



**Optiva, Inc.**

**Third Quarter 2019 Financial Results Conference Call**

**August 8, 2019**

## C O R P O R A T E P A R T I C I P A N T S

**Ali Mahdavi**, *Investor Relations*

**Anin Basu**, *Interim Chief Financial Officer*

**Danielle Royston**, *Chief Financial Officer*

## P R E S E N T A T I O N

**Operator:**

Good morning, everyone. Welcome to the Optiva Third Quarter 2019 Financial Results Conference Call. I would like to remind everyone that today's conference is being recorded.

I will now go ahead and turn the call over to Ali Mahdavi, Investor Relations. Please go ahead.

**Ali Mahdavi:**

Thank you, good morning, everyone, and thanks for joining us for the Optiva Third Quarter 2019 Financial Results Conference Call. Joining me this morning are Optiva's Chief Executive Officer, Danielle Royston, and Interim Chief Financial Officer Anin Basu. If you have not seen the news release, it is available on the Company's website at [optiva.com](http://optiva.com) as well as on SEDAR along with our MD&A and interim financial statements. I would also like to remind you that a replay of this call will be accessible via the Investor section of the Company's website. Following the presentation, we will conduct the Q&A session. Instructions will be provided at that time for you to join the queue for questions.

Before we begin, we are required to provide the following statements regarding forward-looking information, which is made on behalf of Optiva Inc., and all of its representatives on this call. Remarks and answers to your questions today may contain forward-looking information about future events or the Company's future performance. This information is subject to risks and uncertainties that may cause actual events or results to differ materially. Any information regarding forward-looking statements are made as of the date of this call, and the Company does not undertake to update any forward-looking statements.

Please read the following forward-looking statements and risk factors in the MD&A as these outline the material factors which could cause or would cause actual results to differ. The Company will not provide guidance regarding future earnings during today's call, and Management does not anticipate providing guidance in future quarterly or in term communications with investors.

I'll now turn the call over to Anin for his financial review of the quarter. Anin?

**Anin Basu:**

Thank you, Ali. Good morning, everyone. A reminder that Optiva's third quarter results were released yesterday. Our results are presented in accordance with International Financial Reporting Standards and presented in U.S. dollars unless otherwise noted.

The Company's third quarter revenues declined 23% to \$24.7 million. The decline in revenues was mainly due to a continued decline in software and services orders as we continue to focus on customer success and invest in our Cloud strategy. Support and subscription revenues were lower when compared to the same period in 2018, mainly due to the discontinuation of support to customers who had previously notified us of their exit and in some limited cases a delay in renewal by existing customers. The Company's gross margin for the second quarter was 67% as compared to 70% during the same period a year ago, and is comparable to previous quarters after normalizing for loss provisions that were taken in prior quarters.

Total operating expenses in the third quarter of 2019 decreased by 61% to \$10.8 million when compared to the same period last year. Excluding depreciation, amortization and restructuring costs, total operating costs decreased to \$9.4 million or 38% of total revenue compared to \$24.8 million or 78% of total revenue for the same period last year.

The decrease in overall operating expenses excluding depreciation, amortization and restructuring costs is mainly attributable to lower general and administrative costs driven by lower headcount and related costs, lower legal and professional fees, lower facilities costs due to closure of various office locations and lower research and development costs primarily due to lower headcount and related costs incurred under the Company's cost structure optimization plan and Lower DevFactory spend on R&D activities.

During the quarter, the Company incurred \$2.3 million of costs towards R&D and Cloud innovation with DevFactory, which is an affiliate of ESW, Optiva's largest shareholder. During the quarter, the Company also incurred \$5.1 million in costs associated with its access to skilled workforce through Crossover, another affiliate of ESW.

As a result of the ongoing cost optimization and efficiency efforts, the Company generated \$340,000 of cash from operations when compared to the \$17.2 million used in the same period in 2018.

In addition, in the third quarter, \$1.1 million of cash was generated from investing activities, which cash mainly relates to the release of restricted cash. Cash and balance sheet management remains the priority. As of the end of the quarter, cash balance including restricted cash was at \$36.9 million.

I will now turn the call over to Danielle. Danielle?

**Danielle Royston:**

Thanks, Anin, and good morning, everyone. Thank you for joining us on today's call. To start, I'd like to recall the framework we're using for 2019. First, drive the Company everyday towards obtaining our Customer Success goal of 100%. Second, continue to invest heavily in Cloud innovation and focus our sales and marketing resources on making us the leading cloud vendor in telco. And third, consider raising additional financing to accelerate our strategic plan to capitalize on the market demand and maintain our leadership position.

We have finished another cycle for our customer success program covering the period from January through June 2019, and we anticipate we will come in around a high to mid 40 percentage points of the revenue reporting to us that they feel our objectives and goals are aligned with their ultimate success, and that we are a key component of their growth. This positive trend provides us with great confidence that we are on the right track. As mentioned on previous calls, it will take time to get to our ultimate goal of 100%

and I remain encouraged by our forward momentum as we continue to fix each customer one-by-one on our quest to achieve 100% success.

During the quarter as part of our \$100 million cloud transformation plan, we invested \$1.6 million on our transition to the Cloud. Each quarter, we balanced this discretionary investment spend against our stated objective of ensuring operations remain cash flow break even. Consequently, the investments then can vary by quarter and it really highlights our now variable cost structure we have been able to implement via our related party partners of DevFactory and Crossover when compared to our previously highly fixed cost structure.

Our sales leads and opportunities continue to grow, and we are encouraged by the robust interest in our Cloud vision from our customers and new prospects. This past quarter, we completed an upgrade for a significant customer and moved them into a position to adopt our new cloud technology, and we have several other customers in the pipeline preparing to upgrade. We are beginning the deployment for our first full public cloud deployment and we have completed 15 TCO analyses for operators to show them how much they can save by moving to the cloud. Becoming a cloud company is our future and it will be a great pivot story, but remember this will take time. While we are building strong relationships with our customers every day, we don't know when each individual customer will move to the cloud and we do not have clear visibility when the cloud growth will kick in.

As mentioned on our last call, we continue to review all the known departing revenue, customers who have purchased another system and are planning to swap us out. When you add it all up, the run rate of our legacy business is closer to \$75 million. We don't know exactly when each individual customer will roll off and we do not have clear visibility when the cloud growth will kick in, but this is an important reality of our business to understand and why we are fortunate to have a flexible cost structure to ensure we remain cash flow break even while we live through the inevitable revenue decline associated with this transition period with departing customers.

Given the cloud opportunity in front of us, we still see a case for raising additional funding in order to accelerate our strategic plan. We continue to evaluate different funding options and while we have not made any decisions, we will keep our options open. As you know, there are tradeoffs to each approach, which we are considering as we understand our reality and look to the future.

We will continue to prioritize our goal of investing for cloud against other discretionary spending focusing on customer success. Managing our expenses and getting to the cloud as quickly as we can remain our top priorities. It is an exciting and ambitious strategy, but when it works, it will be an amazing transformation.

At this point, we are ready to open the call for Q&A.

**Operator:**

Thank you. If you'd like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is switched off to allow your signal to reach our equipment. Again, please press star, one to ask a question.

We'll pause for just a moment to allow everyone an opportunity to signal. Once again, it is star, one to ask a question.

As there are no questions signaled, I will now turn the call back to your host for any additional or closing remarks.

**Ali Mahdavi:**

Thank you again for joining us this morning. We look forward to providing further updates and speaking to you again on our fourth quarter and year end results conference call. This concludes today's call. Have a great day. Operator, back over to you.

**Operator:**

Thank you. That will conclude today's call. Thank you for your participation ladies and gentleman. You may now disconnect.