

**TECSYS Inc. – TSX: TCS**  
**First Quarter FY2016 Results**  
**Financial Analysts Call**  
**Thursday, September 10, 4:30pm**

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## **Operator**

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the TECSYS First Quarter Fiscal 2016 Results Conference Call. At this time, all participants are in 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 difficulties hearing the conference, please press star 0 for operator assistance at any time. Please note that the complete first quarter report, including MD&A and financial statements were filed on SEDAR today, September 10, 2015. All dollar amounts are expressed in Canadian currency and are prepared in accordance with International Financial Reporting Standards and are unaudited.

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 10<sup>th</sup>, 2015, at 4:30pm 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

Thank you, and good afternoon everyone. We appreciate you joining us for today's call. Earlier today we issued our unaudited 2016 first quarter financial results and a copy of those results is available on our website at [tecsys.com](http://tecsys.com). Joining me today is Berty Ho, our Chief Financial Officer. I'll start by summarizing the key events for the quarter and reviewing our Q1 financial results. I'll then close with a few comments on some key events from the quarter followed by a Q&A session.

Revenue in the first quarter grew 15% to \$14.9 million from \$13.0 million in the prior year quarter.

Total contract bookings in the quarter amounted to \$6.7 million of which \$1.7 million came from four new accounts. In comparison, \$9.7 million was booked in the prior year. We would like to highlight that Q1 2015 included a significant win with an IDN which amounted to \$3.6M. In general, contract bookings were where we would expect to see them on a seasonal basis.

In the quarter we closed 2 new IDN accounts, on pace with the average number of new accounts I've discussed previously. The number of new IDN customers that close in any given quarter will fluctuate as a result of the healthcare sales cycle which can be upward of 24 months. Looking at our pipeline, we have the demand to maintain new accounts additions and expect to maintain our run rate of two new health systems a quarter.

Of particular note, one of the new IDN contracts we signed in the quarter was with a cooperative of multiple IDN's. This is something that is beginning to occur throughout the industry as smaller hospital networks team with other similar networks in pursuit of economic efficiencies and improved patient services. This can create interesting opportunities for us, as we work with these related networks to drive improvements from forecasting and demand planning all the way through to point-of-use.

I'm looking forward to reporting back in the coming quarters as this relationship takes hold and begins to meaningfully contribute to our IDN expansion plans.

Now looking a little more closely at the financials for the quarter, as I mentioned earlier, we grew total revenue by 15% to \$14.9 million. As a percentage of the total revenue, our products accounted for 28% and services for 69%.

As we have discussed previously, overall revenue in the quarter was higher by approximately \$1.9 million of which approximately \$1.3 million was due to exchange rates as the Canadian dollar continued to weaken compared to the US\$. Conversely, we saw our cost of sales and operating expenses increase by approximately \$400,000 due to the higher U.S. Dollar.

Breaking down revenue a little further, we recorded \$10.3 million in services revenue, higher by \$1.6 million compared to Q1 of 2015. Services margins improved to 47% from 41% in Q1 2015. We have seen notable improvements in services revenue streams with strong gains across most areas, including professional services, support, and product customization compared to the same period last year. The increase in service revenue came mainly as the result of the higher order backlog at the beginning of the current fiscal year and a favorable impact of the weakening Canadian dollar combined with increased capabilities in our services organization.

Proprietary products revenue, defined as internally developed products including proprietary software and technology hardware, increased 3% in the first quarter of fiscal 2016 to \$2.1 million.

Third party products revenue increased to \$2.1 million, \$286,000, or 16% higher in the first quarter of fiscal 2016 in comparison to \$1.8 million for the same period last year. The increase was largely the result of higher radio frequency equipment volume in the quarter.

Overall, gross margin improved to 50% compared to 47% in the prior year quarter. The improvement was driven by a combination of the positive impact of exchange rates as well as higher services revenue and margins which improved to 47% compared to 41% last year.

Profit from operations for the first quarter of 2016 was \$207,000, compared to \$474,000 in Q1 2015. The change was the result of higher operating expenses, which were partially offset by higher services margin and third-party products margin.

EBITDA was \$831,000 compared to \$1.0 million in Q1 of last year.

Taking a look at total operating expenses for the first quarter of fiscal 2016, we saw an overall increase to \$7.2 million, higher by \$1.6 million, or 29%, compared to \$5.6 million for the same three-month period last year. The increase was driven by higher sales and marketing expenses as well as increased R&D expenses, as we continue to strategically invest to support our long-term growth. As I mentioned earlier, operating expenses were also impacted by the fluctuation of exchange rates, increasing by approximately \$180,000 compared to the prior year quarter.

Looking at costs a little more closely, sales and marketing expenses totalled \$3.6 million in the quarter, \$1.0 million higher than the comparable quarter last year. The increase was attributable to a number of things (factors), including the expansion of the sales and marketing team, and our user conference, as well as sales commissions, marketing programs and travel expenses.

R&D expenses increased to \$2.3 million in the current quarter, \$678,000 higher than the same quarter last year. The increase in R&D expenses was driven by several factors: Higher employee related expenses, one time consulting and translation expenses, as well as higher travel costs. We are looking at a significant market opportunity in the healthcare arena and have made the decision to increase our investment there. This is driving the increase you are seeing in R&D as well as Sales and Marketing. Over the next year, we plan to introduce a number of new offerings that, we believe, will further strengthen our position.

Now, turning attention to cash and cash equivalents, we ended the quarter with \$11.9 million in cash and cash equivalents, up from \$10.8 million at April 30th, 2015 - mainly as a result of cash generated from operations as well as non-cash working capital.

We closed this quarter in a great position. With strong order bookings, a solid sales pipeline and sustainable backlog, we have both the stability to continue returning value to shareholders, and the flexibility to capitalize on the many opportunities we have to grow.

Before opening the line for Q&A, I want to turn to events that occurred in the quarter. In June we hosted our annual user conference, SmartVision 2015 in Orlando, Florida. This innovative conference brings together our customers to share ideas with industry peers and learn from industry experts about the multitude of use cases for our innovative products.

SmartVision also serves as a fantastic opportunity for our team to interact and further build and develop strong relationships with our customers in a unique event setting. Our 2015 event was a great success, and I look forward to hosting our 2016 event in Arizona next year.

In summary, this was a solid quarter. We closed \$6.7 million of business, signed two new IDN customers and continued developing a number of opportunities in our pipeline. We see nothing to prevent us from maintaining and growing our revenue run rate as we execute on the strong contract bookings we are achieving and implement our order backlog, which at the end of the current quarter totaled \$44.8 million.

Looking ahead, we remain excited by the opportunities we see available to us, and I look forward to speaking to you all again after Q2.

With that I will turn it over for Q&A

**Operator** *[Q&A instructions]*

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**Peter Brereton (post-Q&A)**

Thank you for participating on today's call. We appreciate your questions as well as your ongoing interest in and support of TECSYS.

We look forward to speaking to you again when we report our Q2 results.