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Q3 FY 2018 Investor's Conference Call February 01, 2018

SPEAKERS: François-Charles Sirois, Executive Chairman and Chief Executive Officer
Sanjay Bhambri, President and Chief Operating Officer, India, Asia, Middle East and Africa;
Ignacio Martin Velasco, President & Chief Operating Officer (Europe, NAM & LATAM);
Praveen Kumar, Group Chief Financial Officer.

Moderator:

Good afternoon, everyone. I am Harpreet Kapoor, the moderator of this call. Thank you for standing by and welcome to OnMobile Q3 FY2018 Investor's 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. Praveen Kumar from the management team. Before we begin, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For a 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 and 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. Thank you for joining the call to all investors. Let me start by saying at this quarter we are seeing some positive growth as well as some challenges in some markets. Africa and Middle East shows a positive growth, while India and Europe were under pressure. During the last few quarters, we have been stressing our focus to find and sign new business and I am happy to report that the efforts in that direction are showing good results. We will be adding more than \$5 million in revenues in the next financial year and we should see some additional new business in the next quarter. In addition, there is a focus on bringing new products offering. And I am happy to report that we have already completed a prototype and we will be targeting to announce some customers in the coming quarters also.

Just a quick update on OnMo, we have stopped the marketing investment on OnMo-US, as the cost of acquisition is heard and expected. Based on our learnings and customer feedback, we will be reshaping the service in the US market with the new set of enhancements and features and the work has already begun on that direction. We also detected some confusion in the market between ringtones and ring back tones which is specific to the US, obviously, not in India. In the US people believe it's more ringtone and not RBT, so that confusion made it difficult for marketing efforts which we are also limited in the sense that we are only targeting Sprint customers, so on marketing in the US market that made it more difficult to be able to have the right media placement.

On a positive note, I must say that the engagement KPI demonstrates that the users are happy with the service with 60% of the active-based use the app regularly and we have an average of

3.4 sessions per daily active users. This is all great learnings for upcoming ONMO launch in India. I am now going to ask Praveen to review the financial updates.

Praveen Kumar:

Thank you, F.C. Good afternoon, everyone. Welcome to the third quarter FY18 Earnings Call. To begin with, on the revenue we clocked a revenue of 158 crores, which is down by 4.6% over the last quarter. Europe was one of the key reasons where the revenue was down by around 4 crores due to less of promotional activity during the quarter. LatAm, India and Asia showed marginal decline, whereas we saw green shoots of growth coming in from Africa. This is first of the series of new business that we will see materializing out of our customer pipeline that we have been discussing and we target to see more revenues in the coming quarters, as F.C. pointed out.

Content cost was down in line with the revenue and we maintain the gross margin at 55%. We had yet another good quarter on the cost side with tighter control, which helped us maintain the 10% EBITDA margins at 16 crores. Depreciation was higher this quarter. But on depreciation now, with a large part of the Live depreciation going off by Q1 FY19, the depreciation will come down by around 4.5 crores and will settle around something like 8 crores from Q2 onwards in the next financial year. So coming back to the financials and with a healthy other income of 3.2 crores during the quarter, we end up with a PBT of 6.8 crores and a net margin of 2.6 crores, both of which are marginally higher as compared to Q2. So, that is a quick snapshot of financials. We will now take any questions that you may have. Thank you. Harpreet, we will take questions.

Moderator:

Thank you so much, sir. With this, we will open the floor for Q&A interactive session. 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.

Jinesh Seth:

Hello?

Moderator:

Yes, sir. You are audible. Please go ahead and ask your question.

Jinesh Seth:

Yeah. My question was there was some mention about some kind of a postpaid RBT service tie up in India. Could you just elaborate on that?

Sanjay Bhambri:

Fundamentally, what was referred there is, as you see, there is a new brightened scheme for the end users, which is bundled. You can pay X amount of rupees and take the combined services of voice, data, SMS, etc. What we were doing was we have been trying to enter

that bundled with RBT service into it so that we can look at that as a new market segment for our services. So, that is basically what we were referring to as "sessions".

Jinesh Seth: Yeah. So when you said large operators, now there are only three operators left, so?

Sanjay Bhambri: So if you were asking what the specific operator was, I would leave that from a NDA standpoint, but it would be one of the largest operators in India.

Jinesh Seth: Okay. So potentially what does it mean in terms of what kind of target market are we looking at?

Sanjay Bhambri: It is not the target. So all the people who are moving away from the regular telecom wallet and taking a bundled service from operator like what Jio offers with that bundled service we would be in a position to give them RBT service. That is what it means.

Jinesh Seth: And so it is the operator who is marketing a bundled service will be part of that bundle?

Sanjay Bhambri: Exactly.

Jinesh Seth: And so anyway do you have like any number of subscribers that are already offering for bundle or what is the target market for that operator, without giving the name at least can we have some kind of a size or the scope?

Sanjay Bhambri: So this is a little early. So, what I can tell you is that we have tried and experimented and put this in a bundle; there is traction coming there. And, as we move forward, once its material, we will obviously keep updating you.

Jinesh Seth: So can we assume that India revenue has bottomed out? Or there is still room to go up?

Sanjay Bhambri: Fundamentally, we are a subset of the whole ecosystem. And, as you see, most of the operators in India basically dropped their revenues by early double-digit. We were able to hold it to a lower single-digit and as we would be riding on the India ecosystem, I will have to look at that and then answer to this. But we are trying to reduce the impact from what typically the operators are doing.

Jinesh Seth: Okay. And on the overall revenue, I think F. C. mentioned that, you know, you are looking at adding some 5 million dollars. Can you just elaborate on overall revenue saying that right now we are in the

region of about 160 crores a quarter, is this sort of a bottom end and how do we see this growing without serious guidance but some potential on what is happening?

Sanjay Bhambri:

So F. C. referred to the last one year of refocus on doing sales across the globe. Obviously, as you know, telecom sales take a few quarters but results have started coming in. The amount of deals done are over \$5 million that is what F.C. said. Obviously, all those are revenues which are going to get materialized in the coming financial year atleast, if not more, which would mean that if they are going to add that revenues, the revenues should look on the north side.

Jinesh Seth:

So, Praveen, the question is that if it is \$5 million revenue what does it mean for the operating leverage?

Praveen Kumar:

So next year if you see our cost structures, depending on whether we do the content or not; if we are doing a content, which should have a good gross margin of around 50-60%. Again, this depends on the product. And if you are not doing the content, of course, the revenue share will be slightly lower to that extent. And some of these deals also require that we put the manpower for running the operations etc. Definitely, there will be margins flowing to the bottom line, but it will be higher than the current margins that we have on our P&L today. So, if our current overall P&L is at 10% EBITDA margins, the margins from these deals should be much higher on a standalone basis.

But, again, the other thing to note is on any deal depending on the scale, the margins in the first one or two quarters will be lower and then it will ramp up and it will reach a peak in the second year of the lifecycle of that contract. That is also something that we should keep in mind.

Jinesh Seth:

Just a general question. Now that marketing in the US is on hold, which was one of the reasons why, you know, the cash distribution was put under question mark. Now, if there is no use for cash, will you guys consider doing a buyback?

François-Charles:

So, on that question, next quarter is Q4 year end and that is exactly where we actually take the decisions. So if you do not mind, I will postpone it to the next call, but it is something we are considering. Keep in mind also that, while we were keeping some cash for the investment in OnMo-USA, we still have other projects on the table that are of significance here. So that is something we will be sharing with you in the next quarters.

- Jinesh Seth:** One more general question, I mean, this is more like a sort of a vision and mission question. Given the different products and the environment the company has gone through, as of now, are you still looking at doubling your revenue in, let's say, three years or something?
- François-Charles:** In three years or you said in three years or in one-year? In three years? Okay.
- Jinesh Seth:** Yes.
- François-Charles:** Yes. But in my view again, I don't remember if we actually said the word double revenue in three years, Praveen, have we said that before?
- Praveen Kumar:** Yes.
- François-Charles:** All right, Okay.
- Jinesh Seth:** Okay. So I am just saying are you still holding on to that view?
- François-Charles:** My objective is that we will be in that direction. I don't want to give a forward statement on that side, but clearly every opportunity that we are looking at is to grow the company and have a real impact and not to have minimal impact. So we have a lot of projects on the table and challenge remains how we actually get this project into closure, some of them will not work, some of them will work.
- Participant:** But, let us say, in terms of the new segment that you are very bullish on was the mobile entertainment?
- François-Charles:** Yes. I believe there is a lot of growth potential on the mobile entertainment.
- Jinesh Seth:** So, let us say, what kind of potential that market has for us?
- François-Charles:** Well, I prefer to be very specific, on a product-to-product basis, so if you don't mind, I would postpone that to the next quarters where we announce the new product. And in that direction, we can also have a good sense of what we are talking about depending on each product line.
- Jinesh Seth:** Okay. Great. Thanks.
- François-Charles:** Thank you.

- Moderator:** Thanks for your question. I will repeat. Participants, to ask a question, you may please press "0" and then "1". Once again, participants, to ask a question, you may please press "0" and then "1". We have a question from Prakash, individual investor. Your line is unmuted.
- Prakash:** Thank you for taking my question. Just two questions, firstly, the projects that you have in hand what is the kind of utilization of cash that you expect from those projects and what kind of revenues do you expect from those projects? And, secondly, for almost specifically you had a comment that your marketing spends may go up from the estimated \$5 million a year, if you could give us an indication of what numbers they go up to and what kind of numbers you can do in terms of customer acquisition because, again, your initial targets were from around 50 million customers of Sprint you will acquire a million customers?
- François-Charles:** Yeah. Just to address this specific point, I mean, it is very clear for us right now that the customer acquisition does not make any financial sense. And just to recap what I said, in the US market, there is this confusion between ring tone and ring back tone and the fact that OnMobile has only Sprint customers in the market which makes it very difficult for us to be able to target only Sprint-based customers and when we combine all those factors, the actual paying subscriber numbers what we end up with, doesn't make any sense to put even one dollar on marketing. So right now that's the reason for stopping all marketing and not planning to spend additional money till we refocus the product, with a more complete offering in the US that will have a very good financial output and that makes sense for us to restart this marketing. Ignacio, if you want to add anything here?
- Ignacio Martin Velasco:** No. Nothing else. And on the absolute question of the 5 million, those are going to come from mobile entertainment and again next quarter we will be updating the complete services of the deals which we are closing this year. So I hope that answers your question.
- Prakash:** And in terms of the other products that you have in the pipeline if you could give a flavor of capital commitments versus potential revenues?
- François-Charles:** I would need to explain the service to be able to do that. So, if you don't mind, not that I want to postpone this to next quarter in every call, but on this one, I need to be very clear on the product what we are talking about, the risk profile and the upside on it.

Prakash: No. The reason I am asking the question is because generically speaking there is a level of disappointment in investors for two or three reasons. There is a lack of visibility and revenues basically are continuing to fall, capital is staying unutilized in the balance sheet and there are a range of new investment opportunities for which the capital is being withheld where again the visibility is not very clear. So we accept your generic statement saying that you could potentially grow to two times just current size in 3 or 4 years, which is good, but there are no specifics to back it.

François-Charles: Just on the cash and I agree with you, at least the cash position is growing not decreasing. And I agree with you, we have been working on many projects and we did not announce anything so far very clearly. That is why I thought it was important on this call to actually mention the number of actual sale (deal) that we did for the next year. In the last 9 months, we have been really stretching the team on signing new sales (deals) and we did have new sales (deals). I would not have actually given the number, but because I thought it is important that investors know at least what we are talking about as minimum sales for next year. Currently, we are in a situation where we have signed 5 million of new business and this business is growing. That is an indication. Now, I agree it is a low growth but still, this is growing. Not everything what we signed up will have an impact next quarter, as you know, it takes a lot of deployment time. We will be able to see the impact in the next financial year that starts April 1st. It is at least \$5 million more of business and we will see what we can announce within the next quarter, so.

Prakash: Very well, sir. Thank you so much and all the best. Thank you.

François-Charles: Thank you.

Moderator: Next, we have Aditya, private investor. Your line is unmuted.

Aditya: Hey, guys. My question is on your management team. Can you hear me? Hello?

Sanjay Bhambri: Yeah. We can hear you.

Aditya: Okay. So actually sales people, right, your software has been degrowing for years now and I do not see any of your sales people being fired. And, as a company, I am really confused is this the startup which is like a million dollar company or a 200-million dollar company because there is no guidance, there is no clear visibility in terms of what is your matrix, what is your success criteria. And I do not know this company looks like 50% share, right, they are just into content and your IP spend time there is no speed, there is no unique

engineering involved in your products, there are similar products in your market, so it is really confusing. I don't know it is very difficult to understand this company and the transparency the management has in this company, right, because frankly in any other company. I have worked for at least 10 companies; we will be fired on day one if we are not doing our top line. And I see that your sales people are getting promoted on top of that, so this is really confusing. So will you just answer that, F.C., for us?

Ignacio Martin Velasco:

Ignacio here. Just for your first point. Actually, we have changed completely the management in the regions of Europe and LatAm with two other executive levels. We have refreshed the profiles with a new skill set much more focused on these developments and actually we are noticing that in the day-to-day business and also in the pipeline that we are having. As we are all working to have the best talent within us and we are seeing that in the business as F.C. previously mentioned. And for us, again, as a company it is essential to have talented people and we are completely focused on new customer acquisition. So, even in regions like Europe we do not want to stay where we are, but the right talent to deliver the challenges we have here. Not just with that, I would say actually we need skill set, but also profiles that can give us in terms of all product lines growth, not just focusing our initial RBT business.

Aditya:

The other thing is I am very worried, right, you people are just into music and you do not want to expand. Now, for me I see some synergies to Telesystems, but I am really confused like why don't you want to expand to other service lines and content cost like operator-wise I see in India you are profitable, other regions you are losing money and you are not growing top line, there's no clear matrix, let's say a profit is not a matrix, maybe, consumers are. But I manage a server for a bank where we handle for India almost 100 million customers and that is not a matrix only to say that my product is very superb because I handle 100 million of volume, right? In today's Big Data where you can handle like trillions of people together. So I do really not understand what your key matrix is. ONMO was one matrix, which could have been your own matrix because obviously it is your brand, but managing third party data and other things and calling it your customer I really do not know what does that mean. Again really sorry. But I've invested almost like 20% of my lifetime savings into this company and I don't see it is going anywhere and I just see that the management is just killing time every quarter and saying that output will be given next quarter and there is lack of ownership from anyone.

François-Charles:

So let me handle this question on two fronts. First one I want to come back on management, we have a new CMO that joined the

company which is important on the product side, because you are talking about strategy and all this, so we have a CMO that's Laith Murad, who was actually VP marketing at Yahoo! for three years. So we have somebody who has experience in understanding data and takes matrix and the takes product positioning in that space he is coming from the US, so that's a good addition to the team in the last 6 weeks. We have also a new GM in the US who is based out of Miami, Rafael, so that is a good addition too. Aside from these changes, we said that we have a new Director, very experienced, Borja Gomez in Europe. Changing a lot on that front and I think with this we can address the product, your issue about product strategy and exactly understanding more matrix. You will see some changes in the coming quarters. Now, again, and I do not to repeat what I said in the past quarters, but it is a fact. The ONMO project, if you look at the growth where the growth is coming today, the growth actually is coming in Middle East and Africa, the team in Middle East and Africa have done a great job, we see a lot of new contracts coming up, we see the sales are up on that region. We will see some upside on LatAm too, and to be really frank which you aware we don't see a growth right now and it's an important point, It is in India, India has been going down and we have put a lot of focus in India on the ONMO plan which took more time and then taking more time to be launched. So it's good that we tested the ONMO plan in the US, but, and I am the first one looking forward to that launch in India and so far, there is a whole team that's focused on that front and honestly we didn't deliver any new sales in India. And, back on your comment on giving more matrix to investor, I agree with you, we are always a bit shy because as a public company to share the information means it may go to our competitors. Honestly, in the coming quarters we have to start giving out more matrix and that is something that we will work on to make sure that we can share with you more information on that side. I hope that answers your question.

Aditya:

So thanks a lot for the answers. I will just put one thing, okay, a lot of people have put our livelihood into your company and I know you have a lot of money to sponsor and take lot of risk but we don't. So I will just request you let's pull out and fire lot of people, senior people, because they are not doing their job and if you frankly talk to me, I do private equity, I do everything, but this company I will not even give you a valuation which is even one third of what is existing as of today. The management is very very shallow and we really need to pull our socks up, I have had very high hopes and I really hope that you really understand the pitch people are giving for you. So I just hope that you can sync this together for us. Thanks a lot.

- François-Charles:** Thank you.
- Moderator:** I will repeat participants. To ask a question, you may please press "0" and "1".
- Praveen Kumar:** Harpreet, if there are no questions, then we can end the call.
- Moderator:** Sir, there is no further indication.
- Praveen Kumar:** Okay. Thank you all for joining the call today. We will be back with more updates and possibly useful updates by the next quarter. Thank you.
- François-Charles:** Thank you.
- Sanjay Bhambri:** Thank you.
- Ignacio Martin Velasco:** Thank you.
- Moderator:** Thank you so much, speakers, for addressing the session. Thank you, participants, for joining in. That does conclude our conference call for today. You may all disconnect now. Thank you and have a pleasant day.