

*Welcome to InfoVista's conference call announcing the financial results for its first quarter for fiscal year 2012. Joining us today on the call are Philippe Ozanian, InfoVista's CEO and David Forlizzi, CFO. 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. I'd like to hand over the call now to Mr Ozanian. Please go ahead.*

### **Philippe Ozanian**

Thank you and welcome everyone.

We had a slow start to our fiscal year. Total revenues for Q1 were **9.6 million euros** as compared to **10.9 million euros** a year ago, which represents a **12 percent** year-on-year decline. On a constant dollar basis, total revenues would have been **10.2 million euros** compared to **10.9 million euros** or a decline of **6 percent**.

This disappointing topline result can be mainly attributed to delays we've seen in purchasing decisions, especially in EMEA. Within the first 2 weeks of October, we received approximately **350 thousand euros** in software product orders that were expected to be received in Q1. Service revenues were also negatively affected by the delay in customer decisions. As such, **300 thousand euros** of services revenues is expected to slip into Q2.

With this past quarter results, let me now share with you where we currently stand against our fiscal year objective. During this past July, we presented a top line objective for the year of **47 to 49 million euros**, representing an annual growth of **3 to 7 percent**. We also communicated our operating income objective of **5.2 to 6.2 million euros** or **25 to 50 percent** year on year growth. Although I still believe that our annual objectives are achievable, we currently see ourselves ending at the low end of these ranges given the weak first quarter.

Q2 should be a step in the right direction to achieving these annual objectives. We expect moderate revenue growth in Q2 as compared to last year, however we anticipate operating income to grow by **25 percent** or more year on year.

Our outlook is based on several encouraging factors. First, our software pipeline remains healthy and shows a double-digit growth year on year. The underlying demand for our

solutions remains strong and our pipeline reflect that trend. As an example, we are seeing increased demand for our mobile offering for Ethernet backhaul optimization and control. In Q1, we secured four opportunities in this domain, which clearly demonstrates our competitive position. We are poised to take advantage of this trend and capture more business going forward. Second, we are starting to see positive signs from our partner, Cisco. In Q1, we closed a few deals with Cisco, including one sizable order of around **300 thousand dollars** in software alone. Last, we are also getting traction in Latam where we expect our business to grow in the coming quarters.

We are also convinced that we must grow our sales presence. With only 15 sales reps, we cannot seize all the opportunities that are available to InfoVista. As such, we will increase our sales presence with modest investments in almost all of our regions. We will start first with LATAM, which has been a solid revenue contributor every quarter over the past 12 months. Next, we will be adding new sales talent in the Americas and in EMEA, most likely towards the end of our fiscal year. However, despite this increase in headcount, our sales and marketing costs will remain flat year-on-year as we have reduced managerial costs along with other non-personnel costs.

Before I hand the call over to David, I would like to share an important upcoming enhancement to our industry leading platform, VistaFoundation that will be released for general availability in Q3. This 4.3 release will triple the scalability of our already powerful system, and will introduce many new capabilities. We will provide more details on the important release in the next 2 to 3 months. Now, it is time for David to comment on our financial performance. Dave?

### **David Forlizzi**

Thank you Philippe. And good morning and afternoon to everyone.

Please allow me to walk you through the financial details for our first quarter ended September 30, 2011. Total revenues were **9.6 million euros** for the first quarter, as compared to **10.9 million euros** for the comparable quarter last year. Software product revenues stood at **3.1 million euros** for the quarter, compared to **4.1 million euros** for the same quarter a year ago. Continued delays in customer purchase decisions dampened software product revenues for the quarter. Maintenance service revenues were **5.4 million euros** for the first quarter, compared to **5.5 million euros**. This decline is mainly due to the weaker US dollar, as compared to a year ago, since maintenance

revenues would have increased by **3 percent** at a constant dollar basis. Other service revenues came in at **1.2 million euros** for the quarter, as compared to **1.3 million euros** for the first quarter last year.

When viewed from a regional perspective, EMEA revenues were **5.0 million euros**, representing **52 percent** of total revenues, for the first quarter, as compared to **5.6 million euros** a year ago. EMEA revenues were impacted by continued customer decisions delays for both licenses and services. America's revenues were **3.2 million euros** or **34 percent** of total revenues for the first quarter, compared to **3.8 million euros** of revenues for the same quarter last year. Asia Pacific revenues were **1.4 million euros** and **1.5 million euros**, respectively for the first quarter fiscal year 2012 and 2011. The decline of both Americas and Asian revenues is mainly due to the significantly weaker US dollar during the first quarter, as compared to a year ago.

Moving down the P&L, gross margin came in at **74.4 percent** of revenues for the first quarter, as compared to **75.7 percent** a year ago. The **1.3 percent** decline comes from a higher mix of services revenues in the first quarter this year, which carry lower gross margins when compared to software product revenues. Historically, first quarter gross margins are at their lowest quarterly level for a fiscal year, as a result of this defavorable mix. Nonetheless, gross margins should return to their historical level to approximately **77-78 percent** for the entire fiscal year.

In regards to operating costs, sales and marketing costs were **3.7 million euros** for the quarter, as compared to **4 million euros** a year ago. Although sales and marketing costs represented **39 percent of revenues** for the quarter, we continue to target **33 to 34 percent**, since both increased revenues and a more optimized cost structure is anticipated for the next three quarters. As communicated on our last earnings call, we have implemented the necessary changes to eliminate sales management layers to provide significant reductions in our sales cost run rate for the remainder of this fiscal year. Lastly, the first quarter sales and marketing costs includes approximately **330 thousand euros** of one-time severance costs related to this organizational change.

Research and developments costs were **1.8 million euros** for the first quarter or **18 percent** of total revenues, which is compared to **2.3 million euros** a year ago. This decrease can be attributed to two main reasons. First, our first quarter cost structure has benefited from the elimination of R&D management positions at the end of last fiscal year. Second, an additional **0.3 million euros** of capitalized software costs were recorded

in the quarter, as compared to a year ago. Higher capitalization costs came from the concentration of prerelease activities for two core products: VistaFoundation and Service Data Manager. Since this quarter's trend of capitalization is not expected to continue, R&D costs should fall around **18 to 19 percent** for the remainder of the fiscal year.

Lastly, general and administrative costs remained relatively flat at **1.4 million euros** for the first quarter, representing **14 percent** of total revenues.

At the operating margin level, InfoVista recorded **183 thousand euros** of operating income for the quarter, compared to **443 thousand** a year ago. Although the first quarter of this fiscal year is lower as compared to a year ago, our first quarter profitability demonstrates how we have significantly optimized our cost structure as compared to a year ago. Therefore, incremental revenues are expected to strongly benefit the operating income line throughout the remainder of the fiscal year.

We recorded a financial gain for the first quarter for **175 thousand euros**, compared to a financial loss of **95 thousand euros** last year. Significant swings, especially with the US dollar against the Euro and Singapore or Australian dollar, led to such results.

So to sum things up for the P&L, we recorded a net profit of **297 thousand euros** for the first quarter, as compared to a net profit of **257 thousand euros** last year.

Moving to our balance sheet, cash, cash equivalents, and short term deposits stood at **25 million euros** as compared to **25.7 million euros** at the end of the last quarter. This cash decrease resulted from a traditionally weak period of cash collections and certain June receivables that do not become due until our second quarter. No incremental credit risk has been identified so bad debt expenses remain very minimal. During the first quarter, our DSO was **114 days** as compared to **111 days** a year ago.

Well that about covers it, now Philippe and I will be pleased to take any questions that you may have. Operator, can you please provide the instructions for the Q&A session?

### **After the Q&A session - Philippe**

Thank you Operator. And thank you everyone for attending this call and your continued support for InfoVista.