



News Release

FOR IMMEDIATE RELEASE

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Tecsys Reports Financial Results for Second Quarter Fiscal 2020

Record Revenue of \$26M as SaaS Bookings Surge

Montreal, December 4, 2019 — Tecsys Inc. (TSX: TCS), an industry-leading supply chain management software company, today announced its results for the second quarter of fiscal year 2020, ended October 31, 2019. All dollar amounts are expressed in Canadian currency and are prepared in accordance with International Financial Reporting Standards (IFRS).

Second Quarter Highlights:

- Recurring cloud, maintenance and subscription revenue increased 47% year-over-year to \$10.1 million during Q2 2020, including 13% organic SaaS growth.
- Annual Recurring Revenue¹ reached \$40.5 million at the end of Q2 2020 compared to \$27.6 million at the end of Q2 2019. This increase reflects the Company's ongoing focus on the transition to a SaaS revenue and business model which should result in ongoing value creation for shareholders.
- Total revenue was \$26.0 million, higher by 43% or \$7.8 million over \$18.2 million reported for Q2 2019.
- Adjusted EBITDA¹ was \$3.7 million, or 14% of revenue, in Q2 2020 compared to \$1.7 million, or 9% of revenue in Q2 2019.
- SaaS subscription bookings¹ of \$2.4 million were added in Q2 2020 compared to \$0.1 million in Q2 2019.
- Professional services revenue was \$10.2 million, 47% higher than \$6.9 million in Q2 2019.
- Proprietary products revenue decreased 30% to \$1.7 million compared to Q2 2019 primarily due to a decrease in proprietary software license revenue as the business continues to transition to SaaS licensing. Perpetual license bookings declined to \$1.4 million from \$2.1 million for the same period last year.
- Higher service margins increased total gross profit to \$13.1 million for Q2 2020, up 37% from \$9.5 million in Q2 2019.

¹ See Key Performance Indicators and Non-IFRS Performance Measures in Management's Discussion and Analysis of the April 30, 2019 Financial Statements



- Gross margin was 50% compared to 52% in the prior year, with the slight decline due to lower license revenue from the organic business resulting from the shift to SaaS bookings as well as a higher mix of lower margin hardware due to the PCSYS acquisition.
- Operating expenses increased by \$2.2 million to \$10.8 million, a 25% increase compared to \$8.7 million reported in Q2 fiscal 2019.
- Profit from operations was \$2.2 million, compared to a profit of \$0.8 million in Q2 2019. Recurring revenue generated by increasing cloud, maintenance, and subscription licensing allows the company to derive higher revenue from stable operations. As our SaaS bookings increase, profit from operations should build predictably over time with fewer quarterly swings.
- Net Profit in Q2 2020 was \$1.4 million or \$0.11 per share compared to profit of \$0.6 million or \$0.05 per share for the same period in fiscal 2019.
- Total backlogⁱ at October 31, 2019 was \$87.0 million, up sequentially from \$76.4 million at July 31, 2019.
- Total contract value bookingsⁱ increased by 72% to \$27.9 million in Q2 2020, up from \$16.2 million in Q2 2019. During Q2 2020, the Company signed 10 new accounts with a total contract value of \$15.6 million compared to 6 new accounts with a total contract value of \$1.3 million signed in Q2 2019.

“This was an exciting quarter. The strong results for second quarter fiscal 2020 reflect our successful ongoing transition to SaaS licensing,” said Peter Brereton, president and CEO of Tecsys Inc. “We are experiencing strong demand across all lines of business and our recent acquisitions have proven to be effective contributors to growth and earnings. Our healthcare solutions continue to perform well as we added another new hospital network (IDN) during the quarter.

We are particularly pleased with the SaaS bookings during the quarter. We booked \$2.35 million of SaaS annual recurring revenue during the second quarter of which \$1.5 million was organic. Under the old model, the organic component would have added approximately \$3.0 million to revenue and \$2.7 million to earnings, whereas, under the new SaaS model, this all drives future stable revenue growth. On the ecommerce front, our Distributed Order Management platform processed more than \$60 million worth of orders during the Black Friday period on behalf of our clients, up from \$40 million last year. We also held the largest user conference in our history towards the end of September with attendees and partners from a wide range of industry sectors.”



Mark Bentler, chief financial officer of Tecsys Inc., added, "As we continue to transition our revenue base to a higher-quality, stable, recurring SaaS licensing model, we are pleased that the operating leverage that we planned for is beginning to be reflected in our results. We also note that our strong Q2 2020 financial results were impacted positively by both of our two recent acquisitions, OrderDynamics and PCSYS."

Results from operations	3 months ended		3 months ended		6 months ended		6 months ended		Trailing 12		Trailing 12	
	October 31, 2019		October 31, 2018		October 31, 2019		October 31, 2018		months ended		months ended	
Total Revenue	\$	26 008	\$	18 184	\$	50 258	\$	34 466	\$	92 241	\$	70 601
Cloud, Maintenance and Subscription Revenue		10 063		6 836		19 845		13 827		37 300		27 291
Gross Profit		13 055		9 510		24 588		17 094		44 935		34 779
Gross Margin %		50%		52%		49%		50%		49%		49%
Operating Expenses		10 839		8 686		21 869		16 368		44 740		31 459
Op. Ex. As % of Revenue		42%		48%		44%		47%		49%		45%
Profit from Operations		2 216		824		2 719		726		195		3 320
Adjusted EBITDA ¹		3 677		1 654		5 672		2 190		6 258		5 809
EPS		0.11		0.05		0.09		0.05		(0.02)		0.24
Bookings		27 911		16 226		41 918		26 865		78 264		53 620
License Booking		1 413		2 138		1 806		3 101		4 639		7 201
SaaS ARR Bookings		2 350		83		2 730		83		4 275		156
Backlog		87 017		51 657		87 017		51 657		87 017		51 657
Annual Recurring Revenue		40 499		27 603		40 499		27 603		40 499		27 603
Professional Services Backlog		22 142		20 192		22 142		20 192		22 142		20 192

First Half Highlights:

- First half recurring cloud, maintenance and subscription revenue increased by 44% to \$19.8 million from \$13.8 million reported for first half of fiscal 2019.
- Total revenue in the first half of fiscal 2020 increased by 46% to \$50.3 million from \$34.5 million in the prior period.
- Adjusted EBITDAⁱ for the first half of fiscal 2020 increased by 159% to \$5.7 million from \$2.2 million in the prior period.
- SaaS subscription bookingsⁱ increased to \$2.7 million in the first half of fiscal 2020 from \$0.1 million in the first half of fiscal 2019.
- Net profit in the first half of fiscal 2020 increased 87% to \$1.1 million compared to \$0.6 million in the same period last year.
- Total contract value bookingsⁱ in the first half of fiscal 2020 increased by 56% to \$41.9 million, up from \$26.9 million in the prior year period. During the first half of fiscal 2020, the Company signed 18 new accounts with a total contract value of \$19.0 million compared to 9 new accounts with a total contract value of \$3.2 million in the same period last year.



Today the Company declared an increase in the quarterly dividend of \$0.005 to \$0.06 per share payable on January 10, 2020 to shareholders of record at the close of business on December 19, 2019.

Pursuant to the Canadian Income Tax Act, dividends paid by the Company to Canadian residents are considered to be "eligible" dividends.

Second Quarter Fiscal 2020 Results Conference Call

Date: December 5, 2019

Time: 8:30 am

Phone number: (416) 359-3130 or (800) 659-2165

The call can be replayed until December 12, 2019 by calling (416) 626-4100 or (800) 558-5253 (access code:21933974).

About Tecsys

Tecsys is a global provider of transformative supply chain solutions that equip growing organizations with industry-leading services and tools to achieve operational greatness. Tecsys' solutions are designed to create clarity out of the complex supply chain challenges that organizations face with increases in scale, customer expectations and inventory. Built on an enterprise platform, Tecsys solutions include warehouse management, distribution and transportation management, supply management at point-of-use, retail order management, as well as complete financial management and analytics solutions. Through the co-creation of a more responsive supply chain, Tecsys ensures that growth-minded organizations have the chance to thrive and reach their aspirations. For more information on Tecsys' supply chain solutions, visit: www.tecsys.com

Over 1,000 customers trust their supply chains to Tecsys in the healthcare, retail, service parts, third-party logistics, and general wholesale high-volume distribution industries. Tecsys' shares are listed on the Toronto Stock Exchange under the ticker symbol TCS.

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Forward Looking Statements

The statements in this news release relating to matters that are not historical fact are forward looking statements that are based on management's beliefs and assumptions. Such statements are not guarantees of future performance and are subject to a number of uncertainties, including but not limited to future economic conditions, the markets that Tecsys Inc. serves, the actions of competitors, major new technological trends, and other factors beyond the control of Tecsys Inc., which could cause actual results to differ materially from such statements. More information about the risks and uncertainties associated with Tecsys Inc.'s business can be found in the MD&A section of the Company's annual report and annual information form for the fiscal year ended April 30th, 2019. These documents have been filed with the Canadian securities commissions and are available on our website (www.tecsys.com) and on SEDAR (www.sedar.com).

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Non-IFRS Measures

Reconciliation of EBITDA and adjusted EBITDA

EBITDA is calculated as earnings before interest expense, interest income, income taxes, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA before acquisition related costs, fair value adjustment on contingent consideration, stock-based compensation and restructuring costs. The Company believes that these measures are commonly used by investors and analysts to measure a company's performance, its ability to service debt and to meet other payment obligations, or as a common valuation measurement.

The EBITDA and Adjusted EBITDA calculations, for the three and six-month periods ending October 31 of fiscal 2020 and 2019, derived from IFRS measures in the Company's condensed interim consolidated financial statements, is as follows:

	Three-months ended October 31, 2019	Three-months ended October 31, 2018	Six-months ended October 31, 2019	Six-months ended October 31, 2018
Profit for the period	\$ 1,404	\$ 596	\$ 1,137	\$ 609
Adjustments for:				
Depreciation of property and equipment and right-of-use assets	480	212	957	435
Amortization of deferred development costs	151	280	313	558
Amortization of other intangible assets	325	121	738	243
Interest expense	290	-	571	-
Interest income	(18)	(64)	(46)	(145)
Income taxes	529	277	878	258
EBITDA	\$ 3,161	\$ 1,422	\$ 4,548	\$ 1,958
Adjustments for:				
Stock-based compensation	345	117	533	117
Restructuring costs	-	-	420	-
Fair value adjustment on contingent consideration earnout - PCSYS	171	-	171	-
Acquisition-related costs	-	115	-	115
Adjusted EBITDA	\$ 3,677	\$ 1,654	\$ 5,672	\$ 2,190

Tecsys Inc.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
As at October 31, 2019 and April 30, 2019
(in thousands of Canadian dollars)

	October 31, 2019	April 30, 2019
Assets		
Current assets		
Cash and cash equivalents	\$ 12,153	\$ 14,913
Accounts receivable	16,243	14,986
Work in progress	474	811
Other receivables	706	392
Tax credits	4,970	3,493
Inventory	835	673
Prepaid expenses	4,313	3,223
Total current assets	39,694	38,491
Non-current assets		
Other long-term receivables	453	278
Tax credits	5,568	5,260
Property and equipment	2,623	2,714
Right-of-use assets	7,892	-
Deferred development costs	1,106	1,064
Other intangible assets	13,908	14,706
Goodwill	17,344	17,456
Deferred tax assets	5,878	5,476
Total non-current assets	54,772	46,954
Total assets	\$ 94,466	\$ 85,445
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,263	\$ 11,633
Deferred revenue	14,619	14,252
Current portion of long-term debt	1,172	1,022
Lease obligations	925	-
Other current liabilities	4,223	4,111
Total current liabilities	33,202	31,018
Non-current liabilities		
Long-term debt	10,204	10,827
Other non-current liabilities	2,093	2,333
Lease obligations	8,788	-
Deferred tax liabilities	1,753	1,769
Total non-current liabilities	22,838	14,929
Total liabilities	56,040	45,947
Equity		
Share capital	19,144	19,144
Contributed surplus	10,476	9,943
Retained earnings	9,199	10,618
Accumulated other comprehensive income loss	(393)	(207)
Total equity attributable to the owners of the Company	38,426	39,498
Total liabilities and equity	\$ 94,466	\$ 85,445

Tecsys Inc.
Condensed Interim Consolidated Statements of Income and Comprehensive Income
(Unaudited)
Three and six-month periods ended October 31, 2019 and 2018
(in thousand of Canadian dollars, except per share data)

	Three months Ended October 31, 2019	Three months Ended October 31, 2018	Six months Ended October 31, 2019	Six months Ended October 31, 2018
Revenue:				
Proprietary products	\$ 1,726	\$ 2,461	\$ 2,170	\$ 3,786
Third-party products	3,592	1,356	7,244	2,812
Cloud, maintenance and subscription	10,063	6,836	19,845	13,827
Professional services	10,169	6,931	19,911	12,998
Reimbursable expenses	458	600	1,088	1,043
Total revenue	26,008	18,184	50,258	34,466
Cost of revenue:				
Products	2,795	1,369	5,757	2,644
Services	9,700	6,705	18,825	13,685
Reimbursable expenses	458	600	1,088	1,043
Total cost of revenue	12,953	8,674	25,670	17,372
Gross profit	13,055	9,510	24,588	17,094
Operating expenses:				
Sales and marketing	4,807	4,100	9,315	7,534
General and administration	2,437	1,931	4,821	3,511
Research and development, net of tax credit	3,595	2,655	7,313	5,323
Restructuring costs	-	-	420	-
Total operating expenses	10,839	8,686	21,869	16,368
Profit from operations	2,216	824	2,719	726
Net finance costs (income)	283	(49)	704	(141)
Profit before income taxes	1,933	873	2,015	867
Income tax expense	529	277	878	258
Profit attributable to the owners of the Company	\$ 1,404	\$ 596	\$ 1,137	\$ 609
Other comprehensive (loss) income:				
Effective portion of changes in fair value on designated revenue hedges	(18)	(44)	118	6
Exchange differences on translation of foreign operations	53	-	(304)	-
Comprehensive income attributable to the owners of the Company	\$ 1,439	\$ 552	\$ 951	\$ 615
Basic and diluted earnings per common share	\$ 0.11	\$ 0.05	\$ 0.09	\$ 0.05

Tecsys Inc.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
Three and six-month periods ended October 31, 2019 and 2018
(in thousand of Canadian dollars)

	Three months Ended October 31, 2019	Three months Ended October 31, 2018	Six months Ended October 31, 2019	Six months Ended October 31, 2018
Cash flow from (used in) operating activities:				
Profit for the period	\$ 1,404	\$ 596	\$ 1,137	\$ 609
Adjustments for:				
Depreciation of property and equipment and right-of-use assets	480	212	957	435
Amortization of deferred development costs	151	280	313	558
Amortization of other intangible assets	325	121	738	243
Net finance costs (income)	283	(49)	704	(141)
Unrealized foreign exchange and other	(333)	(113)	(585)	29
Non-refundable tax credits	(510)	(248)	(746)	(475)
Stock-based compensation	345	117	533	117
Income taxes	207	265	556	265
Net cash from operating activities excluding changes in non-cash working capital items related to operations	2,352	1,181	3,607	1,640
Accounts receivable	(3,066)	(915)	(1,310)	454
Work in progress	191	374	330	(283)
Other receivables	253	262	(461)	78
Tax credits	(347)	(740)	(1,038)	(1,417)
Inventory	(177)	44	(163)	267
Prepaid expenses	(421)	(18)	(854)	(429)
Accounts payable and accrued liabilities	1,815	35	433	(818)
Deferred revenue	847	(1,518)	384	139
Changes in non-cash working capital items related to operations	(905)	(2,476)	(2,679)	(2,009)
Net cash from (used in) operating activities	1,447	(1,295)	928	(369)
Cash flow (used in) financing activities:				
Repayment of long-term debt	(236)	(11)	(472)	(23)
Payment of dividends	(1,439)	(1,308)	(1,439)	(1,308)
Payment of lease obligations	(243)	-	(485)	-
Interest paid	(248)	-	(489)	-
Net cash used in financing activities	(2,166)	(1,319)	(2,885)	(1,331)
Cash flows (used in) investing activities:				
Interest received	17	64	46	145
Acquisition of property and equipment	(232)	(66)	(359)	(103)
Acquisition of other intangible assets	(72)	(48)	(135)	(65)
Deferred development costs	(189)	(10)	(355)	(65)
Net cash used in investing activities	(476)	(60)	(803)	(88)
Net decrease in cash and cash equivalents during the period	(1,195)	(2,674)	(2,760)	(1,788)
Cash and cash equivalents – beginning of period	13,348	14,382	14,913	13,496
Cash and cash equivalents – end of period	\$ 12,153	\$ 11,708	\$ 12,153	\$ 11,708

Tecsys Inc.
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)
Six-month periods ended October 31, 2019 and 2018
(in thousand of Canadian dollars, except per share data)

	Share capital		Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total
	Number	Amount				
Balance, April 30, 2019	13,082,376	\$ 19,144	\$ 9,943	\$ (207)	\$ 10,618	\$ 39,498
Adjustment on initial application of IFRS 16	-	-	-	-	(1,117)	(1,117)
Adjusted balance, May 1, 2019	13,082,376	19,144	9,943	(207)	9,501	38,381
Profit for the period	-	-	-	-	1,137	1,137
Other comprehensive income for the period:						
Effective portion of changes in fair value on designated revenue hedges	-	-	-	118	-	118
Exchange difference on translation of foreign operations	-	-	-	(304)	-	(304)
Stock-based compensation	-	-	533	-	-	533
Total comprehensive income (loss) for the period	-	-	533	(186)	1,137	1,484
Dividends to equity owners	-	-	-	-	(1,439)	(1,439)
Total transaction with owners of the Company	-	-	-	-	(1,439)	(1,439)
Balance, October 31, 2019	13,082,376	\$ 19,144	\$ 10,476	\$ (393)	\$ 9,199	\$ 38,426
Balance, April 30, 2018	13,082,376	\$ 19,144	\$ 9,577	\$ (113)	\$ 14,527	\$ 43,135
Adjustment on initial application of IFRS 15	-	-	-	-	(421)	(421)
Adjusted balance, May 1, 2018	13,082,376	19,144	9,577	(113)	14,106	42,714
Profit for the period	-	-	-	-	609	609
Other comprehensive income for the period:						
Effective portion of changes in fair value on designated revenue hedges	-	-	-	6	-	6
Stock-based compensation	-	-	117	-	-	117
Total comprehensive income (loss) for the period	-	-	117	6	609	732
Dividends to equity owners	-	-	-	-	(1,308)	(1,308)
Total transaction with owners of the Company	-	-	117	-	(1,308)	(1,308)
Balance, October 31, 2018	13,082,376	\$ 19,144	\$ 9,694	\$ (107)	\$ 13,407	\$ 42,138

¹ See Key Performance Indicators and Non-IFRS Performance Measures in Management's Discussion and Analysis of the April 30, 2019 Financial Statements