

TECSYS INC. - TSX: TCS

2015 SECOND QUARTER RESULTS

FINANCIAL ANALYSTS CALL

TUESDAY, NOVEMBER 25, 2014, 4:30 P.M. EDT

Operator:

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the TECSYS 2015 Fiscal Second 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 second quarter report, including the MD&A and financial statements were filed on SEDAR today, November 25th, 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 Tuesday, November 25th, 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 here is Berty Ho, our Chief Financial Officer. Earlier today we issued our 2015 second quarter financial results by press release, and a copy of those results is available on our website at tecsys.com.

I'll start the call by summarizing some key events in the quarter followed by a review of the financial results. I'll then close with a few comments on the business, followed by a Q&A.

This quarter we continued to steadily build on our momentum in the healthcare market. We signed our largest IDN or health system to date, expanded our relationship with a number of existing clients, and saw strong demand for our newly acquired Logi-D product line. The changes we undertook in our sales and services team continue to show their benefits, recording another strong quarter while advancing a number of exciting opportunities in our pipeline.

Signing our fourth IDN in fiscal 2015 reflects the growing rate of which healthcare providers are adopting supply chains solutions. What is most important about the IDN customer we won this quarter is its size, at over 46 hospitals it is one of the largest in North America, and shows the growing acceptance of our solutions. Our ability to consistently win hospital networks of all sizes and complexity highlights the strength of our team and products, which continues to be a key reason for our success. Our initial project with this IDN will be to implement our Consolidated Services Center solution using our warehouse management and its extended applications, but with its large size we see plenty of opportunity extend the value we can bring to this client.

In addition to winning this new large IDN, we also expanded our relationship with a number of existing healthcare customers. We saw demand driven in part by an existing client consolidating their market and needing to integrate newly acquired hospitals into their existing TECSYS network. We were also successful at growing our presence organically with a number of IDN's expanding where they want TECSYS active in their hospital, adding further seats and modules.

For the fourth consecutive year we were ranked as a visionary by Gartner in their Magic Quadrant for Warehouse Management Systems, and were again recognized as providing highly differentiated solutions for IDNs. Having our products acknowledged for their excellence by both Gartner and Frost & Sullivan this year, validates our product strategy and improves our awareness in the industry. As a Company, we continue to actively attend key trade shows and conferences, and have seen a notable increase in interest around TECSYS at these events compared to years past.

Product revenue growth this quarter was driven by strong demand for our newly acquired Logi-D products, which recorded \$1.7M in sales. Notably, one of Logi-D's existing US hospitals decided this quarter to expand into other key areas and add new Logi-D products into their hospital. This order totaled around \$800,000 and demonstrates how these products can quickly accelerate our growth. As an added benefit, this customer is a recognizable name in US healthcare, and helps boost Logi-D's products, reputation, and recognition in a market we are focused on developing.

This quarter we completed integrating Logi-D's sales and marketing team into the TECSYS structure which will allow us to better leverage our sales expertise along with products and client knowledge. Since the acquisition closed we have actively marketed the Logi-D products to our existing customers with positive feedback. Bringing sales and marketing together will allow us to more effectively market and sell these products, accelerating our ability to cross-sell to our combined client base. Our expectation when we closed the Logi-D acquisition was that it would breakeven in fiscal 2015, and its performance in the first half of the year gives us confidence it will achieve that.

Compared to this time last year we have grown our backlog by over \$7 million, our recurring revenue, which is included in the backlog, was higher by \$3 million, a show of our success in sustainably building this business. With continued strong fundamentals, we again declared a quarterly dividend on 2.25 cents, payable on January 6, 2015 to shareholders of record on December 16, 2014.

This quarter closed our strongest fiscal first half in Company history, and with plenty of deals advancing in our pipeline, we are in a solid position to continue this growth through the rest of the fiscal year.

Financial Results

Looking at the financial highlights for the quarter,

We grew total revenue in the quarter by 16% to \$13.5 million compared to \$11.7 million in Q2 2014. As a percentage of total revenue, products accounted for 37% and services for 60%. For the first six months of the year, revenue is up 19% compared to the same period last year with services accounting for 63% of revenue, and products 33%.

Total contract bookings in the quarter was \$9.3 million, higher by 32% compared to Q2 of FY2014, more than 60% came from new and existing healthcare clients, including the new health system I mentioned earlier. For the first six months of FY2015, bookings is up by 76% compared to the same period of FY2014. As we like to remind investors, the sales cycles across some of our business segments can be up to 24 months, if not longer. One good example of that is the health system we signed this quarter, which took almost three years to close. Part of the reason this deal took so long, is that partway through our discussions the client merged with another health system, delaying the sale but also growing the opportunity.

Obstacles to getting a deal closed, like a merger, are hard to predict and make it difficult to forecast in which quarter a certain deal will close. With that said, looking at our pipeline we are confident we can end the year averaging two new health systems a quarter.

Service revenue was up 10% to \$8.1 million, compared to the same period last quarter, with margins expanding to 37% from 34%. For the first half of the fiscal year, service revenue was up 17% and margins moved up to 39% from 33% in the same period last year. This improvement is a direct result of the investments we

made in our services team, and we see their performance in the first half indicative of what they can achieve over the coming quarters.

Revenue from our proprietary products grew 29% compared to the second quarter of 2014 and 34% compared to the first six months of fiscal 2014. Strong demand for Logi-D's products helped drive much of the growth in the quarter, as we completed the integration of their sales and marketing team.

We had 21 sites go live on our software this quarter. These accounts included five on our enterprise system, eleven on software in the SMB markets and five clients that went live on Logi-D's products.

Profit from operations for the second quarter of 2015 was \$532 K or 4% of revenue. For the first six month the Company recorded \$1M in profits from operations, or 4% of revenue, compared to \$919,000 or 4% of revenue in the first half of fiscal 2014. Before acquisition related expenses and amortizations, profit from operations increased to \$1.3M in the first half of FY 2015 from \$919,000 in the first half of FY 2014, a 38% increase.

EBITDA was \$1,157,000 compared to \$1,181,000 in Q2 last year

We ended the quarter with \$5.1 million in cash and cash equivalents, down from \$8.8 million at April 30th, 2014 - mainly as a result of our acquisition of Logi-D.

We closed this quarter in a great position. With cash on hand, early success from Logi-D, a growing pipeline and solid 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.

That ends the financial overview.

Looking ahead,

We expect healthcare to be the main driver of our growth in the second half of this fiscal year. The trends we see pushing healthcare providers towards being more efficient and accountable are only getting stronger, while awareness for our solutions and recognition of their ROI has grown.

While healthcare will remain the dominant driver of growth, our WMS and other supply chain offerings continue to operate consistently and profitably. Our base accounts sales team has been focused on encouraging their customers to upgrade to our latest enterprise system, and was successful this quarter in advancing discussions started with a number of clients.

While all of these customers are on our existing software, investing in the latest version of our technology can be a big commitment, and making the decision to upgrade takes time. These opportunities are something the base account sales team is approaching with a long-term view, but we do see ourselves already gaining momentum with our existing customer base.

Having integrated Logi-D's sales and marketing team, we have used our experience selling into the North American hospital market to help refine their approach. Whereas in the past, Logi-D had focused on pursuing larger, more lucrative, more complex deals - we have shifted our approach to focus on establishing smaller relationships with new and existing clients which we will use to grow into other parts of their business. We believe this approach will help us improve the penetration of Logi-D's products into the US market, and accelerate their growth.

Following on the recent hires we made to our management team, we have appointed a new head of our SMB division. Catherine Sigmar comes to us with a strong background in ERP having spent more than 12 years at SSA and Baan. She will be focused on improving the SMB division and ensuring it develops and grows along with the rest of the Company.

We remain in discussions with a number of potential partners to help outsource some of our service and consulting work. Looking at our pipeline and backlog, we remain confident we have the capacity to handle the work ahead of us without sacrificing quality over the medium term, but do recognize the need for increased capacity in the long-term. Our Workday related partnership with IBM was a source for new discussions this quarter, and we continue to work together leveraging our strength in healthcare to complement their strength in financial and human resources management.

In summary, this was an excellent quarter and our strongest fiscal first half in Company history. We closed \$9.3 million of business, went live at 21 sites, signed one of North America's largest health-systems and continued developing a number of opportunities in our pipeline setting us up for an excellent second half of this fiscal year.

Looking ahead, we remain excited by the opportunities we see 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

Thank you operator.

I want to thank you all again for attending our conference call today and we appreciate your continued support.

If you have any questions, please feel free to contact us. You will find the contact information at the bottom of all our press releases.

With that I will end the conference call.

Have a good afternoon.