

TECSYS INC. - TSX: TCS
2013 THIRD QUARTER RESULTS
FINANCIAL ANALYSTS CALL
THURSDAY FEBRUARY 28, 2013, 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 third 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:

In Q3, 2013 we continued to win business from new and existing major clients and deployed our solutions at fourteen customers from across our business units. We were pleased to win thirty two contracts from our client base and add major new customers in the health systems and heavy equipment dealer markets. As a result our position in these two verticals was reinforced.

Highlights of new and existing clients in the quarter included:

- Seven in healthcare, strengthening our leadership in this space
- Five in heavy equipment, where our market share has increased close to 30% in the Caterpillar market up from just under 23% a year ago, and
- We continued to win in the SMB sector, and are finding significant prospecting opportunities for warehouse management systems in this market segment.

In terms of the remaining highlights of the quarter, total Revenue was \$10.4M in Q3, 2013 compared to \$10.6M in Q3, 2012. The weakening of the U.S. dollar by about 3% in Q3, 2013 compared to Q3, 2012, unfavorably impacted revenue by about \$178K.

The real story here is in the other numbers. Although total revenue was slightly down, proprietary product revenue was up by 26% while third party product revenue fell by 34% for a combined decrease of 12% in product revenue for Q3, 2013. Services revenue was up by 4%. As a percentage of total revenue, product revenue accounted for 36% and services for 62% compared to 40% and 58%, respectively for the third quarter of last year.

Loss from operations for the third quarter, 2013 was \$464K compared to profit from operations of \$378K in Q3, 2012. EBITDA for Q3, 2013 was negative at \$28K compared to EBITDA of \$755K in Q3 of last fiscal year. Net loss for the quarter was \$543K or \$0.05 per share compared to net profit of \$305K or \$0.03 per share for the third quarter of last fiscal year.

Our year-to-date revenue and profitability are ahead of last year by 14% and 21% respectively. Our license fee sales are up 26% for the quarter and 70% year-to-date. Over the past year we have grown our human capital infrastructure substantially to respond to our growing demand for services. We added 85 people and ramped up our expenses by \$1.1M compared to Q3 of last year. Most of this was done over the summer and fall. It takes some time for

this additional expense to generate revenue, but given our strong balance sheet and the growing demand for our services, we believe it was the right move. The opportunities ahead look promising given that our sales pipeline and prospecting business initiatives are both solid and continuing to rise. According to the leading industry analysts firm, the supply chain management industry outlook is positive and is expected to remain prosperous in 2013.

With this positive business climate, good year-to-date results and our strong cash position the Board of Directors has declared a semi-annual dividend of 3.5 cents per share, to be paid on March 29, 2013 to shareholders of record on March 15, 2013.

In terms of the financial highlights of the first nine months of fiscal 2013, as I have mentioned earlier, revenue increased 14% to \$32.6 million compared to \$28.7 million for the same period of last fiscal year.

Profit from operations for the first nine months of 2013 increased 41% to \$1,012K compared to \$720K for the same period of last fiscal year. EBITDA for the first nine months, 2013 increased 23% to \$2,218K compared to \$1,802K for the same period in 2012.

Net profit for the first nine months, 2013 increased 21% to \$704K or \$0.06 per share compared to \$584K or \$0.05 per share for the same period of the prior fiscal year. Excluding option expenses, net profit increased 46% to \$977K or \$0.08 per share compared to \$668K or \$0.06 per share.

From the perspective of returns to investors, year-to-date we have returned to our shareholders in excess of \$860K; \$400K in the form of dividends at 3.5 cents per share paid after Q1 of this fiscal year, and \$462K for buying back 187,300 of our common shares for cancelation under the NCIB. That concludes our review of Q3 and first nine months of fiscal 2013.

One of our wins in the hospital space was particularly significant this quarter, as we were selected by a health insurance provider as part of a plan to turn around the financials of a hospital network that they acquired. The agreement was signed with us, within days of the completion of the acquisition. It highlights again the hard savings we bring to hospital networks and our leading position in this market.

In conclusion:

- Year-to-date results surpassed last year's both from revenue and profitability points of view.
- A heavy investment in additional services capacity has been made that we believe will pay off for the company as these people come up to speed.
- Our market positions in health systems and heavy equipment were further reinforced with major wins during the quarter.
- The market climate continues to be strong. According to a Gartner report released in January of this year, Gartner is looking for accelerated IT spending growth in 2013. Our prospecting opportunities are excellent and we feel very positive about the business opportunities moving forward.
- Cash, cash equivalents and other short-term investments amounted to \$7.7M at the end of Q3, 2013, compared to \$5.2M at the end of Q3, 2012.
- At the end of Q3, 2013 annualized recurring revenue in Canadian currency increased 4% to \$15.4M (or 35% of the last twelve months' trailing revenue) from \$14.8M at the end of Q3, 2012.
- Backlog increased to \$25.1M at the end of Q3, 2013 from \$24.6M at the end of Q3, 2012.

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