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Optiva, Inc.

Second Quarter 2021 Financial Results Conference Call

August 11, 2021

CORPORATE PARTICIPANTS

Ali Mahavi, *Investor Relations*

Ashish Joshi, *Chief Financial Officer*

John Giere, *Chief Executive Officer*

CONFERENCE CALL PARTICIPANTS

Todd Coupland, *CIBC World Markets*

Brett Hathaway

PRESENTATION

Operator

Good morning everyone. Welcome to the Optiva Inc. Second Quarter 2021 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 Mahavi, Investor Relations. Please, go ahead.

Ali Mahavi

Thank you, Operator. Good morning everyone, and sincere apologies for being a few minutes behind schedule. Thank you for joining us for our second quarter 2021 financial results conference call. Joining me this morning are Optiva's Chief Executive Officer, John Giere, and Chief Financial Officer, Ashish Joshi.

If you have not seen the second quarter earnings news release, which was reported yesterday after the close of markets, it is available on our Company website at 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 management's presentation, we will conduct a 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 defer 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 forward-looking statements and risk factors in the MD&A as these outline

provide guidance regarding future earnings during today's call, and management does not anticipate providing guidance in future quarterly or interim communications with investors.

I'll now turn the call over to John. John?

John Giere

Thank you, Ali, and good morning to everyone. Thank you for joining us on today's call. It's good to be back resuming our phone calls, and look forward to engaging with you here and going forward.

Let me begin by highlighting some of the key financial metrics we've achieved this quarter. I'll be adding some color on the business during the quarter and how we saw things progress, and then I'll hand this call over to Ashish, who will drill further into the numbers.

Let's start by highlighting the efforts of our employees during these extraordinary and challenging times in which we are living. Our team's steadfast focus combined with solid execution on all business fronts resulted in positive quarterly results that first and foremost highlight Optiva's success and commitment to listening to and understanding our customers' needs, best in class product innovation, and responsive customer service and disciplined capital allocation.

Having spent over 25 years in the telecom industry, I can assure you that after being in this seat for about eight months and having had the opportunity to spend time talking with customers and understanding their needs, it is abundantly clear that we have a great market opportunity ahead of us, and the time is now.

We are seeing early indications of opportunities converting to long-term relationships and ultimately into our revenue. I am focused on rejuvenating our Company across all facets and, in particular, our customer base. Prior to my tenure here, the strategy appears to have been one of take it or leave it in terms of our product offering. This is not the Optiva of today.

We have global customers with complex needs who are very willing to invest in the future of their business and transition in the cloud in terms of an environment and a solution that best suits their business goals, which could be a private, a hybrid, or public cloud option. Our job is to engage them in ongoing dialogue, establish trust, solve problems, present solutions and strategies to support the evolution of our global telecom partners for decades to come.

We are not in the business of a short-term investment. We're very much in the business of a long-term relationship. To this end, we continue to invest in our R&D and salesforce, as you saw in this quarter's results. On a year-over-year basis, we fully internalized our R&D bench strength with an increase of 200% in the team size and invested in a sales team which has grown now by 70%, and they are all serving our customers flat out.

We made these investments in talent while reducing our operating expenses 61% when compared to the first half of 2020. These recent investments in headcount bring me to my next point about how imperative having best in class product and customer service is.

Year-to-date and during the second quarter, we have seen a dramatically positive change in our customer interactions which is leading to increased conversations and engagement with a growing number of global telecom players. To put this in perspectives, these new actions alone have resulted in new bookings and have increased 90% when compared to the first half of 2020 and 492% when comparing the second quarter to the first quarter of 2021.

In addition to the significant increase in bookings and RFP activity during the quarter, we were successful in closing a new customer logo with a leading Middle East telco provider where Optiva's BSS platform was selected to enable the customer's new MVNO business strategy.

Along with this success in securing a new customer, and very importantly, we have completed contracts for two customer upgrades during this quarter. One with digital, a leading mobile network operating in Venezuela where we have signed a multi-year support renewal and upgrade to our state-of-the-art next-gen convergent online charging system to accelerate their digital business transformation and significantly expand their monetization capabilities.

The second incumbent upgrade was completed with Mtel a.d. Banja Luka, a leading provider of digital services and telco solutions and a member of the Telecom Surveying Group for a private cloud upgrade and multi-year support renewal whereby Mtel will deploy Optiva's charging engine to ultimately accelerate Mtel's operational agility and service velocity supporting its next-gen 5G in IoT use cases while reducing the total cost of ownership.

Albeit, we are in the early earnings of our Company's rejuvenation. However, I'm very pleased to report that during the second quarter, revenues increase on a sequential basis to \$16.3 million. We achieve a gross margin of 78%, which is our highest in recent years, and on top of our previous quarters 77%. We continued to hit the bar of an EBITDA margin at 25%.

The balance sheet remains solid with \$33.5 million of cash, which enables us to make investments as we continue to identify opportunities where we can generate a return on capital in line with our strategy. We're extremely encouraged with our second quarter and year-to-date results and continue to build on the decisive steps we took early in the year to stabilize our operations and rejuvenate our customer base.

Through our responsive and focused efforts on operational efficiencies, cost savings, capital expenditure focus and working capital optimization, we're well-positioned to work closely with new and existing customers to be their premier choice in the marketplace as they look for a long-term partner to address their monetization requirements.

So, with that, I'm going to turn the call over to Ashish for a review of our quarter.

Ashish Joshi

Thank you, John, and good morning everyone. A reminder that Optiva second 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.

For the three month period ended June 30, 21, the Company's revenue declined by \$3.6 million from the previous year's comparative period to \$16.3 million. The change by revenue type for the quarter ended June 30 is \$3.3 million decrease in support and subscription revenue, \$0.1 million decrease in software and services, and \$0.2 decrease in third party software and hardware revenue.

Gross margin for the second quarter increased to 78% compared to 74% in the same period in 2020. The improvement in gross margin is primarily due to Company's cost structure optimization plan and lower third party cost. The gross margin this year is higher as fewer customizations with lower margins were ordered by customer that required fulfillment compared to the previous period, higher license revenue, and there is a high percentage of revenue from support and subscription revenue which has higher margin.

We expect a gross margin may fluctuate as we prove our cloud-native model and product capability to new and existing customers when they are on board the public or private cloud in the future periods. Total

\$20.5 million in the same period last year. Excluding depreciation, amortization, and restructuring cost, total operating costs in the quarter ended June 30 decreased to \$9.3 million or 57% of total revenue compared to \$18 million or 90% of total revenue for the same period last year.

The decrease in overall operating expense, excluding depreciation, amortization and restructuring cost, is mainly attributed to lower R&D cost and lower G&A cost, as further explained by the function below. Sales and marketing expenditure slightly increased to \$1.9 million or 12% of revenue compared to \$1.7 million or 9% of total revenue compared to the same comparable period. G&A expenditure decreased to \$4.5 million or 28% of total revenue from \$10.1 million or 53% of total revenue compared to the same comparable period.

The decrease is mainly due to lower legal and advisory costs related to activities of the Special Committee of the Board of Directors incurred last year, lower amortization cost, and lower provisions. R&D (inaudible) decreased to \$3.2 million or 20% of total revenue from \$8.7 million or 45% of total revenue as compared to the same comparative period. The decrease is mainly moving R&D as an internal function and eliminating relationship with DevFactory and Crossover as a result of forgoing, Adjusted EBITDA and income amounting to \$4.1 million and \$900,000 during the second quarter of 2021.

We will now open the call for questions.

Operator

Thank you.

We will take our first question from Todd Coupland with CIBC. Please, go ahead.

Todd Coupland

Yes, good morning and good to speak to everyone this morning. I had a question on the market and Optiva's, I guess revised product positioning. So, in the past, Optiva was looking for upgrades into the cloud and sitting on the Google cloud, and they were going to work with customers. I think there was a high-profile test in India for stage conversions into the cloud, and this was going to be a long-term trend.

I know you said it in your prepared remarks, you're there to do everything now, premise, private, public cloud. When I hear that, it sounds like a transition phase. Maybe it slows growth opportunity in terms of having to be all those things to the customers as opposed to a pure cloud play. Just to sort of reset our thinking on the opportunity and the pace of transition, I guess in those revised areas where you're going to have the offering and how you expect that to play out over the next two to four quarters. Thank you.

John Giere

Okay. Todd, this is John. Thank you for your question.

The previous position of the Company was, as you rightly noted, heavily focused on the cloud, but it had a distinctive flavor to it, the public cloud. That was the selection to offer that as the single choice you had if you were going to upgrade from Optiva.

The difficulty there is if you have the engagement with the customers on a basis as we're doing now, regular basis, many of them face either regulatory, privacy or financial issues as to why the public cloud might not be the correct option for them. Our philosophy is going to be about build it once but deploy it in any of those three environments.

We, by the way, went live this quarter with a customer an MVNO in the U.K. on the Google cloud platform, the project that had begun prior to my arrival, and so we would continue to offer that option to operators.

public cloud and would be a suitable option.

But I think you're seeing in general in the telco environment, if you note. Most telcos are selecting the option of either a private environment where they run a similar cloud operation but are in their own private data centers or what they refer to as a hybrid where they keep some of their operations in a private cloud data center, and some running on Amazon outposts or other types of hybrid offerings, and most of the big hyperscalers are pushing that particular option quite heavily toward telcos.

So, in terms of our growth, this won't be a factor to our growth in that regard because if you look at cloud in general, this is going to be the predominant force or market inflection point that's going to lead many, many of our customers and customers in the industry, across the billing and charging industry to upgrade their platforms. For the operational efficiencies you can achieve, the service agility you can increase, the CICD methodology, Continuous Integration Continuous Development, is going to become a prerequisite for operating your platform so you can do automated testing, regular upgrades on a routine basis, very much of course, looking like how the hyperscalers operate their data centers, be the Amazon, Microsoft, Google.

The business is moving in that direction for business reasons, but as we go along there, there'll be different choices for different operators.

Todd Coupland

If I could have one follow-up just to help us understand what the—there's big players in mobile billing software. Just help us understand the competitive edge of reset Optiva as well. Again, if my memory serves me correctly, the argument for PureCloud is a dramatic reduction in operating costs.

I understand logistical issues you highlighted as a gating factor for telcos that don't move that fast, but that being said, what is the competitive edge that Optiva is going to bring? Thank you.

John Giere

Sure. Well, similarly, a part of our competitive edge follows along that we are a software-based company. We're working to provide a productized solution where today, if you look at most of the competitive landscape, it's heavily customized and heavily services focused. That's how the business is done today, and to some degree required.

We're focused very much on building a productized version. There'll still be aspects of customization that are necessary. There'll still be some aspects of installation deployment, but we're very much focused on reducing those so that its ease of use, ease of integration, and also having a greater level of service flexibility, both in terms of how we care for our customers. We will work with speed and aggressiveness to get them up quickly and fast and to also provide them new versions of the software with a regular cadence versus just having big large projects that take place every two to five years.

Todd Coupland

Okay. Sorry, one last question if I could. You're new in the role as CEO, resetting the Company's objectives here. Are there public financial goals that you're willing to share with us at this time, and if so, what are they? Thank you.

John Giere

No. At this time, we haven't set out certain specific goals. Right now, as you noted, this is my—including my second quarter, and so where I've been putting a lot of my focus is making sure that we have security

model to have both high-quality software as well as timely software development, as well as excellent support and services, which is part of where we generate our annual reoccurring revenue as you know through the support side. Very much the focus today is on those particular aspects which we've made very, very good progress in doing.

Todd Coupland

Great. Thanks a lot. I appreciate the color.

John Giere

You bet.

Operator

Thank you. We'll take our next question from Brett Hathaway with (inaudible). Please, go ahead.

Brett Hathaway

Hi. Thanks for the detail, John and congrats on the restructured progress.

One question is obviously revenue still declined year over year but grew quarter over quarter, and one thing people have always been curious about here is when we reach the bottom wherein customers that have previously announced they're leaving or have left. So, can you give any more colors to how close do you think we are to that bottom?

John Giere

Ashish, do you want to provide a view here?

Ashish Joshi

Sure. Brett, the way we look at 2021 is this is the foundation year for us to kickstart our growth journey. We've got significant engagement at various level. We've got 50 plus Co-to-Co engagement. We've set up QBR, so we have a really good understanding of where the customers are and what they want from us. We believe that from a revenue perspective, we could be soon coming to inflection point to kickstart our growth journey in 2022.

Having said that, there are few things which are unknown from a customer standpoint which we will continue to engage with them and continue to drive conversation that drive better retention. Our goal this year is to drive maximum customer retention of our base. We have a solid base 20 years' experience in this industry.

Clearly, I think the long-term view is this is the year of stabilization and kickstarting our growth journey in 2022. I hope that answer your question.

Brett Hathaway

That's helpful. Thanks, and just one more if I may, and this is following up on the last question from the prior analyst. I think one thing that people are struggling to understand here is what success looks like for you, John, in a multi-year journey. I know you don't want to give guidance, but maybe you can talk more qualitatively if we look out three or five years, what does successful Optiva look like to you?

John Giere

announcements and what we've been focused on—we're very focused on rejuvenating our customer base. There was a solid customer base here at Optiva. It had a lot of strength across the globe, good distribution, represented a lot of different telcos and operators.

Fundamentally, we've gone very hard at trying to rejuvenate that customer base. We've made announcements about multi-year renewals, about upgrades and renewals, so that's very much an important part of our business. You alluded to it in your first question that we secure an ongoing steady business relationship and partnership with our customer base that is today.

Then we're looking out there for opportunities. As the market starts to evaluate the business possibilities of a cloud environment, whether it be a public cloud environment, private or hybrid, that offers an inflection point for us to secure new logos which we're fortunate enough to do one in this quarter.

Our goal would be to continue to make an emphasis on offering our capabilities, both in terms of the total cost of ownership as well as the cadence of our software, again productizing the business to create a more seamless and smoothness cadence to the software upgrading process. Looking at building those new opportunities.

Getting our salesforce up and rolling, it has been really important. I think we said before, we've changed a number of the account representatives. We've also done an enormous amount of internal training so that our folks know our product set and know the value proposition we're sending to the—we're providing to the customer. The goal would be to get new logos, increasingly new logos, and then over time, ideally develop those relationships into an ongoing annual reoccurring revenue basis with support and/or a term turn-based license.

Today, the market is still very much in a perpetual license mode, and our support process is improving. We've developed a new account, sales account structure, so we're able to have more regular and consistent contact with our customers, looking for upsell opportunities and ways to find further connections to our customers.

Around our product set, we see the opportunity to be innovative both on the features and function side as well as the way the product operates and automates and upgrades. That's a brand new field, and so, we have as good a claim as anybody else to drive into that area and provide efficiencies and improvements on how the software is deployed and maintained over its life cycle.

Those are the key areas on the financial side. As you can see, we're keeping disciplined around our operational and capital expenditures, and we'll look for opportunities at the appropriate time to deploy that capital against new opportunities coming in the market.

Steady customer base, growth of new logos, high-quality software, delivery and support, are the fundamental pieces of a successful company in three to five years.

Brett Hathaway

Okay, great. I know that the Company doesn't want to give guidance, but I do think at some point, giving more quantitative metrics around just for people to get their heads around what a successful Optiva looks like would be very helpful, but I understand you're early in your journey on that. Thank you very much, and congrats on a good quarter.

John Giere

Thank you, sir. Thank you.

Thank you.

It appears there are no questions at this time. Mr. Mahavi, I'd like to turn the call back to you for any additional or closing remarks.

Ali Mahavi

Thank you, Anita.

We'd like to thank everyone on behalf of the Optiva team for joining us this morning. Should you have any further follow-up questions, by all means, feel free to reach out to me directly, and we look forward to speaking with you all again on our third quarter conference call.

That concludes today's call. I'm going to hand it over to the Operator to close it.

Operator

Thank you. This concludes today's call. Thank you for your participation. You may now disconnect.