

Digital Turbine

Fiscal 2016 Business Outlook

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**CORPORATE PARTICIPANTS**

**Ghen Laraya** – *VP of Business Affairs*

**Bill Stone** – *Chief Executive Officer*

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

## **PRESENTATION**

### **Operator**

Good morning, and welcome to the Digital Turbine Fiscal 2016 Business Outlook 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 touchtone phone. 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 Ghen Laraya, VP of Business Affairs of Digital Turbine. Please go ahead.

### **Ghen Laraya**

Thank you, and welcome, everyone, to Digital Turbine's Fiscal 2016 Outlook conference call. I'm Ghen Laraya. 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 that are subject to risks and uncertainties. Please refer to the Safe Harbor statement included in today's press release, as well as Digital Turbine's periodic filings with the SEC for a complete discussion of the risks and uncertainties that could cause actual results to differ materially from those you may perceive today. We will be discussing certain non-GAAP financial results. The press release issued earlier today contains a reconciliation of these non-GAAP financial results to their most comparable GAAP measures.

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

### **Bill Stone**

Great, thanks, Ghen. And I appreciate all of you joining us on the call this morning. We're thrilled to have completed our acquisition of Appia and with speaking with you today about the prospects for the combined company. I want to take this opportunity to thank our shareholders for voting with our vision to transform Digital Turbine in our competitive positioning in our marketplace, as 99.6% of the votes cast were in favor of this strategic combination. Further, we welcome our new shareholders in our combined company and welcome Appia's Founder and CEO, Jud Bowman; and Executive Chairman, Craig Forman, to our board of directors.

I'm going to start this morning by refreshing you on Appia's business and how the combined companies will function together, and give you some thoughts on how we're envisioning fiscal 2016. Then Andrew's going to take you through our outlook and touch upon the shelf registration statement we filed this morning, and then we'll open up the call for questions.

Our priority for today is to provide the macro outlook, and we'll come back when we report our fiscal fourth quarter with additional refinement on operating metrics, both for reported financials and for our outlook. So, let's talk about the Appia deal, which we completed on March 6<sup>th</sup>.

As we've discussed with you, the Appia/Digital Turbine combination becomes a leading app install network, creating a single, unique, mobile app and ad ecosystem across Android and iOS. Appia is 100% focused on app install ads, which scales our combined advertising business and, from a business model perspective, helps us in multiple ways.

First is the core growth of the Appia business, which has done more than 100 million app install ads

around the globe on both the Android and iOS platforms, including 60 of the top 100 grossing apps in the Apple app store and on Google Play. Appia's targeting and tracking technologies, combined with their reach and depth of its advertising relationships, creates a superior experience that Appia can show advertisers positive return on investment through post-install event data; second, the vertical integration of Appia's personnel and technology into our advertising business, which is comprised of Ignite and IQ today.

We will be branding the supplying of ads into this business, Digital Turbine Media. Digital Turbine Media has unique advertising units via the home screen of the device. We believe this is true, sustainable differentiation in the marketplace. We have already brought Appia's global advertising reach and ad tech capabilities in house, which will enhance our ability to execute across Ignite and IQ opportunities, and the enhancements are powerful, driving enhanced revenue per device metrics by simplifying the app install process for carriers and the convergent flow from viewing the ad to actually installing the app for device users.

So, let's discuss integration for a moment, which is going well, as we've been working together with Appia for many months. We've integrated both companies' campaign management activities into one organization under Digital Turbine Media. We've begun integrating our reporting and back-office infrastructure into one set of systems. We have a number of joint integration projects, such as the integration of Verizon's precision data, underway, and there's some exciting conversations on how we integrate the ZIO [ph] recommendation algorithms into the Appia ad server. This will allow us to achieve our vision of right app, right customer, right time.

We also continue to target over \$2 million in expected cost synergies from campaign management, CPI infrastructure functions and duplicate of corporate headcount. These cost synergies are to be achieved via immediate headcount reductions and hard cost savings from legal, accounting and other back-office functions, as well as the avoidance of additional investment required, given Appia's existing sales and technical infrastructure.

And since our last call I wanted to provide a few operational updates. We've launched Ignite on Verizon's Samsung Galaxy Core Prime with four slots. We continue to be excited about our launches on a number of high-profile devices over the next 30 to 60 days across multiple customers and multiple geographies. And, as you're aware, we announced our partnership with Deutsche Telecom in Europe. We are one of the select partners that joined them on stage at Mobile World Congress earlier this month.

I am excited to announce that we'll be launching in three of these customer's markets within the next 90 days including the Netherlands, Austria and Slovakia. Our relationship with Deutsche Telecom is strategically important, not just for this customer per se, but also to strengthen our positioning and relationships with potential customers across the region.

We've also launched IQ and Ignite with Vodafone in Australia across two Samsung devices. And while it's early days and the sample sizes are still small, the open rates on our first campaigns have been over 50%. And the lesson we're learning is that the more targeted the subscriber base, the higher the open rates.

Overall, on a reported basis, we are confirming our fiscal outlook for 2015. So, our immediate focus is on first, ensuring smooth execution of building ramp in our advertising business, which includes a seamless integration of Appia. Second, is growth in margin improvement in our content of pay business and finally is careful cost management.

So what does this mean for our fiscal 2016 planning and outlook? As we discussed in our last call, we're beginning to see a material ramp in our advertising business with a pipeline of launches across numerous devices in carriers planned for 2015, particularly between now and mid-summer. We expect this ramp will demonstrate the scale and the power of our app distribution model across carriers. Also, we are working to continue to grow and improve the margins of our content of pay business. Taking all this together, we are poised to accelerate our revenue to over a 100% growth rate in fiscal 2016 on a pro forma combined basis.

Now, the fiscal 2016 outlook that we are presenting today, like the 2015 standalone outlook we gave you on our February 13<sup>th</sup> call, reflects the real experience we've gained and the lessons we've learned with respect to the implementation, timing and sellthrough of devices. Until we are ramped across a broader base of carriers and devices, and remember the ramps happening over the next several months are Ignite and IQ results, remain sensitive to small changes in any of these inputs, so we've risk adjusted for these factors to be in step with our fiscal 2015 outlook. Our outlook reflects our current thinking and sets objectives for ourselves that are solidly achievable, and we believe we can achieve at least a double in revenue growth for the coming fiscal year.

With that, I'll now turn the call over to Andrew.

#### **Andrew Schleimer**

Thanks, Bill. Today I will briefly touch on the Appia closing and the registration statements we filed earlier this morning and then take you through our fiscal '16 outlook. On March 6<sup>th</sup> we closed our acquisition of Appia, following receipt of shareholder approval, and issued approximately 18.9 million shares to Appia shareholders as consideration for their equity interest in Appia. This amount is inclusive of one million shares currently in escrow.

We also assumed existing Appia debt and existing stock options, exercisable into 245,955 shares of Digital Turbine common stock. Appia's strategic shareholders, including Trident Capital; Venrock; DCM; Noro-Moseley; Wakefield Group; Relay Ventures; and Eric Schmidt's TomorrowVentures now own approximately 33% of the company. And, as we have discussed, all stock issued in the deal is subject to lockup agreements expiring ratably over the next six, nine and twelve months.

At closing, Digital Turbine Media, the new name of the Appia legal entity, had approximately \$1 million of cash on hand. Also at closing, Digital Turbine Media entered into an amended loan agreement with its senior lender, Silicon Valley Bank, backed by a secured guarantee of DT, Inc. The SVB debt consists of a revolving credit facility of up to \$3.5 million, with approximately \$3 million outstanding at closing, and a term loan with an aggregate principal balance of \$600,000.

The current revolver balance is inclusive of additional funding due to working capital needs supporting strong revenue performance in December and January. We expect the balance to fluctuate monthly with fluctuations in revenues. The term loan is paid monthly with approximately \$50,000 of mandatory amortization each period.

As briefly mentioned on our Q3 earnings call, we are working closely with SVB to enhance the capacity of the existing credit facility at the Digital Turbine Media level to supplement cash on hand and to support growth and working capital needs as the business continues to ramp. Additionally, DT Media entered into a securities purchase agreement with North Atlantic, refinancing \$8 million of pre-transaction debt held by North Atlantic.

In connection with the securities purchase agreement, we issued to North Atlantic 200,000 shares of Digital Turbine common stock and a ten-year common stock warrant to purchase 400,000 shares of

common stock first exercisable on the one-year anniversary of the close, and terminating if we repay the North Atlantic debt prior to that anniversary. North Atlantic also received registration rights for these shares as previously disclosed in our proxy statement, which are covered by the registration statement filed this morning.

As previously discussed, we are currently also exploring structural alternatives to bring senior debt to the Digital Turbine Inc. level with the proceeds of such used to refinance Digital Turbine Media senior and subordinated debt. We expect to be able to refinance existing indebtedness, simplify our capital structure and drive down the cost of debt capital as we realize a more significant ramp in our business.

Including the common shares issued to North Atlantic and to Appia shareholders, pro forma for the transaction, we have approximately 57.1 million basic shares outstanding. We will report our outstanding options and warrants as part of our 10-K filing in mid-June.

In addition, as previously mentioned and as disclosed in our proxy statement, in order to satisfy our registration rights obligation in connection with the North Atlantic subordinated debt, we filed a registration statement with the SEC this morning. The registration statement covers the underlying North Atlantic shares, as well as new securities of up to \$100 million. Capacity under the shelf can be available to us for up to three years following the date of effectiveness.

As we currently do not have an effective registration statement, we took this opportunity to put a shelf in place so that we are well positioned, if need be, to continue to capitalize on the tremendous opportunity in front of us; to fund existing organic growth opportunities, some of which we have left on the table, curtailing our growth; and to be able to swiftly take advantage of potential strategic M&A opportunities should they present themselves. Having the shelf is prudent, in our view, as it rounds out our ability to ensure the business is fully financed.

However, as I just mentioned, we are currently focused on enhancing our revolver and other forms of credit facilities, and view the shelf as supplemental to that. Finally, as part of our Appia transaction obligations, we also filed today an S-8 registration statement to register 245,955 shares of common stock underlying the Appia stock options we assumed as part of the deal.

Now on to guidance. Our revenue expectation, as set forth in our press release issued this morning, of \$110 million to \$130 million, represents over 100% growth over fiscal 2015 on a pro forma combined basis as if Appia had been included in our financial results for the full year ending March 31, 2015. This growth is driven primarily by one, growth in our advertising business supported by resources acquired with Appia, inclusive of revenue synergies created in the deal; two, growth in Appia's core advertising business; and three, continued modest growth in our content business.

In addition to revenue guidance, our outlook includes guidance on gross margin in the mid-30% range. This guidance represents a mix of both Digital Turbine and core Appia on a standalone basis, plus the synergies created in the deal via Digital Turbine Media. While we will break out our business unit results more specifically in our financial statements, approximately 25% is a reasonable estimate for content sales mix for the fiscal year.

We have already started to realize a meaningful amount, approximately \$1 million on an annualized basis, of cost synergies through identified headcount reductions and the elimination of duplicative corporate costs as we expected at the time that we announced the deal in November. As we continue to integrate the two organizations we expect to realize additional synergies, primarily costs related to additional investment we no longer need to make, given Appia's technology and ad tech infrastructure.

We are deep into the integration process, and are making significant strides to streamline cost and expense. And, while we will not be giving an operating expense outlook on this call, we expect to be profitable on an adjusted EBITDA basis for the full year 2016. Within this full year outlook, and based on our current visibility into the timeline for device launches, which is the biggest detriment of the Ignite ramp, our outlook for Q1 ending June 30 is for revenues of \$17 million to \$19 million representing approximately 48% growth over pro forma fiscal Q1, 2015. While we are not instituting a practice of giving quarterly guidance, we felt it was important to create expectations for the first full fiscal quarter that we report as a combined entity.

As Bill discussed, given what we have seen over the past few weeks with respect to trends supporting the ramp of the advertising business and the visibility we have into the next few months, we are confident in our outlook. We are setting a bar that is reflective of our current realities, and that we believe is solidly achievable.

Finally, as we stated on our February 13<sup>th</sup> call, we continue to revisit the metrics we report externally considering adding blended metrics such as revenue per device or device yield that are simpler for you to track and model to our advertising business metric set which has, as you know, included open rates, CPI and slots. We will come back to you on the Q4 call and offer a more comprehensive metric set and additional details as they relate to our Q1 and full fiscal '16 outlook.

I'll now turn the call back to Bill.

#### **Bill Stone**

Thanks, Andrew. And as I said at the beginning of this call, we're thrilled about the Appia merger and remain confident we're on the right strategic track and taking the right actions to capitalize on our window of opportunity in the growing market.

So, now I'd like to move on to Q&A. Operator, can you give instructions please?

### **QUESTIONS AND ANSWERS**

#### **Operator**

Yes. 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 pick up 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.

The first question comes from Mike Malouf of Craig-Hallum Capital Group. Please go ahead.

#### **Mike Malouf**

Great. Thanks for taking my questions. Could we first start out with Appia? It looks like, based on some of the metrics that you had previously discussed, that Appia was running above expectations in the last quarter. And I know that on your presentation you had actually mentioned that their fiscal 2016 expectation was approaching \$60 million, so I'm just wondering if you could just give us a sense of how much of that \$110 million to \$130 million in the expectations is Appia standalone.

#### **Bill Stone**

Hi, Mike, it's Bill. Let me start and then I'll let Andrew take some color here. In terms of how we think about the Appia business, we break it up into two components. One of the components will be the revenue that is generated through the Digital Turbine assets, so through Ignite and IQ and what we're calling DT Media and then the second part is what we're calling the Appia core business.

And so, in Appia's calendar fourth quarter results both of those were in there and it was between \$1 million and \$2 million of that was Digital Turbine Media. So, as we're breaking out Appia's business, we're not going to get into a lot of inner company stuff here, but obviously a material portion of that on a go-forward basis would be part of Digital Turbine. So, in terms of how we're talking about it today we're not going to double count it and get into a lot of inner company stuff.

But with that being said, yes, we're excited about Appia's core prospects, especially international markets like China. But one of the things we want to make sure we're doing today big picture, both for Digital Turbine and for Appia, is make sure that we're risk adjusting for all the factors that are out there, and we want to get a quarter or two under our belts with the combined organization on a go-forward basis.

Andrew, I don't know if you want to add anything additional under that.

**Andrew Schleimer**

No, I think that's comprehensive. Thanks.

**Mike Malouf**

Can you give us a little bit of a sense of the seasonality of Appia on a standalone basis; what we can think about it? As I look back at what was disclosed, I think they did \$6.5 million in Q1, around \$7.5 million in Q2 and I think you disclosed that they did \$9.1 million at Q3, and that was all ex-DT revenue. So, I'm just trying to get a sense of what the seasonality is.

**Bill Stone**

Sure. Yes, sure. There's definitely seasonality in Appia's business, more so than our business. As our business, on the Digital Turbine side, historically, has been more about device ramps and less around seasonality. In time it will become more seasonal, but for now it's not. On the Appia side, most advertisers spend their budgets around unique events on the calendar; obviously the holidays being one of them. And so, what we tend to see is some seasonality in Appia's numbers more so than our business so I definitely think that as you're thinking about your numbers and your model seasonality is important to forecast. But I want to just emphasize, but not impacting the annual results but just in terms of the timing on a per-quarter basis.

**Mike Malouf**

Okay. And then when you take a look at the June quarter that you guided to the \$17 million to \$19 million; obviously a big portion of that is the Appia number. It looks a little bit lighter than I think that even that you were thinking for the March quarter on the standalone DT. Can you just comment a little bit on the ramp, specifically with regards to some of these new phones, because I think you're going to be basically on all of the new phones for Verizon as they come out; certainly the Samsung Galaxy 6 is coming out here shortly? So, a little bit confused about that, thanks.

**Bill Stone**

Yes, no problem. So, let me take that and Andrew can jump in with some color. I think, one, Mike, that I think is important and we wanted to communicate out today is, we've had a lot of volatility in the numbers with these new businesses on Ignite and IQ, but one of the positive things that's happened of late is we're actually seeing a lot more stability now that our content business has turned the corner and has continued to improve. And then secondly in the Appia core business is also fairly stable and predictable, as well.

One of the things we wanted to communicate out today is, in both of those businesses we now have

what I'll call a floor of what we expect to see results, that we've got good empirical past quarterly data for us to think about that business. And then really the question is, what's the upside? And the upside, as we all are aware on this call, is going to come from Ignite and IQ growth on all of these new devices that are coming out. And also many of you that have been around us for a while have known that we have not done a great job of forecasting device sellthrough and the uncertainties that go around with the timing of that.

So, we want to take that into account and risk adjust that. I think you're seeing some of that today. If the timing of a lot of these devices that come out is, a lot of the media's speculating right now and the blogosphere is speculating right now, then clearly there's opportunity in those numbers. But right now we want to make sure that we're forecasting in a much more risk-adjusted way right now, given the history of us talking about forecasts and talking about dates or device sellthrough and then, for whatever reason, those things didn't materialize in the timing that we thought, so that's, I think, what you're seeing a little bit of today.

**Mike Malouf**

Okay, and then one last question. You mentioned on the last call that you would have some updates and some details about the T-Mobile rollout, but I didn't hear anything on the call. Can you update us on that?

**Bill Stone**

Yes, sure. So, the relationship with T-Mobile continues to be strong. We'll probably do on the next call, Mike, is I'll talk more specifics with that. I don't want to get over our skis right now with the customer, but with that being said, T-Mobile relationship is strong; it's solid; they're deploying IQ on additional devices, and we're working through the rollout plan right now of additional Ignite devices.

**Mike Malouf**

Is Verizon rolling out IQ, as well?

**Bill Stone**

Verizon is rolling out IQ, yes.

**Mike Malouf**

Okay. Thanks a lot.

**Operator**

The next question comes from Jon Hickman of Ladenburg. Please go ahead.

**Jon Hickman**

Hi. Good morning, everybody. Could you just confirm for us that the contract with Verizon calls for Ignite to be on all the phones by April 1? Do I have that correct?

**Bill Stone**

Yes. So, John, as we've reported before and will continue to reiterate today, we anticipate being on all of Verizon's Android devices from here on out.

**Jon Hickman**

Okay. So that would include the Samsung 6?

**Bill Stone**

Yes. So, unfortunately we've got a lot of confidentiality and NDAs so I can't comment on a specific



device with a specific customer. I'd just say that if there's an Android device launching on Verizon we anticipate being on it.

**Jon Hickman**

Okay. And then you were talking just a little bit—I can't write as fast as you talk. Could you, with the relationship with Vodafone in Australia, you're putting IQ on two devices and the open rates have been 50%, or was that—

**Bill Stone**

Yes. Yes, no it's Ignite and IQ are on Vodafone, so both products. And similar to Verizon, we anticipate going across their Android device lineup, as well, going into the future. My comment was referring to Ignite specifically, and really the macro point we wanted to share with investors just on an early days micro data is, Vodafone subscriber base in Australia is very targeted. And meaning that they've got a very unique set of customers that tend to be much younger, much more content-heavy types of subscribers, and hence we're seeing the open rates higher similar to when we launched with Cricket here in the United States and we saw open rates at 66% on the Cricket device; again, with a very targeted subscriber base.

So, that's really the point I wanted to make is, we're excited about those numbers and really helps us as we start thinking about larger customers like Verizon and integrating with their precision data to help on that targeting capability just to get the right app to the right customer to the right time, and how we'll be able to improve our operating metrics to drive and improve revenue yield per device.

**Jon Hickman**

Okay, and then one more question. What's the name of the phone that you said you launched with Verizon in this brief [indiscernible].

**Bill Stone**

It's the Samsung Core Prime, so it's a mid-tier Android device.

**Jon Hickman**

Okay. Then just so I understand; the gross margin you're targeting or you guided for, that's mid-30's%, but that's the non-GAAP number?

**Andrew Schleimer**

That's a gross; that's adjusted gross margin; that's correct.

**Jon Hickman**

Okay. Okay, thanks, Andrew and Bill. That's it for me.

**Bill Stone**

Thanks, John.

**Operator**

And the next question comes from Bill Sutherland of Emerging Growth Equities. Please go ahead.

**Bill Sutherland**

Hi, good morning, guys. I had a couple of questions. I actually wanted to follow up on Mike's, primarily, about the quarter-over-quarter direction of revenue as we leave the March quarter into the one that you've given guidance FQ1 of '16. I realize you're not talking about the fiscal fourth today, but just putting together some common-sense numbers it feels like it is in line or above the FQ1 that you've put

out there so just if you could tie it together a little bit better I'd appreciate it. Thanks.

**Andrew Schleimer**

I'm sorry, Bill. Can you repeat the question? I didn't fully understand or appreciate exactly what you're asking. I apologize.

**Bill Sutherland**

Was I breaking up, because I'm on a cell in not a great place? It's really just talking about the quarter-over-quarter trend that is implied with the FQ1 guidance that you put out there. And I know we're not working with anything specific for the quarter ending March, but it feels like, just on some basic math, that the guidance is flat to sequentially down to the FQ4.

**Andrew Schleimer**

Yes. Well, first, when you think about the FQ1 versus prior-year FQ1 we're up about 50% or we're guiding to a 50% increase. But just going back to Bill's commentary, in terms of what we're trying to achieve on the realities of some of the things that we've learned over the last couple of months, is putting numbers out there that we're comfortable and confident with that are risk-adjusted, that we're comfortable with achieving and ultimately exceeding. So, I think when you think about guidance and you think about it going forward and the things that we know and don't know and the issues we've had in the past with regard to forecasting, FQ1 is our attempt to put a number out there that we're more than comfortable with.

**Bill Sutherland**

Yes. No, I get that and I appreciate that, but you don't have a business that has a huge seasonality between these two quarters I don't think, and there appears to be a device ramp, and I'm just trying to figure it out, and maybe this call isn't where that can happen but that's what I'm trying to do, is just trying to figure out the trend line here.

**Andrew Schleimer**

Yes, I think when you think about fiscal Q4 and the full year of fiscal '15 guidance, Bill did reiterate fiscal '15 on a reported basis and the numbers that we put together, obviously, for Q1 assume Appia for the entire quarter. So, I think from our perspective, a dose of conservatism looking forward, knowing the devices that we have in front of us, again, risk adjusting for things that are out of our control but we obviously have an upside case in the event that things all go in our favor.

**Bill Sutherland**

Okay. Okay, so I think now it's making a little bit more sense, because what you did was you re-affirmed the fourth quarter of F '15 with a fragment of Appia in there because of the partial quarter recognition.

**Andrew Schleimer**

That's correct, Bill.

**Bill Sutherland**

Oh, okay. Okay. I didn't quite get that the first time. Okay. That was my main follow-up question. Thanks. I appreciate it.

**Operator**

The next question is from Andrew D'Silva of Merriman Capital. Please go ahead.

**Andrew D'Silva**

Hey, guys, good morning. Actually I got more confused with that last question now. So, for the fourth quarter of 2015, okay, you don't give quarterly guidance, so for the full year 2015, with your previous guidance you gave in February, were you including any benefits from Appia in that, because I was under the impression that that was completely stripped out and this call was going to take into account anything for Appia.

**Bill Stone**

Yes. So, Andrew, I'll start with that. On the call, what we said is that, really, it's going to be dependent upon the anticipated high-profile device launches, and if the devices launch in the quarter then there's upside from the range; if devices then get pushed out then it'll be at the lower end or downside of the range and it's really going to be dependent upon a lot of these high-profile device launches. And so, what we're doing today is we are reiterating the guidance on a reported basis. Obviously that does include the Appia numbers in there. We're not going to get into the specifics of the breakouts of ours and theirs on this call; this call is about 2016, not about 2015. But with that being said, it does include the Appia numbers.

**Andrew D'Silva**

But it didn't before, right? So, previously it didn't include the Appia numbers? I'm assuming that you wouldn't include Appia before the acquisition was consummated, correct?

**Bill Stone**

Right.

**Andrew D'Silva**

Okay. And then I know it's been a tumultuous timeline for you guys trying to figure out adoption of devices and open rates, so on and so forth. November, I believe it was, you provided preliminary guidance for 2016 before Appia was expected to close or anything to that extent, and it was in a similar range as it is today. Maybe, structurally, could you explain why the revenue range stayed the same despite the closing of Appia, which exited last year over a \$30 million run rate?

**Bill Stone**

Yes. So, I think the main thing here, Andy, is, everybody on this call knows based upon forecasting device, forecasting based on some of the metrics we've talked about, the operating metrics on slots and CPI rates and so on, what the opportunity and the potential is for this business. However, we need to deliver that. And so, what you're seeing today is really us ensuring we get a couple quarters under our belt to show that empirical data in ramp in the IQ and Ignite business.

As I said earlier, on Mike's question, is, really one of the things about acquiring the Appia core business and the turnaround of the content business is we now have a much more stable floor of consistent revenues on a day in and day out basis between those two businesses. And so, now the question is, okay, what's the upside off that floor based upon Ignite and IQ ramps with all these launches in devices? And so, what you're seeing today is, before where we would get a forecast to say an operator is going to sell 100 devices by date x and then we give it a haircut to 80 devices; now what we want to do is not only take that into account but also take some flexibility in on the dates and so on where we've got ourselves into problems before by relying too much on the carrier forecasts.

So, you're seeing a little bit of that reflected today. And if the devices launch on time with the volumes that the Street and the blogosphere and so on is expecting, then clearly those are good, positive things above and beyond our guidance to our numbers.

**Andrew D'Silva**

Okay. And then moving on to the expense side; you mentioned the \$2 million in synergies. Are you including those \$2 million in synergies in your adjusted EBITDA breakeven expectation for 2016?

**Andrew Schleimer**

Yes.

**Andrew D'Silva**

Okay. And then I'm assuming guidance only takes into account either partnerships that you've announced like Deutsche Telecom and existing partnerships and nothing that you haven't announced that's in your deal queue that we don't know about, correct? It's just known-about carrier partnerships?

**Bill Stone**

So, it's a little bit in between that. So, there are some things that are in the pipeline; actually a number of things that are in the pipeline that are not in this forecast. There are a few things that are in the annual forecast that are extremely deep in the pipeline but not yet announced. So, we really use our judgment based upon our confidence and probability that those will get closed out over the next few months on the terms of how we include them in our forecast.

**Andrew D'Silva**

Got it. Alright, guys, hey, thanks a lot. Good luck this year.

**Andrew Schleimer**

Thanks, Andy.

**Operator**

The next question comes from Brian Alger of Roth Capital. Please go ahead.

**Brian Alger**

Good morning, guys; just a couple of follow-ups. It seems as though, obviously, the device launches to date are very difficult to predict at best. And if I'm reading between the tea leaves here, we were very dependent upon the actual windows as to how that would impact the March quarter. And I guess what I'm hearing is that some of the ones that may or may not have come in have not come in, and thus we aren't seeing any upside, per se, to the, call it, Digital Turbine standalone business pre-Appia in the March quarter.

And based on the guidance that we're seeing for the June quarter here, if I'm reading this correctly, we don't want to count our chickens and we're not really baking in that the devices are just going to launch next month. And I'm just trying to understand the logic behind that because, intuitively, if we expect the numbers to come in in March and they didn't they should roll over into April unless there's been projects that have been eliminated. Have projects been eliminated, or are we just dealing with upmost conservatism on your part?

**Bill Stone**

Yes, nothing's been eliminated, Brian. I think that there's two variables here. One variable is the date of the device launch. The other variable is the sellthrough of the device. So, we want to look at both of those in our forecast, and you guys can go out to the blogosphere and look at various high-profile devices. I know you guys are focused on one of them in particular, but it's not limited to one; there's many of them, and look at the different launch dates and they're moving around a little bit.

And so, we want to make sure that in our guidance that we're not making assumptions that are overly optimistic or aggressive; if those dates happen, which many people speculate, then clearly that's a

good, positive thing for our business. But, we want to ensure as we get a few quarters under our belt here with this that we're taking a much more responsible way in how we're going to view the upside from the Ignite and IQ business.

I apologize for reiterating this again, but especially with the Appia core business and our content business, we now have the floor and that's one of the things that we've been lacking before in terms of a lot of our forecast number, as well. And so, now having this floor in the business we can really focus more now on the upside as a result of our advertising business with Ignite and IQ.

### **Brian Alger**

Great. I appreciate the clarity, and for whatever it's worth, I also appreciate the focus on conservatism, especially given the unknowns out there. Maybe just, if I can, can you summarize for us a little bit in terms of where we are to date with announced customers with the subscriber base? Just from a macro, paint the picture for us. What do we have already in the bag from IQ, Ignite; what that means from subscribers; and what that means now with the inventory that Appia brings to bear? Can you summarize it for us in terms of what we have? I know we have our guidance out there for the fiscal year, but what do we have to date?

### **Bill Stone**

Yes. So, in terms of what we have to date is we have contracts here in the United States that are signed with T-Mobile, US Cellular and Verizon. We now have our first material contract in Europe with Deutsche Telecom. We have material contracts in Asia-Pacific and Australia with Singtel, covering their 500 million subscribers, as well as with Vodafone and Telstra, as well, and there's a number of other operators and OEMs that fall underneath that, that I'll call the next tier down.

But one of the things I really want, in terms of painting the picture here, is really reiterate the macro trends that we're seeing of carriers wanting to participate. Everyone saw Facebook's numbers that got reported last quarter; all operators have seen that. Just coming back from Mobile Congress earlier this month I would say that there's a lot of momentum right now around app installs, and how do I participate, how do I monetize. These guys are making a lot of money from this business and I'm not. How do I get involved? Obviously that's our business, that's what we do.

So, from a macro perspective, I feel like we're set up pretty well. The one geography that I really didn't talk about was Latin America. We're starting to spend some time down there, as well, as that market's lagged a year or two behind others and it's now quickly catching up. I am enthused about the prospects down there taking more of a medium long-term approach.

### **Brian Alger**

Okay. And just one last one, if I might. The carrier enthusiasm, I think, is understandable, given what's coming out of Facebook's numbers. What about on the app developer and advertising side? There's, here in San Francisco especially, there's a lot of focus on what's going on in the digital delivering, app delivery and app tech markets. The trends that Appia has seen to date; can you maybe talk a little bit about CPIs, some of the engagements that the customers are driving and how that matches up with the carrier enthusiasm?

Because I think what we've lacked in the past is that combination of having the two, you've had the approach towards the carriers, but you didn't have the direct engagement that Appia now brings to the table. And I'm just wondering now that we have their insight into things can you maybe paint the picture for how the developers are looking at, call it, the enhanced intelligence that you guys are now going to have access to, especially with Verizon's database?

**Bill Stone**

Yes. Thanks for that, Brian. Yes, so I'd say a couple thoughts there. First is, it started out early in the app install world around games and things like Candy Crush as an example of that. Then it's moved into general apps and now what we're seeing is it moving to brands. And so, we're seeing brands now get involved, and obviously brands are where the much larger dollars are in terms of app installs, and so we're engaged across all of those fronts right now. And what Facebook has done in terms of pioneering the ground is to show that the advertisers and app developers are getting a return on their investment, so they're realizing that if they can get the app to your phone the app developer or the brand is making money as a result of that.

I think what really makes us unique and different to the advertiser is that we've got the beachfront property, we've got the home screen on the device. That's a unique ad unit so that's something that everybody wants to get into because it's something different than just the masses of app install ads that are out there on the Internet right now. And so having something that's unique and truly sustainable and differentiated I think is really where our secret sauce is.

And so, as we engage advertisers and say, hey, do you want to get on the home screen of a Verizon device or Vodafone device or whatever it happens to be from a customer perspective on the other side, that's something that has a lot of energy and enthusiasm and that's why we did the Appia transaction in general. So, I think that as we saw in the desktop world, things gradually migrate along this continuum from the first games in early days into brand; you're seeing the same thing happen in the app install space, as well.

**Brian Alger**

Great. Thanks, guys.

**Operator**

The next question comes from Russell Anmuth of Gotham Holdings. Please go ahead. Mr. Anmuth, your line is open.

The next question comes from Mike Ceccherelli of Dillon Hill Capital. Please go ahead.

**Andrew Rosen**

Hi, it's Andrew Rosen from Dillon Hill.

**Bill Stone**

Hi, Andrew.

**Andrew Rosen**

Just a few quick questions; the current guidance pro forma you give of \$110 million to \$130 million; does that take into account the revenue synergies you spoke about earlier? You spoke about the \$14 million revenue synergies corresponding to, I think, \$120 million of standalone DT revenue.

**Andrew Schleimer**

In the revised guidance today or the updated outlook of \$110 million to \$130 million, there are three components. Andrew, the first component is the Appia—four components, the Appia core business; DT Media, which is the fuel or the engine for our advertising business, carriers, OEMs, etc.; our content business; and the revenue synergies.

**Andrew Rosen**

Okay. And then just talking about Appia for a second; in the old November 2014 guidance you talked

about \$31.3 million of fiscal year '15 revenue and then \$59.8 million in fiscal year '16. Did those Appia numbers only include standalone Appia revenue?

**Andrew Schleimer**

Yes, that was Appia as a standalone business, indicative of what, on a standalone basis given their focus on their business alone, what they could achieve.

**M**

He thought the growth from Appia was coming from [indiscernible].

**Andrew Rosen**

But, again, I just wanted to clarify because you were talking with a question about double counting previously, if you could just elaborate on that.

**Andrew Schleimer**

Yes, sure. So, implicit in the Appia plan was Appia's standalone business, growth in new technologies driven by an RTB platform, as well, and modest growth from the DT relationship. But the revenue synergies were substantiated because the additional revenue would be generated from the two companies combined, so those revenue synergies were not entirely implicit in Appia's core numbers.

**Andrew Rosen**

Okay, thank you.

**Operator**

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

**CONCLUSION**

**Bill Stone**

Thanks for joining us on our call today. We appreciate the support you guys have given us in executing on our long-term vision for the company, and we look forward to speaking with you on our fourth quarter results call in June. If any of you want to schedule a follow-up with us over the next few days, if you could please coordinate through LHA New York at 212-838-3777 I'd appreciate it.

So, thanks for everyone joining us today, and have a great day.

**Operator**

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