



Majesco

Fiscal 2018 Second Quarter Conference Call

October 30, 2017

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, and welcome to the Majesco Fiscal 2018 Second Quarter Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Stan Berger. Please go ahead.

Stan Berger:

Thank you, Jessica, and good afternoon to all of you. A complete disclosure of our results can be found on 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 the 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 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 expectation.

At times, in our prepared comments or responses to your questions, we may offer incremental metrics to provide greater insights into the dynamics of our business or 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 was issued today after the market closed.

Hosting the call today are Ketan Mehta, Majesco's Co-Founder and CEO, and 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 afternoon, everyone, and welcome to Majesco's Fiscal 2018 second quarter conference call. I'm happy to announce that after four quarters of declining revenues due to transition of our business model from on-premise model to cloud (phon) model, our revenues in the quarter were up 8.7% over the last previous quarter, demonstrating the growth of our cloud business, and the addition of revenues associated with the previously announced IBM contract.

Majesco's cloud business has begun to show the momentum that we have been speaking about in the last few quarters. The total revenue for the cloud business segment increased nearly 48%, and subscription revenue increased 81% over the same quarter in the previous year. In addition, we experienced improvements in profitability as EBITDA increased 490 basis points to 3.4% in second quarter over the previous quarter. Cloud revenue represents 31% of our total revenue of the second quarter, which demonstrates momentum and acceptance of our cloud solution.

Insurance carriers are increasingly focused on innovative growth opportunities through new products, new geographies, and new business models. However, we're also—we also see tightening of insurance budgets. It is in this context that Majesco's cloud offerings are gaining traction in the industry. Majesco is proud to partner with IBM and MetLife for the landmark IBM Insurance Industry Platform. Majesco provides the core components, including policy, billing, and claims, which will be integrated with IBM solutions, including cognitive capabilities and other third-party solutions. This platform will be hosted on IBM Cloud and will allow insurer to consume these capabilities as a service.

Industry strength and the traction towards cloud were further confirmed during our recently hosted annual customer conference, Convergence 2017. We had a record number of participants at the conference, and during the conference, we made a number of announcements for our current and new solutions. We announced Version 10 of Majesco's P&C Suite and Majesco's L&A and Group Suite, which provides the next generation of core systems as a part of our platform portfolio that has the ability to scale in public cloud and are architected for seamless and frequent upgrades. It is important to note that Majesco's P&C Suite and Majesco's L&A and Group Suite are the foundation for the new Version 2.0 Majesco CloudInsurer.

We launched our micro services based Digital1st Insurance solution portfolio, which enables a new generation of customer experience, app store like capabilities to integrate with our growing ecosystem partner, and expedites the new insurance business models and products. These platform solutions are designed for the cloud and will further improve competitive positioning of Majesco's cloud offering. Together, Majesco's offering represents our platform strategy and consulting solutions that support modern code systems, digital and data strategies, and new generation of insurance business models and products. This breadth of services and solutions, combined with Majesco's holistic and client-centric approach, creates a differentiated platform.

During the conference, we recognized over 24 clients who went live with Majesco solutions last year. Our pipeline of opportunities remains strong and includes exciting deals across all tiers and all lines of business. It is further encouraging that about 80% of opportunities in the pipeline are for Majesco cloud offering. The recent release of Version 10 of Majesco P&C and Majesco Life & Annuity and Group Suite, as well as our release of Version 2.0 of Majesco CloudInsurer and Majesco's Digital1st Insurance platform, demonstrate our product commitment. We have built a differentiated platform portfolio that helps carriers innovate new products, reach new markets, create new customer experiences, and liberate new and different business models for new generation of customers.

I'm excited about our opportunities as we enter the second half of the year, and let me now 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 second quarter conference call. We're pleased with the progress of the transitioning of our on-premise business to the cloud-based model. While you will see the reflection of some of this in the second quarter, we do expect accelerated momentum in the coming quarters as the new business model benefits from higher recurring revenues and improved profitability.

Revenue for the second quarter ended September 30, 2017, was \$30.3 million as compared to \$31.1 million in the corresponding quarter of last year and \$27.9 million in the quarter ended 30 June 2017. The 2.3% year-on-year decrease during the quarter was due to the subscription-based cloud programs with lower implementation revenues replacing a number of on-premise P&C programs moving from implementation to support mode. On a sequential basis, revenues have grown 8.7% as compared to the previous quarter ended 30 June 2017 with the buildup of the cloud-based revenue. The year-to-date revenue was \$58.3 million as compared to \$63.6 million for the same period last year. While this is 8.4% lower as compared to the corresponding period of last year, we're confident that we will reduce this gap by the end of this fiscal as sales grow in the second half of this fiscal year.

Turning to expense and profitability. For the quarter ended 30 September 2017, the gross margins were 44.8% as compared to 49.8% in the quarter as compared to the quarter ended 30 September 2016 and 42.6% in the quarter ended 30 June 2017. The decrease in Y-o-Y margins has been primarily due to the decline in the revenue and ramp-up of the resources to support the revenue growth in the coming quarters. Sequentially, the gross margins were higher by 220 basis points as compared to the previous quarter ended 30 June 2017, with the increase in the revenue during this quarter. For the six-month period ended September 30, 2017, gross margins were 43.8% as compared to 47.5% in the previous year.

For the fiscal 2018 second quarter, the SG&A was at \$10.4 million, which was lower by 2.1% as compared to the second quarter of the previous year, and as a percentage of revenues, the SG&A for the second quarter was 34.4% as compared to 34.3% during the second quarter of fiscal 2017. For the six-month period ended 30 September 2017, SG&A declined 2.7% to \$20.7 million or 35.6% of sales as compared to \$21.3 million or 33.5% for the same period in the last fiscal year.

Fiscal 2018 second quarter product R&D expenses was at \$4.2 million, which is lower by 7.2% as compared to the similar period of the previous year and were 13.9% of the fiscal second quarter revenue as compared to 14.6% during the same period of fiscal 2017. The quarter marked the release of the Version 10 P&C Suite and the Majesco Digital1st Insurance platform. For the six-month period ended 30 September 2017, the product R&D expenses were lower by 10.2% during the same period as compared to the last fiscal year. It is important to note that the Company has a policy of expensing out all the R&D expenses toward the P&L.

The Adjusted EBITDA for the second quarter ended 30 September 2017 was \$1 million or 3.4% of revenue as compared to \$1.7 million or 5.5% during the quarter ended 30 September 2016. The same was higher by 490 basis points as compared to the negative 1.5% of the previous quarter ended 30 June 2017. Adjusted EBITDA for the six-month period 30 September 2017 was \$0.6 million or 1.1% of revenues as compared to \$2.7 million or 4.3% of the revenues during the six-month's period ended 30 September 2016.

The net loss for the second quarter ended September 30, 2017, was negative \$0.7 million or negative \$0.02 per share as compared to the net income of \$0.2 million or \$0.01 per diluted share for the same period of fiscal 2017. However, the loss was significantly lower as compared to the negative \$1.7 million during the previous quarter ended 30 June 2017. Net loss for the six months ended 30 September 2017 was \$2.4 million or \$0.06 per share as compared to a net loss of \$0.3 million or \$0.01 per share for the corresponding six months' period ended 30 September 2016.

From a geographic standpoint, the North America, the U.K. and the APAC regions represented 90.4%, 4.6%, and 5% respectively, of the second quarter's total revenue as compared to 89.1%, 7.5%, and 3.4%, respectively for the same period in the last fiscal year, versus 89.7%, 5.3%, and 5% respectively, in the previous quarter ended 30 June 2017.

In terms of business split, the P&C business represented 78.9%, Life & Annuity represented 19.6%, and the noninsurance was 1.5% for the second quarter of fiscal 2018 revenues as compared to 81%, 17.6% and 1.4% respectively, in the corresponding period of the last fiscal year. The total revenue from cloud customers was \$9.4 million, constituting 31% of the quarter revenues for the fiscal second quarter 2017 and which is up 47.6% as compared to \$6.4 million in the quarter ended September 30, 2016, and that constituted 20.5%.

The cloud subscription revenue for the quarter, second quarter fiscal 2017 was \$2.9 million, constituting 9.5% of the quarter's revenue as compared to \$1.6 million, which was 5.1% of the fiscal—of the same period in the previous fiscal. The total recurring revenue, which includes license revenue, recurring subscription, and maintenance and support, was up at \$8.2 million or 26.9% of the total revenues for the quarter ended 30 September 2017 as compared to \$7.5 million or 24.3% of the total revenue for the quarter ended 30 September 2016, reflecting a growth of 8.3% year-on-year. The total recurring revenue was \$7.4 million or 26.5% of the total revenue for the previous quarter 30 September 2017, reflecting an increase of 10.4% sequentially quarter-on-quarter.

The Professional Services revenues include on-premise IT-based implementation revenue and the IT-based services in the nature of consulting data, digital testing and ADM services. The IT-based, implementation services' revenues stood at \$8.7 million for the quarter ended 30 September 2017, down 27.3% as compared to \$12 million for the quarter ended 30 September 2016 and down 4.5% as compared to the \$9.1 million in the quarter ended 30 June 2017. Correspondingly, the IT services' income increased to \$6.9 million for the quarter ended 30 September 2017, up 3.1% as compared to \$6.7 million for the quarter ended 30 September 2016, and also up 5% as compared to the \$6.6 million for the quarter ended 30 June 2017.

In terms of client concentration, the top customer in this quarter represented 8.7% of the revenue, while the top-5 constituted 28.8%, and the top-10 constituted 44.4% for the second quarter of the fiscal 2018, as compared to 6.1%, 24% and 40.4%, for the previous quarter ended 30 June 2017. The total number of cloud customers stood at 32 at the end of 30 September 2017. The 12-month executable backlog stood at \$77.5 million at the end of September 30, 2017, up 19% as compared to \$65.1 million at the end of September 30, 2016.

Quickly turning on to the balance sheet. There was a margin improvement in the overall net debt position in the quarter as compared to the previous quarter ended 30 June 2017. Majesco had cash and cash equivalent of \$11 million at the end of September 2017 as compared to \$13.3 million at the end of 30 September 2016 and higher as compared to the \$10.3 million at the end of June 30, 2017. The total debt as of 30 September 2017 stood at \$18 million as compared to \$17 million at the end of 30 September 2016 and \$17.7 million at the end of June 30, 2017. DSOs were marginally down at 79 days at the end of 30 September 2017 as compared to 82 days in the previous quarter ended 30 June 2017. Total headcount stood at 2,307 at the end of 30 September 2017 as compared to 2,279 at the end of 30 June 2017.

This concludes our prepared remarks. I'll now pass it on to the Operator to please open the call for questions, and thank you very much, and appreciate your continued interest in Majesco.

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 using a speakerphone, please release your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question. We'll pause for a moment. Our first question will come from Brian Kinstlinger with Maxim Group.

Brian Kinstlinger:

Good evening. Clearly, the IBM insurance platform is a game changer for you. ==I think you mentioned you added a number of new customers in backlog related to IBM. Can you tell us how many customers that is and what is the minimum commitment in backlog that you have related to IBM and all the customers that may be purchasing software through them?

Ketan Mehta:

Brian, in terms of our backlog of the customers, we have obviously offered the platform to multiple clients, but bulk of the backlog is created by the MetLife transaction which we announced a few weeks ago. Clearly there is a growing pipeline of us working together with IBM to a number of other opportunities, including some Tier 1 customers.

Brian Kinstlinger:

Maybe can you quantify the pipeline in terms of number of customers in the early stages that you guys are in active discussions with and are they all Tier 1s? Are they Tier 2s as well? Maybe just give us a sense for also how they're going to market.

Ketan Mehta:

No. The pipeline is made up of customers in Tier 1, Tier 2, and some of them in a smaller segment of the market as well. It is spread across, but predominantly Tier 1 and Tier 2 customers.

Brian Kinstlinger:

How many customers are in that pipeline today that have been actively engaged maybe?

Farid Kazani:

There is almost around eight to nine active engagements. A couple of them are in advanced stages. It all depends upon how—there's obviously a competitive scenario out there. It will all depend upon how things shape up, but yes, the pipeline includes some of these deals right now.

Brian Kinstlinger:

The eight to nine, can you give us a sense for what you believe the sales cycle will be? Is it six months? Is it nine months? Is it much longer?

Farid Kazani:

Very difficult Brian to give you any estimate at this point in time. You know how the deal momentum is. It goes through a lot of significant diligence and then approval stages.

Brian Kinstlinger:

Then I think in the past, you've talked about your backlog oftentimes adds minimum commitments. It really doesn't gauge the full potential of your revenues. Maybe, especially with this relationship, you know your backlog tells us one thing, but what is the true potential over the next couple of years, do you think, from this relationship?

Ketan Mehta:

Brian, as for the business model, when we look at the cloud backlog, typically, the minimum commitment represents, based on a given volume of platform on our business, but generally speaking, if the client puts in there as much of businesses, it is part of their business plan, it's generally significantly higher than minimum. In general, it could be 30% to 40% higher than the minimum commitments which they have made. But it clearly changes depending on the deal.

Brian Kinstlinger:

Okay. Then in the second quarter here, how much of the revenue—I think that, unless I'm mistaken, it's the first time you've generated revenue from IBM, MetLife, that relationship. How much did that generate? Was that the entire sequential increase in revenue?

Farid Kazani:

No, we will not be able to give that information, Brian.

Brian Kinstlinger:

Okay. Then you had mentioned and—as I try to go through what's recurring and what's not, Farid, did I hear you correctly that you expect momentum in recurring revenue, so sequentially, we'll see revenues probably increase and then you also said profitability. This is kind of the base that we should build from, is that right?

Farid Kazani:

Yes, that's the kind of expectation. You know we, as some of these programs that we are doing with IBM and some of the other cloud programs start building out, you will see recurring revenue base increasing, and as the deal starts increasing there, you will see improvement in the profitability also in coming quarters.

Brian Kinstlinger:

Okay. Just talk to us about how IBM's going to go after new customers? I mean, is that in tandem with you, you guys go together? Do they have their own salespeople? Just talk about the go-to-market strategy for IBM.

Farid Kazani:

Go-to-market for IBM.

Ketan Mehta:

Clearly, we collaborate with IBM sales team in terms of going to market. As you know, a majority of the Tier 1 insurance carriers are IBM customers and they are—IBM is engaged with them in a variety of different ways. IBM sales team and solution team is educated on the—our industry platform, and they're finding opportunities where it makes sense into their client bases, and based on that, we're building the pipeline for this platform.

Brian Kinstlinger:

If there is an RFP for a Tier 1, will it either be IBM or Majesco that bids on it or might there be both of you bidding on it?

Ketan Mehta:

No, we do not both bid competitively.

Farid Kazani:

Yes, we collaborate and see what makes sense for a situation like (inaudible)...

Brian Kinstlinger:

Okay. Then two other questions away from IBM. You mentioned the lower gross margins is an—is the function of an increase in resources to support the coming ramp. Can you talk about headcount today maybe versus a year ago?

Farid Kazani:

I mean, if you look at our headcount as of today, it was 2,300. A year ago, it would have been close to around 2,100. I don't have the exact numbers with me, but we would have been around 2,150 odd, around that number. I can come back to you with the exact—what it was last.

Brian Kinstlinger:

Okay, okay, and then finally, can you make some comments on your M&A strategy? We've seen some consolidation in the space. Maybe give us a sense for what you guys are thinking about in terms of M&A. Thank you.

Ketan Mehta:

We continue to look for the right synergistic opportunities in terms of acquisitions, and we look at variety of options, including some of the Insurtech companies which we find have some very innovative solutions, which add value to us. We look at data analytics types of solutions, which synergizes with what we do, and some opportunities in the international market as well. We're looking at across-the-board opportunities for the M&A, which will add value to our platform.

Brian Kinstlinger:

Great. Nice to see the revenues starting to rebound.

Ketan Mehta:

Thank you.

Farid Kazani:

Thank you, Brian.

Operator:

Once again, if you'd like to ask a question, please press star, one. We'll now take our next question from Parag Bharambe who's a Private Investor.

Parag Bharambe:

Yes hi. Congratulations on a set of good numbers. My question is, last year you were planning for a QIP for your parent in India, Majesco. But it was called off because of the soft momentum prices and actually, the price has come down. Now the price is at a—the Indian price is at a good level. Are you looking for reviving that discussion?

Farid Kazani:

When we look at our cash position, we're quite comfortable for our overall operations that we have on a steady-state business. There will be funding requirements, which will be there when we look at closing an acquisition, and as we come nearer to an acquisition, we will decide the mode of funding, whether it has to be a pure debt or a mix of debt and equity, and as we look at an equity raise, we may look at options that are available both in the U.S. and the India markets. As of now, we have not finalized anything purely from a QIP perspective. However, we will look at it at an appropriate time.

Parag Bharambe:

Okay, okay. Thank you. Next question is, how is the competitive landscape is looking like in the U.S. market for cloud-based solutions?

Ketan Mehta:

Recognizing the trend towards cloud, we find that all major vendors in that area are offering the cloud-based solutions. The competitive landscape remains. It is as intense as the software market has been. However, with Majesco, we have taken an early lead into the cloud solutions, and our platform's architecture provides us a significant competitive advantage. We have taken some early leads in this installed base of over 32 customers who are on our cloud platform. But we expect the competition to be as intense as it's been in the traditional software market.

Parag Bharambe:

Okay. This quarter, how many new customers you have added?

Ketan Mehta:

In this quarter, right? This...

Parag Bharambe:

Yes, right.

Ketan Mehta:

We added one.

Farid Kazani:

We added one customer, and we had new business from certain existing client engagements so that helped the increase in the revenue and backlog.

Parag Bharambe:

Okay. Because of the focus on the cloud, has the on-site implementation has completely been sidetracked or you're not focusing on it in term of license revenue?

Ketan Mehta:

We continue to support that but as we mentioned, 80% of our pipeline is cloud. We see majority of the new deals coming on cloud. We see the existing implementation programs come to their natural end as we take number of product customers to on-production. They move from an implementation phase to in-production support phase. We see the on premise revenues progressively declining quarter-over-quarter and as the new deals start coming mostly on cloud, and that's the reason why we see the cloud as a portion of our business is increasing also as a result of this change in our business mix.

Parag Bharambe:

Okay. Thank you. In term of the profitability, the profitability just going up and down, although not huge, it's just trending along breakeven point. When do you think you would be able to achieve or sustain profitability or how far it is from the current level?

Farid Kazani:

This year obviously has been a year of investment. We have seen a low first quarter, and we did mention in the last analyst call that we are seeing the business trend improving and which will happen from quarter two which is what reflected right now. You will see an improvement in both the top line and the bottom line steadily in the next few quarters. I think it's going to be a steady movement. There is going to be investments that are going to be required. What we see at least another 12 months out before we see us getting into a double-digit margin.

Parag Bharambe:

Okay. So sorry, what did—how—did you say how many months away? Sorry, I didn't get that.

Farid Kazani:

I would say 12 months away.

Parag Bharambe:

Okay. Twelve months away and the next question. Thank you very much and all the best.

Farid Kazani:

Thank you.

Operator:

Once again ladies and gentlemen, it is star, one to ask a question. It appears there are no further questions at this time. I'd like to turn the conference back to our speakers for any additional or closing remarks.

Ketan Mehta:

Right. Thank you everyone for the interest in Majesco. We'll talk to you next quarter. Thank you.

Farid Kazani:

Thank you very much.

Operator:

This concludes today's call. Thank you for your participation. You may now disconnect.