August 14, 2018

Fusion Reports Second Quarter 2018 Financial Results

Acquisition Integration and Related Synergies Proceeding Ahead of Schedule; Cost Savings Anticipated to Exceed Original Plan

NEW YORK, Aug. 14, 2018 (GLOBE NEWSWIRE) -- Fusion (NASDAQ: FSNN), a leading cloud services provider, today announced financial results for the three and six months ended June 30, 2018.

On May 4, 2018, Fusion completed its acquisition of the Cloud and Business Services business of Birch Communications Holdings, Inc. ("Birch"). Due to the nature and structure of that transaction, Birch is considered acquirer of Fusion under generally accepted accounting standards. Accordingly, the financial statements (other than equity) presented are those of Birch for the current and prior periods with the current period giving effect to the acquisition of Fusion as of May 4, 2018 and MegaPath Holding Corporation, Inc. ("MegaPath") as of June 15, 2018.

Second Quarter 2018 Highlights

- Revenue was $120.8 million, compared to $102.9 million in Q1 2018 and $116.7 million in Q2 2017
- Gross margin was 45.2%, compared to 46.4% in Q1 2018 and 46.0% in Q2 2017
- Net loss attributable to common stockholders was $34.5 million, or $0.59 per share, compared to a net loss of $4.0 million, or $0.33 per share in Q1 2018 and a net loss of $4.7 million, or $0.19 per share in Q2 2017
- Excluding the retirement of debt obligations, non-GAAP net loss attributable to common stockholders was $20.1 million, or $0.34 per share
- Adjusted EBITDA (a non-GAAP measure) was $26.6 million, or 22.0% revenue, compared to $26.7 million in Q1 2018 and $28.1 million in Q2 2017
- Unlevered Free Cash Flow (a non-GAAP measure), defined as Adjusted EBITDA less capital expenditures, was $18.6 million, or 15.4% of revenue, compared to $19.3 million in in Q1 2018 and $18.2 million in Q2 2017
- Acquisition integration proceeding ahead of schedule in key areas including: Service Delivery; Network & Engineering; Sales, Marketing and Product; HR and Administration; and Finance and Accounting
- Achieved integration-related cost synergies with an annualized run-rate of approximately $14 million exiting Q2 2018, representing 40% of the $35 million of targeted acquisition-related synergies within 12 months following the closings
- Average monthly revenue per customer (ARPU) was $309, compared to $203 in Q1 2018
- Churn was at the mid-1% level, compared to more than 2% in Q2 2017

Management Commentary

“Fusion delivered solid second quarter financial results, demonstrating the progress we have made in stabilizing the Birch business, as we have indicated we would,” said Matthew Rosen, Fusion’s Chairman & CEO. “Our integration of Birch and MegaPath is running ahead of schedule, having made significant progress toward several major milestones in terms of real estate consolidation, network interconnection, sales and marketing, and financial operations. As a result, less than 60 days after closing Birch, we had already achieved nearly 40% of our original 12-month cost synergy target of approximately $35 million for the acquisitions, which we now expect to exceed as we continue to find incremental savings opportunities since the acquisitions closed.

“With integration well under way, we are focusing on driving Fusion’s growth by increasing our emphasis on our Product, Sales & Marketing organization, including the addition of Dan Foster as our Chief Revenue Officer and key hires in our Partner sales channel group. We anticipate that these efforts will further strengthen our bookings and churn performance, where we have already seen good progress, and lead to top line expansion.

“We are also leveraging our intellectual property to accelerate our product and solution innovation, based on our proprietary software for Unified Communications, contact center, secure team messaging, and collaboration. We believe these measures, along with Fusion’s greatly-enhanced scale, bode well for our future growth trends,” Mr. Rosen concluded.

Additionally, Fusion today announced that with the acquisitions of Birch and MegaPath now completed, Kevin Dotts, Fusion’s Chief Financial Officer will be departing the Company effective August 24, 2018. Mr. Dotts’ departure is not related to any disagreements with Fusion’s strategy, governance or financial and accounting matters, as he has decided to pursue an opportunity outside the industry.

Following Mr. Dotts’ resignation, Keith Soldan, Vice President of Corporate Finance, will assume the role of Acting CFO and Chief Accounting Officer. Mr. Soldan joined Fusion through the acquisition of Birch in May 2018 and had been Birch’s Vice President of Finance and Accounting since April 2017. Mr. Soldan has nearly 20 years of experience in public company financial leadership roles in the technology sector, having previously held the positions of VP of Finance at Internap Corporation and VP and Divisional CFO at EarthLink. Earlier in his career, he held senior financial management positions at Turner Broadcasting.

Second Quarter 2018 Financial Results

Revenue in Q2 2018 was $120.8 million, compared to $116.7 million in Q2 2017. The increase was primarily due to $17.7 million of revenue from pre-merger Fusion and $1.6 million of revenue from MegaPath, partially offset by churn impact.

Gross margin was 45.2% for the three months ended June 30, 2018, compared to 46.0% for the same period in 2017. The decrease is primarily due to the fixed cost network becoming a higher percent of cost of revenue primarily due to the spinoff of the former Birch consumer business on May 4, 2018. Management expects these costs to decline as it aligns its fixed network costs with its business.

Selling, General and Administrative expense was $43.0 million, compared to $29.0 million in Q2 2017. The increase was primarily due to $8.9 million of acquisition transaction costs, $0.9 million in restructuring costs, $5.7 million of expenses attributable to Fusion, and $1.6 million of expenses attributable to MegaPath, partially offset by a lower cost base of $2.7 million.

Net loss attributable to common stockholders was $34.5 million, or $0.59 per share on a basic and diluted basis, compared to net loss to common stockholders in Q2 2017 of $4.7 million, or $0.19 per share on a basic and diluted basis. Excluding the retirement of debt obligations, net loss attributable to common stockholders was $20.1 million, or $0.34 per share.

Adjusted EBITDA in Q2 2018 was $26.6 million, compared to $28.1 million in Q2 2017 (see definition and further discussion about the presentation of adjusted EBITDA, a non-GAAP term, below). Consolidated capital expenditures totaled $8.0 million in Q2 2018, or 6.6% of revenue, compared to capital expenditures for the former stand-alone Birch of $7.3 million in Q1 2018, and $9.9 million in Q2 2017.

Total cash and equivalents at June 30, 2018 were $13.5 million, compared to $5.8 million at December 31, 2017. During the second quarter, Fusion retired approximately $443 million in Birch debt and accrued interest, and approximately $89 million of pre-merger Fusion debt, while incurring and additional $62 million of debt related to the acquisition of MegaPath.

Due to the timing of scheduled principal amortization payments, Fusion made no pay downs on its new credit facilities during the second quarter. Going forward, Fusion expects its scheduled principal amortization payments to be approximately $6.9 million per quarter.

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

Conference Call Information

Fusion will host a conference call today to discuss the Company's financial results, followed by a question and answer period. To access the call, please use the following information:

Date:	Tuesday, August 14, 2018
Time:	4:30 p.m. ET, 1:30 p.m. PT
Toll-free dial-in number:	1-800-458-4121
International dial-in number:	1-323-794-2597
Conference ID:	2517795
Live webcast link:	http://public.viavid.com/index.php?id=130727 or ir.fusionconnect.com under "Upcoming Events"

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

Use of Non-GAAP Financial Measurements

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

- Tables Follow -

FUSION CONNECT, INC. AND SUBSIDIARIES

Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Revenue	$ 120,803	$ 116,677	$ 223,714	$ 231,743
Cost of revenue (exclusive of depreciation and amortization, shown below)	66,189	63,039	121,316	125,899
Gross Profit	54,614	53,638	102,398	105,844
Operating expenses:				
Selling, general and administrative	43,001	29,009	66,767	61,334
Depreciation and amortization	16,712	17,625	31,441	33,642
Impairment losses on intangible assets	-	-	2,314	-
Foreign currency loss (gain)	241	(131)	511	(166)
Total operating expenses	59,954	46,503	101,033	94,810

Operating (loss) income	(5,340)	7,135	1,365	11,034
Other (expense) income:				
Interest expense, net	(17,608)	(11,852)	(29,370)	(21,481)
Loss on debt extinguishment	(14,414)	-	(14,414)	-
Other (expense) income	(211)	(28)	(168)	50
Total other expense	(32,233)	(11,880)	(43,952)	(21,431)
Loss before income taxes	(37,573)	(4,745)	(42,587)	(10,397)
Income tax benefit (expense)	3,872	44	4,869	(1,354)
Net loss from continuing operations	(33,701)	(4,701)	(37,718)	(11,751)
Net income (loss) from discontinued operations	15,179	(4,743)	6,218	(8,133)
Net loss	(18,522)	(9,444)	(31,500)	(19,884)
Other comprehensive income (loss):				
Cumulative translation adjustment	(655)	44	(1,451)	(256)
Comprehensive loss	$ (19,177)	$ (9,400)	$ (32,951)	$ (20,140)
Net loss from continuing operations	(33,701)	(4,701)	(37,718)	(11,751)
Preferred stock dividends	(787)	-	(787)	-
Net loss attributable to stockholders	$ (34,488)	$ (4,701)	$ (38,505)	$ (11,751)
Basic and diluted loss per common share from continuing operations	$ (0.59)	$ (0.19)	$ (0.92)	$ (0.47)
Basic and diluted loss per common share from discontinued operations	$ 0.26	$ (0.19)	$ 0.15	$ (0.32)
Basic and diluted weighted average common shares outstanding	58,248	25,161	41,796	25,161

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	June 30, 2018	**December 31, 2017**
	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 13,535	$ 5,757
Accounts receivable, net of allowance for doubtful accounts of $6,077 and $2,652, respectively	52,384	25,372
Accounts receivable - stockholders/employees	-	920
Prepaid expenses	10,443	6,290
Inventory, net	1,618	1,142
Other assets	4,504	2,505
Current assets of discontinued operations	-	40,038
Total current assets	$ 82,484	$ 82,024
Long-term assets:		
Property and equipment, net	$ 121,294	$ 106,557

Goodwill	217,814	89,806
Intangible assets, net	183,826	68,834
Other non-current assets	33,462	877
Total long-term assets	556,396	266,074
Total assets	$ 638,880	$ 348,098
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 76,075	$ 40,315
Accrued telecommunications costs	5,277	11,048
Deferred customer revenue	16,030	10,226
Other accrued liabilities	41,831	23,948
Current portion of capital leases	3,027	3,003
Current portion of long-term debt	24,500	26,500
Current liabilities from discontinued operations	-	34,864
Total current liabilities	$ 166,740	$ 149,904
Long-term liabilities:		
Non-current portion of long-term debt	$ 580,020	$ 410,736
Non-current portion of long-term capital lease	3,316	3,823
Other non-current liabilities	7,657	12,847
Total non-current liabilities	$ 590,993	$ 427,406
Stockholders' deficit:		
Preferred stock, $0.01 par value, 10,000 shares authorized, 15 and 0 shares issued and outstanding, respectively	-	
Common stock, $0.01 par value; 150,000 shares authorized, 78,415 and 25,161 shares issued and outstanding	784	252
Additional paid-in capital	145,377	5,824
Accumulated deficit	(264,752)	(236,477)
Accumulated other comprehensive (loss) income	(262)	1,189
Total stockholders' deficit	(118,853)	(229,212)
Total liabilities and stockholders' deficit	$ 638,880	$ 348,098

FUSION TELECOMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net (loss) from continuing operations	$ (33,701)	$ (4,701)	$ (37,718)	$ (11,751)
Interest expense and other financing costs	17,608	11,852	29,370	21,481
Income tax (benefit) expense	(3,872)	(44)	(4,869)	1,354

Depreciation and amortization	16,712	17,625	31,441	33,642
EBITDA	$ (3,253)	$ 24,732	$ 18,224	$ 44,726
Acquisition transaction expenses	9,859	-	10,642	-
Restructuring expenses	2,253	1,294	3,621	3,226
Transition expenses	667	-	667	-
Nonrecurring expenses	523	2,183	1,036	2,422
Stock based compensation expense	92	15	92	30
Foreign currency (gain) loss	241	(131)	511	(166)
Debt extinguishment	14,414	-	14,414	-
Impairment losses on intangible assets	-	-	2,314	-
Other expense (income)	211	28	168	(50)
GAAP adjustment to revenue	1,574	-	1,574	-
Adjusted EBITDA	$ 26,581	$ 28,121	$ 53,263	$ 50,188

About Fusion

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

Forward Looking Statements

Statements in this press release that are not purely historical facts, including statements regarding Fusion's beliefs, expectations, intentions or strategies for the future, may be "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Such statements consist of any statement other than a recitation of historical fact and may sometimes be identified by the use of forward-looking terminology such as "may", "expect", "anticipate", "intend", "estimate" or "continue" or the negative thereof or other variations thereof or comparable terminology. The reader is cautioned that all forward-looking statements are speculative, and there are certain risks and uncertainties that could cause actual events or results to differ from those referred to in such forward-looking statements. Important risks regarding the Company's business include the Company's ability to comply with covenants included in its senior debt agreements; competitors with broader product lines and greater resources; emergence into new markets; natural disasters, acts of war, terrorism or other events beyond the Company's control; and other factors identified by Fusion from time to time in its filings with the Securities and Exchange Commission, which are available through https://www.sec.gov. However, the reader is cautioned that Fusion's future performance could also be affected by risks and uncertainties not enumerated above.

In the event that there is any inconsistency between the information contained in this press release and the information set forth in Fusion's Form 10-K or 10-Q filed with the Securities and Exchange Commission, the information contained in the Form 10-K or 10-Q governs.

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