TECSYS INC. - TSX: TCS

2015 FIRST QUARTER RESULTS

FINANCIAL ANALYSTS CALL

THURSDAY, SEPTEMBER 11, 2015, 4:30 P.M. EDT

Operator:

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the TECSYS 2015 Fiscal First Quarter Financial Results Conference Call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question and answer session. Instructions will be provided at that time for you to queue up for questions.

If anyone has any difficulties hearing the conference, please press the Star 0 for operator assistance at any time. Please note that the complete first quarter report, including the MD&A and financial statements were filed on SEDAR today, September 11th, 2014. All dollar amounts are expressed in Canadian currency and are prepared in accordance with International Financial Reporting Standards.

Some of the statements in this conference call, including the question and answer period, may include forward-looking statements that are based on management's beliefs and assumptions. Actual results may differ materially from such statements.

I would like to remind everyone that this call is being recorded on Thursday, September 11th, 2014, at 4:30 pm Eastern Time. I would now like to turn the conference over to Mr. Peter Brereton, Chief Executive Officer at TECSYS. Please go ahead, sir.

Peter Brereton:

Good afternoon everyone and thank you for joining us on today's call. Along with me is Berty Ho, our Chief Financial Officer, and earlier today we issued our 2015 first quarter financial results by press release. A copy of those results is available on our website at tecsys.com.

I will start by summarizing the key events for the quarter followed by a review of the financial results. I'll then close with a few comments on our key markets and expectations for the year, followed by a Q&A.

We started this fiscal year building on our momentum; expanding our footprint in the healthcare market by adding three new health systems, while our professional services team delivered improved results under its renewed structure and focus.

The growing demand for our products allowed us to record $9.6 million of bookings in the quarter, more than doubling the $3.7 million we signed in the same period of last fiscal year. Of this, $4.4 million came from six new accounts, which includes the three health systems I just mentioned.

These three healthcare providers employ more than 60,000 people, and once our system is implemented, it will positively affect many of those jobs, be they surgeons, nurses or administrators. Our products continue to gain acceptance in the industry at a time when providers are facing persistent pressure to improve the delivery and affordability of their care. As we become a recognized solution to an industry-wide problem, we have seen steady growth in both our pipeline and the number of providers who are actively searching us out.

This quarter’s results were buoyed by another strong performance from our professional services team. The changes we undertook over the past year have had the positive impact on the team’s ability to deliver we had hoped for. With services gross profit margin 41% this quarter, we are seeing the team execute with precision, and are now focused on maintaining this pace and realizing incremental growth from here.

With the acquisition of Logi-D closed in the quarter, we have begun integrating the company, its team and products into our existing systems. So far this process has moved smoothly, and the $703,000 of revenue generated in the first two months met our expectations.

We are speaking to a number of existing customers about Logi-D's products, many of whom approached us after hearing about the acquisition. Our discussions with these customers on ways to fit Logi-D's products into their supply chains are moving quickly, while we are also working to include them in our new proposals.

As a result of our strong performance and favorable foreign exchange conditions, we grew our backlog 28% to $33.6 million and recurring revenue 20% to $18.6 million, compared to the first quarter of fiscal 2014. These metrics underline the growing strength and stability of our business, and has allowed us to declare our first quarterly dividend of fiscal 2015 of 2.25 cents.

This quarter was excellent in all regards, and we is a good example of the performance we expect to maintain through the current fiscal year.

Now I'll run through the financial highlights.

We grew revenue by 23% to $13.0 million. As a percentage of total revenue, products accounted for 30% and services for 67%, the same as in Q1 2014. Total bookings more than doubled to $9.6 million, compared to $3.7 million last year. Of this, $4.4 million came from six new accounts, three of which were the health systems I spoke of earlier.

As I have mentioned in previous quarters, our sales cycle can take as long as 24 months which inevitably causes the number of new customers we close to change quarter to quarter. Looking at our pipeline, we have the demand to accelerate the number of new accounts we are signing, and expect to exit the year averaging two new health systems a quarter.

In the first three months of fiscal 2015 we had 17 accounts go live on our software. These accounts included one health system and one large healthcare distributor, as well as five hospitals which went live on Logi-D's products. All of the customers that went live with Logi-D this quarter were located in either Ontario or Quebec, a demonstration of the strength of their sales force nationally - which we hope to lever.

Service revenue was $8.7 million, higher by $1.6 million compared to Q1 of 2014. A consistent theme over the last nine months has been the improving productivity of our professional services team. This quarter they continued this trend, achieving margins of 41%, compared to 33% in Q1 2014 and 35% last quarter

Profits from operations for the first quarter of 2015 were $474,000 or 4% of revenue, compared to $171,000 or 2% of revenue in Q1 2014.

EBITDA grew to $1.0 million compared to $579,000 in Q1 last year.

Net profit was $343,000 or $0.03 a share compared to $83,000 or $0.01 per share for the same period last year.

Finally, we ended the quarter with $5.3 million of cash and cash equivalents, down from $8.8 million at April 30tt, 2014. This decrease is mainly due to the acquisition of Logi-D and its associated costs as well as investments into our flagship products, *EliteSeries*.

That concludes the financial highlights of the first three months.

Moving on to our market position,

Our SMB and WMS customers remain the largest contributors to our revenue, and we continue to see demand for these products grow steadily. The importance of this segment can be seen when we can look at the 17 go-lives we had this quarter, of which 10 of those were with WMS or SMB customers. These core customers look to TECSYS to solve their complex, high-volume supply chain needs, that other companies cannot do as affordably or effectively.

One example is HOLT CAT, the largest Caterpillar dealer in the United States, who we signed in June. This dealer grows our market share to about a third of the

North American Caterpillar dealers, but handling well over half of the total service parts volume.

The growing number of established businesses choosing our software to manage some of their most complex processes is a validation of the recent recognition we have received from industry research and advisory companies such as Gartner and Frost & Sullivan for our innovation and market leadership.

This fiscal year demand will also be driven in part from customers looking to upgrade their solutions to our new Java-based platform. This quarter we announced that a long-term customer, A.C.E., has chosen to invest in our new technology to improve the end-to-end management of their supply chain. We believe we will see more of our existing customers re-invest in their supply chain, like A.C.E, as we work on educating them on the value of our new software.

Encouraging this adoption will be our base account sales team, which was created as part of our professional services re-organization. This team will now be solely focused on building deeper relationships with existing accounts, and we expect this renewed attention will help accelerate their portion of sales.

This growth will be complimented by the accelerating adoption of our products in the healthcare market. While providers continue to search for ways to reduce costs while improving their delivery of care, we are establishing ourselves as the reliable solution.

As we go-live with more healthcare customers, and help them to quickly realize their return on their investment, our reputation and awareness in the industry has quickly improved. We now have testimonials from a cross section of healthcare providers, committing to the effectiveness of our products for any health system, big or small.

The more we show that we can provide value to even the small and rural providers, interest is growing from parts of the market that have been hesitant in the past. This shift in opinion is helping us build momentum and expanding our addressable market, as we remain the only provider of a healthcare focused supply chain solution.

Adding to the existing opportunity we have in healthcare is the inclusion of Logi-D's products. Integrating these products will allow us to get deeper into health systems supply chains, building a better presence with end users such as doctors, surgeons and nurses. Including these product can also materially increasing our average contract value, and help accelerate our growth.

With these opportunities available to us, we are mindful of being prepared for when the demand for our products starts to accelerate.

From an employee perspective, including Logi-D's team, we do not expect to grow our headcount in the near-term. Rather than grow our professional services team, we are focused on maintaining and building on the efficiency we have worked hard to achieve, while growing our capacity through leveraging industry partnerships.

Working alongside partners, we can provide our software and expertise while relying on our third-parties to consult and implement the solutions. This will allow us to build our capacity while growing our head count at a relatively slower pace. These partnerships are a strategic part of our future growth and we expect to have further news on them throughout the year.

In summary, this was an excellent quarter and exactly how we wanted to start our fiscal 2015. We closed on $9.8 million of business, went live at 17 different sites, signed three new key healthcare clients and received another solid quarter from our services team.

Looking ahead, we are excited by the opportunities we have available to us, and I look forward to speaking to you all again in three months.

With that I will turn it over for Q&A.