UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): November 11, 2019

FLUENT, INC.

(Exact name of registrant as specified in its charter)

Delaware	001-37893	77-0688094
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

300 Vesey Street, 9th Floor New York, New York	10282
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (646) 669-7272

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2 (b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4 (c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02. Results of Operations and Financial Condition.

On November 11, 2019, Fluent, Inc. issued a press release announcing third quarter 2019 financial results and conducted an investor conference call to discuss financial results and provide a business update. A copy of the press release is furnished herewith as Exhibit 99.1, and an approximate transcript of the investor conference call is furnished herewith as Exhibit 99.2.

The information included herein and in Exhibits 99.1 and 99.2 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 ("Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	Press release, dated November 11, 2019
99.2	Transcript of the Investor Conference Call, dated November 11, 2019

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Fluent, Inc.

November 14, 2019

By:	/s/ Ryan Schulke
Name:	Ryan Schulke
Title:	Chief Executive Officer

Exhibit 99.1

Fluent Announces Third Quarter 2019 Financial Results

- **Q3 2019 revenue of $64.6 million, down 3% over Q3 2018**
- **Net loss from continuing operations of $4.5 million, or $0.06 per share**
- **Media margin of $21.3 million, down 17% over Q3 2018 and representing 33.0% of revenue**
- **Adjusted EBITDA of $4.3 million, representing 7% of revenue**
- **Adjusted net loss of $1.0 million, or $0.01 per share**

New York, NY – November 11, 2019 – Fluent, Inc. (NASDAQ: FLNT), a leading data-driven performance marketing company, today reported financial results for the third quarter ended September 30, 2019.

Ryan Schulke, Fluent's Chief Executive Officer, commented, "Our third quarter results reflect a confluence of factors, including certain uncollectible receivables, ebbs with several business partners and organizational re-alignment, which combined yielded results below expectations. We believe we have addressed each of these challenges and we have since seen core commercial trending improve. We have updated our full year guidance to reflect third quarter results and our expectations for the fourth quarter. We continue to believe our market opportunity and growth strategy are intact and sound, and well-geared to our unique set of core competencies in digital performance marketing.

Third Quarter Financial Summary

- Revenue of $64.6 million, a decrease of 3% over Q3 2018
- Net loss from continuing operations of $4.5 million, or $0.06 per share, compared to net income from continuing operations of $4.5 million, or $ 0.06 per share, in Q3 2018
- Media margin of $21.3 million, a decrease of 17% over Q3 2018 and representing 33.0% of revenue
- Adjusted EBITDA of $4.3 million, representing 7% of revenue
- Adjusted net loss of $1.0 million, or $0.01 per share

Media margin, adjusted EBITDA and adjusted net (loss) income are non-GAAP financial measures. Media margin is defined as revenue minus cost of revenue (exclusive of depreciation and amortization) attributable to variable costs paid for media and related expenses. Adjusted EBITDA is defined as net (loss) income from continuing operations, excluding (1) income taxes, (2) interest expense, net, (3) depreciation and amortization, (4) write-off of long-lived assets, (5) share-based compensation expense, (6) acquisition-related costs, (7) restructuring and certain severance costs, (8) certain litigation and other related costs, and (9) one-time items. Adjusted net (loss) income is defined as net (loss) income from continuing operations, excluding (1) write-off of long-lived assets, (2) share-based compensation expense, (3) acquisition-related costs, (4) restructuring and certain severance costs, (5) certain litigation and other related costs, and (6) one-time items. Adjusted net (loss) income is also presented on a per share (basic and diluted) basis. Reconciliations of these non-GAAP measures are provided below.

Business Outlook - 2019

Fluent is providing updated revenue, media margin and Adjusted EBITDA guidance for full-year 2019 as follows:

- Revenue is anticipated to be $265-$267 million, as compared with $277-$285 million previously.
- Media margin is anticipated to be in the range of $87-$88 million, as compared with $93-$98 million previously.
- Adjusted EBITDA is anticipated to be in the range of $28-$30 million, as compared with $37-$42 million previously.

Fluent is not able to provide a reconciliation of projected media margin or adjusted EBITDA to the most directly comparable expected GAAP results, due to the unknown effect, timing and potential significance of certain operating costs and expenses, share-based compensation expense, depreciation and amortization expense, interest expense (net), and the provision for (benefit from) income taxes.

Conference Call

Fluent, Inc. will host a conference call on Monday, November 11, 2019 at 4:30 PM ET to discuss its 2019 third quarter financial results. To listen to the conference call on your telephone, please dial (888) 339-0797 for domestic callers, or (412) 317-5248 for international callers. To access the live audio webcast, visit the Fluent website at investors.fluentco.com. Please login at least 15 minutes prior to the start of the call to ensure adequate time for any downloads that may be required. Following completion of the earnings call, a recorded replay of the webcast will be available for those unable to participate. To listen to the telephone replay, please dial (877) 344-7529 or (412) 317-0088 with the replay passcode 10136819. The replay will also be available for one week on the Fluent website at investors.fluentco.com.

About Fluent, Inc.

Fluent (NASDAQ: FLNT) is a leading performance marketing company with expertise in creating meaningful connections between consumers and brands. Leveraging our proprietary first-party database of opted-in consumer profiles, Fluent drives intelligent growth strategies that deliver superior outcomes. Founded in 2010, the company is headquartered in New York City. For more information, visit www.fluentco.com.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

The matters contained in this press release may be considered to be “forward-looking statements” within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. Those statements include statements regarding the intent, belief or current expectations or anticipations of Fluent and members of our management team. Factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include the following: compliance with a significant number of governmental laws and regulations, including those laws and regulations regarding privacy and data; failure to safeguard the personal information and other data contained in our database; failure to compete effectively against other online marketing and advertising companies; dependence on third-party publishers, internet search providers and social media platforms for a significant portion of visitors to our websites; dependence on our key personnel; dependence on emails, text messages and telephone calls, among other channels, to reach users for marketing purposes; competition we face for web traffic; ability to compete and manage media costs in an industry characterized by rapidly-changing internet media and advertising technology, evolving industry standards, regulatory uncertainty, and changing user and client demands; liability related to actions of third-party publishers; limitations on our or our third-party publishers’ ability to collect and use data derived from user activities; ability to remain competitive with the shift of online interactions from computers to mobile devices; dependence on third-party service providers; management of the growth of our operations, including the integration of the AdParlor business and other acquired business units or personnel; management of unfavorable publicity and negative public perception about our industry; failure to meet our clients’ performance metrics or changing needs; failure to detect click-through or other fraud on advertisements; achievement of some or all of the benefits that we expect to achieve as a stand-alone company; failure to adequately protect intellectual property rights or allegations of infringement of intellectual property rights; compliance with the covenants of our credit agreement; and the potential for failures in our internal control over financial reporting. These and additional factors to be considered are set forth under “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and in our other filings with the Securities and Exchange Commission. Fluent undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results or expectations.

FLUENT, INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share and per share data)
(unaudited)

	September 30, 2019	December 31, 2018
ASSETS:		
Cash and cash equivalents	$ 24,228	$ 17,769
Accounts receivable, net of allowance for doubtful accounts of $1,550 and $1,751, respectively	45,745	48,652
Prepaid expenses and other current assets	2,015	1,971
Total current assets	71,988	68,392
Restricted cash	1,480	1,480
Property and equipment, net	3,037	1,380
Operating lease right-of-use assets	10,332	—
Intangible assets, net	58,478	61,812
Goodwill	164,774	159,791
Other non-current assets	579	414
Total assets	$ 310,668	$ 293,269
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Accounts payable	$ 17,396	$ 7,855
Accrued expenses and other current liabilities	17,069	21,566
Deferred revenue	1,178	444
Current portion of long-term debt	6,058	3,500
Current portion of operating lease liability	2,342	—
Total current liabilities	44,043	33,365
Long-term debt, net	46,929	51,972
Operating lease liability, net	9,507	—
Other non-current liabilities	736	766
Total liabilities	101,215	86,103
Shareholders' equity:		
Preferred stock - $0.0001 par value, 10,000,000 shares authorized; 0 shares issued and outstanding at September 30, 2019 and December 31, 2018	—	—
Common stock - $0.0005 par value, 200,000,000 shares authorized; 78,574,482 and 76,525,581 shares issued at September 30, 2019 and December 31, 2018, respectively; and 76,783,296 and 75,292,383 shares outstanding at September 30, 2019 and December 31, 2018, respectively	39	38
Treasury stock, at cost, 1,791,186 and 1,233,198 shares at September 30, 2019 and December 31, 2018, respectively	(6,368)	(3,272)
Additional paid-in capital	403,854	395,769
Accumulated deficit	(188,072)	(185,369)
Total shareholders' equity	209,453	207,166
Total liabilities and shareholders' equity	$ 310,668	$ 293,269

FLUENT, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except share and per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenue	$ 64,552	$ 66,535	$ 201,673	$ 179,459
Costs and expenses:				
Cost of revenue (exclusive of depreciation and amortization)	44,568	41,744	138,530	115,120
Sales and marketing (1)	2,717	3,640	9,209	9,909
Product development (1)	2,040	1,680	6,485	3,556
General and administrative (1)	14,049	9,775	34,378	25,387
Depreciation and amortization	3,642	3,352	10,265	10,021
Write-off of long-lived assets	280	—	280	—
Spin-off transaction costs (1)	—	—	—	7,708
Total costs and expenses	67,296	60,191	199,147	171,701
Income from operations	(2,744)	6,344	2,526	7,758
Interest expense, net	(1,719)	(1,882)	(5,264)	(6,209)
(Loss) income before income taxes from continuing operations	(4,463)	4,462	(2,738)	1,549
Income tax benefit	—	—	35	—
Net (loss) income from continuing operations	(4,463)	4,462	(2,703)	1,549
Discontinued operations:				
Loss from operations of discontinued operations, net of $0 income taxes	—	—	—	(2,084)
Loss on disposal of discontinued operations, net of $0 income taxes	—	—	—	(19,040)
Net loss from discontinued operations	—	—	—	(21,124)
Net (loss) income	$ (4,463)	$ 4,462	$ (2,703)	$ (19,575)
Basic and diluted (loss) income per share:				
Continuing operations	$ (0.06)	$ 0.06	$ (0.03)	$ 0.02
Discontinued operations	$ —	$ —	$ —	$ (0.28)
Net (loss) income	$ (0.06)	$ 0.06	$ (0.03)	$ (0.26)
Weighted average number of shares outstanding:				
Basic and diluted	79,569,210	78,199,633	79,389,131	76,002,514
(1) Amounts include share-based compensation expense as follows:				
Sales and marketing expenses	$ 292	$ 717	$ 821	$ 2,125
Product development	278	136	800	487
General and administrative expenses	2,220	1,741	6,398	3,835
Spin-off transaction costs	—	—	—	5,409
Discontinued operations	—	—	—	15,713
Total share-based compensation expense	$ 2,790	$ 2,594	$ 8,019	$ 27,569

FLUENT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(unaudited)

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,703)	$ (19,575)
Net loss from discontinued operations	—	21,124
Adjustments to reconcile net loss from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	10,265	10,021
Non-cash interest expense and related amortization	1,016	1,491
Share-based compensation expense	8,019	11,855
Provision for bad debt	2,082	462
Write-off of long-lived assets	280	—
Deferred income tax benefit	(35)	—
Allocation of expenses to Red Violet	—	(325)
Changes in assets and liabilities, net of business acquisition:		
Accounts receivable	8,660	(3,910)
Prepaid expenses and other current assets	10	(112)
Other non-current assets	(137)	533
Operating lease assets and liabilities, net	1,517	—
Accounts payable	1,850	(159)
Accrued expenses and other current liabilities	(4,915)	628
Deferred revenue	701	449
Other	5	—
Net cash provided by operating activities from continuing operations	26,615	22,482
Net cash used in operating activities from discontinued operations	—	(5,835)
Net cash provided by operating activities	26,615	16,647
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(2,076)	(107)
Business acquisition, net of cash acquired	(7,246)	—
Capitalized costs included in intangible assets	(1,887)	(995)
Capital contributed to Red Violet	—	(19,728)
Net cash used in investing activities from continuing operations	(11,209)	(20,830)
Net cash used in investing activities from discontinued operations	—	(1,386)
Net cash used in investing activities	(11,209)	(22,216)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of shares, net of issuance costs	—	13,392
Proceeds from debt obligations, net of debt costs	—	67,182
Repayments of long-term debt	(5,851)	(72,229)
Taxes paid related to net share settlement of restricted stock units and issuance of restricted stock	(3,096)	(1,979)
Net cash (used in) provided by financing activities	(8,947)	6,366
Net increase in cash, cash equivalents and restricted cash	6,459	797
Cash, cash equivalents and restricted cash at beginning of period	19,249	16,564
Cash, cash equivalents and restricted cash at end of period	$ 25,708	$ 17,361

Definitions, Reconciliations and Uses of Non-GAAP Financial Measures

The following non-GAAP measures are used in this release:

Media margin is defined as revenue minus cost of revenue (exclusive of depreciation and amortization) attributable to variable costs paid for media and related expenses. Media margin is also presented as percentage of revenue.

Adjusted EBITDA is defined as net (loss) income from continuing operations, excluding (1) income taxes, (2) interest expense, net, (3) depreciation and amortization, (4) write-off of long-lived assets, (5) share-based compensation expense, (6) acquisition-related costs, (7) restructuring and certain severance costs, (8) certain litigation and other related costs, and (9) one-time items.

Adjusted net (loss) income is defined as net (loss) income from continuing operations, excluding (1) write-off of long-lived assets, (2) share-based compensation expense, (3) acquisition-related costs, (4) restructuring and certain severance costs, (5) certain litigation and other related costs, and (6) one-time items. Adjusted net (loss) income is also presented on a per share (basic and diluted) basis.

Below is a reconciliation of media margin from net (loss) income from continuing operations, which we believe is the most directly comparable GAAP measure.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net (loss) income from continuing operations	$ (4,463)	$ 4,462	$ (2,703)	$ 1,549
Income tax benefit	—	—	(35)	—
Interest expense, net	1,719	1,882	5,264	6,209
Spin-off transaction costs	—	—	—	7,708
Write-off of long-lived assets	280	—	280	—
Depreciation and amortization	3,642	3,352	10,265	10,021
General and administrative	14,049	9,775	34,378	25,387
Product development	2,040	1,680	6,485	3,556
Sales and marketing	2,717	3,640	9,209	9,909
Non-media cost of revenue (1)	1,323	1,011	4,159	2,767
Media margin	$ 21,307	$ 25,802	$ 67,302	$ 67,106
Revenue	$ 64,552	$ 66,535	$ 201,673	$ 179,459
Media margin % of revenue	33.0%	38.8%	33.4%	37.4%

(1) Represents the portion of cost of revenue (exclusive of depreciation and amortization) not attributable to variable costs paid for media and related expenses.

Below is a reconciliation of adjusted EBITDA from net (loss) income from continuing operations, which we believe is the most directly comparable GAAP measure.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net (loss) income from continuing operations	$ (4,463)	$ 4,462	$ (2,703)	$ 1,549
Income tax benefit	—	—	(35)	—
Interest expense, net	1,719	1,882	5,264	6,209
Depreciation and amortization	3,642	3,352	10,265	10,021
Write-off of long-lived assets	280	—	280	—
Share-based compensation expense	2,790	2,594	8,019	11,856
Acquisition-related costs	—	119	448	676
Restructuring and certain severance costs	—	—	360	2,591
Certain litigation and other related costs	375	—	1,091	46
One-time items	—	—	168	—
Adjusted EBITDA	$ 4,343	$ 12,409	$ 23,157	$ 32,948

Below is a reconciliation of adjusted net (loss) income and the related measure of adjusted net (loss) income per share from net (loss) income from continuing operations, which we believe is the most directly comparable GAAP measure.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except share data)	**2019**	**2018**	**2019**	**2018**
Net (loss) income from continuing operations	$ (4,463)	$ 4,462	$ (2,703)	$ 1,549
Write-off of long-lived assets	280	—	280	—
Share-based compensation expense	2,790	2,594	8,019	11,856
Acquisition-related costs	—	119	448	676
Restructuring and certain severance costs	—	—	360	2,591
Certain litigation and other related costs	375	—	1,091	46
One-time items	—	—	168	—
Adjusted net (loss) income	(1,018)	7,175	7,663	16,718
Adjusted net (loss) income per share:				
Basic and diluted	$ (0.01)	$ 0.09	$ 0.10	$ 0.22
Weighted average number of shares outstanding:				
Basic and diluted	79,569,210	78,199,633	79,389,131	76,002,514

We present media margin, adjusted EBITDA, adjusted net (loss) income and adjusted net (loss) income per share as supplemental measures of our financial and operating performance because we believe they provide useful information to investors. More specifically:

Media margin, as defined above, is a measure of the efficiency of the Company's operating model. We use media margin and the related measure of media margin as a percentage of revenue as primary metrics to measure the financial return on our media and related costs, specifically to measure the degree by which the revenue generated from our digital marketing services exceeds the cost to attract the consumers to whom offers are made through our services. Media margin is used extensively by our management to manage our operating performance, including evaluating operational performance against budgeted media margin and understanding the efficiency of our media and related expenditures. We also use media margin for performance evaluations and compensation decisions regarding certain personnel.

Adjusted EBITDA, as defined above, is another primary metric by which we evaluate the operating performance of our business, on which certain operating expenditures and internal budgets are based and by which, in addition to media margin and other factors, our senior management is compensated. The first three adjustments represent the conventional definition of EBITDA, and the remaining adjustments are items recognized and recorded under GAAP in particular periods but might be viewed as not necessarily coinciding with the underlying business operations for the periods in which they are so recognized and recorded. These adjustments include certain severance costs associated with department-specific reorganizations and certain litigation and other related costs associated with extraordinary legal matters. Items are considered one-time in nature if they are non-recurring, infrequent or unusual and have not occurred in the past two years or are not expected to recur in the next two years, in accordance with SEC rules. Adjusted EBITDA for the nine months ended September 30, 2019 excluded as one-time items $0.2 million of costs associated with the move of our corporate headquarters. There were no other adjustments for one-time items in the periods presented.

Adjusted net (loss) income, as defined above, and the related measure of adjusted net (loss) income per share exclude certain items that are recognized and recorded under GAAP in particular periods but might be viewed as not necessarily coinciding with the underlying business operations for the periods in which they are so recognized and recorded. Adjusted net income for the nine months ended September 30, 2019 excluded as one-time items $0.2 million of costs associated with the move of our corporate headquarters. There were no other adjustments for one-time items in the periods presented. We believe adjusted net (loss) income affords investors a different view of the overall financial performance of the Company than adjusted EBITDA and the GAAP measure of net (loss) income from continuing operations.

Media margin, adjusted EBITDA, adjusted net (loss) income and adjusted net (loss) income per share are not intended to be performance measures that should be regarded as an alternative to, or more meaningful than, net (loss) income from continuing operations as indicators of operating performance. None of these metrics are presented as measures of liquidity. The way we measure media margin, adjusted EBITDA and adjusted net (loss) income may not be comparable to similarly titled measures presented by other companies and may not be identical to corresponding measures used in our various agreements.

Contact Information:
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Fluent, Inc.
Third Quarter 2019 Earnings Conference Call
November 11, 2019

Operator:

Good day, ladies and gentlemen, and welcome to Fluent's Third Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session, and instructions will follow at that time. If anyone should require Operator assistance, please press star and zero, using a touchtone telephone. As a reminder, today's event is being recorded.

At this time, I'd like to introduce your host for today's conference, Ryan McCarthy. Please go ahead. ahead.

Ryan McCarthy:

Good afternoon, and welcome. Thank you for joining us to discuss our third quarter 2019 earnings results. With me today are Fluent's CEO, Ryan Schulke, and CFO, Alex Mandel. Our call today will begin with comments from Ryan Schulke and Alex Mandel, followed by a question and answer session.

I would like to remind you that this call is being webcast live and recorded. A replay of the event will be available following the call on our website. To access the webcast, please visit our Investor Relations page on our website, www.fluentco.com.

Before we begin, I would like to advise listeners that certain information discussed by Management during this conference call will contain forward-looking statements covered under the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Any forward-looking statements made during this call speak only as of the date hereof. Actual results could differ materially from those stated or implied by our forward-looking statements due to risks and uncertainties associated with the Company's business. These statements may be identified by words such as "expects," "plans," "projects," "could," "will," "may," "anticipates," "believes," "should," "intends," "estimates," and other words of similar meaning. The Company undertakes no obligation to update the information provided on this call. For a discussion of the risks and uncertainties associated with Fluent's business, we encourage you to review the Company's filings with the Securities and Exchange Commission, including the Company's most recent annual report on Form 10-K and quarterly reports on Form 10-Q.

During the call, we will also present certain non-GAAP financial information relating to media margin, Adjusted EBITDA and adjusted net income. Management evaluates the financial performance of our business on a variety of indicators, including media margin, Adjusted EBITDA and adjusted net income. The definitions of these metrics and reconciliations to the most directly comparable GAAP financial measure are provided in the earnings press release issued earlier today.

With that, I'm pleased to introduce Fluent's CEO, Ryan Schulke.

Ryan Schulke:

Thanks, Ryan, and good afternoon to everybody in attendance. Q3 marked a challenging quarter for Fluent, with $64.6 million in revenue, $21.3 million in media margin and $4.3 million in Adjusted EBITDA, which represents declines of 3%, 17% and 65% for those key metrics against the previous year. I'll note that Q3 of 2018 did come in well beyond analyst expectations; however, this quarter's results are below what we anticipated delivering.

The back half of 2018 through the first half of Fiscal 2019 marked a steep investment period for Fluent. We added personnel at all levels, including experienced Senior Management, as we steered towards enabling growth into adjacent markets by levering our core more strategically. We saw these as calculated bets and anticipated, like any venture investment, we might have a low hit rate with, ultimately, one or two having significant potential. We knew we had to allow these venture teams some runway to flesh out the viability of their opportunities, while also maintaining discipline around the dollars and time invested. Accordingly, we evaluated progress on ventures and determined that it was timely to pull back on bets that weren't hitting milestones we needed to see.

Compounding this increase in operating expense were two separate non-recurring issues with payment collection, one pertaining to an outage with an ad bead (phon) that we used to monetize portions of our job search portal. While we were able to replace monetization of the inventory where this bead was placed, the outage has resulted in revenue that was generated being deemed as uncollectible. The second event was the result of long-time partners in the legacy area of our core business being impacted by policy changes within their industry. The overall impact of these events resulted in approximately $1.9 million reflected in G&A and approximately $500,000 in revenue in the period. Historically, uncollectible receivables are a much smaller percentage of our overall activity and we do not expect these types of issues going forward.

On the commercial front, we experienced some volume softness at the core for approximately 60 days, spanning mid-August to mid-October, which was the result of supply constraints and an appropriate media margin forward business. Supply side ebbs and flows are a reality for true performance marketing companies, and Fluent has historically been more resilient and faster to overcome and take advantage of new media and technology trends. This past quarter, we were slower to react, due to some of the aforementioned investments which competed for some of the same resources that drive our core business. Since mid-October, we have regained our traction and to date we've seen trending improve from a top line revenue and media margin perspective.

All of these matters have resulted in us revising down our full year guidance, which is reflected in our most recent press release. While these short-term setbacks are discouraging, we believe that we have significantly insulated ourselves from them going forward and, thus, remain optimistic regarding the future outlook for Fluent. Our growth strategy is sound and we continue to have a strong core foundation to build upon, as validated by the strategic partnerships we've established with direct advertiser partners, from Fortune 500 brands to some of the world's most innovative new disrupters, who represent the vast majority of our revenue today.

Of note to our shareholders, is that the lion's share of the revenue we generated in Q3 of 2019 represents open-ended IOs, where our advertising partners have an appetite to leverage greater volumes with Fluent based on the ROI we deliver them. As a net effect, our short- to mid-term growth strategy is centered around better resourcing our teams tasked with audience acquisition via partnerships and biddable media platforms. Our acquisition of the longstanding Facebook marketing partner, AdParlor, expands our capabilities from a creative and technology perspective. Media strategy has long been a center of excellence for Fluent and we view the shortfall in Q3 as a call to arms, as we move to revitalize our core and look to restore the momentum we've enjoyed since our inception.

Despite our recent challenges, I want to take this opportunity to remind our investors that Fluent's core business has many valuable attributes working in our favor. We're a top-10 business for growth in mobile user acquisition per app supplier, we're a leader in subscriber acquisition within fast-growing music and video streaming space, and now have a full bench to operate in the public markets. Just as our emerging industry can bring unexpected challenges, we also play in a dynamic environment that brings forth many growth opportunities. Fluent has a tremendous track record of competently delivering here since being bootstrapped in 2010, and we're confident that our growth strategy of doubling down on cost-effective audience acquisition, in conjunction with fulfilling the high demand we're seeing from our best-in-class advertising partners, will ensure that our brand and our shareholders will win in the long term.

With that, I'll turn things to Alex for the detailed financial review.

Alex Mandel:

Thanks, Ryan, and good afternoon. In the third quarter, the Company generated $64.6 million of revenue, representing a 3% decline year-over-year. While this was below our expectations, we take solace from the belief that our roster of active clients with whom we are building strategic partnerships is robust and leaning in with demand for our performance marketing services that exceed their available volumes. We perceived the demand from our clients to be an important point of validation during the quarter, and continuing onward, with the constraining factor to our reported revenue being our ability to fulfill that demand at appropriate media margins for Fluent.

The Company produced media margin of $21.3 million, representing a decline of 17% year-over-year, and a margin of 33% of revenue, tying into the supply considerations I referenced and which were addressed by Ryan.

In terms of operating expenses, we realized some efficiencies in sales and marketing, while continuing to invest into product development. More notably, from the face of the income statement, is that G&A increased by $4.3 million year-over-year to $14 million in Q3. As Ryan mentioned, we had several unrelated events that rendered a total of $1.9 million of revenue to be deemed uncollectible, and bad debt is captured in our G&A line. In addition, this is the first quarter of inclusion of results of the AdParlor business, which we acquired on July 1. AdParlor's operating expenses are primarily captured in G&A and account for the majority of the balance of the $4.3 million variance beyond the bad debt.

Adjusted EBITDA of $4.3 million in the quarter represents 7% of revenue.

Subsequent to the quarter's end, as Ryan alluded to in his commentary regarding pruning investments and organizational realignment, we undertook some staffing reductions that, going forward, are anticipated to provide approximately $8 million of cost savings annually. Upfront accruals related to this will be reflected in our Q4 financials.

Provision for income taxes was zero, as we continue to maintain the full valuation allowance against our deferred tax assets for both periods.

Net loss from continuing operations was $4.5 million, while adjusted net loss was $1 million.

Our balance sheet and cash flow statement reflect the closing of the AdParlor acquisition on July 1, with a net $7.2 million of upfront cash consideration paid out. An additional $2.5 million, in the form of a promissory note, due in equal installments of 50% each on the first and second anniversary of the closing, are reflected on our balance sheet, offset by $2.8 million repayment of balances in the quarter on our credit facility.

Shifting to our updated full year outlook, we continue to see strong demand from current and prospective clients, and believe we have worked through the issues encountered in Q3. Our updated outlook reflects the actual Q3 results and our current view into Q4.

In conclusion, the results reported for Q3 were below our expectations. We operate in an industry that can be particularly dynamic and volatile. Last year's Q3 was the beneficiary on the upside of these attributes. This year's Q3 experienced the flip side. That said, we do continue to believe strongly in our market opportunity and the unique core competencies endemic to the Fluent organization, which are validated by the company we keep; i.e., our clients. The levering up of the brands and organizations we serve did not stop in the third quarter and has continued beyond. We have already made progress in expanding our supply sources and, through investments in our technology and analytics capabilities, are enhancing Fluent's ability to profitably monetize supply for more sources and channels.

We thank you for your patience and support, and now I'll be glad to open the floor to questions.

Operator:

Ladies and gentlemen, we will now begin the question and answer session. To ask a question, you may press star and then one on a touchtone phone. If you are using a speakerphone, we do ask that you please pick up your handset before pressing the keys. To withdraw your question, you may press star and two. Once again, that is star and then one to ask a question.

Our first question today comes from Jim Goss from Barrington Research. Please go ahead with your question.

Jim Goss:

Thanks. I've got several. One, you mentioned earlier on, Ryan, the pullback in certain areas and I was wondering if you could talk about what sort of areas you were backing away from.

Ryan Schulke:

Hi, Jim. Good to hear from you. Yes, in terms of some of the investments we were making relative to supply side, and I think that—is that what your question is about?

Jim Goss:

Yes, I believe so. You were backing away from certain areas, that was part of the challenge, and you were also—you said there were some long-time partners that were impacted by changes in their industries. So, maybe they're sort of one and the same, but maybe not, so I'd like to clarify that.

Ryan Schulke:

Yes, sure. Actually, two completely different areas of the business. One, we were referring to some of the more ventures-related initiatives. Fluent is constantly incubating new types of products and solutions with respect to how we go out and either generate more supply, bring new products to market, and things of that nature. We had a few investments that we had been making, some of which were trailing behind in terms of their key metrics, and those were some of the things we pulled back on, so more of your future bets that wouldn't have impacted overall revenue, but operating expenses.

On the other hand, the legacy partners, this was just an area of the business that had kind of been on cruise control for a bit, but you had a couple of our clients run into some issues with policy-makers within their own industry, and, really, that's what created some of the issues surrounding bad debt.

Jim Goss:

If there were certain areas, it might give us a better flavor of which of the areas you thought would be more successful that are not, and you might also talk, on the flip side, of which verticals you may feel you can best target. I think you mentioned media streaming as one thing. There may be others, as well. So, just to give us a better feel for what type of partners you're looking at and which type of verticals you're trying to pursue.

Ryan Schulke:

Yes, we're still working across pretty much every major consumer vertical, certainly seeing more progress in specific verticals, such as media and entertainment. Consumer goods and retail remains a strong vertical for us, and we'll constantly see some seasonality. We did see some trouble in the health vertical. You do see some changes there with respect to—as different policies change within that industry, they tend to be fairly erratic. That particular category, for us, saw a little bit of volatility. But, we still remain very strong in a lot of the verticals that you would imagine, where you have innovators coming in trying to disrupt, so customer acquisition is constantly a focus, and you also have some of the larger enterprises, Fortune 500s, who want to be innovative, who want to get stronger on the digital front, in order to retain and also grow customers. Those are some of the arenas where we're continuing to see a lot of buy-in, some of the world's biggest companies, again, as well as some of the most reported on in the public markets as of recent. Those are the areas where we're really feeling strong and where the appropriate types of investments and strategies are being fleshed out on the go-forward.

Jim Goss:

Okay, and maybe one last one. The third quarter Adjusted EBITDA was about half what we thought it might be, and I think you probably explained it with the G&A, increase in bad debt, and a couple of other issues, and then you maintained a full year guidance of $37 million to $42 million, which suggests a very strong fourth quarter on an EBITDA basis. That would put it in, say, a $50 million, perhaps more, category. Is that a new run rate? Are you getting past the point of where you were and that you can accelerate this to a higher sustainable level?

Ryan Schulke:

I'm going to have Alex clarify a point there, Jim.

Alex Mandel:

Hi, Jim. Just to clarify, on the business outlook for 2019, on the front of our earnings press release, we indicate that our current outlook is $28 million to $30 million of EBITDA for the full year, noting that compares with $37 million to $42 million previously.

Jim Goss:

Oh, okay, $28 million to $30 million. So, I guess I misread that one. Okay. Thank you much.

Ryan Schulke:

Thank you.

Operator:

Our next question comes from William Gibson from ROTH Capital Partners. Please go ahead with your question.

William Gibson:

Thank you. Was the industry with policy changes, was that related to subscription revenue?

Ryan Schulke:

It was not, it was not related to subscription revenue. This fell a bit more into the health vertical for us, and, again, some pretty legacy business that was not a huge focus from a growth perspective, but had been just sort of running for us across a couple of our product lines, Bill.

William Gibson:

Thank you. Did you say something about a mid-August to mid-October slowdown, and would that be related to changes at Google?

Ryan Schulke:

It was not related to changes at Google, per se, but we did see a slowdown with respect to our capacity operated at certain margins within some of our supply channels, and that's where we pulled back some of our spend, so we did see that from mid-August to mid-October, which is why you're seeing some of the softness on the top line. A little less so from a margin percentage perspective, we actually sequentially increased from 32% media margin in Q2 to 33%, so we maintained our margins, really held the line there, with the notion that we believe going forward that gives us the right amount of leverage to push back in as we see monetization come back on those channels.

William Gibson:

Thank you.

Ryan Schulke:

Thank you.

Operator:

Ladies and gentlemen, at this point, we’ve reached the end of today’s question and answer session. I would like to turn the conference call back over to Management for any closing remarks.

Ryan Schulke:

Yes, thanks very much for joining today. Obviously, we’ve had a challenging Q3, but, again, Fluent’s leadership remains optimistic about the road forward and certainly anticipate getting in front of everyone on our Q4 and full year 2019 call in Q1. So, thank you very much.

Operator:

Ladies and gentlemen, that does conclude today’s conference call. We do thank you for joining today’s presentation. You may now disconnect your lines.