TECSYS Inc. - TSX: TCS

FY 2015 Fourth Quarter Results

Financial Analysts call

Wednesday, July 8, 2015, 4:30 p.m. EDT

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the TECSYS Fourth Quarter Fiscal 2015 year-end 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. 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 Wednesday, July 8th, 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.

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Peter Brereton

Thank you, and good afternoon everyone. We appreciate you joining us for today's call. Earlier today we issued our 2015 fourth quarter and year-end 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 Q4 financial results. I'll then close with a few comments on the year followed by a Q&A session.

Revenue in the fourth quarter came in strong, growing 27% to $15.8 million from $12.5 million last year. This resulted in EBITDA of $995 thousand. EBITDA and, of course, profit from operations was impacted by a couple of exceptional items that I'll discuss later in the call. Looking at the full year, Fiscal 2015 revenue increased 23% to $57.3 million from $46.6M last year. 2015 EBITDA was $4.4 million, up from $4.1M in 2014.

More importantly, driven by increasing demand for our products, total contract bookings in the quarter were $16 million, compared to $9.0 million last year. Of this, $7.3 million came from five new accounts.

In the quarter we closed 1 new IDN account. Measured against the average, this was an exceptionally large IDN. 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

Now looking a little more closely at the financials for the quarter, as I mentioned earlier, we grew total revenue by 27% to $15.8 million. As a percentage of that revenue, proprietary products accounted for 25%, third-party products for 14%, and services for 58%.

As we discussed on our last call, 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. In spite of the delay created by the hedging, we are now seeing more impact from the weaker Canadian dollar. As a result, revenue in the quarter was boosted by about $820,000. Conversely, our cost of sales and operating expenses increased unfavorably by approximately $400,000.

Breaking down revenue a little further, we recorded $9.1 million in services revenue, higher by $1.3 million or 16% over Q4 of 2014. Services margins increased to 38% from 35% in Q4 2014, as the increase in services revenue outstripped the increase of expenses.

Proprietary products revenue, defined as internally developed products including proprietary software and hardware technology, increased 41% to $3.9 million in the fourth quarter of fiscal 2015, compared to $2.7 million for the same period last year. Preexisting product line revenue grew by $311,000, while Logi-D revenue added $824,000 to this proprietary product revenue number. Overall, this growth was clearly driven by increased revenue in the healthcare vertical market.

Third party products revenue increased to $2.3 million, $767,000, or 51% higher, in the fourth quarter of fiscal 2015 in comparison to $1.5 million for the same period last year. Of the total increase, Logi-D's third-party products accounted for $309,000 of that revenue.

We saw our gross margin improve to 49% in Q4 2015 compared to 45% 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 as well as our increased margin on services revenue (35% to 38%). Proprietary products accounted for 25% of total revenue in Q4 2015 versus 22% of revenue in Q4 2014.

Profit from operations for the fourth quarter of 2015 was $311,000. The change was the result of higher operating expenses, which were offset by higher proprietary, third-party product and services margins. Profit from operations was reduced by $270K of one-time costs due to the elimination of redundant management positions as various operating units were integrated into a single operating unit. A large new customer signed on a SAAS revenue model basis, resulting in the deferral of approximately $550K of license fees, while on an accounting basis, the bulk of the expenses impacted the quarter.

EBITDA was $955,000 compared to $1.258 million in Q4 of last year.

We ended the quarter with $10.8 million in cash and cash equivalents, up from $8.8 million at April 30th, 2014. The increase in cash resulted from the over-subscribed bought deal offering we closed in the quarter. The net proceeds from the equity financing were $6.1 million through the bought deal financing. Also, we restructured our banking facilities raising additional debt capital of $2.0 million in the form of a term loan repayable over five years.

We executed this financing to fund our businesses growth in addition to providing the necessary capital for potential future acquisitions. We specifically chose this combination of financing options to minimize the dilutive effects on shareholder ownership while still providing our team the resources required to grow the business.

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Taking a look at our total operating expenses for the fourth quarter of fiscal 2015, we saw an overall increase to $7.5 million, higher by $2.6 million, or 55%, compared to $4.8 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. Excluding Logi-D's operating expenses and amortization of its intangible technology assets, operating expenses are higher by $1.5 million or 31%

Looking at costs a little more closely, sales and marketing expenses totalled $4.0 million in the quarter, $1.5 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, $570,000 higher than the same quarter last year. The increase in R&D expenses was the inclusion of Logi-D and an increase in employee related expenses. We have begun the process of reducing R&D capitalization while increasing amortization as we wrap up the technology migration we have completed over the last few years. In other words, R&D capitalization is down and amortization is up compared to the same quarter a year ago. The combination impacted the quarter by about $160K compared to last year.

Our fiscal 2015 financial results benefited significantly from our expanded healthcare offering which has continued to attract great interest from our customers. In fact, we saw record order bookings in fiscal 2015 which increased 97% to $47 million from $24 million in the prior year. The substantial increase in bookings is a testament to the value our customers place in our product offerings and gives us great visibility to revenue growth in the coming year.

As we've discussed before, throughout the past year we've made targeted investments in our business to capitalize on the dominant technological position that we have established. We have done this to solidify our place as the leader in our space and provide our customers with access to high-quality solutions that address their needs. It is fundamental to our strategy that we retain and grow our business now and take advantage of the incredible market awareness we have seen for our products.

While our healthcare segment has become a strong driver of our businesses growth, we remain committed to pursuing our long-term strategy to become the undisputed leader in solving the challenges of today's complex supply networks, not only in healthcare but also in advanced distribution. Addressing the needs of complex supply chain distribution networks is at the heart of our technological expertise and we are committed to maintaining our dominance. We believe the greater focus on the part of our sales team will accelerate our expansion and will drive future growth in these business units forward.

As we ended the fiscal year, our backlog stood at $45M, up from $29M at the end of the prior year and our annualized recurring revenue was $21.2M up from $17.6M at the end of the prior year.

With our strong balance sheet, past financial performance and demand for our innovative products we remain in an excellent position to continue to show solid growth into fiscal 2016. We are focused on our operations and maintaining the efficiencies that our team has worked hard to drive from the business over the past few years.

With the solid foundation we have established, we can continue to execute on the opportunities we have in front of us while preparing for future projects we see coming through our sales pipeline.

In summary, this was a solid quarter. We closed $16 million of business, went live at 23 different sites, signed another IDN contract and continued developing a number of opportunities in our pipeline, setting the stage for an excellent fiscal 2016.

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 updating you on our progress again when we report our Q1 2016 results.