



**Majesco**

**Fiscal 2018 Third Quarter Conference Call**

**January 30, 2018**

## CORPORATE PARTICIPANTS

**Andrew Berger**, *SM Berger & Co. Investor Relations*

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

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

## CONFERENCE CALL PARTICIPANTS

**Brian Kinstlinger**, *Maxim Group*

## PRESENTATION

### **Operator:**

Good day and welcome to the Majesco Fiscal 2018 Third Quarter Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Andrew Berger, Investor Relations. Please go ahead, sir.

### **Andrew Berger:**

Thank you, Cynthia, 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 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, 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 has been provided in our press release that was issued today after the market close.

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 in Finance. At this time, I will turn the call over to Ketan. Ketan?

**Ketan Mehta:**

Thank you, Andrew. Good afternoon, everyone, and welcome to Majesco's fiscal 2018 third quarter conference call. I'm really pleased with the performance of the business during the quarter across all fronts. As you will remember, the previous quarter saw a return of growth in revenue by approximately 9% along with the marginal improvement in profitability. In the current quarter ended December 31, 2017, we have seen a continued improvement in financial performance over the previous quarter. We had 5% expansion of revenue, 340 basis points improvement in profitability, the largest number of new wins, and 17% improvement in 12-month order backlog.

We have experienced growth across all the regions we operate in, and we continue to see good progress in our cloud-based platform business. The 67% year-on-year growth in cloud revenue, along with a 55% year-on-year increase in cloud subscription revenue reflects the fundamental change in Majesco's business model towards cloud. Cloud revenues currently represent 31% of our total revenue compared to 20% in the previous year.

I have talked about significant disruption taking place in the insurance industry, which is creating growth opportunities for Majesco. The shift towards platform economy is happening across all industries. Insurance is in the early stages, reflected in the innovation of new business models that enable insurers to liberate broad ecosystems and technology innovations such as cloud computing, artificial intelligence, machine learning and the new data sources to create a greatly enhanced customer experience. As a result of these changes, insurers are focusing on speed to value inclusive of speed to implementation within a few months versus years, speed to market to rapidly develop and launch new products or enter new states, and speed to revenue to enable business growth and minimum capital investment or upfront cost. Majesco is at the forefront of this change.

As we shared in October, our Convergence event, our platform strategy is reflected in our offerings including our next generation of core solutions, our new Digital 1st platform with microservices, our growing partner ecosystem in Majesco CloudInsurer, as well as our partnership with IBM regarding IBM industry platform.

During the third quarter, Majesco's record 10 new customer wins represented a growth in North America, Asia Pacific and European markets. For North America, we had six new wins, which includes three new customers who are on Majesco CloudInsurer platform; specifically, New York State Insurance Plan selected Majesco Billing on Majesco CloudInsurer platform, a commercial line insurer selected Majesco P&C Suite on Majesco CloudInsurer platform, and a new start-up carrier selected Majesco Policy for P&C and Majesco Billing on Majesco CloudInsurer platform where this carrier is looking for a quick launch of personal line products in California targeted at suburban markets. In addition, we had a Data Solution win with a midmarket insurer who selected Majesco Business Analytics.

In the European market, a Tier One insurer carrier in U.K. selected Majesco Policy for Life & Annuity and Group for their group protection business, and a Tier One insurer selected Majesco Data Services for Development of Data Solutions.

We had a similar win for our Life & Annuity and Group and Policy platform in Asia Pacific region, along with another life insurer selected our Majesco Distribution Management Solution.

Our joint IBM and Majesco team continues to execute on the MetLife program we announced last quarter. As we talked about digital transformation before, MetLife program is a great example where our goal is to build a digital platform which provides end-to-end digital solutions where MetLife will have an ability to tailor and scale its benefits offering from quote to claim to small market clients. Our IBM partnership continues to gain momentum with growing pipeline.

Finally, and most importantly, we held three Go Live events during the last quarter, including one Tier One insurer for Majesco Billing.

As you can see, Majesco's continued investment to enable insurance carrier transition to Insurance 2.0 is gaining market momentum, validating our strategy and solutions. Our pipeline for new opportunities remains strong and I am excited about our opportunities to be in the forefront of this change taking place in the insurance industry.

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. Welcome to our third quarter conference call. I echo the points that Ketan just enumerated to you with respect to the excellent overall business performance during this quarter ended December 31, 2017. Let me give you more color to this with the numbers.

Let me start with the revenue for the third quarter ended 31 December 2017. The revenue stood at \$31.8 million as compared to \$30 million in the corresponding quarter of last year and \$30.3 million in the quarter ended 30 September 2017. The 5.9% year-on-year growth during the quarter was led by new programs in North America as well as growth in the APAC region. On a sequential basis, revenues have grown 4.7%, as compared to the previous quarter ended 30 September 2017 with growth across all regions and expansion in the cloud-based revenue. The year-to-date revenue was \$90 million as compared to \$93.6 million for the same period last year. While this is 3.8% lower as compared to the corresponding period of last year, we expect to exceed our previous year revenues on a full-year basis.

Turning to expense and profitability, for the quarter ended 31 December 2017, the gross margins were 46.9%, as compared to 49% in the quarter as compared to the quarter ended 31 December 2016 and 44.8% in the quarter ended 30 September 2017. The decrease in Y-o-Y margins has been primarily due ramp-up of the resources to support the IBM program and the growth in both North America and International business. Sequentially, the gross margins were higher by 208 basis points as compared to the previous quarter ended 30 September 2017, primarily due to the increase in the revenue and improved operational efficiencies. For the nine-month period ended December 31, 2017, gross margins were 44.9% as compared to 48% in the previous year.

For the fiscal 2018 third quarter, the SG&A was at \$10.3 million. As a percentage of revenue, the SG&A as 32.3%, as compared to 35.2% during the third quarter of Fiscal 2017. With the growth in revenue, the decline in SG&A as a percentage of revenue reflects an improvement in our operating leverage. For the nine-month period ended 31 December 2017, the SG&A declined 2.7% to \$31 million or 34.5% of revenue as compared to \$31.9 million or 34% of revenue for the same period in the last fiscal.

Fiscal 2018 third quarter R&D expenses was at \$4.5 million. As a percentage of revenue, the R&D expenses stood at 14.3% for the fiscal third quarter revenue as compared to 13.2% during the same period of Fiscal 2017. The higher expense are attributable to development requirements for the IBM related project and our digital programs. For the nine-month period ended 31 December 2017, the product R&D expenses were marginally lower by 2.6% at \$12.7 million, as compared to \$13 million 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 towards the P&L.

The Adjusted EBITDA for the third quarter ended 31 December 2017 stood at \$2.2 million or 6.8% of revenue as compared to \$1.7 million or 5.8% during the quarter ended 31 December 2016. Adjusted EBITDA was higher by 340 basis points as compared to the 3.4% of the previous quarter ended 30 September 2017. The Adjusted EBITDA for the nine-month period ended 31 December 2017 was \$2.8

million or 3.1% of revenues as compared to \$4.5 million or 4.8% of the revenues during the nine-month period ended 31 December 2016.

The net loss for the third quarter ended 31 December 2017 was negative \$3.1 million or negative \$0.08 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. In the current quarter, the Company has made an adjustment of \$2.67 million or \$0.07 per share to write-down the Company's deferred tax assets in line with the recent changes made to the U.S. Tax Code. Net loss for the nine-month period ended 31 December 2017 was \$5.4 million or negative \$0.15 per share as compared to the net loss of \$0.1 million or \$0.00 per share for the corresponding nine-month period ended 31 December 2016.

From a geographic standpoint, the North America, the U.K. and the APAC regions represented 89.6%, 4.7%, and 5.7%, respectively, of the third quarter's total revenue as compared to 89.8%, 6.4%, and 3.8%, respectively, for the same period in the last fiscal year, versus 90.4%, 4.6%, and 5%, respectively, in the previous quarter ended 30 September 2017.

In terms of business split, the P&C business represented 75.7%, the Life & Annuity represented 23.4%, and the noninsurance was lower at 0.8% for the third quarter of fiscal 2018 as compared to 83.4%, 14.9% and 1.7%, respectively, in the corresponding period of the last fiscal year. The total revenue from cloud customers was \$9.9 million, constituting 31.4% of the quarter revenues for the fiscal third quarter 2018 and which is up 67.2% as compared to \$5.9 million in the quarter ended 31 December 2016, constituting 19.8%.

The total revenue from cloud customers was \$26.7 million for the nine-month period ended 31 December 2017, representing 29.6% of the total revenue, as compared to \$18.3 million representing 19.5% for the corresponding period ended 31 December 2016. The cloud subscription revenue for the third quarter fiscal 2018 was at \$2.8 million, constituting approximately 9% of the quarter's revenue, as compared to \$1.8 million which was 6% for the same period in the previous fiscal.

The total recurring revenue, which includes license revenue, recurring subscription, and maintenance and support, was up at \$8.4 million or 26.4% of the total revenues for the quarter ended 31 December 2017 as compared to \$7.6 million or 25.2% of the total revenue for the quarter ended 31 December 2016, reflecting a growth of approximately 11% year-on-year. The total recurring revenue was \$23.9 million for the nine-month period ended 31 December 2017, representing 26.6% of the total revenue as compared to \$22.5 million representing 24% for the corresponding period ended 31 December 2016.

The Professional Services revenue, which includes on-premise implementation services revenue and the IT-based services revenue, the implementation of services revenue stood at \$9.6 million for the quarter ended 31 December 2017, down 18.6% as compared to \$12 million for the quarter ended 31 December 2016, and up by 11% as compared to the \$8.7 million in the quarter ended 30 September 2017. Correspondingly, the IT services income stood at \$6.7 million in the third quarter of 2017, as compared to \$6.9 million in the previous quarter, Q2 of 2017, and \$6.5 million in the Q3 of 2016 for the similar period. For the nine-month period ended 31 December 2017, the implementation services stood at \$27.4, down 27.7% as compared to \$38 million in the corresponding nine-month period ended 31 December 2016. The IT services income stood at \$20.2 million and \$19.9 million for the similar period.

In terms of client concentration, the top customer in this quarter represented 104% of the revenue, while the top-5 constituted 27.9%, and the top-10 constituted 43.9% of the third quarter's revenue of Fiscal 2018, as compared to 8.7%, 28.8% and 44.4% for the previous quarter ended 30 September 2017. For the nine-month period ended 31 December 2017 the numbers stood at 7.9%, 26.9%, and 42.6%, respectively.

The total number of cloud customers stood increased to 35 at the end of 31 December 2017. The 12-month executable backlog stood at \$90.4 million at the end of December 31, 2017, up 46% as compared to \$62.1 million at the end of December 31, 2016, and 16.6%, as compared to the previous quarter ended 30 September 2017.

Quickly turning over to the balance sheet, there has been an improvement in the overall net debt position by \$5.5 million during the third quarter as compared to the previous quarter ended 30 September 2017. Majesco had cash and cash equivalent of \$11.5 million at the end of 31 December 2017 as compared to \$10.9 million at the end of September 2017. The total debt as on December 31, 2017 stood at \$13 million as compared to \$18 million at the end of 30 September 2017. DSOs improved to 72 days at the end of December 31, 2017 as compared to 79 days in the previous quarter ended 30 September 2017. Total headcount stood at 2,356 at the end of 31 December 2017 as compared to 2,307 at the end of 30 September 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 for being patient to hear on our third quarter call.

**Operator:**

Today's question-and-answer session will be conducted electronically. If you would like to ask a question at this time, please press the star key followed by the digit one on your telephone keypad. If you are using a speakerphone, please make sure the mute function is turned off to allow the signal to reach our equipment. Once again, if you would like to ask a question at this time, please press star, one. We'll pause for just a moment to allow everyone the opportunity to signal.

We will take our first question from Brian Kinstlinger with the Maxim Group. Please go ahead.

**Brian Kinstlinger:**

Great. Can you hear me? I'm on a train. Sorry.

**Ketan Mehta:**

Yes. We can hear you, Brian. Yes.

**Farid Kazani:**

Hi, Brian.

**Brian Kinstlinger:**

Great. Hi. The first question I have is IBM's revenue contribution increased from the September quarter to the December quarter, and should we expect that revenue from that relationship will continue to increase over the next couple of quarters?

**Farid Kazani:**

Brian, it has increased from the previous quarter this quarter and there'll be a fair—it will be a little steady until the time it also has marginal increase. It's based on how the program is shaping. At this moment we are seeing that there will be some marginal increase in the next quarter, and then it will steady out.

**Ketan Mehta:**

But in the meantime then, our pipeline is developing so in cases there are new deals signed up obviously then it will give a further boost.

**Brian Kinstlinger:**

That was going to be my next question. Is there just one customer under the IBM platform or have you added more customers?

**Ketan Mehta:**

At this point in time there is only one customer.

**Brian Kinstlinger:**

Within that one customer, is there still room for growth outside of the incremental in the next two quarters, or is that when it will be matured out?

**Ketan Mehta:**

There's certainly an opportunity for growth in that customer account, but it will take longer because this is a comprehensive digital solution which we are in process in place. Once that goes into production, there could be further opportunities in that customer.

**Brian Kinstlinger:**

Great. Then finally, are there any—with the great bookings and all the new customer wins, is there any reason to believe over the next few quarters the quarterly revenue rate won't continue to increase, or do you have headwinds that will make that still difficult?

**Farid Kazani:**

I think there are clear leading indicators that show that there is good visibility of revenue. We are not guiding to any number in the next quarter. At this time we're kind of comfortable and we are seeing that there will be good growth quarter-over-quarter.

**Brian Kinstlinger:**

Great. Thank you.

**Ketan Mehta:**

Thank you.

**Operator:**

Once again, if you would like to ask a question, please press star, one on your telephone keypad. We'll pause for just a moment.

We currently have no questions in the queue. Again, star, one if you would like to ask a question at this time.

It does appear we have no further questions. I will turn the conference back over to Management for any closing comments.

**Ketan Mehta:**

Thank you very much for participating in our third quarter earnings call. We'll talk to you next quarter.  
Thank you.

**Farid Kazani:**

Thank you.

**Operator:**

This will conclude today's call. We thank you for your participation, and you may disconnect at this time.