Frankly Reports Second Quarter 2018 Financial Results

LONG ISLAND CITY, N.Y., Aug. 14, 2018 /CNW/ -- **Frankly Inc.** **(TSX VENTURE: TLK) (Frankly or the Company**), a leader in transforming local TV broadcasters and media companies by enabling them to publish and monetize their digital content across multiple platforms, reported financial results for the second quarter ended June 30, 2018. All financial statements have been prepared in accordance with U.S. GAAP.

Second Quarter 2018 Financial Results (All amounts in U.S. dollars)

- Revenue was flat at $5.8 million from $5.8 million in the prior quarter and decreased 11% from $6.5 million in the second quarter of 2017. The year over year decrease was due to decreases in advertising revenue, usage fees, as well as professional services fees due to less ad hoc professional services engagements in the 2018 period.
- Net loss totaled $(1.5) million compared to $(3.8) million in the prior quarter and $(2.4) million in the second quarter of 2017. The year over year decrease in net loss of $945,000 was primarily due to an $824,000 decrease in general and administrative expense, a $284,000 decrease in selling and marketing expense and a $350,000 decrease in research and development expense, all of which were primarily due to a reduction in compensation costs, including stock-based compensation, due to the headcount reduction related to the Company wide reduction-in-force implemented in mid-February 2018.
- Adjusted EBITDA was $650,000 compared to adjusted EBITDA loss of $(756,000) in the prior quarter and adjusted EBITDA loss of $(381,000) in the second quarter of 2017 (see discussion about the presentation of adjusted EBITDA below). The year over year increase in adjusted EBITDA of $1.0 million was primarily due to a decrease in net loss of $945,000 explained above.

Six Month 2018 Financial Results (All amounts in U.S. dollars)

- Revenue decreased 10% to $11.5 million from $12.9 million in the same period in 2017. The decrease was due to decreases in advertising revenue, usage fees, as well as professional services fees due to less ad hoc professional services engagements in the 2018 period.
- Net loss totaled $(5.3) million, compared to $(3.9) million in the same period in 2017. The increase in net loss was primarily due to a $1.4 million decrease in revenue discussed above, a $588,000 increase in retention expense relating to our employee retention plan which was rolled out in connection with the strategic investor search in the fourth quarter of 2017 and a $542,000 increase in restructuring expense related to the Company-wide reduction-in-force as explained above. This was partially offset by a $241,000 decrease in general and administrative expense, a $485,000 decrease in selling and marketing expense and a $118,000 decrease in research and development expense, all of which were primarily due to a reduction in compensation costs, including stock-based compensation, due to the headcount reduction related to the Company-wide reduction-in-force as explained above.
- Adjusted EBITDA loss totaled $(106,000) compared to adjusted EBITDA of $48,000 in the prior year period. The decrease in adjusted EBITDA was due to an increase in net loss of $1.4 million explained above, partially offset by add-backs to net loss for the $588,000 increase in retention expense and $542,000 increase in restructuring expense as explained above.
- At June 30, 2018, the Company had $1.6 million in cash and restricted cash. Subsequent to the previous quarter end, the Company entered into an amendment of its existing credit facility (Credit Facility) with Raycom Media, Inc. (**Raycom**). Under the terms of the amendment, Raycom would provide Frankly with an additional $7.5 million of funding, to be paid in installments over a six-month period, subject to Frankly's achievement of certain operational milestones. At June 30, 2018, $4.1 million of the additional $7.5 million had been received.

Customer Agreement Update
Raycom, a significant customer of the Company which accounted for 19% of the Company's revenue for the six months ended June 30, 2018, is in the process of a pending merger with Gray Television, Inc. Raycom has given the Company preliminary notification that it intends to terminate its existing customer agreement with the Company on or about December 31, 2018. The Company and Raycom are currently exploring an ongoing relationship following that date. Separately, three other of the Company's customers, including one other significant customer which accounted for 12% of the Company's revenue for the six months ended June 30, 2018, have provided notice that their current customer agreements with the Company will terminate on or before December 31, 2018. While the Company expects to have ongoing service relationships with one or more of

these customers, no such assurances can be made. In the aggregate, these terminations are expected to have a material negative impact on the Company's 2019 revenues and related income (loss).

Management Commentary
"Our second quarter results were largely in line with our expectations, and we are now beginning to see the positive effects of our greater cost reduction initiative which we began back in February," said CEO Lou Schwartz. "In fact, our second quarter operating expenses were down nearly $1.9 million from last year, and we also achieved positive adjusted EBITDA of $650,000 during the quarter. Looking ahead, we remain confident in our ability to achieve our near-term goal of being operating cash flow breakeven in the fourth quarter of this year, although the terminations of certain customer agreements will have an impact our ability to sustain this achievement into future periods."

Management Changes
Effective August 13, 2018 Melissa Hatter, Chief Operating Officer, has resigned from her position at Frankly to pursue other opportunities. To ensure a smooth transition, Ms. Hatter will continue to serve as an advisor to Frankly through the end of August 2018. Concurrently, Benj Smith, VP of Operations, has been promoted to SVP of Customer Success and will assume the majority of the responsibilities of the role.

About Frankly
Frankly (TSX VENTURE: TLK) builds an integrated software platform for media companies to create, distribute, analyze and monetize their content across all of their digital properties on web, mobile and TV. Its customers include NBC, ABC, CBS and FOX affiliates. The Company is headquartered in New York. To learn more, visit www.franklyinc.com.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

Non-GAAP Measures
The Company reports earnings before interest, taxes, depreciation and amortization ("EBITDA") and Adjusted EBITDA, which are not financial measures calculated and presented in accordance with Generally Accepted Accounting Principles ("GAAP") and therefore may not be comparable to similar measures presented by other issuers. EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute to net income (loss) or any other financial measures of performance or liquidity calculated and presented in accordance with GAAP. The Company defines Adjusted EBITDA as EBITDA, adjusted to exclude certain non-cash charges and other items that we do not believe are reflective of our ongoing operating results. The Company utilizes Adjusted EBITDA internally for purposes of forecasting, determining compensation, and assessing the performance of our business, therefore, we believe this measure provides useful supplemental information that may assist investors in assessing an investment in the Company.

The following unaudited table presents the reconciliation of net loss to Adjusted EBITDA for the three and six months ended June 30, 2018 and 2017, respectively.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Loss	$ (1,459,521)	$ (2,404,109)	$ (5,269,014)	$ (3,907,928)
Interest expense, net	599,003	646,943	1,196,099	1,257,148
Income tax expense	-	-	-	-
Depreciation and amortization	1,265,999	1,092,626	2,413,244	2,159,357
Stock-based compensation	96,848	284,006	331,888	512,172
Loss on disposal of assets	12,823	-	12,823	-
Transaction costs	54,019	-	78,692	-
Restructuring expense	81,250	-	542,210	-
Retention expense	-	-	588,099	-
Other expense	-	-	-	27,017
Adjusted EBITDA	$ 650,421	$ (380,534)	$ (105,959)	$ 47,766

Notice Regarding Forward-Looking Statements
This release includes forward-looking statements regarding Frankly and its respective businesses, including statements with respect to expected customer agreement terminations and the timing therefor, the potential for ongoing service relationships with customers and potential impacts on revenue in 2019, the ability to break-

even on an operating cash-flow basis and the ability to create value for shareholders. Forward-looking events and circumstances discussed in this release may not occur by certain specified dates or at all and could differ materially as a result of known and unknown risk factors and uncertainties affecting the parties. Forward looking statements depend on certain assumptions that management deems to be reasonable in the circumstances, but such assumptions may prove to be incorrect and the outcome of the subject of any forward-looking statement cannot be guaranteed. Such assumptions are based on, among other things, ongoing negotiations with customers and current operating performance. Except as required by applicable securities laws, forward-looking statements speak only as of the date on which they are made and Frankly undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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