TECSYS INC.
Second Quarter FY2018 Results
Financial Analyst Call
Friday, December 1, 2017 @ 8:30am

Operator

Good morning everyone and thank you for standing by. Welcome to the TECSYS Second Quarter Fiscal 2018 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 a question. If anyone has difficulties hearing the conference please press Star followed by the 0 for operator assistance at any time.

Please note that the complete second quarter report including MD&A and financial statements were filed on SEDAR yesterday evening November 30, 2017. 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 Friday, December 1, 2017 at 8:30 am Eastern Time. I would now like to turn the conference over to Mr. Peter Brereton, Chief Executive Officer of TECSYS. Please go-ahead sir.

Peter Brereton

Thank you and good morning everyone. We appreciate you joining us for today's call. Joining me today is Brian Cosgrove, our Chief Financial Officer. I will start by summarizing the key events for the quarter. Brian will them review our Q2 financial results and I will close with a few comments on our outlook for the remainder of fiscal '18. We will then have a Q&A session.

Yesterday evening we issued our unaudited 2018 second quarter financial results and a copy of those results is available on SEDAR. We are very pleased with the results of the second quarter of fiscal 2018. We delivered reasonable revenue growth while maintaining costs relatively flat driving significant growth in gross profits, EBITDA, and earnings per share. The results demonstrate the operating leverage of our business model.

The quarter was also another validation of our strategy to deploy one common technology platform that is robust and versatile in two diverse sectors where each has different sales cycles and is affected differently by external events.

In the quarter, our complex distribution business performed strongly in terms of both new contracts and base account sales and outperformed our healthcare business sales.

Three new complex distribution contracts were signed in the second quarter with a total value - contract value of $2-1/2 million. One of these was with a large industrial distributor based in Montreal. Also in the quarter, we signed another Caterpillar dealer based in Virginia.

Built into every account is an opportunity to expand our presence with the customer by deploying additional software and services throughout their distribution network. It dedicates sales forces in each of our business segments, enables close relationships with our customers, and helps them to achieve improved efficiencies by deploying our solutions into their other locations.

In addition to the renewed focus achieved by reorganizing and expanding the sales force in 2016 there are two trends that we have seen that are driving the growth in complex distribution.

First, as a result of our experience, our advanced offering, and the reputation we have built in the market, we are more frequently called on to bid on contracts with large distributors with 10, 12, or more sites. Previously these seemed reserved for larger players -- and we are winning them.

Secondly, as e-commerce and e-fulfillment have become increasingly important distribution centers require the sophisticated solutions we provide. For example, in this past quarter we worked with an international distributor to put our solution into their locations in the U.S. and Europe to enhance their e-fulfillment capabilities.

On the healthcare side of our business, sales into our base accounts continue to be strong with ongoing rollout of our point of view solutions. This however was still a distracted market in the quarter and continues to be slow on the new account side.

While we had no new contract signings in the - or new account contract signings in the healthcare business in the second quarter the market seems to be finally opening up based on agreements signed early in the third quarter. Brian will now provide some details on our financials for the quarter.

Brian Cosgrove

Thanks Peter. Revenue in the second quarter grew by 9.4% to $18.1 million compared to $16.5 million in the second quarter of fiscal ’17. About 66% of revenue in the quarter was generated in the U.S. Products represented 17% of total revenue in Q2 ’18 and services represented 79% compared to 20% and 77% respectively in Q2 ’17.

In terms of our revenue segments, professional services revenue increased significantly by 22% to $7.9 million from $6.5 million in the last year. The increase was an increase in implementation services revenue in the quarter. We also recognized in Q2 ’18 $1 million in deferred professional services revenue due to a termination of a contract with a customer and its associated future obligations.

With our backlog, currently at $42.4 million we expect that services revenue will remain healthy for the near term and increase as we bring on new business. Proprietary products revenue declined by 8% year over year in Q2 ’18 to $1.6 million and third-party product revenue declined by 4% year over year to $1.4 million.

Cloud, maintenance, and subscription revenue increased by 4% to $6.4 million from $6.2 million in Q2 ’17. This revenue stream is mostly recurring in nature and grew as a result of higher maintenance revenue from maintenance on new license sales and price increases. Gross margin for the second quarter of fiscal 2018 was $9.4 million or 52.2% of revenue compared to $8.3 million or 50.2% in the second quarter of 2017. The increase is attributable to the higher margin realized from professional services.

Operating expenses for Q2 ’18 were $7.8 million, 2% lower than $8 million in the same quarter last year. As a percentage of revenue operating expenses declined to 43% of revenue this past quarter compared to 48% in Q2 fiscal 2017.

On a trailing 12 months basis, operating expenses declined by 15% to $26.4 million or 37.5% of revenue compared to $31.1 million or 45% of revenue for the 12 months ended October 31, 2016. Excluding the recognition of $4.6 million of prior year federal non-refundable R&D tax credits, operating expenses remained flat at $31 million demonstrating our success at controlling expenses and the benefit of scale we are achieving.

Looking at expenses in detail, sales and marketing expenses increased by 2% to $2.9 million from $3.8 million in Q2 ’17 reflecting higher submission in severance costs offset by lower salaries and benefits and marketing costs.

G&A expenses were relatively flat year over year at $1.6 million from $1.7 million in Q2 ’17 partially as a result of lower legal costs offset by higher G&A salaries and benefits. Net R&D expenses were relatively flat at $2.4 million in Q2 ’18 compared to $2.5 million in Q2 ’17. We achieved profits from operations of $1.6 million in the second quarter of fiscal ’18 compared to $320,000 in the same quarter last year. The significant increase is a result of increased higher margin service revenue and lower operating expenses.

On a per share basis we achieved basic and diluted earnings of 10 cents compared to 2 cents in Q2 ’17. EBITDA was $2.2 million for the second quarter of fiscal 2018 compared to $935,000 in Q2 of 2017, a 133% increase. This again reflects our success at lowering operating costs while increasing revenue.

At the end of the quarter cash and cash equivalents as well as long term investments in the form of redeemable GICs totaled $22.5 million compared to $13.5 million at the end of fiscal 2017. I will now hand the call back to Peter.

Peter Brereton

Thanks Brian. As you have heard today, the second quarter of our fiscal 2018 was successful and validated our strategy of controlling operating expenses so more revenue can drop to the bottom line as well as our approach of selling into two distinct business sectors. The prospects for the healthcare market are improving and we expect to see growth in new contracts from both sectors through to the end of this fiscal year.

We are confident in our ability to continue to deliver solid results while capitalizing on the many opportunities we have for growth. With that I will turn the call over for questions and back to the operator. Well at this point I think it’s (Jennifer) was going to come back on the line and open it up for questions.

Operator:

Thank you. Ladies and gentlemen if you would like to register a question please press the 1 followed by the 4 on your telephone. You will hear a three-tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration please press the 1 followed by the 3. If you are using a speakerphone please lift your handset before entering your request.

Again, ladies and gentlemen, if you wish to ask a question please press 14 on your telephone keypad. And one moment please for the first questioner. Our first question comes from the line of (Amar Azad) with S1 Partners. Please proceed with your question.

Amar Azad

Good morning gents.

Peter Brereton

Good morning.

Brian Cosgrove

Good morning.

Amar Azad

Just first on your revenue growth, do you guys mind sharing the growth for each of your verticals for the quarter?

Peter Brereton

That would - you know what (Amar), we would have to get back to you on that. In terms of revenue growth by vertical I can tell you that the growth was all complex distribution. But to give you - sort of to break that out more precisely for you I would have to get back to you.

Amar Azad

Okay. I guess what you mentioned in your prepared remarks and on the news release yesterday that you signed some new orders in early fiscal Q3 in healthcare. Are these new IDMs or existing clients? Can you give us the size of these contracts or is it too early to tell?

Peter Brereton

Yes, it's too early to break out the detail on that but I can tell you that there is one new IDM that has been added and the rest are base account add-ons.

Amar Azad

Understood. Then on your MD&A and in your prepared remarks Brian you said that you guys recognized the $1 million of deferred professional services due to a termination of a contract. Can you elaborate on that contract termination, what happened there?

Peter Brereton

Sure. The - what that is (Amar) is we have a number of agreements with clients where they sign long term agreements as a way of evening out their expenses so that when it comes time to do an upgrade in effect they have got a lot of the costs to the upgrade are already covered by what is almost like an insurance policy.

In this case it was a very long-term agreement. It had been in place for years. The - this particular element, what this relates to, this element of the contract was, you know, worth roughly $100,000 a year but it had built up deferred revenue of $1 million.

And the company has come into difficult financial times and it has discontinued there, you know, a number of their IT contracts with different vendors including us. So, what it meant was we no longer needed that deferred pool of revenue and so we took it into revenue.

So, in terms of impact, really sort of two key things to keep in mind. One is, you know, that element of that contract was worth about $100,000 a year so the impact on recurring is, you know, like I don't want anyone to think the impact on recurring is $1 million a year, it was much, much less than that.

The second thing is in terms of, you know, sort of special items this quarter there was that and there was about $450,000 of severance that we mentioned in the MD&A where we made a number of changes in sales and marketing based on sort of areas that weren't performing.

And so that sort of special items in the quarter you've basically got an extra $1 million sitting in professional services and you've got about, you know, half of that sitting on the severance side. So, bottom line, you know, due to special items we have basically boosted by about $1/2 million.

Amar Azad

Understood, thanks. That is very helpful. Then I guess as we are looking forward you guys are doing like a great job on your operating expenses. And I know you mentioned that last quarter, that you feel that you could keep that run rate for the rest of the fiscal year. Do you still feel the same way? Then looking to fiscal '19 what sort of growth should we or reinvestment should we expect in your operating expenses in general?

Peter Brereton

I mean, I think I'll comment and then I am sure Brian will add some details to it. But I mean, so a couple of things there. First of all, the changes we made in sales and marketing actually sort of open up some expense on that side. So, we will be adding back into sales and marketing probably towards the end of the fiscal year particularly as we - sort of as this slowdown seems to be ending in healthcare and building back up again we will probably look to start adding back in there.

The other area where that I think I mentioned on the last call, I don't remember for sure, but is I think towards the end of the fiscal year and early in next year we will have to start ramping up R&D some.

We're just finding that sort of too many of the areas that we launched over the last couple of years are actually all starting to pick up speed and we've got to do sort of a phase 2 and a phase 3 on those endeavors so we're going to be increasing R&D spend in that timeframe.

But nothing, you know, I'll let Brian comment. You know, he may give you a little bit more detail here but it is - a lot of it is going to depend on of course how Q3 and Q4 unfold.

Brian Cosgrove

Yes, well I think Peter summarized it correctly. So, we're focused on making sure we're growing revenue at a higher pace than we're growing operating expenses and so the areas where we think we will be reinvesting or increasing it is definitely R&D. But other than that, I think we're still in line to see margin expansion over the coming periods.

Amar Azad

Understood. Then maybe one last one, on your pharmacy solution is this still expected to go live early in the calendar year or what has happened there?

Peter Brereton

It is, it's right on track and, you know, we're going to be - we're pretty excited to see that one go. We think there is going to be a pretty strong payback for our client and we've got some other prospective clients in our customer base that are sort of watching with great interest to see how that pans out. So, we'll - it should make for an interesting 2018.

Amar Azad

Great, thanks.

Operator

Our next question comes from the line of Nick Agostino with Laurentian Bank Securities. Please proceed with your question.

Nick Agostino:

Yes, good morning.

Peter Brereton

Good morning.

Nick Agostino

I guess just going back on the - good morning. Going back on the terminated contract, if I understand correctly because you said the customer was in financial hardship. I will assume then obviously it's a complex distribution customer.

Peter Brereton

Yes.

Brian Cosgrove

Yes.

Nick Agostino

And then so basically had that contract not been terminated you would have recognized about $100,000 in sales on the year. The fact it was terminated you saw an extra $900,000 I guess and $75,000 in this quarter which from what I understand all will fall into the bottom line. And then if you - as you said I think if you negate the severance charges the benefit to your EBITDA in this quarter was roughly about $1/2 million. Is that the way I was supposed to understand it?

Peter Brereton

Pretty close. The one thing you sort of got wrong in your summary there is that because in fact of the nature of that contract, had they not terminated there would have actually been no revenue, not $100,000, because everything that they were giving us was going into deferred. So, it was just building up on the balance sheet, it was not showing up as revenue.

Brian Cosgrove

So essentially, they were paying in advance professional services and then - so eventually it would have been recognized but at a later date when they would have gone to either an upgrade or used those professional services. So, it is essentially up front - paid up front professional - deferred professional services that would have been recognized later.

Nick Agostino

Right but now you're recognizing it today. So, we wouldn't have seen anything on the quarter except that because it was terminated we did see something.

Brian Cosgrove

Exactly, you're right.

Nick Agostino:

Yes okay. So, excluding it, just so I'm clear, excluding it your revenues would have been $1 million lower.

Brian Cosgrove

Yes.

Nick Agostino

Okay yes.

Peter Brereton

We would have been in the low 17's for revenue and earnings again taking out all the one timers would have been down by about $1/2 million.

Nick Agostino

Yes okay. And then just as an update on the One Sprint, I know you guys did a little bit of a revamp on the product. I think you indicated last call that you had a customer that was looking to take on the solution. Just maybe where do we stand there as far as additional customers coming on board with the new product or the revamped product launch?

Peter Brereton

All right, yes, we actually signed another one in the second quarter and we have also got a major one that we signed on the West Coast in the first quarter which is now sort of getting close to go live using the One Sprint methodology.

And I mean, it's interesting. We're starting to see enough success with it in terms of the actual deployments that we are looking at sort of spreading the approach and the philosophy we took to putting that together across to some of our other product lines.

So, we'll see how it goes but certainly based on what we're seeing so far it does reduce risk, complexity, and cost and also time to go live, you know, time to results is reduced pretty significantly with this approach.

Nick Agostino:

Okay. And then just one final - actually two questions. I know you indicated in your MD&A about trying to leverage - further leverage to improve the bottom line. Where are we as far as your SI partners in terms of I think you have signed three smaller guys and one hospital. Are there any additional SI partners you see coming on board? And maybe just a quick update how each one of those SI partners are doing in terms of taking on more work.

Peter Brereton

Sure, one of the agreements signed this quarter was actually signed in conjuncture with one of our Canadian SI partners so we're seeing certainly more traction, that's a company called Avalon. We're certainly seeing some very good traction and teamwork with them. Their first agreement we signed with them went live last quarter and that was the second agreement signed in conjunction with them and we have more in the pipeline with them.

The - probably the most interesting one on the U.S. side is, you know, one that we announced a couple of months ago and it's really a 3PL but in many ways, it is another type of SI partner and that's Ryder Logistics. So, we'll see how that goes. We're working on several opportunities with Ryder at this point and, you know, it looks like some interesting potential there.

Nick Agostino:

Okay great. And then just one last question. Any update on M&A in terms of how that pipeline is looking in terms of potential prospects? Are we any closer than we were three months ago? And I'll leave it there. Thanks.

Peter Brereton

In terms of M&A, you know, I always hope we're closer than we were three months ago but, you know, certainly no concrete news on that front. We continue to look in Western Europe in the complex distribution space and look in North America in the healthcare space. And, you know, there certainly are some interesting opportunities out there but nothing that we have sort of moved close to at this point.

Nick Agostino

Okay great, thank you.

Operator

Our next question comes from the line of Justin - from Justin Keywood with GMP Securities. Please proceed with your question.

Justin Keywood

Good morning and thanks for taking my call.

Peter Brereton

Good morning.

Brian Cosgrove

Good morning.

Justin Keywood

Just a clarification on the terminated contract. The cash was received by this customer?

Peter Brereton

The cash from the customer? Yes, well they have been paying that cash over quite a number of years so the cash has been in the bank for a long time.

Justin Keywood

So, they don't owe anything else to you guys?

Brian Cosgrove

No.

Peter Brereton

No.

Justin Keywood

Okay and then for the healthcare orders signed in early Q3, would those orders show up in the bookings?

Peter Brereton

Well they will show up in the Q3 bookings. But I mean, no I mean, our year to date bookings at this point running roughly whatever it is, $22 million, $23 million do not include those Q3 orders. They only include orders to October 31. So, and, you know, we're up, I mean, compared to October 31 last year we're up about 26% in terms of bookings.

Justin Keywood

Okay. Would it - would I assume then that it would show up in the backlog?

Brian Cosgrove

No.

Peter Brereton

No no, I mean, we do a firm cutoff October 31 so any numbers we're reporting in here in terms of backlog or bookings or revenue, etc. only reflect agreements signed by October 31. So, these, you know, the IDN agreements signed this new quarter in November will only show up when we report in February.

Justin Keywood

Got it. So, the possible healthcare business reigniting, that's not showing up in the bookings and backlog today?

Peter Brereton

Not at all, no.

Justin Keywood

Okay. And just more broadly speaking it seems like healthcare reform will continue to be debated early next year and maybe all next year. Is there a risk that this can - this uncertainty could persist or what indications of the customers are you seeing where you are more optimistic about it showing back up in growth?

Peter Brereton

You know, I mean, it is kind of interesting. I think over the years we have sometimes seen this even when a recession hits. You know, if a recession hits the general marketplace everybody puts decisions on hold but a year later they start making decisions again just because they can't wait any longer. You know, sometimes I think that is what ends up ending a recession.

And it's almost like that in healthcare. It is like yes there is still uncertainty, there is debate going on in Congress and, you know, with the White House and so on but at some point, they just can't wait any longer.

And that is what we're starting to see is, you know, accounts that have sort of postponed and been distracted by this, you know, the goings on but have eventually said you know what, this is costing us a fortune not addressing our supply chain issues so we've got to move ahead. And so, we are starting to see them move ahead.

Justin Keywood

Got it. And then just on the potential acquisitions, the healthcare space has been hot and we've seen some higher multiples. Is this preventing some opportunities that you are looking at as far as going forward or how do you see the multiples for potential acquisitions in the past little while?

Peter Brereton

I mean, based on our current multiples I think that, you know, there are opportunities for M&A that we passed on a couple of years ago that given today's, you know, our current valuation today we probably would have moved on. It just, you know, at this point we have not yet come across one that seems sort of like a perfect fit so we continue to look.

You know, we are getting sort of more proactive about it. I mean, we do have $23 million cash in the bank and we are generating, you know, decent free cash flow so we are getting more proactive about it again but, you know, just nothing that has come into our sights that looks like a perfect fit.

Justin Keywood

Okay. And then just one more, with the marijuana legalization coming up next year, is this a vertical where you see opportunities just given the, you know, it seems like a good fit for your complex distribution product or how should we look at that going into the next year?

Peter Brereton

It's a possibility. I mean, we have, you know, we have a number of the liquor boards across Canada that are clients and it seems like, you know, cannabis distribution may fall under those liquor boards in many cases. And we know it's a new, you know, distribution channel so there is a possibility there.

What I am concerned about is we actually do a fair bit of business with the U.S. government and some of the U.S. state governments and that is still a bit of a patchwork in terms of who is okay with it and who isn't.

And sometimes we end up sort of having to fill out questionnaires saying in order to compete for this business we have to certify that we're not, you know, involved in, you know, doing business with a number of countries that they don't like as well as, you know, dealing in the drug business or what they see as the illicit drug business and so on.

So, I don't know for us if it's worth it frankly. At this point in time I feel like the whole legal framework needs to get sorted out a little bit more. So, at this point it's not a market that we are focusing on but that may change over time. I mean, that's a rapidly evolving legal environment.

Justin Keywood

Okay, thanks for taking my questions.

Peter Brereton

Great, thank you.

Operator

Ladies and gentlemen, as a reminder if you wish to ask a question please press 14 on your telephone keypad. Our next question comes from the line of (Hubert Mack) with Cormark Securities. Please proceed with your question.

Hubert Mack

Hey guys, I just want to understand on sort of the profitability sort of how it is going to progress over the next I guess maybe couple of years. And right now, you're seeing healthcare sort of still, you know, soft, still a bit challenging, hopefully return I guess over the next six months. And I guess in the context of that your complex is doing quite well and you're talking about leverage coming through here.

So, can you give me an idea where your things are in terms of EBITDA margin or profitability margins, where you think that can be heading over sort of the next couple of years and how do you think that is going to evolve over that timeframe?

Peter Brereton

Yes, I mean, you know, predicting precisely how it is going to evolve is tough for us given how lumpy our quarters are. And I mean, and you have followed us for a while so you know we're, you know, we're very lumpy. But we are, you know, we continue to be fixated on saying, you know, we're going to - we plan to drive EBITDA to the high teens as we have revenue approaching $100 million.

You know, if you look at the progress we have made since last year, you know, even netting off, you know, even netting off the one timers that hit this quarter we have still seen sort of a nice surge forward. And as we, you know, look towards the second half of this year and into next year, you know, it doesn't take much more than, I mean, it doesn't take anything more than very reasonable growth to result in, you know, a reasonably substantial increase in the bottom line.

So, we feel like we are tracking to plan. You know, we'll see how it unfolds. We're obviously very currency exposed as well so currency is a big factor. You know, we have 2/3 of our revenue in U.S. dollars and we have, you know, more than 2/3 of our costs in Canadian dollars so FX continues to be a major factor. But we feel like we're right on track to - towards that goal.

Hubert Mack

Okay and then as the healthcare, you know, starts to, you know, pick up again like do you foresee any meaningful investments to support that growth I guess just given what headcount you have right now?

Peter Brereton

Just the two that I mentioned. Like we will have to - as healthcare picks up speed again and we are very confident it will, we know we've got to build back into the sales team to, you know, take advantage of that.

The - on the R&D side is the other area where we know we've got to add to R&D to round out our offerings there. I mean, we've got great success in the OR and now in cath lab and, you know, pharmacy going live next year but all of those are going to require sort of a phase 2 and a phase 3 to their development.

And so, we will have to ratchet up R&D to some expense - some extent. But with the, you know, with the e-business tax credits we get here in Quebec, you know, that is quite cost effective for us to do that so we are, you know, we don't believe it is going to take us off plan at all.

Hubert Mack

Okay and just on the support or at least the cloud maintenance subscription sort of revenue area it was down sequentially. Is there any answer, can you just give us some color in terms of why that moved down sequentially?

Peter Brereton

Most of that is FX.

Brian Cosgrove

Yes, most of it is FX.

Peter Brereton

Yes, yes because we have to state that sort of based on there is the point in time value at the end of the quarter and so it swings fairly wildly with currency.

Hubert Mack

So, excluding FX it would have been up sequentially then I guess?

Peter Brereton

Yes, but not much.

Brian Cosgrove

There has been - on some of our third-party maintenance agreements, some of them we treat that - we recognize in the quarter - in the period we invoice them.

Peter Brereton

Right.

Brian Cosgrove

Also, there is a bit of luckiness there as well so there is a bit of seasonality. So, it is the combination of those two factors. It's mainly FX but there is a bit of seasonality as well.

Hubert Mack

Okay great, thanks.

Peter Brereton

Thank you.

Operator

Our next question comes from the line of Blair Abernathy with Industrial Alliance Securities. Please proceed with your question.

Blair Abernathy

Thanks, Peter just following on the last question with the sequential movement in the cloud maintenance subscription line, can you gauge for us what the apples-to-apples number would have been if you back out the FX?

Peter Brereton

Brian is looking at his detailed charts here to see if we can give you that.

Brian Cosgrove

Yes, I'm not sure.

Blair Abernathy

Okay. I'll follow with another question then. If you look at - sorry, go ahead?

Peter Brereton

No, he's still looking.

Blair Abernathy

Okay I have got another one. Just on the sales team, you have made a couple of changes you said in some severance costs to this quarter. What is the sales team looking like for - going forward for 2018 and where are you putting more investment, which side of the business are you putting more investment into?

Peter Brereton

The - going forward I think there is two areas. I mean first of all in terms of what does it look like, you know, we've got four new account guys in complex distribution, we've got four new account guys in healthcare, and then the balance is in base account sales so in total it is a team of about 14 quota carrying reps right now.

But the - in terms of going forward we know we want to continue to add to the complex distribution space. That team continues to sort of outperform our goals each year. This is their third year for that team.

And if I look at even where they're at halfway through the year, halfway through the year particularly on the new account side they are, you know, roughly 50% ahead of the goals we had for them. So, you know, that team is doing very well.

So that's an area where we will have to add some capacity and we are, you know, planning to do that towards the end of this year and early next year.

On the healthcare side, it is really the base. You know, I think we have a solid new account team that is very good at winning new accounts. They have had a rough last year with what's going on in that space but, you know, we are very confident we have the right people there.

But as our account base does continue to expand it, you know, there is a huge opportunity. You know, we're estimating for our investor deck, I mean, you know, we think there is a huge opportunity just inside our existing account base and we feel like they are sort of underserved from a sales focus and account, you know, care kind of approach. So that is an area where we know we've got to invest going forward.

Blair Abernathy

Okay and on the healthcare side, if you look back 12 months ago in December of last year and, you know, you've just come through sort of a year, year and a half of, you know, stagnation if you will or weakness in this healthcare vertical. How is it feeling today versus a year ago today?

Peter Brereton

You know, we're - it is - I think the main difference we are feeling is, you know, first of all accounts are saying they can't wait any more so the sales team is very, very busy right now. They are, you know, that new account team has been kind of living on airplanes for the last sort of four to six weeks as that whole market seems to have heated back up.

The other thing that has happened -- and in a sense, it's more internal -- is the new - a number of the new lines that we introduced over the last couple of years we now have sort of proof of their success.

You know, Mercy Health is able to talk about all of the money that they are saving in the OR and the improvements to operations in the OR and, you know, impact on clinical care and patients and case costing and all those kinds of things and those are very impressive numbers that are coming out of that. And we've got a hospital that has gone live on cath lab is also now starting to get some very good numbers out of that implementation.

So, as we're getting, you know, hospitals are very data driven and as the data comes out of those implementations, you know, there is a lot more sort of excitement both in our sales team and out there in the market in terms of saying hey, these are going to make, you know, quite a major difference.

So, I think both the readiness of our product offerings combined with the state of the market is leading to a higher level of activity.

Blair Abernathy

That's great. Thanks for the color on that. Last question for me is just on the impact on the M&A question, you know, what does the ideal European acquisition look like for you? Is it customer focused, is it technology or sales and marketing focused versus what you're looking for say in the U.S.?

Peter Brereton

You know, it's - I mean, what I'm really after is a functioning beachhead over there that understands supply chain and that already has a sales team and a professional services team and a customer support team and some ongoing revenue to support it so that you can operate that beachhead, you know, profitably.

You know, a number of years ago we acquired a company in Toronto that in effect it would be the ideal - if I could find another one of those just based in Europe I think it would be a done deal. You know, it was a company that had a - already had a warehouse management system, they had some great people, great client relationships, good revenue stream, but the existing owners wanted to retire.

You know, we bought it, we have continued to support those clients and that product line but a lot of the people that were part of it have now moved over onto our, you know, lead series product line and they have become a key part of the company here.

So, you know, if I could find one of those, you know, anywhere between sort of $5 million and $20 million in revenue kind of things or to something reasonably sized but that would give us that instant sort of footprint there I think it would go a long way to speeding up our global deployment capabilities which in many ways is really what I'm after.

You know, I want us to be able to sign agreements usually probably in North America but for deployments around the world. And to do that we need a more effective global footprint.

Blair Abernathy

Okay that's great, thanks very much for the color.

Peter Brereton

Great, thanks.

Brian Cosgrove

Just coming back on your return revenue, a significant portion of the advantage is due to that luckiness over the course of - typically Q2 is the lowest quarter in terms of that recurring revenue that is recognized at one time in the year so I think about $400,000 of that is explained by that and the rest is FX. It's not a frequent and we'd say flat excluding that and FX.

Blair Abernathy

Okay.

Operator

And we are showing no further questions on the audio lines at this time.

Peter Brereton

Okay well thank you everyone, thank you for your time and for joining us today. And as always if you have any additional questions please feel free to call Brian or I and we will look forward to talking to you in February to discuss our third quarter results. Have a great day.

Operator

Ladies and gentlemen this does conclude the conference call for today. We thank you for your participation and ask that you kindly disconnect your lines. Have a good day everyone.

END