



**Majesco**

**Fiscal 2017 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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**Ketan Mehta**, *President and Chief Executive Officer*

**Farid Kazani**, *Chief Financial Officer and Treasurer*

## 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

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**Josh Seide**, *Maxim Group, LLC*

**Parag Bharambe**, *Private Investor*

**Russell Cleveland**, *RENN Capital*

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

### **Operator:**

Good day everyone and welcome to the Majesco Fiscal 2017 Fourth Quarter Conference Call. Today's conference is being recorded. At this time, I'd like to turn the call over to Andrew Berger, Investor Relations. Please go ahead, sir.

### **Andrew Berger:**

Thanks, Dana 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'll 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 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 and in 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 we issued today after the market closed.

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

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

**Ketan Mehta:**

Thank you, Andy. Good afternoon, everyone and welcome to Majesco's fiscal 2017, fourth quarter and full year conference call. Throughout fiscal 2017, we continued to transition our business from an on-premise business model to a cloud-based operating model. The impact of this transition on our revenue has been more impactful than what I expected. During the year, we've had 15 clients successfully go into production, which is a matter of great pride and accomplishment for our clients and us. However, as a result of this, our ongoing implementation revenue has decreased from \$13.8 million in the first quarter of this year to \$10.9 million in the fourth quarter of fiscal 2017. In a normal course for on-premise, the revenue from the new deal would replace this revenue stream. However, four of our last six new IT deals have been on the cloud platform.

For the cloud business, the revenue on from the implementation piece is smaller and the initial ramp-up of the revenue is slower compared to the on-premise model. However, cloud revenue provides a compelling higher-margin recurring revenue as we pick up and scale our cloud business. I will give example of two of our cloud clients.

For one client, the cloud subscription revenue increased from \$550,000 annually to \$1.6 million annually in two years. In another case, the revenue increased from \$800,000 to \$1.2 million in 2-year time. This transition is one of the main reasons we experienced growth of 7.5% in our topline in 2017. However, cloud-based revenue increased 17.3% from \$20.2 million to \$23.7 million during 12-month period, and we expect that this growth momentum will continue. We also expect to see improvement in non-cloud business as a result of additional demand for our data and digital solutions. As a result of the above factor, I expect to see growth in overall revenue starting in the second quarter of the new fiscal.

Let me share the progress we made during the quarter and the year in building a strong cloud business. As you are aware, we signed a partnership with IBM in October 2016 whereby IBM will offer Majesco software as a part of their insurance industry platform, which combines Majesco software with IBM cognitive capabilities offered on IBM cloud. The strategic relationship with IBM has successfully kicked-off the inception work with a Tier-1 insurer, specifically on a platform-as-a-service model. One new lowa-based multi-line carrier, ITM Group, selected Majesco Billing in the cloud during the fourth quarter. In addition, an existing Tier-1 customer expanded their direct business focus from commercial to personal property line on Majesco CloudInsurer.

As I talk to our clients and analysts in the industry, I see a clear trend towards speed-to-value, low upfront costs, and pay-as-you-grow model. This shift has increased the demand for cloud-based platform with ready-to-use content and pre-integration of solutions. Majesco is well-positioned to benefit from this trend. Our market-leading product, ongoing investment in Majesco CloudInsurer, and in our partner ecosystems, have created some very successful case studies demonstrating speed-to-value through our cloud platform.

Another area of growth is our value-added consulting services, supporting transformation, data, and digital needs of the market. A Tier-1 insurer selected Majesco as the strategic partner for the multi-year

modernization program where the insurer will liberate Majesco's enterprise consulting services and business transformation framework, application development management services, and technical reference architecture and testing services, with the automation test framework and testing repository to support the vision laid out by the company for their underwriting and policy platform.

I'm also pleased to share that our Tier-1 customer, New York Life, was recently selected as a salient model insurer for the digital and omnichannel category for their implementation of Majesco Digital Connect and Majesco Rating for their Group Membership Association Division, the largest direct marketer of life insurer in U.S. The New York Life Group Membership Association Division's partner with Majesco to develop a portal platform to manage multiple enrollment and application website for their insurance products. The new platform enables New York Life to quickly and reliably offer a vehicle for its client members to apply and enroll while providing the ability to modify each site for their specific business rules and content. This recognition further raises the profile of Majesco's Digital offerings in the market.

Throughout Fiscal 2017, we have focused on improving profitability by controlling expenses, increasing operating efficiencies, and aligning our cost structure to support long-term customer and sales growth. As a result, Majesco produced its first consecutive quarter of improving Adjusted EBITDA (inaudible) EBITDA during the Fiscal 2017, fourth quarter, which was 5.7% of revenue. For the full year, Adjusted EBITDA increased by 450 basis points, from 0.5% of revenue for the Fiscal year ended March 31, 2016, to 5% of revenue in the Fiscal year-end March 31, 2017. While profitability is an important focus of management, we remain committed to investing our SG&A and R&D activities that will support our cloud business plan.

To conclude, there is a fundamental market shift taking place in the industry where carriers are looking for low-risk and speed-to-value platform growth that provides an ability to innovate new products, reach new markets, create new customer experiences, and liberate different business models. We have a growing list of real-life case studies enabling our clients to innovate, grow, and transform their business model through our Majesco CloudInsurer platform from existing insurer transforming their businesses into new startup or Greenfield, backed by existing insurers or backed by venture capital. As we undergo this transition, we expect to build a strong cloud business with a high margin recurring revenue business.

With that, let me turn the call over to Farid to discuss the financial drivers for the quarter.

**Farid Kazani:**

Thank you, Ketan, and good afternoon to all and welcome to our Q4 and full-year conference call.

Fiscal 2017, has been a year of transition with the business model moving towards cloud-based solutions. While it may not be completely visible with the revenue profile for Fiscal—the Fiscal year 2017, the deal momentum is for cloud-based, which will develop into a higher recurring revenue base, translating to an improved profitable model, and in this year of transition, while the revenue pickup has been slower, we've been able to achieve a 7.5% growth in revenue and a substantial improvement in the EBITDA margins.

Let me now share the specific numbers for the fourth quarter Fiscal 2017. Revenue for the fourth quarter ended March 31, 2017, was \$28.2 million as compared to \$32.3 million in the corresponding quarter of the last year, down 12.8%. The decrease during the quarter was due to a number of traditional P&C programs moving from implementation to support mode, subscription-based programs with new implementations with revenues replacing them, and the reprioritization of a large program in our Life and IoT business in September 2016.

Revenue for the 12-month period ended 31 March 2017, increased 7.5% to \$121.8 million as compared to \$113.3 million in the corresponding 12-month's period last year. The revenue growth for the year in constant currency was 8.7%. For the quarter ended March 31, 2017, gross margins were at 47.6%. The

293-basis point improvement in gross margin as compared to the fourth quarter of the previous year was primarily due to the improvement—improved operating efficiencies and the impact of year-end incentive solutions. For the 12-month period ended 31 March 2017, our gross margins were higher at 47.9%, an increase of 334 basis points as compared to the previous year.

The SG&A expenses for the fourth quarter Fiscal 2017 was 33.5% as compared to 32.6% during the fourth quarter of Fiscal 2016. For the 12-month period ended 31 March 2017, the SG&A expenses were higher—were—expenses were 33.9% of the Fiscal 2017 revenue, up by 8.2% as compared to the 12-month period in the previous year. The increase in SG&A was primarily due to the planned expenses of sales and marketing efforts and the addition of the Cover-All business.

The R&D expenditure for the Fiscal 2017 fourth quarter was 14.9% of fourth quarter revenue as compared to 14.3% during the same period of Fiscal 2016. During the quarter, the R&D programs continued to focus on executing our product map in the P&C and the Life and Annuity businesses. It is important to note that the Company has a policy of expensing all the R&D expenses to the P&L account. For the 12-month ended 31 March 2017, the product R&D expenses were at 14.1% of the Fiscal 2017 revenue, higher by 5.8% as compared to the same period last year.

The net loss for the fourth quarter—fourth quarter ended 31 March 2017, was \$0.8 million or \$0.02 per share as compared to a net loss of \$1.5 million or \$0.04 per share from the same period last Fiscal. Net loss for the 12-period ended 31 March 2017, was lower at \$0.9 million or \$0.02 per share as compared to a net loss of \$3.6 million or \$0.1 per share for the corresponding 12-month period ended 31 March 2016.

The Adjusted EBITDA for the fourth quarter ended 31 March 2017, was \$1.6 million or 5.7% of revenue as compared to \$0.4 million or 1.3% during the quarter ended 31 March 2016. The Adjusted EBITDA for the 12-month period ended 31 March 2017, came in higher at \$6.1 million or 5% of the revenue as compared to \$0.6 million, which was 0.5% of the revenue during the 12-month period ended 31 March 2016.

From a geographic standpoint, the North America, the UK, and the APAC regions represented 89.9%, 5.5%, and 4.6% respectively, from fourth quarter's total revenue as compared to 89.6%, 7.4%, and 2.9% respectively for the same period in the last Fiscal. For the 12-month period ended 31 March 2017, the North America, UK, and APAC regions represented 89.4%, 6.7%, and 3.9% of the total revenues respectably.

In terms of business spilt, the P&C business represented 84.9% of their New, Life, and Annuity represented 13.5%, and the non-insurance is lower at 1.6% on the fourth quarter of Fiscal 2017 revenue as compared to 77%, 20.6%, and 2.4% respectively in the corresponding period last year. For the 12-month period ended 31 March 2017, P&C represented 82.1%, Life and Annuity at 16.2%, and the non-insurance business at 1.7%.

The total recurring revenue which includes licensed revenue, recurring subscription, and maintenance support, was \$29.3 million for Fiscal 2017 as compared to \$28 million in Fiscal 2016. The total non-recurring revenue which includes the IP-based implementation services, consulting, and other mix and services, was \$92.5 million for the Fiscal 2017 as compared to \$85.3 million in Fiscal 2016. Total revenue from cloud-based customers was \$23.6 million for the Fiscal 2017 compared to \$20.3 million in the Fiscal 2016, up 17.3%.

In terms of client concentration, the top customer in this quarter represented 6.2% of revenue, while the top 5 constituted 24.2%, and the top 10 constituted 38.2%, for fourth quarter Fiscal 2017. For the 12-month period ended 31 March 2017, the numbers stood at 7.5%, 27.1%, and 40.9% respectively.

Quickly turning onto the balance sheet, Majesco had a cash and cash equivalent of \$12.5 million as at 31 March 2017, as compared to \$6.2 million as at 31 March 2016. Total debt as at 31 March 2017 was \$12.6 million as compared to \$13.8 million as at 31 March 2016. The better cash flow, led by a higher operating profit and a tighter working capital, has helped to reduce the net debt from \$7.6 million in March 2016 to a negligible \$0.2 million at the end of 31 March 2017.

The DSOs also improved and stood at 67 days at the end of 31 March 2017 as compared to 69 days in the previous quarter ended 31 March—December 31, 2016. The headcount stood at 2192 at the end of 31 March as compared to 2196 at the end of 31 December 2016.

This concludes our prepared remarks. I'll now pass it on to the Operator to please open the call for questions. Thank you very much.

**Operator:**

Thank you. If you would like to ask a question, please press star, one on your phone. Please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that is star, one for any questions.

We'll first go to Brian Kinstlinger with Maxim Group.

**Brian Kintslinger:**

Great. Thanks so much. Can you—for the 15 customers that went into production, what's the opportunity for those customers as we look to fiscal 2018 in terms of additional sales and maybe can you quantify their revenue contribution in Fiscal '17?

**Ketan Mehta:**

So, Brian I may not have a very specific number to answer, but typically any customer which goes into the production, really go into the support mode and they will have the ongoing maintenance revenue stream coming from that point. In addition, like any other rear, we continue to upsell and cross-sell number of different products and solutions to those clients. Generally speaking, you find that the clients who go into production for one line of business, may go into the next line after that line goes into the production, or there could be an opportunity for further data or digital type of solution opportunities as well. So, there are further cross-sell opportunities, yes.

**Brian Kintslinger:**

So, of those 15, most of them just took one line of business and for one function too, for policy or just billing or just claims, is that how I should think about it?

**Ketan Mehta:**

So, there are variety as the 15 clients, which went into production, some of them are billing, some of them are policy admin types of solutions. So, and some of them would go with one line of business. So, it's a mix of all different types of solutions.

**Brian Kintslinger:**

Okay. Now, you mentioned being optimistic about a reacceleration in bookings in Fiscal '18, what gives you that confidence? Is it more deals in the pipeline that are in discussion? Is it larger deals or maybe a change in the insurance environment? Maybe touch on what gives you the confidence...

**Ketan Mehta:**

Yes, so it is clearly reflected based on the pipeline of opportunities we have for our cloud business and the traction which we're getting for the speed-to-value proposition which we're offering in the market, as well as the IBM partnership which is seeing fair amount of momentum as well.

**Brian Kintslinger:**

For the (inaudible) are you able to maybe quantify how much large the pipeline is maybe it was a year ago. Is that the case or is it just much more advanced and much stronger maybe confidence in the customer in the business environment?

**Ketan Mehta:**

Yes, we see this traction for the cloud current solution is—I've seen a much stronger traction now than what I used to see a year ago. So, it's getting--it's improving.

**Brian Kintslinger:**

Now, a year ago when we were talk and even two years ago, you'd mentioned cloud was more for Tier-2 and Tier-3, how is it being viewed today, do you think, by Tier-1?

**Ketan Mehta:**

Many Tier-1s have a Greenfield initiative where they take a division of the Tier-1 or a new initiative which they launch as a part of the Greenfield initiative to innovate on a business model or offer a new product or new services, they typically tend to go for a cloud approach.

**Brian Kintslinger:**

Okay, and then a few more—two more. First one, you mentioned you expected to return to year-over-year growth I think in the second quarter for revenue, but you expect the first quarter will be stronger than the fourth quarter or what kind of directionally in the first quarter you're expecting compared to the fourth quarter?

**Farid Kazani:**

Brian, as we've seen the business building up, we do see that there is going to be a positive trend, okay. We're not guiding very specific on the first quarter or second quarter, but we are seeing that there are deals that we've closed recently, okay, and some of the deals that are on slide should see a good pop-up building up in Q2.

**Brian Kintslinger:**

Okay. Lastly, can you talk about the IBM partner deal? How did that materialize specifically and then what exactly is being delivered to that customer?

**Ketan Mehta:**

As you know this is a part of our IBM partnership where we are offering Majesco platform on top of the IBM cloud and combined with IBM cognitive capabilities. Combined together, we have a growing pipeline



but what we have signed-up or started the work for a one Tier-1 client under the same industry platform model.

**Brian Kintslinger:**

Yes, I realize—IBM sell that deal or did Majesco sell that deal and are they getting an entire platform with all your solutions or just a little more clarity on what exactly that they're getting?

**Ketan Mehta:**

No, it is the IBM-led deal and it covers the—our core policy platform, but I'll not be able to share more details at this point.

**Brian Kintslinger:**

Great. Thank you so much.

**Ketan Mehta:**

Okay. Thank you.

**Operator:**

We'll take our next question from Josh Seide with Maxim Group.

**Josh Seide:**

Hi, guys. Thanks for taking the questions. We've noticed there's been a consolidation in the space over the last few months. Would you mind just talking about the M&A landscape and your M&A strategy you're planning going forward? Thanks.

**Ketan Mehta:**

Sure. So, we continue to see a consolidation in space as you rightly mentioned. We find that there are acquisition opportunities from the other vendors, but also interestingly opportunities coming from the insurer tech companies as well as the data and digital solution which are focused around insurance industry. So I feel that the M&A will continue to drive further consolidation in the industry and Majesco is looking for the synergistic opportunities at any point of time.

**Josh Seide:**

Great, and then maybe just a bit more granularity on cloud sales in the fourth quarter specifically, can you provide maybe the cloud percent of revenue in the fourth quarter of '17 versus Fiscal '16 and then maybe the total number of cloud customers outstanding as (inaudible) of the year? Thank you.

**Ketan Mehta:**

Yes, (inaudible) yes, the cloud was 19.3% of the Q4 number in Q4 Fiscal 2017.

**Josh Seide:**

Great. Thanks, and could you provide the number of cloud customers outstanding as of year-end?



**Ketan Mehta:**

We had 20 customers at the end of the March 2017, in terms of cloud customers.

**Josh Seide:**

Okay. Thanks.

**Ketan Mehta:**

Thank you.

**Operator:**

As a reminder, it is star, one, if you'd like to ask a question. We'll go next to a Private Investor, Parag Bharambe.

**Parag Bharambe:**

Yes, hi. I have a question on how much is the subscription revenue and I didn't heard about the total number of cloud customers, can you repeat it for me please?

**Ketan Mehta:**

The cloud customers were 20 number and I did mention it in my earlier comments that the total recurring revenue which includes license, the recurring subscription and maintenance support was \$29.3 million for the Fiscal 2017.

**Parag Bharambe:**

I think in last quarter you said a number somewhere around 6% to 7%. I believe that number was like just pure subscription revenue, do we have numbers similar to that?

**Ketan Mehta:**

Yes. The pure recurring subscription from cloud is 6.9%—6.9 million sorry.

**Parag Bharambe:**

Six point nine million—and in your balance sheet you have mentioned the cash at equivalent of \$12.5 million as of March 31, which was \$19.5 million as of December 31. So, can you give a bit light on where this \$7 million have been used this quarter?

**Ketan Mehta:**

Yes. So, the \$7 million have got used towards repayment of loan which was roughly \$4.6 million which if you see that the loan figure has actually fallen from the previous quarter which was 17.2 down to 13.8. Roughly \$1.6 million was the earnout liabilities on account of the Agile acquisition that we had in 2015, and the rest was the other liabilities that typically are current liabilities in our books.

**Parag Bharambe:**

In term of the next year shaping here, I know you don't give a guidance, but how does it look in terms of profitability? Will there be multiple levers in place for you to deliver better profitability going forward?

**Ketan Mehta:**

We're not guiding very specific on numbers for next year but if you've seen that we have focused our business with tighter management of costs, improving operating efficiencies, and looking at areas where we can actually see the leverage improvement once the revenue starts building up. We will keep the same kind of efforts up in the next year to keep on improving profitability. We need to be mindful that as we are building our cloud business, we will need to invest in both the SG&A and on the R&D for the cloud business.

**Parag Bharambe:**

Okay. Yes, and I think two years back when the Company was spin-off, you outlined and put a vision in term of sales around \$200 million to \$225 million. Looking at this number, it looked ambitious target. What is your comfort level in delivering to that number now?

**Farid Kazani:**

Yes. So, a couple of comments here. One is that \$200 million to \$225 million ambition was—also is covering the acquisitions in addition to the organic growth and acquisitions are always uncertain and subject to getting the right deal at the right price. So, we have certainty—we are looking for acquisitions but there is uncertainty associated with a deal of that nature.

The second comment which I described in the call is that we found a much more rapid transition to a cloud-based model and what we expected at that point of time. Now, that is also impacting our topline growth ambition. So, because some of the factors which are impacting our current outlook, but as we said before, we see the growth trajectory will increase next year, but we're not giving specific guidance at this point of time.

**Parag Bharambe:**

Okay. Thank you very much for your answer. Thank you.

**Operator:**

Just a final reminder, it is star, one if you would like to ask a question. We'll go next to Russell Cleveland with RENN Capital.

**Russell Cleveland:**

Thanks. Good to speak and kind of looked at your transition, my main question was just answered really. We had this guidance out at three years for over \$200 million with profitability and obviously, that has changed, and it's hard for us on the outside here to get a feel. So instead of \$200 million, are we going to be doing \$150 million or what? Now, you said you didn't have guidance for this year but if we look out, I'm trying to get kind of a clearer picture of where we are going and with the emphasis on the cloud as opposed to the old strategy, so can you give us any more color on that?

**Ketan Mehta:**

Russell, it is—what I would say that as we—as the transition from the cloud—the metrics which we need to focus on is our recurring revenue base, which is a profitable stream of revenue and more predictable

stream of revenue as opposed to a topline number alone. So, that changes the overall outlook of the revenue but I'd not be able to specifically quantify to say exactly what numbers are we guiding towards, but the revenue mix will change to a level where we have a different quality of revenue which is more predictable and higher margin. But, in addition what we have to look at it and if you want to see the outlook moving forward, is our deal momentum in terms of how we are winning in the market because the translation of those wins into revenue takes longer, but it gives a better quality of revenue in the cloud model. So, that's another thing we want to track as we move forward. But we'll continue to look and guide as we move forward in terms of more specific outlook details.

**Russell Cleveland:**

Okay. Thanks so much. I appreciate it.

**Operator:**

Again, if you would like to ask a question, please press star, one, that's star, one for any questions. Gentlemen, it appears we have no further questions at this time.

**Ketan Mehta:**

Okay. So, thank you everyone for the interest in Majesco and participation in the call. I'll see you next—talk to you next quarter. Thank you so much.

**Operator:**

Thank you and I would like to thank everybody for joining. You may disconnect at this time.