November 14, 2018

Frankly Reports Third Quarter 2018 Financial Results

LONG ISLAND CITY, N.Y., Nov. 14, 2018 /PRNewswire/ --**Frankly Inc.** (TSX VENTURE: TLK) **(Frankly or the Company**), a leader in transforming local TV broadcasters and media companies by enabling them to publish and monetize their digital content across multiple platforms, reported financial results for the third quarter ended September 30, 2018. All financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

Third Quarter 2018 Financial Results (All amounts in U.S. dollars)

- Revenue increased 5% to $6.0 million from $5.8 million in the prior quarter and decreased 7% from $6.5 million in the third quarter of 2017. The year-over-year decrease was due to lower license fees, usage fees, as well as professional services fees due to less ad hoc professional services engagements in the 2018 period.
- The Company recorded a $12.8 million impairment expense in the third quarter of 2018 as a result of full impairment of its customer relationship intangible assets and capitalized software development costs, which each had carrying values prior to impairment of $6.1 million as of September 30, 2018, as well as property and equipment impairment of $567,000. The impairment resulted from applying the Company's accounting policy for impairment of long-lived assets. With the customer losses discussed below, the Company is currently forecasting negative cash flows in 2019 and beyond which do not support the carrying value of the long-lived assets.
- Net loss totaled $(14.1) million compared to $(1.5) million in the prior quarter and $(3.1) million in the third quarter of 2017. The year-over-year increase in net loss of $11.0 million was primarily due to the $12.8 million impairment expense described above. The impairment expense was partially offset by a $569,000 decrease in cost of revenue, a $653,000 decrease in general and administrative expense, a $186,000 decrease in selling and marketing expense, a $475,000 decrease in research and development expense and $944,000 in expense in the year-ago period related to a proposed Nasdaq listing.
- Adjusted EBITDA totaled $972,000 compared to adjusted EBITDA of $650,000 in the prior quarter and adjusted EBITDA loss of $(180,000) in the third quarter of 2017 (see discussion about the presentation of adjusted EBITDA below). The year-over-year increase in adjusted EBITDA of $1.2 million was primarily due to decreases in operating expenses highlighted in the net loss section above and was partially offset by a decrease in revenue.

Nine Month 2018 Financial Results (All amounts in U.S. dollars)

- Revenue decreased 9% to $17.6 million from $19.4 million in the same period in 2017. The decrease was due to lower advertising revenue, usage fees, as well as professional services fees due to less ad hoc professional services engagements in the 2018 period.
- Net loss totaled $(19.4) million compared to $(7.0) million in the same period in 2017. The increase in net loss was primarily due to the recognition of $12.8 million in impairment expense discussed above, as well as $836,000 in retention expense relating to our employee retention plan which was rolled out in connection with the strategic investor search in the fourth quarter of 2017 and a $542,000 increase in restructuring expense related to the Company wide reduction-in-force implemented in mid-February 2018. These increases were partially offset by a $1.1 million decrease in cost of sales, a $894,000 decrease in general and administrative expense, a $671,000 decrease in selling and marketing expense and a $593,000 decrease in research and development expense.
- Adjusted EBITDA totaled $866,000 compared to adjusted EBITDA loss of $(132,000) in the prior year period. The increase in adjusted EBITDA was primarily due to decreases in operating expenses highlighted in the net loss section above which were partially offset by a decrease in revenue.
- At September 30, 2018, the Company had $3.4 million in cash and restricted cash. In the second quarter of 2018, the Company entered into an amendment of its existing credit facility with Raycom Media, Inc. Under the terms of the amendment, Raycom agreed to provide Frankly with an additional $7.5 million of funding, paid in installments over a six-month period. At September 30, 2018, $6.8 million of the additional $7.5 million had been received, and an additional $500,000 was received in October 2018.
- Subsequent to the end of the third quarter of 2018, the Company entered into an additional amendment of its existing credit facility with Raycom. Under the amendment of the Credit Agreement, the outstanding balance of principal and accrued interest owed to Raycom was reduced from approximately $21.5 million of principal plus $1.3 million of accrued interest to $10.0 million. The maturity date of the remaining debt was extended to September 30, 2021, and no payments of principal or interest will be due until the maturity date. Raycom also

agreed to waive any outstanding balances as of December 31, 2018 of deferred revenue and unapplied license fee discounts under its Software and Services Agreement with Frankly on December 31, 2018. The remaining $300,000 of principal owed to Cordillera Communications under the Credit Agreement was extinguished in exchange for certain modifications of Cordillera's Software and Services Agreement with Frankly.

Customer Agreement Update

Raycom, a significant customer of the Company which accounted for 19% of the Company's revenue for the nine months ended September 30, 2018, is in the process of a pending merger with Gray Television, Inc. Raycom has given the Company notification that it will terminate its existing customer agreement with the Company on December 31, 2018. Separately, five other of the Company's customers, including one other significant customer which accounted for 12% of the Company's revenue for the nine months ended September 30, 2018, have provided notice that their current customer agreements with the Company will terminate without renewal on or before December 31, 2018 (together with Raycom, the "Customer Terminations"). In the aggregate, these terminations represent a significant percentage of the Company's total revenue and are expected to have a material negative impact on the Company's 2019 revenues and related income (loss).

Management Commentary

CEO Lou Schwartz commented, "Despite the one-time non-cash impairment expense we recorded in the quarter, we otherwise reduced operating expenses across the board, for a total quarterly savings of $1.9 million compared to the third quarter of 2017, which also led to a $1.2 million increase in adjusted EBITDA to $972,000. Having now substantially completed our greater cost reduction initiatives, we remain quite confident in our ability to achieve operating cash flow breakeven in the fourth quarter of this year.

"At the same time, through our recently amended credit agreement with Raycom, we were able to reduce our outstanding debt and other liabilities by approximately $14 million, which has significantly strengthened our balance sheet, enhanced our equity value and also provided us with the flexibility to pursue strategic transactions in the future. With the customer losses discussed above, we will continue efforts to reduce costs and increase revenue, and will need to complete financing and/or strategic transactions to provide cash for operating in 2019 and beyond, none of which can be assured of achievement."

About Frankly

Frankly (TSX VENTURE: TLK) builds an integrated software platform for media companies to create, distribute, analyze and monetize their content across all of their digital properties on web, mobile and TV. Its customers include NBC, ABC, CBS and FOX affiliates. The Company is headquartered in New York. To learn more, visit www.franklyinc.com.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

Non-GAAP Measures

The Company reports earnings before interest, taxes, depreciation and amortization ("EBITDA") and Adjusted EBITDA, which are not financial measures calculated and presented in accordance with Generally Accepted Accounting Principles ("GAAP") and therefore may not be comparable to similar measures presented by other issuers. EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute to net income (loss) or any other financial measures of performance or liquidity calculated and presented in accordance with GAAP. The Company defines Adjusted EBITDA as EBITDA, adjusted to exclude certain non-cash charges and other items that we do not believe are reflective of our ongoing operating results. The Company utilizes Adjusted EBITDA internally for purposes of forecasting, determining compensation, and assessing the performance of our business, therefore, we believe this measure provides useful supplemental information that may assist investors in assessing an investment in the Company.

The following unaudited table presents the reconciliation of net loss to Adjusted EBITDA for the three and nine months ended September 30, 2018 and 2017, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Loss	$ (14,102,800)	$ (3,129,136)	$ (19,371,814)	$ (7,037,064)
Interest expense, net	684,230	601,910	1,880,329	1,859,058
Income tax expense	-	-	-	-
Depreciation and amortization	1,313,485	1,102,576	3,726,729	3,261,933

Impairment expense	12,789,343	-	12,789,343	-
Stock-based compensation	42,518	262,604	374,406	774,776
Loss on disposal of assets	-	-	12,823	-
Loss on extinguishment of debt	-	38,287	-	38,287
Transaction costs	(2,110)	-	76,582	-
Nasdaq listing fees	-	943,822	-	943,822
Restructuring expense	-	-	542,210	-
Retention expense	247,548	-	835,647	-
Other expense	-	-	-	27,017
Adjusted EBITDA	$ 972,214	$ (179,937)	$ 866,255	$ (132,171)

Notice Regarding Forward-Looking Statements

This release includes forward-looking statements regarding Frankly and its respective businesses, including statements with respect to expected customer agreement terminations and the timing therefor, the potential for ongoing service relationships with customers and potential impacts on revenue in 2019, the ability to break-even on an operating cash-flow basis and the ability to create value for shareholders. Forward-looking events and circumstances discussed in this release may not occur by certain specified dates or at all and could differ materially as a result of known and unknown risk factors and uncertainties affecting the parties. Forward looking statements depend on certain assumptions that management deems to be reasonable in the circumstances, but such assumptions may prove to be incorrect and the outcome of the subject of any forward-looking statement cannot be guaranteed. Such assumptions are based on, among other things, ongoing negotiations with customers and current operating performance. Except as required by applicable securities laws, forward-looking statements speak only as of the date on which they are made and Frankly undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.