

MANDALAY DIGITAL GROUP, INC., #4674457  
MANDALAY DIGITAL GROUP, INC. FISCAL 2015  
GUIDANCE CALL  
March 26, 2014, 1:30 PM PST  
Chairperson: Peter Adderton (Mgmt.)

Operator: Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Mandalay Digital Fiscal 2015 Guidance Call. During today's presentation, all participants will be in a listen-only mode. Following the presentation, the conference will be opened for questions. If you have a question, please press the star, followed by the one on your touchtone phone. If you need operator assistance at any time, please press the star, followed by the zero. If you're using speaker equipment today, you'll need to lift the handset before making your selection. This conference is being recorded today, Wednesday, March 26<sup>th</sup>, 2014.

I would now like to turn the conference over to Jeff Klausner. Please go ahead, sir.

Jeffrey Klausner: Thank you. Thank you, everybody, for joining us this afternoon and welcome to Mandalay Digital's Fiscal 2015 Financial Guidance Conference Call. With me today is Peter Adderton, Mandalay's CEO; and Bill Stone, Mandalay's President and COO; and I'm Jeff Klausner, Mandalay's CFO.

Statements made on this call, including those made during the question and answer session, may contain certain forward-looking statements that are subject to risks and uncertainties. These forward-looking statements include a discussion of our revenue expectation for fiscal '14 and our revenue and EBITDA expectations for fiscal 2015, our ability to successfully convert our pipeline and a number of handsets on which we expect Ignite to be installed by this time next year, among others. Please refer to Mandalay'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 that you may perceive today.

Now, it is my pleasure to turn the call over to our CEO, Peter Adderton. Peter?

Peter Adderton: Yes, thanks, Jeff. Good afternoon and thank you, everyone, for joining the guidance call. Today we will address our guidance for our current fiscal year ending March 31<sup>st</sup>, and we'll also provide financial guidance and perspective into the next 12 months of our business. Our goal is to demonstrate a clear path to substantial revenue growth and profitability.

The actual numbers are one thing, but the operations, contract, traction and key performance indicators underlying those numbers is even more important as we look into the future. (Inaudible) business prospects

remain very, very strong. Our pipeline remains rich, the customer demand continues to peak. In fact, I was meeting last week with a large global carrier CEO who is now seeing the vision of what we had set out to do, and he said our timing could not be better for carriers as (inaudible) sources of revenue. That said, our CPI model and content search and discovery product are going to be the underpinning the future of growth of our Company and I'm excited to see that we are now being embraced by many, many global carriers.

Before handing the call over to Jeff and Bill, I wanted to touch briefly upon the recent equity financing we successfully completed a few weeks ago.

I maintain that we had ample cash prior to the raise to achieve organic profitability. That said, and as you all have agreed, it's always better to take the cash when you don't need it versus when you do need it. Our balance sheet is now strong. In fact, the strongest since I became CEO in late December of 2011. To that end, I confirm that our pipeline of accretive financial and strategic inorganic opportunities remains robust and the capital we raised has afforded us the opportunity to approach these discussions from a position of strength.

I would like just quickly to touch on two areas we believe our M&A strategy can generate opportunities for us to broaden our reach globally. The first is expanding our reach into global carriers in areas we could be stronger. Similar to our acquisitions of Logia and MIA, which allowed us to fast track our software and services giving us integrated carrier billing and local and global content relationships.

The second area that's developing over the past six months is our focus around the traction we're getting around CPI model for carriers. We think that mobile ad platforms is something that is really starting to take shape for us. With our growing distribution via Ignite and IQ, having a mobile ad platform would enhance our strength in dealing directly with the brands and the ad developers and also complement our existing technologies and fast track our growth.

With each of these opportunities are excluded from the guidance, we will provide shortly. I'm more than excited than ever to be part of Mandalay's (inaudible) for the reasons Jeff and Bill will now take you through. We truly are building something great here and I personally appreciate everyone's support of our Company. Over to you, Jeff.

Jeffrey Klausner:

Thank you, Peter. This afternoon I'm going to focus my remarks on our fiscal 2014 guidance. Bill will then provide an initial view of our expectations for fiscal 2015 and discuss updates on some customer and operational items as well as the overall marketplace.

To reiterate what we said on our third quarter earnings call last month, we currently expect fiscal year 2014 revenues to be in the range of \$25 to \$27 million. You'll recall that this range excludes revenues related to Twistbox, a non-core legacy asset which we sold in February. As such, please keep in mind that Twistbox will not be included, and is not included, in our fiscal 2015 projections.

As you'll recall, the currency headwinds, specifically related to the Australian dollar, impacted our results for the first nine months of this fiscal year, as well as the last quarter. Excluding the currency impact, we believe we would come in at the high end of our forecast. However, including that impact, we believe we will come in at the lower end of the range. The guidance for fiscal 2015, which Bill will provide in a moment, assumes maintaining a constant foreign exchange rate based on today's level.

With that, I'll now turn things over to Bill.

Bill Stone:

Thanks, Jeff. As Peter had just said, we have some real positive momentum right now, and today I wanted to cover off three items with you. First is our guidance for fiscal year '15. Second is some color on the mobile advertising market above and beyond Peter's recent remarks and since that's a material driver of our top line growth. Finally, a few customer updates which is also driving our projections.

First on guidance. We expect fiscal year '15 revenues to be between 46 to \$50 million with a gross margin of 50%-plus. That represents 80 to 100% year-over-year revenue growth as well as significant margin enhancement. The vast majority of that revenue growth is expected to come from increased installations of our DT Ignite product. We also anticipate being adjusted EBITDA positive for our full second fiscal quarter.

Keep in mind that all the guidance today is based on organic growth and does not take into account any future M&A activity. We are currently working on planning an investor and analyst day over the next 90 days so we can go much deeper on our metrics, business drivers, and customers.

As stated previously, we expect to have Ignite installed on over 10 million devices by this time next year. Today, we are increasing that guidance to 12 million devices. This is a 20% jump based upon some additional recent input from our key customers, as well as new customers that have gotten deeper in the funnel process. We're very busy preparing Ignite software for launches on devices around the globe. While our customers have not yet launched many of these devices, based upon their conversations with us, we expect to see the ramp begin this summer and then continue through the remainder of the fiscal year.

Next, I think it's important to provide some commentary on the mobile advertising market to put our opportunity into a bit better context. We're

seeing tremendous demand for CPI, or what we call Cost Per Install, advertising models, which is extremely popular right now and growing very rapidly. For example, Facebook is now at more than a \$1 billion revenue run rate for CPI advertising on mobile devices with the mobile operators not materially participating in any of this growing and lucrative revenue stream. That's why our products and services are so important to the carriers and our timing couldn't be better. Mobile advertising grew more than 100% last year and is expected to be more than a \$30 billion business globally this year and \$60 billion by 2017 or a compound annual growth rate of 50%.

Digital Turbines, Ignite, IQ, and content management products are the engine that allows operators to regain control over subscribers and to the ability to monetize the mobile advertising and application experience. To-date, brands are increasingly realizing that the key to monetizing mobile consumers is to have applications installed directly on the device versus hoping the customer searches for it on a mobile device through a traditional search engine or clicks through a banner ad. Those methods, which work well in a traditional web experience on all of our desktops, not as important to how mobile is and will be monetized.

To that end, we've signed numerous new advertising network partners, such as Millennial Media, Appia, Mobile Fuse, GSM, Kaboom, Vserv, and AppLift, just to name a few. Through these partners and through our own direct advertising deals, we are able to bring popular games, such as Candy Crush, Bejeweled, Scrabble and so on to consumers preinstalled on their devices creating additional revenue growth for the game publishers. We're also seeing non-gaming applications, such as eBay, Uber, Amazon, Hotels.com and so on, also wanting to preinstall their applications on the consumer device as this creates significant lifetime value for them.

So we're working with our advertisers with brands like these that realize the high value that having their applications preinstalled provide. For example, we've heard content providers say that getting an application installed on a device has anywhere between \$10 to \$100 lifetime value for them. Thus, paying Mandalay one to \$2 to preinstall that application for them make significant economic sense as it's good for all parties, including us, the operator, with whom we share the revenue. While it's not material yet to our business today, we expect the CPI model to grow and become a substantial driver of our top line growth over the next fiscal year. Operators, OEMs, and distributors are all excited to leverage Ignite's capabilities to participate in this growing mobile application and advertising opportunity. While much of the investor focus and our growth is specifically today on Ignite, it's also important to note that we're also monetizing the CPI model with our content management product today with both Telstra and Vodafone, and we expect to begin using the CPI model with our IQ product as well later this year.

On the customer front, we continue to have good traction and are deep in the funnel process with many global tier 1 mobile operators and OEMs, including the one additional tier 1 mobile operator here in the United States that we mentioned on our last earnings call. We expect to have an update on that US operator in the next 30 days, and as with Verizon, we are taking our time to ensure that the deal we sign benefits all stakeholders over the long term.

I also want to reiterate what we said on our last quarter about the accelerated order we had received from an existing tier 1 customer for this fiscal year. We do believe that increased business is worth more than \$5 million of free cash flow to our business. At the same time, we also have several Ignite launches planned in the next 90 days in numerous emerging markets, including Russia, India, and the Philippines. While the CPI rates are lower in those emerging markets than developed markets, such as the United States or Australia, the potential volumes and growth rates are really exciting. We'll be updating you again as we have additional material news and announcements.

And with that, I'll turn it back to Pete for some closing comments. Pete?

Peter Adderton: Again, thanks, Bill. We are, as I said, proud of what we're building, we're proud of the customers that we've got and the direction the Company's going. What I'd like to do now is move it across to questions from you guys to fire back at us. So, if the Operator's on and want to organize the questions, go for it.

Operator: Thank you, sir. Ladies and gentlemen, if you wish to ask a question, please press the star, followed by the one on your touchtone phone. If you'd like to withdraw your question, please press the star, followed by the two, and if you are using speaker equipment, you'll need to lift the handset before making your selection. Once again, if you would like to ask a question, please press star, one.

Our first question comes from the line of Andrew D'Silva with Merriman Capital. Please go ahead.

Andrew D'Silva: Hey guys. Thanks for taking my call. Just a couple of modeling questions and whatnot. When modeling out CPI revenues for Ignite, does it make the most sense to assume you'll generate revenue over the lifespan of the device gradually generating CPI fees as applications are loaded to devices? Or are you typically filling up spots immediately once the phone is activated implying most of the revenue will be generated on day one of the activation?

Bill Stone: Yes, sure. So hey, Andy, it's Bill, I'll take that one. So I kind of answered that on three levels. So, first, in the immediate term, meaning this fiscal year and as part of this guidance conversation, I think about it once when the device has been sold to the customer, so when a customer

powers the phone on a first boot walking out of the carrier shop on those applications that show up, that's how I'd think about it in terms of how we model these numbers. However, if I take a little bit longer term view on our business above and beyond this fiscal year, I think you're going to see two emerging ways that we increase the revenue opportunity for Ignite. The first is what you mentioned in terms of running additional campaigns above and beyond the first boot of device.

And the second, the one I'm really excited about in terms of kind of strategically how these products fit together, is being able to leverage our DT Pay platform so once we put applications on the device and the customer installs them and then they want to buy something on the device how we—the DT Pay product to fulfill that transaction and actually collect revenue after and above and beyond the CPI. That's something I'm really excited about. We're not modeling it, we're not including it, it's not been part of today's guidance, but in terms of I think of the potential of where we can take this and bring our products and services together, I think that one's got a lot of opportunity for us.

Andrew D'Silva: Great. Yes, it'll bring things full circle with all the different platforms, technology that you have available in the market that'd be really exciting. You've launched with Cricket, you had—can you provide at least a couple of list of phones that you're on so we can purchase them and, you know, kind of see how the whole thing's put together?

Bill Stone: Sure. Yes, actually it's AT&T now. So we're pleased to announce and we're now engaged with Cricket as part of AT&T but we are launched—if you want to go into a shop and you want to buy, for example, the ZTE Source device, you will see Ignite on that device and we've got numerous applications being loaded through that. We actually just agreed with those guys last week we're going to expand that to include some additional applications on that device. So if you go into a shop you'll be able to check that out.

Andrew D'Silva: Perfect, thanks. Then are you expecting that a majority of the 12 million Ignite devices it will be on by the end of next year to be leveraging the CPI model or will a large percent just be generating the per device fees?

Bill Stone: Yes, I think we really see the upside and where the market's been moving rapidly over the past six to 12 months around CPI and we're seeing a lot of excitement. I want to say, one of the things you heard in the comments here was not just operators, we're also seeing that now from OEMs and other distributors. Like, for example, in a lot of emerging markets where it's SIM cards only, we're seeing the device distributors and the OEMs taking a little bit more active role now rather than the operators. In other markets we're seeing the operators, so it kind of depends on a per-market basis. But what I will say is that we do have deals that are per device deals and we'll continue to expect to sign those but we really see a lot of the top line growth coming on the CPI side.

Andrew D'Silva: Got it, perfect. And should we still figure gross margins from Ignite to be north of 90% regardless whether it's a CPI deal or a per device deal?

Bill Stone: Yes.

Andrew D'Silva: Okay. Then a couple of more questions. Now that Ignite's launched with MSAI in June, can you get that a little bit more granular with the DT launch for Verizon since it's such a—worth thinking it's a material contributor to revenues for this next year? And then have you launched with AIS yet? I know that was expected to be launched this quarter.

Bill Stone: Yes. So, yes, so in terms of specific launch dates, unfortunately, our customers aren't going to let us come out and say specific dates on that in terms of May 1<sup>st</sup>, April 15<sup>th</sup>, and so on. What I will say is for this upcoming quarter we have a number of launches that are planned including all the markets you just mentioned, plus I would include the Philippines into that as well, as well as Russia. So we're extremely busy right now. Usually what we're going to see is we're going to break the product in for a few months and then we'll start ramping and that's why my comments were you'll start seeing the ramp really occurring as we get into summer. We're getting the launches prepared and all the software and testing and all the kind of other operational readiness things going right now.

Andrew D'Silva: Got it, okay. Then a last question, I guess this is a Jeff question. I just wanted to confirm that your stance on reaching adjusted EBITDA positive for this fiscal year '14 so should still be what we're looking for when you report your K? I just haven't heard that mentioned since the expectation was set last year.

Jeffrey Klausner: Yes, no, as we talked about on our last call, the expectation into turning the corner was pushed out a quarter, and as Bill talked about in his remarks, our expectation and anticipation is to be adjusted EBITDA positive in our full second fiscal quarter of '15 for that full quarter.

Andrew D'Silva: So ending September, the quarter ending September 2014.

Jeffrey Klausner: That's correct, our second fiscal quarter.

Andrew D'Silva: Okay, perfect. That's all I've got guys, thank you very much.

Jeffrey Klausner: Thanks, Andy.

Operator: Thank you. Our next question comes from the line of Mike Malouf with Craig-Hallum Capital Group. Please go ahead.

Mike Malouf: Hey guys. Thanks for taking my question. So, I wondered if you could give us some feedback on how the carriers feel about going to market. I

mean do you expect on Ignite on the distribution side to have, for instance, like a Verizon or just the carriers handle the distribution, or is it going to be more you or are you going to go through more of the third party ad networks that you talked about earlier?

Bill Stone: Yes, so Mike, I'm assuming you say distribution, you're talking about the actual applications themselves?

Mike Malouf: Correct.

Bill Stone: Yes, okay. Yes, so, yes, you correctly stated, there's three ways we're going to go to market with applications. One is where the operator could sell those directly and we have a revenue share associated with that. The second way is we go directly to the application providers. Then the third way is we partner with ad networks to do that. We see a combination of all three of those and it really depends somewhat upon geography. For example, I mentioned Vserv in my comments. They're the mobile ad partner that we're using in India. Right now it's not going to make a lot of sense for us to go and put direct distribution in there at this time as we're still ramping and scaling, so we'll partner with a third party in a market like that. But generally speaking, the revenue shares will tilt our favor if we're doing the direct work, they'll tilt more towards the operator if they're doing the work, but generally speaking it's kind of we'll make a global theme. The operators don't have sales forces or—and this is not their core business and they're happy to outsource as part of their business to us.

On the ad exchange side, we've got some great partners that are bringing us some great titles and in these early days when we're filling inventory we're really leaning heavily on them and what we'll do with them is tend to go more towards a wholesale model. So in other words we'll buy a CPI rate from them and then whatever we can turn around and sell it to, the operator or through the device partner, whoever it is and we'll capture that market premium back through on our side.

Speaker: So those are kind of (inaudible)...

Mike Malouf: And I guess, so following up on that, as you sort of look at the opportunity with the CPI revenue model, what are you expecting as far as a dollar per install? Are you still sort of thinking that one to \$2, does that still make sense to you?

Bill Stone: Yes, you know what, it's really—the market over time will settle in. We're seeing things, you know, somewhat variant based upon the spend that others have. Just, I'll make that as a general comment because it is—it's kind of early days here and this market is—you know, we're kind of in the top of the first in terms of this broader game that's being played, but what I will say is how I think about it and how we approach it to our operator partners is we have a rate card and along one axis of the rate card



you can imagine the type of device, so say a Samsung Galaxy S5 at one end and a tier 3 Chinese OEM at the low end and everything else in between on one axis, and then going down the other axis you can have it by market, so you can take United States, Australia, Philippines, India and so on. We're seeing CPIs as high as four to \$5 in some developed markets on high end devices. We're seeing CPIs as low as \$0.20 on tier 3 devices in emerging markets and you can kind of plot everything else in between for it. So that's how we approach the market right now and we're right now in terms of what we're approaching is working on trying to just fill the available inventory. There's just a lot of demand out there and so we're less concerned at this phase about fine tuning it and more about learning the model, making sure the model scales and all those kinds of things.

Mike Malouf: Great, thanks a lot for that color.

Operator: Thank you. Our next question comes from the line of Jon Hickman with Ladenburg Thalmann & Company. Please go ahead.

Jon Hickman: Hi. Jeff, could you repeat your guidance for 2014?

Jeffrey Klausner: Sure, not a problem, Jon. So the guidance for 2014, similar to what we had previously talked about, is the 25 to \$27 million range. That's being impacted by the foreign exchange challenges that have taken place over the past 12 months in relation to Australia by a couple million dollars. Without the foreign exchange challenge we would have been at the higher end of that range. Our projection is, due to the foreign exchange challenge, we expect to be at the lower end of that range.

Jon Hickman: Okay, so—and then for 2015, the guidance that Bill stated 46 to 50 that if you were to put back in Twistbox that would be 2 million (cross talking)...

Jeffrey Klausner: No, 2015 does not include Twistbox.

Jon Hickman: Yes, I know but...

Jeffrey Klausner: Twistbox would—right. So it's not (cross talking). Twistbox was sold and is not going to be any part of our go-forward operations or go-forward reporting (cross talking).

Jon Hickman: But that was like \$2 million a year of revenues, right?

Jeffrey Klausner: That was our prior forecast on it, correct.

Bill Stone: Yes, Jon, it would have been incremental.

Jon Hickman: Yes, so it would have been 50 to 52 or 50 to—whatever. It would have been 2 million higher (inaudible). Then my other question, Jeff and Bill is, for 2015 the quarters are going to be much—you would expect there to

kind of be a little bit of a hockey stick towards the back end of the—like the last two quarters are going to be much stronger than the first two quarters as Ignite rolls out, right?

Bill Stone: Yes, that's why, Jon, I'd said in my comments that we're expecting that to start ramping over the summer and we're going to start seeing some of the launches occur this upcoming first quarter of the fiscal year. The numbers start becoming much more material as we get into the summer timeframe and then as we get to the remainder of the fiscal year they'll grow from there.

Jon Hickman: Okay. Okay, thank you. That's it for me.

Operator: Thank you. As a reminder, ladies and gentlemen, if you wish to ask a question, please press the star, followed by the one on your touchtone phone. If you are speaker equipment, you'll need to lift the handset before making your selection. Once again, to ask a question, please press star, one.

Our next question comes from the line of Rick Solomon (ph) with (inaudible) Fund. Please go ahead.

Rick Solomon: Hey. Hi guys. Have you guys considered hedging the Australian dollar?

Jeffrey Klausner: Rick, this is Jeff. Yes, we've looked into it and at the revenue levels that we're looking at today it doesn't necessarily make a tremendous amount of sense for us to get into the foreign exchange hedging business. We feel it's the best use of our time and efforts and energy to focus on our operations and what and how we can do it best. Again, understand that these foreign exchange challenges that have occurred are truly just related to the GAAP consolidation, so as we bring Australian dollar revenues across for consolidation is where we're actually being impacted, it's not a true cash loss that we're experiencing.

Peter Adderton: Okay. Ricky, it's Peter as well. We also obviously expect to see the Australian dollar dominance in our Company diminish over time based on the traction we're getting here in the US and other markets, so.

Rick Solomon: Yes, clearly.

Peter Adderton: It's going to become—will become a less and less of an issue as we move forward.

Rick Solomon: Yes, right. You guys are going to jump all over me for asking this question again but I'm going to ask it anyway. Given the trends you're seeing, there's no reason to think why flow (ph) shouldn't continue at a very high rate through the following year and years after that. Am I correct?

Peter Adderton: Yes, I mean, Ricky, from our perspective we're seeing—you know, we talked about the hockey stick, we're seeing tremendous growth, and this is all about getting our software and services on as many devices as we can and that's just a matter of time. We have the pipeline, we have the customers, it's just a matter now of really ramping that up. So I'm confident that the Company can to continue a great growth trajectory beyond '15 and into '16.

Rick Solomon: Okay, thanks.

Operator: Thank you. Our next question comes from the line of Jason Revland with Blueprint Capital Management. Please go ahead.

Pardon me, the line of Jason Revland is open. Please check your mute button.

Jason Revland: Thank you. It was—I was muted, thank you. Thanks for taking the call. Early in the comments you talked about potentially deploying some of the new capital you raised in a mobile ad platform. Can you just talk about the pros and cons of what that would do for you having that in-house captive versus relying on, say, multiple third parties, or something like that?

Peter Adderton: Yes, I'll take it, Kevin (ph), and Bill can come in after. A lot of what we're seeing now as a CPI model is a lot of the brands and advertisers are looking for—you know, to deal directly with us. I think one of the areas that we think is going to be extremely important for us is the ability for us to deal directly with them and I think that that ad mobile platform helps us. There are other things that we are doing inside of IQ which we're not announcing now but strategically you'll see over the next three to six months which will lead us to actually have to build in an ad platform. We have a small ad platform that we did in one of the purchases but not really big enough and robust enough, so as we start to place our own ads into our services, expect it in the IQ front as we start, you'll notice seeing IQ or seeing the ability for us to be able to play that into different pages whether that be a Facebook page or a Twitter page. I think it really has allowed us the platform to be able to do that. So I think that that strategically as we look out in the Company's future, that's something we definitely are going to need and it's our (inaudible) strategy that we're working through through now. But I'm sure Bill's also got some color on that as well.

Bill Stone: Yes, no, (inaudible) is that right now we see a lot of opportunity out there to buy and we're looking at a number of M&A opportunities out there that can help accelerate our time to revenue with that so we'll continue to work that in parallel but in the meantime we've got some great partners that can get to the numbers that we shared with you today and we're going to continue to leverage those in parallel. But overall I can't emphasize how quickly we're seeing this market emerge and how the broader theme of monetization of mobile coming through more of this app economy versus

kind of traditional web things that we're all familiar with on banner ads and traditional search really emerging right now and we think we're pretty well positioned right in the sweet spot for that.

Jason Revland: Thank you both.

Operator: Thank you. I'd like to turn the conference back over to Peter Adderton for any closing remarks. Please go ahead.

Peter Adderton: Well, again, we thank everybody for taking the time to listen to us today. As Bill said, we'll be back to you guys in 90 days organizing an analyst meeting, face-to-face meeting so we can walk people through more of the metrics. It's been a short journey but a quick journey for us since we started this in 2012, and again, appreciate all the support from the shareholders and those who've seen us both in the non-deal road show and those who came in in the last round of the funding. Again, we thank everybody for taking the time.

Operator: Thank you. Ladies and gentlemen, this does conclude our conference for today. If you'd like to listen to a replay of today's call, please dial 303-590-3030 or 1-800-406-7325 with access code 4674457. Thank you for your participation. You may now disconnect.

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