Majesco

Fiscal 2016 Fourth Quarter Conference Call

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C O R P O R A T E   P A R T I C I P A N T S

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C O N F E R E N C E   C A L L   P A R T I C I P A N T S

Josh Seide, *Maxim Group*

P R E S E N T A T I O N

Operator:

Good day and welcome to the Majesco Fiscal 2016 Fourth Quarter Conference Call. Today's conference is being recorded and at this time, I would like to turn the conference over to Andrew Berger, Investor Relations. Please go ahead.

Andrew Berger:

Thank you, Matt, and good afternoon to you all. A complete disclosure of our results can be found in our press release issued this afternoon. As a reminder, today's call is being recorded and a replay will be available on our website shortly after the conclusion of this call.

During today's call, we will make statements related to our business that may be considered forward-looking under Federal Securities laws. 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 objects—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 an update in the future.

Also, during the course of today's call, we will refer to certain non-GAAP financial measures. A reconciliation schedule showing GAAP versus non-GAAP results have been provided in our press release that we issued today after the market closed.

Hosting the call today are Ketan Mehta, Majesco's CEO and Co-Founder; and Farid Kazani, CFO and Treasurer; and Ann Massey, Senior Vice President, Finance.

At this time, I'll turn the call over to Ketan.

Ketan Mehta:

Thank you, Andy. Good evening everyone and welcome to Majesco's fourth quarter and our first fiscal year-end 2016 conference call. I appreciate your interest in Majesco. I am pleased with our fourth quarter and fiscal 2016 results across all key parameters' indicators which have created a solid foundation and path to scale our business. When we had our inaugural call in August 2015, I outlined two key priorities for the year; first, our focus on the market penetration including the order backlog improvement; and second, our aggressive investment in R&D and sales and marketing to create a strong foundation to scale our business. I am encouraged by our growth momentum which includes 43% increase in revenue, 47% increase in order backlog, and addition of 17 new logos during the year. Our fourth quarter revenue increased 9% compared to the third quarter, highlighting our growth momentum.

I'll give examples of this trend relative to our client successes. We had three new logo wins for the fourth quarter, bringing the total to 70 new customer wins for the year that contributed to a year-end customer total count of 149 clients. In addition, we continued to see expanding relationships with our current customers. Our success during the quarter was across all tiers of insurers and the market segments that we are focused on. Let me give some examples for our client successes during the quarter, as well as during the annual 2016.

Hallmark Financial selected Majesco Policy for P&C as the strategic platform for their business. We also announced Maine Mutual Group who selected Majesco P&C Suite including our Policy, Billing and Claim solutions to transform their business and we deployed the entire solution portfolio on Majesco Cloud. In addition, Clear Blue Financial Holdings, a new startup insurer, selected Majesco Data Services and Majesco Digital Services for their portal and operational data store. Our successes also included expanding relationship with Homesite to support their broadening product portfolio and geographical presence across the US. We had expansion of another Tier 1 insurer, highlighting the progress of our cross-sell strategy across the board. All the above examples demonstrate that Majesco solutions are getting traction across Tier 1, mid-market, as well newly formed entities in the insurance industry.

One of the measures we track our success is clients going live with our solutions. Throughout the year, 34 clients went live with Majesco solutions. This includes a Tier 1 insurer who went live with the Majesco DigitalConnect platform during last quarter. We are growing our partner ecosystems that expands Majesco capabilities and strengthens our Cloud business platform for existing and new startup insurers. This includes Splice software, Business Agility and Elagy which we added in our partner ecosystem during the quarter.

Now, let me update on the progress of our investment. Our investment in both product R&D and SG&A went up by 74% compared to the same annual period last year. In this period, our revenue grew by 43%. This was a planned investment to build a platform (inaudible) business and increase the market penetration for our growth plan. We strengthened our delivery capabilities with the hiring of two senior delivery leaders in our India operation, Tilakraj Panjabi as Executive Vice President, P&C Delivery and Ajay Jain as Senior Vice President, Delivery Operations.

We announced the release of Majesco Testing Services that includes strategic test consulting, functional and non-functional testing, and digital testing based on strong growing interest in pre, during, and post implementation of core systems. I continue to be upbeat about the impact of technology and transformation initiative for insurance carriers. In February 2016, the Majesco Team undertook a research initiative that assessed the growth (phon) array of factors that are poised to disrupt the insurance industry and are intensifying the need for modern technology adoption. The research categorized the factors into three key areas of people, technology, and market boundaries, which are also converging with a shift into the digital edge.

Our clients clearly recognize the shift and the need for modern technology to help them transform their existing business to position them to compete and also leverage our cloud business platform to help with a new startup, or to incubate and test new products and services. Both areas are critical for our customers to uniquely build their business to enable agility, innovation and speed in this new feature. The market reaction for this insight reinforced our view that we are differentiating ourselves from others in the marketplace by focusing our efforts on partnering with customers through their entire business transformation journey, both their legacy and the new business model transformation.

During the year, we also successfully integrated Cover-All and Agile Team into Majesco operations. The combined Team had number of joint successes working together.

To conclude, I am pleased with our strategy and first year results; our continued growth momentum demonstrated by 17 new wins, 34 successful implementations, expanded client relationships, a growing partner ecosystem, and new product launches and product releases. Our robust software portfolio depth and breadth of offerings, industry leading cloud solutions underpin our client centric business, is resonating in the industry from Tier 1 to mid-market and Greenfield and startup. Our broad solution portfolio is supported by an exceptional workforce that continues to drive growth while expanding existing client relationships.

Fiscal 2016 shaped up well. As the foundational, we are in line with our plan to achieve our goals: generating annual revenue of between $200 million to $225 million and EBITDA margins of 12% to 14% in fiscal 2017-18.

Finally, tomorrow, we are hosting our inaugural Investor Day in Waldorf Astoria in New York. I look forward to meeting with everyone who plans to attend this event. It will be a valuable day focused on covering our exciting growth outlook and compelling industry dynamic. This will also include customer panels as well as presentation from our Leadership Team. For those who are not able to attend, I'll encourage you to listen to the webcast of the event which will be available on our Investor Relationship website.

Now, I will turn the call over to Farid to discuss the financial drivers for the quarter and the year.

Farid Kazani:

Thank you, Ketan, and good afternoon to all of you on the call. Let me begin with summarizing the revenue for the quarter. The revenue for the fourth quarter ended 31 March 2016 increased 48.8% to $32.3 million as compared to $21.7 million in the corresponding quarter of last year. On a sequential quarter basis, revenues actually increased 9.1% in dollar terms and 9.8% in constant currency terms, compared to the $29.6 million which we achieved in the previous quarter ended 31 December 2015. The growth during the quarter was driven primarily due to good momentum in the P&C and L&A business.

The revenues for the 12-month period ended 31 March 2016 increased 42.9% to $113.3 million as compared to $79.3 million in the corresponding 12-month period last year. While the organic growth was 10.7% for 2016, the overall growth was due to the acquisition of Cover-All yielding nine months' revenue of $17.6 million for FY16 and the full year impact of Agile Technologies.

Turning on to expense and profitability. For the quarter ended 31 March 2016, the gross margins were 44.7%. The quarter-over-quarter increase of 12.2 percentage points was primarily due to the overall increase in revenue and a favorable mix of higher margin businesses and there was a reversal of an accrued revenue that happened in the fourth quarter of fiscal 2015. Gross margins were also higher by 2.3 percentage points as compared to the fiscal 2016 (phon) third quarter.

For the 12-month period ended 31 March 2016, gross margins ended at 44.5%, higher by 6 percentage points as compared to the previous full year. This was primarily due to the higher (inaudible) of revenue as mentioned in P&C and in the Life & Annuity.

Fiscal '16 had planned expenditures in both the SG&A and product R&D. For the 12-month period, SG&A increased by 81.9% as compared to the previous year, but as the product R&D expenses were higher by 57.3% during the similar period. The SG&A expenditure for fiscal 2016 ended at 33.7% of revenues as compared to 26.5% during the fiscal 2015. The increased spends were focused on building the Sales Team in North America whereas marketing spends were incurred to create the new Majesco brand, messaging the Majesco value proposition in the industry, creation of the website for active PR with media and other communication strategies to benefit the new Majesco brand.

The product R&D expenses for fiscal 2016 ended at 14.4% of revenue as compared to 13% during the fiscal 2015. The spends were incurred in releasing a strong product roadmap in both the P&C and L&A businesses and also enhancing offerings around the Data and Digital suite. Please note that the Company has a policy of expensing out all our R&D costs through our P&L.

The Adjusted EBITDA for the fourth quarter ended 31 March 2016 was $0.4 million or 1.3% of revenue as compared to $1.3 million or 5.8% of revenue during the quarter ended 31 March 2015. Adjusted EBITDA for the full year fiscal 2016 was $0.6 million or 0.52% of revenue as compared to $3 million or 3.8% of revenue during the fiscal year 2015, down 3.3 percentage points. So while our revenue increased by 42.9% during the full year fiscal 2016 as compared to the last year, the investments in product development and SG&A were higher, significantly higher by 74%.

Net loss for the fourth quarter ended 31 March 2016 was $1.5 million or negative $0.04 per share as compared to a net loss of $0.9 million or negative $0.03 per share for the quarter ended 31 March 2015. Net loss for the fiscal year ended 31 March 2016 was $3.6 million or $0.10 per share as compared to a net loss of $0.7 million or $0.02 per share for the corresponding fiscal year 31 March 2015.

From a geographic standpoint, the revenues for North America, the UK and the APAC region represented 88.6%, 7.9%, and 3.5% respectively of the total revenues, as compared to 80.4%, 8.6% and 9% respectively for the same period in the last fiscal. P&C represented 79.2% of revenues, Life & Annuities represented 17.8%, and the Non-Insurance was lower at 3% for the fiscal year 2016 as compared to 75.7%, 17.7%, and 6.6% respectively in the corresponding period last year. On a Contractual basis, 6.7% was accounted for licensed revenue, 61% for implementation and professional services including consulting work, 17.7% for cloud ESP (phon) and implementation, 14.6% for support and maintenance, as compared to 10.3%, 51.1%, 24%, 14.6% respectively for the corresponding services in the same period last fiscal year.

In terms of client concentration, the top customer in this year represented 10.2% of revenue while the top five constituted 26.5% and the top 10 customers constituted 40.7% of fiscal year 2016 as compared to 8.7%, 30.9%, and 46.3% for the last fiscal 2015.

The order backlog which was signed and executable in the next 12 months, ended at $71.9 million as of 31 March 2016 as compared to $63 million in the previous quarter ended 31 March 2015. This increase by 14.1% due to signing of three new deals and expansion of existing customer relationships has also increased 47% on a year-to-year basis from the start of the year.

Quickly turning on to the balance sheet; cash and cash equivalents as of 31 March 2016 was $6.2 million as compared to $9.7 million as of December 2015, as compared to $6.3 million as of 31 March 2015.

Total debt as of 31 March 2016 was $13.8 million as compared to $12 million in the previous quarter ended December 30, 2015 and $4.5 million as at 31 March 2015. Higher debt was (inaudible) India, increased working capital requirements to support higher growth and a cap ex of approximately $3 million.

Accounts receivable as of 31 March 2016 were at $22.5 million as compared to $13.8 million at the end of the previous quarter.

The DSOs as of 31 March 2016 were higher at 84 days primarily on account of billings to clients due to milestone (inaudible) that happened at the end of 2015 (phon).

The employee headcount for Majesco stood at 2,346 as of 31 March 2016 as compared to 2,133 as of 31 December 2015.

Overall, the Company has met the year-long stated objective of supporting the business growth and planned investments in R&D and SG&A, and the financials are reflective of a strong order backlog and revenue growth. FY17 will focus on a strong organic revenue growth and expansion margin.

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

Operator:

Ladies and gentlemen, if you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are on a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is star, one for questions.

At this time, we'll take a question from Brian Kinstlinger with Maxim Group.

Josh Seide:

Hi, this is actually Josh Seide here for Brian. Thanks for taking the questions.

Ketan Mehta:

Thanks Brian.

Josh Seide:

Okay. Can you a talk a bit about how many wins or contract expansions in the quarter were driven by cloud and whether cloud remains a key factor in client decision-making and then could you also maybe give us an update on the total number of cloud customers that you had at the end of fiscal 2016?

Ketan Mehta:

As mentioned, the cloud revenue now constitutes in the fiscal year 2016 at 17.7% and that is a total of 30 customers that are there are on cloud, and cloud does remain our prominent segment and we see that as a growing area.

Josh Seide:

I am sorry, you said 30 customers?

Ketan Mehta:

Thirty customers.

Josh Seide:

Great. Thank you and would you also mind commenting on the sales force headcount and can you quantify the number of sales force heads added and then maybe give your expectations of sales hiring over the next few quarters.

Ketan Mehta:

Our total sales headcount across the globe which includes client partners, sales (inaudible), pre-sales, account management and marketing put together are total 73 as of today. We have added a few people in this quarter so as you would see that there has been an increase in SG&A expenses while the previous quarter was—SG&A expenses were higher due to the Annual Conference but we have now fully staffed our sales force. We do expect some bit of hiring to happen in the Asia-Pacific because that's a market that we would see some growth, otherwise I think we are pretty much staffed.

Josh Seide:

Okay. Thanks, that's helpful, and then of the overall pipeline, can you give us a sense of how much of the overall pipeline is maybe for Tier 1s versus Tier 2s and smaller carriers as well as startups?

Ketan Mehta:

We don't have the breakup of that, Josh, on the pipeline, in that manner right now.

Josh Seide:

Okay, no worries. Thanks for the questions.

Ketan Mehta:

Thank you.

Operator:

Again, that was star, one for questions and we have nothing further in the queue. I'll turn things back over to the Management for additional remarks.

Ladies and gentlemen, that does conclude today's conference call. Thank you all for your participation.

Ketan Mehta:

Thank you.

Farid Kazani:

Thank you.