Majesco

Fiscal 2019 First Quarter Conference Call

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

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

Operator:

Good day, and welcome to the Majesco Fiscal 2019 First Quarter Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Andrew Berger, Investor Relations. Please go ahead.

Andrew Berger:

Thank you, Esty 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 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 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 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; Farid Kazani, CFO and Treasurer; and Ann Massey, Senior Vice President and Finance.

At this time, I will turn the call over to Ketan. Ketan, go ahead.

Ketan Mehta:

Thank you, Andrew. Good afternoon, everyone, and welcome to Majesco's Fiscal 2019 First Quarter Conference Call. I'm encouraged by the strong start to fiscal 2019, reflecting a solid execution of our growth-oriented business plan and successful transition to a cloud-based operating model.

First quarter results reflect the fourth consecutive quarter of revenue growth and profitability improvement. Revenue in quarter grew to—revenue for the quarter grew to $33.5 million, which is a 20% growth over the same quarter last year.

Cloud revenues increased by 66% compared to the fiscal 2018 first quarter and now represent over 36% of our business compared to 26% for the same period last year. Majesco's profitability has strengthened as well due to overall revenue growth, which is being driven by higher margin cloud-based sales. Adjusted EBITDA, as a percentage of revenue, was 10.3% during the fiscal 2019 first quarter, a nearly 1,177 basis point improvement from the same quarter last year and 150 basis points improvement than the fiscal 2018 fourth quarter.

So with this overview, let's look at what is driving our results. Business activity was favorable across many of our product and geographic markets, reflecting a growing momentum towards Digital Insurance 2.0 for both InsurTech start-up and greenfield incumbent insurers. Across the industry, insurers, reinsurers and NGAs are redefining and transforming their business to create compelling customer experience, meet new customer expectations, develop new innovative products and solve, and enter new unserved or underserved markets, all in support of growth strategies.

To successfully accomplish these new growth strategies and help insurers rapidly shift to Digital Insurance 2.0, they are increasingly seeking innovative forward-thinking strategy partners who provide the experience, expertise and next-generation platform solutions like Majesco and deliver this with speed and agility.

Cloud is becoming the deployment option of choice for insurers. Majesco's cloud platforms are becoming the solution of choice because of their low investment risk model with pay-as-you-grow pricing, low upfront investment with ability to test and learn and speak to value.

In addition, with our growing ecosystem of partners, our cloud platform solutions integrate innovative capabilities from InsurTech and others, such as artificial intelligence, machine learning and new data sources that are not as easily available on on-premise solutions.

As you've seen, over the past several years, Majesco has developed a leadership position in the cloud platform solutions for insurance carriers, and we now have 38 cloud customers, which is up from 32 customers a year ago.

We're working to expand Majesco's leadership in the cloud, and during the quarter, we officially launched Majesco's Digital1st Insurance, an innovative next generation digital and micro services-based platform.

After three years of development, we deployed this new offering through a new greenfield digital business unit. The potential for Majesco's Digital1st is exciting, and we have seen a strong interest in the offering in the first couple of weeks since the launch.

During the first quarter, we also announced the release of Majesco's L&A and Group Core Suite. The new version 10.0 includes Majesco's life and annuity and group policy, Majesco life and annuity and group billing, and Majesco's life and annuity and group claims system. The release highlight Majesco's continued investment in our core system. The new system support individual voluntary benefits and group insurance on a single platform to support the rapidly changing market demographics and innovative products demanded by the insurance customer.

One of the cornerstones for our cloud leadership is our partnership with IBM. The MetLife program represents one of the largest cloud deals, and our joint IBM and Majesco teams are focused on successful implementation of this cloud-based solution.

Overall, our IBM partnership continues to gain momentum with growing pipeline, and we are actively pursuing several opportunities with Tier 1 and Tier 2 insurance carriers in both life and annuity and P&C markets globally.

During the quarter, a leading third-party administrator selected Majesco's solution for a wide-range of P&C programs, including workers' compensation, liability and property claims management applications, and Majesco's billing for P&C, Majesco's Enterprise Data Warehouse and Majesco's Business Analytics to replace their legacy support for their program growth strategy.

We believe that delivering speed-to-value remains our key differentiator. During the quarter, we had four go-live events demonstrating some real-life examples of delivering speed-to-value.

Majesco's Billing for P&C went live in 90 days for a Tier 1 greenfield. Majesco's policy for P&C and billing for P&C went in production for commercial property and GL in seven weeks for an InsurTech start-up, and Majesco's Policy for P&C and Majesco Billing went live in 19 weeks for another InsurTech start-ups.

American Capital Assurance Corporation went live in eight months with the Majesco's P&C Core Suite, inclusive of policy, billing and claims.

Our first quarter results reflect growing momentum and strength in Majesco's business and a successful transformation to a cloud-based business model. Trends in the insurance industries are driving shift to digital and cloud platform solutions to enable growth strategies and shift to Digital Insurance 2.0. Our solutions are uniquely positioned to benefit from the shift, and we're excited about opportunities to grow our business in fiscal 2019 and beyond.

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

Farid Kazani:

Thank you, Ketan, and good afternoon to everyone. I'm pleased to summarize the first quarter financials of fiscal 2019. This is the fourth quarter of consistent improvement in the revenue and profitability performance, and we are pleased with the way the business is shaping up and hope to continue the positive improvements quarter-over-quarter.

Let me enumerate the key highlights on the overall performance of first quarter. Revenue for Q1 FY 2019 increased 20.2% year-on-year and 1.8% sequentially on account of the ramp-up in the IBM program and increasing business momentum from new logos and additions in previous year.

The Adjusted EBITDA margins improved by another 150 basis points as compared to Q1 FY 2019 to 10.3% as compared to Q4 FY 2018 and approximately 1,200 basis point as compared to the same quarter last year.

The higher Adjusted EBITDA margin is a result of better-earning profile supported by cloud revenue. The total cloud revenue for Q1 stood at 36.3% of revenue as compared to 26.3% during the last year, reflecting growth of 65.5%. The cloud subscription revenue grew 28.8% from $2.5 million in Q1 of FY 2018 to $3.3 million in Q1 of FY 2019.

The total number of cloud customers now stand at 38 at the end of June 30, 2018. Over the past 12 months, Majesco's revenue has been subject to a significant shift in the mix, while revenues from on-premise implementation have declined 6% on a year-on-year basis.

Cloud revenues have increased 65% to fully mitigate this decline. We continue to believe that the positive impact of the growing base of cloud revenue will more than offset the decline in the on-premise implementation revenue.

The total recurring revenue was $9.9 million for the Q1 FY '19, representing 29.5% of total revenues as compared to $7.4 million, representing 26.5% for the quarter one of last fiscal FY '18.

During the quarter ended June 30, 2018, the gross margins were 47.9% as compared to 42.6% in the quarter ended of June 30, 2017, and 36.9% in the quarter ended March 31, 2018. The year-over-year increase in margin was primarily due to better revenue profile with higher cloud revenue.

For the fiscal 2019 first quarter, the SG&A was $9.5 million. As a percentage, the SG&A was 28.3% as compared to 36.9% during the fourth quarter of the fiscal 2018. The decline in SG&A is driven by better control on the G&A expenses. With the growth in revenue and decline in the SG&A expenses, the decline in the SG&A as a percentage of revenue reflects an improved operating leverage.

On the product development expenses, the expense was at $4.8 million for the first quarter FY 2019. As a percentage of revenue, the R&D expenses were 14.4% of revenue as compared to 14.1% during the same period of the last fiscal 2018. The increase in R&D expense was focused on enhancing our cloud and digital offerings.

Our overall revenue growth combined with more profitable mix of revenues and operating leverage drove the increasing profitability. Adjusted EBITDA for the first quarter ended June 30, 2018, was $3.5 million or 10.3% of revenue as compared to an Adjusted EBITDA loss of $0.4 million or negative 1.5% during the quarter ended June 30, 2017.

At a net income level, we ended the quarter at $1.04 million, which is $0.03 per share as compared to a negative $1.6 million, which was $0.05 per share in the first quarter of the last fiscal. From a geographic standpoint, the North America, U.K. and APAC regions represented 89.5%, 4.3% and 6.2%, respectively, for the first quarter's total revenue as compared to 89.7%, 5.3% and 5%, respectively, for the same period of the last fiscal year.

In terms of business split, the P&C represented 72.7%; life and annuity represented 26.5%; and the noninterest was 0.8% for the first quarter of FY 2019 as compared to 80.5%, 17.5% and 2%, respectively, for the same period of the last fiscal year.

In terms of client concentration, top customers in this quarter represented 13.5% of the revenue, while the top 5 constituted 30.9%, and the top 10 constituted 25.9% (phon) for the first quarter of fiscal 2019 as compared to 6.1%, 24% and 20.4% (phon) for the quarter ended June 30, 2017.

Turning to the balance sheet. The total debt as of June 30, 2018, was $13.3 million compared to $13.6 million as of March 31, 2018, whereas the cash and cash equivalent was $11.7 million at the end of June 30, 2018, as compared to $9.2 million at the end of March 31, 2018. DSOs improved marginally to 76 days at the end of June '18 as compared to 80 days in the previous quarter ended March 31, 2018.

The 12-month executable backlog stood at $81.6 million at the end of June 30, 2018, as compared to $90.6 million at the end of March 31, 2018. Headcount was marginally higher at 2,394 at the end of June 2018, as compared to 2,356 at the end of March 2018.

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:

Thank you. If you would like to ask a question please signal by pressing star, one on your telephone keypad. If you're using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again press star, one to ask a question. We will pause for just a moment to allow everyone an opportunity to signal for questions. Again that is star, one to ask a question.

We will take our first question from Mike Chadwick (phon) at Anteros (phon) Capital.

Mike Chadwick:

Hi. Good afternoon gentlemen. Congratulations on a strong quarter.

Ketan Mehta:

Thank you.

Mike Chadwick:

Yes. I just had a couple of questions here regarding some of the comments you made at the front-end of the call. You talked about AI, machine learning. I know we've briefly touched on this in a previous call. I was hoping maybe you could share a little bit of color there in terms of some of the things we should be thinking about coming up over the next 12, 24 months in that genre.

Ketan Mehta:

Absolutely. I think our approach is that there are number of InsurTechs and start-ups who are building different unique capabilities in the areas of AI, machine learning, and through our digital source platform and EcoExchange, we are integrating those capabilities to our current platform solutions, including our core systems. In addition, we are also working with IBM to integrate some of the Watson capabilities into our solutions as well. So we believe that this open architecture where we integrate the partner capabilities into our platform solutions and deliver it to the client gives us lot of access to lot of capabilities, which are being built into the strongly coming up InsurTech EcoSystem.

Mike Chadwick:

That's great. If I may I'll ask one other question here regarding IBM. If you can just give us a little bit of color going forward. You've been in this relationship now for, well, over a year roughly in terms of—obviously, MetLife is October of last year, but in this relationship, it's been expanding. Can you tell us a little bit more about maybe what you're doing differently today in terms of how you're approaching some of the deal flow versus what you were doing, say, six, nine months ago? Obviously, it's a learning process and a curve working with a big partner like that.

Ketan Mehta:

Sure, sure. So we're expanding our—initially, if I reflect back on the IBM partnerships, I think there was a learning process, which both the sides went through; one, in terms of integrating our solutions tightly together, deploying them on IBM Cloud, et cetera. Then we are now initially focused on the group market based on the MetLife success, but now also looking at P&C, and we're also looking at number of global opportunities across the board. So if I look at the broad scope of the partnership that is, increased traction from IBM sales team and account team across the board, both in life and annuity and P&C industries as well as we're seeing some opportunities coming up from the global side, outside North America in IBM organizations as well.

Mike Chadwick:

Excellent. Thank you. Congrats again.

Ketan Mehta:

Thank you.

Operator:

We will take our next question from Roger Benson with Number One Corporation.

Roger Benson:

Congratulations on a very good quarter. You're growing nicely. Obviously, your relationship with IBM is working out very well for both companies. I'm wondering why wouldn't you work a deal with them to have them put some more money into Majesco and enhance your growth and enhance their ownership, and enhance the price of the stock?

Ketan Mehta:

Thanks Roger. Obviously, we are putting traction behind our partnerships and looking at ways to make it deeper. As you said that our strategic options, with like investment, which we are open to, but at the same time, I think currently what we are really looking at is focused on building the scale and getting new clients. So that's our first level mutual goals from both Majesco and IBM, and make sure that it is strategic on both sides. We will remain open to all of their ideas as we move forward.

Roger Benson:

That's fine, I just think that having them put some more cash into our Company would be better for everybody.

Ketan Mehta:

I agree. I think, clearly, we've got our organic engine chugging now pretty well. This is generating a good cash flow, and I think we also have the parent, which has funds. If you need to do an acquisition, the parent would be able to support that funding for any acquisition. So at this point in time, I think we're doing well on our business front and generating good profitability and cash flow.

Roger Benson:

Okay.

Ketan Mehta:

Thanks, Roger.

Roger Benson:

You're welcome.

Operator:

We'll take our next question from Shamal Druers (phon) with Phillip Capital.

Shamal Druers:

Hi, thanks for taking my question and congratulations on a very good set of numbers. So, my first question is on this IBM part. Within around one-year time when we signed the first deal with MetLife, but despite having very encouraging signs of newer deals with other clients, somehow we're not able to conclude the second deal after the MetLife. So what are the reasons why it is taking much time? Whether it is like the sales cycle for such type of deals are higher? Or any change in the macro environment, which are forcing the clients to take or delay their decision? Any views on that?

Ketan Mehta:

No. Really (phon) speaking, it's taking longer on the sales cycle. We have multiple opportunities, which both our teams are working together. But as we mentioned earlier, we are primarily focused on large carriers, working with IBM, and those carriers tend to have a longer decision cycle. So the teams are encouraged by the traction we are getting in the market, but it's just taking longer to close the deal.

Shamal Druers:

All right. So should we expect any deal closure in, say, next one or two quarters? Or at least in something premature to, say, anything on that?

Farid Kazani:

No. I think we're working towards it. And I think as Ketan did mention that sales cycle does take long time. We're hoping that we'll be able to close this in the due course of time. But really speaking, we cannot specify any time frame of the signing of deal.

Shamal Druers:

Second is on the order backlog. Order backlog is a little bit (Inaudible) compared to what we reported in Q3 and Q4 of last year. So despite signing many deals in last one quarter, the number does not reflect this. So, what are the reason for this sequential decline in the order backlog?

Farid Kazani:

So this is, obviously, a decline whereas quarter one is a little softer quarter. In terms of deal closures, we're seeing quite a few deals which are going to be bunched up and kind of come our way in the next quarter. But having said that when you win a cloud deal, the first 12 months executable revenue is far lower, and that's why even if we close a decent size deal in the first 12 months, the number is quite small. So, this reduction is primarily due to closure of a cloud deal where the first 12 months maybe doesn't get reflected very heavily in this number.

Shamal Druers:

Thank you for this (inaudible).

Farid Kazani:

Thank you.

Operator:

Again that is star, one to ask a question.

We'll take our next question from Parag Bharambe, Private Investor.

Parag Bharambe:

Yes. Hi. Congratulations for a good set of number and thank you for taking my question. Last quarter, you reported cloud customer as 37, and this quarter, if I haven't heard wrongly, the number is 38. If I go through your release, I can see there are more than one customer on cloud has been added. So is there any churn on the number of cloud customer?

Ketan Mehta:

No. There has been only one cloud customer that has got added. There is no churn on any cloud customer. Okay, the other add-ons that happened is with respect to existing accounts.

Parag Bharambe:

Okay, okay, yes. Thank you. The second thing is, I understand that you have invested heavily in your cloud platform in last two years. Is there any Celent or partner accreditation which you have received, which will help the new customer quickly—make a decision quickly?

Ketan Mehta:

Sorry, I didn't understand the question. Can you explain...

Parag Bharambe:

Yes. My question is—yes, is there any Gartner or Celent accreditation for Majesco's cloud product in last year or two?

Ketan Mehta:

Yes. There are multiple analyst reviews of our platform, including our Digital1st platform. In fact, Celent recently published a report on the overall platform where Majesco is prominently featured as one of the successful platform solutions in the industry. So yes, in fact, both (inaudible) and Celent and SMAs are tracking our platform solutions, they've reviewed our Digital1st platform as well, and that's being featured into their respective reports.

Parag Bharambe:

Okay. One more question on the inorganic. I know your parents has raised money for inorganic and is around two quarters now. So, do you expect some movements to happen in the next few quarters on that, inorganic movements?

Farid Kazani:

Yes. So we're exploring various targets, and they are in process, and each process has a cycle in terms of evaluating them for the right equipment and our targets are going through a sale process that there are multiple bidders. So it is taking time, but our focus is to kind of look at acquiring something that will add additional functionality and capability in our data digital suite. Okay. Therefore, we're focused to work on that and let's keep our fingers crossed to see if we can close something as quick as possible.

Parag Bharambe:

Okay. Thank you very much and all the best.

Farid Kazani:

Thank you.

Operator:

Again that is star, one to ask a question.

There are no further questions at this time.

Ketan Mehta:

Thank you, everyone, for participating on the call and maintaining your interest in Majesco, and we look forward to kind of continued interest and reverting back with the next quarter's results. Thank you.

Farid Kazani:

Thank you. Bye-bye.

Operator:

That concludes today's presentation. We thank you for your participation. You may now disconnect.