Company: Aconex Limited

Title: 1H FY17 Results

Start of Transcript

Rachel Cooper: Good morning, this is Rachel Cooper, Head of Investor Relations at Aconex. I would like to welcome you to our public teleconference and webcast on first half results for financial year 2017. With me here are Aconex Chief Executive Officer, Leigh Jasper, and Chief Financial Officer, Steve Recht.

We have released our financial results and the webcast presentation to the market. Today, Leigh will present a business overview for the half year ended 31 December 2016 and Steve will follow with a summary of our financial performance.

After that Leigh will speak to regional performance and our outlook. We will then open the floor for your questions. This webcast and Q&A session are being recorded.

Before we begin, I would like to call your attention to our important notice regarding forward-looking information and other matters related to today's discussion. Now I would like to introduce Aconex CEO, Leigh Jasper.

Leigh Jasper: Thank you, Rachel, and welcome to all investors on the call today. Steve Recht and I will run through our results. I would also like to welcome Paul Koppelman who joined us as our new CFO and started a few weeks ago. Steve will retire at the end of next week.

Overall, in the first half of FY17 we have seen considerable growth in the Company, obviously noting some performance issues, which I will discuss in detail later in the presentation. These results are in line with our FY17 outlook disclosed to the market in late January.

Revenue grew by $21.3 million or 38% to $77 million for the half. Over the last two years, revenue has more than doubled, continuing a strong growth trajectory of the Company over many years.

Taking into account the significant currency impact on revenue over the last year, the constant currency growth rate year-over-year was 45%. Most of the currency impact was from the pound but the Euro and the US dollar also decreased against the Australian dollar. This impact was $4 million on a constant currency basis for the half.

The acquisition of Conject contributed $16.8 million to the revenue growth. International growth excluding Conject was 11% or 18% on a constant currency basis. The ANZ business moderated as expected growing at 6% but following two very strong years of 25% compounding growth.

Operating contribution lifted $7.9 million or 30% to $34 million. Aconex operated a very high gross margin of 73% and we're seeing continued operating leverage as the Company scales.

The Company has positive and growing contributions across all regions. That is each region's revenue more than covers incremental expenses.

EBITDA grew $0.6 million or 9% to $7.4 million for the half. We are continuing to invest in product, sales and marketing and the Company is showing increasing leverage with general and administrative expenses decreasing as a percentage of revenue.

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It is also important to remember that Aconex has a very high fixed cost structure, so non-currency revenue variances flow straight through to EBITDA. This has obviously benefited us over the last few years, but in this year, where we saw some lower than expected revenue growth, the impact reduced our expected EBITDA.

Aconex delivered solid international revenue growth and the Company has high operating margins. Over time, each of the international regions is following the trajectory of the Australian business.

As each region grows, contribution margins increase. Of course the opportunity in each of these regions is much larger than the ANZ region.

ANZ, as mentioned before, moderated this year in line with expectations following two very strong years of growth. The Americas stepped up considerably at 20% growth rates including 30% in the US.

Asia grew rapidly at 23%. The European business, on the back of Conject, is much bigger than it was in the previous period and the Middle East has rebounded from slower growth rates last year to grow well at 14% on a constant currency basis.

I will now detail the factors that contributed to the difference to our first half revenue expectations. The first major impact was currency where there was $1 million variance to our revenue expectations.

As discussed the total currency impact over the first six months, on a constant currency basis, was significant at $4 million. $3 million of this was factored into our budget and there was a further $1 million impact from budget for the half.

Most of this impact is from the post-Brexit decline of the pound, but also on the decline of the Euro and the US dollar against the Australian dollar. In addition to the impacts of currency we saw lower than expected growth in our European business, particularly in the UK as we transitioned the Conject team to the Aconex product faster than expected which led to a short-term drop in the pipeline which has now been rebuilt.

Brexit's uncertainty also slowed decisions to move projects forward in the region. Unfortunately Conject growth was below expectations. Integration activities, while going well, have also been a distraction on the performance of the business in Europe.

In hindsight we were overly ambitious to expect to be able to grow the European business in the first year of integration. That said we do expect the European business to rebound and grow over the medium term.

In the rest of the world we have seen a number of factors impact our revenue growth. While new bookings have been aligned to our expectations, longer contract lengths are impacting short-term revenue flow across all regions.

We also saw lower than expected professional services revenue, particularly in North America. The North American business, while growing fast, had sales below our ambitious expectations.

And finally, while making up a small portion of our revenue, we also had slower than anticipated ramp up in our user-based contracts.

While these impacts are not material individually relative to overall revenue, in aggregate they reduced our revenue from an expected $83 million to $77 million for the half. As noted previously there was a further $3 million year-over-year impact from currency factored into our first half budget.

I'd like to now walk through why I'm confident in our short- and long-term growth. Firstly, Aconex is the clear number one globally. We have a market-leading customer base and a strong and growing pipeline that underpins our short-term growth.

We have a high and increasing enterprise customer base. We see this particularly in Australia but also across all of our other regions.

Our customer base includes many global leaders in our sector, both contractors and owners. We see increasing network effects as these leaders around the world influence their project teams to use the Aconex platform.

The third factor is that while there has been some softness in some of our core markets such as the UK and in the Middle East over the last 6 to 12 months, we expect that these regions will recover and the US will also grow on the back of increased infrastructure investment. At Aconex we continue to invest in our product, in our sales, marketing and customer service functions, to increase our competitive advantage in the market and drive long-term revenue growth. I'd also note that we have seen no material change in the overall competitive environment around the world but we'll continue to monitor this closely and are set to respond if for any reason this changes.

Finally, Aconex serves a very large and underpenetrated total addressable market. A multibillion-dollar opportunity and we see increasing adoption as the industry recognizes the value of digital construction.

I will now hand over to Steve to run through our financial results.

Steve Recht: Thanks, Leigh. This slide provides a high-level summary of our key financial results for the first half. As Leigh mentioned, total revenue grew 38% year-over-year reflecting both the acquisition of Conject and international growth.

On a constant currency basis, year-over-year revenue growth was 45%. Operating contribution increased 30% or $7.9 million to $34 million. Our gross profit margin remained high at 73%.

Operating expenses increased 38% to $49 million, largely as a result of the Conject acquisition as well as ongoing investment in product, sales and marketing. EBITDA from core operations increased $0.6 million or 9% to $7.4 million excluding acquisition and integration costs. For a full reconciliation of statutory results please refer to slide 31 at the end of the presentation.

Over the last five years' total revenue has grown at a compound annual rate of 33%, or excluding Conject, 25%. Revenue has more than doubled in the last two years.

For the first half of fiscal 2017, gross profit including depreciation and amortization was $56.2 million, a margin of 73%. Gross profit growth has followed a similar trend to revenue and has grown at a compound annual rate of 34% since fiscal year 2013.

Operating contributions totalled $33.8 million for the period with a compound annual growth rate of 44%. EBITDA from core operations increased 9% to $7.4 million excluding acquisition and integration costs.

As mentioned earlier, total operating expenses excluding acquisition and integration costs, depreciation and amortization, increased 38% to $49 million. The uplift was largely related to the Conject acquisition as well as the increased investment in product, engineering and development and sales and marketing.

Sales and marketing grew 35% in line with revenue growth. We continued to invest particularly in the US and Asia as we leverage the growing adoption of collaboration solutions in these underpenetrated markets.

We continued to see ongoing leverage in general and administrative expense. General and administrative expenses are now 15% of revenue, down from 16% in the first half of fiscal 2016 and 22% in the first half of fiscal 2015.

As highlighted earlier R&D cash spend in the first half of financial year 2017 increased to 22% of revenue, up from approximately 17% in the first half of fiscal 2016. The increase was largely due to expenditure on the Conject and Worksite, engineering and product development teams.

Capitalized product development as a percentage of cash expenditure increased 7% from 39% to 46% year-over-year, reflecting an increased proportion of expenditure on new product development. Amortization of internally developed software increased from $1.4 million to $2.8 million year-over-year due to new products, including Connected Cost, being released to the market for sale.

The primary highlights of the balance sheet are a substantial cash balance and no debt. Total cash balances as of 31 December, 2016 were $43.2 million including restricted cash of $2.9 million.

85% of the cash outflow during the period related to ongoing investment in R&D as just discussed. We continued to see an improvement in our receivables as a proportion of revenue which have reduced from 46% in the first half of fiscal year 2016 to 35% in this reporting period.

While we continue to invoice in advance of revenue, over the past few years our invoicing profile has changed. As highlighted at our 2016 AGM, prior to listing in December 2014, we had lower cash reserves and used discounting to encourage 100% upfront payments from customers as a way to fund the growth of the business. Since listing and with a significant cash balance, we no longer provide these discounts to customers and as a result we are generating higher yield as we focus on optimizing contract value.

With this change in policy the proportion of 100% upfront invoicing has reduced significantly from 43% in the first half of 2014 to 19% in this reporting period. The majority of our contracts are now invoiced annually or quarterly in advance.

For the last two and a half years during the transition cash collections excluding GST have aligned to revenue. Average contract length over the same period has also increased from 41.5 months in fiscal 2014 to 43.6 months currently.

Combined with the change in invoicing the increased deal length has contributed to later invoicing and collections relative to revenue. Once the proportion of 100% upfront invoicing stabilizes, cash collections will exceed revenues.

For a complete reconciliation of statutory net operating cash flows to those from core operations, please refer to slide 31 at the end of this presentation. Now I'll turn it back to Leigh for his comments on regional performance, strategy and outlook for 2017.

Leigh Jasper: Thanks, Steve. I will now go around the grounds and unpack the performance of our regions.

The ANZ business performed in line with our expectations for the first half following two very strong years. The region is a very profitable and stable business.

We see continued standardization across the industry resulting in an increase in our enterprise agreements, leading to deepening key account relationships. We also see significant progress in the infrastructure sector.

Into the future I believe we can continue to grow revenue in ANZ, leveraging our strong customer base and network through two primary drivers. New product upsell, including our new Connected Cost platform, Field and Packages and also new businesses leveraging the installed network such as progress claims and payments.

Key wins and re-signs in the period were with Mirvac, a customer for many years, Transurban, Novion, with Fletcher in New Zealand, with the New South Wales Department of Justice, a Connected Cost customer and also with AMP Capital, another long-time Aconex customer. The ANZ business provides a robust platform for new product and new business-led growth.

There's been a significantly positive trend in enterprise engagement expansion showing continued standardization on the Aconex platform. Across all of Aconex we saw a 5% increase in the proportion of enterprise revenue and the ANZ region stepped up its proportion from 61% to 65% of revenue. This is a strong trajectory of enterprise agreement growth over the last three years from 33% to 44% globally and 46% to 65% in ANZ.

Enterprise agreements are great for Aconex, increasing industry standardization on the Aconex platform and also helping to increase our network effects. These enterprise relationships tend to run for a very long time with high customer retention and high and growing recurring revenue for the Company.

In Europe and Africa, we continue to extend our customer base, building on the strong network that Conject had established within the European market. We have an exceptional customer network including market leaders such as Vinci in France and Zublin in Germany.

We have retained all Conject customers and expect to be able to grow many of these accounts. As mentioned earlier we have seen significant currency impacts in the region of around $3 million for the half on a constant currency basis, primarily from the decline of the pound but also due to the Euro.

While Conject growth was below our expectations, we expect the business to improve. Integration is on track, particularly around our operations and our product plans, and we expect the UK to rebound off the back of the shock Brexit result. We also believe we can improve the productivity of the mainland European sales teams.

I'd like to reiterate the rationale for the Conject acquisition and I believe that the strategic benefits remain for this Company to underpin long-term growth in the European market. Specifically, it allows us to consolidate our global and European market leadership. We enhance our product and sales capabilities and incorporate a team with deep industry experience.

As mentioned in some of our previous calls, the experience of this team adds not just to the European business but also to Aconex globally bringing deep industry experience to the Company, particularly around new products such as Connected Cost. As we have brought both the Conject and Aconex businesses together in Europe we will benefit from significant scale and operating leverage and now have a strong footprint for growth in the region.

All that being said growth has been below our expectations for the European region. We saw first half FY17 revenue of $16.8 million, including $2.8 million from the facilities management business.

However, the business was originally expected to grow around 15%. The currency impact has been significant at a total of $3 million as mentioned earlier. We have seen slower than expected UK sales as the team transitioned from selling Conject to selling Aconex.

The team has now rebuilt the pipeline and we expect the results to improve. The Brexit uncertainty certainly slowed new project decisions and per the footnote we saw a significant drop off in UK construction starts in the months after the referendum.

Putting the UK to one side we do see good momentum in the mainland European business and are encouraged by the results we were seeing out of Germany in particular, but also more broadly across the continent. On the basis of where the business is at and the market opportunity in Europe, we are happy with the acquisition.

Aconex delivered strong growth in the Americas over the last 12 months, leveraging increasing adoption in the region. While growth was very strong it was a little slower than our ambitious expectations for the region. Overall the region grew at 20% with strong growth in the US of 30%.

Sales performance was a little weaker than expected to some degree due to the uncertainty in the lead up to the US presidential election. While the US business performed very well, the Canadian business was flat on the back of mining, oil and gas projects rolling off.

While relatively small in number and value we saw a slower than anticipated ramp up in the user-based contracts in the region. We have built a solid pipeline and are seeing opportunities in infrastructure and will continue to invest in the region to scale, sales and marketing.

We have an exceptional customer base in the US, recently resigning both AECOM and Tesla to multiyear deals. Tesla is using our Connected Cost product.

We also won a significant opportunity with ConocoPhillips, won a number of large infrastructure projects across the region with CH2M HILL, picked up Turner as a client and also Thermon in the oil and gas sector. We remain very optimistic about the long-term potential for our Americas business particularly as adoption rates within the market continue to increase.

The Middle East has improved this year after a softer FY16, mostly due to a stabilizing oil price enabling governments across the region to once again invest in infrastructure within their countries. On the back of this we have had some great success with new airport wins across the region including Kuwait, Dubai and Bahrain airports.

We believe we are very well positioned to leverage the ongoing investment in infrastructure across the region. In addition to the airport authorities we continue to win government clients such as the Government of Dubai and the Roads and Transport Authority in Dubai, as well as developers such as Miral and Manateq.

Aconex have had a very good start to the year in Asia. We continue to penetrate a very large market and we are starting to see adoption increase from a low base.

We are executing targeted sales initiatives across the region to build the network focusing on customers that can help us drive adoption. We are very well positioned to leverage significant investment in mega infrastructure projects such as the One Belt, One Road program and see a strong opportunity for growth across greater China in particular.

Customer wins over the last six months include a large contract for 10 years with Hong Kong International Airport, oil and gas wins with Sinopec and Rongsheng, as well as wins with Minmetals Land and China road and Bridge Corporation. The Asia market represents a significant long-term opportunity for the Company.

I'd just like to briefly touch on a recent highlight of our product development which is the release of the Connected Cost platform to the market in November. I believe this product will be a key growth driver for Aconex.

It increases the size of our addressable market through upsells to our customer base, increasing yield, and the product improves overall sales win rates. We've seen this happen with a number of key wins over the last six months where Connected Cost helped us to win new customers.

We've seen significant early positive customer engagement and momentum and the pipeline is building for this product. We will be delivering further marketing launches across our regions over the next few months. Very briefly, we are tailoring the product into a three-tier offering to suit different customer needs and maturity.

The base level is a contracts administration platform enabling our customers, particularly small project managers and general contractors, to manage standalone contracts, changes, progress claims and payments, reporting and cross-organization cost collaboration. Project controls is a step up for larger PMs and general contractors. In addition, this offers budget management, forecasting, variance analysis and portfolio reporting.

Finally, the third level is a full earned value management solution for tier one owners and general contractors around the world. This solution has all the functionality of project controls, plus earned value management reporting, rules of credit, percentage complete on earned value, among other advanced features often required for very complex projects. We are excited about the potential of Connected Cost and expect momentum to accelerate as our sales team introduces the product to customers.

I'd now like to talk about our strategy and outlook for the rest of the financial year. Our strategy at Aconex remains to focus on winning new customers that help us grow the network and can drive adoption across their project delivery teams.

We are increasing customer value through our investment in both product and also our market-leading global customer service capability. We will drive performance and scale, automating and streamlining our operations to increase margins over time. While performance and EBITDA was below expectations for the last six months we will continue to see scale benefits as the business grows, enabling us to step up EBITDA year-over-year.

More specifically we will invest in sales and marketing in the Americas and Asia. We will continue to transition project customers to enterprise agreements extending the positive trend over the last few years. We will build on our sales momentum and extend our key account management capability for key customers.

To increase customer value, we will drive our Connected Cost rollout and other new products such as design management, packages and mail routing. We will look to launch further insights and analytics functionality over the next 12 months. We are extending security through our Aconex Gov program, just recently securing the inclusion in the FedRAMP program in the US, to serve government projects with the highest compliance requirements in the world.

To drive performance, we will continue to leverage product and operational synergies across both Aconex and Conject and will move to one set of operating systems and standards across the Company. We will invest in our talented people and our great culture, a key differentiator for Aconex. We will also look to extend our corporates systems investment.

Overall we are balancing profitability with long-term growth. We will invest in our product, we will invest in our sales, marketing, customer service and we will scale up our operating systems.

Over many years Aconex has delivered consistently strong revenue growth. The Company has doubled revenue over the last two years alone. I remind you that our FY17 outlook is $160 million to $165 million, shown in orange in the middle of the chart.

Stripping out Conject and adjusting for currency impacts, our FY17 expectations show underlying growth of between 15% to 19%. We had an exceptional growth in FY16, well beyond our expectations at over 30%. FY17 growth moderated, however, the underlying growth rate over the two years from FY15 to FY17 is very strong at 26% to 29% per annum.

I'll also highlight we have very strong forward visibility with over 90% of FY17 revenue outlook already contracted at 31 December. This consistent delivery of high growth rates over many years gives confidence that Aconex can continue to grow and step towards the longer-term growth rates that we have disclosed to the market in the past.

I'd like to reaffirm the FY17 outlook that we provided to the market a few weeks ago. This outlook takes into account several factors in terms of the momentum of the business and the underlying market dynamics. Our guidance is for revenue of $160 million to $165 million and EBITDA $15 million to $18 million, calculated based on the exchange rates at 31 December, 2016, shown at the bottom of the page.

We expect growth rates of 20% plus over the medium to long term consistent with our long-term delivery of high compounding growth rates at this level. As with all businesses, growth rates will vary from year to year. They are rarely linear.

To close, Aconex is in a strong position. Aconex is the global market leader serving a very large and underpenetrated market opportunity. I am confident of our ability to continue to grow well and lead the digital transformation of construction driven by product innovation, exceptional customer service and scalable operations.

Aconex is in a unique position to serve our customers in the global construction market and to deliver on our mission of connecting teams to build the world. Thereby we can create significant long-term value for our shareholders.

Finally, Aconex remains committed to a long-term growth rate target of 20% plus. Thank you and we'd be happy to take your questions.

Operator: Ladies and gentlemen, if you wish to ask a question please press star 1 on your telephone and wait for your name to be announced. If you do wish to cancel your request you can press the pound or hash key.

Our first question comes from the line of Lucas Goode from Credit Suisse. Please ask your question.

Lucas Goode: (Credit Suisse, Analyst) Hi guys. I've just got a couple of questions, I guess really around the ANZ growth.

So you've shown that revenue bridge, that underlying constant currency revenue growth is around 3% below your expectations. I'm just wondering if you could talk through where ANZ growth ended up relative to what you were expecting. Just 6% seems probably pretty - a bit lower than what sort of I'd been looking for.

Leigh Jasper: So ANZ growth was in line with our expectations. We hadn't expected the business to grow as significantly as it has in the last couple of years. And primarily because - you may recall about 18 months ago we signed some significant new contract wins with some of the largest contractors in Australia, which significantly stepped up the revenue for the Australian business.

We expected growth to moderate this year but over the long term we again remain confident, as we said at IPO, that we will grow the business over 10% rolling forward. Again I'd remind everyone that growth is never linear so when you have very strong growth rates it's often harder to then grow at the same rate the next year. But we've seen consistently strong growth rates both in ANZ and of course internationally over many years.

Lucas Goode: (Credit Suisse, Analyst) Okay, so you're expecting that to then - that sort of 20% plus longer term guidance globally that you're looking at sort of incorporates ANZ picking back up again a bit.

Leigh Jasper: Yes.

Lucas Goode: (Credit Suisse, Analyst) Thanks.

Operator: Your next question comes from the line of Raju Ahmed from CCZ Equities. Please ask your question.

Raju Ahmed: (CCZ Equities, Analyst) Hi guys. On your Connected Costs I just wanted to understand when you talk about the yield improving, can you just give us a sense of what sort of yield improvement have you seen?

Leigh Jasper: So the overall yield improvement will depend obviously on the uptake of the product. What we expected to do is to obviously add another module that our clients will pay for so that should increase yield for those customers - will increase yield for those customers that take up the Connected Cost product.

It's still too early to know exactly how large that will be but we are confident that it increases the total addressable market over the long term. I think clearly in markets like Australia, and where we have strong enterprise customer bases, we expect to be able to include that product offering as a step up for those customers.

Raju Ahmed: (CCZ Equities, Analyst) Yes, okay. So you probably can't talk specifically to - I think you mentioned New South Wales Justice has picked up the product. But generally with where the product has been rolled out, were you required to provide an early discount which subsequently sort of disappears?

Leigh Jasper: So just to talk to Connected Costs in a little bit more detail. We've won customers across multiple regions, so in ANZ, in the Americas and also across the Middle East and Europe. So it's now being, you know, we're seeing a number of early wins across our regions.

I think it's - we often include - in some of those customers we're including it as part of an enterprise deal so it isn't a discount per se, but we will expect, you know, we expect the customers will value the product for what it is. But as of course with any negotiation you always look at doing the right thing for both Aconex and the customer.

Raju Ahmed: (CCZ Equities, Analyst) Yes, okay and the last question is, on slide 28 where you provide the revenue visibility you mention there's a 90% visibility now on FY17. So if I understand it right, so your guidance for revenue is let's say - just pick a number - $160 million, about 10% of that is pretty much at risk?

So when you talk about lack of visibility on that 10%, what are you implying - that these are contracts you need to win, or these are areas where, for example, on the user-based model, they need to sort of pick up more volumes? What's - can you just clarify on that front?

Leigh Jasper: So the first thing to point out is that when we talk about the visibility, we're baking in implied growth rates. Sothe existing book of customers, clearly there's some that trails off. But a lot of that will re-sign - enterprise agreements et cetera - so a lot of our revenue is already locked in.

We assume a certain growth rate, and that growth rate over and above the previous period's revenue is based on new contract wins. So as we win new customers that will flow through to revenue.

Then there's also some additional, if you like, one-offs on revenue such as professional services, and we have a few others such as archives that come through in the period. So we have a very high component - over 90% at half year - of our full year revenue is already locked in, and the remaining 10% is new customer wins, new contract wins, professional services, archives and the like.

Raju Ahmed: (CCZ Equities, Analyst) Okay, thank you.

Operator: Your next question comes from the line of Peter Stamoulis from Evans and Partners. Please ask your question.

Peter Stamoulis: (Evans and Partners, Analyst) Yes, hi, good morning gents. Just on the 20% sustainable growth outlook, I was just interested if you could provide some insight around your pricing and build expectations within that, and the rollout that - Connected Cost, and I suppose what's implied across the regions. Thanks.

Leigh Jasper: The growth expectations take into account product development, so in a sense, new products will - one of the ways that we support that long-term 20% plus growth rate. In terms of yield, we're not expecting any significant step up in yield. What we've seen over the years - and we've talked about this - is that as customers commit to more volumes, we'll price according to the volume that they're committed to the platform, which tends to act as a - reduces the yield.

However, counteracting that, with additional products we're seeing yield increase on a like-for-like basis. So overall on a like-for-like project, or a like-for-like enterprise deal at the same level, we're seeing yield increase over time. So the only reason we're seeing some yield reductions as people step up is that they're committing to a higher volume on the platform.

Overall that nets out to essentially, we're not assuming any changes in yield over the medium to long term. Of course there's opportunities to do that, but we're not assuming that.

Peter Stamoulis: (Evans and Partners, Analyst) Yes, and just on the opex and sustainability of margins, the sales and marketing spend obviously stepped up in the first half in line with sales. Over the course of the full year would you expect that ratio in the second half to fall away, or still sort of maintain a high level in line with sales growth?

Leigh Jasper: We'd expect sales and marketing investment to continue to step up in line with revenue growth, and that's part of the - in addition to investing in product, investing in sales and marketing is investing in the future of the business, and investing in penetrating a very large market opportunity around the world for Aconex.

Peter Stamoulis: (Evans and Partners, Analyst) Yes, and just lastly, what automation benefits can you derive just in terms of your hosting facilities currently and I suppose how you're placed in consolidating data centres globally to drive some further benefits there?

Leigh Jasper: Thanks, so we've been going through a process of moving more and more of our hosting to cloud providers - a number of different cloud providers. Recall, when we started Aconex there was no cloud services, so we essentially built our own infrastructure and had to do that, there was no other option.

We were very efficient at hosting our infrastructure and have maintained a very efficient hosting operation. Over time of course, though, the cloud providers have a scale that we can't possibly meet, so we're finding that those cloud providers are providing us an opportunity to reduce costs over time. Of course the more we move to a common set of cloud providers, we're able to then automate a lot of those services or those processes that we need to manage from a hosting point of view.

I'd also point out that we're hosting - oh sorry, not just hosting - but our general operations are also seeing operational benefits in standardizing the way we operate around the world, standardizing our processes. For example, in sales we use Salesforce.com as our platform, and have standardized those processes right around the world, and moved Conject - the old Conject business - across onto our systems and processes.

Peter Stamoulis: (Evans and Partners, Analyst) Great, thank you.

Operator: Your next question comes from the line of James Bales from Morgan Stanley. Please ask your question.

James Bales: (Morgan Stanley, Analyst) Hi guys, just going back onto the revenue visibility, can you talk through the moving parts as to how - I think in PCP you had 97% of the coming half as visible revenue, the metric's now 90%. What's changed there, and what are the moving parts?

Leigh Jasper: We've consistently had revenue visibility in the order of just over 90%, I don't think that's changed particularly. What we have seen is that it's a couple of percentage points below where it was in previous years, and that's primarily due to increases in professional services.

So we have seen an increase in the amount of revenue in professional services and expect - particularly around Connected Cost - that there will be some additional professional services there. Also the Conject business has a higher level of professional services than the Aconex - the old Aconex business had.

James Bales: (Morgan Stanley, Analyst) Then is there any colour you can give on user-based contracts? How many are there and how have they scaled versus budget in the first half?

Leigh Jasper: Yes, so we've got a handful of user-based contracts with some quite large companies. They've been a little - as I mentioned - they've been slower than we expected.

They're still stepping up quite well, but we're obviously dependent on the win rates of those companies in terms of the work they're winning. That's what drives the step up in those contracts.

They're non-material in aggregate, so those user-based contracts are still a very small part of our revenue, although we did expect them to step up more than they did in the first half. Our view of those contracts is they're progressing well. As those companies win new work we will see a step up in the numbers of users on those contracts.

James Bales: (Morgan Stanley, Analyst) All right. Then on slide 29 you've given FX rates there as at 31 December, is that what's factored into second half guidance, and should we be making adjustments to spot rates?

Leigh Jasper: The short answer is yes. So we've factored - we've based our forecasts on those rates.

I think the rates have continued to deteriorate from a revenue point of view. Obviously we can't predict what the currency will do, but certainly any changes in spot rates you should work through any forecasts.

James Bales: (Morgan Stanley, Analyst) Then finally could you talk a little bit to the margin outlook? There was no reiteration of the commentary at AGM where you sort of gave longer-term EBITDA guidance ranges of - oh, EBITDA margin ranges of 17% to 22%.

Leigh Jasper: So our view is that over time EBITDA will continue to step up. Clearly we're making decisions around the investment levels in the business, and balancing revenue growth with profitability.

I think it's too early for us to say what that decision will be for our FY18 budget. Short to say that we're focused on again balancing those two factors of long-term revenue growth and EBITDA margins. But we do expect them, as the business scales, to step up over time.

James Bales: (Morgan Stanley, Analyst) Right, okay, thanks guys.

Operator: Your next question comes from the line of Mitchell Sonogan from Macquarie. Please ask your question.

Mitchell Sonogan: (Macquarie, Analyst) Yes, good morning everyone. I was just having a look at deferred revenue, pretty flat. I was just wondering if you can talk through the expectations for your deferred revenue and how it aligns in terms of revenue recognition and cash collection?

Steve Recht: This is Steve Recht. I guess one of the things that you should expect would be as we kind of complete this transition from an invoicing point of view, where we have significantly less 100% upfront invoicing, that long-term deferred revenue in particular would be expected to decline over time.

Since most of the invoicing is going to be annually in advance or quarterly in advance, that would mean that the deferred revenue would be primarily current deferred revenue. With the growth in revenue we would still expect that deferred revenue to grow, but the long-term deferred revenue will decline over time.

Mitchell Sonogan: (Macquarie, Analyst) Okay, thanks a lot for that.

Operator: Our next question comes from the line of Ross Barrows from Citigroup. Please ask your question.

Ross Barrows: (Citigroup, Analyst) Thanks, good morning. I just wanted to ask a quick question on capitalization. So it looks like that went from 39% to 46%.

That's grown I guess from the mid-20% in FY14 up to 38% in FY15. Can you just give us a feel of where - is there an upper limit on that, or where you think that could go to, or do you think it's kind of at its peak?

Steve Recht: It's Steve Recht again. Actually, that is really a function of the strategy that we've got to invest in the product in the long run. We have intentionally spent more money from a cash perspective on product development, and the result has been that we have developed more new product, and that more new product is reflected by the percentage of our expenditures that are capitalized.

We have said that we will continue to spend 18% to 20% of revenue on product development. You would expect - we would expect that we'd be in roughly similar capitalization percentages of that amount of expenditure.

Ross Barrows: (Citigroup, Analyst) Thanks. Also on the US [unclear], obviously the Americas grew 20%, but USA grew 30%.

But it looks like the EBITDA margin actually fell a little bit in that period from 14.5% to 12% or so, versus the PCP. Could you just explain that a little bit, or is it really just a matter of continuing to invest ahead of what you think that growth curve looks like?

Leigh Jasper: It's very much just investment in growth in the region - investment in sales and marketing. We'll continue to invest. I mean, the opportunity in the North American region is significant and we want to keep investing in that long-term opportunity.

So frankly, we're not focused on our EBITDA margins in North America, we're really focused on top line growth. Obviously that balances out across the rest of the business. But in North American in particular, given the increase in adoption that we're seeing, it's really the right time to keep investing into that market.

Ross Barrows: (Citigroup, Analyst) Just a last one, could you give us some colour on the FedRAMP, you made a comment that you were now a qualified or registered - or you can tell us the appropriate phrase - to be capable to get more government projects. Can you expand on that a little bit?

Leigh Jasper: Yes, so we're in what's called In Process on FedRAMP, which essentially means we are going through an accreditation process where we will be able to work on the basic government programs that have the highest security requirements - compliance and security requirements - in the world. I think it's a key competitive - security has always been a key competitive advantage for Aconex and a real differentiator from others in the market.

Clearly we're serving some of the largest - the largest - contractors and owners around the world with very high compliance project requirements. So we already have a key - really unique differentiator there from others in the market. This will further extend that differentiation from others.

Ross Barrows: (Citigroup, Analyst) Thank you.

Operator: Just a reminder that if you would like to ask a question, it is star 1 on your telephone. Our next question comes from the line of Martin Byers from UBS. Please ask your question.

Martin Byers: (UBS, Analyst) Hi guys. Just wondering if you can give us any flavour on how bookings are tracking at the moment, and then how that sort of reconciles back to just the deferred revenue that we saw on the balance sheet for the period?

Leigh Jasper: Sure, and you'd be aware that we don't provide specific bookings results. But certainly in line, yes, bookings were in line with expectations that we'd budgeted for the year, and we're seeing bookings continue to trend up. It's safe to say we always book more than our revenue, so we're continuing to build that backlog of revenue for the business.

As Steve mentioned earlier, the deferred is rather that there still is an unwind of that deferred as we have less upfront invoicing, particularly in that long-term deferred amount. The current deferred is continuing to grow period on period over the last few years.

Martin Byers: (UBS, Analyst) Thanks guys.

Operator: There are no further questions at this time. I would now like to hand the conference back to today's presenters for some closing remarks. Please continue.

Rachel Cooper: Thank you operator. We'd like to thank all of you for joining us today.

A replay of this webcast will be available at the same site - www.openbriefing.com - or through our investor centre website - investor.aconex.com. Thank you, and we look forward to speaking with you again soon.

End of Transcript