

# **2008 FOURTH QUARTER AND FULL FISCAL YEAR RESULTS**

## **FINANCIAL ANALYSTS CALL – JULY 8, 2008**

### **INTRODUCTIONS:**

Good afternoon, ladies and gentlemen! Welcome to our presentation of the 2008 fourth quarter and full fiscal year results. I am here with Berty Ho, our Chief Financial Officer.

In our presentation, we will announce the results for the 2008 fourth quarter and full fiscal year; we will also cover some of the key business highlights during the quarter. Towards the end of the call, we will open it up for questions.

Please note that the results for the full fiscal year are audited. All dollar amounts are expressed in U.S. currency and are reported in accordance with Canadian GAAP.

Some of the statements in this conference call relate to matters that are not historical fact, but which are forward looking statements that are based on management's beliefs and assumptions. Such statements are not guarantees of future performance and are subject to a number of uncertainties, including but not limited to future economic conditions, and other factors beyond the control of TECSYS Inc., which could cause actual results to differ materially from such statements.

## **Overview:**

Q4 marked another quarter of strong growth including a record number of new customers; healthcare lead the charge with significant wins and we had continued success in our general logistics market segments. We also saw a significant improvement in gross margins and good returns in operating profits. We ended the year with net income of \$1,255K in spite of the ABCP fiasco and a significant currency exchange impact. We are pleased with these results.

### **Allow me to go through the financial highlights of the quarter:**

Revenue for Q4 of fiscal year 2008 was \$10.5 million, 36% higher than the fourth quarter of last fiscal year. Product revenue continued to be strong during the quarter increasing up 59% compared to Q4 of last fiscal year, while Services revenue grew by 23% compared to Q4 in the previous year, reaching \$5.7 million.

Gross margin increased to 47% in Q4 of fiscal year 2008, compared to 38% in Q4 of last fiscal year. This gross margin improvement reflects an increase in gross margin of both products and services in Q4 of this fiscal year compared to Q4 of last fiscal year.

Earnings from operations for the quarter were \$1,514K in Q4, 2008 compared to \$46K for Q4 of last fiscal year. Earnings from operations for the quarter include the recognition of a non-refundable tax credit from a prior fiscal period in the amount of \$635K. From an EBITDA perspective, we have achieved a substantial increase reaching \$1,068K in Q4 of this fiscal year compared to \$126K for Q4 of last fiscal year. And, we generated \$732K in cash from operations during the quarter.

After accounting for an interest expense of \$12K, a foreign exchange loss of \$37K, a share of net loss of \$74K from a company in which TECSYS has an equity interest, an increase of \$717K of ABCP provision, and non-cash income taxes of \$635K, net earnings for the fourth quarter were \$39K. This ABCP provision relates to the asset backed commercial paper market in which TECSYS had an original \$5.1M investment against which TECSYS has now taken a 20% provision. TECSYS reassesses the value of its holdings each quarter as additional information is made available, using a combination of long-term fixed interest rate plus expected spreads for similarly rated instruments and an estimated risk factor.

With 2008, we have completed a year that demonstrates profitability and solid growth that is approximately triple the growth rate of the supply chain execution market. Our revenue for the year grew by 25%, reaching 38.8 million dollars compared to 31 million dollars for the same period of the prior fiscal year. Earnings from operations for the year were \$3,742K compared to loss from operations of \$598K for the prior fiscal year.

EBITDA increased substantially to \$3,210K for fiscal 2008 compared to \$446K for fiscal 2007. After accounting for an exchange loss of \$500K, net interest income of \$76K, a share of net loss of \$110K from a company in which TECSYS has an equity interest, a provision for ABCP holdings of \$1,048K, and non-cash income taxes of \$635K, net earnings for the twelve months ended April 30<sup>th</sup>, 2008 were \$1,255K or \$0.09 per share compared to net loss of \$544K or \$0.04 per share for the same period of the prior fiscal year.

I am pleased to report that during the fiscal year we have generated \$2,706K in cash from operations and achieved Return on Equity of 8.7% compared to negative ROE of 4% for fiscal year 2007.

**Now turning to some of our business highlights:**

During the quarter we have signed a significant number of agreements with existing clients, improved our recurring revenue, and captured a record number of new accounts including:

- Two major Hospital Supply chain networks in the U.S.
- One major heavy equipment dealer in the west central part of the US
- Four industrial distributors in Canada and
- Three import-to-retail distributors in the US

**Allow me to comment on healthcare, our number one market:**

With Hospitals becoming increasingly cognizant of costs and the need to manage critical supplies to healthcare professionals, self-distribution has become a growing trend. With self distribution, hospitals are empowered to substantially reduce cost. In the case of some of our clients, these savings have run to millions of dollars annually.. As importantly, hospitals are able to improve their fill rate to 99.8%, enabling them to deliver supplies just-in-time to care for their patients, and save lives.

Today, healthcare represents over 40% of the potential business in our sales pipeline. During the quarter we signed two major Hospital supply chain networks that reinforced our market leading position in this sector. We also partnered with National Medical Logistics (NML), a leading supply chain and distribution management consulting firm serving some of the largest healthcare systems in the United States. Our partnership with National Medical Logistics is intended to improve our go-to-market execution in healthcare and help increase our win rate.

One of the major Hospital supply chain networks we signed during the quarter is Orlando Health. As central Florida's 5<sup>th</sup> largest employer, Orlando Health's network consists of nine hospitals and care centres. They employ 14,000 people and are affiliated with more than 2000 physicians to provide high quality care to over 100,000 inpatients and 600,000 outpatients each year. Our solutions will be the foundation on which Orlando Health will build a Consolidated Service Center to meet the needs of its complex and demanding healthcare organization.

Also in healthcare, we have signed a national healthcare alliance that provides supply chain management services to hundreds of hospitals across the US. We are at an early stage with this initiative but overall; this opportunity could prove to be significant over the next few years.

The market for hospital supply chain networks is at the infancy of the adoption trend. The potential still lies ahead and I look forward to our continued success and growth in this sector.

In our other general distribution and logistics market segments, including heavy equipment dealers, industrial distribution, import-to-retail and general high-volume distribution, we continued to gain ground. During the quarter, we signed a contract with a major dealer in the west central part of the United States for our warehouse management system to replace an existing system for this dealer's parts distribution.

With over 800 employees in fourteen locations, this company is a major heavy equipment dealer that sells, rents and services power systems, generators, excavators and mining trucks. At any given moment in time, they have over 65,000 line items in stock, and over \$25 million invested in inventory. The company selected our solution due to positive referrals by existing clients, backed by our proven ability to drive tangible benefits in this sector. As importantly, they were convinced of our ability to provide tier one support to sustain 24x7 quality service to their clients, certainly vital to their customer service organization.

With our unique value proposition focused on this vertical, we have been able to consistently win in the heavy equipment space, capturing a major dealer every quarter and doubling our market share in North America during the last year. I look forward to our continued business development and improved market share in this industry.

Furthermore, our import-to-retail distribution business continued to thrive capturing three new distributors during the quarter. We also signed four industrial distributors, contributed by Streamline, our most recent acquisition.

In summary, Q4 was a good quarter:

- Revenue and margins continued to climb
- Expenses are within our expectations
- Operating earnings continue to improve
- Backlog at the end of Q4, 2008 was \$19M
- Our sales pipeline continues to grow, and
- We continued to generate cash.

**That concludes our presentation. Thank you for your attention, we will now open it up for questions.**