

Digital Turbine Inc.

Fourth Quarter Fiscal 2016 Earnings
Conference Call

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CORPORATE PARTICIPANTS

Bill Stone - *Chief Executive Officer*

Andrew Schleimer - *Executive Vice President and Chief Financial Officer*

Brian Bartholomew - *Senior Vice President, Capital Markets and Strategy*

PRESENTATION

Operator

Good afternoon, and welcome to the Digital Turbine Fourth Quarter Fiscal 2016 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the “*” key followed by “0.” After today’s presentation, there will be an opportunity to ask questions. To ask a question, you may press “*” then “1” on your telephone keypad, to withdraw your question, please press “*” then “2.” Please note this event is being recorded.

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

Brian Bartholomew

Thank you. Welcome everyone to Digital Turbine's fiscal 2016 fourth quarter earnings conference call. With me today are Bill Stone, Digital Turbine's Chief Executive Officer; and Andrew Schleimer, our Executive Vice President and Chief Financial Officer.

Statements made on this call, including those during the question and answer session may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations concerning matters that are not historical facts and include, for example; statements about guidance, expected revenue and profitability, product sales, market penetration, speed of customer adoption in orders and overall business momentum. We caution investors that any forward-looking statements are based on beliefs and assumptions made by and information currently available to us. Such statements are based on assumptions and the actual outcome will be affected by known and unknown risks, trends, and uncertainties and factors that are beyond our control or ability to predict.

Although we believe that our assumptions are reasonable, they are not guarantees of future performance and some will inevitably prove to be incorrect. As a result, our actual future results may differ from our expectations and those differences may be material. Please refer to the Safe Harbor statement included in today's release, as well as Digital Turbine's periodic filings with the SEC, for a discussion of such risks and uncertainties. We are not undertaking any obligation to update any forward-looking statements. In addition, we will be discussing certain non-GAAP financial results, including non-GAAP adjusted EBITDA. Non-GAAP measures are not substitutes for GAAP measures. Please refer to the press release issued earlier today for important information about the limitations on using non-GAAP measures as well as reconciliations of these non-GAAP financial results to the most comparable GAAP measures.

Please note that on March 6, 2015, Digital Turbine, Inc., a Delaware corporation, acquired Appia, Inc. Digital Turbine's current year results are therefore not comparable to prior year results and this call will include sequential comparisons unless otherwise noted.

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

Bill Stone

Great. Thanks, Brian, and thanks to all of you joining us today. I want to cover our four main topics in my remarks. First is closing out 2016; second will be operational updates that will contribute to the June and September quarters; third is a view on how we see that translating

into our reported results; and finally some strategic comments about our business. Andrew will take you through the numbers and also provide updates and other important financial issues.

To close out fiscal 2016, we finished the year at \$86.5 million in revenue and the quarter at \$23 million in revenue, which was 206% higher on a reported basis and nearly 50% higher on a pro forma basis compared to the prior fiscal year. Increasing our annual organic pro forma revenue nearly 50% from fiscal 2015, while actually lowering our annual operating expenses showcases the operating leverage of our business.

However, we're not satisfied with those results and this was disappointing against our expectations and guidance. We own this and we have not done a good job forecasting new customers in the timing of the revenue. This was the major gap against our actuals versus expectations. From an annual perspective, we believe this issue has been addressed for the current fiscal year and I'll discuss our guidance approach in more detail later in my remarks. But despite the timing gaps of expectations management, the business is now positioned the best in its history against capitalizing on the larger market opportunity. Before diving into the specifics of our DT Media or O&O business, I want to talk about our A&P and Content business. Combined, we expect both businesses to be sequentially up compared to the prior quarter and remain on approximately the same trajectory as today for the next quarter.

Our Content business is having a very strong June quarter and we expect that to continue with our ramp in Asia and India with our Pay product. This incremental Asian growth we expect to be offset by some new double opt-in policies that Telstra is just now implementing in Australia for new Pay customers. The exact impact we don't know at this time as Telstra is implementing the change this week. Given over 80% of our Pay revenue is subscription-based; we don't anticipate a material risk in the short term but want to call it out.

While our A&P business has experienced success and disappointment based upon the spend of one large advertiser over the past year, we are working on diversifying to real-time bidding or RTB, which is a key strategic priority for us. Leveraging our Ignite data for RTB is a competitive differentiator and a key reason why we believe we will win in this space.

We have begun some early work and the results are very encouraging. Specifically, we began our first RTB campaign choosing Ignite data and saw a 13x increase in response rates when we targeted customers who had shown similar behaviors from what we did with Ignite preloads. This is important as it shows that better targeting and better data equals powerful results. The early data is just that, early, but it is encouraging and validating our strategic hypothesis.

From a revenue perspective, we had zero revenue in the March quarter from RTB and the team is targeting to exit June with a run rate of between 5% to 10% of our A&P revenues coming from RTB. As Andrew will summarize some additional specifics on our Content and A&P business in his remarks, I'll now spend a majority of my time providing operational commentary on our DT Media or O&O business results.

What gives me the most confidence is that the strongest structural O&O operational metric we have is how much our app developers and advertisers willing to pay for the real estate on the home screen. This is the single biggest validation of our strategy on the value of the home screen as a differentiated advertising unit.

In the fourth quarter, we set a record with the number of bid rate increases. When we run campaigns, we sign insertion orders or IOs with the app developer advertiser. For example, an

app developer can run \$100,000 campaign with us and at the end of the campaign, one of three things can happen. Either, a) the advertiser will stop spending with us as the budget is out or the quality is poor; or b) the advertiser will continue to re-up at the same rates and terms; or c) the advertiser will pay us more for the same real estate.

We saw this last dynamic of record increases in the fourth quarter and that's continuing today. And this is for two main reasons. First, advertisers are seeing value from their spend and want to spend more at higher rates. And second, we've increased the number of advertisers. Just like beachfront property real estate, given supply is relatively fixed, its economics 101 that when supply is fixed and demand increases that prices are allowed to rise. We've experienced this dynamic with over 250 campaign and device combination bid rate increases in the fourth quarter.

We've also had twice the number of open budget advertisers who are willing to buy as much inventory at fixed rates compared to the previous quarter, and this demonstrates that our O&O inventory is driving strong ROI performance spending. We measure this each day as we look at both revenue per device and revenue per slot or RPS, and this trend has continued into the current June quarter.

We are seeing our global revenue per slot today at \$0.34 and this compares to \$0.32 for the December quarter and \$0.30 from the quarter before that. So if an average operator is running eight slots, the average would be $\$0.34 \times 8$ or \$2.56 for the revenue per device or for five slots that average would be \$1.70.

We are seeing RPS averages of approximately \$0.35 in the US and Australia, \$0.28 in Europe, \$0.20 in Latin America and approximately \$0.10 in emerging markets such as India and Southeast Asia. As we now have many more partners live, we anticipate being able to continue to break out these metrics on a geographic basis to help investors get greater transparency into our business.

To that end, launching these new partners is also important as our largest O&O partner was over 85% of our O&O revenue in the March quarter, but is between 50% to 60% today. In other words, these new launches are diversifying our O&O revenue streams across many new global partners.

In particular, I want to highlight some specific operational updates across these advertisers, operators and OEMs. First, Cricket, which is averaging on new devices nearly \$0.40 revenue per slot is now over well over \$2 per device. While slot counts can vary on Cricket as memory on each device is unique, but the key message is that Cricket customers are highly engaged with their content and applications. We've also begun leveraging the embedded base of subscribers with our partners versus only launching on new devices.

In particular, we've pushed to over 1 million embedded base customers quarter-to-date. We expect that number to increase by many more millions over the next 100 days as we have just begun this with a half a dozen new operator and OEM partners. It's also important to note that the average gross margin across these partners is over 50%, so they will be material drivers of both short-term profitability and free cash flow.

We've also been able to expand our horizons beyond just mobile operators. Blu, Info Sonics, Fira 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 proactively approach. The good news is that these implementations are vanilla deployments with little customization, which means faster time to revenue and strong gross margins.

We are also now live with our largest North American partner on the Samsung Galaxy S7. This was a solid milestone to begin delivering applications to that device in May. While the device sell-through has been a bit below our expectations, the monetization has been very strong on a per device basis. We are now running between five to seven slots with that operator today depending upon the specific device and time.

We are also showing the dimensions of the Ignite platform with our Vizio relationship. Vizio has just under 10 million connected televisions. Extending the Ignite platform into the home entertainment space versus only on smartphones is a great data point on how we expand our addressable market with little to no additional technical work.

And on the advertising front, we announced our partnership with Amazon to help them distribute applications in various countries. We expect to continue to add markets to help increase Amazon's distribution footprint to coincide with the secular trend of customers increasing their purchasing of goods and services via mobile applications versus the mobile Web or on the PC. We've also expanded relationships with advertisers such as eBay, Walmart, Starbucks, Uber, Hulu and many other brands who see value from the Ignite platform. In particular, I want to highlight our new relationship with Yahoo. Yahoo is working with us to expand the distribution of their applications to mobile, which we expect to include apps like mail, search, tumbler, AVA, finance, and weather.

At the B. Riley Investor Conference, I highlighted how Ignite has evolved from a product to a platform. This is important as we see new customers that originally had app delivery capabilities and were not interested in the specific Ignite product; recently call us into accounts to manage their campaigns, their third-party relationships, their tracking, their business development and so on.

So we can take all of our end-to-end capabilities and via API integrate them into their own homegrown app delivery platform. Look for us to announce new operators and OEMs that were once thought to have their own end-to-end homegrown solutions call us back into accounts to help manage the end-to-end process with app developers. It's a great validation of the broader strategy that many mobile operators and OEMs are simply not equipped to manage the end-to-end process and without the global scale and resources and expertise that we have built.

Two of the operators we expect to have a material impact on our results over the next few months will be both América Móvil and AT&T. With América Móvil, we have completed all of our technical and operational integration work and have started delivering and campaign to Ignite at very modest scale. We expect to begin pushing to their embedded base at scale throughout this summer. The opportunity is in the tens of millions of devices and we are finalizing this push schedule real-time.

With AT&T, we have delivered the final software and expect to launch in July on our first ZTE device. Unfortunately, the ZTE device that had originally been expected to have already launched in the marketplace by both us and AT&T was delayed to ZTE's conclusion of an issue with the US government on their compliance with Iranian sanctions, but bigger picture, we are very excited about our AT&T relationship and anticipate being on more than 10 Android devices

over the next 100 days. We expect the ramp to be much faster than when we began with our other large North American partner.

Finally, our pipeline's the best in our history. As you've heard me say many times, winners win disproportionately; a momentum creates additional momentum. We are seeing this in numerous global accounts. A great example of this is with our win in India with Airtel, who is the world's third-largest global mobile operator. Showcasing our expertise and years of experience with the Ignite software versus other alternatives, Airtel's agreed to a minimum commitment on devices to pay us for software while we see some of our early-stage competitors paying to get their software on devices.

Obviously, we like our 100% gross margin model here guaranteeing us volumes versus the other way around. Combined with other relationships in the region, we continue to be very excited about our Indian growth prospects as India just recently overtook the United States as the number two market for smartphones. As a result of this and other expected deals, we did terminate our relationship with MSAI. This was a difficult decision but we believe the right one to more quickly grow revenues in India. I will continue to provide updates on this important region on future calls.

In the immediate term, our focus continues to be laser-focused on the user experience, increasing slots, increasing devices, and continuing bid rate increases with advertisers. These are the four factors that are the building blocks of profitable top line growth.

From a guidance perspective, what we want to avoid is the mistakes of our past, which is forecasting this activity into specific numbers based upon what happens in the last part of a quarter versus the early part of the following quarter. I believe we've dramatically improved our forecasting but from week-to-week or month-to-month perspective, one-time revenues from things like embedded-based pushes, sell through of a new device, slot changes and so on, all can distort the numbers both positively and negatively in the very short term.

We do expect sequential revenue growth in the current quarter versus the fourth quarter driven by the very strong demand I've detailed to you. However, we also have a lot of moving parts. How the exact revenue divides up between this month, July, August, and September will be dependent upon the exact timing of all of these activities. For example, we have visibility to many millions of incremental devices that will receive pushes from this week to the summer plus new device launches from customers such as AT&T and others.

The bottom line is our business is growing and well positioned to break out from the past. So, again, the point I want to make clear to investors is that we expect sequential top line growth this quarter but while the magnitude of that growth will be dependent upon implementation and launches that could still change in the next 17 days. In an effort to avoid our mistakes around guidance and the law of small numbers, which can have a few hundred thousand dollars of revenue overly exciting or disappointing investors against expectations, we are not issuing specific guidance today and would rather focus investors on the sequential and annual momentum of the business.

Before I turn it over to Andrew, I know the focus for all of us is in the immediate term with solid execution. We are taking a very blue-collar, bring our lunch pails to work attitude for the day-to-day business. But I view my job not just as that but also being able to look around the next corner, ensure we are positioned for the future.

As I mentioned with our early RTB results, our dataset has both strategic value and is a differentiator. Our dataset is unique. We are seeing major news events literally from today's announcements from large tech players about how they can create or buy datasets that are unique. This is important and why we are working to leverage our dataset not just for RTB but also for our Ignite business and targeting to Ignite customers.

Ultimately, we'll investigate if that dataset can not only help our core business but also be a new adjacent business similar to what Facebook audience network is to Facebook as a data management platform or DMP. Our data is unique and differentiated, so our ability to build user profiles has tremendous promise.

Combined with integrating our payment APIs and content management platform to host applications on our own versus having to use Google or Apple, we are still in the early innings but the strategic focus of the data in the home screen device is our secret sauce and something we don't want to lose focus on as we ramp additional devices and partners globally.

As we execute and showcase our improved results, you'll see additional commentary from me and information on this larger vision to position us for the future where we believe that's going.

And 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 fourth quarter of fiscal '16 and full fiscal year 2016.

Please note that all fiscal fourth quarter comparisons I will discuss today are being made to the prior sequential quarter unless specifically noted. We believe this is a better indicator of how our business performed during the quarter given the vast differences between our company today and at this time last year, namely as a result of the rapid growth in our advertising business and the March 6, 2015 acquisition of Appia.

As a reminder, we have two reporting segments; Advertising and Content. We have renamed the components of our Advertising business to better reflect the parties with whom we partner.

The Advertising segment is now comprised of advertisers and publishers or A&P, previously known as Appia Core, and our new RTB business and operators and OEMs or O&O, which includes our Ignite and Discover platform as well as select professional advertising services. Content, as before, is comprised of Marketplace and Pay. These segments are the basis for our financial reporting as well as for my discussion today. With that said, let's begin.

Revenue for the fiscal fourth quarter declined approximately 4% to \$23 million within the range that we preannounced in April compared with \$24.1 million for the third quarter. Advertising revenue of \$15 million declined approximately 14% sequentially and represented 65% of total revenue in the quarter. Within Advertising, O&O achieved a new record for the company at \$8 million and was up 15% versus the prior quarter. Strength in our O&O business was driven by continued penetration at our largest North American carrier along with the contribution from several new distributors, such as Cricket and Millicom, which launched during the quarter.

We were able to grow this business despite a later than expected launch of the Samsung Galaxy S7 with our largest carrier partner and a reduced slot count in the quarter. We have

since successfully launched on the S7 with this partner and have seen average slot counts tick higher from four to between five and seven today depending on device and timeframe.

As Bill alluded to in his commentary, we are making significant strides towards diversifying our O&O business by adding additional carriers and OEMs in the US and abroad. These carrier and OEM deals generally carry a more favorable revenue share that accrues to our benefit.

To demonstrate that this mix shift is occurring real time, our largest O&O partner was over 85% of our O&O revenue in March but is tracking to less than 60% today. Not only are we starting to drive new incremental revenues, we are doing so at gross margins accretive to our prior period levels.

As we work to expand the depth and breadth of the supply side, the demand from advertisers is clearly evident in the like-for-like bid rate increases that we have witnessed since the beginning of the calendar year. Given these underlying dynamics, we expect continued meaningful growth in our O&O business during fiscal '17.

A&P revenue was \$7.1 million in the quarter, down 33% quarter-over-quarter. Our A&P business was adversely impacted during the quarter by a significant temporary shift in budget allocation by large advertising clients for mobile user acquisition to other digital media, as well as a general seasonal low as calendar year '16 advertising budgets were reset.

As Bill noted, the industry continues to get increasingly sophisticated in the ability to measure and focus on LTV as the primary driver for marketing investments. As a result, we continue to invest in our data science, real-time 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 advertisers.

We expect stabilization in our core syndicated network business and contribution from RTB in the coming months, and are targeting to exit June at a 5% to 10% run rate of total A&P revenues. Content revenue during the quarter totaled \$8 million, representing 20% sequential growth and achieving a new all-time high for the Content business. Content revenue was 35% of total company revenue in the quarter.

DT Pay revenue grew 21% quarter-over-quarter and now represents more than 90% of our total content revenue, as our legacy Marketplace revenue continues to decline. Recall that we made a strategic decision to reallocate resources away from Marketplace to the more promising Pay business as well as our O&O business.

Our payments business experienced some positive growth in the quarter driven by a number of factors. Number one, we moved out of the seasonal low period for Content sales and billing. Number two, improvement in the APIs have made it quicker and easier to onboard new partners. These ongoing product improvements allow DT Pay to be rolled out in multiple countries as well as to our publishing partners.

Number three, DT Pay now have over 60 partners connected to our platform and is running 600 live services. This growth is set to continue as the popularity of Pay, especially in developing markets where credit penetration is low and Google Play is less prevalent. Pay connectivity in India and the Philippines was recently completed and we expect a more meaningful contribution to revenue beginning in Q1.

Finally, Content revenues in Australia have continued to decline as market dynamics mean more customers are using Google Play for Content. Moving forward, we are expecting growth from Content to come from new markets outside Australia and are working with OEMs to provide a branded source. In the first half of fiscal '17, we expect to launch new services in India, Malaysia, and the Philippines.

GAAP gross margin during the quarter was 16%, consistent with 16% reported in our fiscal third quarter. Excluding the amortization of intangibles, non-GAAP adjusted gross margin was 25% as compared to 23% in the third fiscal quarter. The sequential increase in our non-GAAP gross margin was driven by a relative greater contribution by the higher margin O&O business offset by the mix shift to pay, as well as the positive impact of the reversal of accrued revenue share due to Content providers in Australia, among other adjustments worth approximately 300 basis points in total.

Total operating expenses for the fourth quarter of fiscal '16 were \$9 million, down slightly from \$9.1 million in the preceding quarter. Total operating expenses include non-cash items comprised of stock-based compensation and depreciation. Total cash operating expenses in the quarter was \$7.3 million, slightly below cash operating expenses of \$7.6 million for the preceding quarter.

Most importantly regarding operating expenses, we have seen relatively flat sequential operating expenses while being able to grow the top line of our business by approximately 50% year-over-year, demonstrating the scale in our model as well as our laser-focused approach to keeping costs in line.

Net loss for the fourth quarter was \$5.8 million or \$0.09 per share based on 66.3 million weighted shares outstanding. This was flat with a net loss of \$5.8 million or \$0.09 per share for the fiscal third quarter. Non-GAAP adjusted EBITDA loss for the fourth quarter was \$1.6 million as compared to a loss of \$2.1 million for the third quarter.

Now, let's move to a discussion for the full fiscal year. Revenue for fiscal '16 was \$86.5 million, representing 206% growth when compared with \$28.3 million, as reported for fiscal '15 and 49% growth when compared to pro forma fiscal '15 revenues of \$58 million. We remind investors that we closed the Appia acquisition on March 06th of 2015. So my comments here with respect to fiscal year revenue will be pro forma, as if Appia was consolidated for the entirety of the fiscal year '15 and '16. Comments on other income statement accounts will be based on our reported results.

Advertising revenue of \$57.8 million increased 61% versus the prior year. Within advertising, O&O revenue of \$22.2 million increased by more than 450%, driven by the proliferation of Ignite onto a greater number of phones with existing, as well as new carriers and with higher average revenue per device.

A&P revenue of \$35.6 million increased 11% on the strength of larger campaign commitments from existing advertisers, as well as contribution from newly-added advertising clients. Content revenue of \$28.8 million increased 31% and 53% in constant currency as increasing DT Pay adoption more than offset a decline in the legacy marketplace business.

Gross margin was 11% for fiscal '16 as compared to 22% for fiscal '15. Excluding the amortization of intangibles, non-GAAP adjusted gross margin was 24% as compared to 29% for

fiscal '15. The reduction in gross margin stemmed from the inclusion of a full year of lower margin A&P revenues, and a mix shift within our content business from marketplace to pay.

Net loss for fiscal '16 was \$28 million or \$0.46 per share, as compared to the net loss for fiscal '15 of \$24.6 million or \$0.63 per share. Finally, non-GAAP adjusted EBITDA loss for fiscal '16 was \$9.1 million as compared to a loss of \$13.4 million for fiscal '15.

Let's now move to the balance sheet. Cash and cash equivalents as of March 31 were \$11.2 million, and net working capital declined to negative \$9.3 million from a positive \$487,000 at December 31.

Excluding the reclassification of our subordinated debt as short term, our net working capital declined to a negative \$1.7 million at March 31. We remain laser-focused on maximizing our cash on hand through efficient working capital management and believe we have ample capital on hand today to achieve our profitability goals.

Total debt at quarter end stood at \$10.6 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 March 31st, is comprised of two facilities. One senior debt facility with Silicon Valley Bank and one subordinated debt facility with North Atlantic Capital. Recall that both facilities were assumed as part of the Appia acquisition in March of 2015.

First, regarding SVB, we have a \$5 million asset-backed revolver, supported by our eligible accounts receivable. We have seen our borrowing base under the facility increase over time, as growth in our DT Media business revenues has translated to more receivables and in turn more loan collateral. That said, the revolver is set to expire on June 30th of this year, and we are in active discussions with SVB regarding how we see the next phase of our relationship. SVB has been a great partner and on numerous occasions has demonstrated their commitment to our partnership.

For example, we received a consent waiver in connection with our AQR measurement for the month of April, more specifically described in our 10-K filing. It is this type of flexibility that makes SVB a terrific long-term partner. Please do note that only \$3 million of the \$5 million was drawn at 3/31.

Regarding NAC, we had \$8 million in subordinated debt that is due to mature next March of 2017. Like SVB, NAC has demonstrated a willingness to work closely with us as we pursue our long-term strategy. Most notably, NAC has previously agreed to extend the exercise of the 400,000 share pending warrant which today is still not exercisable. Our discussions with NAC are ongoing, as we determine the best path forward for the company vis-à-vis our short term debt.

While we do not have an imminent cash flow need, given the short-term nature of our two facilities, we commenced the process to achieve the following capital structure goals. Number one, to extend the maturity of all of our debts, number two, to consolidate our lending relationships to one versus two, and number three, to provide myself and our finance and accounting departments the freedom and flexibility to focus on supporting our business versus reporting in compliance. We have made significant progress in our process and while we do not have anything definitive to announce today, are confident that we will be able to address each of our goals in a transaction that is most suitable to our company in short order.

In summary, as Bill mentioned, fiscal '16 was a highly productive year for our company, a year during which we successfully evolved our business model, established promising new customer relationships, expanded our addressable market and, despite encountering some turbulence along the way, managed to grow our revenue 49% on a pro forma basis with no new acquisitions while decreasing our operating expenses. Our structural and strategic accomplishments in fiscal '16 and strengthening demand for our unique access to device home screens set our company up for profitable growth in fiscal '17 and beyond.

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

QUESTION AND ANSWER

Operator

We will now begin the question and answer session. To ask a question, you may press "*" then "1." on your touchtone phone. If you are using a speakerphone, please pickup your handset before pressing the keys. To withdraw your question, please press "*" then "2." At this time, we will pause momentarily to assemble our roster.

Our first question is from Mike Malouf at Craig-Hallum Capital Group.

Mike Malouf

Great, thanks guys for taking my questions.

Bill Stone

Yes, thanks, Mike.

Mike Malouf

Bill, I am really intrigued with the push aspect of your business model, and I am just wondering if you could just spend a couple of minutes talking about where you are at with the push, you said six carriers that you are working with now. And just how does that work, they get a notification that an app has got into their folder, or just talk to me about how that works?

Bill Stone

Yes. Sure, Mike. Yes, so we're working with half dozen operator and OEM partners, so it's both, it's not just operators, it's not just OEMs. And really the strategy here is historically with our Ignite business, we've only thought about new device sales out-of-the-box. And we haven't done as much with the whole lifecycle of the device for the customer once they've had their device and how do we improve the experience for the customer and get them better applications.

And so yes, we can do that through a variety of means and each operator and OEM will perhaps have a little different wrinkle on how they want to implement that, but it can range from anywhere from when an operator and OEM's doing a software update, the opportunity to deliver additional applications to that device. It can be done through an opt-in notification. It can be done with an existing application they do with our STK product.

So there is a variety of different ways that it can be done and without getting into details on this call, it's one of the point that I want to make more strategically is it's now us doing a much better job looking at the device over the lifecycle of the device and attacking new devices that aren't just brand new ones out-of-the-box.

Mike Malouf

Great, and the pricing for these apps are similar on a per slot basis, it would be just an open slot as you've been getting across the globe?

Bill Stone

Yes, actually it varies a little bit on geography first of all, so I would say it's a little bit lower than a brand new device out-of-the-box. And the reason for that is that, especially in the case of a customer does a software update and they are having additional applications to deliver, it may take the customer a little bit longer to realize they are there versus when they get their device right out of the gate, they are more intentioned to exploring the new things that might be on it. But generally speaking, yes, our overall advertising rates on a per slot basis are roughly in line with a new device versus an existing one.

Mike Malouf

Okay, great. And then on the América Móvil rollout, you said that that's starting now, you are obviously going to do the push as we just talked about. But how fast can you roll that out to all of their new devices? As you said that AT&T was going to roll out faster than previous rollouts, what about América Móvil?

Bill Stone

Yes, so right now with América Móvil it's really a bit complicated with the various versions of software that are out in the field, the various manufacturers and so on, and that's what's taken us so long to work through a lot of the technical operational complexities. I anticipate that we are going to spend the next 100 days laser-focused on the embedded base of customers because the opportunity, quite frankly, is larger than just new devices. And then, as we get into the summer and fall timeframe, we will start seeing it show up on their new devices, but even the new devices that we are not on now, we will be able to get to those through the embedded base, so it's not like it's a lost opportunity. But right now our view and América Móvil's view is, let's really focus on the embedded base.

Mike Malouf

So how about Airtel, how does that rollout work?

Bill Stone

Yes, so with Airtel we said at B. Riley that, we will be out live with them this calendar year. We are making great progress with them right now. Once we deliver the first APK, that we both validated, "Yes, everything works okay," then the clock starts running on their minimum guarantees and commitments back to us, that are time based. So they are highly incentivized to want to get it out into the market quickly.

And the other part on Airtel is, it's a licensing deal and they are solving a little bit of a different problem. So they are not looking at this through an advertising opportunity lens, it's really helping them solve a variety of operational issues with the existing apps and updates. So they are more motivated perhaps because it's solving a problem they are already experiencing.

Mike Malouf

Got it, okay. Thanks for taking my questions.

Bill Stone

Thanks Mike.

Operator

The next question is from Brian Alger at Roth Capital Partners.

Brian Alger

Hi, guys. Good afternoon. I'll follow up with Mike's question on Airtel first. As we look at the shop clock starting there, can you give us a sense, I know you don't want to give us the details of the contract, obviously, but in terms of scale, 100% gross margin flows to the bottom line pretty quickly. As we are looking at that initial ramp, you said there is some minimal guarantees in there. Are we talking just like tens of thousands or are we talking eight figures? Can you maybe put some parameters on this?

Bill Stone

Yes. So I would say it's between those two bookends, Brian it's material, there are the material commitments, but I want to respect the confidentiality of our agreement, but I would consider a material contract for us.

Brian Alger

Alright, and how long do you think it will take for the, I think you called it an "ADK," to get evaluated and signed off on?

Bill Stone

I am sorry, Brian, you said the...you said...

Brian Alger

You had an acronym I wasn't familiar with, that both of you have to agree on and confirm support.

Bill Stone

Oh, APK. So, in other words, with the Ignite APK, their software to get burned on to the ROM of the device, basically once we deliver that to Airtel, we both agree that everything is working as advertised, that's what starts the clock for the minimum guarantees they have to hit.

Brian Alger

Now, it's a little bit different in India, to my knowledge, in that there are just dozens, if not hundreds, of knockoffs. Do you have to verify and validate every phone or is it just certain versions of Android?

Bill Stone

Yes, so what it is, is with Airtel, they, as the number one player in India, have a lot of leverage over the OEMs. So Airtel is the one that actually will be coordinating that with the OEMs, not us. And they will be working and prioritizing on those devices directly with them in terms of which ones they want the Ignite software to be loaded on.

Brian Alger

Okay. Shifting gears if I can, I was pleased to hear you guys working with Yahoo, it's a bit interesting in the context that it seems just a couple of months ago, everybody was nervous about your relationship at Verizon post AOL. Our check certainly seem to indicate that everything is going on track and certainly getting the S7 up and running would verify that as

well. How do we think about your largest customer in the context of them engaging with these media giants? And how does that fit with your strategic positioning there?

Bill Stone

Yes, I think there is a couple of points I would look at that from. First is how our technology can help them in terms of getting the applications from point A to point B, just with their subscribers directly, so that's point number one. And we are doing that with them today where they may have advertising relationships through AOL that we use Ignite to deliver AOL customer wins or advertiser wins to Verizon subscribers. So we will do that today using the Ignite technology.

I think the larger opportunity that we are both equally excited about is, how do we look beyond just Verizon subscribers and how can we learn to leverage AOL sales relationships with many well-known brands and can we extend those relationships to the globe? And can we extend those relationships to operators in Latin America, in Asia and potentially in other parts of North America? And so, I think using our platform as a way to help increase their distribution, breadth and scale is something that we are really focused on. So I would say the relationship there has been great, very strong, a lot of exciting things happened in the pipeline working with them.

Brian Alger

Maybe, take an extension on that as a follow on. In the past, in prior iterations, carriers haven't really been too cooperative with each other. They tend to keep their cards relatively close to the vest. But it seems, at least from my perspective, that they are not competing with each other for these dollars, they are competing with Facebook and Google, who are making a mint on their networks. Is there any chance that these carriers actually work together via Digital Turbine?

Bill Stone

Yes, absolutely, we have had certain operators actually be references for us into other operator accounts for our technology to help go out and get that scale. And so, these are carriers you wouldn't expect that would be talking to each other about providing references for a company like ours. But I think to your point it's in everybody's interest to look at this amazing growth that is in the mobile content applications space, and how can they take part in that versus those dollars getting siphoned off to other players in Silicon Valley. And so, that's something that I think we positioned ourselves pretty well for and in fact that we've actually seen some of those references and reference checks translate into business for us is something that we are pretty proud of.

Brian Alger

Okay, great. Thanks, guys. I appreciate the update today. Thank you.

Operator

The next question is from Sameet Sinha at B. Riley.

Sameet Sinha

Yes, thank you very much. A couple of multipart questions, actually. So in terms of Appia, as A&P is known right now, what sort of revenue visibility do you have going out next, let's say, couple of quarters? You've given us what impacted this quarter, but in terms of visibility if you could provide some more information there.

Secondly, you mentioned RTB, could be 5% to 10% of that segment revenues in the June quarter. Now, would that be incremental or is it just displacing the old way of buying media? The second question comes down to basically the slot count issue and any visibility that you

have there when, I am glad to see that the number of slots is actually going up, so they are moving in the right direction. But any chance that they are going up even further from here? Also, if you can talk about your experience into the number of slots at other carriers, that would be helpful. Thank you.

Bill Stone

Yes, great. Thanks, Sameet. I will touch on both of those, and then Andrew can jump in especially as it relates to the revenue visibility on A&P.

First, let me take your slot count question. I think it's in everybody's interest to find the balance of what's the right number of slots to deliver for a customer. As we launch with AT&T, it's important to note that AT&T will be implementing our Wizard product, so the customer will have approximately 20 plus applications. So it can be mobile music; Pandora, Spotify, et cetera, social, Twitter, Facebook, Instagram, and games and the customer will select whatever applications they want. So the customer can select anywhere from 0 to 20 something applications, so the actual slot count in that case would be customer dependent.

We expect that slot count to be roughly the same as when we do that through the silent method, which is what we do with customers like Verizon and Cricket and US Cellular today, but just that would definitely be a wrinkle there. We are obviously always working with our operator partners and advertisers to optimize the slot count for the device. In certain cases, in certain geographies, and I alluded to this with Cricket, there may be memory issues on the phone that we want to be sensitive to for the customer that could limit the slot counts. But generally speaking, that's not an issue for more higher-end devices.

As we work with our operator partners that's a number in constant discussion around what's the right number. And in certain of those there could also be house applications or free applications that could add on to that in addition to the ones we are already doing. So it's definitely something where it's a variable that will increase revenue, and it's in our interest and the operator's interest to increase it. We just don't want to get ourselves to a point where it's too much, and you can get diminishing margin returns and that's not good for the customer and the experience.

Regarding A&P and RTB business, I will let Andrew jump in with some revenue visibility. My view on that is that datasets are driving the future as you heard me talk about in the strategic comments. We have a unique dataset with our Ignite capabilities in terms of what applications the customer has which ones they have opened, which ones they deleted, how they are interacting with those. And that data allows us to build profiles of what certain behaviors look like or certain segments look like. And I touched on some earlier results on that. So I don't view that as displacing the existing revenue stream, I look at that as incremental to the existing revenue stream.

With that being said, I think as the world moves to increasing programmatic buying of advertising, you will see some of those revenues be displaced in the very short term for us, though, I wouldn't characterize it as that. And our visibility on revenues, I think has been pretty solid in that business with a very stable set of advertisers. The fluctuation has really been driven by one large advertiser that can come in and out with large spends or smaller spends that can move the numbers around at the top-line a little bit, but I will ask Andrew to jump in with any other thoughts.

Andrew Schleimer

And I think the only thing to add, Sameet, is we manage this business on a daily basis. Given some of the competitive pressures, particularly in a core syndicated network business, our guys are laser-focused, not only from the advertiser side but from the publisher side. We see every post-publisher agreement to enhance our scale, distribution on the core network business, and we manage advertising accounts on a daily basis. So we have good visibility and good flexibility in terms of being reactive to market conditions. We have our challenges as the market shifts more towards programmatic and that's why we are laser-focused on ensuring we capture every last revenue dollar.

Sameet Sinha

One final question, your pro forma gross margin came in ahead of our expectation, and you went through the reasons, but I missed a few of them. Can you just repeat some of those reasons please?

Andrew Schleimer

Sure. So we came in at 25% in the fourth quarter versus 23% in the third quarter, and we attribute that, a) to the mix shift towards our O&O business, which had a record quarter at \$8 million, and as the O&O business has the highest margin profile in our company. That was somewhat offset by a mix shift within content away from marketplace to pay. And in the quarter, we now see pay representing roughly 90% of our content business. And then, we also in our fiscal year close had the positive impact of the reversal of some accruals that we had in Australia related to revenue share, the content providers that we deemed that we didn't have to pay, which also had a positive impact. So it was a mix of organic items and a small one-time item which brought us to 25%.

Sameet Sinha

One final question. As you are dealing with a number of issues with a large domestic carrier in the quarter, any one-time OPEX that you could attribute to it or that we can expect to fall off going forward or not?

Andrew Schleimer

I think we've demonstrated over the last couple of quarters from a GAAP OPEX perspective, depending upon where we are with stock-based compensation, anywhere between \$8.5 million and \$9 million of GAAP OPEX. This quarter we actually realized a reduction on our cash operating expense from \$7.6 million in Q3 to \$7.3 million in Q4. I think the best way to think about it absent seasonal fluctuations, i.e. in the June quarter we will have the costs associated with our 10-K and audit, so a bit higher on the cash and GAAP OPEX side, but \$2.5 million per month or \$7.5 million per quarter, given the various ins and outs is a safe place to be for the remainder of this fiscal year.

Sameet Sinha

Thank you.

Operator

As a reminder to ask a question, you may press "*" then "1."

And our next question is from Ilya Grozovsky at National Securities.

Ilya Grozovsky

Thanks. So I just wanted to talk a little bit about the guidance. I get that you guys don't want to issue guidance for the current quarter. I understand that there could be fluctuations, it sounds,

like you said, the law of smaller numbers plus or minus couple hundred thousand here or there. What about for the year, you guys in the past have issued guidance for the fiscal year. Given that we are starting a new fiscal year, any thoughts on what the year could look like?

Bill Stone

Yes. Thanks Ilya. Nothing we are going to specifically comment on today. I think that, what I want to focus investors on right now is first is we said this current quarter will be sequentially up, so we are going to make sure that there is not any real doomsday scenario, I want to make sure that that message gets across loud and clear.

Rather, what we want to do is we want to focus on momentum in the business and showing continued progress in the business. We've got ourselves into trouble in the past by some of those law of small numbers, and we want to avoid that. I think if you would ask most investors would they like to be in a business that's growing at 50% year-over-year, is cutting operating expenses, the answer would be, "Of course." But I think that if you go out and set the expectation, that it's going to be more of that and better than that and then things take a little longer than we would have liked and that's something that has caused us a lot of pain despite the momentum of us just winning in the marketplace.

So we want to focus investors on the momentum that we've got in the business right now. Strong underlying fundamentals and we know all these lead indicators, like revenue per slot and new partner wins and slots and all these things, all those lead indicators ultimately need to translate into lag indicators of revenue and free cash flow. But right now, we don't want to get ourselves in a situation where dot-one, dot-two type of thing which is literally \$100,000, \$200,000 around the edges against larger opportunity is where we are spending our time talking about, by the way, on either side of the ledger. So therefore, we want to just focus on executing and showing our investors continued momentum in the business.

Ilya Grozovsky

Okay, and then what about the profitability? Do you guys see, in terms of EBITDA, what's the trajectory there? You guys have plateaued it there roughly \$1.5 million to \$2 million for the past couple of quarters. Are we going to see continued improvement there or are you guys, just if you could talk...?

Andrew Schleimer

Yes, I think the key in terms of profitability is first and foremost highlighting the fact that we've seen OPEX at roughly \$7.5 million per quarter, and we feel pretty comfortable in this quarter and the out quarters that that's a real expectation. Then it comes down to mix and gross margin, and as we continue to introduce new distribution partners in the O&O business at revenue shares more favorable than the existing mix, we should see gross margin accretion. In order to get to \$7.5 million gross profit depending upon mix, if you would assume a 25% or 27% gross margin depending upon mix, that would imply anywhere from \$27 million to \$30 million of revenue in order for us to start making cash.

Ilya Grozovsky

Got it, great. Thank you.

Operator

This concludes our question and answer session. I would like to turn the conference back over to Mr. Stone for closing remarks.

CONCLUSION

Bill Stone

Yes, great. Thank you for all joining us on the call today. I think, we have communicated a lot of momentum in our business right now, and we look forward to keeping you updated upon our progress and we will be back to you on our August call. Thank you very much.

Operator

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