

May 15, 2018

Fusion Reports First Quarter 2018 Financial Results

Establishes New Intermediate-term Financial Objectives

NEW YORK, May 15, 2018 (GLOBE NEWSWIRE) -- [Fusion](#) (NASDAQ:FSNN), a leading cloud services provider, today announced financial results for its first quarter ended March 31, 2018.

On May 4, 2018, Fusion completed the spin-off of its remaining interest in its Carrier Services business segment. As a result, this segment has been treated as discontinued operations in the accompanying financial statements.

Highlights

- Total revenue grew 2% to \$29.0 million, compared to \$28.5 million in Q1 2017, while gross margin was 55.5%, compared to 57.4% in Q1 2017
- Net loss attributable to Fusion common shareholders from continuing operations was \$4.2 million, or \$0.20 per share, compared to net loss of \$4.4 million, or \$0.32 cents per share in Q1 2017
- Adjusted EBITDA (a non-GAAP measure) grew 2% to \$3.7 million, compared to \$3.6 million in Q1 2017
- Signed new sales bookings with a total contract value of \$7.3 million
- Ended the quarter with 13,300 Business Services customers and approximately \$472,000 of Business Services monthly recurring revenue (MRR) in backlog, representing \$17.7 million in total contract value, up 58% year over year
- Ended the quarter with an average monthly revenue per customer (ARPU) of \$715 and a churn rate of 1.2%, compared to \$732 and 1.0% at March 31, 2017
- Acquired the intellectual property and substantially all of the other assets of IQMax, a provider of secure messaging, enterprise data integration, collaboration and advanced cloud communications solutions
- Completed a public offering of 8,625,000 shares of Fusion's common stock at a price of \$4.80 per share, for net proceeds of \$38.7 million after underwriting discounts and commissions, but before offering expenses payable by Fusion

Subsequent Events

- Completed the acquisition of Birch Communications Holdings, Inc. (“Birch”), issuing approximately 50 million shares to Birch’s selling shareholders at \$5.78 per share, and retiring \$444 million of Birch’s prior outstanding indebtedness, for a total Enterprise Value of approximately \$600 million
- Closed \$680 million of new Senior Secured Credit Facilities (the “Facilities”), consisting of First and Second Lien Term Loans and including a \$40 million Revolving Credit Facility that is currently undrawn, and retired Fusion’s prior outstanding indebtedness
- Raised an additional \$10 million of debt through the issuance of a subordinated note to Holcombe Green, Fusion’s Vice Chairman and largest shareholder, with the same terms as Fusion’s new Second Lien Term Loan
- Closed a \$15 million private placement of non-convertible preferred shares that are redeemable by Fusion at any time, in a transaction led by Holcombe Green
- Completed an \$8 million private placement of Fusion’s common stock priced at \$5.25 per share, led by a fund managed by Morgan Stanley which, together with the other purchasers of the shares, also participated in the Facilities
- Completed the spin-off of Fusion’s remaining interests in its Carrier Services business as well as Birch’s consumer and single-line business customer base, leaving Fusion’s focus on the cloud services market
- Retired all of Fusion’s Series A-1, A-2 and A-4 and Series B-2 Preferred Stock with a total stated value, plus accrued and unpaid dividends, of \$18.9 million, through the issuance of 1.3 million shares of Fusion common stock
- Signed a definitive agreement to acquire MegaPath Holding Corporation (“MegaPath”) for total consideration of \$71.5 million, subject to working capital adjustments
- Changed the Company’s corporate name to Fusion Connect, Inc., which better reflects its focus on the cloud services market
- Established new intermediate-term financial objectives of \$750 million in annualized revenue and \$185 million in annualized adjusted EBITDA

Management Commentary

“Our performance in the first quarter of 2018 was solid, as we delivered another quarter of year-over-year revenue and adjusted EBITDA growth, excluding the impact of acquisitions,” said Matthew Rosen, Fusion’s Chairman and CEO. “We also achieved a number of important milestones during the first quarter, which helped set the stage for the even more transformational accomplishments that followed.

“Now that the Birch acquisition has closed, and with the expected close of the MegaPath

acquisition on the horizon, I'm very excited by Fusion's opportunity to be a disruptive force in the cloud services industry," Mr. Rosen continued. "We believe strongly that our unique strategy, the strength of our operating model, and the power of our platform to drive significant levels of free cash flow will greatly benefit our customers and partners, our employees, and our shareholders."

"As a result, today we are establishing our next set of intermediate-term financial objectives of \$750 million in annualized revenue and \$185 million in annualized adjusted EBITDA," Mr. Rosen concluded.

First Quarter 2018 Financial Results

Total revenue in Q1 2018 was \$29.0 million, compared to \$28.5 million in Q1 2017. Consolidated gross margin was 55.5% in Q1 2018, as compared to 57.4% in Q1 2017, primarily due to the inclusion of revenue from customers acquired during the first half of 2017 which carried a lower gross margin.

Net loss attributable to common stockholders from continuing operations in Q1 2018 was \$4.2 million, or \$0.20 per share on a basic and diluted basis, compared to a net loss in Q1 2017 of \$4.4 million, or \$0.32 per share on a basic and diluted basis.

Adjusted EBITDA grew 2% in Q1 2018 to \$3.7 million, compared to \$3.6 million in Q1 2017 (see definition and further discussion about the presentation of adjusted EBITDA, a non-GAAP term, below). Capital expenditures totaled \$1.0 million in Q1 2018, or 3.4% of total revenue.

Total cash and equivalents at March 31, 2018 was \$31.0 million, compared to \$2.5 million at December 31, 2017. On February 5, 2018, Fusion completed a follow-on offering of 8,625,000 shares of its common stock for net proceeds before offering expenses of \$38.7 million. Additionally during the first quarter, Fusion made \$6.6 million of debt pay downs of its then-outstanding senior secured term loan.

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 Chairman and CEO Matthew Rosen and CFO Kevin Dotts 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, May 15, 2018
Time:	10:30 a.m. ET, 7:30 a.m. PT
Toll-free dial-in number:	1-800-289-0438
International dial-in number:	1-323-794-2423
Conference ID:	3160895

Webcast Link: <http://public.viavid.com/index.php?id=129432> 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.

FUSION CONNECT, INC. AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,	
	2018	2017
Revenues	\$ 29,038,043	\$ 28,481,039
Cost of revenues (exclusive of depreciation and amortization, shown separately below)	12,918,895	12,140,707
Gross profit	16,119,148	16,340,332
Depreciation and amortization	3,135,779	3,835,948
Selling, general and administrative expenses	13,947,995	13,613,661

Asset Impairment Charge	1,195,837	-
Total operating expenses	18,279,611	17,449,609
Operating loss	<u>(2,160,463)</u>	<u>(1,109,277)</u>
Interest expense	(2,147,775)	(2,092,312)
(Loss) gain on change in fair value of derivative liabilities	194,312	(40,445)
Loss on disposal of property and equipment	(3,184)	(26,800)
Other income, net	89,558	116,520
Total other expenses	(1,867,089)	(2,043,037)
Loss before income taxes	<u>(4,027,552)</u>	<u>(3,152,314)</u>
Provision for income taxes/Income tax benefit	(14,050)	(7,811)
Net loss from continuing operations	<u>(4,041,602)</u>	<u>(3,160,125)</u>
Net loss from discontinued operations	<u>(166,175)</u>	<u>(321,823)</u>
Net loss	<u>(4,207,777)</u>	<u>(3,481,948)</u>
Less: Net income attributable to non-controlling interest	66,470	-
Net loss attributable to Fusion Connect, Inc.	<u>(4,141,307)</u>	<u>(3,481,948)</u>
Preferred stock dividends	(243,582)	(1,254,109)
Net loss attributable to common stockholders	<u>\$ (4,384,889)</u>	<u>\$ (4,736,057)</u>
Basic and diluted loss per common share from continuing operations:	<u>\$ (0.20)</u>	<u>\$ (0.32)</u>
Basic and diluted loss per common share from discontinued operations:	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted average common shares outstanding:		
Basic and diluted	<u>20,682,262</u>	<u>13,805,133</u>

FUSION CONNECT, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	March 31, 2018	December 31, 2017
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 30,999,732	\$ 2,472,836
Accounts receivable, net of allowance for doubtful accounts of approximately \$495,000 and \$668,000, respectively	9,174,993	10,634,393
Prepaid expenses and other current assets	1,871,183	1,609,518
Deferred installation costs - current portion	798,166	-
Current assets of discontinued operations	<u>4,269,653</u>	<u>2,867,953</u>
Total current assets	<u>47,113,727</u>	<u>17,584,700</u>
Property and equipment, net	11,115,107	12,838,840
Security deposits	612,299	612,299
Restricted cash	27,153	27,153
Goodwill	35,181,698	34,773,629

Intangible assets, net	55,687,545	56,156,023
Deferred installation costs - net of current portion	1,102,648	-
Other assets	35,632	43,937
Non-current assets of discontinued operations	19,780	20,980
TOTAL ASSETS	\$ 150,895,589	\$ 122,057,561
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Term loan - current portion	\$ 6,500,000	\$ 6,500,000
Obligations under asset purchase agreements - current portion	723,297	227,760
Equipment financing obligations	1,075,252	1,206,773
Deferred installation revenue - current portion	797,332	-
Accounts payable and accrued expenses	20,165,445	21,995,443
Current liabilities from discontinued operations	4,660,278	3,093,602
Total current liabilities	33,921,604	33,023,578
Long-term liabilities:		
Notes payable - non-related parties, net of discount	32,083,554	31,953,163
Notes payable - related parties	928,081	928,081
Term loan	47,663,242	54,222,668
Indebtedness under revolving credit facility	-	1,500,000
Obligations under asset purchase agreements	477,162	222,240
Equipment financing obligations	407,345	590,602
Deferred installation revenue - net of current portion	1,029,445	-
Derivative liabilities	586,197	872,900
Total liabilities	117,096,630	123,313,232
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, 13,466 and 14.216 shares issued and outstanding	134	142
Common stock, \$0.01 par value, 150,000,000 shares authorized, 23,847,140 and 14,980,756 shares issued and outstanding	357,708	224,712
Capital in excess of par value	234,908,160	195,865,425
Accumulated deficit	(201,318,706)	(197,264,083)
Total Fusion Connect, Inc. stockholders' equity	33,947,296	(1,173,804)
Noncontrolling interest	(148,337)	(81,867)
Total stockholders' equity	33,798,959	(1,255,671)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 150,895,589	\$ 122,057,561

FUSION CONNECT, INC. AND SUBSIDIARIES

Reconciliation of Net Loss to EBITDA and Adjusted EBITDA

Three Months Ended March 31,

	2018	2017
Net loss attributable to Fusion Connect, Inc.	\$ (4,141,307)	\$ (3,481,948)
Less: net loss from discontinued operations	166,175	321,823
Less: loss attributable to non-controlling interest	(66,470)	-
Net loss from continuing operations	(4,041,602)	(3,160,125)
Interest expense and other financing costs	2,152,880	2,108,635
Provision for income taxes	14,050	7,811
Depreciation and amortization	3,135,779	3,835,948
EBITDA	1,261,107	2,792,230
Acquisition and transaction expenses	569,872	322,639
Change in fair value of derivative liability	(194,312)	40,445
Loss on disposal of property and equipment	3,184	26,800
Asset impairment charge	1,195,837	-
Non-recurring employment related expenses	445,487	-
Stock based compensation expense	373,549	397,392
Adjusted EBITDA	\$ 3,654,724	\$ 3,579,506

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.

Fusion Contact:

Brian Coyne

1 212.201.2404

bcoyne@fusionconnect.com

Investor Relations:

Chris Tyson | MZ North America

1 949.491.8235

FSNN@mzgroup.us

www.mzgroup.us



Source: Fusion