Digerati Technologies Reports First Quarter FY2019 Results

Revenue Growth of 2667%
Adjusted EBITDA Improvement of 82%

SAN ANTONIO, TX (GlobeNewswire) – December 17, 2018 – Digerati Technologies, Inc. (OTCQB: DTGI) ("Digerati" or the "Company"), a provider of cloud services specializing in UCaaS (Unified Communications as a Service) solutions for the small to medium-sized business ("SMB") market, announced today financial results for the three months ended October 31, 2018, the Company's first quarter for FY2019.

Key Financial Highlights for the First Quarter of Fiscal Year 2019 (Ended October 31, 2018)

- Revenue increased by 2667% to $1.522 million compared to $55,000 for the first quarter of FY2018.
- Gross profit increased by 7550% to $765,000 compared to $10,000 for the first quarter of FY2018.
- Gross margin increased to 50% compared to 18% for the first quarter of FY2018.
- Adjusted EBITDA loss of $57,000, excluding all non-cash items and one-time transactional expenses, improved by 82% compared to an Adjusted EBITDA loss of $310,000 for the first quarter of FY2018.
- Average monthly revenue per customer (ARPU) was $792.

Chief Executive Officer Arthur L. Smith, commented, "We are pleased with our first quarter results as we have successfully integrated our acquisitions of T3 Communications and Synergy Telecom. We now have an established platform that is poised for growth. Our team has identified several solid initiatives to spur organic growth. Additionally, our potential acquisition pipeline is robust as our team continues to conduct due diligence on some exciting opportunities. We look forward to sharing our progress with the Wall Street community over the next several months as we continue executing on our plan."

Chief Financial Officer Antonio Estrada, Jr., stated, "Our improved margins and key performance indicator of strong ARPU demonstrate continued execution of our strategic plan. The investments we are making in our sales channels, service delivery and customer care are paying off and positioning us for future growth. We believe our business model of cloud delivery and low capital expenditures will result in scalability of our platform and ability to generate increasing levels of Adjusted EBITDA and free cash flow."

Three Months ended October 31, 2018 Compared to Three Months ended October 31, 2017

Revenue for the first quarter ended October 31, 2018 was $1.522 million, an increase of $1.467 million or 2667%, compared to $0.055 million for the first quarter ended October 31, 2017. This increase in Cloud-based hosted services revenue was attributable mainly to the acquisitions of both Synergy Telecom ("Synergy") and T3 Communications, Inc. ("T3").

Our total number of customers increased from 51 customers at the end of the three months ended October 31, 2017 to 638 customers at the end of the three months ended October 31, 2018. Additionally, our average monthly revenue per customer or ARPU increased from $333 for the three months ended October 31, 2017 to $792 for the three months ended October 31, 2018.

Gross profit for the three months ending October 31, 2018 was $0.765 million, resulting in a gross margin of 50%, compared to $0.010 million and 18% for the three months ending October 31, 2017. The increase in gross margin between periods is attributed to a higher concentration of revenue from cloud services and direct enterprise customers, which generate a higher margin.

Selling, General and Administrative expenses for the three months ended October 31, 2018 increased by $0.542 million, or 270%, to $0.743 million from the three months ended October 31, 2017. The increase in SG&A expenses between periods is primarily attributed to the additional salaries and other employee related expenses of approximately $436,000 attributable to the T3 acquisition and $105,000 increase in additional salaries and other related expenses attributable to the asset acquisition from Synergy.

Adjusted EBITDA for the three months ended October 31, 2018, was a loss of $0.057 million, an improvement of $0.253 million, compared to a loss of $0.310 million for the same period in 2017.

Operating loss for the three months ended October 31, 2018, was a loss of $0.413 million, compared to a loss of $0.370 million for the same period in 2017.

Acquisition costs for the three months ended October 31, 2018 were $42,439.

Of note, the following were non-cash expenses associated with the three months ended October 31, 2018. We recognized share-based compensation expense of $144,000. Depreciation and amortization expenses for the three months ended October 31, 2018 was $170,000. Loss on derivative instruments for the three months ended October 31, 2018 was $139,000. Interest expense, debt discount, for the three months ended October 31, 2018 was $259,000.

Net loss for the three months ended October 31, 2018, was $0.914 million, an increase of $0.544 million as compared to a net loss of $0.370 million, for the same period in 2017. The resulting EPS for the three months period ended October 31, 2018 was ($0.07), as compared to the loss of ($0.04) for the same period in 2017.

At October 31, 2018, Digerati had $0.6 million of cash, $2.735 in debt and 13.11 million shares issued and outstanding.

Further details about the Company's financial results are available in its annual report on Form 10K, which will be available in the investor relations section of the Company's website at www.digerati-inc.com

Use of Non-GAAP Financial Measurements

The Company believes that EBITDA (earnings before interest, taxes, depreciation and amortization) is useful to investors because it is commonly used in the cloud communications industry to evaluate companies on the basis of operating performance and leverage. Adjusted EBITDA provides an adjusted view of EBITDA that takes into account certain significant non-recurring transactions, if any, such as impairment losses and expenses associated with pending acquisitions, which vary significantly between periods and are not recurring in nature, as well as certain recurring non-cash charges such as changes in fair value of the Company's derivative liabilities and stock-based compensation. The Company also believes that Adjusted EBITDA provides investors with a measure of the Company's operational and financial progress that corresponds with the measurements used by management as a basis for allocating resources and making other operating decisions. Although the Company uses Adjusted EBITDA as one of several financial measures to assess its operating performance, its use is limited as it excludes certain significant operating expenses. EBITDA and Adjusted EBITDA are not intended to represent cash flows for the periods presented, nor have they been presented as an alternative to operating income or as an indicator of operating performance and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In accordance with SEC Regulation G, the non-GAAP measurements in this press release have been reconciled to the nearest GAAP measurement, which can be viewed under the heading "Reconciliation of Net Loss to Adjusted EBITDA" in the financial table included in this press release.

About Digerati Technologies, Inc.

Digerati Technologies, Inc. (OTCQB: DTGI) is a provider of cloud services specializing in UCaaS (Unified Communications as a Service) solutions for the business market. Through its subsidiaries Synergy Telecom (www.synergytele.com) and T3 Communications (www.t3com.com), the Company is meeting the global needs of businesses seeking simple, flexible, reliable, and cost-effective communication and network solutions, including cloud PBX, cloud mobile, Internet broadband, SD-WAN, SIP trunking, and customized VoIP services, all delivered on its carrier-grade network and Only in the Cloud™. For more information about Digerati Technologies, please visit www.digerati-inc.com.

Forward-Looking Statements

The information in this news release includes certain forward-looking statements that are based upon assumptions that in the future may prove not to have been accurate and are subject to significant risks and uncertainties, including statements related to the future financial performance of the Company. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, it can give no assurance that such expectations or any of its forward-looking statements will prove to be correct. Factors that could cause results to differ include, but are not limited to, successful execution of growth strategies, product development and acceptance, the impact of competitive services and pricing, general economic conditions, and other risks and uncertainties described in the Company's periodic filings with the Securities and Exchange Commission.

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DIGERATI TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts, unaudited)

	Three months ended October 31, 2018	Three months ended October 31, 2017
OPERATING REVENUES:		
Cloud-based hosted services	$ 1,522	$ 55
Total operating revenues	1,522	55
OPERATING EXPENSES:		
Cost of services (exclusive of depreciation and amortization)	757	45
Selling, general and administrative expense	743	201
Stock compensation & warrant expense	144	56
Legal and professional fees	124	119
Bad debt	(3)	-
Depreciation and amortization expense	170	4
Total operating expenses	1,935	425
OPERATING LOSS	(413)	(370)
OTHER INCOME (EXPENSE):		
Loss on derivative instruments	(139)	-
Income tax	(13)	-
Interest income (expense)	(376)	-
Total other income (expense)	(528)	-
NET LOSS INCLUDING NONCONTROLLING INTEREST	(941)	(370)
Less: Net loss attributable to the noncontrolling interest	27	-
NET LOSS ATTRIBUTABLE TO DIGERATI'S SHAREHOLDERS	$ (914)	$ (370)
INCOME (LOSS) PER SHARE - BASIC	$ (0.07)	$ (0.04)
INCOME (LOSS) PER SHARE - DILUTED	$ (0.07)	$ (0.04)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC	12,905,639	8,798,089
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - DILUTED	12,905,639	8,798,089

Reconciliation of Net Loss to Adjusted EBITDA

NET LOSS ATTRIBUTABLE TO DIGERATI'S SHAREHOLDERS, as reported	$ (914)	$ (370)
EXCLUDING NON-CASH ITEMS & TRANSACTIONAL COSTS ADJUSTMENTS:		
Stock compensation & warrant expense	144	56
Legal and professional fees - transactional costs	42	-
Depreciation and amortization expense	170	4
Loss on derivative instruments	139	-
Interest expense - debt discount	259	-
OTHER ADJUSTMENTS		
Interest expense	117	-
Income tax	13	-
Less: Net loss attributable to the noncontrolling interest	(27)	-
ADJUSTED EBITDA	$ (57)	$ (310)