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Majesco

Fiscal 2019 Third Quarter Conference Call

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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Operator:

Good day, everyone, and welcome to the Majesco Fiscal Year 2019 Third Quarter Conference Call. Today's call is being recorded. At this time, I would like to turn the conference over to Andrew Berger with Investor Relations. Please go ahead, sir.

Andrew Berger:

Thank you, Christie (phon), and good afternoon to you all. A complete disclosure of our results can be found on 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 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 or responses to your questions, we may offer incremental metrics to provide greater insight 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 closed.

Hosting the call today are Adam Elster, Majesco CEO; and Farid Kazani, CFO and Treasurer.

At this time, I'll turn the call over to Adam. Adam, please go ahead.

Adam Elster:

Thanks, Andy. Thanks, everybody, and good afternoon. After completing my first quarter, I'm still very excited to be part of the Majesco team. The financial results we achieved during the third quarter really reinforced my excitement about our future. As you can all see from our results, Majesco's Cloud-based operating model has become a critical component of our value proposition, and I am very encouraged by our success. Our results reflect growing acceptance of our solutions as third quarter revenue increased 11% over the same period a year ago. Cloud revenues increased by 51% compared to the fiscal 2018 third quarter, and now represent over 42% of our business compared to 31% for the same period last year. Majesco's profitability is strengthened as well due to our overall revenue growth, which is being driven by higher-margin Cloud-based sales.

Customers continue to partner with us, and are extremely focused on where they are today, and where they want to be in the future. Their strategy is focusing on optimizing technology investments, and establishing a new platform for an overall digital experience. In all of my interactions with customers, partners, investors, and analysts, I see incredible alignment to our vision, and the validation of our strategy. Majesco has a compelling market opportunity, and that is one of the key reasons I came to this company.

During the last 90 days, I've learned a great deal about Majesco, and the insurance market in general. New and innovative business models, products, services, and channels, as well as new approaches to customer engagement has become the new normal for business, and the insurance industry is no different. It demands agility, speed, and innovation, which is dramatically different from legacy insurance practices. While Majesco has been an early thought leader about the change and disruption in the insurance market, we need to continue, and accelerate overall market awareness of our solutions, and rapid time to value.

Most insurers have built and implemented core systems around traditional business models, and technology architectures. In addition, painful and expensive IT modernization projects over the last decade, coupled with layers of portals and complex integration to improve agent and customer experience, do not align and adapt well to the new market dynamics. Overall, other vertical industries are ahead of the adoption curve, and while insurance is a very complex business, it only makes the need for flexibility and scalability more important.

Transforming core systems into platforms to lever broad ecosystems and technology innovations, including Cloud computing, API, micro-service, and artificial intelligence, is the future. These technologies will allow insurers to create customer-focused products and service in matters of weeks or months instead of years.

Last quarter, we announced that Gartner had positioned Majesco as a leader in the Magic Quadrant for P&C core platforms. Our recognition as a leader for completeness of vision and ability to execute, has absolutely helped accelerate our pipeline, and increased in win rates. In May of last year, we launched the Digital1st Insurance platform, an innovative next-generation digital and micro-services based digital platform. Digital1st is very cool. As with our thought leadership around digital transformation, Majesco has developed this solution based on market and customer feedback. This is the fast and growing portion of our pipeline, and is probably the most active conversation that we're having with new customers.

Now, as we see the market, we see insurance carriers continuing to push back on multiyear, high-priced, on-premise implementation. Our platforms accelerate innovation, leverage new and growing ecosystems, provide scalability for growth, and most importantly, can be deployed in weeks and months rather than years. I am very encouraged by the growing acceptance of Majesco's products, which are resonating with both our current customers, and potential customers. Now, one of the things that attracted me to Majesco also was this customer-first culture that is built on trust, and our customers have trusted us to provide them with core insurance platform software to run their businesses. We are dedicated to providing them with leading products and solution, exceeding implementation results and superior customer service. The combination of providing customers with leading products and services differentiates Majesco from our competition, and create strong, deep relationships with our customers.

As we mentioned in this afternoon's press release, during the third quarter, we added seven new customers. We had expanded relationships in three existing customers, and saw overall strong renewal yields. Some of the highlights, as mentioned, was a Tier 1 US-based carrier focused on specialty insurance, who's implementing their cyber liability line of business on the Majesco policy solution. We also had a Tier 4 U.S.-based InsurTech who chose Majesco's P&C suite, and Digital1st platform to support the rapid roll out of its nationwide workers compensation program. In addition, we had a Tier 2 U.S.-based select Majesco's L&A, and Group Suite Solution, so the suite of Policy, Billing, and Claims to modernize its operations of administering employee benefits plans. One of the important wins was a Tier-1 U.S.-based P&C wholesale broker who selected Majesco's Digital1st platform to accelerate their digital journey and modernize systems of engagement with their carriers, partners, agents, and customers. Now each successful implementation also enhances our credibility in the market with our customers and potential new customers, while demonstrating our important value proposition of speed to value.

During the third quarter, we successfully went live with seven customers, including a Tier 1 customer with a multi-line carrier using Majesco billing for P&C, a Tier-1 U.S. national multi-line insurance company, also using billing, and several others including customers in Malaysia, Singapore that went live. Now, Majesco's partnership with these customers is critical. As important as it is for us to win new customers, our success in helping customers go live is critical.

Now, partnerships play an important role to drive our growth strategy and solutions. One of the strategic partnerships is with IBM. The MetLife program represents the life annuity and group segment through IBM, which represents one of the largest cloud deals, and our joint IBM and Majesco team are focused on the successful implementation of this cloud-based solution. Overall, our IBM partnership continues to getting momentum with a growing pipeline. We are actively pursuing several opportunities with Tier 1 and Tier insurance carriers in both the life and annuity group as well as the P&C markets.

Additionally, this quarter, our acquisition of Exaxe further strengthens our position in the market. We are excited to add their team to the Majesco family. We're even more excited to introduce this cutting edge cloud technology to our growing group of European customers and prospects. Majesco has a compelling opportunity, and I'm excited to be part of the leadership team. Our third quarter results reflect the growing momentum across Majesco and alignment to market trends in the insurance industry. I'm pleased with the progress we are making, and believe fiscal 2019 is on track to be a strong year for the Company. I look forward to continue my active engagements with investors, shareholders, and updating you on the Company's future.

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

Farid Kazani:

Thank you, Adam, and good afternoon to everyone. I'm pleased to summarize the third-quarter financials of fiscal 2019. This is the sixth consecutive quarter of consistent improvement in the revenue and profitability. We are pleased with the positive trends in the key performance metrics of the business. Let me enumerate the key highlights of the overall performance of the third quarter.

Firstly, on the revenue figures. The revenue for the third quarter ended December 31, 2018 was $35.4 million, up 11.4% year-on-year and 4% sequentially. The year-to-date revenue for the nine-month period was $103 million, as compared to $90 million for the same period last year. This is 14.4% higher as compared to the corresponding period. The higher revenue was driven primarily due to the higher cloud revenue, additional of new logos, continued business engagement with existing customers, and acquisition revenues from excess holding that was consummated during the third quarter.

Total cloud revenue was $15 million for Q3 fiscal 2019, and stood at 42.3% of revenue as compared to $9.9 million which was 31.2% of revenue during the same period last year reflecting a growth of 51.1%. The cloud subscription revenue grew 55.8% from $2.8 million in Q2 of FY 2018 to $4.4 million in Q3 of FY 2019. As a percentage of revenue, the cloud subscription stood at 12.4% in this Q3 Fiscal 2019 as compared to 8.9% in the corresponding quarter of last year. The total number of cloud customers now stand at 51 at the end of December 31, 2018.

For the nine-month period ended December 2018, total cloud revenue stood at $40.5 million versus $26.7 million, reflecting a growth of 51.6% over the same period of the last fiscal. The growth has significantly offset the growth, the drop in the on-premise implementation revenue, which declined 16.3% from $27.5 million in the nine-month period ended 31 December, 2017, to $23 million in the nine-month period ended December 31, 2018.

The total recurring revenue stood at $11.7 million for the third quarter FY 2019, and it increased 39.8% representing 33.1% of the total revenue as compared to $8.4 million, representing 26.4% for Q2 of fiscal 2018. For the nine-month period ended December 31, 2018, the total recurring revenue stood at $30 million, representing 32% of the total revenue and reflecting a growth of 37.6% versus the same period last year. From a geographic standpoint, the North America, Europe and APAC regions represented 84.3%, 10%, and 5.7% respectively for the third quarter's total revenue, as compared to 87.6%, 6.5%, and 5.9% respectively for the nine-month period ended December 31, 2018.

In terms of business split, the P&C revenue reflected 68.5%, the life and annuity represented 30.9% and non-interest was 0.6% for the third quarter of fiscal 2019. FY 2019's total revenue and 70.8%, 28.5%, and 0.7% respectively for the nine-month period ended December 31, 2018. In terms of client concentration, the top customer this quarter represented 12.2% of revenue, while the top five constituted 29.6%, and the top 10 constituted 43.1% of third quarter's revenue. Turning to profitability.

During the quarter ended 31 December, 2018, the gross margins of 49.3% compared to 46.9% in the quarter ended December 31, 2017. The year-on-year increase in margin was primarily due to higher revenue mix from cloud business and improved delivery of efficiencies. For the nine-month period ended December 31, 2018, the gross margins were also higher at 49.1% as compared to 44.9% in the similar period previous year. For the fiscal 2019 third quarter, SG&A was 9.7%, representing 27.4% of revenue as compared to 32.3% during the third quarter of last fiscal 2018. During the nine-month period ended December 31, 2018, the 670-basis-point improvement in SG&A as a percentage of revenue reflected strong operating leverage and improved management of G&A expenses.

The productive and upfront expenditure was at $4.8 million for the third quarter FY 2019 with representing 13.6% of revenue as compared to 14.3% during the same period of fiscal 2018, and for the nine-month period ended December 31, 2018, the additional expense of 12.9% in R&D expenditure compared to previous year we're focused on enhancing the cloud and digital offerings.

The Adjusted EBITDA for the third quarter ended 31 December, 2018 was $4.9 million or 13.9% of the revenues as compared to the Adjusted EBITDA of $2.2 million which was 6.8% during the quarter ended 31 December, 2017. The same was also higher by 79 basis points as compared to the sequential quarter

EBITDA for the period ended 30 September, 2018. The Adjusted EBITDA for the nine-month period December 31, 2018 was $12.8 million or 12.4% of revenue as compared to $2.8 million or 3.1% of the revenue during the nine-month period ended 31 December, 2017.

At a net income level for the third quarter ended December 31, 2018, the figure stood at $1.8 million or $0.05 per diluted share as compared to a loss of $3.1 million or a loss of $0.08 per share in the third quarter of the last fiscal. Net income for the nine-month period ended 31 December, 2018 was higher at $5.7 million or $0.15 per diluted share as compared to a net loss of $5.4 million or a loss of $0.15 per share for the nine-month period ended 31 December, 2017.

It may be noted that in the third quarter ended 31 December, 2018 included an exceptional one-time legal statutory expense of $0.44 million for the Access Holdings acquisition. Whereas in the previous quarter ended 30 September, 2018, it had an exceptional gain on account of reversal contingent on our consideration of $0.84 million no longer required.

Turning to balance sheet. The cash and cash equivalent was $14.5 million as of 31 December, 2018, as compared to $15.1 million at the end of September 30, 2018, whereas the total debt as of 31 December, 2018 was higher at $31.7 million (phon) as compared to $11.7 million at the end of September 30, 2018. The net cash after debt was lower by $2.7 million. But after considering the upfront payment of $7.2 million for the acquisition of Access Holding consummated in the third quarter.

The DSO stood at 82 days at the end of 31 December, 2018. The 12-month executable order backlog increased 16.4% to $85.4 million at the end of December 31, 2018 as compared to $73.3 million at the end of September 30, 2018. The head count was higher at 2,625 which included 36 employees from Access team at the end of December 31, 2018, as compared to 2,491 at the end of 30 September, 2018.

Lastly, on the rise (phon) issue announced by the Company on December 27, 2018, due to the ongoing SEC shutdown, the report date has now been fixed for February 5, 2019 and the expiration of the issue to take place on February 25, 2019. Overall, the third-quarter reflects improvement across all key metrics including revenue growth, customer acquisition, cloud-based Matrix, margin expansion, order backlog growth and positive cash flow.

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

Operator:

At this time, if you would like to ask question, please press star, followed by the number one on your telephone keypad. If you're calling from a speakerphone, please make sure your mute function is off to ensure your signal can reach our equipment. Again, star, one to ask a question.

We'll go first to Avishai Kantor from Cowen. Your line is open.

Adam Elster:

Hey Avishai, it's Adam. How are you?

Avisha Kantor:

Good afternoon (inaudible) and great quarter for you, Adam. My first question is regarding, you mentioned improved winning rate, is this a case of a strong market demand or is this is a case of you guys bidding share from market share from some of the other vendors? I don't know if you can elaborate in case it's a winning share from the leaders in the industry or basically just three vendors, if you can elaborate on that.

Adam Elster:

As you saw from some of the wins, they spread across the tiers. There were some tier one's, tier two's, tier three's. It was a mixture of tiers where we saw win rates. I think what we did say is we saw, we had a pipeline the team had built up over the course of the last year and I think that the sales execution was very strong in the third quarter. I think that resulted in good win rates and I think some of the additional things like getting the magic quadrant rating, and some other things going on with the Company, I think helped accelerate some of the win rates. But I don't know if I'd categorized it as taking share but I would say improved execution from the sales team in our third quarter. It was really nice to see.

Avisha Kantor:

Then, from a (inaudible) can you talk a little bit about the demand environment in life? I mean, it's very clear that P&C is seeing a strong demand environment. Can you give us a little bit though from a big picture, kind of a taste of what's happening in the life segment of the market?

Adam Elster:

Sure. As I'm learning about the insurance market over the last 90 days, some of the concern that a number of people mentioned to me is that the L&A market wasn't as large as the P&C. In fact, in many cases, hadn't made changes in a number of years but what's interesting is now we're seeing an acceleration of L&A insurers starting to go down the road of digital transformation. As a result, I think there is a pipeline growing in the L&A side of the business that might not have been in existence over the last number of years but I think many of their homegrown systems are starting to show age and as they're looking to long-term planning, I think we're seeing a growing pipeline around L&A which is great timing for us considering the releases of some of our recent products, our work with IBM. I think the timing is very good for us in the L&A business.

Avisha Kantor:

Great. My last question is a little bit personal for you. Honestly, I'm not sure if you would be able to give, to fully answer that but you obviously were a top executive in large platforms of software as a service companies. You've only been with Majesco for three months, so anything you can share with us about that your long-term plans as far as augmenting and changing the operations as any new top executive would like to do, obviously, when he comes in. Anything that you can share, maybe on the European angle, would be very helpful. Again, I understand if you do not fully discuss that.

Adam Elster:

Yes. Avishai, when we met, as I told you, and I'll reiterate, in my first 90 days, I spent considerable time listening, learning about the insurance market, the team, our advantage in the marketplace. I think over the coming months, we're formulating a multi-year strategy that we'll be able to talk about more publicly, about where do we think are big bets are as a company and things that we're going to do operationally to align behind those big bets. I think we definitely have a number of things in works as far as our strategy goes but we're still finalizing some of the execution plans against it. As I mentioned to you, we're hoping to do an Analyst Day in May where we're able to present to all of you a multi-year strategy, a view of where we see the Company going. I think by that time I'll probably give you more definitive answers. But at this time, there are a lot of ideas and thoughts but we're still going through some little bit more time listening and then we'll do a period of validation before we launch into execution.

Avisha Kantor:

Great. Thank you so much, and good luck for the rest of 2019.

Adam Elster:

Thanks, Avishai. I appreciate it.

Operator:

Again, if you have a question, please press star, one on your telephone keypad.

Next, we'll go to Shammo Drew from Phillip Capital.

Shammo Drew:

Yes. Thanks for taking my question and congrats on a very good set of numbers.

Adam Elster:

Thank you.

Shammo Drew:

My first question is on the revenue part (phon). This quarter, the revenue to date contribution from the (inaudible) so can you please (inaudible) number, how much would the (inaudible) contribution from the Access acquisition?

Farid Kazani:

Hi Shammo. The organic revenue without access has been flat for the quarter and the incremental that we've got from this quarter has come from Access. Yes.

Shammo Drew:

My second question is on the IBM partnership. Last quarter we had mentioned that we have got one PoC from large insurance companies, from the IBM partnership. Any update to that, whether—what is the status of that PoC maybe?

Adam Elster:

Yes. As I mentioned in some of the prepared remarks, we continue to see growth in the pipeline working with IBM. We have a number of opportunities that we're working on, some are further along in the PoC stage, as I mentioned in the last call. We're hoping that one of the big accelerators for the business and the pipeline overall will be once we go live with the active project we have right now. As all of you are aware, the project that we're doing with MetLife—in fact, if you listen to MetLife earnings, they talked about their investment in a unique quote-to-claim digital operating model in partnership with IBM which will roll out in 2019. I am quoting what MetLife had in their earnings. That technology is based on our products. We believe when that project goes live in 2019 that will be the real accelerator to the pipeline and the acceleration on the closure of a number of those deals.

Shammo Drew:

My last question is on the order book. This $85 million, I conclude that any orders from the (inaudible) so, what will be the (inaudible) in this quarter?

Farid Kazani:

The $85 million, okay, it's just been a couple of million from the Access, the rest has been the growth that has come from the organic business of Majesco.

Shammo Drew:

Okay. That's it from my side and all the best for next quarters.

Adam Elster:

Great. Thank you very much. Appreciate it.

Operator:

Again, star, one to ask the question.

We'll go next to George Melas from MKH, your line is open.

George Melas:

Hi. Good afternoon, guys.

Adam Elster:

Hey, George. How are you?

George Melas:

Very good, Adam. How are you?

Adam Elster:

I'm doing well.

George Melas:

Good. I looked at the total cloud customers these last few quarters and I go back seven quarters, they've increased by one, two, three. Last quarter they grew by three and suddenly now they go from 41 to 51. It seems like you had an extremely strong quarter in terms of closing new cloud customers; is that right?

Adam Elster:

Yes.

George Melas:

Okay.

Adam Elster:

I'd like to elaborate, but the sales team really had a great quarter. We saw really strong bookings. As I said in the last quarter, 80% of our pipeline is cloud-based deals, which is fantastic. We had a number of customers who also are converting from their on-premise solution over to cloud, so some of the go lives as well. The real story is, this has been the Company's focus and a move to the cloud over the last couple of years. We're seeing that pipeline mature, we're seeing deals close and we're seeing some of the customers who are on-premise starting to make the move to cloud, which validates the strategy. The simple answer is, we had a really strong, new booking, cloud business quarter in Q3, which is—it's a simple answer and a good one.

George Melas:

That includes both a combination of, like you said earlier, new customers as well as existing customers expanding or contracting new—these existing customers are making their move to the cloud?

Adam Elster:

Correct. As we mentioned, we had seven new customers; three customers expanded relationships, and in those cases, that is the business model and in some of the projects, we are converting to the cloud. I think this has been the strategy and we saw strong execution in the third quarter.

George Melas:

Great. The backlog had been down for a couple of quarters in a row and then had a big jump. Seems there is a small contribution with Maxess but you had a big jump. Is that related to these seven new and three existing new projects that…?

Adam Elster:

Yes. A portion of the backlog that increase was related to customers who did renewals. Many customers had renewals in December. They were burning down the backlog, doing the projects and doing the work but when the renewal came, it refilled some of the backlog from renewals. On top of that, what really drove it was all of these new bookings. I would tell you that's the major driver in the increase in backlog.

George Melas:

Great, and then one quick final question and sort of piggy back on the previous caller. The P&C deal that you have, the pilot that you have together with IBM, is that making some progress?

Adam Elster:

Yes. But, it's a pilot, there's PoC. When that turns into bookings, it's going to take a little while. Like I said, for the IBM pipeline in general, the go-live will probably be what accelerates the pipeline and win rates within that business. I think that's going to be a compelling event for all parties involved.

George Melas:

Okay. But that's an L&A, of course that's MetLife. Does that really impact and influence the key customers?

Adam Elster:

Yes. It does in some regard related to the partnership. There's more to—again, I think it's not as directly connected, but it influences those decisions.

George Melas:

Okay. Does that mean that with IBM right now, you involve—of course, you're doing the MetLife, you have this one P&C pilot that was mentioned. Do you have other pilots that are active?

Adam Elster:

Yes. We have a whole series of opportunities that we're doing joint pursuits on that we're tracking, we were just together a couple of weeks ago, doing deal reviews of the pipeline and review. We have a larger pipeline review and business focus that we have with IBM, we are co-presenting with them. At their event, we're presenting there with them. We're just in the mode of starting to accelerate the investments around the go-to-market and the pipeline with the relationship.

George Melas:

Okay. Great. Thank you.

Adam Elster:

Thanks a lot.

Operator:

We have no further questions in the queue. I will turn it back to Management for closing remarks.

Adam Elster:

Thank you, everyone. I appreciate you taking the time today. I'm glad I was able to drag you away from Tesla and PayPal and Facebook earnings. I appreciate the time today and look forward to talking to you in the future. Have a good evening. Thank you.

Andrew Berger:

Thank you.

Operator:

That concludes our call for today. Thank you for your participation. You may now disconnect.