



“Infotech Enterprises Analyst Call on Softential Acquisition - Conference Call”

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Moderator

Ladies and gentlemen good day and welcome to the Infotech Enterprises Analyst call on Softential acquisition announcement. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishna Bodanapu President and Chief Operating Officer of Infotech. Thank you and over to you sir.

Krishna Bodanapu

Thank you and good evening Ladies and gentlemen and welcome to the Infotech Enterprises Analyst call on Softential acquisition. Present with me on this call are Mr. Ajay Aggarwal – Chief Financial Officer, Mr. John Renard President of the D&A and UT Business Units. Mr. N. J. Joseph Senior Vice President of Strategy, Mr. Sunil Kumar Makkena – Senior Vice President of the UT Business Unit and Mr. Sujit Kumar Head of M&A. We are very excited to announce the acquisition of Softential Inc., a US based service management and service assurance company for telecom and cable operators and enterprise customers. It will add a significant amount of value to Infotech portfolio by strengthening the service offerings for telecom and enterprise customers. What we are going to do next is present to you a short update on the company like what they do and how do they fit in our strategy. The details of the same has been shared with you, the presentation will last for about 10 minutes and we will leave about 15 minutes for any Q&A at the end of this session. I will now request Joseph to make the presentation and the overview of Softential.

NJ Joseph

Thank you Krishna. So, just next 10 minutes to very quickly layout who this company, the rationale for us do this acquisition and also to try and outline how we see the synergies work and how we can integrate and help this acquisition much more strongly grow our telecommunications business. The Softential was founded about 13 – 14 years ago by people who came from the cable industry in the US with a very strong service management background. They are headquartered in Herndon, Virginia on East Coast. It brings us about 140 people in the service management space and over the next couple of slides we will explain a bit more about what they do and the types of customers they address and their service proposition. The focus is predominantly on telecom or communication, and cable still represents about 60% of the business, but they also have a significant presence in the enterprise space. For the financial year ended December 31st 2013 they had revenues of \$17 million US with an EBITDA of over 25%. In terms of client concentration the top five customers represent 55% of the revenue and their top 10 customers are approximately 75% of that revenue. So, we just move on to slide three and this explains why we looked at Softential with a great deal of interest and by what time this becomes a very attractive proposition for our telecom strategy.

What you are seeing on the screen is the way a telecom organization represents its business; It’s a framework, the business framework that is known as ETOM, the Enhanced Telecoms Operations Map, which breaks down into two large bits, one is infrastructure you see on the left

side of the stack and on the right side its operations. I want to just spend a minute explaining this cycle, the business cycle of a telecom. It will help us to understand more about Softient and what they do in a much better context and also in the context of Infotech's strategy. If you look at left side of the stack infrastructure, there are three parts to it, strategy is all about a telecom company building strategy for its business, assessing the market, define customer needs and designing products and services for their customers. The piece in the middle the infrastructure lifecycle management is about building out the physical network that they require to run their services and that also represents the most significant part of their CAPEX spend and third block the product lifecycle management is about working out portfolio products and services to take their customers that could be telephony, voice or mobile, cable, broadband Internet, voice over IP and so on so forth. So the left hand section of infrastructure is where our organization has been very active over the last 15 or 20 years. If you look at the history the first 10 – 12 years we were helping telecom customers capture lot of their network inventory into IT systems which we still continue to do but over the last seven or eight years it has moved into helping them plan design and rollout their next generation networks. It requires our very active involvement in global markets and we have high maturity in this space represented by the dark green color in slide. If we move to the right side of that stack the first of these operation support and readiness , essentially stack of IT systems that telecom operator needs to operationalize their service so it's about setting up a fairly complex environment but it also has to be very robust and efficient. A mature environment bring the customers the way they are going to service, assure the quality of the service and continue to scale as they go forward so that is our operational support. The red part is also known in the telecom industry as **S** operational support systems. The second block on the right fulfillment or service fulfillment, is the order to activate cycle in the business process which is you and I as customers calling up and requesting a particular product. For ex. it's a mobile connection taking an order and activating service from that network and allowing us to use the service so that's the order to activate part of the process. The third block to see assurance is about then assuring the quality of servicing and providing a great customer experience. Both fulfillment and assurance are typically cycles that are continuous but fulfillment can go up and down but assurance is once you are on the network or on a service than just ensuring that you are getting the service quality that you have promised your customer, is much more stable revenue stream. The last piece is building revenue management, converting these orders to cash. So for fulfillment to assurance to billing and every management is that whole order to cash cycle that a telecom customer views as part of their business process.

If you now click on that if you see the screen now, the way Softient fit is Softient gives us about 12 – 13 years very strong expertise and a set of reference customers in that first stack which you see OSS, Operational Support and readiness Space. They work with communication service providers, the Telco operators, cable companies or multi system operators, number of enterprise customers and a small number of public sector customers. The rationale behind the acquisition is to take on those skills and be able to expand from there into a managed service model that allows us to actually run the network operation, service operation or data operations for telecom, cable or enterprise customers so it is taking something that is already partially

annuity play. It takes us into a more evolved and a more sustainable and annuity type of model with managed services. And our expectation is that from a current run rate of about \$17 million, on a standalone basis, it will grow to a business of around ~\$30 million over the next three years with synergies that we will look to leverage from this acquisition. At the same time ensuring that we maintain that margin at a very healthy 25% or about. Next slide explains what Softential do. If you look at the top bar it's representing their customers, the mobile or fixed lines, there is broadband the cable, their enterprise customers represented by B2C and there are small number of public sector customers as well. If you start from the bottom now the network in IT infrastructure is essentially the communications network on which companies run voice or data or any of the IT services. There is a technology stack that is used in the industry and some of these are market leading for example IBM's Tivoli Netcool is a market leader in fault and performance management, HP for the service management, BMC software for trouble ticketing, and Splunk which actually is one of the more popular tools today for building visualization dashboards. Softential is strong expertise networks they have got solid expertise around technology. What you see in the middle block is depicting your service management and your service assurance from left to right. What Softential does today is work with their customers to set up service management environment which accounts for availability of the service management capacity of the service, ensuring that they have the right tools for ensuring service continuity, understanding the economics of the service for the delivering the financial management and also guaranteeing the service levels that they need to guarantee their customers. So the service management stack is that where they help their customers to set up their organizations data center or a network operation center and the process of plan and, through a consulted process to design and architect the service management solution. They build it in terms of the development, configuration, testing and integration into the broader service management environment so that's the plan they build. What they are doing more of today is run model so traditionally they were doing a 24x7 support desk to help their customers and work with their applications. What they have been doing more successful over the last 18 months is being able to actually proactively monitor and manage environment for their customers and all that rolls up into the dashboard that you see up at the top of slide. It is an actual example for one of the enterprise customers for whom they are monitoring their global environment communications and application environment 24x7 using Softential applications.

Moving on to next slide, it shows their active customer base. As I said earlier 60% approximately is in the communication industry. Cox, Cablevision, Claro which are in telecom, Vonage VoiP service provider in the US, US Cellular and Time Warner Cable in the cable industry. We also have large engagements to the likes of New York department of IT and Telecommunications with the Coke, with SunGard and so on. This represents where we see the fit and where Softential moves us. Our traditional market has been in the network engineering space it's still a large market with headroom over the next three-four years which is \$2.5 billion infrastructure space but where we are moving is moving to much larger \$17 to \$18 billion market. With Softential we immediately address the plan build market about \$7 billion and then leverage that to build into the \$10 billion space which is the managed service space. So we will take the plan

build and run model as it is today and leverage that to move into operate-managed services model overtime. We expect that to happen over the next two to three years. We have also taught long and hard about we build the synergies with the Softential so they have got a very strong consulting preference in the US comprising most of their revenue. All of the revenues really today are in the US but we will be able to take it to our markets in Europe. Since last few years, we are independently building our own consulting presence out of India and APAC which can be used to drive this business, and build it across Middle East Africa and Asia Pacific. There are two three different options that we have, one is of course continuing to build the engagement with its existing customers. There is opportunity to take Softential services to Infotech's existing customers, the opportunity for both of us to target new customers as well manage and cross sell our existing proposition. There are number of Softential customers with whom we can create demand for our network infrastructure services. There is couple of more slides to go so in terms of how we run this transaction to date. We have learned a lot from our previous transactions and have taken some of those best practices. We have done due diligence for key customers and their comfort with this acquisition. We already have an integration team in place that drives the transaction from day one. In terms of the payment structure we are looking at revenue multiple of 1.1 times with an earnout with the number of metrics in the first year. We are looking at capital structure being 1:1 debt versus equity and in terms of the financial benefits we see the acquisition as being EPS accretive. Across the number of financial parameters, they will improve on a consolidated basis.

Coming to the final slide, a summary of what have been said in last few slides. We see that the domain expertise and the customer base giving us a very strong direct entry and immediate play into the service management and service assurance market across the number of industries. Telecom will still dominate but we had opportunities also got across the number of enterprise industry verticals. It will help our geographic expansion and develop new service propositions particularly in managed service space. It will also help us to acquire new customers both across new geographies and the US. We see a significant growth for the combined entity where we shall move from about \$17 million standalone in this specific space to \$30 million approximately over the next three years, and finally as I just mentioned that financial parameters look very positive going forward.

So, with that I end this presentation and I will hand it back for Q&A.

Moderator

Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. Our first question is from the S Ramachandran of Spark Capital. Please go ahead.

S Ramachandran

Just wanted to understand slightly better historically we have remained more or less on the engineering side of the telecom piece so this in some form would take us more head on with the traditional IT services place in the market is this the right understanding?

- NJ Joseph** It would take us into the operate space in the telecom industry. It would move us from the engineering, which is around the network build infrastructure and engineering, into the operate piece which is more of actual Opex strand but it's not necessarily IT. You could think of that stack and the IT stack but it's very domain expertise specific, it's a very complex environment and unless you bring the knowledge of the industry, and that's what Softential give us, operate environments of our customers can not be set.
- Krishna Bodanapu** Srivatsan this is Krishna, just to add to quick thing that Joseph said what it does is if you look at what we have been doing so far we have been helping company's build the network which is the engineering part. Now the same network that we have helped design and build will also operate it. Yes, there is some IT that is involved in it because again you need that to actually monitor and manage the network, but again it's a very linear addition to our service portfolio.
- S Ramachandran** Sure, on any bit of the company level or would it be net cash kind of a scenario?
- Krishna Bodanapu** One to one was the thing so we will take 50% of it is being funded through debt just for capital structure.
- S Ramachandran** No, is that great at Softential level just wanted to ask?
- Krishna Bodanapu** See, for us it is net of debt. When we acquired it was net of debt.
- S Ramachandran** And then any indication on what will be the cost of debt that we would be having?
- Ajay Aggarwal** Srivatsan it is Ajay Aggarwal here. So, in terms of why we are looking for debt, we are taking overseas US dollar denominated debts, the cost would be something less than 3% so we get the arbitrage of about 7% on our what we earn on our treasury here versus what we have to pay as interest. We also get a tax shelter one of the problems we have in our company is that we think we don't have debts we are paying high taxes in US so this also gives us the arbitrage on interest overall we calculated for the four year scenario it gives us the advantage of about \$1 million in terms of arbitrage on interest as well as tax.
- S Ramachandran** In terms of earn out, any possible indications on how large or what is the outer limit could be on earned out point of view?
- NJ Joseph** We can't comment on the earn-out because there are few conditions around it but I mean it's not of the same scale obviously as the upfront payment.
- Moderator** Thank you. Our next question is from Sandip Agarwal of Edelweiss. Please go ahead.
- Sandip Agarwal** Just one question although partially it has been answered. The consideration which you are talking 1.1x is it of CY13 revenue and secondly when you say CY16 the revenues will be \$30 million including synergies, can you throw some light on that?

Ajay Aggarwal

So, in terms of the multiple definitely it is for the revenue of the CY13. As far as the growth is concerned, as Joseph had explained in terms of the synergy of our products and services what we will be putting in to the customers of Softential as well as our customer processes will come so we did prepare a detailed business stake and this is where we came out with this number of \$30 million based on the synergy case but obviously we have to do lot of work in terms of integration and making it happen on the ground.

Sandip Agarwal

And the acquisition will be EPS accretive from day one?

Ajay Aggarwal

Yes, Sandip that's what Joseph mentioned in his presentation it is going to be EPS accretive, all the financial ratios are going to be positive whether it is return on equity, return on capital employee. It is very nice given that all of you have been complaining that we get a ROC of 10% on this cash I think we really make that beginning with this acquisition of getting a better ROC.

Moderator

Thank you. Our next question is from Dipesh Mehta of SBI Cap Securities. Please go ahead.

Dipesh Mehta

Can you provide some detail about their past track record how they perform in terms of revenue as well as profitability and what kind of capital requirement would be there in the business to growth revenue thank you?

NJ Joseph

So, in terms of EBITDA margins Softential is at 25%+ over the last five years, except one challenging year in the middle which can be explained due to various issues that happened. The numbers that we are quoting is based on at least the last 18 months performance therefore that gives us confidence that 25% margin can be maintained. In terms of revenue they have been flat over the last three years or so but it is based on where they were focused and where they have been spending their time and effort on. We are fairly confident based on strong historical numbers of the last five years, what happened recently in the last 18 months and more importantly talking to their customers that these are very sustainable numbers.

Ajay Aggarwal

Yes, in terms of the funding requirement it's a very interesting business model where you have a negative working capital. Most of the contract gives some advances to the customers and we don't see any major deployment of working capital as we grow, so it has a nice working capital model supported by advances so we would not be really consuming lot of cash in working capital infusion.

Dipesh Mehta

Let say it will be very light on CAPEX?

Krishna Bodanapu

Yes, it is very light on CAPEX. It is very similar to us therefore it won't change our CAPEX profile significantly.

Dipesh Mehta

Last question is about can you provide revenue breakup between the three segments Communication, Cable and Enterprise?

Krishna Bodanapu

We will do that as we go forward at this point I have some disclosures around what exactly we can provide you.

Moderator

Thank you very much. Ladies and gentlemen that was our last question. I now hand the floor back to the management for closing comments.

Krishna Bodanapu

Okay thank you very much and thank you for joining this call. I know it's a Friday evening and the close of probably another long week so I greatly appreciate all your time. Like we said it adds 140 highly qualified quality resources to the Infotech team especially around the telecom business and the communications for enterprise customers. It also gives us a very good platform to go from what has been historically a project-by-project business because we were focused on the network design and build, to making this more of a run rate or an annuity basis business because it's the same networks that now we are going to help manage and upkeep and keep running. Therefore, we believe it's a very synergistic acquisition along the lines of something that we know well and we have a lot of credibility on. So, we are very excited about this and we will keep you posted on how this develops over the next few years so thank you very much once again.

Moderator

Thank you very much. Ladies and gentlemen on behalf of Infotech Enterprises that concludes this conference. Thank you for joining us and you may now disconnect your lines.