

FOR IMMEDIATE RELEASE

ARI Network Services Reports Fiscal 2017 Third Quarter Results

Record Quarterly Revenue of \$13.4 Million, EPS of \$0.08 and Adjusted EBITDA of \$3.0 million

Milwaukee, Wis., June 8, 2017 - ARI Network Services, Inc. (NASDAQ: ARIS), an award-winning provider of SaaS, software tools and marketing services that help dealers, distributors and manufacturers Sell More Stuff!™, reported financial results for its fiscal 2017 third quarter ended April 30, 2017.

Highlights for the fiscal third quarter included:

- Revenue increased for the 13th consecutive quarter to \$13.4 million, which compares to \$12.0 million for the same period last year, a 12.0% increase. Recurring revenue increased 11.6% to \$12.3 million, compared to \$11.1 million for the same period last year.
- Operating income increased 61.5% to \$1.5 million compared to \$0.9 million in the prior year. The operating margin of 11.1% compares with a prior year margin of 7.7%.
- Net income was \$1.4 million or \$0.08 per diluted share, an increase of over 200% compared to \$0.4 million or \$0.03 per diluted share in the same period last year. The Company completed a tax study in the quarter that produced tax research and development credits of \$0.6 million, or \$0.03 per share.
- Adjusted EBITDA (a non-GAAP measure) was up 38.9% to a record \$3.0 million, or 22.5% of revenue, compared to \$2.2 million or 18.2% of revenue in the same period last year.
- Cash generated from operations increased 24.1% to \$3.2 million compared to \$2.6 million in the same period last year.

Fiscal 2017 Third Quarter Financials

Revenues in the third quarter of fiscal 2017 increased 12.0% to \$13.4 million compared to \$12.0 million in the same period last year. Recurring revenue comprised 91.9% of total revenue versus 92.2% for the same period last year.

Gross margin for the third quarter of fiscal 2017 was 80.5%, which is flat compared to the prior year quarter.

The company reported net income of \$1.4 million or \$0.08 per diluted share for the quarter, compared to net income of \$0.4 million or \$0.03 per diluted share last year.

Adjusted EBITDA for the third quarter of fiscal 2017 increased to \$3.0 million compared to \$2.2 million in the same period last year.

Management Discussion

"Our third quarter results exceeded our expectations and place us well on the path to achieving our goals for fiscal 2017," said Roy W. Olivier, President and CEO of ARI. "We had strong bookings in the











quarter which were aided by a large business management software sale, and although churn runs seasonally high in Q3, we were able to post a year over year improvement for the fourth consecutive quarter. On a trailing twelve-month basis, we have now recorded over \$51 million in revenue and approximately \$9.5 million in adjusted EBITDA. As we head into the fourth quarter of our fiscal 2017, we are well positioned to improve on those numbers and report another record year for ARI."

William Nurthen, CFO of ARI, commented: "With most of the non-recurring charges from the first half of the year behind us and an opportunity to realize the cost synergies from the Auction123 acquisition, the third quarter set up well to show strong profitability and cash flow. As Roy noted, the results exceeded our expectations and placed us firmly on plan to achieve annualized adjusted EBITDA of over \$10 million in the second half of the year as well as improve fiscal 2017 margins over fiscal 2016. The third quarter also represents the first quarter in our history where we produced over \$3 million in adjusted EBITDA and over \$3 million of cash flow from operations. This helped propel our cash balance to approximately \$5.6 million, while our debt is now down to approximately \$15.6 million. We expect another strong cash flow performance in the fourth quarter, which will leave us well positioned to make future investments in the business."

Fiscal 2017 Third Quarter Conference Call

ARI will conduct a conference call on Thursday, June 8, 2017 at 4:30 p.m. EST to review the financial results for the fiscal third quarter ended April 30, 2017. Investors and interested parties can access the conference call by dialing 877.359.3639 or 408.427.3725 and referring to conference ID 16111667. The conference call is also being webcast and is available via the Company's investor relations website at investor.arinet.com. A replay of the webcast will be archived on the Company's investor relations website for 60 days.

Non-GAAP Measures

Adjusted EBITDA, a non-GAAP measure, is defined as earnings before interest, income taxes, depreciation and amortization, excluding stock-based compensation. Management believes Adjusted EBITDA to be a meaningful indicator of our performance that provides useful information to investors regarding our financial condition and results of operations. While management considers Adjusted EBITDA to be an important measure of comparative operating performance, it should be considered in addition to, but not as a substitute for, net income and other measures of financial performance reported in accordance with generally accepted accounting principles (GAAP). Not all companies calculate Adjusted EBITDA in the same manner and the measure as presented may not be comparable to similarly titled measures presented by other companies. A reconciliation of net income to Adjusted EBITDA can be found in this release and at the Company's investor relations website for all periods presented.

About ARI

ARI Network Services, Inc. (ARI) (NASDAQ: ARIS) offers an award-winning suite of SaaS, software tools, and marketing services to help dealers, equipment manufacturers and distributors in selected vertical markets Sell More Stuff!™ – online and in-store. Our innovative products are powered by a proprietary data repository of enriched original equipment and aftermarket electronic content spanning more than 17 million active part and accessory SKUs and 750,000 equipment models. Business is complicated, but











we believe our customers' technology tools don't have to be. We remove the complexity of selling and servicing new and used vehicle inventory, parts, garments and accessories (PG&A) for customers in the automotive tire and wheel aftermarket, powersports, outdoor power equipment, marine, home medical equipment, recreational vehicles and appliance industries. More than 25,000 equipment dealers, 195 distributors and 3,360 brands worldwide leverage our web and eCatalog platforms to Sell More Stuff!™ For more information on ARI, visit investor.arinet.com.

Additional Information

- Follow @ARI_Net on Twitter: <u>twitter.com/ARI_Net</u>
- Become a fan of ARI on Facebook: www.facebook.com/ARInetwork
- Join us on G+: plus.google.com/117293073211296447579
- LinkedIn: linkedin.com/company/ari 2
- Read more about ARI: <u>investor.arinet.com/about-us</u>

Forward-Looking Statements

Certain statements in this news release contain "forward-looking statements" regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933. All statements other than statements of historical facts are statements that could be deemed to be forward-looking statements. These statements are based on current expectations, estimates, forecasts, and projects about the markets in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects", "intends," "plans," "believes," "seeks," "estimates," "endeavors," "strives," "may," or variations of such words, and similar expressions are intended to identify such forward-looking statements. Readers are cautioned that these forward-looking statements are subject to a number of risks, uncertainties and assumptions that are difficult to predict, estimate or verify. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Such risks and uncertainties include those factors described in Part 1A of the Company's most recent annual report on Form 10-K, as such may be amended or supplemented by subsequent quarterly reports on Form 10-Q, or other reports filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements. For more information, please refer to the Company's filings with the Securities and Exchange Commission.

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ARI Network Services, Inc. Consolidated Statements of Operations (Dollars in Thousands, Except per Share Data) (Unaudited)

		Three months	ended	April 30	Nine months ended April 30					
		2017		2016	2017		2016			
Net revenue	\$	13,425	\$	11,984	\$ 38,941	\$	35,473			
Cost of revenue		2,612		2,334	7,504		6,467			
Gross profit		10,813		9,650	31,437		29,006			
Operating expenses:										
Sales and marketing		2,595		2,801	8,104		8,314			
Customer operations and support		2,618		2,374	8,258		7,248			
Software development and technical support (net of										
capitalized software product costs)		1,505		1,221	4,321		3,795			
General and administrative		1,864		1,732	5,770		5,247			
Depreciation and amortization (exclusive of amortization of	F									
software product costs included in cost of revenue)		744		601	2,057		1,800			
Net operating expenses		9,326		8,729	28,510		26,404			
Operatingincome		1,487		921	2,927		2,602			
Other income (expense):										
Interest expense		(200)		(118)	(526)		(350)			
Other, net		9		13	11		5			
Total other income (expense)		(191)		(105)	(515)		(345)			
Income before provision for income tax		1,296		816	2,412		2,257			
Income tax expense		129		(368)	 (389)		(972)			
Netincome	\$	1,425	\$	448	\$ 2,023	\$	1,285			
Weighted average common shares outstanding:										
Basic		17,493		17,258	17,461		17,199			
Diluted		18,010		17,769	17,960		17,689			
Net income per common share:										
Basic	\$	0.08	\$	0.03	\$ 0.12	\$	0.07			
Diluted	\$	0.08	\$	0.03	\$ 0.11	\$	0.07			









ARI Network Services, Inc. **Consolidated Balance Sheets** (Dollars in Thousands, Except per Share Data)

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Deferred revenue 6,381 6,763 Accrued payroll and related liabilities 2,370 1,817 Accrued sales, use and income taxes 326 297 Other accrued liabilities 899 677 Current portion of capital lease obligations 47 50 Total current liabilities 14,120 13,070 Long-term debt 12,588 6,658 Long-term portion of contingent liabilities 1,244 60 Capital lease obligations 28 63 Other long-term liabilities 130 166 Total non-current liabilities 13,990 6,947 Total liabilities 13,990 6,947 Total liabilities 28,110 20,017 SHAREHOLDERS' EQUITY Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively — — Junior preferred stock, par value \$.001 per share, 25,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively — — Common stock, par value \$.001 per share, 25,000,00	Current portion of contingent liabilities		325		331
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Accrued sales, use and income taxes 326 297 Other accrued liabilities 889 677 Current portion of capital lease obligations 47 50 Total current liabilities 14,120 13,070 Long-term debt 12,588 6,658 Long-term portion of contingent liabilities 1,244 60 Capital lease obligations 28 63 Other long-term liabilities 130 166 Total non-current liabilities 13,990 6,947 Total liabilities 28,110 20,017 SHAREHOLDERS' EQUITY Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively — — Junior preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively — — Common stock, par value \$.001 per share, 25,000,000 shares authorized; 17,421,719 and 17,310,763 17 17 Additional paid-in capital 116,062 115,364 Accumulated deficit (84,027) (86,059)	Deferred revenue		6,381		6,763
Accrued sales, use and income taxes 326 297 Other accrued liabilities 889 677 Current portion of capital lease obligations 47 50 Total current liabilities 14,120 13,070 Long-term debt 12,588 6,658 Long-term portion of contingent liabilities 1,244 60 Capital lease obligations 28 63 Other long-term liabilities 130 166 Total non-current liabilities 13,990 6,947 Total liabilities 28,110 20,017 SHAREHOLDERS' EQUITY Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively — — Junior preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively — — Common stock, par value \$.001 per share, 25,000,000 shares authorized; 17,421,719 and 17,310,763 17 17 Additional paid-in capital 116,062 115,364 Accumulated deficit (84,027) (86,059)	Accrued payroll and related liabilities		2,370		1,817
Current portion of capital lease obligations 47 50 Total current liabilities 14,120 13,070 Long-term debt 12,588 6,658 Long-term portion of contingent liabilities 1,244 60 Capital lease obligations 28 63 Other long-term liabilities 130 166 Total non-current liabilities 13,900 6,947 Total liabilities 28,110 20,017 SHAREHOLDERS' EQUITY Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively ————————————————————————————————————			326		297
Current portion of capital lease obligations 47 50 Total current liabilities 14,120 13,070 Long-term debt 12,588 6,658 Long-term portion of contingent liabilities 1,244 60 Capital lease obligations 28 63 Other long-term liabilities 130 166 Total non-current liabilities 13,900 6,947 Total liabilities 28,110 20,017 SHAREHOLDERS' EQUITY Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively ————————————————————————————————————	Other accrued liabilities		899		677
Total current liabilities14,12013,070Long-term debt12,5886,658Long-term portion of contingent liabilities1,24460Capital lease obligations2863Other long-term liabilities130166Total non-current liabilities13,9906,947Total liabilities28,11020,017SHAREHOLDERS' EQUITYCumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectivelyJunior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectivelyCommon stock, par value \$.001 per share, 25,000,000 shares authorized; 17,421,719 and 17,310,7631717Additional paid-in capital116,062115,364Accumulated deficit(84,027)(86,050)Other accumulated comprehensive income(4)(5)Total shareholders' equity32,04829,326					
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Capital lease obligations 28 63 Other long-term liabilities 130 166 Total non-current liabilities 13,990 6,947 Total liabilities 28,110 20,017 SHAREHOLDERS' EQUITY Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively Common stock, par value \$.001 per share, 25,000,000 shares authorized; 17,421,719 and 17,310,763 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively 17 Additional paid-in capital 116,062 115,364 Accumulated deficit (84,027) (86,050) Other accumulated comprehensive income (4) (5) Total shareholders' equity 32,048 29,326	•				
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SHAREHOLDERS' EQUITY Cumulative preferred stock, par value \$.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively Common stock, par value \$.001 per share, 25,000,000 shares authorized; 17,421,719 and 17,310,763 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively 17 Additional paid-in capital Accumulated deficit (84,027) Other accumulated comprehensive income (4) (5) Total shareholders' equity					
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and outstanding at April 30, 2017 and July 31, 2016, respectively Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively Common stock, par value \$.001 per share, 25,000,000 shares authorized; 17,421,719 and 17,310,763 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively 17 Additional paid-in capital Accumulated deficit (84,027) Other accumulated comprehensive income (4) Total shareholders' equity 32,048 29,326					
Junior preferred stock, par value \$.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively Common stock, par value \$.001 per share, 25,000,000 shares authorized; 17,421,719 and 17,310,763 shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively 17 Additional paid-in capital Accumulated deficit Other accumulated comprehensive income 7 total shareholders' equity 1 to 17 1 (86,050) 1 (86,050) 1 (5) 1 (5)					
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shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively Additional paid-in capital Accumulated deficit Other accumulated comprehensive income Total shareholders' equity 17 18,062 115,364 (84,027) (86,050) (95) 70tal shareholders' equity 29,326			_		_
Additional paid-in capital 116,062 115,364 Accumulated deficit (84,027) (86,050) Other accumulated comprehensive income (4) (5) Total shareholders' equity 32,048 29,326					
Accumulated deficit (84,027) (86,050) Other accumulated comprehensive income (4) (5) Total shareholders' equity 32,048 29,326	shares issued and outstanding at April 30, 2017 and July 31, 2016, respectively		17		17
Other accumulated comprehensive income(4)(5)Total shareholders' equity32,04829,326	Additional paid-in capital		116,062		115,364
Total shareholders' equity 32,048 29,326	Accumulated deficit		(84,027)		(86,050)
	Other accumulated comprehensive income		(4)	_	(5)
Total liabilities and shareholders' equity \$ 60,158 \$ 49,343	Total shareholders' equity		32,048	_	29,326
	Total liabilities and shareholders' equity	\$	60,158	\$	49,343









ARI Network Services, Inc. Consolidated Statements of Cash Flows (Dollars in Thousands) (Unaudited)

(Onauaitea)						
	 Nine months ended April					
	 2017		2016			
Operating activities:						
Net income	\$ 2,023	\$	1,285			
Adjustments to reconcile net income to net cash provided by operating activities:						
Amortization of software products	1,783		1,571			
Amortization of deferred loan fees and imputed interest expense	59		34			
Depreciation and other amortization	2,057		1,800			
Gain on change in fair value of earn-out receivable and payable	-		(5)			
Provision for bad debt allowance	11		80			
Deferred income taxes	371		860			
Stock based compensation	476		316			
Net change in assets and liabilities:						
Trade receivables	(130)		(308)			
Work in process, prepaid expenses and other	(77)		(51)			
Accounts payable	59		(145)			
Deferred revenue	(425)		(252)			
Accrued payroll and related liabilities	608		342			
Accrued taxes and other accrued liabilities	217		16			
Net cash provided by operating activities	\$ 7,032	\$	5,543			
Investing activities:						
Purchase of equipment, software and leasehold improvements	(235)		(557)			
Cash paid for net assets related to acquisitions	(11,066)		-			
Cash paid for contingent liabilities related to acquisitions	(261)		(505)			
Software development costs capitalized	 (1,521)		(1,310)			
Net cash used in investing activities	\$ (13,083)	\$	(2,372)			
Financing activities:						
Payments on long-term debt	\$ (1,658)	\$	(912)			
Borrowings under long-term debt	8,081		-			
Payments of capital lease obligations	(38)		(165)			
Proceeds from exercise of common stock options and warrants	 117		66			
Net cash provided by (used in) financing activities	\$ 6,502	\$	(1,011)			
Effect of foreign currency exchange rate changes on cash	 (14)		(4)			
Net change in cash and cash equivalents	 437		2,156			
Cash and cash equivalents at beginning of period	5,118		2,284			
Cash and cash equivalents at end of period	\$ 5,555	\$	4,440			
Cash paid for interest	\$ 392	\$	338			
Cash paid for income taxes	\$ 106	\$	45			



ARI Network Services, Inc. Reconciliation of Non-Gaap Measures

Earnings before interest, taxes, depreciation and amortization (EBITDA) and Adjusted EBITDA for the three, nine and twelve months ended April 30, 2017 and 2016, respectively:

EBITDA:	F	FY2017 Q3		FY2016 Q3		FY2017 YTD		FY2016 YTD		FY2017 TTM	F	Y2016 TTM
Net Income (loss)	\$	\$ 1,425		448	\$	2,023	\$	1,285	\$	2,481	\$	1,653
Interest		200		118		526		350		636		463
Amortization of software products		633		531		1,783		1,571		2,320		2,034
Other depreciation and amortization		744		601		2,057		1,800		2,664		2,311
Loss on debt extinguishment		-		-		-		-		-		-
Loss on FMV of Warrant Derivatives		-		-		-		-		-		-
Loss on impairment of long-lived assets		-		-		-		-		-		-
Income taxes		(129)		368		389		972		768		1,177
EBITDA	\$	2,873	\$	2,066	\$	6,778	\$	5,978	\$	8,869	\$	7,638
Stock-based compensation		153		113		476		316		587		457
Adjusted EBITDA	\$	3,026	\$	2,179	\$	7,254	\$	6,294	\$	9,456	\$	8,095

Earnings before interest, taxes, depreciation and amortization (EBITDA) and Adjusted EBITDA for the following fiscal quarters:

•	4	/30/17 Q3			10/31/16 Q1		7/31/16 Q4		4/30/16 Q3		1/31/16 Q2		10/31/15 Q1		7,	/31/15 Q4
Quarterly:		2017		2017		2017		2016		2016		2016		2016		2015
Net Income (loss)	\$	1,425	\$	242	\$	356	\$	458	\$	448	\$	448	\$	389	\$	368
Interest		200		218		108		110		118		120		112		113
Amortization of software products		633		628		522		537		531		544		496		463
Other depreciation and amortization		744		738		575		607		601		590		609		511
Loss on debt extinguishment		-		-		-		-		-		-		-		-
Loss on FMV of Warrant Derivatives		-		-		-		-		-		-		-		-
Loss on impairment of long-lived assets		-		-		-		-		-		-		-		-
Income taxes		(129)		213		305		379		368		305		299		205
EBITDA	\$	2,873	\$	2,039	\$	1,866	\$	2,091	\$	2,066	\$	2,007	\$	1,905	\$	1,660
Stock-based compensation		153		174		149		111		113		88		115		141
Adjusted EBITDA	\$	3,026	\$	2,213	\$	2,015	\$	2,202	\$	2,179	\$	2,095	\$	2,020	\$	1,801
Trailing Twelve Months (TTM):																
Net Income (loss)	\$	2,481	`	1,504	\$	1,710	\$	1,743	\$	1,653	\$	1,544	\$	1,356	\$	1,071
Interest		636		554		456		460		463		468		488		465
Amortization of software products		2,320		2,218		2,134		2,108		2,034		1,961		1,970		2,023
Other depreciation and amortization		2,664		2,521		2,373		2,407		2,311		2,175		1,993		1,756
Loss on debt extinguishment		-		-		-		-		-		-		-		-
Loss on FMV of Warrant Derivatives		-		-		-		-		-		-		-		-
Loss on impairment of long-lived assets		-		-		-		-		-		-		-		-
Income taxes		768		1,265		1,357		1,351		1,177		1,052		1,021		811
EBITDA	\$	8,869	\$	8,062	\$	8,030	\$	8,069	\$	7,638	\$	7,200	\$	6,828	\$	6,126
Stock-based compensation		587		547		461		427		457		439		458		446
Adjusted EBITDA	\$	9,456	\$	8,609	\$	8,491	\$	8,496	\$	8,095	\$	7,639	\$	7,286	\$	6,572

