"Hexaware Technologies Limited Conference Call"

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Moderator: Good morning Ladies and gentlemen. Welcome to the Hexaware Technologies Limited Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Latika Gidwani. Thank you, and over to you Madam!

Latika Gidwani: Thanks Lizann. Good morning and welcome to this corporate announcement conference call. From Hexaware, we have with us Mr. R. Srikrishna, CEO and ED, Mr. Vikash Kumar Jain, CFO. The safe harbor condition is already put up on the Hexaware website and also on the presentation which we will be running you thru right now. With this I hand over to Keech.

R. Srikrishna: Good morning everyone, and thank you for joining. We also have a third person on the call, John Castleman, the CEO of Mobiquity. He is actually in Philadelphia. So it is a little late for him, 1:30 in the night, but he is going to be with us through the call. I will introduce John a little more later, when I actually hand over to him.

What we are going to do today is to talk you through a little bit of the overview of the deal. Could have spend some time talking about the why of it, the strategic rationale as to why we are doing this deal and then I am going to hand over to John to talk you through a little bit about Mobiquity. I thought it is best he introduces Mobiquity to you than me and then we will round up by telling you what is the financial impact of this, so we are going to provide an update to the guidance in terms of revenue, EBITDA, EPS etc.

So with that, again the presentation is available through multiple forms, it is online for those of you that are on WebEx. It is also on our website. We recognize some of you may not be looking at either form, so I will try and say it in a formal fashion where you can follow us even if you are not looking at the presentation.

We just finished acquisition and this is actually both signed and close. It was near simultaneous because of multiple entities involved around the world that happened over a course of about 24 hours, but in that period we have signed and closed, so as of now it is actually already closed.

Mobiquity - they are a company that in my view what they do best is to build really cool digital products, for really great brands and build all of it natively on cloud. We will talk more about these in a few minutes.

They have been growing quite nicely over the last few years. They are a relatively young company established in 2011. Three years ago, actually John joined them in 2016 and actually he has kind of seriously turned the business around both from a growth and from an operational performance and profitability perspective.

In the last three years Mobiquity has grown CAGR of 24% and last year was at $70 million revenue, last calendar year. They do work for companies such as Amazon, AWS. AWS is a partner, it is a platform on which they build applications, but it is also a customer, Rabobank, Philips, Otsuka, Wawa, Backbase, some really large brands for which they create the core digital products and I will give you examples of these in a few minutes.

I am going to spend a fair bit of time talking about strategic intent, but at the highest level you know you all aware of our three-pronged strategy. Automate everything, clarify everything and transform customer experiences. Mobiquity brings direct and substantial value in two of these three areas. The headline area is of course transforming customer experience and building products, but 80% of what they build or how they build is native to cloud. So it brings substantial value in two of our three core strategic themes, but there are other areas as well and I will come to it in literally two or three minutes.

The total consideration for the deal is up to 182 million and there is an upfront of $131 million that has already been paid and there is a deferred consideration of $51 million, part of it is contingent on performance. Another big question is when that is due and what is the performance condition, so, three things, first, it is not all based on performance, some of it is. The second is that we are not disclosing the performance conditions. The third is that there are actually two tranches, one is due in January 2020 and the second is due in October 2020.

We have funded this through largely cash in the books, you know that we have been building capital for this explicit purpose for a period of time. We have used all of that cash, we have borrowed some, and we have taken a $20 million term loan. Essentially, I think where we are now is, back to the phase of managing our capital very, very, very tightly and effectively. That is what we were doing before, but there was a period of some time where we were building up capital where they are essentially badly used, unused capital, that will not be true going forward.

I am going to now spend some time on the strategic rationale for why Mobiquity. Before that for those of you that are seeing it offline I am just moved to slide 4. At the bottom of slide 4 you will see a little chart. We evaluated in the last year-and-a-half, we evaluated 130 assets and actually it is not even last year-and-a-half, in the last four months we have not evaluated anything. 130 assets, so we have really kind of looked for many things. The right strategic fit with our important strategies and capability areas, sustainable business from financial profile perspective; we wanted a business that is profitable and sustainably so, not low profitability, but similar profitability to Hexaware. We want a great management team, we want great teams in general, we wanted great customers, we wanted not to have long tail of customers but substantial customers and in Mobiquity's case more than 80% of the revenue comes from top 20 clients, so they do really important work for their top 20 clients.

So there were lots, we were hard to satisfy, but we have been selective and we feel like we found everything we were looking for in Mobiquity. Like I said they are a direct fit in two of our three strategic areas. They cater a lot, but I am going to talk only one area, which is the third, transform customer experience. You also know that we have been rapidly building organic capabilities in it, we hired Sandeep Dhar about a little over a year ago and then he has built a great team in the last several quarters, but all the areas we have building strengthened there are completely complementary to the strengths that Mobiquity is bringing. So we have been building in marketing and content platforms, commerce, CRM we had in the past and we have now started building in marketing automation and that will be an important area of investment for us through 2020.

You will actually hear John speak about this later as to how these set of capabilities that we are building organically or built organically and what Mobiquity has, how they are naturally complementary and allow for cross-sell and upsell into our customers.

On cloud, those of you have had kind of detailed conversations with me, you will know that I am a big believer that everybody will move everything to cloud and the wait and the rationale for doing that is not because of cost, it is not because cloud is cheaper - that is still true, but that is not the main reason and the application development of future will be cloud native that is how customers build new applications and 80% of the build or may be more of what Mobiquity builds is native to cloud, it is actually native to AWS. They use all the coolest, latest, greatest cloud native capabilities that Amazon has to offer and often times they do that way ahead of time.

I am going to move to slide 6. We have laid out seven teams of synergies here, but since some on AWS, which is point number 4 there I am going to continue on that. They have a multiprong relationship with AWS. AWS is a client, AWS is a platform of choice on which they build their products and AWS is also partner who takes them to all the customers. Now, John will again speak more about this, but it is a really important reason why Mobiquity is exciting for us. The fact that AWS finds Mobiquity to be an amazing partner completely disproportionate with Mobiquity size, I want to give you one example. Two or three weeks ago was a re:MARS conference, which is kind of now the real flagship, the big flagship is re:Invent, but the flagship for the most important people is re:MARS and apparently there are only two or three non-AWS keynote speakers of that event and one of them was Mobiquity, this was a couple of weeks ago and that was on voice and how voice will be an important channel in the future and again those of you have had detailed conversations would know that I am a big believer that voice will be a substantial channel in the future.

Let me go back to the top of this slide, point number 1 is bringing together strategy, design and engineering. You have seen in our industry acquisitions fail because there are companies who believe they have the engineering capabilities, they can buy design capabilities, and they can buy strategy capabilities and integrate them with their existing engineering capabilities. We do not think that premise will work. We were looking for assets that will bring those three capabilities together on their own in a demonstrable and sustainable manner and actually Mobiquity does that very well.

We have spoken about CX, I do want to give you kind of one or two examples, and actually John will give you multiple examples on how they build cool products. Cloud we have spoken about, again in talking through the cases you will hear the role of cloud in each of those, we have been spoken about AWS as a partnership, but apart from these horizontal capabilities they also actually bring us strong vertical capabilities in three areas. Out of those three, two are adjacencies to us; two are complementary to what we currently have. The three areas are banking, pharma and retail. Retail is atleast part of the capability we have, in banking and pharma it is new to us.

So in banking they kind of help build bond digital banks and you will hear John speak about an example or two. This is the most important spend area, most important priority for banks, either the new banks that are coming up bond digital or every brick-and-mortar bank is trying create a bond digital avatar of themselves. Our business was 41% is BFS, we do not have a lot of banking, it is all capital markets and mortgage we do not have a lot of banking.

The other area of strong complementary adjacency is pharma. Again while 18% to 19% of our business is healthcare insurance, we do not really have core pharma. Mobiquity is actually one of the single largest clients the company called Otsuka Pharmaceuticals. Otsuka does something very cool. They have built the world's first digital medicine product. What it is, FDA approved digital medicine product. What it is, if there is a medicine, which has an ingestible chip in it and John will talk more about it, but the ingestible chip allows patients, doctors and nurses to monitor the effectiveness of the drug once it is consumed. It also monitors whether the drug has been taken or not. This is going to be an important trend of the future and the first such product which has actually got FDA approval is from Otsuka and Mobiquity is integral part of building that digital medicine product.

Finally, like AWS is an important partnership across verticals, specific to banking, there is a product called Backbase. John will talk more about it, but Backbase is an important partnership by which we see our ability to penetrate banking. Right now you heard me speak a little bit about John. I now got to know John quite closely. I have had the opportunity to watch him run his business at close quarters and also balance running the business with kind of rigors of doing a transaction. What I have come to learn is that he is great at running his business, but I also found that he is a great leader of people. I have found things that I can learn in things from how John runs his business, so you know we are quite lucky to have John onboard our management team. He and actually two of his immediate directs are also effective immediately joined the management council of Hexaware. John thank you for staying up late. Over to you!

John Castleman: Good morning everybody. Since I am far away, can everybody hear me okay, Keech?

R. Srikrishna: Yes, you are good John.

John Castleman: Okay, wonderful. Alright, today is a very exciting moment for Mobiquity and Keech as already given you a little bit of an introduction, but I just wanted to spend a few minutes talking about why this is exciting for us and then take some time to share some highlights about our business.

For the management team of Mobiquity, we have been growing rapidly in a very attractive space and we have been looking to find a partner that we could join together with and build a platform that we can really leverage the great work that we have been doing and our team very much wanted to continue as Mobiquity and by joining forces with Hexaware on the way that we are, we are enabling that to happen.

Let me take a few minutes to give you an overview of Mobiquity, our capabilities, our people, our clients and our partners. Mobiquity is a digital consultancy that partners with the world's leading brands to design and deliver compelling digital products and services for our customers. We work closely with clients to understand and apply and engage technology in meaningful ways for both people and businesses.

So we have five services that we provide to our clients. Strategy, experience design, product engineering, cloud services and analytics. What I think really sets us apart from many of the other companies in the crowded digital transformation space is the integration of those services. From the very first day of Mobiquity, when the company was launched, it had strategy, design and engineering at its core. All leveraging the cloud from a platform perspective and this differs significantly from many firms that either started as Keech was saying before as an engineering firm that went out and brought an agency or it is an agency that tried to figure out how to do engineering. In many and many of those combinations, the integration just did not come together. If you had the opportunity to see our teams working with our clients, and you sat in one of those working sessions, you might not be able to tell the difference between somebody who is in our strategy consulting group, from a designer or an engineer. We have really talented group of people that cut across these disciplines and are really great at working together and so we think that is really part of the special sauce that sets us apart from other competitors in the industry.

So for those of you who are able to see the slides, this is a very simple architecture slide and really highlights one of the key reasons that we thought merging with Hexaware made a lot of sense given our complementary capabilities. So at the simplest level we think about our clients, business and technology architecture in three levels. The front end, the mid tier and back end core systems. As a company, Mobiquity has been primarily focused on helping our clients design, better front end customer experiences through these web mobile voice applications that directly interface with their end customers and consumers and patients. We integrate those with mid tier systems through APIs and micro services, but historically we have had very little exposure to what you might know as enterprise systems or back end systems. Things like CRM and ERP and CMS systems. When I joined Mobiquity three years ago, I saw the opportunity for Mobiquity to expand our business and really go after all three tiers and take on very large scale digital transformation programs, but frankly we have been so busy growing our business and had so much activity in sort of the top layer, we just have not gotten to that opportunity yet, but with Hexaware we now would be able to fully leverage their capabilities on the enterprise systems combined with our capabilities in the front end and the mid tier so that we can offer our clients a full range of capabilities from front end to back end systems. So, I think this is one of the key opportunities that we now have for both Hexaware and Mobiquity to help our clients work through full digital transformation.

So it is key to mention a few of our clients. We have amazing clients. We are really proud of the work that we are doing for some of the best known companies in the world and companies that are really leading the digital transformation age. Obviously, I am sure all of you know AWS and Amazon, but we are equally proud of the work that we are doing at Millicom, which is a leading Latin American telecom, Philips which is one of the best-known Dutch consumer and healthcare company and many others, and you see them on the screen here. As Keech mentioned, you are probably not that familiar with Otsuka, which is a Japanese conglomerate and Otsuka Pharmaceuticals in particular is our client and it is key to mention we have been partnering with Otsuka and another company called Proteus, which is the manufacturer of the proprietary pill and patch system that goes with the mobile and web applications that we have developed that combined are the first FDA approved digital medicine. It took about five years of all those companies working together to get to that milestone, that was a little bit more than a year ago and now they are accelerating the role out of that through a series of clinical trials and actual commercialization of the digital medicine.

Another key client of ours is Rabobank and Rabobank is one of the leading Dutch banks and we are helping them on a series of innovation projects, but one in particular that we are particularly proud of and excited about is now a new company called Sherpak and this project started several years ago as a simple application to validate that when two individuals or institutions are transferring money to one another to make sure that there is not rogue or fraudulent transaction. Last year Sherpak processed more than a billion consumer transactions and this application and system was fully built on top of AWS and as key to mention before almost all of our work is cloud native and so we are really excited to leverage our customer and partner relationship with AWS and integrate that in with many of our clients. Go to the next slide please.

So we have got a team of about 650 people around the world. Actually, that is probably closer to 700 now and more than a hundred million users and more than 40 nationalities across nine locations. We have got digital experience centers in Boston and Philadelphia and Amsterdam delivery centers, two in India and another in Gainesville, Florida near the University of Florida and other offices in San Francisco, Seattle and New York and as you see for those of you who can see the slide we are really proud to have more than 40 different nationalities represented amongst our people.

Next slide, from a management team perspective we are led by two key leaders Andy Norman and Paul Piebenga. Andy leads our US business with great experience coming out of IBM and some other technology companies and Paul Piebenga who I think really exemplifies sort of the interesting extra skills that we have in our organization. He started in the military, worked for EDS, Cambridge Technology Partners and he also happens to be a professional photographer, so incredibly creative guy, but also savvy with technology. Mike Welsh is our Chief Creative Officer. He leads our design teams doing experienced design and research and creative work around the globe. Ty Rolling is our Chief Innovation Officer and key liaison with AWS. They seek him out as the introducer in new capabilities on the AWS platform to get his perspective on things and we have a great dialogue between our companies and then finally Liz Smith who has worked with me both at Mobiquity as well as at my last company leading our human resources function and Tom Sheehan is our CFO, so great team works really well together. Global organization so we are spread out the world, but you know everybody is excited about this opportunity to really accelerate the growth of Mobiquity partnering with Hexaware.

Let us move on to the next slide and so one of the things that has enabled us to grow quickly and faster than the market are our partnerships and so I will take a moment to talk about AWS, but Mobiquity has been working with AWS since their founding more than eight years ago. Over that time we have developed deep expertise in their platform, we have utilized AWS in almost every digital solution that we are creating with our clients, we are premier partner, which is the top status amongst partners in the AWS partner ecosystem and we were recently recognized as one of the first digital customer experience partners in their partner network and you can see on the slide, we have got a number of qualifications and competencies and global IOT and DevOps. We are doing a tremendous amount of work in the Alexa area with voice skill design and development and we have got more than 75 certified solution architects, developers and DevOps engineers. Over the last several years, we have leveraged our partnership to as I said accelerate our growth. We have enjoyed the opportunity to work with some of the best known brands in the world on sub voice and mobile programme where we were brought in specifically by AWS to help their end customers innovate and transform the customer experiences and so in that way Anheuser Busch, BCD Travel, Axeltoss, Travelers Insurance are good examples of that. As key to mention AWS is also a customer, so we are really proud to have the opportunity to collaborate with AWS on several of their key initiatives. They reached out to us a couple of years ago and asked us to completely redesign and rebuild the mobile application that they use for their annual reinvent conference, which is attended by more than 50,000 engineers from around the world and as key to mention we recently highlighted at their re:MARS conference, which is Jeff Bezos' sort of private conference for top executives where Jonathan Patricio who is one of our voice practice leaders who was highlighted and who was one of the key note speakers at that conference, so as Keech says we sort of punch above our weight class with AWS and something that we are really excited about bringing to the Hexaware organization and certainly as AWS shifts from just selling basic cloud services in the Fortune 500, we think there is a great opportunity for now the combined capabilities of Mobiquity and Hexaware to really fully capitalize on a strand and we had a nice call with the head of all partners for AWS, Terry Wise just a couple of weeks ago with Keech to introduce the combination to them and so he was very excited about it and we are already talking about new opportunities with them and then onto our final partnership, which is what the company called Backbase and you may not have heard of them, but they are a leading omni-channel banking software platform based in Amsterdam. They were recently recognized by Forrester as the leader in the digital banking engagement platform space. Similar to Mobiquity, they are growing really fast all around the world, persistent clients to achieve their vision for building digital banking solutions and we have got a long history of working with Backbase our largest office as a company is in Amsterdam. We have got more than 200 of our people in Amsterdam. We have had people in our organization go to work for Backbase and vice versa and so we have got a really good relationship with Backbase, which has resulted in us doing work for both their engineering group on their product as well as helping them with implementation and customization work on their platform. One of the most exciting and interesting projects that we are doing today is a large-scale digital banking platform. This engagement started with one of our existing clients and they came to us as they were implementing Backbase and we are helping them with that and they said they wanted to launch a completely digital bank and so we have been helping them from strategy to design to architecture and engineering as well as our creative team, which has been assisting them with branding and marketing for this new bank that will be launched later this year, so again our relationship with Hexaware we think will enable us to support more Backbase clients around the world especially in geographies where we do not have as much of a presence today, but where Hexaware has feet on the grounds specifically in Asia and in the Middle East, so to summarize we are really excited about this opportunity to work with Keech and this team. We are eager to get to work and leverage the clients that we have as well as the many great clients that Hexaware has where we can introduce our new solutions to them, so with that let me turn it back over to Keech.

R. Srikrishna: Thanks John. I am going to end the presentation part of it with an update on our guidance. We will like I said first it was a near simultaneous sign and close essentially numbers from Mobiquity will get consolidated into Hexaware immediately, so our full year revenue growth will be roughly 20%. What it means when you do the math you will find that we are maintaining our organic growth guidance and the growth will accelerate in H2 like we have been seeing before. However, there is one kind of important update that this call is not meant to provide kind of an update on Q2 in general; however, there is something important that we thought we should share, so we will talk about that. We spoke late last year about Q4 we have done this large deal, which was supposed to give us revenues from this year Q4 that is not happening. That client after we told you they have to go to works counsel and all that stuff, so they have decided to do automation first instead of outsourcing first, so different direction they will remain a client and there will be other types of revenue, but not the type of revenue. Notwithstanding that because of literally enormous number of other deals that we have been winning and we will provide an update on that when we talk on Q2 results, there is no change in our organic guidance trajectory, so the full year revenue will be 20%, so that is point one. In general, for the next four quarters we expect our revenue growth YoY to be in the mid 20s.

Our full year EBITDA, EBITDA percentage will essentially not alter as a consequence of this acquisition except for one time transaction cost, so if you exclude and we will point out exactly how much that is, if you exclude the one time transaction cost the businesses are roughly similar EBITDA to be sure that Mobiquity in the past was slightly lower, but it is not so much that it is going to impact the overall business, so it is roughly EBITDA neutral from a percentage perspective. It is also going to be EPS neutral in 2019 on a GAAP basis after accounting for all the P&L cost of acquisition it will be EPS neutral again excluding the onetime transaction cost. If you take a non-GAAP view, which I think we should and I understand even Warren Buffet does just on this, exclude the flow through from the balance sheet to P&L of the amortization of the deal, excluding just that portion as a non-GAAP and the Vikash can if you like to explain what we mean by non-GAAP but is essentially excluding that one item, which is a flow through of the amortization from balance sheet to P&L. If we exclude that then our EPS will actually grow at roughly 10% on a go forward basis from H2, over the organic numbers and that is for first several quarters then there will be acceleration in that EPS growth after we have one. I do not want to actually point out something else just so you do not get surprised on I spoke about $20 million term loans funding independent of that we are optimizing how we manage our cash flows so independent of that there is also working capital like that was there so actually there may be drawdowns from that during period of time to manage GAAP, but all of that is accounted for the interest cost when I spoke to you about EPS guidance. With that I am going to stop.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Sandeep Agarwal from Edelweiss, please go ahead.

Sandeep Agarwal: Thanks for taking my question and congratulations on the acquisition Keech. I have one specific question on the acquisition itself, so Keech if you see the history of acquisitions of Indian IT companies whenever they have done we do not have many cases of success because of integration and other issues so what gives you the confidence that one this is extremely important thing to do for us and second we will be able to integrate it successfully and third is not it too big for us to do this size of acquisition?

R. Srikrishna: So you go and look at why did acquisitions not work, right, there is obviously not a single reason, but if you look at outside in some of the teams that were important to me. There were many aspects, which were structural through the target that I think kind of cost or could have led in part to outcome is not being great all of which are different, so let me point out what those factors are, right? Low EBITDA, high gross margin, high SG&A and an assumption that you can improve profitability by reducing SG&A without accounting enough for the other consequences of squeezing our SG&A. Business profiles where the average revenue per customer was small where there is a lot of reliance on underneath and a long tail of customers, which is hard to scale and actually that profile also is correlated to the first point I mentioned about high SG&A, so structurally high SG&A in such a business you cannot reduce SG&A, in any retail map. Assuming that you can make one plus one kind of stick together seamlessly the example in all case is design and strategy on one side and engineering on the other after you find enough acquisitions that have gone of the premise that I have engineering capabilities let me acquire strategy and design capabilities and they will work together does not happen and we are not doing that, right so all the factors that I said till now is not true in Mobiquity right, they have profitable business, the EBITDA is a little bit lower than us, but substantially in the same range as ours it is in teens. They have high average revenue per client north of 80% revenues from top 20 clients so each one is material. They still have high SG&A, but they have high gross margins and we are not looking to kind of alter either of those trajectories, so we think just from fundamental business structural characteristics some of what is not worked in the past we have accounted for. In addition to that it was not our intention to integrate in, our growth for integration actually different so first half will be making a philosophical comparison here right? If you think of Unilever and P&G as kind of two of the biggest consumer product companies in the world, P&G likes to kind of link all brands back to P&G so very strong pattern branding whereas this Unilever likes to build independent brands we are almost approaching this investment as an opportunity for us to build an independent brand and that independent brand is Mobiquity so if Mobiquity is better at what we do, their employees are better at what they do than us that is the reason we are buying them does not make sense for us to mention that, so our kind of approach is allow them to flourish independently and focus our energies on areas that bring substantial value together and what are those areas. One we think we can build new products and services together and I will give you some examples of this. Two we can sell existing product services to each other's customers and you heard already from John the structural reason why that is true that structurally they have capabilities in certain areas downstream to that is big spends where they do not have capabilities is where our current capabilities are and the third area is in the areas where operationally we could help each other for example if Mobiquity has 200 employees in India between Pune and Ahmedabad and when they need to scale, which is now I think we can just help achieve that objective far more effortlessly than Mobiquity could have on the role. So we are really going to focus our integration efforts along these principles every single Mobiquity leader, employee, every single one is going to continue to do what they do and the only actually have great chemistries across the teams so we have done lot of work and joint work before we concluded the transaction and there is just a lot of confidence that we can get this to work.

Sandeep Agarwal: Okay so if I can squeeze one more question?

R. Srikrishna: I am sure actually quite a number, if you do not mind just like pausing on that if there are not that we will come right back to you.

Sandeep Agarwal: Yes sure. Thank you.

Moderator: Thank you. The next question is from the line of Sandeep Shah from CGS-CIMB. Please go ahead.

Sandeep Shah: Thanks for the opportunity. Congrats on a good deal. Just wanted to understand Keech, as you are looking to integrate by keeping it as an independent entity, should we believe that even the sales and the marketing integration may not be that detailed or what I meant to say is the front-end team would be targeting separately to the customers? And second I think post the earn out because such kind of consulting led, strategy led, customer experience companies you may find it different in terms of the culture to integrate and post the earn out how we will make sure that the retention is continuing because it is all about the relationship and the offerings of the strategy capability of the manpower and the last one new NN deal of Q4 CY2018 one should say that the deal is cancelled just want a clarification and it is not no longer in the order book now?

R. Srikrishna: Let me kind of talk on that last one is the transaction question, the answer is yes. It is actually the deal is in different form and shape. It is except that they want automate first rather than outsource first. So that is kind of outcome of stakeholder discussions, but again to reiterate there are just so many other deals that we won that it does not alter our trajectory in any form or fashion. Now back to Mobiquity. I think it is important for you to know that the ownership structure of Mobiquity till a few hours ago was largely financial sponsors, actually quite handful of financial sponsors. There was a portion with employees, relatively modest portion with employees and management, but it is not the typical founder led where the majority of the stake is with the employees. Now in the cases where does the majority stake with employees the earn out becomes a discontinuity point because they can earn out when so much money to be made and after that employees who are making all those earn outs their motivation is to continue reduces dramatically. They are at least now that here. Earn out is going to some financial sponsors. None of the employees, it is very small discontinuity point for employees and management. So it is not kind of event in the continuum. First question in terms of sales and marketing and the only question on integration I am going to take time hopefully to address this, a number of people's questions. So the sales and marketing actually our goal is to have no overlap in sales and marketing. In fact our goals are no overlap in capabilities, no overlap in sales and marketing, so any overlapping capabilities are getting adjusted, fortunately we have no overlapping clients. Actually just one in Mobiquity's top 20, which is a very tiny client of Hexaware so outside that there are no overlapping clients as well so the plan is as follows that essentially all of Hexaware's customer experience transformation offerings will get taken to market by Mobiquity and Mobiquity will build teams and we will have teams currently that support Mobiquity, move end of Mobiquity and whatever, it is going to be one brand, one organization that takes all of Hexaware's customer experience transformation offerings to market, so yes sales and marketing is integrated, but in this form and fashion. There is no overlap. There is no conflict. That is why the other reason to the previous question why acquisitions did not work, for Salesforce do I go to acquired companies X or do I go to my company is on practice scale. That is kind of confusion continues years that into the deal. Earn out structures also create a poor incentive because there is earn out to the management you are always kind of worried about channels do I give the channel business, is it generated from my channel, do I give them credit, none of that is here, I mean by the way is not all the deferred earn outs, like I said it is actually modest portion of what is remaining is an earn out but even that majority is going to financial sponsors so there is kind of alteration in how we think about working together as a consequence of the earn outs.

Sandeep Shah: Thanks. I may come in the followup.

Moderator: Thank you. The next question is from the line of Ankur Rudra from CLSA. Please go ahead.

Ankur Rudra: Thanks. Congrats Keech and John on this deal looks very interesting. I have got two questions. I realize this is John's second digital services firm and exit so the first question is what will keep him here after deferred the compensation comes out? Is this a different opportunity one? And secondly may be broader thoughts both from you, Keech and from John on ability to offshore and provide global delivery for the digital transformation work you see given how this has evolved over the last five to six years? Thanks.

R. Srikrishna: I am going to John address the first question, may be both questions.

John Castleman: As Keech saying I think it is relates to the last question as well, you know around integration and sort of how do we keep the team intact, we as a management team it became clear to me that with our existing investors, we would just not going to what really grow the business at sustained rate with our current investors, they just did not sort of want to continue to support what we are doing and we are doing very well and so we certainly had opportunity as you can imagine to get acquired by companies that work more similar to us than Hexaware and the challenge with those combinations are exactly what some other people have asked questions so far have sort of raised, which is if we get acquired by company of similar, you end up getting fully integrated and you really lose the culture and the attractiveness that you have amongst your team to that company really dissipates fairly quickly. So what I think it is different here and that we very quickly got excited about was the opportunity to continue Mobiquity but doing on top of a larger platform where we could happen to and go after Hexaware's client as well as leverage capability that they have and we do not have to round out our capabilities from a digital standpoint, so I think that is probably most important saying that it is going to keep our team right where they are and we are really enjoy what we are going. The business is growing nicely. We are profitable. We are not broken. We are not looking fix things and our teams really excited to go out to transformational work for the clients that is what get excited and so I think we are going to have more of the same opportunities to do that and so I think that is why we have got better chance for success here than you may have in your typical sort of acquisition and integration. Well go ahead, I will pause there.

R. Srikrishna: Sorry, John will you address the specific question that Ankur asked about that is second exit while will you stay?

John Castleman: And it is the same answer. I really just said which is I enjoy building and growing businesses and so while our ownership has changed, I still have the same challenge in front of me, which is you know how do we continue to grow this business and expand it exponentially and I think that it is a very interesting challenge, so that is the reason why I was interested in doing this and that is why I would stay.

R. Srikrishna: And to round it off Ankur that was not to attempt a previous, if you did the research I think the company that John worked for before got sold to EPAM and the role in that was not commensurate…

John Castleman: We were fully and agreed and there really was not anything for me to do within that organization at that time and I have a very good relationship with our CEO of Mobiquity, of EPAM and it was just the right thing once we got the business sort of settled in to their structure for me to move onto my next thing, but this is very different than that because again we are not really integrating, and sort of turning over our business into the existing Hexaware business, we are really you are sort of sitting next to it or on top of there everyone individual at that time.

Ankur Rudra: I appreciate the thoughtfulness there, may be you can address my second question, Keech?

R. Srikrishna: In terms of offshoring of this transformational work I think that there are elements that can be kind of done, right? Unfortunately what is digital mean we got to start there? I think there are elements of digital transformational work that can and should absolutely be executed offshore. One good reference point is the way John presented it, in that slide, a lot of bottom layer of the work could be done offshore, some of the middle layer of that work can be done offshore, I think as you go to the upper layers it is hard and the proximity with client's, the ability to can help them take through what they need, in many cases even in Mobiquity, they are actually helping the client decide the product features. I think that kind of work is much, much harder and it is almost kind of productive to try and do that from offshore. We are going to build a commerce platform bunch of that work can be done from offshore.

Ankur Rudra: I appreciate this. Thank you.

Moderator: Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

Madhu Babu: I have just gone through some of the case studies on Mobiquity website, so could you just explain the Nestle thing which we have done the voice interface on Alexa and what could be the typical kind of deal sizes when we could do this kind of engagements and what is the stickiness in this kind of a deal? Thanks.

R. Srikrishna: John I think it is best you address that.

John Castleman: The Nestle work that we did was obviously Nestle is Consumer Food Company and Packaged Goods and we help them develop some voice skills that would leverage essentially with a recipe capability, so that you could be if somebody was working in the kitchen and they obviously their hands might be covered with whatever they are creating in the kitchen, using voice to sort of go through the steps of the recipe and that sort of thing was the idea behind that voice skill. Our voice works that we have been doing over the last two to three years now, it is still very early stage in voice, but as Keech said earlier, it is absolutely going to happen, it is by far the most human interface and so it is just a question of how fast that the technology is going to allow that to develop in the sort of full-fledged solution that are fully integrated into the backend. It is not there yet and so the deal sizes are relatively small, less than a million dollars, but it is just there is no doubt, that voice is going to be a critical interface and so one that we continue to do a lot of work on, but they are smaller, not as some of them are experimental that is for sure, we did some work for Anheuser Busch and last year that was pretty interesting and so there is a little bit of starting and stopping in that arena but something that we are still very committed to because the potential is enormous.

Madhu Babu: Sir what is the one-time transaction cost for this deal and what would happen to the dividend payout ratio considering the balance sheet is now net debt?

R. Srikrishna: One-time transaction cost frankly we do not know yet. It just happened today. So probably it is not immaterial because due diligence and legal fees around the world, many entities, there is Dutch, there is an Indian, there is American, so it will be a fair chunk. Dividend, I would say kind of three things. First is that board will decide the dividend in the upcoming board meeting; however, the second thing I think we will continue to pay dividend for sure. The third thing is that I have already said before that our dividend payouts may step down as a consequence of material acquisitions, so that is kind of likely direction I would say, but the board will decide, when we meet next quarter.

Madhu Babu: Thanks.

Moderator: Thank you. The next question is from the line of Sumeet Jain from Goldman Sachs. Please go ahead.

Sumeet Jain: Thanks for the opportunity. Firstly, wanted to understand the financial impact of this transaction on your balance sheet, I am not sure if you have any clarity yet, but how will be the split between your intangible assets versus your fixed assets for this transaction?

Vikash Kumar Jain: We are still working through such details. I think when we come by end of the quarter at that point of time; we will have a better view in terms of what the intangibles are going to be and the differential amount from a goodwill perspective. What we can tell you is that when we did that valuations from an evaluation perspective, the total valuation was significantly higher than the price that which we have done the deals, so that is the information what we can share at this stage.

Sumeet Jain: In your June quarter result would we get to look at your balance sheet or disclosure around the acquisition?

Vikash Kumar Jain: Yes, it will have, because as Keech mentioned at the beginning of the call, this was simultaneous sign and close, so starting today the numbers will be consolidated into the June quarter numbers for us.

Sumeet Jain: Got it. That is helpful. Secondly, I want to understand the initial co-founders of Mobiquity, Michael Heffernan and William Sable, they seem to have quite extensive experience and connectivity in US and European clients, so I want to understand would they be still available to execute on that connectivity and do you think the growth of this company can immolate what it has been over the last three years post this change?

R. Srikrishna: I will give you a 30 second and I think John is better positioned to answer. Now that I have been involved in the business for any length of time now, in fact the trajectory the business turned substantially for the positive after they stopped being involved and John got hired as CEO. So answer is absolutely no. They had not involved in the clients. Their lack of involvement will not impact the business in any form or fashion. John, would you like to act that?

John Castleman: You covered it. I have not met either of them and they have not had any involvement in the business in the last three-and-a-half years.

Sumeet Jain: Got it, thanks Keech. Thanks all for the clarity. All the best.

Moderator: Thank you. The next question is from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: Congratulations on the deal. Two questions; first, what part of the business is annuity and is there the component of the current revenue which are project specific which are significant, and is that the reason for reasonable valuation despite a very strong, that is my first question?

R. Srikrishna: There is virtually no portion of the business that is annuity. It is all project and the valuation is really I think first if you heard Vikash, right, our due diligence from whoever did the analysis and they were large companies who did the analysis, their due diligence was that evaluation of the company is higher than the EV we paid for Mobiquity. You can do comparables. I think it is quite consistent. There are actually companies that have got sold this revenue multiple without being profitable and actually Mobiquity is quite handsomely profitable. So we actually feel pretty good about the value we paid and then yes part of it is driven by solid revenue growth. The fact is that they have a relatively stable set of top clients from which they get a lot of repeat business, probably the top 5 remain unchanged, but it is not annuity. It is, the same customers keep giving more work, but it is not annuity work.

Rahul Jain: Okay, so technically the revenue run rate can?

R. Srikrishna: We lost you. Operator, are we on the bridge?

Moderator: Yes Sir, the lines of the current participant has dropped off. We will move on to the next question that is from the line of Srinivas Rao of Deutsche Bank. Please go ahead.

Srinivas Rao: Thank very much. Congratulations John and Keech. Two questions, first Keech, it was this when you got from financial sponsors, was it a contested acquisition or it was kind of sort of say discussion and then put in a value to the company and then closed it, that is my first question?

R. Srikrishna: Yes, I mean, really, we did not have to manage through the complexities of the multiple financial sponsors, if that was the question, actually John did that. We were dealing with kind of a banker and a phase. They dealt with the complexities of dealing with their multiple shareholders. Was it a competitive process, yes it was, but contested, I think if I understood your question it was not from the perspective that you asked.

Srinivas Rao: Understood. This is helpful. If I may ask John, you have highlighted backbase is one of your sort of key competencies, just want to understand, the relationship, is it a partner type relationship where you implement that for the clients who want a digital belt, is that how the relationship is?

John Castleman: Yes, although it is a little different than may be some of their other partners. We got started helping them with their product and helping them with troubled implementations and then that is sort of evolved overtime. We do not sell back base licenses today, so we focused exclusively on working on top of their platform, extending it, and helping implement it, but we have not then engaged in selling licenses and that sort of thing.

Srinivas Rao: Understood. Thank you so much. I will come back in the queue for more questions. Thank you.

Moderator: Thank you. The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: Congratulation for the deal. Just quick clarification on the 70 million revenue, is there any element of licence sale at all in this you know, like you are a partner and pre-seller for AWS, so just wondering if there is any bit of that?

R. Srikrishna: No, there is no kind of Cloud revenue or licence revenue in it.

John Castleman: We have a just tiny bit of pass through AWS revenue that occasionally we will pay for AWS on behalf of our client, but it is not that material.

Ravi Menon: Great. Thank you and secondly there is some bit of offshore presence already, we could give some context as to how you ended up choosing this delivery centers and how it scaled up, this seems unusual for a company of your size, so John that would be great?

John Castleman: When I joined the company, the company first centre in India was in Ahmedabad and that came through an acquisition that was done well before I got involved with Mobiquity, a very small acquisition of a company that happened to have this small group of people in Ahmedabad and then right before I joined probably within a year they had added another location in Pune, they felt like, I guess, they got into about 50 people in Ahmedabad and for whatever reason they thought it was time to go start another location, which struck me as quite strange having worked in India for the last 15 years, 50 people is not necessarily a large scale facility, so I really sort of scratched my head and said, “gosh” what are we doing in two locations, but it worked for us and as we have been growing very fast, I think last year, we almost doubled in size organization in India and we have a little over 200 people probably more like 225 people in India now, which is tripled since I got to the company, being in two locations has been helpful, it is occasionally difficult, but for the most part we will staff projects in one location of the other occasionally we will use both on the same project, but both are good locations for us. Ahmedabad is not as competitive as Bengaluru, Hyderabad and somebody other sort of more common larger scale tech city.

Ravi Menon: Great. Thank you. I appreciate it and best of luck.

Moderator: Thank you. The next question is from the line of Abhishek Bhandari from Macquarie Group. Please go ahead.

Abhishek Bhandari: Keech, is it fair to assume that with this deal, you will probably slow down a bit on your M&A, because I remember you saying you spent 250 Crores to 300 Crores over next two to three years and this is almost close to 200 number, so is it fair to assume that you will probably slow down a bit on that aspect?

R. Srikrishna: Yes. I think for multiple reasons. I think we still want to spend that 250 Crores to 300 Crores over two to three years, because obviously a big chunk of it, if you recall I have also said we will do no less than two deals, no more than three, so it is meant to be chunky kind of deals, so at this point we will take a pause. First of all we need to build some capital, you heard me say we will continue to pay some dividend for sure, so we got to build capital again, we certainly want to make this work, there is just a lot of value in this if you can get this to really work well, so we want to focus our efforts on that for the moment, so yes, you probably would not see anything for minimum a year.

Abhishek Bhandari: Thank you and all the best.

Moderator: Thank you. We will take the followup question from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: My line got disconnected. There was one question which I wanted your input was like how we see we can build up profitability up in this business and any inputs you can give in terms of the success rate, work-in-capital, investment and debt of this company?

R. Srikrishna: Actually, quickly I will address the second portion first and I will come to profitability, work-in-capital and debt of Mobiquity right, not of Hexaware? Mobiquity acquired acquisition?

Rahul Jain: Yes.

Vikash Kumar Jain: Yes. The work-in-progress capital information for Mobiquity is, we cannot say the exact numbers, but we can tell you it is in line with what the Hexaware numbers up from a number of working days perspective. As far as the debt is concerned, what we are acquiring is the cash free, debt free kind of a transaction, so when it gets consolidated there would not be any debt on the balance sheet associated with Mobiquity. I mean from the Mobiquity standalone business perspective, so debt is only going to be what Hexaware has taken, which is a term loan of $20 million plus anything if it takes from a working capital line perspective.

Rahul Jain: Current number before acquisition is $20 million?

Vikash Kumar Jain: No the $20 million is what Hexaware is taking as a term loan to fund the acquisition. Mobiquity standalone did not have any long-term debts on its balance sheet. They used to draw a line as required from a time-to-time basis, but post acquisition Mobiquity would not have any loans or credit lines on its balance sheet.

Rahul Jain: Right and what could be the fixed assets size right now?

Vikash Kumar Jain: That is something which we will disclose when we come with the consolidated balance sheet at the end of the quarter.

Rahul Jain: Fair enough. And a view on the profitability potential drives for that?

R. Srikrishna: So, I mean their gross margins, Mobiquity's gross margins are higher than Hexaware's, like decent amounts, 7% to 8% points. Their SG&A is also quite a bit high. Of course, they are a small-scale business, they are growing faster. So, our kind of intension is to tinker with neither. They will gradually, but gradually and naturally be an operating leverage to drive up their EBITDA, but that is not the thesis for our investment. We are actually quite happy where they are, and it is not a whole lot different from where Hexaware is. It is little bit lower, but not so much that it worries us. But long-term is good, because the gross margins are higher. On the other hand, you heard me speak about the fact that we will invest in and create a strong and independent Mobiquity brand. We have got to think of that distinctly from the current acquired Mobiquity entity. It is a larger than that. The brand we think may afford as an opportunity to improve pricing in some of the core Hexaware's services as well.

Rahul Jain: Right. Just an extension to the same question, so is it that given that the gross margins are superior but despite a similar entity, is it fair to assume that the nature of the business being a very project oriented the G&A would always be higher by the nature of the business itself, if compared with Hexaware business?

R. Srikrishna: Yes. I think the structure of the business will entail a higher SG&A. It could get a little bit lower from where it is, but it is structurally higher. I have referred to this in two three different contexts. It is not our team; it is not part of our base case, or any case, to reduce the SG&A. We do not need that SG&A to reduce for our numbers to work and to the first question, the answer I said is part of the mistake that others have made in the past is to assume that the SG&A can be brought down and we are not making that assumption.

Rahul Jain: Right and if I may squeeze one more. Sir, as you said that this could operate little independently for the time being at least; would it be fair to assume that the gross sales kind of an opportunity for this company into Hexaware's clients would be little sometime away and that would be a gradual process and not something which will be immediately talking on this?

R. Srikrishna: So, let me try when I say operate independently. Accept that there are going to be three areas where we will focus because these are areas, which create value, sell existing services to each others clients. That is the first of the list. Create new joint offerings and services and third is help in certain operational areas and so we are not waiting for anything to sell to each others' customers, not at all. In fact, there are active opportunities in the pipeline prior to closure date that is working on together.

Rahul Jain: Thank you Sir. That is very helpful. Congratulations for the good acquisition.

Moderator: Thank you. The next question is from the line of Bharat Shettigar from Standard Chartered Bank. Please go ahead.

Bharat Shettigar: Thanks for the opportunity. A couple of questions from me; first is can you tell me the amount of working capital lines that you have at the moment and how much of that you think would get drawn down in the next 12 to 18 months? And secondly, can you give some clarity on the dividend policy going forward? Just to give you the context I mainly look at the bonds issued by the parent entity HT Global and there, there are covenants with respect to how much additional debt you can take as well as the dividends that need to be paid to service the HT Global debt. So, from that context any clarity on Hexaware's policy going forward both in terms of debt as well as dividends will be helpful.

R. Srikrishna: Good context. So, clearly whatever we are doing is compliant of the covenants because some of the covenants cover as well so we are compliant of those covenants and we will pay dividends sufficient to services the debt obligations.

Bharat Shettigar: And the amount of working capital lines that you think would get drawn down based on your calculations?

Vikash Kumar Jain: So, what we have taken as working capital line is in the range of $30 million and in terms of how much we are going to withdraw in turn depends upon the need of the business at different points of time.

Bharat Shettigar: Thanks a lot.

Moderator: Thank you. Ladies and gentlemen we will be taking the last question that is a followup question from the line of Sandeep Shah from CGS-CIMB. Please go ahead.

Sandeep Shah: Thanks for this opportunity. Vikash, if you can throw some light as Keech was saying in terms of non-GAAP EPS, why we believe that it would be EPS accretive?

Vikash Kumar Jain: So, you heard Keech say two things that if you are looking to our guidance update, we said that our EBITDA percentage it says it is going to remain in line with our revenue growth which is post-acquisition in line with what we have said even pre-acquisition that was the Hexaware standalone. So the percentages are bit lower, but on an overall scale perspective, we think we will be maintaining those percentages, overall EBITDA on a year-on-year basis. From EBITDA when we come down to the EPS perspective, there are two items of the cost, which come into the P&L. One is associated with the intangibles. So when we have the intangibles, which will do the PPA and recognize in the cost that has to be taken as a cost over the certain period of time, so we have factored that into our cost. In addition to that some portion of the purchase consideration is associated with earn out, so that earn out net present value also gets routed through the P&L. So these two aspects when you take into consideration are something which is accounting increase and not necessarily an objective of the true business performance if you take those out from your reported numbers and both of them if you look into it, are not cash expenses. It is basically a transaction required from an accounting perspective to move from the balance sheet to the P&L. So, if you take the impact of these two out primarily, you would come back to a situation where the EPS on a non-GAAP basis is going to grow from what our baseline was with each of the lines with what our EBITDA growth is going to be.

R. Srikrishna: I mean the EPS growth with 10% above the organic growth if you account for these two elements, so in both cases, I mean, so the non-GAAP adjustment, does not adjust for obviously the cost to capital, so the cost of debt is in the EPS, only the balance sheet flow through the P&L of the amortization of the EV of the deal and the earn out amortization is both those components are adjusted for on non-GAAP. We will continue to give you both numbers going forward.

Sandeep Shah: Just the last few, these loans are foreign currency loans both on the term loan and the working capital lines and second just wanted to understand is it the ownership of Bearings are also within the financial sponsors of the Mobiquity?

R. Srikrishna: No. There was no related party anywhere involved. To answer your second question, the first question is yes, they are foreign currency loans.

Sandeep Shah: Last Keech, just on the NN deals which are going out, we still maintain the organic growth guidance of 12% to 14% is it on the booked orders or is it more in terms of conversion of the pipeline into orders?

R. Srikrishna: Yes, there were some conversions, but a lot of it is booked orders. We have had a robust pipeline. I do not intent for this to become a Q2 update, but we generally had a robust and continue to have a robust quarter, like we have had last few quarters, any case that deal was if you recall had a very little revenue impact for the current year, you know, as more than adequately compensated for by number of other deals and going forward impact also just given all other deals it is minimal to nothing.

Sandeep Shah: Thanks and all the best.

R. Srikrishna: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. R. Srikrishna for his closing comments.

R. Srikrishna: Thank you all. I am now meeting some of you later today. Look forward to that and speak to you and speak to the rest of you soon. Bye-bye.

Moderator: Thank you. Ladies and gentlemen on behalf of Hexaware Technologies Limited that concludes today’s conference. Thank you for joining us. You may now disconnect your lines. Thank you.