



Tower # 1 94/1 C & 94/2,
Symbiosis - CGI Road,
Electronic City Phase-1,
Bangalore - 560100, India

P: +91 80 4009 6000
www.onmobile.com

Q3 FY2019 Investor's Conference Call February 13, 2019

SPEAKERS:

Mr. François-Charles, Chairman and CEO;
Mr. Ignacio Martin Velasco; President and Chief Operating Officer (Europe, North America & Latin America);
Mr. Sanjay Bhambri, President and Chief Operating Officer (India, Asia, Middle East and Africa);
Mr. Ganesh Murthy, Chief Financial Officer.

Moderator:

Good day ladies and gentlemen. I am Harpreet Kapoor, the moderator of this call. Thank you for standing by and welcome to OnMobile Q3 FY19 Investors Conference Call. For the duration of the presentation, all participants' lines will be in listen-only mode. There will be an introduction to the results followed by a Q&A session. Joining us today on the call are Mr. F.C., Chairman and CEO; Mr. Sanjay Bhambri; Mr. Ignacio Martin Velasco and Mr. Ganesh Murthy from the management team. Before we begin, I would like to now mention, that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For list of such considerations, please refer to the earnings presentation. OnMobile Global undertakes no obligation to publicly revise any "forward-looking statement" to reflect future or likely events or circumstances. Please be advised that this conference is being recorded today. So I would like to now hand over the proceedings to Mr. F.C. Thank you and over to you, sir.

François-Charles:

Thank you. Thanks everybody for joining this call. Let me start by saying that Q3 has been quite a good quarter signing renewals on contracts and signing new business. As most of you have seen, we renewed the Telefonica agreement for five years, which was very important contract for us and we are very happy about that. We did renew a lot of other contracts and signed quite a few new business contracts in many domains so that is something that we are quite proud of and very good to kick off next year. Then we also mentioned that we did complete the acquisition of Appland and the integration of Appland, we have also a lot of game clubs in pipeline that we have launched that is in Nigeria, Myanmar and Lebanon and many other clubs are launching in the coming quarters. So, in the coming quarters, we should see a good traction on the gaming revenues on that side and lastly, we had mentioned last quarter about our digital contest platform. We did launch the first digital contest outside of India and it is actually doing very good at the service. So, that is something that we will be deploying also across many geographies. So let me pass it to Ganesh for the financial report of the quarter. Ganesh.

Ganesh Murthy:

Thank you F.C. On the revenue, let me start with revenue first. On the revenue front, we witnessed a quarter-on-quarter growth of 3.5% and closed Q3 with revenues of Rs.153 crore. Out of this organic growth accounted for 1.1% with the balance coming from the inorganic acquisition of Appland. Appland revenue has been adversely impacted in Q3 by around Rs.11 million since we did not recognize a major license and customization fee for which we had partly delivered because it was pending receipt of customer acceptance. This acceptance is expected to be received in Q4 and

upon which the revenue would be recognized. Now growing mobile games revenue has been one of our strategic priorities and this quarter we witnessed 25% growth quarter-on-quarter on revenue. Games now contribute to 13% of our total revenue and this is from low single digits a couple of years ago. We grew in Video & Editorials area by 1.3% quarter-on-quarter and this remains our top product offering, contributing to 40% of our total revenues. Tones business grew in east region but overall Tones business witnessed a decline of 1.7% quarter-on-quarter due to lower revenues in Latin America. Our gross profit has increased by 2.5% of the current quarter. EBITDA for the quarter decreased to 5% of revenue as compared to 7% of revenue in the previous quarter. This quarter, there was a one-time marketing spend of Rs.25 million in Brazil for customer acquisition. This marketing investment has already started yielding results with revenue doubling month on month. Apart from this, there were expenses incurred in the acquisition of Appland which impacted profitability. After removing the impact of these one-time expenses, our EBITDA would have been at the same levels as last quarter. From a profit before tax perspective, we incurred a forex loss of Rs.50 million in quarter 3 because of the appreciation of the Indian Rupee vis-à-vis the U.S. Dollar and Euro. If we eliminate the forex gains and losses and the one-time marketing investment in Brazil for customer acquisition, our profit before tax would have been around Rs.69 million which is around the same as in the previous quarter. On account of higher collections, our quarterly DSO has improved by 10 days to 141 days in the current quarter. Our cost rationalization initiatives continued in Q3 and our total head count reduced this quarter to 805 people from 829 people last quarter and this is after adding 15 persons from the Appland acquisition. I would like to conclude the highlights by reiterating that games and videos remain our strategic focus areas while we stabilize the tones business. We look forward to place ourselves as a global market leader in the business of mobile games. There are many new projects in the pipeline, which will be instrumental in growing our revenues in the area of games and videos. With this, I would like to pass it on to the moderator and open the call for questions. On to you moderator.

Moderator:

Thank you so much sir. With this, we will open the floor for Q&A interactive session. So participants, if you wish to ask a question, you may please press "0" and then "1" on your telephone keypad and wait for your line to be unmuted.

Viraj:

Hi, this is Viraj speaking. I had a question that you talked about publicly about how games target is to be a Rs.500 crore top line business. Can you give a sense of how that will actually be achieved because one obviously the company has had a lot of missteps in the

last few years and it's difficult to believe that level of scale with the current revenue run rate of Rs.60 crores annually? So can you take us through how this business has been built? What is the visibility of the kinds of contracts that you have and how quickly can this revenue scale as you sign up potential partners?

François-Charles:

So, when we acquired the Appland, the strategy was to get distribution first in order to many light games clubs. As we had mentioned, we have about 70 clubs in the pipe. Most of the clubs, we will be honest with you, are very small today but we know with the competition out there that the average revenue per club can grow 10x from those numbers. So our strategy is going two fronts. Our strategy is to work with best partners to make sure we do increase these revenues but it is also to work as OnMobile being itself the partner dealing directly with operators and making sure that we have games club promoted by the operators, exactly what it is like we have actually with Telefonica where we make a lot more revenues. So on the second front, we are still expecting that gaming market is huge. So, from our point of view within the next year we should be able to really establish the footprint and start showing up important revenues which today I agree with you that is smaller than what it should be. Now it is time deploy, it is time to integrate and that is why it is the case right now.

Viraj:

Right, fair enough.

Ganesh Murthy:

Just to add to that, you know, this quarter our total revenue from games is nearly Rs.20 crores. So we are talking about right now of the existing run rate of Rs.80 crores per year and it's a fast growing segment for us both in the Appland area as well as in the OnMobile area and that is the reason why we are confident of significant growth in the games revenue in the future years.

Viraj:

Understood. And what's your sense on this Rs.20 crores? Can it grow by sort of 20% to 25% quarter-on-quarter because you are going to have to see that kind of growth to get to this Rs.500 crore type number on an annual basis, right, in the next couple of years?

François-Charles:

That is the key now. To get there, we will need to invest both in marketing and R&D. The space in gaming is changing a lot. So, we need to invest more and we are ahead of the curve on the R&D side. So just mentioned by Ganesh Appland's growth today is above that number. Now we need to get the OnMobile clubs live, which today you know most of the clubs outside of Telefonica are not live yet. So, by the time we get the clubs live and then we start growing, as you know, it depends also on when the operator wants to launch. Sometimes it brings delays but once we actually get this traction,

once we are out there in the market that is exactly what we are expecting.

Viraj: And Mr. Charles in your best estimation, when do you think you get these clubs going live and the operators signing up sort of over the next year or longer?

François-Charles: No, no, no. Over the next year. You know, we already have in the pipeline a lot of them, which you know, unfortunately, some of them were supposed to launch by early December and now we are pushed back by one quarter. , that stuff happens like this. Normally, we should get a lot of games club live within the next quarters.

Viraj: Okay.

Ganesh Murthy: And incidentally, we have launched our first games club with Appland in December. The revenues are not portrayed yet because we launched in the last week of December and this is with a large operator in Nigeria. So, this is the first launch of Appland games through OnMobile after the acquisition.

Viraj: Understood. I think what would be helpful from an investor point of view is to get some kind of visibility into this new growth of business, right? And may be some of it is on a no-name basis where you tie-up with operators and actually show how you are scaling up business, share of wallet with the given operator because right now where we are sitting there is just no visibility other than knowing that the target is to make this a Rs.500 crore top line business.

François-Charles: For us, it is important we will be working with operators, we will be working directly also with our own marketing dollars in the markets. You know we need have to the mix of both to be able to get to that number.

Viraj: Understood.

François-Charles: But yeah I agree with you. In the coming quarters, we will try to be more clear on how we give this plan and what can be shared with investors.

Viraj: Absolutely and it has to be on a no-name basis, right, where you can say literally we have four operators in the pipeline over the next three to six months. We have another three over the next 6 to 12 months. This is the two operators that we signed up as of December. This is how they are ramping up. I mean there is no understanding of how you get from here to your stated goals.

- François-Charles:** Yes
- Viraj:** And now that you have made the Appland acquisition and you have still a fairly healthy cash balance, what are the plans to utilize the cash? Is it to make selective acquisitions going forward? I would imagine that the best thing would be to execute and digest Appland well and hence in the interim you may not have a need for such large amounts of cash. So is there any desired payout, higher dividends or do a buy-back?
- François-Charles:** Definitely, definitely on all fronts on what you just said. If you look at the Appland acquisition, over 60% of the price is an earnout. So once we get the money, we pay them back. So to be honest with you, you know, we already identified other potential acquisitions in gaming. The gaming market is moving fast, so there is a clear temptation to move ahead with new acquisition. Now we are holding the theme of that temptation to make sure that we do integrate Appland accordingly making sure that there are no issues and that we are on the good run rate before we add any other acquisition.
- Viraj:** Absolutely. I think that's a smart approach, right. Unfortunately for this company and I have been tracking it for a couple of years now, execution is the biggest missing piece of the puzzle. I mean there are plans but the execution has been missing for a long time. So I think it's important from the investor point of view to execute it correctly to get it going correctly before you spread yourself too thin with a second or a third acquisition.
- François-Charles:** Totally and that's why today you look at the Appland numbers and all, they are very smaller than what we actually but it's really the foundation in the platform that makes it that we can actually launch game club very fast in the markets and that already shows with seventy games club in the pipeline there.
- Viraj:** Excellent. I won't take more time but I'd like to meet you in person at some point if at all that's possible. I am not sure what is the appropriate e-mail to reach out on?
- Ganesh Murthy:** You can reach us on ganesh.murthy@onmobile.com or investors@onmobile.com.
- Viraj:** And Murthy sir, is that Murthy?
- Ganesh Murthy:** That's correct.

- Viraj:** Okay. Thank you very much. That's it from me.
- Moderator:** Once again participants, if you have any questions, you may please press "0" and then "1". I'll repeat, to ask a question, you may please press "0" and then "1" on your telephone keypad. We have a question from Arshad from Vibrant Securities. Your line is unmuted.
- Arshad:** Yeah, hi, good evening. So I just want to know you all said that you've paid off the debt of Appland this quarter. So how much of it was paid and is it reflected in 415 million amount that is the in the cash flow statement of Appland acquisition?
- Ganesh Murthy:** Yes, it is there in that – it's part of the acquisition – the total amount of debt was roughly around USD 500,000.
- Arshad:** Sorry, could you repeat that?
- Ganesh Murthy:** The total debt of Appland that was settled was around 500,000 U.S. dollars.
- Arshad:** Okay, okay. And also going forward, is there any remaining amount that has been paid towards this Appland acquisition?
- Ganesh Murthy:** Sorry, could you repeat your question?
- Arshad:** Is there any remaining amount that has to be paid towards the Appland acquisition?
- Ganesh Murthy:** Let me be clear. This acquisition involves an upfront payment of about USD 5.4 million that was paid at the time of close of the transaction and then there is a balance payment of USD 9.3 million which is spread over the next two years that is 2019 calendar year and 2020 calendar year. The earn out is based on achievement of certain financial metrics and it is to be paid on a half-yearly basis subject to achieving the financial metrics.
- Arshad:** Okay, okay. Thank you. My next question is about this opportunity in Brazil you are talking about. I mean we spent Rs.25 million in marketing spends, so what is the revenue potential you see over there in the coming years? I mean right now it is only 3% of our total revenue of that thing or may be even less but what is the potential you can serve in one-two years down the line?
- Ignacio Martin Velasco:** So this is Ignacio Martin. Let me answer this question. Actually Brazil is one of our main focus in Latin America. We are seeing great traction just to give some data from that investment; we grew more than a million users. Monetization will be during the following month

and we are going to try to leverage 'all you can eat' models that we have there but for us Brazil is going to be a priority. It has been in the past and we are putting in whatever efforts to grow that business as quick as we can.

Arshad: Okay, thank but could you possibly give some numbers as to the market potential you see over there, the revenue potential going forward because I think there is so much marketing cost going towards.

Ignacio Martin Velasco: Actually every single investment that we do in digital marketing and acquisition is based on our realistic approach what we understand and with great life time value, revenue share, a lot of the KPI's before doing the investment. So as of now it's been done just last month. So it's going really well. Now we need to track the KPI's whenever we have certain time to see that everything went well. We can communicate that. As of now, result seems to be really, really good but we cannot disclose that right now.

Arshad: Okay. Okay, thank you. And also this marketing cost should we see through the new or normal going forward on a quarter basis because this has increased over the last two quarters?

Ignacio Martin Velasco: Actually the decision of marketing investment are taking that's basically on ability and growth we want to have. We have that investment in last quarter, next investment is not going to be the same amount and we are going to be focusing on whatever we need at that point of time. So but again the results were real good. We grow almost a million base, and we are going to monetize during the next weeks.

Arshad: Okay, okay. Thank you. My next question is more of a general question on manpower. So what is the target of the manpower count going forward? How much can we see this number decreased in the next one-two years possibly?

Ganesh Murthy: The manpower cost is expected to be stable at the same levels.

Arshad: I was actually referring to the count, the number of people like are we going to continue reducing this?

Ganesh Murthy: No, we are not going to continue reducing. I think we have already reduced quite significantly. I mean if you look at it beginning of the year we were 905 people and today we are at 805 people that is after including 15 people from Appland. So we are really reduced by more than 100 people over the last nine months.

- Arshad:** Yes, yes.
- Ganesh Murthy:** So I don't think there could be some scope for some more rationalization but I think any further reduction will be quite low.
- Arshad:** Okay, thanks. And also this manpower cost if you look at it, it's increased on a Q-o-Q basis despite the number, the absolute number of employees decreasing. So is that could I say that's because of the Appland acquisition?
- Ganesh Murthy:** Exactly. It is entirely due to Appland acquisition. Otherwise, if you would have looked at it, it would have been below last quarter's cost of Rs.413 million.
- Arshad:** Got it, got it. So my next question is basically on the Opex, you said its increased this quarter because of the Appland acquisition, I don't know not only manpower but I guess other operating expenses also. So can we see this normalizing in the coming few quarters? Or is this just a one off?
- Ganesh Murthy:** The major reason for the increase in this quarter in other Opex is due to the Appland acquisition and we will see that stabilizing in the forthcoming quarters.
- Arshad:** Okay. Got it, got it. And if you just look at the balance sheet, the fixed assets portion of it is has gone up by Rs.80 crores. So is that also attributable towards Appland?
- Ganesh Murthy:** Okay, the fixed assets. Yes, that is some small amount for servers that we had procured for a new project in Egypt but beyond that the major increase is because of the Appland acquisition.
- Arshad:** So could you give some split on this, how much of it is because of Appland and how much it is because of the Egypt project – this Rs.800 million increase?
- Ganesh Murthy:** Out of the Rs.800 million the bulk of it would be Appland.
- Arshad:** Okay. Okay. And another thing coming to the cash, now one of our strategy was getting cash to India. So how much of the cash is in India right now? Have we managed to get all of it to India?
- Ganesh Murthy:** As of 31st December is 73% of our total cash is in India and last quarter that was 64% and previous to that it was even lower. So over a period of time we have been trying to accumulate cash in India because it gives us a return in excess of 7.5% per annum.

- Arshad:** Got it. And if I can just ask a couple of more questions. One is based on the cleaning up of the subsidiaries, which you have been speaking about over the last quarters. So how is that going? I think you reduced the number of subsidiaries, loss making subsidiaries abroad or convert them into offices? So do we see any cost reduction going forward from this portion?
- Ganesh Murthy:** There are two major items where cost reduction has been effected in quarter 3 and the results of that we will see in the forthcoming quarters. One is we had 6 legal entities in the U.K. We have closed down four of them and we are in the process of merging the remaining two. So we just want to remain with one legal entity in the U.K. So four entities have been closed successfully in quarter 3. The other thing is there we had a SEZ – a special economic zone office which was defunct in Noida in India and there were certain SEZ formalities to be complied with, with respect to import debonding and export obligation. It took some time but we went through the process, got capex debonded and we managed to vacate the premises at the end of December. So from January onwards, we will see some savings in the rent.
- Arshad:** Okay. That's nice to hear and also will this also help reduce tax amount because you are paying I guess much higher tax rate even though there were losses this quarter, so am I right in assuming this?
- Ganesh Murthy:** In this quarter, if you look at this quarter alone and that is because we had, there are two entities, the U.S. entity as well as the U.K. entity which made tax losses, booked losses also during this quarter but we were unable to create a deferred tax asset because we didn't have reasonable certainty in future profit streams in these two countries. So that is the reason which impacted us overall tax but if you look at it from a year-to-date perspective, our effective tax rate is around 35%.
- Arshad:** Okay, got it. And another question on the tax, if you look at it over the last few quarters, I think in your IT also you see, if you look at the cash flow statement and you look at the income statement, I think the cash paid in the cash flow statement is higher than the income statement and this I have noticed also on the annual result basis also. So what is the reason for this differential thing?
- Ganesh Murthy:** Okay, I'll have to come back to you on that. I'll have to analyze that and compare that because obviously you can't really compare it with the income statement and the tax paid because the tax paid will represent only current tax and Cash Flow statement there will be a deferred tax asset which will offset that. So always the expense line

item in the P&L will be lower than the amount of tax paid in the cash flow statement.

Arshad: Got it. Okay. So if I have any details, I'll take this particular question offline. Sir my last question is based on the cash generation. I know this quarter the EBITDA was hit possibly because of the profitability was hit because of the acquisition. So now going forward I think you had mentioned this of possible Rs.15-20 crores of cash generation a quarter would be possible. So are we on track for that now?

Ganesh Murthy: Yes, we are on track for that. This quarter, we had two major outflows. One was the Appland acquisition and then we paid during the first week of October a dividend of about Rs.19 crores to the shareholders. So these were the two major cash outflows. We don't anticipate any further major cash outflows between now and end of the year. So we are on track to record a positive cash I mean historically if you see cash had always decreased either in Q2 or Q3 because of the dividend payment.

Arshad: Yes. I have witnessed that. Okay, so I think this is all from my side. Thank you and best of luck.

Moderator: Before taking next question, I'll announce again. To ask a question, you may please press "0" and then "1". Next we have Suman from Anand Rathi. Your line is unmuted.

Suman: Yeah, I just wanted to have some sense about this ring back tone business because I think in the first quarter you had mentioned that it is stabilizing but I mean I think the last two quarters it's still been on a decline. So what is your sense on the business per se?

Ganesh Murthy: F.C. could you take that up?

François-Charles: Sanjay is still on the line?

Sanjay Bhambri: So fundamentally if you look at it at the moment from a ring back tones business standpoint, if I break that into two zones like Ganesh spoke in the introduction part of his, we are seeing stability in the east part of the business. Actually we grew marginally from Q2 to Q3 and if I have to break it further down, we grew decently well in the Middle East, Africa, & Asia. We still have a little bit of softness in India obviously we are still battling with the Jio impact but overall east part has stabilized. On the west part, we are quite stable in the Europe market and Latin America is a market where we are having a little bit of softness and if we're able to plug that, I think we'll be back on the stability because if you see the degrowth is also drastically reduced Q-o-Q.

- Suman:** Okay. And secondly I just wanted to know Reliance Jio was the client of Appland. So I mean is the relationship still continuing post the acquisition?
- Sanjay Bhambri:** Yes.
- Ganesh Murthy:** Yes.
- Sanjay Bhambri:** Sorry, go ahead Ganesh.
- Ganesh Murthy:** Yes, very much. It's an important customer for Appland.
- Suman:** Okay, but I just wanted to know if you see most of the growth in the telecom space is primarily coming on account of Jio, I mean I think you're probably more concentrated around Vodafone-Idea at this point of time in India?
- Sanjay Bhambri:** In India basically.
- Ganesh Murthy:** We have no revenues coming from Jio from the OnMobile side.
- Suman:** That's exactly what I am saying. So basically the growth in India is primarily being centered around Reliance Jio, right and I think it will probably be only three players that will be left I think today also I think government is thinking of whether to close down BSNL. So that basically leaves three players. So what I am asking you is, is there a chance of you getting – I mean barring the gaming thing, would there be something else from video or something which will get passed on post this acquisition?
- Sanjay Bhambri:** So fundamentally, one important element I think which we need to understand is Jio's business model primarily is governed on buying a platform rather than running services on revenue shared with a partner. If you look at all the services, they primarily buy the platform and run it.
- Suman:** Okay.
- Sanjay Bhambri:** At the moment, we do not play in selling a platform. We only do managed services. If you look at Appland, Appland sold a license to Jio and we are delivering the license part of it.
- Suman:** Okay.

- Sanjay Bhambri:** So that is one major disconnect at the moment on that but obviously we continue to engage and see if we can create opportunities to work with Jio.
- Suman:** Okay. So I mean probably after this thing runs down, are you going to continue with the same management which Appland had or are you going to stick being just a service player?
- Sanjay Bhambri:** So fundamentally from the games Appland, we have the relationship with Jio, we will continue to be engaged with Jio and obviously nurture that and see how we can expand that relationship beyond the Appland part and I said I don't have answer as to how will it evolve but the intent is to evolve that relationship with Jio and see as to what more we can work with them.
- Suman:** Okay. Thanks. Thanks a lot.
- Moderator:** I'll repeat participants, to ask a question you may please press "0" and then "1".
- Ganesh Murthy:** Actually there was a question that was raised by one of the participants relating to our fixed asset increase. Our fixed assets increased from Rs.54 crores in last quarter to Rs.135 crores this quarter. So the increase was around Rs.81 crores. Out of Rs.81 crores, the Appland acquisition contributed to Rs.80 cores and this Rs.80 crores is primarily in the area of software. Appland has a product for providing the games and aggregating the games and wrapping technology and primarily the fixed asset is that intangible that has been valued and incorporated into the balance sheet as a fixed asset.
- Moderator:** I'll repeat participants, you may please press "0" and then "1" if you wish to ask a question.
- François-Charles:** Okay. If there is no more question, we can proceed to end the call.
- Moderator:** Yes sir. There are no more questions in the queue.
- Ganesh Murthy:** Can you give closing comments?
- François-Charles:** All I want to say is thank you to all investors. We look forward to our next call in May and many things should happen in the gaming front and our new services front till then. So thank you very much and looking forward to our next discussion.
- Moderator:** Thank you so much speakers for addressing the session. Thank you participants for joining in. That does conclude our investor call for

today. You may all disconnect now. Thank you and have a pleasant evening.