Majesco

Fiscal 2017 First 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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P R E S E N T A T I O N

Operator:

Good day, everyone, and welcome to today's Majesco Fiscal 2017 First Quarter Conference Call. Just as a reminder, today's call is being recorded.

At this time, I would now like to turn the call over to Mr. Andrew Berger, Investor Relations. Please go ahead, Sir.

Andrew Berger

Thank you, Sarah, and good afternoon to you all. A complete disclosure of our results can be found in our press release that was 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 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 object—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 has been provided in our press release that was 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; as well as Ann Massey, Senior Vice President of Finance. At this time I'll turn the call over to Ketan. Ketan, go ahead.

Ketan Mehta:

Thank you, Andy. Good afternoon, everyone and welcome to Majesco's Fiscal 2017 First Quarter Conference Call. I'm pleased with our first quarter results, which was the fourth consecutive quarter of revenue growth reported year-over-year. Revenues increased 40.5% in the fiscal 2017 first quarter as a result of adding CoverAll to our business as well as our growth strategy of cross-selling new services and expanding relationships to our existing customers.

Let me start with some outline of our operating highlights during the last quarter, or during this quarter. We had three successful implementations of our products during the first fiscal 2017 first quarter. These include a Tier I group insurer in UK who went live with Majesco Policy for L&A Life and Annuity and Group, and a mid-market insurer who went live with Majesco Billing as the first phase of their transmission program.

In addition we had an existing insurer using Majesco P&C Fleet in the cloud expand into additional space. With each successful implementation we enhanced our brand and customer relationships. Several recent examples of our success enhancing customer relationship include the following; we enhanced our relationship with an existing Tier I insurer who has extended the use of Majesco Billing for their commercial line of business. We expanded our relationship with Homesite a Tier I insurer to support their broadening product portfolio and geographical presence in US on Majesco's Cloud platform with ready-to-use content including ISO ERC integrated content for their commercial line of business.

In addition we enhanced our relationship with Colorado Farm Bureau Mutual Insurance Company, a mid-market insurer who will upgrade Majesco Policy for P&C as its strategic enterprise platform. As we focus on our different market segments in particular I would note that we are working with six startup greenfield and incubator insurance carriers which we find as an exciting growth opportunity for us moving forward.

I'm particularly excited by our June 2016 release of Majesco CloudInsurer, an out-of-the-box repeatable, scalable cloud platform, which is designed to provide business platform with broad appeal to all insurers from greenfields, new startups and incubators to mid-market, MGS and tier I insurer. Recent industry research has indicated that Cloud is at the tipping point where more and more carriers are selecting cloud-based or hosted solutions as compared to the on-premise based solution. Our cloud offerings are well positioned to capitalize on this changing dynamic in the industry.

During the first quarter 18.4% of the revenues came from the cloud. Our Majesco CloudInsurer offering is uniquely positioned to help emerging carriers as a result of its scalable model, ready-to-use content and rapid launch and speed-to-value. As a key part of Majesco CloudInsurer offering is the Majesco partner ecosystem of partners, with solutions data and content which are pre-integrated and extend Majesco solutions to provide leading edge unique and innovative capabilities.

During the first quarter we added iSIGN and eGain to our partner network. As part of our strategy we invested significantly in R&D and SG&A last year to bid a foundation to enhance our growth. While we continue to make this investment, we expect to achieve benefits from our scale and resultant improvement in profitability.

Before I turn the call over to Farid, I want to remind everyone who has followed our industry or has formally involved with CoverAll that our business is characterized by a long and thorough sales cycle, a complex implementation environment as a part of modernization program. As a result, there is inherent volatility quarter-to-quarter in our sales, order book and deal flow which we expect will continue. I encourage Investors to evaluate us on trailing 12 months on full-year results which will eliminate some of this inherent volatility in our business model.

While we have seen improvement in the revenue and EBITDA margins in Q1, FY2017 we have witnessed a slowdown of one large program. Coupled with certain planned project completions this is likely to have an impact on the revenues in the immediate quarter. However the current opportunity pipeline is likely to see strong conversions in the second half of the year, leading to an overall strong growth for the year.

So to conclude, our robust software portfolio, depth and breadth of our offering, industry leading cloud solution underpin our client-centric business is resonating in the industry from Tier I to mid-market to greenfields and start-ups. Our broad solution portfolio is supported by an exceptional workforce that continues to drive growth while expanding existing client relationships.

Now I'll turn the call over to Farid to discuss the financial drivers for the quarter.

Farid Kazani:

Thank you, Ketan, and good afternoon to everyone on the call.

Let me begin with summarizing the revenue for the quarter, June 2016. The revenue for the first quarter ended June 30, 2016 increased 40.5% to $32.6 million, as compared to $23.2 million in the corresponding quarter of last year. The growth during the quarter was driven by the ongoing revenue growth in our P&C and Life business, with expanding relationship with our current customer base and the addition of CoverAll business that happened last year. On a sequential quarter base the revenues increased 0.8% as compared to $32.3 million achieved in the previous quarter ended March 31, 2016.

Turning to expenses and profitability, for the quarter ended June 30, 2016 gross margins were at 45.3%. The decrease in the gross margin as compared to the first quarter of the previous year was primarily due to the change in the revenue mix. However, on a sequential basis gross margins were higher by 0.6 percentage point as compared to the fiscal 2016 fourth quarter. The fiscal 2017 first quarter had planned expenditures in the SG&A and product R&D. For the fiscal 2017, the first quarter SG&A increased by 40.5% as compared to the first quarter of the previous year. The SG&A expenditure for the first quarter fiscal 2017 ended at 32.7% of revenues as compared to 32.8% during the first quarter of last fiscal 2016. The increase in the SG&A was primarily driven due to the planned expenses and sales and marketing efforts, besides the addition of CoverAll business.

Fiscal 2017 first quarter product R&D expenses were higher by 43.7%, as compared to the similar period of the previous year and were at 13.9% of the fiscal 2017 first quarter revenue as compared to 13.6% during the same period of fiscal 2016. The increase was mainly due to the addition of CoverAll business which happened last year. During the quarter the R&D programs were focused on executing our strong product roadmap in both the P&C and L&A business suite. It is important to note that the Company has been having a policy of expensing out all the R&D cost through its P&L.

The Adjusted EBITDA for the first quarter ended June 30, 2016 was at $1 million or 3.1% of revenue as compared to $1.2 million or 5.2% of revenue during the quarter ended June 2015. So while our revenues increased by 40.5% during the first quarter as compared to last year, the investments in product, R&D and SG&A were higher at about 41%.

Net loss for the quarter ended June 30, 2016 was at $0.6 million or a loss of $0.02 per share as compared to a net income of $82,000 or $0.00 per share for the same period last fiscal year.

From a geographic standpoint North America has seen an increase in the revenue primarily because of the addition of CoverAll in this quarter. The North America, UK and APAC regions represented 89.3%, 7.3% and 3.4% respectively of the total revenues as compared to 86.5%, 8.5% and 5% respectively for the same period in the last fiscal year.

P&C business represented 79.8% of revenues. The life and annuities represented 18.4% and the non-insurance business now has reduced to 1.8% for the quarter, fiscal 2017. The figures for the same period in the corresponding previous year were at 77.5%, 18.6% and 3.9% respectively.

On a contractual basis the license revenue contributed little over 3%, implementation revenue was at 62%, cloud and ASP was at 18.4% and the support and maintenance was at 16.7%. The similar figures for the same period last fiscal were at 8.9%, 62.4%, 18% and 10.7%.

In terms of client concentration the top customer in this year first quarter represented 11.4% of revenue, while the top five represented 28.5% and the top ten customers constituted 42.5% of the first quarter fiscal 2017 revenue, as compared to 5.8%, 23.6% and 37.8% for the same period in the fiscal 2016.

The order backlog, which is signed and executable in the next 12 months ended at $63.4 million as of June 30, 2016, as compared to $71.9 million as of 31 March, 2016 and $63.3 million in the quarter ended June 2015. The order book for the trailing 12 months period was at 152.8 billion as at June 30, 2016 as compared to $156.4 million as at 31 March, 2016.

Quickly turning on to the balance sheet, Majesco had a cash and cash equivalent of $14.9 million as of June 30, 2016, compared to $9.3 million as of June 30, 2015 and $6.2 million as of March 31, 2016. The total debt as of June 30, 2016 was at $17.7 million compared to $11.5 million as of June 30, 2015 and $13.8 million as of March 31, 2016.

The overall net debt position has reduced by $4.7 million as compared to the previous quarter due to improved collections during the first quarter of this fiscal 2017. The DSOs were down to 67 days at the end of Q1, FY2017 as compared to 84 days in the previous quarter ended Q4, 2016.

With that, Ketan and I would like to open the floor for questions. Thank you very much for listening to us.

Operator:

Thank you. To the audience, if have a question or comment today, please press star, then one on your touchtone phone. For those of you joining us today on speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, to the audience please press star, then one if you have a question or a comment today.

We'll go first to Mike Rindos of Aegis Capital.

Michael Rindos:

Thank you for taking my call. Can you hear me?

Operator

Yes, Sir. Please go ahead.

Michael Rindos:

Okay, fantastic. Just wanted to have you explain a little on your comment regarding a program slowdown with one of your customers, it's not like it's going to impact revenues, maybe related to supplier estimates for the fiscal second quarter, can you comment on that?

Ketan Mehta:

Yes, so Michael, it's difficult in many large modernization program where the program base is dependent on number of factors including the client's internal readiness. So we do see, in one of our program—the program is still going on. But the pace of execution is slower than what we expected and we would see some impact on the current bottom (phon).

Michael Rindos:

Any way we can quantitate or quantify the shift or the overall impact? I mean can you give us some detail perhaps on what the dollar amount was for the total contract and how that might shift over the quarter?

Farid Kazani:

Michael, unfortunately we will not be able to give you the impact because we don't give any specific guidance for the year in question. But as Ketan did mention that there are variabilities that happen in some programs. This one large program will have some variability. We'll see how the situation improves over the rest of the year and how it picks up. But overall as Ketan did mention we are confident of doing a good organic growth in this year.

Michael Rindos:

Okay. Can you comment on the pace of new business coming in? Are sales cycles lengthening as far as you can tell? Do you see any cautiousness or an increase in cautiousness on the part of customers?

Ketan Mehta:

No, we do not see any change in the sales cycle lengthening. But we do have a good pipeline build up. During the last quarter we added—we improved our pipeline. One thing which is noticeable is that we do find fair amount of new opportunities coming up on our cloud platform, and in fact as we look at our pipeline, most of 70% of the new opportunities are coming up on the cloud platform side. So we feel very encouraged because we have a strong competitive positioning in the Cloud segment.

Michael Rindos:

Okay. What about as far as penetration with Tier I insurers. Can you comment on the rate of new acquisition, new customer acquisitions there or at least the projects (phon) that you're working on. What that sort of segment of the market looks like?

Ketan Mehta:

Michael, as you know our solutions address all the segments of the market, including tier one to tier two to mid-market as well as the greenfield and startups. So I do not have anything specific to comment about the tier one market. It's typical that on the tier one segment we work closely with—from our system integrator partners, including Deloitte and IBM. We are looking at some opportunities emerging in that market. But it's part of our pipeline and hard to give a specific view at this point on that segment at this time.

Michael Rindos:

Okay. Yes, as it relates to expenses, as far as SG&A and R&D, should we expect to have any moderation or decrease in SG&A now the CoverAll situation is taking place? How we doing with the cost reductions and streamlining there?

Ketan Mehta:

So Michael we have planned expenditure both in the SG&A and in the product R&D. We would be seeing a good organic growth in the year. Overall, we anticipate that as a percentage to revenue growth the SG&A and the product R&D bucket will be much lower as a percentage as compared to last year. So we'll see how things shape up during the year with how the year ends and a possible kind of improvements in these two areas which will give us a leverage to, in the end to, see a much better margin overall for the year.

Michael Rindos:

Okay, fantastic. I appreciate the time.

Operator:

Once again to the audience it is star, then one for questions. Again please make sure your mute button is turned off to allow your signal to reach our equipment. We will pause for just a moment.

We'll go next to Hellmut Hameyer, a Private Investor. Please go ahead.

Hellmut Hameyer:

Hi, I have owned stock in this Company going back to when it was Warner Computer Systems. I started off owning a little bit more than 5% of the Company at that time. Since it's become CoverAll, I noticed that my percentage of ownership is down now to less than a quarter of 1%, and I haven't seen anything. All I've seen is that the stock is going nowhere. My ownership keeps getting diluted by you giving stock to everybody on earth, that's in your Company. Everybody is making good salary and the Shareholders are getting squat. I'd like to know if in my lifetime I'm going to see any profits in this Company that might be able to translate into a better stock price.

Ketan Mehta:

So really speaking I won't be able to answer the question in relation to your investment and the market cap of Majesco, because that is independent of how we look at our business. We feel pretty strong about the business that we are in, the market segment that we are addressing, the opportunities that are there for us, the development of our product roadmap, which we believe has got good market rating. We are rated as amongst the top three players. With the addition of CoverAll and Agile I think we've built a formidable business plate. We do believe that this is going to pan out over a period of next one or two years. We are optimistic how things will shape up.

So I would only suggest that you may need to have the patience of how we will shape the business, both in terms of the top line and profitability. I think then fundamentally when the business sees that uptick both in the revenue and on the EBITDA, turning positive and growing thereafter, you would see a better value for your investment. I will not be able to comment anything beyond that.

Hellmut Hameyer:

Will you and your executives be willing to bet on it, by placing your compensation, as—making your compensation as a result of your growth? Not a bonus for a super growth but a non-bonus for no growth in earnings, not in revenues, in earnings.

Ketan Mehta:

So you've been following the Company, the stock and the press release that we've been giving. We have the Senior Management Team having good portion of its compensation given as stock, which means stock options which typically—clearly signify the skin in the gain for the Management of Majesco, which they believe in the story of the insurance business that they are working towards. Clearly that, I think every member of the Management team is confident about building this business going forward.

Hellmut Hameyer:

Well, I'll tell you I'm very unhappy with where this is going. I keep hearing future, future, future. As the future comes I may die before anything happens. I've owned this stock since it was Warner back in 1984 when they went public. My CoverAll stock, which I had was, at some point they sold at $1.50, $1.70, $2 which was not great. But now your stock is selling at $5.50 which is the equivalent of a $1.10, $1.15 of CoverAll. It's going down. Maybe you should cut your expenses a bit and see what you can do with what you have.

Ketan Mehta:

So I think we will take your recommendations on board.

Hellmut Hameyer:

All right, fine.

Ketan Mehta:

Thank you.

Operator:

As a final reminder to the audience today it is star, then one for questions. We will pause for just another moment.

From Monarch Capital Group we'll go next to Michael Potter.

Michael Potter:

Hey, guys. Obviously there is a lot of frustration by the long time Shareholders in this Company. Want to ask kind of your perspective on what's going on in the market for stock since the Shareholders meeting or since the Analyst Day the Company had, I guess in the beginning of May. It was a good presentation, it was a terrific turnout. But since that time, the stock has kind of rolled over and not got a lot of its legs back under it again. Ketan, can you give us your perspective on what's going on and what's happening in the Indian market with our Parent Company?

Ketan Mehta:

So Michael, I will not be able to comment on the stock price. We obviously focus on the performance. As you have seen, from the time we had an Investor Meet, we had a strong quarter-over-quarter growth. As I said this is the fourth consecutive quarter where we have growth over the same quarter last year. We have shown Adjusted EBITDA positive results this quarter, and we are continuing to execute on our strategy of showing better growth and profitability.

Michael Potter:

Ketan, I'm sorry, I don't mean to cut you off, was that your answer?

Ketan Mehta:

Yes.

Michael Potter:

Okay, I do think that there needs to be – I mean you have Shareholders in this Company, you don't want to comment on the share price. But if we are a public Company at the end of the day and both, myself as the fiduciary from my Investors and you have individual Investors on this call and other institutions, you can understand where we could be concerned by the drop in value in the stock just in the past two or three months alone, especially coming off the Analyst Day back in May.

Ketan Mehta:

Yes, we recognize the concern.

Michael Potter:

So please, as our CEO, I'd like to hear your perspective on it.

Ketan Mehta:

So as the first perspective as I described Michael is the fact that we want to focus on the performance. I do recognize that in addition to performance and with the other factors which play in the stock price, but the area which we can control and make the most influence is the performance of the Company, which is where we are focusing on.

Michael Potter:

Okay. So what do you think is being lost by the Shareholders in this Company? What is it that we're not recognizing that we should be recognizing as Management unlocks value for the owners of the Company. Because clearly there is a disconnect here, right?

Ketan Mehta:

Yes, I do get the sense that we should as—in-line with our performance we should have better valuation. I do feel that, that should be the case. But as you know I don't control the market.

Michael Potter:

Okay. So what metrics should the Shareholders be focusing on that both the Executives and our Board of Directors are focusing on to determine that the Company is doing well and is on plan?

Ketan Mehta:

Sure. I think those are the metrics which we shared during the call. But primarily we focus on the growth, year-over-year growth, the profitability improvement, improvement in the order backlog and recurring revenue, some of the strategic initiatives like cloud, which really positions us for a stronger future growth positioning. These are some of the metrics which both the Board and the Management teams are focused on.

Michael Potter:

Okay, all right. The second part of my initial question was what is going on with, I guess our control Shareholder if you will. What is happening in regards to the Indian market?

Ketan Mehta:

What is the specific question about Indian market, I'm—?

Michael Potter:

Well our control Shareholder, my understanding, is looking to raise capital to then reinvest that money back in Majesco. Is that the case?

Ketan Mehta:

That's correct, yes. Yes, Michael. I remember speaking to you on this, that the parent Company is looking at a qualified institutional placement of raising funds in India under the Parent Group at an amount up to $37 million, which is typically going to be utilized towards funding the acquisitions of Majesco in the US. We obviously, with the current balance sheet size and the cash that is there on the balance sheet we cannot do any sizable acquisition. There are options for us to kind of raise money either in the US or in India under the parent.

At this point of time considering that the market valuations in the US itself are soft, it is not a conducive time for us to raise money in the US. We decided to kind of look at raising the funds in India under the Parent Company. We are under that process. It's going to take some time. Whenever we are through with that launch and the fund raise, we will keep the Shareholders informed. The funding obviously will go—with the funds will go towards capitalizing the US entity, which will typically be done at the market price whenever it happens.

Michael Potter:

Okay and what's been the hurdle for the Company in raising money in India? Because this has been an ongoing process now for several months. Obviously is this something that you look to have consummated within the next week or two, or is this going to continue to drag on for a few more months?

Ketan Mehta:

No, Michael, there is a process. So it goes through a rigorous process where there is a complete kind of work to be done in a building, just similar to how we have the S-1 in the US. There's a kind of document that is done for the private placement. Then there is a series of Investor meetings that are required to happen. At this stage since we have entered into a quiet period for the announcement of the result in Q2, we do expect that once we are done with the results of both the US Company as we have done today and the Parent Company that will happened in another week's time, we should be able to go back to seeing what are the interested—the Investor interest levels for giving us money at the Parent Company level and whether it is going to happen at the right size.

So again, as I mentioned this is something that we are working through. We will keep you updated as it progresses. So at this stage I cannot confirm the timing, but yes, it is not going to be an elongated process. There is going to be work to be done on it. Hopefully once we are done we'll keep you updated.

Michael Potter:

Okay, very good. Thank you.

Ketan Mehta:

Thank you, Michael.

Operator:

It appears there are no further questions at this time. I'd like to turn the conference back over to Mr. Mehta for closing remarks.

Ketan Mehta:

Thank you everyone for your interest in Majesco and for participating in the call today. We'll talk to you next quarter. Thank you.

Farid Kazani:

Thank you.

Operator:

Thank you, Mr. Mehta and that does conclude today's conference, and again we thank you all for joining us.