March 22, 2018

Fusion Reports Fourth Quarter and Full Year 2017 Financial Results

Fourth Quarter 2017 Consolidated Revenue Grew 36% and Adjusted EBITDA Grew 91% Year over Year

NEW YORK, March 22, 2018 (GLOBE NEWSWIRE) -- Fusion (NASDAQ:FSNN), a leading cloud services provider, today announced financial results for its fourth quarter and full year ended December 31, 2017.

Fourth Quarter 2017 Highlights

- Consolidated revenue grew 36% to $40.3 million, compared to $29.6 million in Q4 2016 while Business Services segment revenue grew 19% to $29.6 million, compared to $24.8 million in Q4 2016
- Excluding the contribution from the Apptix acquisition which closed in November 2016, Business Services segment revenue grew 12% year-over-year
- Consolidated gross margin was 42.6%, compared to 50.1% in Q4 2016 as a larger portion of consolidated revenue during the quarter was derived from Fusion's Carrier Services segment, which carries a significantly lower margin than the Business Services segment
- Net loss attributable to Fusion common shareholders was $4.1 million, or $0.18 per share, compared to net loss in Q4 2016 of $4.6 million, or $0.26 cents per share
- Adjusted EBITDA (a non-GAAP measure) grew 91% to $4.2 million, compared to $2.2 million in Q4 2016
- Signed new Business Services sales (bookings) with a total contract value of $11.1 million, up 12% year-over-year
- Ended the quarter with approximately 13,500 Business Services customers and approximately $493,000 of Business Services monthly recurring revenue (MRR) in backlog, representing $16.5 million in total contract value, up 23% year over year
- Ended the quarter with an average monthly revenue per customer (ARPU) of $734 and a churn rate of 1.0%, compared to $679 and 0.8% at December 31, 2016

Full Year 2017 Highlights

- Consolidated revenue grew 21% to $150.5 million, compared to $124.7 million in 2016, driven by a 32% increase in Business Services segment revenue to $117.3 million
- Excluding the contribution from Apptix, Business Services segment revenue grew 9% versus 2016
- Net loss attributable to Fusion common shareholders was $15.9 million, or $0.72 per share, compared to net loss in 2016 of $15.1 million, or $0.98 per share
- Adjusted EBITDA grew 73% to $15.3 million, compared to $8.9 million in 2016
- Announced the agreement to acquire the Cloud and Business Services business of Birch Communications, which is expected to bring meaningful scale to Fusion and to generate strong positive free cash flow on an ongoing basis
- Completed the formation of Fusion Global Services, a 60%-owned joint venture with XComIP, thereby separating off the management of Fusion's Carrier Services segment from the rest of the company
- Received a 2017 INTERNET TELEPHONY SD-WAN Excellence Award for Fusion SD-WAN, a transformational network solution that uses software and cloud-based technologies to optimize customer networks and allow multi-location businesses to benefit from high bandwidth, low cost network connectivity

- Received a 2017 INTERNET TELEPHONY Product of the Year Award for Contact360, Fusion's comprehensive and fully-integrated cloud contact center solution

Subsequent Events

- In January 2018, Fusion acquired the intellectual property and substantially all of the other assets of IQMax, a pioneer in developing secure messaging, enterprise data integration and advanced cloud communications solutions

- In February 2018, Fusion completed a public offering of 12,937,500 shares of its common stock at a price of $3.20 per share, for gross proceeds of $41.4 million and for net proceeds of $38.7 million (after underwriting discounts and commissions, but before estimated offering expenses payable by Fusion)

Management Commentary

"Fusion delivered outstanding results over the course of 2017," said Matthew Rosen, Fusion's Chief Executive Officer. "Excluding the contribution from Apptix, the company achieved year-over-year revenue growth in Business Services for all four quarters, confirming that our strategy is working and demonstrating the strength of our value proposition in the marketplace. This performance was highlighted by Fusion's strong growth and solid operational metrics in Business Services in the fourth quarter. We also saw sustained positive momentum in organic bookings and in the contract value of our backlog, which bodes well for the future as we convert these customer wins to revenue.

"We have also made significant progress toward closing the Birch acquisition. Over the past several months, teams from both sides have been working closely together to develop detailed integration plans so that we will hit the ground running on Day One after the close. We also received overwhelming support for the transaction at our shareholder meeting in February. While the regulatory process has taken longer than expected, only one more state application requires approval for us to be in a position to close the transaction, and we expect to obtain this by the end of the first week of April.

"Meanwhile, the debt syndication process remains extremely active, and we are as confident as ever in closing the financing. The lengthy regulatory approval process has given us a greater opportunity to work on achieving the best possible terms for Fusion, in light of both present and future opportunities to create shareholder value through acquisitions. We continue to feel very good about the deal today and believe we have a clear path to closing the financing in the near term," Mr. Rosen concluded.

"Fusion's strong year-over-year Adjusted EBITDA growth in the fourth quarter and for full year demonstrates our ability to successfully identify and integrate acquisitions," said Michael Bauer, Fusion's Chief Financial Officer. "In 2017, Fusion achieved all of the cost synergies related to Apptix. With the additional liquidity from our recent equity offering, we believe that Fusion is well positioned for sustained future growth to create long-term value, leveraging the unique and compelling single source platform we have built over the past six years."

Fourth Quarter 2017 Financial Results

Consolidated revenue grew 36% in Q4 2017 to $40.3 million, compared to $29.6 million in Q4 2016, driven by increases in the company's Business Services and Carrier Services segments.

Business Services revenue grew by $4.7 million or 19% in Q4 2017 to $29.6 million, compared to $24.8 million in Q4 2016, primarily due to the acquisition of Apptix. Excluding the contribution from Apptix, Business Services revenue grew 12% year over year. Carrier Services revenue grew by $5.9 million or 125% in Q4 2017 to $10.7 million, compared to $4.8 million Q4 2016, primarily due to an increase in the total minutes of traffic carried on Fusion's network.

Consolidated gross margin was 42.6% in Q4 2017, as compared to 50.1% in Q4 2016, primarily due to a greater proportion of Carrier Services revenue, which generates a substantially lower margin than Business Services revenue, within our consolidated results. Business Services gross margin was 56.5%, compared to 58.3% in Q4 2016, primarily due to the inclusion of revenue from customers acquired during the first half of 2017 which carried a lower gross margin. Carrier Services gross margin was 4.3%, compared to 7.0% in the fourth quarter of 2016.

Net loss attributable to common stockholders in Q4 2017 was $4.1 million, or $0.18 per share on a basic and diluted basis, compared to a net loss in Q4 2016 of $4.6 million, or $0.26 per share on a basic and diluted basis. The provision for income taxes in Q4 2017 was $20 thousand compared to an income tax benefit of $1.6 million in Q4

2016.

Adjusted EBITDA grew 91% in Q4 2017 to $4.2 million, compared to $2.2 million in Q4 2016 (see definition and further discussion about the presentation of adjusted EBITDA, a non-GAAP term, below). Capital expenditures totaled $0.6 million in Q4 2017, or 1.6% of consolidated revenue.

Full Year 2017 Financial Results

Consolidated revenue grew 21% in 2017 to $150.5 million, compared to $124.7 million in 2016. Business Services revenue grew 32% to $117.3 million, compared to $89.2 million in 2016, primarily due to the Apptix acquisition. Carrier Services revenue was $33.2 million in 2017 compared to $35.5 million in 2016.

Consolidated gross margin in 2017 was 44.8% versus 43.3% in 2016. Business Services gross margin was 56.5% 2017, as compared to 58.6% in 2016, primarily due to the inclusion of revenue from customers acquired during the first half of 2017 which carried a lower gross margin. Carrier Services gross margin was 3.6%, as compared to 4.8% in the prior year.

Net loss attributable to common shareholders in 2017 was $15.9 million, or $0.72 per share on a basic and diluted basis, compared to net loss in 2016 of $15.1 million, or $0.98 per share on a basic and diluted basis. The provision for income taxes in 2017 was $62 thousand compared to an income tax benefit of $1.6 million in 2016.

Adjusted EBITDA grew 73% in 2017 to $15.3 million, compared to $8.9 million in 2016. Capital expenditures totaled $5.0 million in 2017, or 3.3% of consolidated revenue.

Further details about the Company's financial results are available in its annual report on Form 10-K, which will be available in the investor relations section of the Company's website at ir.fusionconnect.com.

Conference Call Information

Fusion CEO Matthew Rosen and CFO Michael Bauer will host a conference call today to discuss the Company's financial results, followed by a question and answer period.

Date:	Thursday, March 22, 2018
Time:	10:30 a.m. ET / 7:30 a.m. PT
Live Dial-in:	1 888.882.4478 (toll free) / 1 323.794.2149 (international)
Conference ID:	1597159
Live / Archived Audio Webcast:	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 TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2017	**2016**	**2017**	**2016**
Revenues	$ 40,274,488	$ 29,597,400	$ 150,530,557	$ 124,654,270
Cost of revenues (exclusive of depreciation and amortization, shown separately below)	23,111,751	14,776,269	83,033,401	70,667,382
Gross profit	17,162,737	14,821,131	67,497,156	53,986,888
Depreciation and amortization	3,372,036	4,149,806	14,521,046	13,096,587
Selling, general and administrative expenses	15,609,044	14,422,076	57,724,202	48,524,923
Asset impairment charge	641,260	-	641,260	-
Total operating expenses	19,622,340	18,571,882	72,886,508	61,621,510
Operating loss	(2,459,603)	(3,750,751)	(5,389,352)	(7,634,622)
Interest expense	(2,179,684)	(1,864,315)	(8,648,600)	(6,742,143)
(Loss) gain on change in fair value of derivative liabilities	(364,786)	(114,716)	(909,272)	265,383
Loss on disposal of property and equipment	(58,620)	(42,344)	(311,707)	-
Loss on extinguishment of debt	-	(214,294)	-	(214,294)
Gain on change in fair value of contingent liability	1,011,606	-	1,011,606	-
Other income, net	31,696	8,696	209,235	(132)
Total other expenses	(1,559,788)	(2,226,973)	(8,648,738)	(6,691,186)
Loss before income taxes	(4,019,391)	(5,977,724)	(14,038,090)	(14,325,808)
Provision for/ benefit from income taxes	(20,400)	1,620,436	(61,511)	1,609,485
Net loss	(4,039,791)	(4,357,288)	(14,099,601)	(12,716,323)
Less: Net income attributable to non-controlling interest	87,802	-	85,078	-
Net loss attributable to Fusion Telecommunications International, Inc.	(3,951,989)	(4,357,288)	(14,014,523)	(12,716,323)
Preferred stock dividends	(101,729)	(285,540)	(1,837,527)	(2,388,007)
Net loss attributable to common stockholders	(4,053,718)	(4,642,828)	(15,852,050)	(15,104,330)
Basic and diluted loss per common share	$ (0.18)	$ (0.26)	$ (0.72)	$ (0.98)
Weighted average common shares outstanding:				
Basic and diluted	22,387,372	18,014,151	21,969,601	15,406,184

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 2017	**December 31, 2016**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,530,388	$ 7,221,910
Accounts receivable, net of allowance for doubtful accounts of approximately $700,000 and $427,000, respectively	12,963,068	9,359,876
Prepaid expenses and other current assets	2,091,244	1,084,209
Total current assets	17,584,700	17,665,995
Property and equipment, net	12,856,534	14,248,915
Other assets:		
Security deposits	615,585	630,373
Restricted cash	27,153	27,153
Goodwill	34,773,629	35,689,215
Intangible assets, net	56,156,023	63,617,471
Other assets	43,937	77,117
TOTAL ASSETS	$ 122,057,561	$ 131,956,239
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		

Term loan - current portion	$ 6,500,000	$ 2,979,167
Obligations under asset purchase agreements - current portion	227,760	546,488
Equipment financing obligations	1,206,773	1,002,578
Accounts payable and accrued expenses	25,089,046	19,722,838
Total current liabilities	33,023,579	24,251,071
Long-term liabilities:		
Notes payable - non-related parties, net of discount	31,953,163	31,431,602
Notes payable - related parties	928,081	875,750
Term loan	54,222,668	60,731,204
Indebtedness under revolving credit facility	1,500,000	3,000,000
Obligations under asset purchase agreements	222,240	890,811
Equipment financing obligations	590,601	1,237,083
Derivative liabilities	872,900	348,650
Total liabilities	123,313,232	122,766,171
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, 14,216 and 17,299 shares issued and outstanding	142	174
Common stock, $0.01 par value, 90,000,000 shares authorized, 22,471,133 and 20,642,028 shares issued and outstanding	224,712	206,422
Capital in excess of par value	195,865,425	192,233,032
Accumulated deficit	(197,264,083)	(183,249,560)
Total Fusion Telecommunications International, Inc. stockholders' equity	(1,173,804)	9,190,068
Noncontrolling interest	(81,867)	-
Total stockholders' equity	(1,255,671)	9,190,068
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 122,057,561	$ 131,956,239

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Reconciliation of Net Loss to EBITDA and Adjusted EBITDA

	Three Months Ended December 31,		**Twelve Months Ended December 31,**	
	2017	**2016**	**2017**	**2016**
Net loss attributable to Fusion Telecommunications International, Inc.	$ (3,951,990)	$ (4,357,288)	$ (14,014,523)	$ (12,716,323)
Interest expense and other financing costs	2,180,707	1,864,599	8,673,075	6,742,927
Provision for income taxes	20,400	(1,620,436)	61,511	(1,609,485)
Depreciation and amortization	3,372,036	4,149,806	14,521,046	13,096,587
EBITDA	1,621,153	36,681	9,241,109	5,513,706
Acquisition and transaction expenses	702,076	1,464,165	2,505,388	1,739,875
Change in fair value of derivative liability	364,786	114,716	909,272	(265,383)
Loss on disposal of property and equipment	58,620	42,344	311,707	129,119
Asset impairment charge	641,260	-	641,260	-
Gain on change in fair value of contingent liability	(1,011,606)	-	(1,011,606)	-
Non-recurring employment related expenses	-	-	-	535,500
Loss on extinguishment of debt	-	214,294	-	214,294
Stock based compensation expense	1,787,344	309,958	2,696,457	996,494
Adjusted EBITDA	$ 4,163,633	$ 2,182,158	$ 15,293,587	$ 8,863,605

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 raise the capital necessary to fund its acquisition of Birch Communications Holdings, Inc. (and no assurance can be made as to the timing, terms or completion of any financing or whether a financing will be available on favorable terms, or at all), its ability to obtain the required approvals necessary to close that transaction, and its ability to integrate that business following the closing; the Company's ability to comply with covenants included in its senior debt agreements; competitors with broader product lines and greater resources; emergence into new markets; natural disasters, acts of war, terrorism or other events beyond the Company's control; and other factors identified by Fusion from time to time in its filings with the Securities and Exchange Commission, which are available through 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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