

TECSYS INC. - TSX: TCS
2013 SECOND QUARTER RESULTS
FINANCIAL ANALYSTS CALL
THURSDAY NOVEMBER 29, 2012, 4:30 P.M. EDT

INTRODUCTIONS:

Good afternoon, ladies and gentlemen! Welcome to our presentation. Joining me for this conference call is Berty Ho, our CFO. In this presentation, we will announce the financial results and cover the key business highlights of the second quarter of fiscal year 2013. At the end of the presentation we will have a question and answer period for the analysts and media.

Please note that all dollar amounts are expressed in Canadian currency and are prepared in accordance with the International Financial Reporting Standards (IFRS) and are unaudited.

Some of the statements in this conference call relate to matters that are not historical fact, but which are forward looking statements that are based on management's beliefs and assumptions. Such statements are not guarantees of future performance and are subject to a number of uncertainties, including but not limited to future economic conditions, and other factors beyond the control of TECSYS Inc., which could cause actual results to differ materially from such statements.

Overview:

Q2 was another quarter with double-digit growth as we continued to leverage our unique value proposition and take advantage of opportunities in the vertical markets we serve. The quarter marked the beginnings of the resurgence in the hospital supply network market with the win of a health system with revenues of \$1.6 billion and further penetration of the educational market with our unique self-distribution value proposition. We also signed a substantial number of agreements with existing clients and deployed our solutions at thirteen customers from across our business units.

As a result, we achieved 18% growth in revenue this quarter compared to last year and drove gross profit up by 13%.

Now turning to some other highlights of the quarter:

Total Revenue increased to \$10.7M in Q2, 2013 compared to \$9.1M in Q2, 2012. As a percentage of total revenue, products accounted for 33% and services for 65% in the second quarter of both fiscal years 2013 and 2012.

Product revenue increased by 19% to \$3.6 million in the second quarter of 2013 compared to \$3.0 million for the same period of last year. Proprietary product revenue grew by 49%. We also achieved 21% growth in bookings; \$5.1 million in Q2, 2013 compared to \$4.2 million for the same period of the prior year.

Services revenue increased 19% to \$7.0 million in Q2, 2013 compared to \$5.9 million for Q2 of last fiscal year.

Gross profit for the quarter increased by 13% to \$4.5 million in Q2, 2013 compared to \$4.0 million in Q2, 2012. This increase is primarily attributable to higher license revenues achieved during the quarter.

Profit from operations increased to \$428K in Q2, 2013 compared to \$170K in Q2, 2012. EBITDA for Q2, 2013 increased to \$613K compared to \$517K in Q2 of last fiscal year. I would like to point out that prior to the revaluation of the fair value of the share options liability, EBITDA for Q2, 2013 was \$926K compared to \$555K Q2, 2012.

In September 2011, TECSYS decided to take the antidilutive measure of allowing share option holders the privilege of cash settling their share options with the Company. This effectively transformed the accounting of all outstanding options into a liability. Any change in the price of TECSYS shares from the end of one quarter to the next has an impact on the Statement of Income. The share price of

TECSYS moved from \$2.20 at the end of Q1 to \$3.32 at the end of Q2. The impact of this change was an expense of \$313K in the quarter.

On a go forward basis, the potential impact on the Statement of Income should be mitigated given the number of options left and their expiry date. At the end of October, there are 237K options outstanding; 65% of these options will expire by May 2013 and may be exercised. Some additional options expire in the first quarter. This effectively means that by the end of Q1 FY 2014, the impact of a one dollar appreciation would be about \$85K.

Net profit for the second quarter, 2013 was \$122K or \$0.01 per share compared to \$133K or \$0.01 per share for the second quarter of last fiscal year. I would like to reiterate again that, prior to revaluation of the fair value of the share options liability, net profit for the second quarter, 2013 was \$435K or \$0.04 per share compared to 171K or \$0.01 per share for Q2 of last year.

At the end of Q2, 2013 annualized recurring revenue in Canadian currency increased to \$15.5M or 36% of the last twelve months' trailing revenue, from \$14.4M at the end of Q2 of last fiscal year.

Cash flow from operations prior to changes in non-cash working capital amounted to \$934K in Q2, 2013 compared to \$694K in Q2 of last year.

Cash, cash equivalents and other short-term investments amounted to \$8.1M at the end of Q2, 2013, compared to \$4.9M at the end of Q2, 2012. The substantial increase in cash and cash equivalents is primarily attributable to the financing transaction concluded and announced on November 1st, 2012. As discussed in previous quarters, over the last eighteen months or so, we have experienced a significant increase in demand for our software and services resulting in growth of our backlog and a ramp up in our human resources and associated capital infrastructure. We have concluded a financing agreement of up to \$10 million with the National Bank of Canada to support this growth and to take advantage of the current opportunities in the supply chain management market.

Business Highlights:

During the quarter, we won the business of five new clients including:

- A \$1.6 billion hospital supply network in the U.S.
- An independent school district in the U.S.
- An innovative, educational resource supplier in the U.K.
- A leading giftware and collectibles distributor in Canada
- An industrial distributor in Canada

In terms of the financial highlights of the first half of fiscal 2013:

Revenue increased 23% to \$22.3M compared to \$18.1M for the same period of last fiscal year.

Profit from operations for the first half, 2013 increased significantly to \$1,476K compared to \$342K for the same period in last fiscal year. EBITDA for the first half, 2013 also increased to \$2,246K compared to \$1,047K for the first half of 2012.

Net profit for the first half of 2013 increased to \$1,247K or \$0.11 per share compared to \$279K or \$0.02 per share for the same period of the prior fiscal year.

Cash flow from operations prior to changes in non-cash working capital amounted to \$2.4M for the first half, 2013 compared to \$1.4M for the first half of 2012.

That concludes our review of Q2 and first half of fiscal 2013. As I mentioned earlier, we are feeling the beginnings of the resurgence of the hospital supply network market. We are delighted with the win of an integrated health system comprised of 69 clinics, 17 hospitals, and 8 long term care facilities in the U.S. They have decided on our self-distribution approach to drive efficiency and cost savings and at the same time respond to new care delivery models and the

changing landscape of healthcare reform. It is great to have this market back in buying mode.

Adjacent to the hospital supply network self-distribution model, we are seeing a parallel in the education field such as school districts and university campuses. They need to apply our model to save significant costs and enable their supply infrastructure to efficiently serve their communities. This market is not new to TECSYS, several universities are already running our solutions, the two additional accounts we won during the quarter further confirm our winning strategy in this vertical. We are delighted with these wins and look forward for further success in this sector.

In summary:

- Q2 was another good quarter; revenue was up by 18% compared to Q2 of last year, gross profit, profit from operations and EBITDA improved significantly over Q2 of the prior year.
- Annualized recurring revenue stood at \$15.5 million at the end of Q2, 2013, or 36% of the last twelve months trailing revenue.
- Backlog at the end of Q2, 2013, was \$25.5M compared to \$21.5M at the end of Q2, 2012
- Our cash position is strong, and we continued to generate cash. At the end of Q2, 2013, cash, cash equivalents and other short-term investments amounted to \$8.1M compared to \$4.9M at the end of Q2, 2012.
- The market climate for our products and services continues to be good. Our sale pipeline and business development opportunities continue to be strong, and we feel very positive about the business opportunities moving forward.

That concludes our presentation. Thank you for your attention, we will now open it up for questions.