INFOMEDIA™

Company: Infomedia Ltd: CEO, Jonathan Rubinsztein & CFO, Richard Leon
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Start of Transcript

Operator: Thank you for standing by and welcome to the Infomedia Ltd FY21 Half Year Investor Presentation. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. If you do wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Jonathan Rubinsztein, CEO. Thank you, please go ahead.

Jonathan Rubinsztein: Thank you, operator. Good morning, everyone. Thank you for joining us this morning to run through Infomedia's financial results for the first half of 2021 financial year. Joining me on the call this morning is Richard Leon, Infomedia's CFO. The agenda for this morning is set out in slide 3. I'll cover the highlights of the year before handing over to Richard to run through the financial results in detail. I'll then provide some further commentary on the market generally and our strategic priorities for the remainder of the year before opening the line for questions.

Turing in to slide 5. For those of who are new to the Infomedia story, we are a SaaS platform provider to the global automotive industry and one of very few global providers offering a full-service continuum across parts, service and data. We provide digital solutions for an industry facing significant transformation. Our Next Gen SaaS platform integrates solutions for our customers and creates cross-sell opportunities to new segments. Over 95% of our revenue is recurring and more that 80% of Infomedia's revenue is generated from outside of Australia. We support more than 180,000 users in 186 countries.

On slide 6, we cover the highlights for the period. Top line remains steady. The result was affected by COVID-related delays and the complexities in converting new sales to revenue. NPAT increased 3%. The first half of 2021 financial year will be remembered for the successful rollout of Next Gen SaaS platform to our existing customers. We have received very positive feedback from our customers which was a validation of our customer-centric design philosophy. We also won a number of exciting contracts through this period including Ford Europe and Audi Australia and a number of sales through our leveraged sales partnership model in the United States.

On slide 7, I'd like to take a moment to take about why this period was significant in our evolution. With the introduction and rollout of Next Gen SaaS platform, Infomedia has taken a step change. We have moved from selling single point solutions to our customers to offering them a digital, integrated platform that increases productivity and profits for dealers and drives customer retention and loyalty for automakers globally. I'll come back to this later. I will now discuss some regional highlights.

In APAC there was solid growth with 8% increase in revenue on the prior period despite the restrictions. We have strong momentum in this region and are capitalising on our competitive differentiation in our aftersales end-to-end offering. We are seeing very good evidence of the value the platform provides and many cross-cell opportunities resulting in broader and deeper customer relationships. There is an excellent pipeline and also good backlog of solid work which is being converted into revenue albeit at a slower pace than we would like.

Europe and North America were more heavily impacted by ongoing lockdowns and restrictions. In EMEA, revenue held steady, but lower trading activities resulted in delayed decisions. The lockdowns have been tough personally for the team. However, we have managed this carefully and the team is performing well despite these difficulties. The Ford Europe Next Gen contract win was extremely significant. The rollout is scheduled to commence later in the second half of this financial year. We are also seeing very good data and insight opportunities advancing on the strength of our global relationships and some smaller wins. We are focused on building and scaling these out quickly.

In the Americas, the performance was impacted mainly due to delays in physically accessing dealers across the country. The response to Next Gen platform has been positive. We have been focused on leveraged partnership sales strategy and this has opened up new segments in the automotive ecosystem and this provides us reach into segments like collision and mechanical through sales coverage and support. At this point, I would like to hand over to Richard to walk through the results in more detail.

Richard Leon: Thank you, Jonathan. Good morning, everyone. Beginning on slide 9. At Infomedia we are proud of our people and their collective efforts to achieve the business outcomes during a period of global uncertainty. By way of a quick recap, Infomedia took swift action to protect our staff and support our customers in the face of the global crisis. We continued to focus on our growth strategy and successfully delivered and rolled out our Next Gen SaaS platform. Whilst this sentiment may not be visibly apparent in our financial results, we delivered a first half that was consistent with our expectations, reflecting a steady top line, a modest profit growth and remained cash generative.

During this peculiar period, and not yet reflected in our financials, we continued to win new multi-year contracts around the world across our core solutions as well as secure some wins that represents green shoots into those new customer segments of our expanded TAM. This is what we shared at our AGM in November last year. For example, the recently announced strategic win of Ford Europe validated sales potential of our Next Gen SaaS platform. Other more modest contract wins, notably partnership deals in Americas as Jonathan touched on, open further opportunities to not only pursue a leverage sales model, but also to help us penetrate other customer segments such as the mechanical space.

On top of this, we are seeing some exciting developments in data provisioning and are actively engaging in multiple high-level customer discussions off the back of closing early wins in data. To give some context for some of these multi-year contracts that we have signed, many of these have a ramp up, but from a total annual recurring revenue, for some of these contracts signed would represent about 6% to 7% of our recurring revenue. As a reminder, these were signed during a quite challenging period and these exclude opportunities that we are currently still working on.

This traction is strategically important as it demonstrates the sales potential of our new integrated SaaS platform and our ability to leverage existing core products and data to expand our reach into other customer segments. This is exciting, though the challenge for us during the past year with travel restrictions and lockdowns particularly in the Northern Hemisphere, is that our typical cadence of converting sales to revenue was abnormally hampered leading to a flat line result when compared to the previous corresponding period or pcp.

If I may draw your attention to the bar graph on page 9 titled Group revenue mix. Notably, we experienced a 36% drop in one-time revenue in our first half compared to pcp. One-time revenue often includes the likes of development revenue and crucially installation and training revenue that subsequently leads to monthly recurring revenue or MRR. As you may be aware, with a recurring subscription model such as ours, the compounding impact of MRR over a 6 month or a 12-month period contributes a far more substantial amount to our top line that earlier we can start to revenue. Despite this large drop in one-time revenue and delay in timing of the associated MRR, the bar graph also illustrates the continued growth in subscription revenue that affirms our competitive position in the global auto software market.

As Jonathan mentioned, we focused on delivering our Next Gen SaaS Platform during the period and we accomplished this by maintaining development intensity. You'll see in footnote (a) to the table our investment in product development has been steady over the last three halves and necessary to achieve this outstanding result. With the Next Gen global rollout completed and also receiving positive feedback from our users around the world, our focus over the next few months is to stay close to our customers and monitor performance diligently to ensure users continue to have a positive experience and uninterrupted access to out Next Gen SaaS Platform.

As we support this effort, we do not expect to see a significant reduction to our cost base in the near-term. This is particularly important as during this crucial period of settling in the Next Gen rollout on a massive global scale, we also take stock and use this time to critically review how best to rebalance our development capacity and capability. A delicate and challenging task to balance firstly delivering to contract closed during 2020, but also consider how best to fulfil recent wins and to further monetise emerging opportunities in the new customer segments of our expanded addressable market.

A similar footnote has been attached to our important metric of cash EBITDA. For those who may be new to the Infomedia journey, cash EBITDA is our key performance metric as we believe this offers a more transparent view of our underlying activity by accounting for those cash costs that are capitalised. The purpose of showing this footnote is to reflect the outcome of a very peculiar and paradoxical year rather than just a 6-month period under review. A year buoyed by our proven ability to close new multi-year contracts yet on the other hand, hampered by abnormal and uncharacteristic lag in converting new sales to revenue.

Given a reported flat revenue, the decline in cash EBITDA in the period is defined by the sustained investment intensity that culminated in the successful global delivery and rollout of our Next Gen SaaS Platform. Our business fundamentals remain strong delivering an approximate $10 million in cash EBITDA under testing circumstances.

Onto slide 10 and looking into the top line results by product and geography. From what we can determine today with emerging optimism linked with the rollout of COVID vaccines, many of our recent contract wins are likely to start to revenue late in the second half of this financial year. While this may moderate our second half top line growth, we expect to exit FY21 with a stronger MMR base that will deliver growth in FY22. From a product perspective, this is continued to deliver solid growth whereas parts did see a decrease.

A combination of factors contributed to this decline specifically a delay in one-time revenue as already alluded to, some modest temporary financial concessions granted to several customers who faced severe business challenges and the unfavourable impact of currency fluctuations due to the strengthening of the Aussie dollar. Generally, our strong business and competitive position enable us to generate an overall net new MMR each period. In other words, new or incremental revenue exceed any [churn] or reduction.

In the case of parts standalone, there were some months in the first half where we experienced a negative net MMR. Contextually, this is more a reflection of the timing and delivery of contract wins. For example, the recent sizeable Ford Europe multi-year contract win will start to revenue later in second half and with this new recurring revenue will average out and exceed any negative net MMR. For completeness other revenue, the decrease around $300,000 was driven by a timing lag, again in one-time revenue and a contract renegotiation that has since been renewed after the reporting date.

As for the regions, despite the externalities already described and the associated impact on our short-term financial results, EMEA performed well to remain to flat on pcp. Asia Pacific was our standout region with revenue increasing 8% pcp driven by strong growth across parts, services and data. For the Americas, a region that currently operates under an endorsed dealer-to-dealer sales model, requires a steady cadence of closing sales followed by prompt installation and training in order to derive recurring revenue growth. While we see sales momentum returning to normal, and the partnerships contracts we announced have yet to ramp, the confluence of lockdowns and travel restrictions severely hindered the Americas ability to generate both MMR and one-time revenue during this period.

The next slide on page 11. This emphasises the cash generative nature of our business and demonstrates that even under a global crisis, our cash from operations improved when compared to pcp. Getting closer to our customers has also helped us improve our collections momentum. What is equally pleasing, is to see our customers' confidence returning and our DSO, or days sales outstanding, reducing to below historical averages. For us, this is a leading indicator that our customers value and rely on our mission critical SaaS solutions.

In closing, we achieved a solid result in a challenging environment, delivered and rolled out our Next Gen SaaS Platform to all our global customers, continued to win new multi-year contracts across the world and across our core products as well as secured several green shoots contracts within the new customer segments of our expanded addressable market and this is very exciting. While abnormal events have hampered our ability to convert sales into revenue during this period, we anticipate incremental revenue from contract wins to ramp up later in the second half. At this stage, I'd like to return to Jonathan.

Jonathan Rubinsztein: Thank you, Richard. If we can move to slide 13, I'd like to revisit the five key trends that we discussed earlier at the AGM. We see driving disruption in the industry we support. Digital transformation in the automotive industry has accelerated in the time of COVID and we believe Infomedia is very well positioned with our integrated platform to meet the increasing demand we see as a result.

If we can just consider electric vehicles. Global automakers have absolutely accelerated plans to introduce EV models mainly as a result of ESG pressures. This will result in a much more complicated carpark of electric vehicles, internal combustion vehicles and hybrid vehicles. These, we believe, will require the need for more sophisticated technology solutions to manage the resultant aftersales complexities.

Dealership evolution. Lockdowns and travel restrictions have had a significant impact on dealers in all regions. Dealers are looking for ways to become more efficient using digital solutions to replace often manual processes and create better customer experience. Vehicle ownership structures. This is one that we believe has actually been delayed and we believe the delays to alternate ownership structures like [unclear] service will be delayed, and this is really evident in the [unclear] of the second-hand car market.

Connected cars. Automakers are increasingly looking for solutions to communicate with the customer with solutions that aggregate and connect disparate data silos] to predict customer needs and also provide a seamless multichannel customer experience. Digitisation of the customer journey. Manufacturers are looking for end-t-end solutions.

Operator: Excuse me, this is the conference administrator. We have just lost connection with the main speaker line. Please hold the line while we regain connection.

Jonathan Rubinsztein: Good morning. I do apologise. We appear to have had some technical difficulties, but due to our agility, we've managed to solve this on a different line. Again, I do apologise, and I will continue if I might from slide 13. I'd like to revisit the five key trends that we discussed at the AGM. We see driving disruption in the industry we support. Digital transformation in the automotive industry has accelerated in the time of COVID and we believe Infomedia is very well positioned with our integrated platform to meet the increasing demand we see coming as a result.

I might just go quickly through the headings. The Electric vehicles. We believe since COVID, global automakers have accelerated plans to introduce EV models mainly as a result of ESG pressures. This will result in a much more complicated carpark of EV, internal combustion and hybrid vehicles needing more sophisticated technology solutions to manage the resultant aftersales complexities.

The dealership evolution. Lockdowns and travel restrictions have had a significant impact on dealers in all regions. Dealers are looking for ways to become more efficient using digital solutions to replace often manual processes and create better customer experiences. Vehicle ownership structures. We believe there have been delays to alternate ownership structures like car as a service models, and this is really evident in the rise of second-hand car markets.

If we look at connected cars, automakers are increasingly looking for solutions to communicate with the customer with solutions that aggregate and connect disparate data silos to predict customer needs and also provide a seamless multichannel customer experience. Then finally the digitisation of the customer journey. Manufacturers are looking for end-to-end, consistent global solutions to manage their customer journeys. We believe COVID has put more pressure to provide global, integrated solutions from manufacturer to the national sales companies to the dealer network.

We will continue to execute our strategy at a time when our industry is looking for digital solutions. We have introduced a digital SaaS platform that creates efficiency by replacing manual processes, improving productivity and customer experience and enabling the manufacturers and dealers to more easily access markets to increase their aftersales. If we move to slide 14.

The Next Gen SaaS Platform underpins our growth with integrated solutions that meet increasingly digital demand and cross sale opportunities. I've spoken about a number of our accomplishments already. I would like to highlight our focus during this year to support our customers and more importantly our employees, in particular those in Europe, America and Melbourne. There are a lot of people who have worked extremely hard this year and continue to work very hard and I'm very proud of the team. We have recently appointed a new global head of people and culture, Natalie, and Natalie is tasked with ensuring that the team has the support and the preparedness to deliver the opportunities we see in front of us.

In terms of M&A, we have been keen to get something over the line and it is easy to get impatient. However, we have to do the right deal and we are still focused on a very disciplined approach to M&A. From a strategy perspective, nothing has changed. It has been slower than we had hoped, however we are staying focused on deals that are close to the core. If we move to slide 15, a review of our SaaS Platform, Next Gen.

As I mentioned previously, Next Gen marks a step change in Infomedia's evolution. We have transitioned from selling separate point solutions to an innovative, integrated SaaS Platform. Next Gen opens up new opportunities for our customers at a time when they are looking for digital solutions to drive growth and improve customer experiences. The Next Gen Platform also provides an opportunity for automakers and dealers to access new segments more easily.

On slide 16 I'd like to talk briefly about how Infomedia is using data and our solutions to expand into new markets and segments. As we have said, our customers are wanting more integrated solutions with more functionality to access these new segments. We have spoken about the US partnerships. In these scenarios, at the moment, Infomedia is providing menu and service and repair data to innovative partners that are growing in their own right. As a result, Infomedia has access through these partners to new segments and new customers.

In another example, we are supporting our customer – a large Asian auto manufacturer – by providing data to facilitate more accurate parts sales in the collision repair assistance. In Europe, we have an opportunity as a result of changing legislation to support our automaker customers by providing a solution that helps them manage and distribute their data to different stakeholders in the retail automotive ecosystem. This is a very exciting time for Infomedia. We are one of few global players with parts, service and VIN-specific data accessible via SaaS Platform to an industry that remains largely manual and faces significant digital transformation.

If we move to slide 17. In summary, we are proud of our business and our people who have proved to be very resilient during a challenging period. The highlight being the successful rollout of our Next Gen SaaS Platform. As flagged at our AGM, delivery of the Next Gen SaaS Platform is strategically important and key to our future success to enable us to leverage our full products and data into other segments of the global automotive software market. We are very excited with the traction achieved to date. While we all await the outcome of a post vaccine world, we are energised and optimistic having observed signs of renewed customer confidence.

With the critical rollout of our Next Gen SaaS Platform behind us, together with a strong balance sheet and cash in the bank, we are in a position of strength to pursue organic and inorganic growth. We anticipate the return to consistent, sustained growth buoyed by recent strategic wins across all regions and remain committed to an aspirational target of doubling revenue to $200 million by 2025.

At this point, I'd like to open the line to questions and again, I do apologise the technical mishap. Thank you, operator.

Operator: Thank you. If you do wish to ask a question, please press the star key then one on your telephone and wait for your name to be announced. If you wish to cancel your request, please the star key then two. If you are on a speaker phone, please pick up the handset to ask a question. Thank you, your first question is from Quinn Pierson from Credit Suisse. Go ahead, thank you.

Quinn Pierson: (Credit Suisse, Analyst) Hi, good morning. Thanks for the time. I guess firstly, I think one for you Richard. I just wanted to clarify what I heard earlier. In terms of the new contract wins that are awaiting implementation to generate revenue, did I hear correctly that, I guess, the aggregate of them would be a 6% to 7% uplift on your monthly recurring revenue? Just to confirm what you had said earlier, please.

Richard Leon: Yes, hi Quinn. That's correct once they are fully ramped up so that 6% to 7% is the cumulative annual recurring revenue amount.

Quinn Pierson: That's helpful. How do we think about the slope? It sounds like towards the tail end of this financial year will see a bit of a decent uplift. How much of that 6% to 7% do you think could be ready to be annualised by the end of this financial year?

Richard Leon: By the end of this financial year?

Quinn Pierson: Correct.

Richard Leon: Probably very little because a lot of these are being ramped up and delivered as we speak so they'll probably start towards the end of the second half and many of them will ramp up fully in FY22 and some may drag into FY23. I think the takeaway, Quinn, is that we're closing multi-year contracts of 6% to 7% and these are the ones that we have actually signed. There's other one's that we are actively working on.

Quinn Pierson: That's helpful. Secondly from me, I was hoping for a little bit of a discussion around that $200 million revenue target by 2025. I guess, if you could just help us bridge ourselves in that doubling from here in terms of – I guess, firstly, is that all an organic growth number and how to think about the expected slope of that growth into that. Is it more back half weighted, is it pretty consistent? Any building blocks towards that $200 million would be helpful, please.

Richard Leon: Yes. The COVID interruption has probably made it slightly harder, but our conviction is through the Next Gen SaaS Platform. We think this will be an accelerator for us. I think your other question is, it will be a combination of organic and inorganic and as far as the ramp, I think this is where we need to be careful about thinking too linear about this. There will be years when we would see a massive acceleration whether it be to an acquisition or to through a penetration into the new segments of that expanded TAM. I think our message here is that we have confidence that we have the solution and the strategic discussions with our customers to deliver to this.

Quinn Pierson: That's helpful. Just to clarify, could you give us an idea of that $200 million by 2025 about how much of that we should be thinking coming from M&A. In other words, how much of that could you do organically?

Richard Leon: No, I think the way we think about it is that we're going to drive our organic revenue now that we've opened up into new segments or we're seeing the green shoots as we call it into new segments. No, we don't want to mislead by fixing ourselves to a number. We're going to drive the organic as aggressively as we can so right now, we'd prefer not to state how we think the mix might be.

Quinn Pierson: That's helpful. Lastly from me, again a bit of a clarification. If I heard you earlier correctly, development costs won't go down in the near-term as you make sure, I guess, you'll continue keeping up with the Next Gen support. I think I heard that correctly. Do we think about the first half cost base and maybe double that to get to an annual number and then after that is there an opportunity for dollar costs to start decreasing? I guess, if you could just clarify how to think about the cost base, that would be helpful please.

Richard Leon: Sure Quinn. I think the safe play is to think doubling the first half for the full-year view. I think the question is whether the – again, maybe a paradoxical question for us is that with the Next Gen as you know we accelerated investment in that, and I think the investment in that is starting to pay dividends. Now that we're seeing these green shoots into the new segments of an expanded TAM, the challenge for us is do we pull back now when we see all these green shoots or, do we maintain and see our top line grow faster. I think that's going to be our challenge for the next 6 months and we'll probably share more come June.

Quinn Pierson: That's helpful colour. I appreciate that. Thank you.

Richard Leon: You're welcome.

Operator: Thank you. Your next question is from Elijah Mayr from CLSA. Go ahead, thank you.

Elijah Mayr: (CLSA, Analyst) Good morning, guys, and thanks for the questions. Just wanted to start with, perhaps, the US business. Revenue was down 6% year-on-year on a constant currency basis. Can you give a bit more colour around how much, I guess, was any of that due to concessions or lost customers or churn going through that business?

Richard Leon: Hey Elijah. Look, the Americas reduction was made up of a number of contributors. One is COVID concessions, the other one is the mix of MRR and non-MRR. When we compare to pcp, Americas, the last period had a significantly more amounts of MRR. When you take this contextually, witht hat endorsed dealer-to-dealer market, it really thrives on being able to generate installation and training revenue which then flows onto MRR. With the lockdowns and the travel restrictions, that severely hampered that. Now, again if we open that broader, this is where our strategy of signing these partnerships that opens the door for leveraged sales tapping into other organisations' sales force will hopefully help us through this COVID period.

Elijah Mayr: Excellent, I appreciate the colour. Then, maybe just more specifically on the COVID concessions for the USA business. Can you give us an idea of how much that contributes because I imagine that would immediately return to pre-COVID levels once restrictions roll off? Is that the best way to be thinking about it?

Richard Leon: Yes, look we haven't quantified it before, and we probably won't for a whole lot of reasons. I think maybe the way to think about it at the moment with the returning confidence through the rollout of the vaccines, we've not seen many requests so hopefully with the vaccine, in a post-vaccine world we see us returning back to normal.

Elijah Mayr: Yes, understand. Just on the contracts – and I guess this would be the Ford contract. That's meant to start ramping up from the end of the second half. What's specifically caused, I guess, the push-back in expectations? I think, previously when it was announced, you expected it to start ramping up from January. Is that just reflective of the current environment or is it you're just pushing that out for operational reasons?

Jonathan Rubinsztein: The Ford contract, there is a chunk of work for us to do and the reality is, I think there has been a slight delay in rollout. It is a significant rollout to many thousands of users across the whole of Europe and I think we're working as a team with Ford and the reality is being able to rollout in Europe at the moment is extremely difficult. Countries are locked down so that really has been – possibly we were slightly naive or aggressive on our timelines, but the lockdowns have definitely slowed that down, but we fully expect to have this rolled out by the end of this financial year – the complete rollout.

Elijah Mayr: Okay. Then just finally, on the M&A side of things. Can you also give a bit of an update maybe where you're at the moment? I mean, the difficulty in finding something appropriate for the business more around the qualities, a bit more about around the valuations. Is it around travel restrictions holding you back? Could you just give us maybe a bit more colour around that?

Jonathan Rubinsztein: Sure. We think the opportunity is still very much what we thought previously and in terms of our strategy, we think there are lots of opportunities in the M&A space. It certainly has been more difficult for us to actually execute some of the deals. Where we would typically jump on a plane and sit in front of the vendors and close out deals, we've been completely hamstrung, and we've found it extremely difficult. However, in terms of the opportunities within that space from an inorganic growth perspective, they are exactly the same. I think, in reality, the execution has been more [difficult].

Elijah Mayr: So, you've found some businesses and targets that you like, but just are being held back by the current environment…

Jonathan Rubinsztein: We have a long pipeline of opportunities at different stages of maturity, but we have, in terms of executing some of those closer, it has taken a lot longer than we had hoped.

Elijah Mayr: Right. Appreciate the colour and thanks for the questions.

Unidentified Male: Thank you, appreciate it.

Operator: Thank you. Your next question is from Tim Plumbe from UBS. Go ahead, thank you.

Tim Plumbe: (UBS, Analyst) Hi guys. A couple of my questions have been asked and apologies if you've already answered these, guys, but I jumped on a little bit late. I appreciate quite a challenging environment, particularly in the lockdowns in Europe. Jon, are you able to talk to any discussions with potential customers around the [Ndasu] part of the business please?

Jonathan Rubinsztein: Yes, good question, Tim. We have actually spent – and by the way, Tim, this is great for you to be the third caller rather than typically the first because it might make it easier for us. In terms of the Ndasu opportunities, we've actually – one of the vendors is actually in Europe and they've been there for the last four or five months driving pre-sales and extremely excited about the opportunities in Europe. We are speaking to a bunch of existing customers that we have in Australia and we've been heavily referenced in a couple of existing customers which is looking very exciting. Also, we've got some new customers that we've opened up the doors in and again, in 4 months the pipe in Europe is truly looking exciting and we are looking forward to good news in Europe in growing our Ndasu business.

Tim Plumbe: Great. Then, just the second question on the EPC side of things. Historically, we've kind of thought every three or so years, you might get one of those large contract opportunities coming through. Just wondering if you can talk to the tendering pipeline at the moment? If there's any big deals that could potentially be on the horizon?

Jonathan Rubinsztein: Sure. Look, I guess, the good thing is that Richard and I have been, I believe, in the business five years and we've closed two new EPC deals, so I think being Nissan the first one and then Ford the second. I think we are on track to maintain that momentum. In terms of – there is a shift, and I think the big shift is we are not – we would typically go head on as an EPC point solution and when I've seen an opportunity where even in the scenario that you have Next Gen now, the opportunity to start talking about [parts] or vice versa is getting much more exciting.
The level of conversation and the strategic nature of those conversations means that we are actually driving a slightly different agenda which is, let's speak to you Mr or Mrs customer about what your strategic aftersales agenda is. Then, let's figure out how we can give you a solution that is integrated, that can drive [breadth] across multiple segments. Those conversations are absolutely getting – are resonating and we are winning work based off those conversations and driving both broader relationships with our existing customers but also allowing us different entry points into new customers that we typically didn't have.

Tim Plumbe: Got it. That's helpful, thanks guys.

Operator: Thank you. Your next question is from Chris Savage from Bell Potter. Go ahead, thank you.

Chris Savage: (Bell Potter, Analyst) Thank you and good morning. Just two questions please. One for probably each of you. Jonathan, just first on the M&A targets. Can you give us any colour on the geographies where they are predominantly located and/or the segments between parts, service and data?

Jonathan Rubinsztein: Good question. At the moment the majority of the focus has been in the US and in Europe. We have, as I said, a big list and we have been – there is a funnel, but predominantly in Europe and in the US. In terms of our focus area, there is a focus on data and in our core, so where we can actually drive out either geographic strength or product strength in our core business and I think that's probably our key focus.

Chris Savage: Just a quick follow on with that with the strengthening currency. Is that helping your situation particularly in the US?

Jonathan Rubinsztein: I think the reality is the currency – I don't think it makes too much of a difference. It's really around our strategic intent and the opportunity. We are measuring the regions still in constant currency so in terms of our view – the currency – if it got to AUD$1.40 to US$1.00 maybe it would change, but I think at the moment [not really].

Chris Savage: Sure. Richard, one for you. Forgive me if I'm nit-picking a little bit, but sales and marketing up $1 million. A lot of other companies, we're seeing that sort of spend being reduced during the COVID times. Is there any particular reason for that being up or is it just currency related?

Richard Leon: Thanks for nit-picking, Chris. No, it is a good question. A bit of it is currency so a lot of the investment in sales and marketing is into both Europe and the Americas, a little bit in APAC. When you consider what we've been talking about since the AGM about the expanded TAM, about new customer segments, about us winning several green shoots in there, this is a time when as a business, we need to consider seriously how we could capture this in an accelerated form. You're right, it has gone up, but I think it's been a very carefully considered investment [here].

Chris Savage: Okay. Thank you and sorry for nit-picking.

Richard Leon: [Laughs] No problems, Chris.

Operator: Thank you. Your next question is from Naveen Patney from Evans and Partners. Go ahead, thank you.

Naveen Patney: (Evans and Partners, Analyst) Good morning, guys. Just a first question in terms of the transitions for the Next Gen EPC. As you mentioned earlier, it seems like feedback has been very positive in terms of that transition and you're largely done. I was just interested how conversations are going with upselling a number of the value-added modules within the existing customer base. How is that progressing?

Jonathan Rubinsztein: I think it is – summary, we're pretty happy with that conversation. In terms of a cadence however, it has been fairly difficult to upsell the new modules until they have the Next Gen platform. Being able to demo and show them the modules makes it a lot easier to actually up sell. We have had a number of good small wins and we do think, as we predicted, that the modules will give us a little bit of a momentum and we are seeing a little bit of momentum and I think that – but more importantly, we think that the modules differentiate ourselves in the market specifically around the ability to sell and drive new work. Again, similarly one of the reasons we think we won Ford was from an innovative perspective around actually having a differentiated product.

I'll summarise. We are getting some growth. It is slightly slower in terms of having to be able to the product in place and then particularly in some of the regions where the ability to actually have customer conversation around new sales has been slightly more difficult. However, we are seeing a bit of growth now in those areas.

Naveen Patney: Okay, great. If we were to – I mean, obviously when you last reported in August, there was a pretty tough operating market for the whole industry. It seems from looking at some of your peers that the December quarter had improved quite a bit on the September quarter. I'm just interested in how you're seeing just at a higher level, sales momentum within the business going from the September quarter to the December quarter and now into the March quarter. How is momentum going at a high level from a sales perspective?

Jonathan Rubinsztein: There has a definitely been an increase in momentum over the last – so if I go from Q1 to Q2 to Q3, there is absolutely – our ability to have a strategic conversation and that momentum has changed. We're not back to normal and it's very different in different regions also specifically in Europe where some countries are very locked down, but on the whole, there is without a doubt an increase in momentum. We are seeing that both in the conversations we're having, but also in the closed deals that we are seeing. Both being able to have the conversation, but then also the ability to make a decision and move forward, and I would say that quarter-by-quarter we're seeing a marked increase in those.

Naveen Patney: Okay, great. Just a final question. You know one of your strengths of your business is – it's 95% recurring revenues. We're at the end of February so I was just interested in why you felt you weren't – maybe you're a bit reluctant at this stage to give guidance to the market before you?

Richard Leon: Naveen, I think the hesitancy is still the somewhat unpredictability of the environment right now so whilst we're seeing positive signs and return of confidence by our customers to do deals, our ability to still go out to the dealer site and deliver is still somewhat hampered. We are seeing an opening up and I guess the hesitancy really, Naveen, is the unpredictability of the next couple of months.

Naveen Patney: Right, thanks guys.

Unidentified Company Representative: Thank you.

Operator: Thank you. Your next question is from Tim Plumbe from UBS. Go ahead, thank you.

Tim Plumbe: Hi guys, sorry just two follow up questions if that's all right. Richard, apologies. I think you spoke about this with Elijah earlier, but in terms of those temporary financial concessions, can you confirm – are they still ongoing or are they something that impacted the start of the half?

Richard Leon: It was the start of the half, Tim. They have – there is none in play right now.

Tim Plumbe: Got it. Then, second question. Just in terms of when things do open up. Is there any way that you can accelerate the rollout given the backlog of sales that you've got there and how long would that take to normalise presuming you continue to sign on new deals?

Jonathan Rubinsztein: Yes. Tim, that's a great question and I think if I can go back 5 years ago when we joined the business, there was a very long lag from some of the big enterprise sales as you remember. If you even remember how long it took for us to deliver the Nissan EPC and then if you compare that to delivering the Ford EPC. I think our ability to deliver – we'll be two or three x faster in terms of the internal dev organisation so I'm really proud of that.

In terms of how do we speed up the pipe, we've invested a lot in a whole lot of different areas. We've looked at online training, remote training and what we've realised is – and we have made that training and rollout more efficient. However, when there is a process change in a dealership, we have found it's almost impossible for us to do that remotely. We've found some efficiency gain, and we are working on lots of clever models where you might have ways to paralyse some the installation. However, when a dealership is shut, we can't get to the dealership. It's very difficult to rollout some of those areas.

I would suggest however, certainly in our APAC region, we are seeing a good increased momentum in rollout of those service solutions and we had hoped for that right after kick-off really in Q1 and a bunch of those have been delayed but we are seeing an increasing focus and a very good backlog. In terms of the US, the leveraged partner sales model is much easier because in reality we are the intel inside their application. We serve up our application and therefore they drive that delivery and so as we roll that out, I think we are less constrained by the environment and often it's their existing customer-base that they're rolling out to so not new customers and the workflow change is not that significant.

I know a slightly longer answer, but in summary my view is that we should start seeing a faster cadence in rollout and certainly the backlog we will be doing everything to drive that backlog out as quick as we can.

Tim Plumbe: Thanks, guys.

Jonathan Rubinsztein: Thank you, Tim.

Operator: Thank you. Once again, if you do with to ask a question, please press the star key then one on your telephone and wait for your name to be announced. Thank you, there are no further questions at this time. I will now hand back to Mr Rubinsztein for closing remarks.

Jonathan Rubinsztein: Thank you again for your interest and your support. Again, apologise for some Skype digital disruption in our process. However, we do again thank you for your time. Richard and I are looking forward to speaking to many of you and seeing many of you in face-to-face in the coming days. Thanks very much.

Operator: Thank you very much. That does conclude today's conference call. Thank you for attending. You may now disconnect your lines.

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