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Majesco

Fiscal 2016 Third Quarter Conference Call

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Josh Seide, *Maxim Group*

Bill Chapman, *Morgan Stanley*

Michael Potter, *Monarch Capital Group*

PRESENTATION

Operator:

Good day and welcome to the Majesco Fiscal 2016 Third Quarter Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over Mr. Andrew Berger. Please go ahead.

Andrew Berger:

Thank you, Jennifer, and good morning to everybody. A complete disclosure of our results can be found in our press release issued yesterday as well as in our files and published presentation covering our business model in our Investors section on our website at majesco.com. As a reminder, today's call is being recorded and a replay will be available on our website shortly after the conclusion of the call.

During today's call, we will make statements related to our business that may be considered forward-looking under Federal Securities Law. These statements reflect our views only as of today and should not be reflected upon as representing our views as of any subsequent date. We disclaim any obligation to update any forward-looking statements or outlook. These statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from expectations.

At times, in our prepared comments or responses to your questions, we may offer incremental metrics to provide greater insight into the dynamics of our business or our quarterly results. Please be advised that this additional detail may be one-time in nature, and we may or may not provide any update in the future. Also during the course of today's call, we will refer to certain non-GAAP financial results. A reconciliation schedule showing GAAP versus non-GAAP results has been provided in our press release that was issued after the market close.

Hosting the call today, are Ketan Mehta, Majesco's CEO and Co-Founder, Farid Kazani, CFO and Treasurer, and Ann Massey, Senior Vice President, Finance. At this time, I will turn the call over to Ketan. Ketan?

Ketan Mehta:

Thank you, Stan. Good morning everyone and welcome to Majesco's third quarter 2016 conference call. I am pleased with the continued momentum of Majesco business and steady progress towards the execution of our strategy outlined around market penetration, investment in our solutions and platforms, planned successes, and strategic focus on our cloud business. I am encouraged by our revenue growth in the third quarter which increased 37% compared to the same quarter last year, and is up 5% compared to the second quarter of this year, while our order backlog grew 16% sequentially.

I would like to start my discussion today with an update on the insurance industry. Regardless of recent global economic concerns, we believe that insurance is a stable business and technology-driven business transformation continues to remain a high priority and important strategic initiative for insurers.

Late last year the Majesco Team undertook a primary research initiative that surveyed our client base focusing on the key strategic initiatives this year and over the next three years. The survey demonstrated the importance of customer-driven business solutions from core systems to digital capabilities, the barriers to grow due to legacy systems, and the risk of potential disruption of business models from new technology, new competition and customer expectations.

Our customers clearly recognize these key areas and the critical requirement for agility, innovation and speed. This insight, guides our product investments and reinforces our focus on partnering with our customers through their entire business transformation journey.

In addition to the established insurers, we continue to see the emerging new start ups and greenfield operations from new or established insurance companies seeking to capture additional market opportunities. I will give examples of this trend we noticed during the quarter.

Let me start with the new business wins. We have four new logs wins and many current customers expanded their relationship with Majesco. Our success during the quarter was across all tiers of insurers.

Let me give examples across all tiers of the insurers. To start with I'll cover the Tier 1 insurers. Two Tier 1 insurers expanded their relationship with Majesco to cover additional business divisions and lines of business, and this includes one among to top 10 US P&C insurers carrier who decided to implement Majesco billing for their commercial lines of business.

For the mid market segment, we announced that Maine Mutual Group selected Majesco P&C suite to replace their core system as a foundation to transform their business. Furthermore, they selected Majesco Business Analytics to provider their business intelligence and analytics platform. They deployed the entire solution portfolio on Majesco Cloud.

In addition, two existing mid-market clients extended their relationship with Majesco Application Development and Majesco Digital Connect solutions. Another mid-market insurer signed up to upgrade their Majesco billings platform

Within the start ups, a newly formed commercial insurance fronting provider selected Majesco Digital Services and Majesco Data Services for MDS partner portal and operational data store.

All of the above examples demonstrate that Majesco solutions are getting traction across all tiers as well as in established and newly formed entities in the insurance industry.

Looking at implementations during the quarter, a Tier 1 insurer went live with Majesco Digital Connect for their group membership association business. A mid-market insurer implemented Majesco Policy and Majesco Bureau and Content Services for their commercial auto and commercial general liability lines of business.

I am pleased to report Majesco extended its partnership ecosystem with Blueprint and Appulate providing integrated solutions with the Majesco software platform.

Finally, let me update on the progress of our investments. As we discussed throughout the year, we are focused on enhancing our capabilities and investing in our growth platforms. Our investment in both product R&D and SG&A went up by 68% compared to the three quarter period last year as we build a solid platform to scale the business for our growth plan. We strengthened our delivery capabilities with hiring of Tilakraj Panjabi as Executive Vice President, P&C Delivery, and Ajay Jain as Senior Vice President, Delivery Operations, both based out of our India Development Center.

We launched the Majesco Digital Connect Software Solution which offers a single platform with ready-to-deploy portal and mobile solutions for customers, agents, and alternative distribution channels, and group benefit employees. We are seeing great interest in this solution as it provides both a platform which is pre-integrated with Majesco Infrastructure but also integrates with other solutions to ensure a cohesive customer experience.

We also announced new releases for Majesco Distribution Management, Majesco P&C Suite and Majesco Policy for our Life and Annuity and Group. These new releases highlight our investment in our business based on the ambitious product road map.

To conclude, I am encouraged with our strategy and executions through the first three quarters. I am pleased with our continued growth momentum demonstrated by new wins, successful implementations, extended customer relationship, growing partner ecosystems, and additional product launches and new product releases. Our broad solution portfolio is supported by an exceptional workforce that continues to drive growth while expanding existing customer relationships.

During the first three quarters, Majesco expanded our revenue base by 40% compared to the last year. As a result of continued new deal wins, the 12-month backlog increased by 16.4% to close at $63 million. This year has shaped us well as a foundational year in line with our plan to achieve our goals, generating an annual revenue between $200 million to $225 million and EBITDA margins of 12% to 14% in fiscal year 2017/18.

Thank you. Now I turn it over to Farid.

Farid Kazani:

Thank you, Ketan. Let me begin the update on the financials with the revenue for the quarter.

Revenue for the third quarter ended 31 December 2015 increased 37.1% to $29.6 million as compared to $21.6 million in the corresponding quarter of last year. On a sequential quarter basis, revenues increased 5% in dollar terms and 5.3% in constant currency compared to $28.2 million during the previous quarter ended 30 September 2015. The growth was primarily driven by good momentum in the P&C and new customer wins as Ketan elaborated earlier. The revenue for the nine-month period ended 31 December 2015 increased 40.7% to $81 million as compared to $57.6 million in the corresponding nine-month period last year.

Turning on to profitability. During the quarter ended 31 December 2015 the gross margins were lower by 1.9 percentage points as compared to corresponding quarter last year. Also 1.7% lower as compared to the fiscal 2016 second quarter. This was primarily due to the following.

We had an increase in the salaries and wages which were effective October 2015 for middle and senior level employees impacting the margins by approximately 0.8%, and we had a one-time cost (inaudible) due to India Government's notification on the Payment of Bonus Act of payment of statutory bonus to employees with effect from 1 April 2014, impacting margins by 0.6%.

Adjusted EBITDA for the third quarter ended 31 December 2015 was negative $1.1 million or negative 3.65% of the revenue compared to a positive $2.8 million or 13% of revenue during the corresponding quarter ended 31 December 2014. The lower Adjusted EBITDA was due to significant investments in the following. The product R&D expenses were at $4.2 million in the quarter which was 14.3% of revenue; the third quarter ended December 2015 as compared to $2.4 million which was 10.9% of revenue during the quarter ended December 31, 2014 as we have invested in expanding our product offerings in the P&C for the Policy Admin and Claims programs, and in the license annuities for the policy and group billing areas.

Please note that the Company has the policy of expensing out all of the product spends in the profit and loss account.

Second, the SG&A was at $9.6 million which is 34.7% during the third quarter ended December 31, 2015 as compared to $4.6 million which is 21.1% during the quarter ended 31 December 2014 due to increased level of sales and marketing efforts with additions of client partners, spends in marketing areas, in brand building and other efforts. The quarter also includes increased cost of the Annual Customer Conference that was held in October 2015 and the on-boarding cost of outsource staff of Cover-All in India.

For the nine-month period ending December 31, 2015 gross margins were higher by 3.8% as compared to the corresponding nine-month period last year due to the overall growth in both the P&C and Life and Annuity segment.

Adjusted EBITDA for the nine-month period ended 31 December 2015 was $0.2 million which was 0.2% of revenue as compared to $1.7 million which was 3% of revenue during the corresponding period ended 31 December 2014, down 2.8 percentage points. So while our revenues increased 40.7% during the nine-month period as compared to the last corresponding period, the investments in product R&D and SG&A are significantly higher by 68%.

Net loss for the quarter ended 31 December 2015 was $1.1 million or $0.03 per share as compared to a net income of $1.4 million or $0.04 per share for the quarter ended 31 December 2014. Net loss for the nine-month period ended 31 December 2015 was $2 million which was negative $0.06 per share as compared to a net income $0.3 million or $0.01 per share for the corresponding nine-month period ended 31 December 2014.

From a geographic standpoint, North America, the UK, and APAC represented 87.9%, 8.1%, and 4%, respectively, of the total revenue as compared to 81.9%, 8.7%, and 9.4%, respectively, for the same period last year.

The P&C business represented 79% of the revenue, Life and Annuity represented 17.9%, and the non-insurance business was 3.1% for the nine-month period ended 31 December 2015 as compared to 74.4%, 19.7%, and 5.9%, respectively, in the corresponding period last year.

On a contractual basis, 7.3% was the license revenues, 60.9% came from implementation and professional services including consulting, 17.6% was from Cloud, ASP and implementation services, and 14.2% was with respect to the support and maintenance revenue, as compared to 11.4%, 52.2%, 23.2%, and 13.3% for the corresponding services in the same period last fiscal year.

In terms of client concentration, the top customer represented 9% of the revenue, while the top five constituted approximately 26%, and top 10 constituted 40.2% for the revenue in the nine-month period.

The order backlog which we signed and executable in the next 12 months was up at $63 million as of 31 December 2015 as compared to 54.1% in the previous quarter ended 30 September 2015. The increase by 16.4% is due to signing of four new deals and expansion of existing customer relationships.

Overall, the sales pipeline has shown a healthy momentum in both the P&C and L&A as compared with the start of the year.

Quickly turning to the balance sheet items, cash and cash equivalent as of 31 December 2015 was $9.7 million as compared to $5.9 million as of 30 September 2015. Total debt as of 31 December 2015 was $12 million as compared to $9.7 million as of 30 September 2015. Therefore, the net debt position has reduced by $1.5 million to $2.3 million as of 31 December 2015.

The accounts receivable as of 31 December 2015 was steady at $13.8 million as compared to $13.4 million at the end of the previous quarter. The total days sales outstanding also stood steady at 62 days.

Total employee headcount for Majesco stood at 2133 as of 31 December 2015 as compared to 2062 as of 30 September 2015.

With that, Ketan and I would like to open the call for the questions.

Operator:

If you like to ask a question on today's call, that is star, one on your telephone keypad. We'll go first to Brian Kinstlinger with Maxim.

Josh Seide:

Hi everyone. This is Josh Seide in for Brian Kintslinger. You recently announced some upgrades to the P&C platform. Would you mind just highlighting a few of the upgrades that were made and comment on how they improve competitive positioning?

Ketan Mehta:

Okay. So as you said, we continue to invest in making our P&C platform robust. We announced the upgrades across the board in our P&C Suite, Policy Admin Systems, Billing as well as Claims modules. These upgrades are made in line of our product roadmap and which include enhanced functionality, enhanced customer experience. In addition, we also integrated our P&C solutions with the Cover-All suite as part of our integration roadmap and also integrated some of the solutions with our Business Analytics platform as well as the Digital Connect platform.

Josh Seide:

Great, and would you also mind commenting on the salesforce headcount? Can you quantify the number of salesforce heads added during the quarter, and also on your expectations for hiring sales people over the next few quarters?

Ketan Mehta:

Yes. So the total of sales team which includes the client partners, the sales heads and the account management and free sales folks was a total of 72 at the end of the quarter ended 31 December. Roughly 59 of them are in North America and the rest in the UK and Asia-Pacific. In this quarter we've added roughly three people in the sales and clients partner.

Josh Seide:

Great, thank you. Could you talk about how many of your recent wins were delivered in the Cloud and was the Cloud offering a main factor in the customers' decisions?

Ketan Mehta:

Yes. So the deal which I talked about at Maine Mutual is on the Cloud platform and that's why Overall Suite solutions including our Business Analytics and Business Analytics platform as well. Now clearly Cloud was an attractive part of their decision making process and they see value in the Cloud business model. So we increasingly find interest in the Cloud offering, not only in the mid-market but also some of the greenfield operations which we talked about.

Josh Seide:

Great. Also, would you mind just discussing deal size of recent wins?

Ketan Mehta:

No, we're not allowed to give the size of the deals. We've given qualitative feel of the kind of—type of deal and what are the constituents of the deal. I think you know we will have to refrain from giving the size.

Josh Seide:

Sure, okay. One last one for me. Could you just help us quantify the pipeline a bit and talk about maybe how many deals are in the advanced stages of bidding or maybe average deal size of those deals that are still in the pipeline?

Ketan Mehta:

So again here we would not be able to give the quantum of the pipeline again for competitive reasons but I can only give you a flavor of improvement in the pipeline as compared to the start of the year. Within the nine months we have seen close to a 50% rise in our pipeline and the quality of that have improved significantly. There have been deals both on the P&C and L&A. The size of the deals also have improved and we are seeing deals in terms of within P&C of the entire suite of offerings and some of them on Cloud.

Josh Seide:

Great. Thank you.

Operator:

As a reminder, that is star, one for questions. At this time there are no further questions.

We do have another question queued up. We'll go next to Bill Chapman with Morgan Stanley.

Bill Chapman:

Yes. Good morning everyone. Ketan could you explain more about this bonus expense that you mentioned that was enacted. Explain how that works, please.

Ketan Mehta:

Yes. Good morning, Bill. I think Farid will explain that (inaudible).

Farid Kazani:

Okay. There is a statutory requirement in India to pay a component of the salary as compulsory bonus to employees in the lower level or the lower levels of management up to a particular salary. The government was looking at enhancing this minimum limit for payment of this bonus to employees and this was under discussions for a couple of years.

The Government has issued a notification on 31 December 2015 enhancing the salary limit where employees were earlier earning 10,000 rupees a month, now employees up to 21,000 rupees a month will eligible for this statutory bonus, and even the quantum of bonus to be paid to them has increased.

The issue that happened was while we were expecting that whenever the notification comes out, the payment would be applicable going forward. Unfortunately, this law which got passed is impacting retrospective with effect from 1 April 2014, which is why we will have to kind of provide for the past period of almost 19 months and that is an approximate impact of around 0.6% to the gross margins as of now.

Bill Chapman:

Okay. Thank you very much.

Ketan Mehta:

Thank you, Bill.

Operator:

We will go next to Michael Potter with Monarch Capital Group.

Michael Potter:

Hey, guys. Congratulations on a very good year. Obviously, a lot of moving parts and we appreciate the effort on increasing the communication with the Investors. To that end, the first questioner asked about the traction on the Cloud initiative and the deals that we had signed I guess that are cloud-based and that are in the pipeline. It would be very helpful if you can give us a little bit more information, since that is such a large initiative for this Company, where we stand with our cloud initiative?

Ketan Mehta:

Absolutely, Michael. We do recognize that our cloud initiative is getting far more traction this year, especially the overall cloud business model which entails that the customer would not make an upfront investment but in a model where they will pay-as-they-go is getting important. Other thing is a quick time-to-market and we find increasing tendency of the customers to use, the ready-to content and offer to implement their solutions sooner. So the speed-to-market is becoming more and more important driver for many of the insurers. Because of these reasons, we find across the board higher interest in the cloud solution. As we mentioned before, the Maine Mutual deal on the entire, our P&C suite, is based on cloud and as they look at our pipeline moving forward, we find increasing traction. More and more deals are covered under the cloud solutions.

So we are very excited about our offerings on cloud. We clearly have a strong track record. We have more than 30 customers on cloud which differentiates us than many other providers in the space, and we do see that as a strong growth driver for us moving forward.

Michael Potter:

So we have—we have over 30 customers now with our cloud—using our Cloud initiative?

Ketan Mehta:

Exactly. That's correct.

Michael Potter:

That's terrific. I think that's a number that you want to emphasize.

Ketan Mehta:

Right.

Michael Potter:

Alright. Thanks guys.

Ketan Mehta:

Thank you, Mike.

Operator:

At this time there are no further questions.

Andrew Berger:

We want to thank you for joining our call today and your interest in Majesco, and Management looks forward to updating you on our progress when we release our fiscal 2016 fourth quarter results in May. Thank you.

Ketan Mehta:

Thank you.

Operator:

This does conclude today's conference. Thank you for your participation.