TECSYS INC.
Second Quarter FY2019 Results
Financial Analyst Call
Friday, November 30, 2018 @ 8:30am

Operator

Good afternoon, everyone. Thank you for standing by. Welcome to the TECSYS Second Quarter Fiscal 2019 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 difficulties hearing the conference, please press star 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 after market yesterday, November 29, 2018. 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, November 30, 2018, at 8:30 a.m. 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 Mark Bentler, our CFO, who started with us this past September. I'll start by summarizing the key events of the quarter, Mark will then review our Q2 financial results and then we'll take your questions.

Last night, we issued our unaudited 2019 second quarter financial results and a copy of those results is available on our Web site at tecsys.com. During the second quarter of 2018, we had strong business development results and achieved the highest contract bookings in company's history, increasing by 42% over the same period last year.

This is a clear indication of the momentum in our business, particularly as the U.S. health care industry is moving towards a more normalized procurement environment. It's important to note, however, that it will take time before the contract bookings convert into revenue. In general, the revenue from our contract is realized over a period of several months, but larger longer-term contracts result in a longer rollout of revenue.

We're very happy with these record contract bookings and the sustained future revenue growth that they represent. The increase in bookings largely came from our base IDNs or hospital networks with 196% year-over-year growth, in essence, tripling the bookings over the same quarter last year in this segment of our business and demonstrating that our foundation remains strong as we continue to see signs of stability and a return to growth.

As we’ve said previously, our hospital based represents approximately $600 million opportunity and we estimate we've only achieved 12% penetration. Enhancing and adding to our customer's current TECSYS solutions will continue to be a focus of our sales force. Our first pharmacy point-of-view solution went live at the end of the quarter. This was the result of several years of effort and collaboration between our implementation team, our R&D team and our client.

This is an important offering for us and enables hospitals to have accurate, real-time information and one of the most significant cost centers in their operations and eases compliance with the US Drug Supply Chain Security Act. We signed our second pharmacy contract during the quarter indicating the growth potential for this solution.

On the complex distribution side, in November, we were very pleased to announce that we expanded our omni-channel distribution capabilities with the acquisition of OrderDynamics, a leader in out-of-the-box distributed order management software. The combination of their best-of-breed DOM Solutions and the functionality of our existing supply chain management suite will provide retailers, brand owners and third-party logistics companies with an end-to-end product, enabling them to succeed in today's market.

The trend we are seeing today has been referred to as the Ammonization of the supply chain. Businesses are receiving thousands of orders via e-commerce and must decide quickly how to deliver to the customer from the warehouse, from a store or possibly direct from a vendor. OrderDynamics provides a solution that solves that problem and will interface seamlessly with our supply chain management solutions.

We believe that the combination of our two businesses will enable us to both expand our reach in a fast-moving retail market and grow our existing footprint in the key markets of North America, Europe and Australia. Our sales team is already engaging our existing customer base as well as new 3PL providers to demonstrate the possibilities.

We acquired OrderDyanmics for 13.4 million and funded the purchase with existing cash. OrderDynamics has forecast revenue of 7 million for the fiscal year ending March 31, 2019, 30%

growth over the previous year. With the forecast EBITDA loss of 2 million, we are expecting OrderDynamics of a positive impact on combined revenue growth and a short-term negative impact on combined EBITDA.

As you've heard so far, we have been establishing a strong foundation for future growth in both our health care and complex distribution businesses. Our pipeline remains strong and we'll be working to capitalize on our strong base for the remainder of fiscal '19 and into fiscal 2020.

Mark will now provide some detail on our financials for the quarter.

Mark Bentler

Thanks Peter. Second quarter revenue increased slightly to 18.2 million up 1% from 18.1 million in the same period of fiscal 2018. Services revenue for Q2 2019 was $6.9 million compared to 7.9 million in Q2 2018. During the second quarter of fiscal 2018, we recognized $1 million of deferred professional services revenue, due to the termination of a contract and its associated future obligations.

Proprietary product revenue increased by 50% in the quarter to 2.5 million from 1.6 million in Q2 2018, largely as a result of higher proprietary software revenue. Our third-party product revenue for Q2 2019 was consistent with Q2 2018 at 1.4 million. During the second quarter of 2019, cloud maintenance and subscription revenue increased by 6% to $6.8 million from 6.4 million in the same period of fiscal 2018.

This increase was primarily a result of higher maintenance revenue consisting of maintenance on new license sales and price increases as well as higher hosting revenues. Gross margin in Q2 2019 increased slightly to 9.5 million or 52% of revenue compared to 9.4 million or 52% of revenue in the second quarter of fiscal 2018. This increase was a result of higher product margins of $0.7 million, which was offset by lower service margins of $0.6 million.

Operating expenses for Q2 2019 were $8.7 million compared to 7.8 million in the same quarter of last year. This increase in operating expenses was largely a result of the company making investments in sales and marketing and research and development to support bookings in revenue growth as well as costs related to the acquisition of OrderDynamics and stock- based compensation expenses.

Sales and marketing expenses were up about $0.2 million to $4.1 million as a result of increases in marketing program costs, recruitment fees and commissions. Partially offset by lower employee cost and severance compared to the same period last year. Net R&D expenses were $2.7 million an increase of $0.3 million when compared to Q2 2018, primarily due to higher employee costs, recruitment fees and consulting expenses compared to the second quarter of fiscal 2018.

G&A expenses were $0.3 million higher at 1.9 million in Q2 2019 as a result of incurred cost of $0.1 million relating to the acquisition of OrderDynamics, share-based compensation expenses of $0.1 million and other legal and professional fees. Profits from operations declined in the quarter to 0.8 million compared to 1.6 million in Q2 2018.

Recall that in Q2 2018, we had $1 million onetime recognition of deferred professional services revenue. When this is backed out profit from operations for Q2 2019 would be 38% higher than Q2 2018. This increase is a result of higher proprietary software product revenue and cloud maintenance and subscription revenue, partially offset by higher operating expenses. EBITDA was 1.4 million for the second quarter of fiscal 2019 compared to 2.2 million in Q2 of 2018.

Again, we exclude - if we exclude the $1 million Q2 recognition of deferred professional services revenue, EBITDA in Q2 would be 20% higher than Q2 2018. The company recorded profit of $0.6 million or $1.05 - $0.05 per share in the second quarter of fiscal 2019 in comparison to a profit of 1.4 million or $0.10 per share in the second quarter of fiscal 2018.

We ended the quarter with cash and cash equivalents as well as redeemable short-term and long-term investments of $21.7 million compared to 23.5 million at the end of Q4 2018. The decrease is mainly due to changes in non-cash working capital and also the payment of dividends.

I'll now hand the call back to Peter.

Peter Brereton

Thanks, Mark. Despite our slower revenue growth in the first half of our fiscal year, the record growth in contract bookings and our record backlog of 51.7 million bodes well for the future. Our book-to-bill ratio is 120% year-to-date and 116% on a trailing 12 basis. In fact, our total bookings, which includes recurring for the last 12 months, is just shy of 80 million.

On the health care side, the previously mentioned normalized procurement environment will drive continued contract bookings both with our base and with new IDNs. We also expect to increase interest in our pharmacy point-of-view solution as it begins to be implemented t a second site. We expect to see continued steady growth in complex distribution particularly as we introduce an integrated OrderDynamics product to our customer base.

With that, I will open the call up for questions.

Operator

Thank you. Ladies and gentlemen, if you'd like to register a question please press the 1 followed by the 4 on your telephone keypad, you'll hear a three-tone prompt to acknowledge your request. If your question has been asked by another and you would like to withdraw your registration you may press the one followed by the 3. If you are using a speakerphone, please lift your handset before entering your request.

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

Nick Agostino

Yes. Good morning.

Peter Brereton

Good morning.

Nick Agostino

I guess, first question would be on the OpEx side obviously came in at 8.7 million I think for the quarter. You did allude to a higher, more spending on sales and marketing R&D. Can you maybe give us some guidance as to what the run rate will be going forward, including the fact that you've now got the OrderDynamics within the fold?

Peter Brereton

Yes. I mean the existing run rate. I mean the numbers reported in the quarter. There's no question some of those numbers are up and will continue to stay up, Nick. But there is about 400 was sort of exceptional stuff in the quarter from the standpoint there was some severance in the quarter, there was - as well there was substantial recruiting fees in the quarter. And there was also, like, commission is about 200,000 high compared to where it usually is just because of the record bookings.

Nick Agostino

Okay. So, you're suggesting with pre-OrderDynamics, maybe we should be looking at something in the order of - I don't call it 81, 82, 83 as a sustainable run rate; is that fair?

Peter Brereton

Yes. I mean we're - we are continuing to try to crank up sales and marketing, but that, you know, that's a gradual sort of increase over a period of time. So, Yes, I mean on a normalized basis, you know, I don't know 82, 83 something like that is probably a more normalized number.

Nick Agostino

Okay, great. And then just on the - because you mentioned there's about 400K of, I guess, extraordinary expenses in the quarter itself. Were those, you know, if we were to look at your EBITDA you reported at 1.4 million. I think I backed out a couple of one time, well, stock option and also your costs associated with M&A. Is there an additional 400K on top of that which you guys view as a one time in nature and therefore should I be looking at your EBITDA for the quarter probably somewhere in the order of 2.1 million, is that a fair comment?

Peter Brereton

You know, that there is probably, you could, you know, whenever you get into adjusted EBITDA it's always a question of how far do you adjust it, you know, I mean, that the commissions are up by couple hundred thousand due to exceptional bookings. On the other hand, I'd love to repeat the exceptional bookings in which case the commission would also, you know, continue to be higher, right. So, I don't know, it'd be sort of you decide what you back over there. But certainly, I would say a normalized - is it a normalized number? Yes, you could either probably assume there's another 400 in there.

Nick Agostino

Okay. I guess, on the severance then in the quarter, how much was that roughly?

Peter Brereton

Well, you know, due to the fact that everyone here at TECSYS knows who is let go, you know, I'd rather I give you a specific number there. Other than just to say that in combination with that, you know, 200K of commissions and recruiting fees and severance the total, you know, ends up around 400.

Nick Agostino

Okay, understood. And then just maybe switching gear on - just on the acquisition itself. Can you maybe just talk about is there another, you know, when you look at, I think, you alluded to in the past this was in the area that you're customer - that you're seeing your customers maybe demanding or you saw an opportunity to get into. Is there any other gaps that you see within your complex distribution offering that maybe you might target as another area for M&A?

Peter Brereton

Not, I mean, no. Other than geography, I mean, we, you know, we've been looking for over a year to fill this distributed order management gap. And, you know, beyond that the other area we're looking is to expand our geographic reach and that's an area where we continue to look.

Nick Agostino

Okay. I'll let it go. Thank you.

Peter Brereton

Thanks.

Operator

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

Justin Keywood

Good morning. And thanks for taking my call.

Peter Brereton

Good morning.

Mark Bentler

Justin.

Justin Keywood

Just on the lag with recognizing the revenue from the bookings. I would think this is because it's coming in the form of SaaS versus upfront license form as it was prior. Is there an anticipated kind of time when we could start to see that increased revenue just, you know, given the bookings keep trending up pretty strong?

Peter Brereton

Yes. We're, you know, I mean, the way we see it and as you know we don't give specific forward looking forecast, but we're looking at these projects and saying, you know, these larger projects are all sort of starting to ramp up now. But it's really our fourth quarter by the time they're starting to hit, you know, fuller stride. So, we're anticipating, you know, it'll be our fourth quarter. We think you're going to start to see the services number really move - starting to move up as we take advantage of that backlog.

And as we move into next year it should be getting full stride. I mean, that's basically the way it looks today. And it, you know, some of it is - has to do just with the fact that some of our SaaS contracts, but some of it just has to do with the fact that a number of these have been very large contract. So, I mean if we signed $1 million contract it's got 500,000 of professional services in it, typically that gets started within about 60 days and you know, it's all wrapped up in sort of six or eight months.

Whereas when somebody signed a $6 million agreement that, you know, might include, you know, 3 million or 4 million a professional service, you know, typically it takes them a number of months after they've given final approval to the project to even get their own team in place. So that they're ready to tackle such a large project. So, we tend to have a greater delay before the project actually launches, and then the project tends to run over a couple of years.

Justin Keywood

Understood. Thank you. And then on the pharmacy it was good to hear that the product was launched and also with the second contract. I was wondering if you could quantify what this opportunity is. And also, how the sales cycles are compared to the traditional products sale?

Peter Brereton

The sales cycle for new accounts for pharmacy, let me start there. I don't think it's any different than we've seen with other hospital product lines in that, if it's a new account, you're talking an 18 months to two years sales cycle. If it's an existing base account, you know, it's more of a nine to 12 months sales cycle. So, sort of half the time if it's a base account.

From the standpoint of the opportunity we're still really getting a handle on that, you know, certainly it looks as though from a total contract standpoint, you're looking at sort of a couple million bucks per hospital, combination of license fee, maintenance, you know, or SaaS fees in some cases and consulting services.

You know, so it's a very large number I mean if, you know, in our base account, you know, just they are base accounts it's you're talking potentially hundreds of millions and in the, you know, the broader new account market it's a very large number. But we're - say, you know, right now, we've got a sample size of two.

So, we still got a lot to learn about that market space. Certainly, the go live was, you know, a great go live. You know, go lives always have some interesting moments this one was no exception. But a great go live and we're sort of rolling ahead there and now as I said the second account signed on literally within a few days of the go live, the second account signed on. So good sign.

Justin Keywood

Okay. That's good to hear. And then just on the OrderDynamics acquisition. I'm wondering how we should look at the progression of EBITDA, if it's, you know, a negative two now, I assume there's some synergy opportunities just how should we model that over the next year or two?

Peter Brereton

Yes. There are some synergies that we're looking at. I mean, you know, office space synergies would be one and so on. There's also some synergies in areas where they would have needed to hire that now they won't because we can provide them those services and, you know, IT and infrastructure and so on. But they - that company, when we acquired them was at - definitely at a growth inflection point.

You know, as we mentioned in our press release just there, you know, their transaction platform processed 144% more volume this Black Friday week than last Black Friday week. So, the things growing at a great clip. So, our focus really is to continue to insure that rapid growth and, you know, we anticipate that those EBITDA to losses will, you know, tail off over the next probably 18 months. But we're not looking at sort of a rapid correction to the EBITDA situation.

We really want to continue to see very rapid growth in that platform. It's got a very exciting position in the market, we think it's well-positioned for what some what's happening in that market space. They won some of the best brand names in the world and are continuing to roll it around the globe with those brand names. So, we definitely want to continue to feed the growth cycle with that one.

Justin Keywood

All right. Makes sense. Okay. Thank you for taking my call.

Peter Brereton

Thanks.

Operator

Thank you. Our next question comes from the line of Gavin Fairweather with Cormark. Please proceed.

Gavin Fairweather

Hey there, good morning.

Peter Brereton

Good morning.

Gavin Fairweather

Just maybe give us an update in terms of where you are on your sales team investment. I believe, you've been working on bringing to your leadership and then add some more bodies, you know, how far through that process are we now?

Peter Brereton

Not very far, I mean, we're continuing the search to expand the leadership capabilities, you know, we think we've got some interesting possibilities there. But we have not finalized anything yet. And we're, you know, expecting to add more sales capacity once we have that expanded leadership structure in place. So, we've got, we've quite honestly, we've - I would say we've slipped 60 days on that from where we wanted to be.

We've just had trouble finding the right candidates to drop into place. You know, I'm delighted, of course, with the fact that in spite of that, you know, our sales team has been outperforming against plan year-to-date. But we definitely still have some work to do there.

Gavin Fairweather

Okay. That's fair. And then you talk about going to market with an integrated solution with OrderDynamics in the next for complex distribution. Maybe you can speak to how much effort needs to happen on your end in terms of making sure the two systems work together in an integrated fashion, so that you can go out to market with that?

Peter Brereton

Yes. That'll be a progressive thing as we bring those systems together. The initial link, which really just involves them, you know, the OrderDynamics platform receiving the order out of an e-commerce platform. You know, typically these orders might come in through, you know, Magento or the sales force of e-commerce platform for instance or Shopify.

The orders come in through that kind of a platform then drop into OrderDynamics. OrderDynamics does all the sort of sorting out the logistics around it, you know, do we ship it from a store, do we - is it pick up in store? Do we ship it from warehouse, et cetera? It processes the financial transaction, handles all that and then it needs to just drop that order now all figured out down into our platform for actual fulfillment.

That they have, you know, pretty standardized APIs around that interface and we have pretty standardized APIs to receive that kind of an order. So that initial connection looks to be very straightforward and can be done very rapidly.

You know, over time, are there opportunities to integrate more deeply, you know, yes, we think there are. And but, you know, typically that'll happen over a couple of years as we get sort of more customer experience with it and more proof cases will continue to tighten it up. But that initial critical link could happen very fast.

Gavin Fairweather

Okay. And then just lastly for me, maybe you can just put more meat on the bone in terms of what the acquisition means for your complex distribution, business from a high level both in terms of, you know, the cross-sell opportunity and on new opportunities as well?

Peter Brereton

Sure. I mean the cross-sell opportunity I think there's really two interesting categories there, possibly three. But one is, are - you know, the clients we have at our complex distribution customer base that are what we, you know, what we would call brand managers. And you know, these are companies that have traditionally sold through brick-and-mortar, but are now starting to sell direct to consumer and are finding the incredibly high volume of tiny little orders just kind of overwhelming their existing way of doing business.

So, we've got a number of those in our client base and this is a great opportunity to help them solve that problem. We also have third party logistics companies in our customer base that are doing this on behalf of those kinds of companies. And so that's an interesting opportunity. On the retail side, which is where OrderDynamics generally sits, they've got clients that really need to add a warehouse management solution and would prefer not to go to some of the solutions out there like Manhattan that are extremely expensive and very complicated.

So that sort of opens up a possibility on their side that the other area. The third area that, you know, we're just sort of exploring to see what the level of interest might be is we've got a number of our hospital clients that know they have to get in to post discharge fulfillment. So, this is where, you know, if you're in the hospital, you’ve had a hip replaced and, on your way, out of the hospital, you know, right now the hospital sort of gives you a shopping list and says okay go to your local pharmacy and buy all this stuff. You're going to need it for the next few months.

They would prefer to instead just sort of take that order directly and fulfill it directly to the customer, deliver it to the patient's home. But that involves, again, you know, placing orders with suppliers, drawing directly from hospital inventory, drawing from a DC and putting that all together for the patient. So that is another potential area that we're just exploring, it will be interesting to see how that one develops. But there's - we've already had a number of queries from our hospital clients around this.

Justin Keywood

Okay. That was some great color. Thank you so much.

Peter Brereton

Thanks.

Operator

Thank you. Our next question comes from the line of Blair Abernethy with Industrial Alliance Securities. Please proceed.

Blair Abernethy

Thanks very much. Peter, just on the OrderDynamics what is the - what was the headcount when you acquired them? And are you - is that going to grow, you know, along with the lines of the rate of revenue growth of that division?

Peter Brereton

There are approximately 50 people right now and my belief is their headcount will grow considerably slower than their top line revenue growth, but it will continue to grow. You know, they are - I mean, they've got some areas in I mean in R&D for instance. They have additional work they got to get done with, you know, they'll need to expand the R&D team a little bit.

They need to expand the sales team based on some of the opportunities they see. But they also have, you know, they have a very significant partner network I mean as compared to our -- as opposed – frankly, as opposed to our lack of success in building out a good partner ecosystem, they've done a great job in building out a partner ecosystem.

So, you know, that also really helps them to be able to grow the business with less headcount growth both in the area of sales as well as in the area of professional services because they're - they've got some great integration partners that are doing a lot of the heavy lifting for them on integration.

Blair Abernethy

Okay, great. And their revenue right now or sort of the revenue over the next year or so, is it - what's the mix of recurring revenue versus professional services or installation type revenue?

Mark Bentler

Yes. So, this is Mark. Hi, Blair, their P&L is about 60% recurring, 40% services currently. And we expect obviously we expect that to shift, you know, pretty quickly in the period they have towards recurring.

Blair Abernethy

Okay, great. And then last question on OrderDynamics would be around retention/earnouts. Can you just give us some color as to what you set up there and does this business have to run as a separate subsidiary or you are integrating it across the board what sort of - what's - how's that going to play out over the next year or so?

Peter Brereton

Sure. We're integrating the financials. But beyond integrating the financials, right now we're continuing to run it as a division, which is very focused on sort of the retail and consumer brand market space. You know, in effect, it will be, you know, OrderDynamics, a division of TECSYS. We do expect over time of course there will be more and more integration as we move forward, but you know, right now they've got a lot of - sort of heads down high-speed activity going on at OrderDynamics that I did not want to mess with, frankly.

So, we're doing some cross pollinating. We are cross training the sales teams. The marketing group is doing a lot of good work together. We'll be doing a good joint lunch - launching the joint platform at the NRF show in New York in January. So, a lot of good stuff going on, but it will continue to be its own unit at least at this point in time.

I mean, in terms of retention, we're, you know, we're obviously putting comp plans in place for the senior team and so on. That work is under way right now, but there is no earnout. The - you know, this was a cash on the barrelhead deal. And so, from here we expect it will sort of use the same type of approach we use with our existing management team.

Blair Abernethy

Got it. That's great. Thanks for the color. And just my last question is over on the professional services side. I missed part of what you said, but - so the termination of the contract was the gross margin on that 100% and also was - is this customer still a customer of TECSYS or you know, is it a project that they had and they decided against it what sort of - what happened that brought that about?

Peter Brereton

Yes. It was a long-term multiyear contract that had, you know, annual recurring revenue against it. But with it came, you know, guarantees of future deliveries of services and so on. And at one point they just decided to - they actually made the change with all their vendors with us. They had the number of other significant IT vendors.

They changed across the board and just terminated all those contracts, decided they'd much rather go to sort of pay as they play approach. And what it - the net effect it had for us is it - it meant that there was no longer any future obligations associated with that contract. As a result, all of the deferred revenue instantly had to be recognized. So, in essence, yes, you end up with a, you know, a chunk of revenue that comes in with zero cost against it.

So, you know, feels great in the quarter, sucks when you get to the comparables. The - you know, in terms of the client, yes, they are still a client. They've had some financial struggles in the last couple of years and so our relationship is somewhat smaller than it was. But they are still a client and we look forward to them getting back to good financial health and hopefully becoming a more major client again.

Blair Abernethy

Great, great. Thanks, Peter.

Operator

Thank you. As a reminder to register for a question is the 1 followed by the 4 on your telephone keypad. Our next question comes from the line of Amr Ezzat with Echelon Partners. Please proceed.

Amr Ezzat

Well, good morning. Thanks for taking my question. I just want to follow-up on the OpEx, I guess, commentary. Can you give us the company headcount ex-OrderDynamics? Then, how many more bodies you're looking to add ahead to what will be a - seems to be I guess, like a very busy fiscal Q4?

Peter Brereton

Yes. We're currently – Amr, we're currently have about 370 without OrderDynamics. So obviously, now about, 420 with. And looking ahead, I mean, we will continue to add a few heads in R&D. We had planned to add a number of heads in sales. But given the - you know, the lag we've had the extended effort it's taken to get the - our expanded sales leadership in place, I'm not sure frankly, you're going to see much addition to the sales headcount this fiscal.

You know, we're already effectively in December here, you know, if we manage to get new sales leadership in place by, you know, even end of January at this point we will be doing well. So, you know, you might start to see some ramp up in the fourth quarter, but I have hunch that the real expansion in sales headcount will be towards the starting next fiscal I would think.

Amr Ezzat

Then how much revenues, I guess, like, can you drive with the current headcounts? Like - can you speak to us to the utilization maybe?

Peter Brereton

Well, I mean if you look at the professional services group. I mean I think the professional services group could probably drive, you know, at least another million with existing headcount before they, you know, they need to expand that team. You know, now, you know, should they wait until they fully expanded that point, before they add the headcount, no, probably not, because then they'll, you know, they won't be able to keep up with the demands coming for the backlog.

So, you know, they will have to continue to add. But again, I don't think you're going to see anything exceptional there. You know, they'll be sort of ramping that up, you know, slowly during Q3, Q4, but it's nothing, you know, I'd say nothing exceptional and I think there's about a million of extra capacity in that team right now.

Amr Ezzat

Understood. On OrderDynamics, I'm trying to get a sense of - I'm not sure if you could quantify it, but how many projects your sales guys couldn't really bid on because you didn't have a DOM system? Was it like a big pain point for them or - and what has been the reaction, I guess, I know it's early days, but the reaction of your sales team?

Peter Brereton

Yes. I mean the sales team is pretty happy to have this hole closed. I mean I think, you know, in terms of number of opportunities that's, you know, there's probably – I mean, off the top of my head we looked at those numbers a little bit ago, as I recall there is about a dozen in the last year that sort of we would have been in a very good position to win, but without DOM we couldn't. I think what intrigues me more though is the size of the - like typically these opportunities in the 3PL business and in the - you know, complex distribution around, you know, brand management.

The ones who need, truly need a good DOM engine, they're the big ones. So, there's that - there's some pretty sizeable business out there that's associated with a complete end-to-end supply chain platform that includes DOM. And so, we think it, you know, puts us in a good - pretty good position in that market.

Amr Ezzat

So, is the - I guess, now that you've solved that solution, is the pain point now not having like feet on the ground in Europe?

Peter Brereton

Yes. I mean, that's our - I mean from here, you know, if you're talking acquisition certainly our next area of focus is to expand our geographic coverage. And you know, we're - Mark's dropped into place and you know, Berty is back full time on M&A and you know, that's his mandate is to help us solve that problem.

Amr Ezzat

And is that like a case of like wait and integrate OrderDynamics more or do you feel that you guys have enough bandwidth, I guess, to execute on an acquisition in Europe?

Peter Brereton

No. I think we have enough bandwidth I know like Mark seems to be taking Sundays off each week I've noticed. So, you know, there's still some extra room there. But no, in all seriousness, I think we've got it pretty experienced team here that Mark's taken over from Berty. And you know, we're busily integrating OrderDynamics at this point.

But I think we'll be through sort of the lot of the heavy lifting on that within a couple of months. And in the meantime, you know, Berty's mandate is to try to line up the next one. You know, as you've seen with us in the past I mean we're pretty picky around acquisition.

So, you know, the time in the next one is, you know, it can be unpredictable but we're certainly not holding up the next acquisition due to OrderDynamics.

Amr Ezzat

Understood. Then as I understand it, you don't have any existing complex distribution clients, who are using the DOM - OrderDynamics DOM?

Peter Brereton

We actually have one. We have one account it's an overlap and I won't mention the name, but we have one overlapping account between the two platforms right now.

Amr Ezzat

So, the APIs are all integrated and these guys are using - like is it in the same geography and everything or is it just like the same accounts but…

Peter Brereton

No, no. It’s the same geography.

Amr Ezzat

Awesome. Then how hard would it be for you guys to displace another DOM system that is used by any of your complex distribution clients or is the real opportunity targeting new accounts because it's going to be very hard to displace, I guess, an existing integrated system?

Peter Brereton

Yes. I wouldn’t anticipate displacing an existing, you know, integrated DOM. I mean part of it is DOM is so new that by and large people are not replacing DOMs they've already put in place. I mean it's just too recent, right. So, this is mainly, you know, sort of almost green field type opportunities where you have people that are running without a DOM right now. And they're starting to go nuts because their order volume is rising so fast.

You know, and often of course it's not that the revenue was rising, it’s that their order volume is rising as their revenue was shifting from sort of shipping truckloads to retailers to instead shipping individual packages to consumers. So, you know, they're coping manually, and you know, using everything from Excel spreadsheets to whatever to manage it. But as the volume starts to go higher and higher they need a solution like this. So, it's a largely, you know, new DOM situations that are creating new DOM opportunities.

Amr Ezzat

Great. Then maybe one last one on the pharmacy solution, very surprised to see that second order come about so quickly. Was that new clients monitoring the progress in the go live at the University of Washington or how has that come about, I guess?

Peter Brereton

Yes. It was actually a base account that, but they were very much monitoring what was going on out there at University of Washington. So, you know, they knew they wanted to tackle it, they believe there's a huge opportunity in their network to drive savings around this and improvements. But they were very much staying in touch with what was going on out at UW.

Amr Ezzat

Great. Thank you very much.

Peter Brereton

Great. Thanks.

Operator

Thank you. I'm showing no further questions at this time.

Peter Brereton

Great. Well, thank you everyone. Thanks for taking the time to join us
today. And as always if you have any additional questions please don't hesitate to give us a call and we'll look forward to speaking to you in late February, when we announce our third quarter results. Thanks. Bye for now.

Operator

Thank you. Ladies and gentlemen, that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your line.

***** END *****