



LYCOS INTERNET LIMITED

Q2 FY2016-2017 INVESTOR CONFERENCE CALL

Transcript**Conference Call of LYCOS INTERNET LIMITED**

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Presentation Session

Moderator: Good afternoon, ladies and gentlemen. My name is Anila and I will be the moderator for this conference. Welcome to the LYCOS investor conference call. The duration for this call will be for 45 Minutes. For the duration of the presentation all participants will be in the listen-only mode. After the presentation question and answer session will be conducted for the participants. I would now like to handover the floor to Mr. Rajesh, who handles the Investor Relations. Thank you and over to you sir.

Rajesh: Thank you Anila. Good evening everyone. Thanks for coming today on a Saturday afternoon for our conference call. I welcome you all today to announce Q2 FY16-17 results. Today we have Chairman and Managing Director, Mr. Suresh Reddy and Mr. Ramesh Reddy who is our Executive Director and Group CFO and we have YSR who is our Chief Financial Officer. Before we go to the conference I would like to mention that during the conference call Certain Statements in this release reflecting our future growth prospects are forward – looking statements which involve a number of risks and uncertainties that could cause result to differ materially from those in such forwarding looking statements. The risks and uncertainties relating to these statements include but are not limited to risks and uncertainties with respect to fluctuation in earnings, our ability to manage growth, intense competition in online advertising including these factors which may affect our cost advantage, cost of resources and introduction of regulations that might impact the prospects, our ability to successfully complete the planned projects, general economic conditions affecting our industry. The company does not undertake to update any forward looking statements that may be made from time to time by or on behalf of the company.

Now, I would like to hand over the conference to Mr. Y. Srinivas Rao who will talk about our financial statements. Thank you, sir. Over to you.

Y. Srinivas Rao: Thank you, Rajesh. Good afternoon, ladies and gentlemen. It is a pleasure to speak to you all. This quarter we had very good growth across geographies. Our performance in all parameters improved. The consolidated revenue for quarter two of financial year 2016 and 2017 was rupees Rs. 588.52 crores, an increase of 10.66% quarter-on-quarter and 4.15% year-on-year. EBITDA for quarter two of financial year 2016-17 was Rs 180.7 crores, an increase of 12.33% on quarter-on-quarter. And PAT for Q2 of FY 2016 -2017 was Rs 106.2 crores, an increase of 12.58% quarter-on-quarter 0.99% year-on-year. Digital has been a significant driver of growth across all verticals. Our ability to bring together our domain expertise, deep technology capabilities and unique understanding of

the customer's business context to create digital solution and helping them to transform their business.

When you come to segment wise, revenue from digital marketing segment for quarter two of FY201-2017 was Rs 473 crores, an increase of 11.91% quarter on quarter and an increase of 3.23% on year-on-year. Profit before tax from digital marketing segment for quarter two of 2016-2017 was Rs 152.57 crores, an increase of 9.4% on quarter-on-quarter and decrease of 6.01% year on year. On another segment this revenue from software development segment for quarter two of financial year 2016-2017 was Rs 115 crores, an increase of 5.8% on quarter-on-quarter, an increase of 8.08% on year-on-year.

Now, I come to the other areas. I believe there have been queries regarding account receivables. Now I will explain in more detail in this regard. When we come to the receivables we are happy to inform you, that our receivable in digital segment has been reduced to less than 100 days and on consolidated basis total receivables are reduced to 118 days. Out of the total receivables of Rs 714 crores digital is Rs 481 crores. Now with this I want to hand over the phone to Mr. Ramesh Reddy, our Executive Director, Finance.

Ramesh Reddy: Good afternoon and thank you for joining in this call and sharing the results. As mentioned, the results have been good and the growth has been positive in all areas and we are also making progress on various other fronts and, of course, in terms of the results that you have seen we have published the IND AS results for the stand-alone, which has been progressing because of standard application and it has been progressing well and we've also been in parallel working on all the subsidiaries, working with all subsidiaries to get the details and we are preparing the statements and updating them as per IND AS standards and we should be able to publish them at the end of the year and you will get a clear consolidated picture, which is also positive at this stage and things are moving as per plan.

As you are all aware IND AS is a big transition for all companies and especially for an organization that has multi locations, multi jurisdictions, multiple country financing, accounting standard, so there is always an extra effort that is required to complete these in a timely manner and we have been doing this and we have taken all the support that is required both from the various experts internally as well as support from KPMG to make sure that we're doing all these things getting done properly and the key areas as you would have seen in the IND AS versus IGAAP stand-alone, some of the points that you see are basically base of the way IND AS expects the treatment to be done vis-à-vis IGAAP. For example, earlier traditionally the company used to charge the forex fluctuation, quarter on quarter to the reserves whereas as per the IND AS statements we have not doing – charged that to the P&L. So that shows as a variance when we see the previous result compared to the current result.

Similarly there are certain other notional items that come in as expenditure items in IND AS, which were hitherto not there in IGAAP. For example, there is an expected credit loss that needs to be provided for, which is again a notional expenditure and actually characterizes in terms of a certain actuarial way of calculating probabilistically what kind of

credit risk that is presented and we need to provide for that. While it's not an actual expenditure, but then it impacts the P&L. So these kinds of standards and these things, which are, of course, better in terms of the new standards that are coming up give better visibility to the investors and also the shareholders; however, the migration requires effort to insure that each and every line item is properly classified and completed and which is what we have been endeavoring to do continuously.

So other than these in terms of the financial results since already the numbers are available with you and already explained by Srinivas Rao I will forward the call and then we can and address certain other points that may be of interest to the shareholders. Thank you.

Suresh Reddy: Okay. Thank you, Ramesh. First of all, thank you all for joining this call on a Saturday. I really appreciate. We are very happy to report superb results. We've seen the contributions from various teams, we've made some changes at the personnel level across the company and we have seen the impact of that. It took some time for all these pieces to start blending in and one of the really powerful changes that have impacted and are beginning to show nice results with respect to Brightcom. We have put together a specific team to go after certain section of our market and we brought in Gali who is spearheading the entire effort of branding that product and entering the market across the world and this has been extremely powerful and successful for us and especially as this whole programmatic and video advertising area has picked up.

I think last numbers that have been out we're already talking about 31% of the digital market is heading towards programmatic, which is fantastic and we feel good that we identified that and we moved quickly in this area and so that is one part. The second part is having clarity on LYCOS Media. We had one of the board members, Vijay Kancharla, help out Ed Noel this time in terms of fundamentally on some technology issues that they have been facing and we're working on few things and Ed Noel also really pushed a lot of new agendas, new areas within LYCOS Media and we have started to see some of the really good results from that and third big change is taking the help of Ramesh to come on board. It relieves both myself and Mr. Y.S. Rao in terms of handling a lot of people on the finance and global finance part of the business, so that has also helped us bring more clarity. So these are the personnel changes that have given us really good changes and really good impact on the results this time and that's why we're very pleased about the results that has come up this time.

Coming to the actual business itself, as you are all aware we have three major areas that we work in. One is our digital advertising space where the big chunk of it comes from Brightcom, which is a wholly owned subsidiary of LYCOS and the second part is we have LYCOS Media under which we have a whole slew of properties and these are all including LYCOS the search engine, LYCOS Mail, Tripod, Angelfire, Gamesville and an entire – we have close to 900 domains that we own. We have about 18 different intellectual property patents that we own, so all that comes under the LYCOS Media and the third part is the LYCOS Life part, which is right now being driven by Brad Cohen and we have been doing a lot of testing and there's a lot of new competition that has come in, so we are trying to navigate this space.

The first part, Brightcom, I would come to the technical aspects, improvements we have done on the technical aspects of the business, our product Compass, which was a part of Ybrant Digital and now part of Brightcom, has gone through various iterations and various market feedback to become the robust product it is today. It's got the entire programmatic part now part of Compass. It has a full ad server capabilities, what I mean by that is it can run an entire campaign towards various parts of media, whether it is video search, banner or any other form of media that's going to come in the future or people want to change different formats, it's extremely solid, robust solutions that we have. And then some of the techniques that have been market driven are, of course, real-time bidding, which has been there for the last five to six years, it's very much part of this solution and that also has the ability to allow other SSPs to directly interface into the system and some of the new features that we have added are tag integration, I won't get into the technicalities of it, but it's a very important enhancement to the product and then we have header bidding, which is, again, a huge area, which you'll hear more about as quarters to go there is more business going on to header bidding.

And then with all these different things, Compass has been nominated into one of the finalist, I think there were four finalists at this Best Ad Tech Tools at Cynopsis Model D Awards, so our product, Compass, is among of the top four finalists and we're waiting for the final result on that and we're happy to announce and, proud of the team for continuously improving the product to this level and to be the top four in the world itself very important achievement we believe.

Coming to the other formats that we've added, we've added some new ad formats, they're called anchored ads and this is again addressing a new need coming from the advertisers. They're saying, you know, as you're scrolling down, the ads are moving away, so viewability has become a problem, so to address the viewability, this new format gives you 70%-100% viewability. So we're very happy that this is starting to get us more business because advertisers are getting this as part of the solution.

And then at the personal level our Israeli office has moved to a new office location under the effective leadership of Jacob Nizri and we've actually circulated a video on facebook, you can see it on our page.

Coming to LYCOS Media, here we've added a couple of deals. Significant deals that I would like to talk about is we're trying to bring out a sports app, which is focused upon a view of somebody's interest on things that they're interested in or on players they're interested in. This is primarily US centric at this point. We have partnered with Breaking Data, which actually helps get information about your favorite players and favorite team and personalize it to what you like. For example, let's take a cricket example, if you like Virat Kohli and if you like, Mahendra Singh Dhoni, and you want to follow them whether they are playing the national game, whether they are playing IPL or they are playing something else, any county, you can have all the consolidated view in one place, and this is just a mapping with respect to our Indian players, but it can be done in all sports. So all these can be put into one view and so this is a very interesting solution and this has been deployed with respect to the US market. We are now looking to get the data together for other markets and other sports I

talked about. So we are very proud to announce that product and we assume, we believe that this will be a very interesting growth in terms of our mobile part of our media development there. And second part I want to share with you today is, this has been a very nice holiday season for us, at LYCOS Media, there has been a lot of interest, a lot of usage increase. When we say traffic increase, lot of users have started to come, use various parts of our offering, whether it is search, whether it is e-mail, whether it is Tripod, so there has been a general spike in the traffic that is coming to the media across the offering that we have. That's a very important thing and this will all result into higher revenue and higher usage for the business. From the business perspective, from the investor perspective, this is a great news, which we would like to share.

The third part is about LYCOS Life, we have been continuously working on the product. We have not pushed it too hard for lot of reasons, including competition and others, we are waiting to bring out the right product the next generation of the product, and that is in the works. But in the meanwhile we want to report the social campaigns have been working very well. We have also started to see various awards in this space, which is very pleasant and surprising. IoT India Mag selected us in the Top 10 fitness band. And given the fact that we have done very little marketing, very little push, the fact that the product quality and the software quality that runs the product so well, it actually makes us very proud. I am sure this will start converting into revenue, larger revenues that we can draw from this particular product.

With that I will stop and then we can open up for any questions. And just one quick point I want to make on the corporate side. There has been a lot of speculation, lot of discussion on a few points and I will let people ask questions, but fundamentally, with respect to our Daum court case that we have had, you know with the chapter 11 filing, we are not in a position to talk too much, because it is subjudice and we don't want to impact the outcome of that, so we have been extremely sensitive and careful. Yes, that has caused us to not come out too often into the market and talk about it, because we want that to be completed and then we will be in a position to go back to our old way of, you know, giving more and more updates. And number two is, I think, there have also been questions regarding our ownership of Brightcom; very clearly it is 100% owned, I don't know why that question cropped up. So, I will open up for any questions at this point.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

Rajesh: Before going to calls we have few e-mail questions, which I will be posing to our panel. One of them was the status of Daum settlement, I believe, Mr. Suresh has handled that, and status of Brightcom, that has also been handled by Mr. Suresh. The other question is the status of the strategic review by KPMG, I think, Mr. Ramesh can answer.

Ramesh: Yeah, I had briefly covered this point. Essentially, of course, as I said, the review is happening and we are taking support across all the areas and all the functional segmental areas, as well as the subsidiaries data. However, for the purpose of publishing, we have completed as required the standalone and that is what we have published. So, that's the status. And we will be completing the final consolidated results by the end of the year and that's when it will be published, and that is as per, for this year we have this permission for doing this activity, and we are using this opportunity to complete these activities in time, in a timely and effective manner. You would like to add any points, Suresh?

Suresh Reddy: Yeah, sure. Just to add some perspective to the conversation there. What has happened this year, there has been an Accounting Standard change from last year to this year for all the listed companies to follow. What they used to follow was I-GAAP, which is Indian GAAP, Generally Accepted Accounting Policies, now we have moved to the IND-AS, so with that shift there are few heads that have to change, the way we recognize a few pieces have to change, it is a pretty involved process, right from borrowing cost to revenue recognition to how tangible assets are handled, how inventory is evaluated, there are so many pieces that go with it. So hence the government has given time, this entire year, for us to convert piece by piece and the last quarter we did quarterly, because it is not just this quarter we have to do, we have to do the corresponding quarter of last year. So this quarter the entire half year plus the balance sheet at the standalone level has been done, and simultaneously we made lot of progress with respect to all the subsidiaries on all these areas. Given the fact that we have 18 different pieces across the world legally and then all those pieces have to be converted, and then consolidated the right way. We have taken the help of KPMG to help us through this. And with our objective of going forward and doing more with KPMG and it has been a very nice association with KPMG. That is the core, if I may take a step back of what Ramesh is talking about.

Rajesh: Yeah, we have a question on receivable days. I believe either Mr. Ramesh or Mr. Y Srinivas can answer this.

Y. Srinivas Rao: Yeah. I already explained that we are happy to inform to all, overall receivables have been reduced from 730 crores to 713 crores during this half year and the overall receivables are less than 118 days, we have achieved the improvement of 20% compared to the previous year. And in case of recent receivables, it is less than 100 days. Last year it was about 115 days, now we are able to reduce substantially. Going forward we want to reduce, we want to restrict it to 90 days. So we hope we are going to achieve that.

Suresh Reddy: Yeah, just add to what Mr. Y Srinivasan talked about, the objective is to improve free cash flow of the business. So which will help us to that has been one of the big areas that we have been trying to work. The shorter the receivable time, the more money is in the bank, and hence it moves the business better and it gives us opportunity to grow the business faster. So this has been one of the four areas and so we have been tracking this very effectively and continuously reducing it over the past few quarters, and it has been extremely effective for us.

Moderator: Sir, I have a caller with question, can I release?

Rajesh: Yes, please.

Moderator: The question is from K. S. Reddy, individual investor. Please go ahead.

K. S. Reddy: Congratulations for the very good result, the fantastic results.

Suresh Reddy: Thank you sir.

K. S. Reddy: Sir, kindly tell me what this 321 crores represents or what other current assets represents?

Y. Srinivas Rao: It is a format given by the SEBI, so we publish the data as per the format. But we will reply in detail into your mail.

K. S. Reddy: Yeah, thank you.

Moderator: Thank you sir. As of now, no caller with questions sir.

Rajesh: I have one email question on update of IoT products.

Suresh Reddy: Yeah, I think we touched upon the IoT products, like I told you, we are waiting for our next version to come out and we are going a little slow in terms of getting the next release of it, because we want to understand how the whole piece, all the different pieces are going to work with respect to competition and how the brand itself is being impacted. We have been seeing some of the competitions have been facing some challenges with respect to just doing fitness band alone. So we are trying to be, digest all these before we come out with our next product. .

Moderator: Yes sir. We have a next question from Mr. Narayan, individual investor. Please go ahead.

Narayan: Yeah, hi everyone. Thanks for the wonderful result. Congratulations. Question on mysms, it has been a long time we have not heard anything on that.

Suresh Reddy: The question regarding your mysms, there has been challenges, I am trying to get that altogether, mainly because of multi country challenges, in terms of how we can deal to the owners of mysms and so that has been stalled right now. There has not been much progress on the deal itself, because we are trying to figure out the most effective way of finishing the timeline. So, it is still there, but it has not been completed. That is the position there.

Narayan: Okay, does that mean that we are going forward, or they going to pull back from the deal?

Suresh Reddy: At this point it depends upon how hard it is from a regulatory perspective, because we have to go through FIPB and a bunch of things and how much patience the sellers have. So it depends on all those. So, from our perspective we are working diligently to get to that point.

Narayan: Another question is, like, on the software division, is the company doing very good on the software division and how painful, which is the most painful division that is actually affecting your balance sheet and all? Is there anything that you can throw a light on?

Suresh Reddy: You cannot say that there is any painful, see I am in business to do business, how can I call one of my divisions painful. That being said, some divisions move faster than others, some divisions produce the cash, some divisions are in great shape, some divisions are in mature stage, it all depends on what stage which business is. Now coming to the software part, we have, as a company decided to focus more on digital, growing the digital aspect of it. We do have a lot of relationships that continue to come. We do have lot of business that continues to grow. There is nothing painful about the software business, except the fact that, that there is a team of people who focus on it and so that is the reason for us to divide it.

Narayan: Yes. Thank You.

Moderator: There are no further questions.

Suresh Reddy: Okay, let's close it. And please, if anybody else wants to, please mail the questions, we will ensure that all your questions are answered. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's

conference call service. You may all disconnect your lines now. Thank you and have a good weekend everyone.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.