change that's happened in particular, and how people are going to market? Thanks.

Bill Stone: Yes, sure. So as we think about our old Appia core business or what we now called on my comments the A&P business, I really see that going in three directions over the next 12 months, Mike.

Number one is I do expect that the core business of how that's been running, I do expect that to stabilize. You're correct that it is a very competitive business and the world is moving towards more machines versus traditional business development to do those deals with companies like CNN or Baidu or the Weather Channel, and so on.

But I think that given our broader traction in O&O and the relationships that we have, that there's some opportunity to win in that space.

But in terms of how we grow it, I really see it growing through two predominant vehicles. The first one is RTB and our ability to at scale be able to use our Ignite data sets and the information that we know about consumers in terms of what apps are on their phones, what they've installed, what the deleted, how much time they've spent, and so on, and our ability to use that for increased targeting, that gives us an advantage and gives our machines and our data science an advantage in the marketplace.

We need to run faster and jump higher in that part of the business. And we are putting a lot of energy and resource and focus on it. I mean, we are seeing some growth relative to where we were six months ago. That needs to be more. And we're going to continue to really lean in because we know that's where it's going.

But I don't want to discount how difficult that is. There is some heavy lifting there. But we are seeing some encouraging results out of the gate.

And then the third part I touched on is a little bit around Ignite Direct. And if you really think about what Ignite Direct is, it really is almost like an Appia Publisher deal. But rather than having many different providers that would go into a traditional publisher, it would be just us on the phone. So whether that's with our operators in Southeast Asia or some of the other inbound demand that we have, you can almost think of those as exclusive publisher deals on Appia.

So that, I think will give us some pricing power in the marketplace and not have to be subject to some of the pricing and commodity pressures that you see in the traditional part of that business.

So I really see those being two growth vehicles for that A&P business going forward, and us being able to, through new relationships, continue to stabilize how we've been operating the core business over the past six months or so.

Mike Malouf: Okay. Thanks. And then with regards to the push side of the business, particularly with some of these new clients ramping, you mentioned a lot of data.

I'm just wondering if you could just go a little bit deeper into that. You said $0.50 per phone on the, was it Latin America side, and then $1 per phone in the US? Is that what you're getting? You said there's going to be millions of phones with that.

Bill Stone: Yes.

Mike Malouf: So can you just kind of replay that for a second?

Bill Stone: Sure. So, yes, we've done pushes out to millions of phones here in the United States, in Latin America, and other countries. And in terms of just some early stats from the past quarter or so of doing this, we're seeing rates approximately of $1 here in the United States, about $0.50 in Latin America for those pushes.

And we've got plans to -- I touched on some of the things happening in Europe specifically around this. But we anticipate both here in America and in the United States increasing that to many millions more as we go through the balance of the current quarter.

Mike Malouf: So, I mean, if you did 10 million phones, you could do between $5 million and $10 million in that business? Is that how we should think about it?

Bill Stone: Yes. I think it really is going to come down to the take rate, Mike, on the pushes. So there's different devices and devices may have different memory requirements or different accesses to the network. There's a variety of factors that'll impact a take rate.

So it's not like we do a push out to one device and you get 100% take rate on those pushes. The take rates can vary anywhere from 25% to 75% depending upon the market, the device, how many campaigns or slots were running on those pushes, et cetera.

So it's probably something maybe we can take you through from a modeling perspective off line.

Mike Malouf: So it's sort of like an open rate, I get it. I understand now.

Bill Stone: Yes. But the take rates on it can vary depending upon how it's pushed. And all of us as consumers know is that when we get notifications on our phone, they're done differently depending upon how the app developer or the operator or the operating system provider like Apple or Google choose to do it. Those all will impact the take rates.

But in terms of the addressable market of devices, it's going to be many millions of more that we anticipate pushing to just in the current quarter, and then we'll do more into the December quarter.

Mike Malouf: Okay. And then one last question for Andrew. On the free cash flow for the December quarter, can you just help me understand what your definition of free cash flow is?

Andrew Schleimer: Yes. So, well, very simply we'll end the quarter with more cash than we started the quarter. And we will have revenues to cover our cash costs and have the benefit of positive working capital.

Mike Malouf: Got it. Okay. Appreciate it. Thanks a lot, guys.

Operator: Brian Alger with ROTH Capital Partners.

Brian Alger: [All our folks] on the Content business, obviously DT Pay has taken off for us. It's obviously shining light on this [court].

But you mentioned that you think there may be a bit of a hangover in the current quarter due to the pullback in advertising in Australia, with Telstra specifically.

I'm wondering, as we look at the puts and takes within Content and the rapid growth that we're getting with DT Pay, is it reasonable to think that on the whole the Content business would be up in the current quarter, realizing that Telstra is going to be a headwind, but we have the growth coming from DT Pay in India?

Bill Stone: Yes, sure, Brian. Yes, a couple thoughts. Let's me cover Australia and any growth outside of Australia. I think that the wildcard here is a lot of the DT Pay growth that we saw in the June quarter was really fueled by increased marketing spend from the content providers in the market, that knew Telstra's implementing this change. And then they backed off of that waiting to see what the take rates were going to be from some of these legal language double opt-in, et cetera, things that I mentioned in my remarks.

So we're starting to the marketing pick up. How much it picks up is happening in realtime. We'll probably have visibility to that over the next 30 days in terms of what the impacts are. But we're starting to just hear over the past week starting to see those revenues rebound again in that business.

But how much the content providers are [going] to market on that is really I think going to be the big driver in Australia in terms of the top-line number for the Content business in the September quarter.

And what we're seeing and what we're encouraged, though, by is we're starting to see some nice growth in India with Pay. We also have some content opportunities in other markets in Southeast Asia as well this quarter.

So the question was, can those outrun anything we're going to see on the risk from the marketing side in Australia? As I mentioned in my remarks, I think for right now the prudent thing for us to do is look at it as a $1 million to $2 million down on the Content business from the September to June quarter.

But we'll be smarter on that and provide updates as we get going here over the next few weeks into September as that marketing activity picks up from the Australian content guys.

Brian Alger: Okay. That's helpful. And then working through on the A&P business, the RTB, it's just getting started. It's small, so the percentage growth there is going to be pretty big.

But when you look at your opportunities over the next, call it six months or so, seasonality improves pretty dramatically, or at least it has in the past.

Do you think that that business is going to be able to get back to prior revenue levels or is this something where we've seen a dynamic shift in the end market where that's not really achievable?

Bill Stone: Yes, I guess I'll break that into two elements. I do think that there's a seasonality element that we've historically seen going back many years in Appia business where historically the June quarter is softer than what you see as you go into the fall into the holiday season.

So I expect that seasonality to help benefit us in the A&P business.

As far as RTB goes, important point I want to make here is that we're trying to grow revenues in that business and we want to, as I mentioned in my remarks, run faster and jump higher there.

But equally as focused in terms of building a platform and a product that can scale. So what I mean by that is we can have an advertiser come to us and say, hey, let's go spend $100,000 on RTB, and we could go blow that out.

But I don't necessarily know in terms of the data and the insights and the broader platform, so we're not a one-hit wonder just on that one campaign, that we can build that across hundreds of campaigns and we can do that in different geographies, leverage our Ignite Data, and so on.

So we're making some conscious decisions right now to not have revenue be the end-all and be-all goal of that business in the immediate term. Ultimately, needs to translate into revenue.

But it's really important right now that we're focusing on building that platform in terms of how we handle the big data coming in from Ignite. We're able to digest it. We're able to process it across multiple geographies, multiple campaigns.

So there's a lot of infrastructure, heavy lifting that we're really focused on in the current time in that business.

But again, ultimately, it's got to translate into revenue. But I want to make sure that that's not the end-on and be-all goal from a day-to-day basis in terms of how we're thinking about it.

Brian Alger: Well, to that end, to build up the resources to deliver this performance at scale, is this a question of needing to purchase more hardware? Is it more guys writing code? Is it more time running [narrative], learning, machine learning algorithms? What is it that you need to get it up to scale? And how should we interpret that in terms of the need to deploy resources?

Because it seems, we've known RTB was going to be a big thing for a while, but because we've been cash constrained it hasn't really gotten the development that apparently was needed to take advantage of the market shift.

Bill Stone: Yes. No, that's right, Brian. And so we are running it lean, but we're also running it very efficient as well.

And so it's a combination of hardware and infrastructure. It's a function of having the processing power to look at hundreds of millions of impressions at any single point in time for multiple exchanges coming in across multiple geographies.

And there's a lot of just data, hardware, processing things that go into it. That's A piece of it. Ensuring we have multiple data scientists, PhD data scientists on the payroll today helping us get those algorithms right in terms of how we leverage the data and the math to be able to take advantage of this. So that's another component that we invest ins.

And then finally, it's just the integration. And we're working with a lot of third parties versus taking a strategy of we're going to build this ourselves.

So in many cases, it makes sense for us to lease or work with other providers or exchanges out there that can help us accelerate our efforts. And so that could be the throughput in terms of how many impressions we can bid on versus us trying to build the hardware ourself. There's people we can license it from that can sift through things more efficiently than we can.

So those are examples of how we're leveraging others and leveraging our third parties to be efficient with the resources.

And as Andrew talked about regarding the profitability, our view is is that as the business continues to ramp on the O&O side, that will give us additional resources to be able to continue to invest in this part of the business because we know in a macro perspective this is where the world's going, and we've got the dataset to win. We just need to put all the pieces together to go execute against it.

Brian Alger: Okay. And then finally, on the O&O side of things, there's obviously just a ton of moving parts. Is it fair to say that when you look across the multitude of carriers, that the number of slots per device relative to where we were in the first half of this calendar year is going to be better in the second half and within what we should be also looking at because of seasonality and improved targeting rates per slot being better just in terms of a macro approach?

Bill Stone: Yes. So I'd say a couple things. It's one of those things why we're starting to break out the stats by geography. And maybe something we can do off line to kind of double click on the per geography, so I think there's going to be a little bit different nuance based upon geography.

But in a macro global level, I guess what I'd say is that we expect as we continue to add additional demand partners and you've got fixed supply, that should allow prices to rise. It's just Economics 101. And we're seeing that as we continue to add additional demand partners.

So that comes with seasonality. That comes with us launching it in desirable devices like the Note 7, and in new customers like AT&T and American Movil.

So I'd expect to see accretion there. That's definitely our expectation on it.

As far as number of slots go, number of slots is going to be dependent upon partner and geography. Some of the phones may have lower memory in certain emerging markets, maybe they have fewer slots. Certain new phones coming into the marketplace, have more memory, more opportunity for more slots.

With the App Select product from AT&T, a customer will be able to choose, I think up to 25 applications or 25 slots if they just hit select all, all the way down to zero.

So we'll see how the slot count varies with AT&T, and we'll provide updates on that on the next call.

So I think how we're thinking about it is on a very geography-by-geography and partner-by-partner basis. But we're feeling very encouraged in terms of the pure number of devices that we've got visibility to that will go on. And that in and by itself will definitely drive top line.

Brian Alger: Okay. And then I guess more of a statement than a question, and I think you've addressed it a number of times on this call. But I'm sure Mike and I would echo the realization that getting the refinancing done and just put to bed is of a critical importance to a lot of the investors that we speak with on a daily basis.

I think it's very positive to hear that this is something that should be in the very near term, and I think the term was imminent.

I look forward to seeing an 8-K there, because I do believe it's been largely a distraction for the stock. And hopefully we'll be able to start focusing on the growth opportunities that you're describing today instead of worrying about this balance sheet issue. Thanks, guys.

Bill Stone: Thanks, Brian.

Operator: Sameet Sinha with B. Riley.
Sameet Sinha: A couple of questions. So seems like the way you're guiding, Content down, A&P probably down more than up, despite the seasonal benefits from the second half.

So Ignite continues to do well. Now, you give us some stats about $1.70 revenue per device. My guess is that's for when it's installed on devices. And for embedded push it's more like $1, and that's in the US.

Which of these two, from a revenue-per-device perspective, do you think will grow faster? You mentioned a number of factors which can help with the accretion there. Which of these have more upside opportunity? That's my first question.

Secondly, going back to the RTB issue, obviously, it's a competitive field. Your RTB offering will enter where there are many other mature solutions that are out there.

The one competitive advantage that you mentioned was Ignite. So my two-part question here, is that would you be able to use your Ignite Data? Because those are two separate business, Ignite is a separate carrier-driven business, Appia is more of an advertising and monetization business.

That co-mingling of data and utilization across the business segments, is what allowed by your carrier partners?

And secondly, apart from that Ignite has a competitive advantage, do you have anything else that's separate [to] your solution and your platform from the others that are out there? Thank you.

Bill Stone: Yes. No, thanks, Sameet. So let me cover the first question around visibility on revenue per device over the immediate term in the upcoming quarters, and then I'll hit on some of the unique aspects of the Ignite Data and what we're doing with it.

First, regarding revenue per device, we are seeing lower revenue per device on an embedded base push than on a new subscriber. That's predominately due just to the fact that a lot of the devices have pure volume tend to have lower memory requirements, and, therefore, have lower slot counts. And some of the higher CPI or CPP game titles in particular that we get from many providers tend to be very thick and rich files.

So, therefore, we are a little bit more limited in delivering those applications to consumers on a lower memory phone.

So I continue to expect the new customers, the new devices, the $1.70 number that you referenced, to be the predominant higher driver than an embedded base push. But in terms of visibility to just pure number of devices over the next 30, 60, 90 days, we expect that to really be tilted in favor of embedded base pushes.

We've got good visibility to a number of carriers in Latin America, here in the United States, OEMs in Asia and Europe, with many opportunities in front of us.

So I think on a pure volume of device basis, even though it'll be lower on revenue per device, we see that as a very material revenue driver. And remember, those are all 50-plus percent gross margin deals to us. So they are very profitable as well.

But in terms of just the actual yield per device, we expect that to be higher on the new device deployments and will come out here in the fall and into the holiday season.

To answer your second question just regarding the Ignite Data and how we're using it and leveraging it, so we're able to understand what apps have been delivered to what customers, what apps have been de-installed, which ones have been installed, which ones have been used.

And so we're able to then be able to take that data and build profiles around it. And so that allows us opportunities when we go see advertising out in the marketplace to know more than a potential other bidder on that advertiser would be.

So, for example, we can see DraftKings come to us and say we want to target sports users. Well, one way to do that would be easily to go buy media from ESPN. And you could pay a lot of money to go do that.

Another way would be, we know what you have also had two other apps. Maybe it's a solitary app or something that maybe has perceived very low value from an advertiser perspective. But we know you have those other sports apps. We can bid on that very cheaply and still get the app install from DraftKings at the same exact rate.

So those kinds of arbitrage opportunities because of our unique dataset would be a simple example of how we win and how we have differentiated information that I think will allow us to be successful out in the marketplace.

As I mentioned to Brian's question earlier, we got to run faster and jump higher and be able to do this to scale. And there's a lot of resource involved to be able to go out and do that.

But we are showing progress against it, and we are seeing that directionally this is all happening, this is real, and it's working. So now it's just a question of how we can ramp and scale it.

But I think the key strategic point here is that's unique, that's differentiated. Those are things that unless you are named Facebook or Google, very, very few companies have that out in the marketplace, and we're one of them.

Sameet Sinha: Great. Thank you.

Operator: Ilya Grozovsky with National Securities.

Ilya Grozovsky: Just had kind of two follow-up questions. You talked about the licensing deal. Obviously that's a very different way for you guys to generate revenues as opposed to becoming sort of partners with the operators, you're just licensing the software. Yes, you get the 100% gross margin, but definitely very different.

Can you just talk about kind of the difference between the two and where you see it going for you guys down the road and what the impact will be?

Andrew Schleimer: Sure. As you know, Ilya, we've got a variety of different business models as we partner with carriers and OEMs globally. And as we make our foray into the Indian market, we believe it was prudent to start on a license fee model at 100% gross margin.

That being said, the expectation is once we're able to get Ignite deployed on a whole host of devices with both Airtel and Reliance Jio, that there will be a meaningful advertising opportunity.

So we certainly don't view the Indian market as solely dollars per device upfront with no revenue opportunity. We do, obviously, outside of license fee model, have both our rev share model as well as hybrid models that we look at with other distribution partners.

But candidly, there's no one set way in stone that we generate revenue. And at the end of the day, we're in the business of allowing these operators and OEMs to openly leverage our demand side platform, as advertisers don't want to go [one-by] to each of the operators and OEMs just like the operators and OEMs don't want to go one-by to each of the advertisers.

Bill Stone: And, Ilya, this is Bill. I'll just jump in on that and say, I think this is an important distinction is Ignite having a lot of dimensions of how it can be used. One way it can be used is to deliver third-party applications. I talked about Lyft and Uber and Hulu and eBay, et cetera, and that's been the model we've used, and a lot of things we've talked about on this call.

But what we're also seeing is that operators see ignite as a operational benefit where they have their own applications, their own internally built applications, that they want to deliver out to devices. So for that case, that's the 100% gross margin. We do that with Millicom in Latin America and in the Indian carriers Andrew mentioned.

So really, when we go in and we talk to operators, we want to understand what their needs are. If their needs are to use Ignite as an operational tool to help create a lot of flexibility of just delivering software once versus having to embed it on multiple devices, OEMs, et cetera, which is operationally difficult, then we get into the licensing model at 100% gross margin.

We have numerous other active conversations going on around that model around the world where operators are interested in that.

And then what we'll do is we'll layer in the advertising or third-party apps on top of that. So in other words, if we get $0.10, $0.20, $0.50, whatever it happens to be per device, then any advertising revenue we'll share on top of that.

So we really like that business model. We think that's a winning business model because we're solving multiple problems for the operator and, obviously, providing strong gross margins for us.

Ilya Grozovsky: Okay. Got it. And then just coming back to the RTB business. So we've been talking about it for some time now. What exactly is the gating factor for you guys to be able to, starting today, offer RTB in a large-scale way as opposed to just sort of incrementally tick it up each quarter?

Bill Stone: I'd say right now it's for us, it's a variety of different things. It's not one. We want to make sure. There's just so many variables and moving parts. We can't pursue every single variable and moving part at the same time. Even if we had unlimited resources, we wouldn't do that.

It's really making sure that, A, we've got the, first-and-foremost, the insight on what we're actually trying to target.

Second, making sure we got all the campaigns from the advertisers and we're aligned on goals that they're trying to do.

Third is we got the ability to then have the right mathematics in terms of using the right formulas to target the right advertisers where we think there's an arbitrage opportunity to be able to buy an ad for much, much less than we're getting paid from an advertiser to get the install.

And then finally is all of the operational infrastructure to be able to process hundreds of millions of impressions simultaneously, many, many billions per day of impressions that are going all over the globe in different geographies across different ad formats, whether those are native or video or banners or whatever it happens to be, be able to do it across iOS and android.

I mean, I can go on and on about all the different variables that are associated with it. But for us, it's really being able to prioritize what's going to give us the biggest bang for the buck to leverage our Ignite dataset.

And so that's really where we're focused today is where we want to place those bets so we're efficient with how we're spending our resources accordingly.

Ilya Grozovsky: And how long do you think this takes?

Bill Stone: The short answer is I don't know. I don't know how long it takes. All I know is that every week when we sat down with a team, we have an operations review on this topic. We're going deep. We have very specific KPIs and metrics and goals and things we're trying to achieve. And we're measuring ourselves against those KPIs and metrics.

And we want to just continue to see progress every single week against it. And how long, I don't know the answer to that. But I do know is that we are seeing progress week over week in terms of what we're doing and how much smarter we're getting at doing it.

Ilya Grozovsky: Great. Thanks, guys.

Operator: There are no further questions, so this will conclude our question-and-answer session. I would now like to turn the conference back over to Bill Stone for any closing remarks.

Bill Stone: Great. Thank you very much. As we stated, we're laser focused on execution and to convert all these opportunities we discussed in the pipeline and scale our revenue to drive growth for the long-term profitability of this business.

We look forward to reporting on our progress as we grow and diversify revenue streams, and we'll talk to again in our fiscal second-quarter call coming up in a few months. Thanks, and have a great night.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.