

InfoVista SA

Q2 FY07 Conference Call Script

Welcome to InfoVista's second quarter results conference call. At this time, all participants have been placed in listen-only mode. Later, we'll conduct a question and answer session, for which we will provide instructions at that time. As a reminder, today's call is being recorded and may not be reproduced without written permission from InfoVista.

And now, I would like to hand over to Karena D'Arcy, Investor Relations Manager. Ms. D'Arcy please proceed...

Karena D'Arcy, Investor Relations Manager

Hello and thank you for joining us for a discussion of InfoVista's second quarter results. With me on the call today are Gad Tobaly, our Chief Executive Officer and Philippe Ozanian our Chief Financial Officer. Philippe will begin with a review of our financial results for the second quarter of the fiscal year 2007. He will then hand off to Gad who will discuss the key operational highlights for the quarter before discussing the outlook for the Company. We will then open the floor to your questions.

Before we begin, please be reminded that the comments made on this call and the responses to your questions may contain forward looking information. These statements are subject to risks and uncertainty as described in our press release and other filings with the SEC. You can find our press release and presentation materials at infovista.com.

Now I will turn the call over to Philippe. Philippe, please go ahead.

Philippe Ozanian, Chief Financial Officer

Thank you Karena and good morning and afternoon everyone.

Our second quarter came in at the top of our guidance with solid growth at the top line and improvement at the bottom line. Let me first comment on our top line numbers before walking you through the operating expenses and some balance sheet items.

As you can see on slide 3, Q2 total revenues were **11.3 million euros**, up **14 per cent** over the same period last year. Revenue from licenses grew by **8 per cent** to **6.1 million euros** while revenues from services went up **22 percent** to **5.2 million euros** as compared to the same quarter last year. If we delve deeper into the numbers, you will see that our maintenance activity produced **12 per cent** year-on-year growth while our professional service activities increased by **71 per cent**, which is a remarkable accomplishment. You should not expect the rate of growth in services to continue in the coming quarters as we had very strong professional services revenues in Q3 and Q4 quarters last year.

Turning to slide 4, you will notice that our two main regions have done well in Q2. In Europe, total revenue increased to **5.8 million euros** representing **15 per cent** growth over the same period last year. In that region, we booked an approximate one million euro deal with one of our most loyal customer; Cable and Wireless. We also had repeat orders with large service providers such as SFR, France telecom, Telefonica. In Q2, Europe accounted for **51 per cent** of total revenue.

In America, we also achieved double-digit growth with total revenues reaching **4.6 million euros**. This represents a **17 per cent** growth over the same period last year. America accounted for **41 per cent** of the total. In that region, we have signed a multi year deal with Microsoft for a total amount of **15 million US dollars**. A portion of this deal was recognized in the December quarter. The rest will be recognized as payments become due over the next 2 and a half years. In Asia, total revenues decreased **6 per cent** year on year.

Let's now review the major lines of our income statement on slide 5. Gross margin gained one point against the same quarter of last year, reaching **82 per cent**. This is due to the continued improvement of the gross margin generated by our service activities. This performance gives us the confidence that we will achieve our objective of a gross margin of **81 per cent** for the full fiscal year.

Operating Expenses increased to **8.9 million euros** in Q2. This represents almost **0.9 million euros** of additional expenses. The increase was primarily due to additional personnel expenses at all operating lines for €0.6 million. We also had **0.3 million euros** of additional costs expensed in the G&A line and this is related to consulting fees associated to the implementation of the section 404 of Sarbanes Oxley act, some legal fees related to the completion of the Microsoft deal, and a provision for a bad debt. Going forward, we will continue to see significant consulting fees relating to Sarbanes Oxley and as such, G&A expenses for the coming 2 quarters should come close to 2 million euros per quarter.

Total headcount increased slightly to **223 employees** at the end of December as compared to **214 employees** a year ago.

To conclude on our income statement, net results improved significantly at **0.5 million euros**. This represents a net margin of **5 percent** as compared to less than **1 percent** a year ago.

Finally on slide 6, let me comment a little on some balance sheet items.

First, our DSO stood at **90 days** at the end of December 31. Although our DSO improved on a sequential basis, we believe we should be at a better rate at the end of March as a few large receivables that were due during the holiday season were pushed to early January.

Second, our cash, cash equivalent and marketable securities ended at **33.5 million euros**. This is a slight decrease as compared to the previous quarter for the reasons I have just explained.

Now, allow me to turn over this call to Gad. Gad please?

Gad Tobaly

Thank you Philippe. We've won several meaningful deals in Q2 both in the Service Provider and Enterprise area. Let me start with the Service Providers.

First, many communication service providers are transforming their networks and operations to seize new business opportunities and reduce their cost of operations. And as these top

initiatives are being announced, we are right there with them, winning major next generation network (or NGN) OSS projects globally. In Q2 for example, one of these projects is with Cable & Wireless UK who is overhauling their network properties with the aim to rationalize their networks and deliver advanced IP services like voice over IP. We were selected to help them monitor and manage the performance of their networks.

Secondly, our Carrier Ethernet solution remains critical to service providers and keeps winning a string of very competitive deals against HP, CA and IBM. Such was the case at SFR in France, Bell Aliant in Canada, Telemar in Brazil and Telekom Malaysia. With Carrier Ethernet in full swing, we expect further growth in this area.

Another key highlight for Q2 is the large number of mobile operators across the world, that have selected InfoVista for their networks and data center operations. Examples include Telkomsel and XL com, the two leading mobile operators in Indonesia, Cricket Communications in the USA and T-Mobile in Germany, amongst others.

On the residential front, we are witnessing an emerging interest in managing the access network both from cable operators and DSL's. On the strength of our solutions, we clinched a few deals with large operators in France and in Latin America. We believe that these early wins are reflective of the market's OSS maturity level in the broadband arena and will give us the impetus needed to strengthen our triple play network offering from an end-to-end standpoint.

On the business data service side, we experienced a significant win with Telefonica Argentina. This project is part of a global initiative headed up by Telefonica LATAM to homogenize its entire network infrastructure throughout South America. We were selected as the performance management solution of choice and will be deployed in every country in the region that has a central coordination out of Brazil.

On the enterprise side, you've already heard about our win with Microsoft in Q2. Like many of the world's leading organizations, Microsoft is undergoing an evolution of its IT environment to leverage the opportunities offered by server consolidation, network convergence and unified

communications. Microsoft selected our software as an important tool in this transformation. This is a significant milestone and validation of InfoVista's solutions for global organizations.

And also on the Enterprise front, recent win includes Moscow City Government where both Network and Server solutions will be used integrated with EMC Smarts fault management product.

Finally, before I go on with our outlook, I'd like to touch on a project that we've embarked on during Q2. As a software company, R&D is our backbone and to ensure that we continue producing top-notch solutions for our customers, we intend to double our R&D in the next few years and improve our competitiveness and effectiveness. As such, we've signed a multi-year offshore development contract with Ness Technologies, a global provider of IT service and solution to establish an R&D center for us in Bangalore, India. InfoVista's Extended Development Center in Bangalore will provide development, maintenance and testing services and is expected to help the Company speed time-to-market and reduce development costs.

To conclude, let me give you our outlook for the coming quarter. We are targeting total revenue for Q3 to be in the range of 10.5 million euros to 11 million euros. At the bottom line level our objective is to remain positive in Q3.

Now Philippe and I would be pleased to take your comments and questions. Operator, would you please explain the procedures to our audience. Thank you...

Following Q&A Session

Thank you operator. We're delivering on expectations as we're implementing the growth strategy discussed with you at the beginning of this fiscal year, based on expansion of our reach in the Service provider business, growth in the Enterprise market, and strengthening our service play.

Thank you for joining us today and for your continued interest in InfoVista. As always, we are always available to answer your questions, so feel free to contact any one of us.

