TECSYS INC. - TSX: TCS

2014 THIRD QUARTER RESULTS

FINANCIAL ANALYSTS CALL

TUESDAY, FEBRUARY 27, 2014, 4:30 P.M. ET

Operator:

Good morning ladies and gentlemen. Thank you for standing by. Welcome to the TECSYS 2014 fiscal third quarter financial 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 any difficulties hearing the conference, please press [insert instructions] for operator assistance at any time.

Please note that the complete third quarter report, including the MD&A and financial statements, will be filed by TECSYS on SEDAR by March 17, 2014. All dollar amounts are expressed in Canadian currency and are prepared in accordance with the International Financial Reporting Standards (IFRS).

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 27, 2014 at 4:30 p.m. Eastern Time.

I would now like to turn the conference over to Mr. Peter Brereton, Chief Executive Officer of TECYS. Please go ahead sir.

Peter Brereton:

Good afternoon everyone. Thank you for joining us on today's call.

Today we issued our 2014 fiscal third quarter financial results by press release and a copy of those results is available on our website at tecsys.com.

With me today is Berty Ho, our CFO. I'll start by summarizing the key events of the quarter for TECSYS and review our financial results for Q3. I'll then close with a few comments on our key markets followed by a Q&A for the analysts and media.

For a second consecutive quarter, we recorded our highest top line revenue in a decade.

We saw a continued improvement across the Company with our services team delivering outstanding results in the quarter.

The professional service organization has been a key investment for us – undergoing a number of changes and refinements during the past 12 to 18 months. The improvements from these changes started to show in fiscal Q2 and now in Q3 they are clearly evident. The team is becoming increasingly productive as evidenced by revenue growth revenue 24% in services compared to the same period last year, and 8% compared to last quarter.

We also grew third-party sales as a result of stronger demand from existing customers replacing hardware that has reached the end of its lifecycle.

The gains we made in services and third-party hardware were partially offset by lower license sales in the quarter.

Our proprietary software sales were impacted by the sales cycle extending beyond the quarter for some deals. This extension is due in part to the rigor the new services leadership has brought to sales engagements. Customers needs and the description of work are better defined which we view as a benefit. Our expectation is that the reduced license sales are a temporary effect.

As a result of this new approach, as well as the demand we are seeing in the market, our sales pipeline is as strong as it has been in years. The active pipeline grew considerably in the quarter and we are advancing discussions with a number of potential healthcare customers which we expect to sign in calendar 2014.

Our backlog and recurring revenue both grew as well, in part due to favourable foreign exchange conditions. These two metrics point to the continued strength and stability of our business. Based on these underlying fundamentals we increased our semi-annual dividend to $0.04 a share.

So, overall it was another quarter of strong growth. Now let me walk you through the details:

Financial Results:
We grew revenue by 14% for the quarter to $11.8M. As a percentage of total revenue, products accounted for 30% and services for 67% in the third quarter of 2014 compared to 36% and 62%, respectively, for the third quarter of last year.

[NTD: Is the additional color we can add here without repeating the proprietary software timing issue?]

License revenue was down $610K in the quarter compared to last year. In line with this, total contract bookings reached $4.1M in Q3 2104 compared to $5.7M in the same period last year. We added two new customers in the quarter. As I mentioned, we saw the sales cycles for a number of deals extended beyond the quarter due to timing issues which we believe are unique to this quarter.

From a services perspective, 12 accounts went live on our software during the quarter. Half of these accounts consisted of WMS and healthcare and included:

- A large health system in the U.S.
- A South American heavy equipment dealer; and
- One of the largest banks in the U.S.

We recorded $7.9M in services revenue higher by $1.5M compared to Q3, 2014. As we ramped up revenue our professional services team also delivered improved productivity with service margins reaching 38% compared to 20% in the same period last year. This margin growth demonstrates the services team as a whole is hitting their stride and highlights the leverage that is available in our business.

Profit from operations for the third quarter of 2014 was $589K compared to a loss of $464K in Q3, 2013.

EBITDA increased to $1.1M in Q3, 2014 compared to a negative EBIDTA of $28K in Q3 of last year.

Net profit for Q3, 2014 increased substantially to $467K or $0.04 per share compared to a net loss ($543K) or ($0.05) per share for Q3, 2013.

In terms of the financial highlights of the first nine months of fiscal 2014:

Revenue for the first nine months increased 4% to $34.1M compared to the same period last year.

Profit from operations grew 49% to $1.5M for the first nine months of 2014 compared to $1.0M for the same period last year, a large portion of which is attributable to improved service margin and revenue.

EBITDA for the first nine months was $2.8M compared to $2.2 for the same period last year.

Net profit for the nine month period was $1.2M or $0.10 per share compared to $0.70M or $0.06 per share for the same period of the prior fiscal year. That concludes the financial highlights of the first nine months.

Conclusion:

Looking at our position in the market right now, we see a stronger demand for our products than ever before.

The healthcare market in the US remains robust, moving at a pace of change we have not seen before.

The landscape is shifting towards our suite of solutions, spurred by changing regulation and the underlying problems that necessitated those regulations. This has driven demand for our products from large healthcare distributors and hospital networks as they look to reduce their costs and improve efficiencies.

We continue to hold a leadership position in healthcare supply chains with dominant market share, recognized domain expertise as well as differentiated and specialized solutions for customers. Having already deployed our solutions in 3 of the top 10 health care supply chains as ranked by Gartner, we have proven to the market that our solutions reduce costs, improve efficiencies and save our clients millions of dollars.

Our experience, products and reputation have made us the industry leader for healthcare supply chains, and we are investing in our team and products to retain our advantage.

We are currently pursuing a number of opportunities in the healthcare market which would expand our footprint.

Another way we are growing our presence in the healthcare supply chains is extending our reach through third party partnerships, such as the partnership with GENCO we signed in the quarter. These partnerships drive further revenues, while also extending our awareness and recognition. Our bookings from healthcare clients continue to outperform other areas of the business, and we expect this trend to continue going forward.

Turing to the general warehouse management space, we see a growing market as companies reinvest in their supply chains as the general economy improves to both their lower costs and improve their efficiencies. Within the sector we are improving our market presence and our product acceptance, as well as leveraging our technology and customer service that are consistently recognized by Gartner as market leading.

During this quarter half of our go-lives were with WMS clients, including a health system and a heavy equipment dealer which is a WMS-subsector we continue to dominate.

I mentioned earlier that our services team has undergone some changes. One important change we have made was to bring in new leadership and with it a new approach to services involvement in the sales process. We are just starting to see the results of that new approach which we believe will have a positive impact on the Company's performance over the coming quarters.

One focus we currently have with our sales team is expanding our relationships with base accounts and improving their contribution to our overall revenue. Earlier in the year we piloted an internal program which focused on base accounts. With the success of that pilot we are now starting to implement the program across our entire customer base. Growing the contribution from our base accounts puts us in closer contact with our customers and improves margins and customer satisfaction.

Finally, we increased our cash and cash equivalents position to $5.9M at the end of Q3, 2014 compared to $5.3M at the end of Q4, 2013.

With the continued strong performance of our services team, the renewed focus from our sales team and a growing demand from our key markets we believe that the Company will be able to close out its fiscal year having demonstrated solid growth across all business segments, and continue that growth through fiscal 2015.

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