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Q4 FY2018 Investor's Conference Call May 16, 2018

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

Moderator: Ladies and gentlemen, a very good afternoon. I am Sourodip, your moderator of this call. Thank you for standing by and welcome to the OnMobile Q4 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, President East Region; Mr. Ignacio Martin Velasco, President West Region; and Mr. Ganesh Murthy, Chief Financial Officer of OnMobile 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 earning 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. I would like to now hand over the conference to Mr. F. C. Thank you and over to you, sir.

François-Charles: Thank you. Thanks everybody for joining this call. Let me start with two new product announcements before I pass it on to Ganesh to review the quarter.

First of all, I am very happy to announce that we are launching our new products in games called ONMO Games. We see a lot of traction with this product in the market. We have pitched it to many

operators. And I am happy to let you know that we have actually launched the service last month with Telefonica in Spain with very good feedback from the customer. So, we are quite happy on that front, and we believe that the games market has huge opportunity globally. So, that is one sector that we are really investing in. That is the first thing that I want to mention.

Second, one is that we are working in launching a new regional video service with local language content. That will be launched in the coming weeks in India, Bangladesh and Middle East. That is really a new service that we see with a lot of traction for having a local content that is really packaged up on a level that is more adapted to people to have specific content that they want on their language. So, that is something that we will see growing in the coming quarters, and that will be promoted outside of India also. That will be launched in the coming weeks.

Now, I would like Ganesh to review the quarter. Thanks, Ganesh.

Ganesh Murthy:

Thank you. Good evening, everyone. Let me start by taking you through the key highlights for Q4. Overall, from a revenue perspective, our quarter four revenue declined on a quarter-on-quarter basis by 6%. We faced some headwinds due to lower marketing spend by the telecom operators in Europe. We also had a full impact of the multi-step confirmation policy that was implemented by a major operator in Bangladesh in the previous quarters.

India revenue also declined on a quarter-on-quarter basis because of fierce competition in the telecom area, which adversely impacted our business. Essentially, the way we look at it, Q4 was burdened with the full negative effect of revenue decline and revenue losses of the previous quarters and did not have any positive impact from the new deals that we have signed in this quarter. We now believe that these revenue headwinds are behind us and that the future quarters will reflect the results of investments that we have been making on innovation and new business models.

During quarter four, we concluded several new deals both in India as well as in international locations. In India, we successfully launched the ring-back tones bundling services with a major operator and initial results are very positive in terms of higher revenue from this service. We are planning to replicate this model with another major operator and we have closed the commercials and we plan to launch what we call bundling services in June 2018.

In Bangladesh, we launched RBT, that is ring back tune services with a major operator in the previous quarter, and as we exit Q4 we have witnessed a doubling of the subscriber base and a 30% increase in revenue. We have also concluded agreements with telecom operators in some of the Latin American countries to introduce what we refer to as the AYCE model, that is All You Can Eat. We expect revenue increases in the coming quarters through the introduction of this model.

This fourth quarter, we also launched RBT services in Digicel in Haiti, which is OnMobile's first deployment in the Caribbean region. We believe that there is good scope to expand in this region.

Moving from revenue to the cost areas, despite the quarter-on-quarter revenue decline, we were successful in maintaining the gross margin percentage at more or less the same level as the last quarter. A notable achievement in this quarter was a 10% reduction in manpower cost achieved through process improvements and automation. Manpower cost for this quarter also includes a one-time expense of INR 17 million as a part of process improvement cost, and if we exclude the same manpower cost has actually reduced 12% on a quarter-on-quarter basis. So, definitely you can see that there is significant control on manpower cost, which is one of our major cost items.

Operating expenses have increased slightly by 6% on a quarter-on-quarter basis mainly due to one-time expenditure on sales and strategy initiatives. EBITDA for quarter four was 124 million rupees, which is 8.3% of revenue. After removing the one-time items in this quarter, EBITDA increases to 151 million, which is 10.2% of revenue and is in line with Q3. Profit after tax for the quarter is INR 43 million, which is a 64% growth over the last quarter. This has been achieved through higher return on investments and lowering of the effective tax rate for the quarter to 49%.

Another highlight for the quarter is a steady increase in the cash and cash equivalents. We have ended the year with a high of INR 3,052 million or 46.8 million USD of cash and cash equivalents. Another improvement this quarter is our reduction in DSO from 140 days in Q3 to 129 days in Q4, and this has been achieved through rigorous follow-up of receivables and collection of unpaid debts. This has contributed to an incremental cash flow of 4 million dollars for the quarter.

With this, we complete the discussion of the financial performance for the quarter. We now would like to open the call for questions from the audience. Over to you, moderator.

- Moderator:** Thank you very much, sir. Ladies and gentlemen, should you wish to ask any question, please press "0", "1" on your telephone keypad, and wait for your name to be announced.
- We have our first question from Mr. Elesh Gopani from Gopani Securities. The line is unmuted. Please go ahead.
- Elesh Gopani:** I wanted to ask, what is the update of Sprint that we have signed with US operator.
- Ignacio Martin Velasco:** We explained in the last investor call. We finalized our trial of B2C. I am saying that after the trial we have cancelled the launch of ONMO B2C RBT service in the States.
- Elesh Gopani:** We have cancelled the contract with Sprint?
- Ignacio Martin Velasco:** We continue to be partners with Sprint. We are working on a B2B business. But the project of ONMO B2C was discontinued because the matrix was not the one we wanted for that market. So, we are reshaping the service. B2C part is now stopped. Now we are now reshaping the B2B service with Sprint and that is going on. We are trying to revamp together the revenue line.
- Elesh Gopani:** I did not hear the answer properly. Can somebody else reply because his voice is not clear.
- François-Charles:** Can you hear me good?
- Elesh Gopani:** Yes.
- François-Charles:** Perfect. Just to be clear, we announced last quarter that we stopped the ONMO project in Sprint in the US. We still have Sprint as a B2B customer with the Sprint music plus service, which is going on well and we are looking at other ways to increase the revenues in the US with Sprint and other operators. But the project that we had on ONMO service live in the US, we decide to stop that initiative. We had some very good learnings on how we could leverage that service in India with the base that we have. As you remember, we had no base in the US where we had to do some marketing to start from zero. It was very different from what we are aiming to do in India starting with millions of subscribers.
- Elesh Gopani:** What is the quarter four revenue in the US?
- Ganesh Murthy:** We have around 300,000 dollars.

- Elesh Gopani:** In the last conference call, you told that we were going to add 5 million dollars revenue addition in the next quarter. So, I don't think it has come?
- François-Charles:** That is not for the US. That is for the global market.
- Elesh Gopani:** I don't think it has come.
- François-Charles:** No, no. It has not come. Those are contracts that we signed last year and revenues from these contracts will be starting in this coming year. Now in Q4, none of these revenues are recognized in the Q4 results.
- Elesh Gopani:** Can you give some guidance of revenue of FY19?
- Ganesh Murthy:** Let me explain this. I think what was stated in the last conference call was there were new deals that were signed which will be generating 5 million dollars of incremental revenue in the year ending 31st March 2019. So, we are track for that. That is progressing well. In this business, it takes a few months for us to deploy the platform and deploy the required content and deploy the servers in the telecom premises before we can start generating revenue.
- Elesh Gopani:** Can you give some guidance for the financial year 2018-19?
- Ganesh Murthy:** We don't provide any guidance. It is our policy, but we are obviously eager to grow our revenue and to expand the business.
- Elesh Gopani:** How much we can expect?
- Ganesh Murthy:** Sorry, we don't provide any specific guidance.
- Elesh Gopani:** Okay. Can you give some update on buyback of the share? Now we have stopped ONMO project in the US. Previously, we were keeping the money for marketing. So, now we don't need the money for marketing, can you give some update on buyback of shares? What is your plan on this regard?
- Ganesh Murthy:** There is no plan right now on any buyback of any shares. As I mentioned in the call, we have 46.8 million dollars as on 31st of March. We have our strategy on how to utilize this cash. A part of it will go as payment of dividend of course. But there are other requirements if we have to expand the business. ONMO is not the only item that we were investing in. There are other places that we are investing, for instance the new deals that we discussed. So, there are various requirements. The Board has to discuss the

consolidated cash strategy and then if buyback is a part of that strategy, they will announce it at a suitable time.

Elesh Gopani:

Okay. Thanks.

Moderator:

Thank you very much, Mr. Gopani. Ladies and gentlemen, I repeat, should you wish to ask any question, please press "0", "1" on your telephone keypad.

François-Charles:

Okay. If there is no further question, I will do the closing comment. Do you have any other question or not?

Moderator:

Not at this point in time.

François-Charles:

Good. Let us close on this. So, thanks to all. Just to finalize it. And I just want to be clear. In Q4, we have had all the downsides of the year, but we have no upside. All the new contracts that we signed and announced in the last quarter should generate revenue in Q1, so that is the first thing. And for me, Q4 is really not an indication of what we see in the coming year.

Second, I remain very positive on our product strategy for games and video. I just want to clarify on this. I see video growing on that side globally and lots of traction.

Finally, we have a great footprint on ring-back tones, and ONMO plan is still slated for this year. So, for me, I feel positive on that side. I just want to conclude on this.

Thank you very much, and we will speak to you in the next call. Thank you.

Moderator:

Thank you very much, sir. I would like to thank all the panel members and the participants who have joined us today. Hope you all spent a useful time. That does conclude the investor relations call for today. Wish you all a great day ahead.