Digital Turbine

First Quarter 2016 Earnings

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CORPORATE PARTICIPANTS

Bill Stone - *Chief Executive Officer*

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

PRESENTATION

Operator
Good afternoon and welcome to the Digital Turbine first quarter 2016 earnings conference call. All participants will in listen only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on your telephone keypad; to withdraw your question, please press star (*) then two (2). Please note this event is being recorded. I would now like to turn the conference over to Ghen Laraya, VP Business and Legal Affairs. Please go ahead.

Ghen Laraya
Thank you and welcome, everyone, to Digital Turbine's fiscal 2016 first quarter earnings 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 risk 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 the most comparable GAAP measures.

Please note the March 6, 2015, Digital Turbine, Inc., a Delaware corporation, acquired Appia, Inc. Digital Turbine, Inc., and Appia, Inc. had different fiscal yearends, as such, amounts related to the historical operations of Appia have been adjusted to align the period over which both operations occurred and also adjusted to reflect as if Appia, Inc. had been owned for the entire quarter ended March 31, 2015. The pro forma financial information presented on this call is unaudited and does not represent actual combined results of operations of the two companies, which might have been materially different had the acquisition actually occurred at the beginning of our fourth fiscal 2015 quarter. Now it is my pleasure to turn the call over to Bill Stone.

Bill Stone
Thanks, Ghen. Good afternoon, everyone, and thanks for joining us on our first quarter fiscal 2016 earnings call. I will cover off an overview of our businesses, including our advertising ramp before I turn it over to Andrew to walk through the numbers. However, before I get into the details on the quarter, I want to start with some news.

As I mentioned at the Needham conference earlier this week, I'm pleased to announce we've added American Movil to our list of customers. This is a material Tier 1 win for us, as it brings an additional 280 million potential subscribers to our adjustable market. American Movil is adding approximately 3 million android devices per month, which is more than the historical run rate of the top two wireless carriers in the U.S. combined. Our relationship is going to be broken into two phases.

The first phase will be using our Appia demand network to supply app install ads into the American Movil application on the home screen of all android devices. The second phase will be able to allow us to preload applications in addition to the American Movil applications, including providing recommendations for these customers after activation. We expect Phase 1

to begin next quarter and Phase 2 to begin in our fiscal fourth quarter. We're also in very advanced discussions with many other U.S. and global customers and expect to have news on some of those imminently.

Now to close out fiscal first quarter, the first quarter was the best quarter in the history of the Company. From a fundamentals perspective, we are achieving everything we are setting out to do. The marketplace is validating our strategies and this validation is showing up in our reported results. We are winning and I am very excited about our future.

As we announced in July, we finished the first quarter at $18.7 million in revenue, which is up 83% from the prior quarter as reported and up 16% on a pro forma basis if we owned Appia last year. We continue to see currency headwinds as the Aussie dollar is now at $0.73 today, compared to $0.86 last year. On a year ago constant currency basis, total Q1 revenues would have been $19.5 million.

Our business is in inflection point and saw this material ramp throughout every month of the first quarter. We finished with the last two weeks of June clocking at over $4 million of revenue, which also has the benefit of starting quarter two off with the continued ramp. This is a breakout in our trajectory and we're very proud to show these results. With this revenue ramp comes gross margin improvement. Adjusted gross margin was 24%, which was nearly 5 percentage points on a pro forma basis higher than fourth quarter. These results are being driven by all the actions we have told to you about in the past few quarters, such as launching DT Ignite on more devices across more carriers, along with increasing revenue yields and successful device launches, overall, as we reduce our exposure to any single device.

We continue to expect gross margin to further expand over the course of the year as our mix continues to shift to DT Media's higher margin revenue stream. Andrew will take you through the details on how we get to our mid 30s gross margin guidance.

Now to take a closer look at our performance, the break out of $18.7 million Q1 revenue, with $7.1 million in Content, $8.4 million in Appia Core, and $3.2 million in DT Media. Now let me take you through each of those businesses.

First on Content, our content revenue of $7.1 million was 8% higher than the prior quarter and 28% higher than the prior year. The DT Pay business continues to ramp as we add additional customers and services. The Content business in Australia is very stable, driven by our marketplace store which is now across most all Singtel devices in Australia and we've added new commercial models such as full track album downloads and application billing options and user experience enhancements to the store portal.

In Southeast Asia, we are very excited about our long term prospects for the advertising business as Pay and Marketplace have led DT Media sales with existing customers, such as Globe, and we expect to see that trend continue. In particular, we've been investing a lot of time and energy into the Indonesian market and our EA relationship has helped us blend Indosat with IQ. Indosat is one of the largest operators in Indonesia with approximately 60 million subscribers. I'll talk about in the organizational section later about some personnel changes that we're making that I believe will help accelerate our opportunities for further expansion into APAC and other geographies with our content business.

The Appia Core business was up 26% from prior year, and down 2% on a pro forma basis from the March quarter. The beginning of the March quarter saw some seasonality from December

quarter, their left over budgets positively impacting March results, but the business finished the June quarter much stronger and Appia Core June revenues were 33% from May revenues. We expect to see Appia Core growth this quarter and the following quarters.

The key priorities for the Appia Core business over the next two quarters will be to scale the distribution outside the United States, which will drive incremental revenues and continue to improve the data science and products that we believe will in turn create differentiated ad units in the marketplace that carry better gross margins by virtue of the premiums they command.

As I mentioned at the outset, the DT Media business continues to ramp. July was better than June and assuming zero pro services in both measurement periods, the DT Media business was 63% higher for the first five weeks of this current quarter as compared to the first five weeks of the prior June quarter. The reason this is the right comparison is, because except for December to January, advertising budgets tend to reset at the beginning of the quarter. The key metric driving this improvement is yield per device, which we have discussed in principle today.

Today, our overall global yield per device is approximately $1.60 per device, with this metric being higher with some operators and lower with others. As we build out additional publisher basis in each geography, we will provide more detailed metrics by geography to the extent the confidentiality provisions in our contracts allow as they all prevent us from providing information about any one publisher.

Revenue through the device is improving. In April, it was $0.72. In May, it was $1.08. In June, it was $1.48. And as mentioned above in July, it is now approximately $1.60. We expect this trend to continue as we refine our ability to optimize yield as the mix of advertisers improves, which just drives increased demand for competition and, most importantly, we're going to improve our quality and targeting. Our target for this fiscal year is to achieve $2.00 per device on a global basis.

Keep in mind, this includes Ignite customers in multiple countries such as the United States, Australia, the Netherlands, India, the Philippines and so on. I am pleased to announce that we have also recently launched with one of our customers integration with their third party data source. Again, this is early data, but it's encouraging to see some campaigns show 50% greater change in open rates versus the control group and validates our strategy that right app, right time, right customer will drive incremental yield per device. We expect to begin using this data at scale in October.

The other metric that will drive increased revenues in DT Media is the device sell through. We have seen material uplifts in our device volumes, primarily driven by strength in both the S6 and the Note 4. We expect to see this continue maturely ramp this quarter, as many new device launches are anticipated for release, including the Note 5 and the S6 Edge Plus. One of the factors that should drive increased ramp is being on both the legacy and new flagship device of a particular OEM.

For example, we have seen a nice jump in our LG G3 Ignite sales as a result of the G4 launch. We also saw a jump in S5 device sales, which does not have Ignite, when the S6 launched. While I can't comment on what the specific breakouts were in the June quarter between the S5 and the S6, what we have seen in July is that G3 is actually outselling the G4 across our global customers. This is an important dynamic to understand for the prior quarter and going forward. While this effect of S5 sales in the June quarter was a negative for us, we expect it to become a

long term positive, as we are no longer reliant upon any dynamics around a mobile operator pricing of the legacy device when a new flagship device is launched.

On DT IQ, I'm pleased to announce that we have launched on six devices with T-Mobile in the June quarter. We've also launched IQ on all of Vodafone's new android devices in Australia. Our strategy on IQ is to focus on user experience and engagement, getting people into the app, improving the data science and then returning to the app are key right now. Remember that IQ is a recurring revenue opportunity. So when we put IQ on millions of devices this year, the monetization of those devices will not be just for those devices, but also the new ones we add next year.

We don't expect IQ to be a material driver of revenue ramp on DT Media this fiscal year, but we do expect it to be a material part of the growth story for fiscal 2017. I wanted to provide some color and detail because these are the drivers of our top line growth into the future.

They are, first, improved yield per device; second, more devices with existing operator and OEM customers; and finally, new devices from new operator and OEM customers. We will continue to focus our commentary on our progress against these three operating metrics. When we have aggressive plans in place against all three levers as we know growth in the DT Media business is a major factor for many investors.

And finally, I wanted to provide some organizational updates. We have a strong management team and we continue to make progress enhancing to help our execution. Specifically, our Head of Global Finance and Operations, Kirstie Brown, has relocated to Austin from Australia to help integrate all of our businesses' reporting, analysis and decision support. And our Head of Content in Asia Pacific, Jon Mooney, is also relocating from Australia to Austin to upscale our Content business outside of Asia Pacific to ensure tighter connective tissue between Asia Pacific businesses and the headquarter operations, and then, finally, to help integrate our content and pay products with our Ignite and IQ products.

And finally, we've hired Daphna Steinmetz to take over our Israeli office and run our innovation and technology strategy for the group. Daphna has over 20 years of technology experience, most recently serving as the CTO of the cyber security company, ThetaRay. Before ThetaRay, Daphna was a board member of the ad tech company Amobee, which was sold to SingTel for $213 million in 2012. She has also run innovation in technology strategy for both Amdocs and Comverse. Her unique skills of technology, strategy, working with mobile operators and working in ad tech are a perfect fit with our needs at Digital Turbine.

In closing, the business is ramping and we are focused on driving our fundamentals. We are proud of our results, which demonstrates that our opportunity is now becoming reality. We are very excited about our win with American Movil and that we see the ever rising material demand for our products. We are working on multiple additional advertiser and mobile operator and OEM relationships that we hope will get underway over the upcoming weeks and months. As you've heard me say many times, our timing is great and, while we still have a ton work to do to execute on the opportunity, our opportunity is now and it's real. With that, I'll turn it over to Andrew to go over the numbers.

Andrew Schleimer
Thanks, Bill. I'll start with a review of our financial results for fiscal 2016 first quarter and then offer some additional color on how we expect growth to flow toward the end of our full year. Please note that since the Appia acquisition closed on March 6, the consolidated fourth quarter

2015 results included only 26 days of Appia's operation and therefore, first quarter results are not directly comparable to this prior quarter's results. For that reason, we are providing both sequential pro forma comparisons, as if Appia had been owned for the entirety of the fourth quarter fiscal 2015, and on an as reported basis for Q4. Please reference the press release for a more detailed discussion of our pro forma measures.

In addition, all comparisons I will discuss today are being made to the prior sequential quarter unless specifically noted. We believe that this is a better indicator of how our business is performing, given the vast differences between our Company today and at this time last year.

Finally, as I laid out in our Q4 call, it bears reminding that we have two reportable segments, advertising and content, with advertising comprised of Appia Core and DT Media, and content comprised of DT Marketplace and DT Pay. Recall that in our content business, our customer is the wireless carrier and we provide content and billing services to them. But in the advertising business, our customer is the advertiser and we distribute applications through a network of publishers that include mobile websites, mobile applications and the carrier home screen.

While we continue to cultivate new partnerships with publishers and win space on screens with OEMs and carriers, the distinction of who our customer is, is important as we cultivate and broaden our relationships with advertisers by demonstrating the value added through DT Media products. Our distribution network gives us credibility with advertisers, but our ability to drive long term meaningful relationships with application developers, via the delivery of high quality users with the demonstrable ROI, is what is crucial to our success.

So with that, let's get into the numbers. Revenue for the fiscal 2016 first quarter was $18.7 million, at the high end of our revenue preannounced range, compared with an as reported revenue number of $10.2 million in the fiscal fourth quarter, for sequential growth of 83%. On a constant currency basis, excluding the impact of the Australian dollar of approximately $100,000.00 as compared to Q4, first quarter revenue increased 84% to $18.8 million, compared to pro forma fourth quarter fiscal '15 revenue of $16.1 million. The first quarter revenue increased 16% in current dollars and 17% in constant Aussie dollars.

62% of first quarter revenue was generated from our advertising business, versus 59% on a pro forma basis in the fiscal fourth quarter, while 38% of first quarter revenue was generated from our content business as compared to 41% on a pro forma basis in the fiscal fourth quarter. So this pro forma mix shift between segments demonstrates the ramp occurring in our advertising business, as expected.

On an as reported basis, these comparisons are, again, 62% of revenue from advertising in fiscal Q1, compared to 36% in fiscal Q4, and 38% of revenue from content in fiscal Q1, compared to 64% in fiscal Q4. Advertising revenue in the quarter of $11.6 million more than tripled and increased 21% from the prior quarter on a pro forma basis.

Of this, as we preannounced, advertising revenue from DT Ignite and DT IQ of $3.2 million quadrupled from the fourth quarter and more than tripled of an increase of 231% on a pro forma basis. Within advertising revenue, growth in Ignite revenues resulted in the mix shift to DT Media, resulting in DT Media contributing 28% of fiscal Q1 revenue and Appia Core contributing 72%, compared to 10% and 90%, respectively, on a pro forma basis in Q4. On an as reported basis in Q4, DT Media was 22% and Appia Core was 78% of revenue.

This increase reflects an increasing number of deployments of DT Ignite as our carrier partners

released a wide set of new devices, which sold through to users with varying success. In addition to some of the device model dynamics Bill referenced earlier, the LG G4 was delayed approximately 30 days and has sold under expectations. And the ACC '09 was launched the same day as the Galaxy S6, ultimately resulting in ACC taking down their fiscal 2016 forecast due to lower than expected sales volumes for our flagship product.

Despite the disappointing sell through of some new marquee devices, DT Media through Ignite realized an impressive revenue ramp for two main reasons. First, we enhanced our distribution across a number of carrier partners and within these carriers, across devices, the effect of which was to diversify our in store and in market risk.

And second, we realized consistent improvement in yield per device over the quarter as we increased our stable of campaigns, created a competitive environment from limited inventory, worked to effectively manage our mix of CPI, CPP and CPA business models, and most importantly, improved overall advertiser quality.

Appia Core revenue totaled $8.4 million in the quarter, compared to $8.6 million on a pro forma basis in Q4, down 2% but up 26% as compared to Q1 of fiscal 2015. As Bill mentioned, the early part of the March quarter was positively affected by advertising budgets left over from the December quarter that boosted March quarter spending, but revenue strengthened sequentially throughout the June quarter, with advertiser spend, particularly from marquee customers such as Pandora, driving an uptrend coming out of the quarter.

To reiterate, the key focus to continue the positive momentum in Appia Core in the near term is twofold. First, by driving the international synergies we have previously spoken off by leveraging Digital Turbine's international infrastructure as only six of 65 Appia headcount reside outside of the United States. And second, improve data science and, in turn, offer products with differentiated ad units to new and existing customers.

With a string of successes throughout Q1, both DT Media and Appia Core are off to a great start with continued acceleration of Ignite and IQ, as well as the core network business driving advertising revenue growth through the remainder of this fiscal year. Content revenue in the quarter of $7.1 million grew 8% from the fourth quarter, or approximately 10% on a constant currency basis, driven by continued growth in new DT Pay and DT Marketplace customers and services, as Bill mentioned, and our entry into a number of new geographies and markets.

As mentioned on last quarter's call, our content revenues are now diversified across dozens of content providers, which has served to enhance our credibility, built through our DT Marketplace and DT Pay products, cementing our carrier relationships, and is creating a strong receptivity to our cross sales of advertising products.

Geographically, owing to the DT Media ramp, revenue in the first quarter was primarily from business in the United States, followed by Australia. The United States is now the largest percentage of our total revenue base, at 62% in Q1, up from 37% as reported in Q4, and from 59% pro forma in Q4, due to the ramp of DT Ignite and the inclusion of Appia revenue. U.S. revenue realized 21% growth on a pro forma basis, quarter-over-quarter. Australia represented 37% of our revenues in Q1, versus 60% of our reported revenues in Q4 and 39% of pro forma revenues in Q4.

Again, we have included 100% of Appia's revenue in the United States for reporting purposes, but approximately 50% of customers who click on an Appia Core ad are outside of the United

States and this continues to grow as we have recently seen even more traction with Chinese publishers such as Baidu and Cheetah Mobile, to name a few. We continue to see a tremendous opportunity to grow this revenue stream further, tying back to the synergy potential I referenced earlier.

Adjusted gross profit, which excludes intangible amortization and cost of goods sold, was $4.5 million or 24% of revenue, compared to $1.8 million or 18% of revenue for the fourth quarter of fiscal 2015 and as compared to $3.1 million or 19% of revenue on a pro forma basis for the fourth quarter again assuming we had owned Appia for all of the fourth quarter. The comparisons attributable to the shift in our revenue mix, as we anticipated, toward a higher proportion of DT Media revenue, as Ignite and IQ ramp.

Over the course of the quarter, adjusted gross margin accreted with the revenue ramp as DT Media revenue increasingly contributed to our consolidated mix. Within adjusted gross margin, content margins were approximately 18% for the quarter, driven by a relatively high proportion of DT Pay revenue, which carries lower margins than our marketplace business. Appia Core margins were approximately 18% for the quarter, including credits, namely, for advertiser budget overspends. Removing the impact of credits, Appia Core margins were north of 20%.

Our current focus is on limiting overspend and we have implemented a number of processes, both from product and finance perspectives, to mitigate risk of margin compressions in Q2 and beyond.

GAAP gross profit, which included a full quarter of amortization related to the Appia transaction, was $2.3 million or 12% of revenue for the first quarter of fiscal ‘16, up from an as reported number of $900,000.00 or 9% of revenues, which only included 26 days of amortization. If a full quarter of amortization related to the Appia transaction were included in Q4 gross profit, we would have realized $900,000.00, or 6% of revenues, in the quarter, resulting in an increase of approximately $1.3 million of gross profit or 143%, quarter-over-quarter.

Over the course of fiscal ‘16, we expect adjusted gross margin to continue to expand as our higher growth and higher margin business become a greater percentage of overall revenue. To put it in perspective, DT Media margins for Q1 were 55%, including professional services. We expect to achieve consolidated margins in excess of the mid 30s in the back half of the year so that we end the year in the mid 30 range, driven specifically by an increasing contribution of our DT Media revenue within our advertising segment with continual increases in revenue per device coupled with a greater number of new device launches across an increasing number of carrier partners.

Total operating expenses for the quarter decreased more than 5%, to $9.4 million, compared to $10 million on an as reported basis for the fourth quarter of fiscal 2015. The reduction in total operating expenses was driven by lower stock based compensation and one-time items offset by the inclusion of a full quarter of Appia’s costs. Total operating expenses for the first quarter, excluding stock based compensation, decreased 12% from pro forma fourth quarter fiscal ‘15 OPEX, excluding stock based compensation and one-time items related to the acquisition of Appia.

Our loss from continuing operations, net of income taxes, for the fiscal ‘16 first quarter was $8.1 million or $0.14 per share based on 57.4 million weighted average shares outstanding. Net loss from continuing operations for the fiscal ‘15 fourth quarter was $9.4 million or $0.22 a share, based on 43.2 million weighted average shares outstanding. Non-GAAP adjusted EBITDA loss

for the first quarter of fiscal 2016 was $3.3 million, a 29% decrease from $4.6 million for the fourth quarter of fiscal 2015.

Non-GAAP adjusted EBITDA loss decreased 42% from pro forma adjusted EBITDA loss of $5.7 million for the fourth quarter. Note that our definition of adjusted EBITDA was changed at the end of the fiscal year end March 31, 2015, to no longer exclude bonuses from this non-GAAP measure. Adjusted EBITDA improved sequentially through revenue growth, expanded gross margin and lower operating expenses as I have described.

Let's move to the balance sheet. Cash, cash equivalents and restricted cash totaled $6.4 million at June 30th, compared with $7.3 million at March 31st, reflecting our strong collection efforts and management of working capital. As a reminder, our cash is primarily domiciled in the United States and Australia. For the avoidance of doubt, we acquired the Australian business of MIA and structured the transaction such that we have the ability to repatriate cash quickly and tax efficiently, via a reduction of principle of inter-company debt. That said, cash from operations in Australia is generally being utilized to invest in the Australian business.

Total debt at quarter end stood at $10.7 million, net of discount, of which $3.5 million is short term and there were no additional borrowings under our credit facility in the quarter. As discussed previously, looking out to the future, our goal is to broaden our relationship with Silicon Valley Bank in an effort to provide for availability sufficient to refinance the subordinated debt and drive down our total cost of debt capital.

Given our efforts to manage cash on hand and the visibility we have on current device roll out plans, we believe that the cash we have on hand and the availability under our revolving credit facility can get us to organic profitability. That said, as we look to fiscal '17 and beyond, with the goal of setting the business up for success and long term sustainable value creation, we are making tradeoffs on investments to manage our ability to fully capture our potential, given the current constraints of our balance sheet.

Now, turning to our financial outlook, today we are reiterating on guidance for the full fiscal '16 year to a GAAP revenue in the range of $110 million to $130 million, non-GAAP adjusted gross margin in the mid 30% range, and the achievement of positive adjusted EBITDA, including bonus accrual, for the full fiscal year. The ramp is predicated on growth in Appia Core and continued growth in DT Pay and DT Marketplace, all based on the underlying momentum in operational strategies Bill and I have conveyed in these prepared remarks, coupled with an accelerating ramp in DT Media in the second half of the year, particularly in the seasonally strong third fiscal quarter driven primarily by the Thanksgiving through Christmas retail sales period and into the fiscal fourth quarter as device distribution and penetration across new and existing carriers becomes more wide spread.

As our advertising business grows and scales into the back half of the fiscal year, we expect to see sequential increases in non-GAAP adjusted gross margin given the strong margin profile of DT Media. This concludes our prepared remarks. Operator, would you please give instructions for Q&A?

QUESTIONS AND ANSWERS

Operator
Thank you. To ask a question, you may press star (*) then one (1) on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To

withdraw your question, please press star (*) then two (2).Please limit yourself to one question and one follow-up. If you have further questions, you may reenter the question queue. At this time, we will pause momentarily to assemble our roster.

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

Mike Malouf
Great, guys, thanks for taking my questions. Can you hear me okay?

Bill Stone
Yes, Mike, sorry.

Mike Malouf
Okay, so can we start off with a little bit on the revenue per phone? I think that clarity is really helpful and I applaud you for doing that. It sounds like you had some pretty dramatic increases from April to now, July. So I am wondering, Bill, if you could just talk a little bit about how you got from $0.72 to $1.60 and what was the main drivers of that? Was it the number of flats, was it the pricing, was it the open rate, so just add some color on that path from $0.72 to $1.60? Thanks.

Bill Stone
Yes, absolutely. The first point I want to make sure is that, we would have to level set with everybody is, this is a global metric. So I can point to operators that are higher, I can point to operators that are lower around the world. And as I mentioned, as we get more operators and more geographies, we will break that out to get more granular as we go forward. But for today in terms of just providing global things, I think there were a number of drivers, Mike. I think the first one is that we're just getting better at optimizing yield. We're learning what's working across what devices in what target segments and learning what types of campaigns work better with other campaigns.

The mix of our advertisers has improved and this drives increased demand as you get more competition into it. So if you had stable of 50 campaigns to choose from and now you have a stable of 100 campaigns to choose from, you have a lot more levers at your disposal to optimize it. And then the final thing is, we're just getting better, also, at quality and targeting. We're seeing different results for different campaigns, so if I want to run, for example, Pandora or Expedia or Uber, we see different results across different devices. So we're getting better at optimizing those, even within specific geographies, we will see different performance. So the integration in our third party data source that I mentioned, we anticipate that being a nice catalyst for us to add a scale, as we get into the holiday season. So I'm really excited about that, that we've put in our ability to integrate and execute that. But in terms of starting from April to the present, those were the three or four major drivers of that.

Mike Malouf
Great, thanks. And then, Andrew, if I could just talk a little bit about the model, if I look at gross margin for the year in the mid-30s, that equates, and I know you will be ramping throughout the year, but it equates to about an average of 38%, if you just use 35% for the rest of the three quarters. Does that make sense to you?

Andrew Schleimer
Yeah, we reported today DT Media margins of 55% for the quarter. So as DT Media becomes a larger proportion of the overall revenue, given some of the customers we've announced, driven

by obviously more phones to the marketplace and accretion in RPS and yield, that sounds right, Mike.

Operator
The next question comes from Brian Alger at ROTH Capital.

Brian Alger
Good afternoon, guys. Really love the color and the detail, I think it does go a long way, so I'll echo Mike's commentary there. If I could drill down a little bit, as well, the growth that we're seeing in that yield per device, one of the things that you said, Bill, was that you saw pretty big jump in terms of what occurred when started using the third party data. Was that a small trial? Was that something that was meaningful in moving to that $1.60 for the month of July or is that just something that was off on the side where we have a data point?

Bill Stone
Yes, I would characterize this is early days, top of the first inning on that. So two things I'll say on that, number one is we've successfully integrated the data. That's a big milestone when you're talking about significant amounts of data to integrate with your own existing systems and processes. Secondly, though, we did see that our control group and target groups generate different results by campaigns. I don't want to celebrate that, I just want to point it out as a data point. However, what I am excited about is less around the control group versus the target, but what we see from our advertising partners is a willingness to pay higher rates for a specific segment.

So if I can have an advertiser that says, okay, I'll pay you $0.50 CPP across your entire base, but I'll give you $0.60 or $0.70 CPP if you can target males between the ages of 18 to 34, and now we've got that ability to do that with this dataset. That demand is sitting on the sidelines right now. So it offers us the ability to generate incremental yield per device because now we've got that targeting capability. So as I think about what's going to accrete the yield per device as we go forward in time, that is really, in my view, is going to be the major driver, although the control group versus the target group will be an impact, as well.

Brian Alger
It's great, it seems like you're doing a really good job of controlling what you can control, in terms of that targeting and yield, devices, obviously, with some of them winning and some of them not, we've got to kind of wait for full penetration. I want to understand the full year guidance a little bit better. It's great that we're maintaining it and I think that's certainly prudent here, but we're now talking about Appia Core growing from its current levels and we're talking about seeing good strength within that content business. Just to be clear here, in maintaining that level, we're not reducing our expectations for the advertising portion, are we?

Bill Stone
No, let me start and I'll let Andrew add some color here. I think what we are really seeing right now, Brian, is a result of the customer announcement we had today and some of the other ones that I signaled that we believe that are happening soon. What we really see is the combination of the holiday quarter plus the additional of these new customers really driving material ramp in the back end of the year for the DT Media business that we have visibility to right now. Obviously, we look forward to having the high class problem that the Content and Appia business drive favorability to our results and that creates a mix issue for us, but don't, yeah, do not interpret that as we're altering our views on DT Media in anyway.

Brian Alger
Great, just wanted to clarify that. And then, last, on the American Movil, obviously a huge win. I can't think of a better international carrier to bring over the board. I 'm really interested in what you said with regards to Phase 1, putting the Appia inventory or the Appia demand, as you put it, up against the installed app for American Movil. As I understand it, they have their own application that works somewhat like IQ. Are you going to be supplying apps into that for them and how deep is that penetration of that app across the subscriber set within American Movil?

Bill Stone
Yes, for the Appia demand part, currently today, American Movil loads this app, which is really about discovery, recommendations, as well as their own branded apps and other third party things where they may have relationships, such as, for example, Verizon is the equivalent of NFL here in the United States, American Mobile made those in certain Latin American countries. All of those things get loaded within this American Movil container app. They have not historically done as much as they would have liked on the monetization and that's why we're starting to partner with them to help power that demand from our existing campaign sources and that will be going across their entire android subscriber base, so that's something we're quite excited about.

But I would be a little bit cautious that we don't have any operating history or empirical results on that business yet, so we're not really comfortable doing anything in terms of our guidance or go forward specifically as a result of this Phase I. I think more than anything, what this proves is the broader thesis that mobile operators are looking to outsource these kinds of capabilities to companies like us who have expertise in doing it.

Operator
The next question comes from Mike Malouf at Craig-Hallum Capital Group.

Bill Stone
Hi, Mike, I think you got cut off.

Mike Malouf
Sorry, I got cut off. I just had one more follow-up. Can you help us understand the seasonality as we get into the third and the fourth quarter? You're fighting two things, one is certainly the dramatic increase, typically, with sales of the devices into the December quarter, but also you have, as you pointed out with American Movil, new carriers coming on and broadened distribution as you go through the end of the year. So how should we think about that third and fourth quarter? Thanks.

Bill Stone
So, Mike, especially for some of the new customers we announced and our existing customers that we have, what we generally see is that for the holiday season historically I don't know what it will be for this current carrier, but historically, around 40% of smart phone sales, for example here in the United States, will occur in November and December. So you definitely have seasonality as it relates to new device sales and upgrades. We expect that to be a positive catalyst for us for that fiscal third quarter.

And then going to the fourth quarter, we expect to ramp really around the seasonality because that quarter tend to be lower than the holiday but more around the new customers that we've already talked about and launched, and we continue to ramp across more devices and some other ones we haven't talked about yet, that that will drive material increased demand for us, but

that's not a seasonality issue that's just us bringing on new demand from new customers.

Mike Malouf
But when you take a look at your guidance, would you expect the third quarter to be the highest of the year or would you expect the fourth quarter to be higher?

Bill Stone
I think right now, Mike, I would lean it towards that fiscal fourth quarter based upon some visibility we have on new customers but the seasonality from the December quarter will be also very material.

Mike Malouf
Okay, great, thanks.

Operator
Next question is from Bill Sutherland, Emerging Growth Equities.

Bill Sutherland
Hey, Bill, I was curious if precision has gotten going with you at Verizon and whether that's going to be enough to move the yield needle a bit more.

Bill Stone
Yes, I talked about a third party demand source. I don't want to get into any customer specifics on the call today, but I think as we talk about third party demand source, that's something that we definitely see as important to drive quality and that's going to drive improved yield per device.

Bill Sutherland
But that's incremental going forward, that's not in…

Bill Stone
That's incremental, correct.

Bill Sutherland
Yes, on American Movil, that number in terms of android shipments, are those, is that all postpaid?

Bill Stone
No, that's a blend of postpaid and prepaid, so that would be a total number. But the app that I reference on Brian's question earlier does give loaded on both prepaid and postpaid devices.

Bill Sutherland
And then when you go into Phase 2, you'll just be on postpaid right?

Bill Stone
No, we'd be, again, that the American Movil is a little bit different than some operators here in the United States, but, yeah, no, this, our anticipation, and we're working these details real time but our anticipation is this will be across both prepaid and postpaid.

Bill Sutherland
Great, and I know this is an unfair question, but should we think about American Movil as a little

bit of an addition to your prior mapping of that 16 or it's a kind of thing that you were just, with some sort of risk adjust basis baking in? Thanks.

Bill Stone
Yes, so Bill, we see this really as part of the risk adjusting. So I think I mentioned many of you individually and for those of you on rest of the call I haven't, we tend to have visibility of new customers before we announce them as we start working many months in advance of actually when we announce the agreements. This is one of those examples where we've got visibility into what's happening. So yeah, I would not view this as something incremental. The incremental opportunity is just going to be the delta between the discount rate and the timing of the launch, but not necessarily in terms of whether it was in our radar or not.

Bill Sutherland
Okay, thanks, Bill.

Operator
Next question is from Andrew D'Silva of Merriman Capital.

Andrew D'Silva
Hey, good afternoon, guys, thanks for taking my call. Just a couple quick questions. The first one, can you give us a sense of what the American Movil deal means in a comparative sense? Some of your past relationships have been large operators but the deals are regional or not with a lot of devices. Any insight as far as, does it correlate to any one subsidiary of theirs or over the entire parent? And has there been any progress with MSAI, are they doing a pilot or has that been dropped, it will probably provide get inside as to what emerging markets could look like?

Bill Stone
Sure. So first, on the American Movil side, yes, I can't speak for their roll out plans. I do know that they tend to put these current apps that I referenced on some of the earlier questions across all their devices and all their geographies. So I don't have a reason to assume why it would be different, but ultimately, that's American Movil's decision not Digital Turbine's. So we see that as a little bit different than, for example some European operators like with Deutsche Telekom where we launched in a couple of countries and we look to expand into other countries as time goes on.

Regarding the MSAI question, so we got some experience in the Philippines with both Globe and CloudFone in terms of how the emerging market trends and we're starting to get some experience under our belts, there, in terms of trends and what's happening. With MSAI in India, we do expect to see material volume of devices here, shortly, as is the test on to see how we work this scale? As I mentioned on prior calls, we are excited about the opportunity. We haven't really cracked the code on the execution there and that market, there is just a lot of issues and complications and nuances that are different than what we see in other markets. So I hope on the next call to provide an update on that but nothing specific or nothing material today to report around MSAI.

Andrew D'Silva
Okay, and then I just, through the process of due diligence and talking to developers, just about CPI and trends in general, and you said it's been quite volatile over the past year or so and the majority of them have discussed with, they seeing declining trend as far as maybe price per install although, obviously, maybe volumes increasing somewhat. I was curious if you saw that,

as well, and then maybe elaborate a little bit on how your programmatic RTB technology is do you feel like it's robust enough, is that something we should be thinking about from an acquisition standpoint and any clarity there would be great.

Bill Stone
Yes, absolutely. So first, on the RTB front, we're not making any material investments in that today. That's something we see as a growth driver for the future. We have to figure out how to get that business the right amount of capital and that's something that we as a management team and the board are talking about. So we are not using any material way today, but it is live and in production and we see it as a strategic thing as we go into the future. So with that, let say that RTB is something we're excited about but nothing really materially happening today around that.

Andrew D'Silva
And CPI rates, are you seeing it trend?

Bill Stone
So on CPI rates, what we're seeing right now is that, we're actually seeing emergence of brand advertising begin to happen and this is really driven by a secular trend of media dollars that are moving from different formats into mobile and its application. Specifically, I think you saw on CNBC was doing a big thing this week around the Instagram, APIs are opened up for mobile advertisers and brands, in particular, and that's just reiterates the secular trend that we're seeing of media dollars catching up to iBalls. So I expect to see those rates continue to accrete, but it's going to be driven more by brands coming in that tend to be more price elastic, versus just developers that have to go out and acquire apps, installs to justify valuations. Although, I do see that we'll continue to have both in the marketplace. So as you are out, you are doing your channels checks and I would make sure you're talking to the brands and the advertisers, as well as the developers.

Andrew D'Silva
Okay, you got it. This is a really quick question, can you break out what your margins were for Pay and Content and Appia Core and then also for Ignite and IQ, so I can get a sense of how to model each segment?

Andrew Schleimer
Yes, sure, so what we've spoken about in this call for the first quarter, Andy, within our advertising business, or excuse me, DT Media business achieved margins of 55%, our Appia Core business achieved margins of 18%. We did make the point on the call that sans overspend credits, which we're working to mitigate in real time, margins were north of 20% and again, we expect them to accrete back to over 20% over time for Appia Core. And then on the Content side, overall margins were 18% as we continue a mix shift towards DT Pay, which carriers, carries lower margins in the Content marketplace business.

Andrew D'Silva
But do you have percentage break out as far as what was Pay versus what was Content? Is Pay starting to dominate the whole content side of the business as far as being the majority like it was last quarter? I think it was 70% last quarter, or something like that.

Bill Stone
I don't know if I've used the word dominate, but I would say definitely it's the majority. We're starting to see some nice rebound in the content business for some of the factors that I

mentioned on my comments around full-track downloads, in application billing, and those kinds of things. So we're starting to see some nice movement in the content part of the business, as well as some expansion opportunities in new geographies in Asia Pacific. So I wouldn't think about it as the content is necessarily going backwards. Really, it's more about the, the growth is definitely from content providers that want to diversify away from the Apple app store or the Google play store and have other means to distribute their content, and that's where we come into help facilitate that.

Andrew D'Silva
Okay, and services, was there a lot of services revenue in DT and IQ?

Andrew Schleimer
We did have some services revenue, I would characterize that in hundreds of thousands.

Andrew D'Silva
Okay, perfect, thanks a lot, guys. Good luck going forward.

Bill Stone
Thanks, Andy.

Operator
The next question is from Jon Hickman at Ladenburg.

Jon Hickman
Just two quick questions, guys. Can you explain, or I was a little perplexed that you didn't press release the American Movil, can you talk about why you didn't do that versus put it in an 8-K?

Andrew Schleimer
Sure, Jon, so one of the things as we work with our operator partners, generally speaking, I'll make a global comment here, your operator partners generally don't like to do any sort of third party releases, especially if it evolves forward-looking statements and services. So that's just not something they do as a matter of practice. Occasionally, in certain circumstances, we will be able to work that. In this particular case, I made the decision that I thought it was more valuable to communicate this news to the marketplace rather than trying to work through different channels to put something out, that that would have potentially created additional delays in getting information to investors for American Movil, specifically. But I will say, as a general rule, operators and third party releases are generally something that you don't see, independent of Digital Turbine.

Jon Hickman
Okay, two other questions, can you explain Phase 2 of American Movil? [multiple voices]

Bill Stone
Yes, absolutely. So American Movil has a little bit different approach, for those of you that are familiar with the operators here in the United States, they have an application that they preload on all the phones that includes their own branded apps, as well as other apps that are brought to customers, recommended to customers. So think about when you power on a Verizon phone here, you'll see many, many apps on the device as it comes preloaded. There may be 20-ish on the phone. Well, American Mobile takes a more coordinated approach. They have one app and they'll preload all of those other apps inside of it. So you just click on it and opens up a variety of them.

So what happens today is that app is hardcoded and burned on to the phone. So if they want to make updates or changes to it as they add additional features, functionalities, services, information etc., it's quite limiting to them. So what they're looking for is a software development kit, or SDK, that can be able to dynamically preload those, which is what we're going to use Ignite for and then the ability for them to do changes as they make changes to the app, plus the ability for us to preload other applications on similar to what we do with operators today, as well as the ongoing revenue stream, we do operators with, say, things like IQ, you know, that will all be bundled in. So I'm very excited about the opportunity. American Movil is very forward thinking and proactive in this space. And so far it's been tremendous customer, excited working with them.

Jon Hickman
Okay, and then the last thing, when you talked about the first five weeks of your Q2, the September quarter versus the first five weeks of the June quarter, can you give us that statistic again? I think you said it was up 65%?

Bill Stone
Yes, that's correct, Jon. So what we've seen is, and what we really wanted to make the point on is that our first five weeks of the quarter were 63% higher than the first five weeks of the prior quarter.

Andrew Schleimer
And that's with immediate DT Media.

Bill Stone
Yes, and as well as that our July results for DT Media were better than our June results for DT Media. So, we continue to ramp and then I'll just voice track that what we have is that July, especially the early parts of July, if you're in the fireworks business or the barbeque business and things like that, those are good places to be in the first weeks of July. But generally speaking, for other things like any business, that's not the best time of the year from a seasonality perspective. So the fact that our July was better than our June, now we're getting into back to school and new device launches gives us a lot of optimism on our continued ramp.

Jon Hickman
Okay, and my last question has to do with your, the German acquisition you made, I can't remember the name of it, XYO, I think is?

Bill Stone
Yes, XYO.

Jon Hickman
XYO. So are you using their discovery and recommendation technology yet into your, is that being, or have you moved on to something else?

Bill Stone
No, absolutely. Today, we are live in the XYO technologies integrated in our IQ deployments with Vodafone and T-Mobile. We are actually in the process of bringing some of the XYO development engineers and relocating them to Austin to help get some synergies with our broader efforts that we're doing around data science, so very much a strategic acquisition and part of our go forward plans.

Jon Hickman
Are you seeing that in your third party data meaning is that part of the party data?

Bill Stone
So that's part of the, as I read the comments at the Needham conference earlier this week in our new Investor Presentation and we had a slide that specifically talked about how these elements become delivered and integrated together and by all means, we view that as happening.

From what I talked about today was the early trial results, that was not part of XYO because that was strictly through Ignite, but yeah we definitely view that as a roadmap feature to integrate those XYO features into all of our data sources, including the third party one we just talked about.

Jon Hickman
Okay, thanks and great quarter.

Bill Stone
Thanks, Jon.

Andrew Schleimer
Thank you.

Operator
The next question is from Brian Alger, ROTH Capital.

Brian Alger
Hi guys, just a couple of quick follow-ups, obviously, it sounds like we're really built up in terms of the seasonal demand going into the fourth calendar quarter, your fiscal third, and then as we layer in deeper, full penetration with this year's carriers, as well as the new carriers, we end up with growth in Q4, or potentially growth in Q4 over the seasonally strong Q3. I'm left with, as I am penciling out what the implications are here, I am really not seeing anything that would give me pause as to the September numbers. Given what you said mentioned in terms of the first five weeks, is there any reason as we go into August due to vacations or I would think back-to-school should be strong, as well. Shouldn't we continue to see this ramp that you saw July versus June kind of continue through the third quarter, as well?

Bill Stone
Yeas we absolutely expect the business to continue to ramp, Brian. Although the announcements that we've made today, the future ones that I have referenced, as well as the seasonality factors, I think, are going to be your big drivers for this particular quarter. We'll see what the back-to-school season looks like as a promotional period, historically, it does a good job. We'll see, we're just getting into it right now and then also there is a few high profile devices that are launching and we'll just see when the launch dates are those between August, September and October? And so I think the note five at the top of that list, in terms of how that performs, but there's a variety of others you can read about on the blogs. So a lot of it will depend upon those devices and some of the same factors we talked about in the past. I think the holiday quarter, you really see in terms of much material breakthrough for the drivers we've already talked about.

Brian Alger
Okay, great and just one last follow-up, in a prior discussion you talked about having multiple Tier 1 close, obviously we're taking American Movil today and very happy to be doing so, but in the category of what's next, I presume multiple Tier 1 is still the case and we are still working forward with people outside of the American Movil?

Bill Stone
Absolutely.

Brian Alger
Great, guys, great stuff today. Lot of good information, I appreciate it.

Bill Stone
Thanks, Brian.

Andrew Schleimer
Thanks, Brian.

Operator
The next question is from Ian Corydon at B. Riley.

Juan Molta
Hi, good afternoon, this is Juan Molta on for Ian Corydon. I wanted to ask a question about the, related to your guidance, you guidance is for EBITDA positive for the year. Could you comment on when you expect to be operating cash positive and do you foresee any situation that, as you grow, there may be expenditures that may delay your route to cash flow positivity?

Andrew Schleimer
Yes, I think the best way is to think about that, Juan, is just a continued ramp of our high margin DT Media business. Just to reiterate, north of 50% this quarter as we've been consistent with our messaging to The Street. As DT Media becomes a more material share of the overall revenue base, given some of the indications we've given today, particularly around holiday ramp and otherwise the higher margin business, given the fixed cost nature, it should get to a point where we're adjusted EBITDA positive.

So for the full year, we'll be positive inclusive of a bonus accrual based on today's guidance and I think the key indicator, or the key point of differentiation here is that, third and fourth quarter when DT Media becomes a much more material percentage of the overall revenue base.

Juan Molta
Okay, thank you.

Operator
The last question is from Ilya Grozovsky at National Securities.

Ilya Grozovsky
Thanks guys. I wanted to get a little bit of a better sense of the seasonality in the quarter itself. So it sounds like the last weeks of the quarter, you guys did about $4 million revenues and that brought you to slightly higher than the midpoint of your range. So what was going on the first two and a half months that brought you to a position where that you needed that much revenues at the end of the quarter to make the numbers?

Bill Stone
So usually what you see in almost every quarter, by the way, not just the June quarter, they tend to be stronger at the end of the quarter than the beginning. So, the intent, usually, you see March is better than January, June is better than April, September is better than July, December is better than October, just as a general rule in our business, so that's across all quarters.

For the June quarter specifically, you usually see a lot of activity in June around what usually promoted as dads and grads season and that tends to be something that drives additional handset volumes. And so we benefited from that, we also added some pro services benefiting an overall stream from a variety of advertisers, including Pandora that Andrew mentioned. So those are really the catalyst and really the point we want to make sure investors understand and communicate it today as far as July versus June is we started the month of July much stronger at the first quarter than we start at the month of April. And so we know there is a lot of questions out there and wanting to demonstrate continued results on our DT Media ramp and so, hopefully, we'll continue to put results upon the board to demonstrate that.

Ilya Grozovsky
Okay great, and then my last question is on the balance sheet you guys talked about Silicon Valley Bank trying to expand your line of credit. What type of an expansion are you looking for? How close you are right now to the limit of that line and what are you looking to expand it to?

Bill Stone
Yes, we recently upped the limit, Ilya, from 3.5 to 5 million, so we have capacity available since there were no additional borrowings in the quarter ended June 30. The original goal here when we acquired Appia was to get as much leverage as possible at the parent company in the form of senior debt. So the expectation is that, as our receivables grow and the Silicon Valley Bank relationship being the receivable line to determine our borrowing capacity. We would use that line in an accordion feature to take our subordinated debt, which is equivalent to $8 million today. That debt is due in your mid 2017 but our goal is to, as this business ramps from scales, particularly the DT Media business, where all of those receivables flow here through in the United States. We would then see the capacity to upscale or upsize the SBB loan.

Ilya Grozovsky
Got it, great, thank you very much, guys.

Bill Stone
Thanks, Ilya.

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
Great, thank you, Operator. We're accelerating our revenue ramp, as we talked about. We're scaling our business model by pulling all the levers for growth and we look forward to continuing to report the progress to you on upcoming calls. Thank you all for joining.

Operator

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