TECSYS Inc. - TSX: TCS
2015 Third Quarter Results
Financial Analysts call
Thursday, February 26, 2015, 4:30 p.m. EDT

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the TECSYS Third Quarter Fiscal 2015 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 third quarter report, including MD&A and financial statements were filed on SEDAR today, February 26, 2015. All dollar amounts are expressed in Canadian currency and are prepared in accordance with International Financial Reporting Standards.

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

I would like to remind everyone that this call is being recorded on Thursday, February 26th, 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 2015 third quarter financial results and a copy of those results is available on our website at tecsys.com. Joining me today is Berty Ho, our Chief Financial Officer. I'll start by summarizing the key events for the quarter and review our Q3 financial results. I'll then close with a few comments on some key investments we are making followed by a Q&A session.

Revenue in the third quarter came in strong, growing 26% to $15 million from $11.9 million in the prior year quarter. This resulted in EBITDA of $1.3M, a 22% increase over the same period last year.

More importantly, driven by increasing demand for our products, total contract bookings in the quarter nearly tripled to $12 million, compared to $4.1 million last year. Of this, $1.4 million came from four new accounts.

In the quarter we closed 1 new IDN account. As I've mentioned in previous quarters, our sales cycle can be upward of 24 months, and the number of new customers that close in any given quarter will be volatile as a result of this, especially in healthcare. Looking at our pipeline, we have the demand to maintain the number of new accounts that we add each quarter, and expect to end the year averaging two new health systems a quarter.

In addition to the new IDN contract we signed in the quarter, we signed an agreement with a large existing hospital IDN client whereby our proprietary technology will be incorporated and used in the OR's of its 21 hospitals and they will be working with us to perfect this OR solution and will assist in its broader industry adoption.

This client is a technology leader in the healthcare space and is well respected for its innovative use of technology to improve the services it provides. The strategic partnership with us will help us grow our healthcare network footprint, hence making this agreement quite significant.

As part of the arrangement, this client will act as a reference case for all future OR sales, providing us with a real world example of our products in action and an opportunity for third- party validation for potential new customers.

We view this contract as an important component of our overall future growth plan and critical step towards ensuring the continued expansion of our healthcare vertical.

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 26% to $15.0 million. As a percentage of that revenue, our products accounted for 44% and services for 56%.

Mid-way through calendar 2014, we made the decision to pursue a hedging strategy to better isolate our revenue from the impact of foreign exchange rate fluctuation. As a result of the strategy we have in place, the impact on revenue in the quarter was about $495,000 due to the significant weakening of the Canadian dollar against the US. From October 31st,2014 to January 30th 2015, the Canadian dollar dropped from 1.1275 US to 1.2717 US. In other words, had we not hedged, revenue in the quarter would have been about half a million dollars higher.

We had 27 of accounts go live on our software this quarter. These accounts include a significant hospital network in Florida, two heavy equipment dealers in the U.S., a third-party logistics provider in Canada and 11 hospitals with Logi-D products.

Breaking down revenue a little further, we recorded $8.4 million in services revenue, higher by $0.5 million compared to Q3 of 2014. Services margins declined to 35% from 38% in Q3 2014, due in part to increased investments to increase our implementation capacity.

Proprietary products revenue, defined as internally developed products including proprietary software and technology hardware, increased 145% to $3.3 million in the third quarter of fiscal 2015, compared to $1.4 million for the same period last year. This was primarily as a result of organic growth of $1.0 million and the addition of $930,000 of Logi-D's proprietary products revenue. The organic growth was driven by increased license revenue in the healthcare vertical market.

Third party products revenue increased to $2.8 million, $658,000, or 31% higher, in the third quarter of fiscal 2015 in comparison to $2.1 million for the same period last year. Of the total increase, Logi-D's third-party products accounted for $517,000 of that revenue.

Overall, gross margin improved to 48% in Q3 2015 compared to 42% in the prior year quarter. The improvement was partially driven by the positive impact of FX rates, but primarily came as a result of the increased demand for our higher margin proprietary products. Proprietary products accounted for 22% of total revenue in Q3 2015 versus 12% of revenue in Q3 2014.

Profit from operations for the third quarter of 2015 was $630,000, a slight decline to 4% of revenue from 5% of revenue in Q3 2014. The change was the result of higher operating expenses, which were offset by higher proprietary and third-party product margins.

EBITDA was $1.3 million compared to $1.1 million in Q3 of last year.

We ended the quarter with $2.4 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 continue to have an unused $5 million operating line.

We closed this quarter in an enviable position. With strong order booking, success from Logi-D, a growing 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.

Taking a look at our total operating expenses for the third quarter of fiscal 2015, we saw an overall increase to $6.4 million, higher by $2.0 million, or 46%, compared to $4.4 million for the same three-month period last year. The increase was primarily the result of higher sales and marketing expenses as well as increased R&D expenses, as we continue to strategically invest to support our long-term growth. Roughly 50% of the increase was due to the inclusion of Logi-D.

Looking at costs a little more closely, sales and marketing expenses totalled $3.2 million in the quarter, $1.1 million higher than the comparable quarter last year. The increase was largely a result of investments we have made in Logi-D as well as increased employee related expenses at TECSYS. R&D expenses increased to $1.9 million in the current quarter, $554,000 higher than the same quarter last year. The increase in R&D expenses was driven by three factors. The inclusion of Logi-D, a decline in our net deferrals of R&D, and an increase in employee related expenses.

As we talked about previously, last year we made a significant investment in a base account sales team in advance of implementing our growth plan. This new sales team accounted for almost $8 million in total order bookings in the current quarter. We're delighted with the significant contribution we are already receiving from this new team and even more so to be ahead of our schedule.

Looking ahead, we see nothing to prevent us from maintaining our current revenue run rate as we execute on the strong contract bookings we are achieving and implement our record backlog, which at the end of the current quarter totalled $40.8 million.

To deliver on that front, we are committed to steadily ramping our services team to keep pace with bookings. We view this as a important investment. It is crucial that we have the right number of hands on deck to deploy the deals we have signed and to ensure sufficient time so that each member of our team receives the appropriate training to deliver the best service to our customers.

In summary, this was an solid quarter. We closed $12 million of business, went live at 27 different sites, signed a strategic partnership for the OR and continued developing a number of opportunities in our pipeline, keeping us on track for an excellent fiscal 2015.

Looking ahead, we remain excited by the opportunities we see available to us, and I look forward to speaking to you all again after Q4.

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 Q4 results.