**TECSYS INC.**
**Fourth Quarter and FY2017 Results**
**Financial Analyst Call**
**Friday, July 7, 8:30am**

## Operator

Good morning, everyone. Thank you for standing by. Welcome to the TECSYS Fourth Quarter and Fiscal Year 2017 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. Please note that the complete annual fourth quarter report, including MD&A and Financial Statements, were filed on SEDAR after market closes on July 6, 2017.

All dollar amounts are expressed in Canadian currency and are prepared in accordance with the 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 Friday, July 7, 2017, at 8:30 Eastern Time. I would now like to turn the conference over to Mr. Peter Brereton, Chief Executive Officer of TECSYS. Please go ahead.

## Peter Brereton

Thank you, and good morning, everyone. We appreciate you joining us for today's call. Yesterday, after market close, we issued our fiscal 2017 fourth quarter and year-end financial results, and a copy of those results will be available shortly on our website at tecsys.com.

Joining me today for the first time is Brian Cosgrove, our Chief Financial Officer. Brian recently took over as CFO of TECSYS from Berty Ho, who was our CFO since our IPO in 1998. Brian brings his extensive experience with growing technology companies, and we look forward to his contributions. We also thank Berty for being part of our growth over the last many years and remaining with us now in a new role.

For today's call, I'll start by summarizing the key events for fiscal 2017 and reviewing our financial results. I'll then close with a few comments on our outlook, followed by a Q&A session.

In fiscal 2017, we continued to build on our leadership in the health care sector by adding more IDN customers and advancing our clinical logistics solution offering. Also our complex distribution business continued to succeed as a result of our initiative of a year earlier to reorganize and expand the sales force. It was also a financially strong year with improvement in a number of key metrics, including strong cash generation and improved dividends to our shareholders. We are pleased with this performance, particularly when you consider the headwinds we have been facing in the U.S. health care market.

Total contract value bookings were $42.6 million, a 1% increase compared to $42.2 million booked in fiscal 2016, which reflects lower activity -- or slower activity in our health care business. About one-quarter of the contract bookings were from new customers as we signed 12 new accounts, representing a total value of $11.1 million compared to $8.9 million from 14 new accounts in fiscal year 2016. In the fourth quarter, we had $11.1 million in total contract bookings, including four new contracts with a total value of $4.7 million compared to $2.7 million from five new accounts in Q4 of fiscal 2016. The average deal size for the new accounts in Q4 '17 was about twice the size of those in Q4 of '16.

Included in the new accounts in the fourth quarter were two from large U.S. IDNs. One has over 40 hospitals with over 8,200 beds and serves more than 5 million patients annually in 9 states and has grown to over 80,000 employees. The second has 12 hospital campuses and has served more than 3 million patients in 2016. The increase in average contract size and the quality wins we achieved in the fourth quarter are the result of having a very robust offering.

In fiscal 2017, we made several advances on our clinical logistics solutions. In November, our OR module went live at the hospital of a large IDN, which also has come onboard as a partner. This module is in the process of being implemented at other hospitals in our partner's network. And another major network began to implement it in February. It has generated significant interest from other networks, with several teams touring our partner's installation.

We also shipped the next commercial release of our pharmacy point-of-use solution last year and signed contracts for our cath lab module as well. We believe we are the only provider in the industry with such a comprehensive offering, and we expect both the pharmacy and cath lab solutions to have the same success as our OR module. Another significant achievement last year for our health care business was the launch of our first pilot project in Europe. Hospitals in Europe face the same cost pressures and the need for real-time accurate information from their supply chains to optimize operations as those in North America. There is a solid opportunity to build on this project and introduce our health care solutions across the region.

Fiscal 2017 was a very strong year for complex distribution, with bookings for new accounts up about 90%. This was the result of our dedicated sales team and the launch of our new product line several years ago with improved agility and flexibility. We were in the unique position of introducing new technology into a market with a large installed base with the result that once we presented the advantages, a significant number of our existing accounts upgraded to it. Our new software platform also helped us make inroads into new accounts. And we added several large organizations to our client roster, some of which operate across multiple sites and geographies and will allow us to further expand our footprint.

Now, looking at our financials in detail. The fourth quarter of fiscal 2017 was the second-best quarterly revenue in our history. However, the best quarter ever was Q4 fiscal '16. During the fourth quarter, the company recognized $4.6 million of prior year federal nonrefundable R&D tax credits, which reduced gross R&D expenditures by a corresponding amount. This is as a result of the company's increased probability that these tax credits will be used in the future to reduce cash taxes.

Total revenue in fiscal 2017 was $68.4 million, up 1% over $67.5 million achieved in fiscal '16. In the fourth quarter of fiscal '17, total revenue was $18.4 million, 13% lower than Q4 2016 when we achieved $21.1 million. This is, however, about 11% higher than the average of the previous 3 quarters. At the end of fiscal 2017, recurring revenue amounted to $26.9 million or 39% of revenue, up from $25 million or 37% in fiscal '16.

Proprietary product revenue was $11.9 million in fiscal '17, 13% lower than in fiscal '16. This is largely because of the record levels of proprietary hardware deliveries in the fourth quarter of fiscal '16. In the quarter, proprietary product revenue was $3.9 million, down 34% compared to Q4 '16 but up 43% over the $2.7 million generated in Q3 of fiscal '17.

Third-party products revenue was $8.9 million in fiscal 2017 compared to $9.4 million in fiscal 2016 with the difference caused mainly by a decline in storage product revenue. Similar trends were seen in the fourth quarter when comparing to the exceptional Q4 '16 with third-party product revenue of $2.7 million in Q4 of '17 compared to $3.1 million a year earlier. Services revenue continued to grow and was 6% higher at $45.2 million in fiscal 2017 compared to $42.5 million in the previous year. In Q4 of 2017, services revenue was $11.2 million, about 3% lower than a year earlier.

Gross margin for fiscal 2017 was $34.2 million compared to $34.8 million in fiscal 2016. This represents a margin of 50% of revenue in fiscal '17 compared to 52% in fiscal 2016. The difference is mainly due to greater product revenue in fiscal 2016, particularly in the fourth quarter. Fourth quarter fiscal 2017 gross margin was $9.4 million or 51% of revenue compared to $11.7 million or 55% of revenue in the previous year. Total operating expenses were $26.2 million, 13% lower than $30.3

million in fiscal 2016. Excluding the tax credits recognition of $4.6 million mentioned above, operating expenses were almost flat at $30.8 million.

As a result of the tax credits mentioned above, R&D expenses decreased by $4.1 million to $5.3 million compared to $9.3 million in fiscal 2016. Excluding the tax credits mentioned above, net R&D expenses was $9.9 million. In fiscal 2017, with the successful migration of our software platform to Java, the capitalization of our development cost was reduced to $27,000 in fiscal 2017 compared to $887,000 in fiscal 2016. Profit from operations of $8 million in fiscal 2017 in comparison to $4.5 million in fiscal '16. Excluding the tax credits recognition mentioned above, profit from operations was $3.4 million compared to $4.5 million. Net profit for fiscal '17 was $6 million or $0.49 per share compared to $4.8 million or $0.39 per share for fiscal '16.

EBITDA in fiscal '17 was $10.4 million, up 45% from $7.2 million in fiscal '16. Adjusting for the impact of the tax credits mentioned above, EBITDA would have been $5.8 million. This represents an EBITDA margin of 8% compared to 11% in fiscal '16. Looking at EBITDA on a quarterly basis, we generated $6.7 million in Q4 of '17 compared to $3.8 million for the fourth quarter of '16. Excluding the tax credits mentioned above and the severance and related legal costs of about $460,000 expensed in the fourth quarter, EBITDA was $2.5 million or 14% of revenue.

We ended 2017 in a strong position with cash and cash equivalents of $13.5 million compared to $9.7 million at April 30, 2016, the end of our last fiscal year. The company generated cash from operating activities of $9.8 million in fiscal 2017 compared to $3.6 million in fiscal '17. This was primarily due to our increased effort in reducing accounts receivable and tax credit receivables. During the fourth quarter, the company prepaid its remaining principal balance on its term loan of $1.8 million. Currently, the company is virtually debt free. Based on the strong progress we made in 2017 and our expectations of continued success, the board decided last December to increase our quarterly dividend by 50% to $0.045 per share.

In fiscal 2018, we are looking forward to growth from both of our key sectors. In health care, we expect the apprehension over potential health care legislation to ebb. And there is a significant opportunity to deepen our relationship with existing accounts. The IDN market we are targeting is estimated to be worth about $9.6 billion. Within our existing IDN customers, which now number over 30, we have an addressable market of more than $550 million, and these are only 12% penetrated.

Based on a multiyear relationship with many of these customers, they have direct experience with the benefits that our solutions provide and are open to adopting others. For many of them, our clinical modules for operating rooms, pharmacy and cath lab are opportunities for them to generate increased efficiencies and savings. With its dedicated sales team and new technology, we also expect our complex distribution business to continue to generate growth.

We have a strong offering in the market and benefit from being one of the few suppliers that is completely focused on supply chain software. Compared to enterprise software or other more generic solutions, our software is much easier to implement, simpler to operate and able to be customized in real time to meet a customer's needs. This is a strong competitive advantage.

To better facilitate our growth opportunities, subsequent to year-end, we completed a bought deal with a syndicate of underwriters for approximately $16.5 million, including a treasury offering of $11.5 million. This will allow us to be prepared to meet the faster growth rates we anticipate in both of our key sectors and also be able to act quickly on acquisition opportunities when they arise.

With that, I will turn the call over to questions.

## Operator

Thank you. Ladies and gentlemen, if you are an analyst and would like to register a question, please press the one followed by the four on your telephone. You will hear a three tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration, please press the one followed by the three. If you're using a speakerphone, please lift your handset before entering your request. One moment please for the first question.

Our first question comes from the line of Amr Ezzat from Echelon Wealth Partners.

## Amr Ezzat

Good morning, gents. Welcome to the team, Brian.

## Brian Cosgrove

Thank you.

## Amr Ezzat

Peter, again like last quarter, I'm wondering how conversations have evolved with the potential new health care clients since our last conference call. Would you say we are back to a normalized environment with the success you've had?

## Peter Brereton

I think, Amr, we're certainly getting back to a normalized environment. Like we're not -- I mean, even the two, those are two nice deals we signed in the fourth quarter that, I mean, as I mentioned on the call, the average deal size is large. And so even though our number of accounts we signed last fiscal year was low, because the average deal size was so large, it still ended up being some pretty sizable wins.

And if you look at the activity in the pipeline now, we no longer hear people saying -- like we're no longer hearing people saying that, "We really need to wait until we see how sort of Obamacare stands or falls before we make a decision on this stuff." Most of them have gone through a process of relooking at budgets and sort of business and revenue strategies and so on, depending on different possible outcomes and now have those strategies more sort of settled and seem to be ready to move forward again. So we're certainly seeing the momentum returning to normal.

## Amr Ezzat

Understood. Then I guess on the four accounts this quarter, you just mentioned two health systems that you had preannounced. Are the two other accounts in complex distribution or health care as well?

## Peter Brereton

One was in complex distribution and -- right, and the other one was the small project in Europe. That was actually still in -- it was actually another hospital system, but it was a very small project in Europe.

## Amr Ezzat

Understood. So it's fair to assume that the average deal size, which grew substantially, is probably skewed by that health system with 8,200 beds?

## Peter Brereton

That would be a pretty safe assumption, yes.

## Amr Ezzat

Okay. So in terms of OpEx, you've done a good job keeping that flat. Going into fiscal 2018, what should we expect on that front? Will we see sort of clearing on some investments? Or do you feel that at this level, you could continue to sort of grow at a healthy pace?

## Peter Brereton

We plan to continue to hold OpEx relatively flat, at least in the early quarters of this year. To some extent, we want to see some actual proof around our sense that the health care market is returning to more of a state of normalcy.

But our assumption is that it has, we just sort of want to see proof of that. But assuming that we do see it as a return to more of a state of normalcy, then we expect to begin to grow OpEx somewhat in the later part of the year, but still relatively muted growth of OpEx. I mean, our belief is that we've still got some real opportunity to grow the revenue line without adding much to OpEx.

## Amr Ezzat

That's great to hear. Then on the pharmacy solution, you mentioned the new release. Is that for the same client? Or have you deployed it elsewhere?

## Peter Brereton

It's still for the same client. We are continuing to see interest across the industry in it, but they're -- at this point, they are -- have decided to focus on getting sort of entire -- basically, a very large database of drug information and so on loaded into the system and checked and verified by the pharmacy team and so on before they go live. And so their plan at this point is to go live early next calendar year. But additional work has been done and been released around facilitating the import and management of the sort of industry drug database and cross-references and all that kind of information that pharmacists like to have in the system.

## Amr Ezzat

Okay. Then I guess in terms of the money you just raised, to the extent that you can, of course, can you give us an update on the M&A environment and how, I guess, it's evolved over the last year?

## Peter Brereton

Yes. I mean, I'm not sure the M&A environment so much has changed for us other than our valuation has changed relative to the M&A environment. So I mean, when we look at -- we've been looking at M&A over the last couple of years and the number of opportunities have come along that have been sort of very good potential opportunities. But in each case, the eventual selling price of those acquisitions was sort of, in ratio terms and so on, was at valuation points so far above our own, it just didn't make sense to dilute ourselves with acquisitions at those valuations.

As our valuation has risen, we're now at a point where a lot of these acquisitions are going down at valuations that are more reasonable compared to our own. So we are looking at some different acquisitions. At the same time, I've got to say we're -- we've got a lot of irons in the fire with our own product line. We grew our health care revenues, where a few years there, as you remember, from sort of $12 million to $22 million to $32 million. And that was mainly on the strength of our WMS offering with some of the point-of-use offerings just starting to come on stream.

And we're now -- we've come through a pretty much a flat year with health care legislation doing what it's doing in the states. But as that sort of fades into the rearview mirror, we're finding ourselves now with not just sort of warehousing and transportation solutions for hospitals, but cath lab and OR and pharmacy and so on. And we think there's an opportunity for -- that we really need to make sure we're taking advantage of there in the marketplace.

So we will -- we do continue to look at acquisitions. The valuations do look more reasonable. At the same time, they need to be good ones because, otherwise, I'd rather keep our entire management team focused on the opportunity in front of us and use the capital we raised to make sure we can grow rapidly when we need to grow rapidly to take advantage of that.

## Amr Ezzat

Understood. Then maybe just one last housekeeping item. The $460,000 of unusual charges, what drove that? Will we see more of that slip into fiscal Q1?

## Peter Brereton

No. That was kind of a one-shot thing. We made some changes to the management team to really sort of get the company into what I -- the shape I thought it needed to be for the next phase of our growth. And we expensed all those -- the costs related to those changes in the fourth quarter.

## Operator

Ladies and gentlemen, as a reminder, to register a question, please press the one four on your telephone. Our next question comes from the line of Nick Agostino with Laurentian Bank Securities. Please proceed.

## Nick Agostino

So if I could just maybe focus on the, I guess, the services revenue in the quarter. It was down quarter-over-quarter, year-over-year. And then at the same time, just looking at what's happening in the health care market, specifically with new accounts, it looks like the decline on services side was tied to professional services. Can we assume that, that was correlated to just, I guess, less new wins on the health care side? Or was there other things at play on that side?

## Peter Brereton

Well, I think you're right. It was -- the overall win rate in health systems in fiscal '17 was a lot slower than prior years. So some of it was related to that. Relative to the size of the services organization, backlog was not as large. But some of it just has to do with project timing. And I would say the majority of it, in fact, just has to do with project timing.

When customers decide to go live, there is always a spike in services revenue related to that as that's when sort of the nights and weekends tend to get worked to bring the client live. And just in the sort of the ebb and flow of go-lives, Q4 of last year and Q3 of this year both had quite a number of go-lives in them. And Q4 of this year was just a little lighter on go-live activity, but it's within the normal range of what we see in terms of typical ebb and flow.

## Nick Agostino

Okay. And can we assume, given the fact that your comment earlier that you're starting to see a normalization on the IDN side of the market, presumably we'll see a pick-up on new wins there? And can we assume that professional services number, including the fact that you've got two new IDN wins recently, can that professional services number start to creep up in the first half of this year? Is that a fair assumption?

## Peter Brereton

Yes, we certainly expect that it will. I mean, I've got to tell you, to some extent, this is a -- even on the sales activity front, this is a strange July. Our sales team right now is very, very busy. I mean, we'll see how the summer works out here. But normally, July is pretty dead, and we're seeing a very busy summer. And the backlog is still in pretty strong shape. So we certainly expect professional services revenue to continue to creep up. You do -- we do go through a seasonal -- a bit of a seasonal hit in summer months, where we're looking at vacations taken in July and August, which sort of spreads it across Q1 and Q2. But things are certainly looking good there.

## Nick Agostino

Okay. And just going back to your commentary earlier about normalization in the IDN market, is there -- and if you wanted to make a forecast in terms of guidance for number of new wins for fiscal 2018, is that something you're prepared to make right now?

## Peter Brereton

Only to say, Nick, that we expect it to go back to sort of historical levels. I mean, we've been running at sort of 5 or 6 a year for a number of years. We're trying to get it up to eight. What has -- seems to continue to happen is our average deal size gets larger, but the number doesn't actually increase. And in some ways, I'm okay with that. We're seeing -- as we've rolled out some of these other in-hospital solutions, the actual total lifetime value of an account is so high in this space that if we're winning 5 or 6 a year, but we're continuing to expand our solutions in terms of how much -- how broad of a solution we can sell to a single hospital network, that ends up being a pretty good number story.

## Nick Agostino

So can we assume then that it's -- you're loosely suggesting maybe 5 to 6, maybe a little bit higher than that, but also average deal size being higher than historical?

## Peter Brereton

Yes, I think that would be a safe statement.

## Nick Agostino

Okay. And I guess two other quick questions. Just maybe a little bit of commentary around -- I think earlier, you said your complex distribution side of the market was progressing. And I think that was a commentary with regards to the entire year. Can you maybe just talk about what you guys are seeing from a demand perspective on the complex side in Q4 alone?

## Peter Brereton

Yes. Complex has continued to sort of rip along very nicely. And there is -- I think, in the end, total bookings in -- on the new account side for complex came in just shy of $9 million for the year, up from about $4.4 million the prior year or $4.5 million the prior year. So it was -- they virtually doubled. And really, it just continued to strengthen through the year. So there was actually a minute there in the fourth quarter when I thought they even might hit $10 million, but some of those deals slipped out of the quarter.

So the activity there is strong, and we have strengthened both the -- we brought that new sales team in approximately two years ago now. But we've also, in the last year, strengthened the presales support. The guys that actually do the solutioning and present the software and so on. And we're developing more depth of experience in that team as well, which I think is also helping. So all good. I mean, I was expecting to try to return complex distribution to sort of a slow growth rate, but at least get it back to growth so it would stop pulling health care down. And I have to say they've outperformed my expectations.

## Nick Agostino

Okay. And then just last question. Any commentary you could provide on the OneSprint with regards to your SaaS offering in terms of the take-up? And I'll leave it at that.

## Peter Brereton

Sure. OneSprint has continued to be taken up, I would say, more slowly than we've anticipated. We have now a couple of deals, though, that have been signed on that basis. We have one that's just in the process of going live.

We're back for sort of doing a sort of a second rev of OneSprint based on what we've learned, sort of the deals we pursued, the ones we've won, the ones we've lost, to say what do we need to do to broaden it. I'd give you an example.

For instance, our OneSprint offering, since part of the whole intent was to have a simplified rapid install, it didn't include lock control. What we're finding is that there's just too many companies that have one or two product lines that require lock control. And as soon as you need it in any way, shape or form, then you need it. So we're back for a second pass on that. And we're going to be introducing the lock control functionality into the OneSprint offering. So we're broadening it somewhat. It did begin more slowly than we'd hoped, but it's -- we think it's finally starting to get a little traction.

## Operator

Our next question comes from the line of Hubert Mak with Cormark Securities.

## Hubert Mak

I guess just a follow-up on the professional services. Obviously, the margin's come down. I'm assuming that's due to the lower revenue. But from what it sounds like, you're going to get some pick up here going forward. Like what do you think of the margins going forward when you get back to sort of normal utilization here?

## Peter Brereton

Yes. We're expecting margins to return somewhat. I mean, you always have to watch out for currency a little bit, right? So I mean, currency fluctuations affect that margin and our -- we have continued to grow the professional services organization to deal with the rising backlog and the activity we see in the marketplace that we believe is going to put a lot of demand on that team. So we've continued to grow the team fairly steadily every quarter so that when the top line revenue doesn't grow quite as quickly as anticipated, you end up with a bit of a saggy margin. But we continue to anticipate that services will run in the sort of -- in kind of the mid-40s from a margin perspective.

## Hubert Mak

Okay. And then you talked about the -- your 12% penetration in terms of your current installed base. Like can you talk about what you guys are having success, what products that you guys are actually generating good momentum here? Can you just give some color on that? And secondly to that is that as these deal sizes are getting bigger, are you seeing any lengthening of deals closing? Or is the, I guess, the speed is still sort of the same?

## Peter Brereton

Yes, I mean, in terms of your first question, I mean, these different products are sort of at different stages, right? So I mean, obviously the WMS and transportation management is thoroughly proven and out there. If you look at the next one in line, which is sort of the point-of-use for nursing stations, that's now been out in the field for three years, I guess, and is beginning to gain some good momentum.

If you look at OR, that's only been out for about a year. And the OR solution is now live in half of one hospital network up in the sort of the Dakotas region, the North Central U.S. And it's live in a substantial -- well, in the small portion of Mercy Health in St. Louis. They're planning to go live in a more substantial portion of their network this month. And so a lot of eyes are on that one to see sort of how that one go does. They're pretty happy with how it's going. And we think it's going to be a pretty good report.

But that's the stage that one's at. And then the cath lab functionality, which is in some way sort of -- it's almost like a reduced and simplified and streamlined version of OR because in a cath lab, they do a lot of medical procedures in cath labs but just nothing quite as extensive as what they would do in a full operating room. And so you need a sort of a streamlined way to manage the supply chain there. And that offering is really in sort of pilot mode and is going well. But really, first full broad go-live on that is going to be over the next couple of months. So these solutions are hitting the market and are doing well. But they're all kind of at different stages of testing and validation and so on.

## Hubert Mak

Okay. And then the deals, I guess, lengthening or whether that's an issue or not?

## Peter Brereton

It's a little bit hard to measure it right now just because that -- the apprehension around Obamacare, the Affordable Care Act, has lengthened everything. But we don't really see a lengthening of process due to larger deal size. It's exactly the same process we've always seen. The point-of-use side that -- I would say the cycle seems to be shorter. And I think just because on the point-of-use side, it didn't require nearly the capital spend.

You're not having to buy or lease a warehouse and buy trucks and make all that kind of capital investment. So the point-of-use sales cycle seems to be shorter. But as I say, right now, we've kind of had this anomaly in the market of everyone sort of distracted with the Affordable Care Act that it's just lengthened everything. But we think that's a short-term effect.

## Hubert Mak

Okay. And just last from me. The EBITDA margins sort of came in around, I guess, around 14%. Like do we see that continue to rise here on a quarterly basis? Or do you think it's going to check back a bit here, I guess, in light of what you're suggesting in terms of investment in a business that you see the revenue kind of return in terms of health care?

## Peter Brereton

I mean, we continue to stay much focused on driving EBITDA. There's some seasonality to the EBITDA, obviously. Q1 and Q2, for instance, are -- as I say, the summer months in them tend to be a little lighter, especially Q1. But we continue to see a fairly steady increase in EBITDA. I think you're -- as a percentage. I think the one question is, as we've seen in this business over the years, if you get a more sustained period of higher growth, then you do end up seeing services margins erode during that time just because you're adding so much capacity so quickly to services.

So I would say that's the one -- I mean, license sales and sales of proprietary hardware obviously boost EBITDA. But on the services side, you definitely see a sag during times of rapid growth.

## Operator

Our next question comes from the line of Gabriel Leung with Beacon Securities Limited.

## Gabriel Leung

A couple of things. So given that we're sort of a couple of weeks away from the close of Q1, I'm just curious if, Peter, you could talk a little bit about what you've been experiencing in terms of close rates, whether on the complex or on the health care side.

## Peter Brereton

Difficult to say. Our quarters almost invariably look like a hockey stick. So we are -- and we've now been at this quarterly public game for almost 20 years and nothing ever changes. The quarters always look like hockey sticks inside them. So we're -- we come through -- there's always a big push around year-end to get deals closed, which tends to mean nothing happens in May.

You then come in to June and things start really heating up. And then you see what you can get closed in July. So we are pretty typical in that way. As I mentioned earlier, the sales activity level for July is extremely high. We'll see what that turns into, but we're feeling good about the year in front of us.

## Gabriel Leung

Great. And in terms of the services line, I think based on your backlog, it sounds like you're pretty comfortable that, that services line is going to run about $11.3 million to $11.8 million on a quarterly basis. Do you anticipate that range increasing over the course of the year? And do you anticipate having to make investments maybe in the latter half of the year on the professional services capacity side of things?

## Peter Brereton

We -- honestly, at this point, we're anticipating just a pretty steady increase in that. I mean, we continue to hire new people every quarter into that group. We continue to add both depth and quantity to the bench, but also we're adding -- we've continued to add some more specialized services in there, technical services and other types of services that our customer is demanding. But I don't see any real sort of sudden spikes in that. I think it's going to be a sort of steady-as-it-goes kind of growth approach. And we're certainly anticipating that, that will just continue through the year.

## Gabriel Leung

Great. And in terms of M&A, with cash in the bank and the stock currency, maybe it's worth just reminding us again of some of the criteria that you're focused on as it relates to M&A for TECSYS.

## Peter Brereton

Yes, there's really two key things we continue to look at. And I don't think there's any question that if you look at current valuation, there's a couple of deals that we've passed on in the last couple of years that, at these valuations, we would have moved on. But the filter sort of in terms of what we're looking at continues to be, first of all, anything that could further strengthen our offering in health care. And there are some possibilities out there around that. There's -- there are companies in drug safety and drug traceability, for instance, that could extend our reach there. There's also companies in contract management and that kind of thing that are -- could strengthen the way customers could use our offering to manage the buy side. If you -- the other area we're looking at is really geography from the standpoint of we continue to expand very slowly into other geographies.

But if we could find sort of a supply chain company with already a good understanding of supply chain and a sales team, consulting team and so on that was based in Europe, for instance, that would be an interesting acquisition, to be able to have a company sort of pick up our product line over there and suddenly you've got representation and feet on the street and so on, bringing your product line there. I mean, right now, we're doing it organically. But organically, it's kind of slow and painful.

## Gabriel Leung

Got it.  One last thing, maybe for Brian.  Where was that $460,000 of restructuring and legals?  What line item was that on in the P&L?

## Brian Cosgrove

That was in services in the -- yes, it was in the services expenses line.

## Gabriel Leung

So it was in the cost of services?

## Brian Cosgrove:

Yes, cost of services.

## Gabriel Leung

Okay.  So that's maybe one of the reasons why the gross margins were a little bit lower there.  Okay, perfect.

## Operator

Sir, there seems to be no further questions at this time.

## Peter Brereton

Great.  Well, thank you all for your time and attention.  And as always, if you have additional questions, please don't hesitate to give Brian or me a call.  And we'll look forward to talking to you again in September.  Thanks very much.  Bye for now.

## Operator

Ladies and gentlemen, that does conclude the conference call for today.  We thank you for your participation and ask that you please disconnect your lines.  Have a great day, everyone.

# END