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ASX Market Disclosure

29 August 2016

FY16 Results Teleconference Transcript

Public webcast and teleconference

Attached is the transcript of the Aconex FY16 webcast and teleconference held on 23 August 2016.

The webcast and transcript are also available at http://investor.aconex.com/irm/content/presentations-webcasts.aspx.

About Aconex

Aconex Limited provides a leading cloud and mobile collaboration platform for the global construction industry. The platform connects owners, contractors and their project teams in the construction, infrastructure, and energy and resources sectors, providing project-wide visibility and control between the many different organisations collaborating across their projects. With more than 60,000 user organisations and over $1 trillion of project value delivered in more than 70 countries, Aconex is the industry's most widely adopted and trusted platform. Founded in 2000, Aconex has 47 offices in 23 countries around the world, including global headquarters in Melbourne, Australia. The company's ordinary shares are traded on the Australian Securities Exchange (ASX) under the ticker code ACX and are included in the S&P / ASX 200 Index.

Supporting resources

For more information on Aconex, please visit:

- Investor Center: http://investor.aconex.com
- Website: http://www.aconex.com

Aconex contacts:

Rachel Cooper
+61 3 9240 0269
rcooper@aconex.com

Citadel-MAGNUS
Matthew Gregorowski
+61 2 9290 3033
mgregorowski@citadelmagnus.com

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Event Transcript

Company: Aconex Ltd

Title: FY16 Results

Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Aconex Ltd FY16 results webcast. At this time all participants are in a listen only mode. Following the presentation there will be a question and answer session during which time if you wish to ask a question you will need to press star one on your telephone key pad. Please be advised that this conference is being recorded today, Tuesday 23 August 2016.

I would now like to turn the conference over to your first speaker Rachel Cooper, Investors Relationships and Communications Manager at Aconex Ltd. Thank you. Please go ahead.

Rachel Cooper: Good morning. This is Rachel Cooper. I would like to welcome you to our public teleconference and webcast on our full year results for financial year 2016. With me here are Aconex CEO Leigh Jasper and CFO Steve Recht. We released our results to the market in an ASX announcement approximately one hour ago. Today, Leigh will present a business overview for the year ended 30 June 2016 and Steve will follow with a summary of our financial performance. After that we will open the floor for questions. As stated before the presentation and Q&A session are being recorded.

Before we start I would like to call your attention to our safe harbour statement regarding forward looking information and other matters related to today's discussion. Our presentation materials regarding this result have been lodged with the ASX.

Now I would like to introduce Aconex CEO Leigh Jasper.

Leigh Jasper: Thanks, Rachel, and welcome to everyone on the all today.

It's been another exceptional year of strong growth for Aconex. The Company is in great shape and well positioned to take full advantage of the large opportunity in our market. The rapid digitisation of the construction and infrastructure industry globally is driving increased demand for Aconex and we've executed well on our strategic objectives over the last 12 months. This has delivered strong financial results for the Company.

Revenue including Conject was up 50% for the financial year to $123 million. EBITDA was up significantly, 350% to $13.6 million. We also saw a strong lift in operating contribution. Across our regions ANZ continues to perform well growing at 35% to nearly $50 million. Our international business grew rapidly with total revenues up 61% to nearly $75 million and now about 60% of total revenue. On a constant currency basis and excluding Conject all of our regions aside from Asia grew organically and over 30%. We are very pleased with these financial results.

Our strong results have been driven by consistent execution of a three-part growth strategy. The first is to grow the network, the second is to increase customer value and the third is to drive performance. Our strong network growth has been driven by key influential customer wins such as CIMIC, Burns & McDonnell and Fluor in the US and ExxonMobil in the oil and gas sector. These influential customers are the gold standard in our industry and recognised leaders. They help us drive significant uptake in the Aconex network on both the projects that they work on and also more broadly across the construction and infrastructure ecosystem. In a minute I'll dive into some of the key customer wins we have had across our four major operating regions.

As we have discussed with many of you in the past investment in product is critical to the long term success of Aconex. We have significantly increased our investment in R&D and continue to build out wider and deeper functionality for our

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customer base. Some examples of the products we have been focused on over the last 12 months include BIM collaboration, field inspections, cost management particularly through the Worksite acquisition and insights and analytics which provide our customers with more valuable reporting and insights into their projects.

In addition to investing in product we continue to invest into our customer service team and resources to ensure we provide strong support to projects using Aconex.

Lastly we remain focused on driving performance as the Company increases in scale around the world. On the back of strong revenue growth we have delivered a large increase in profitability with EBITDA up dramatically 350% for the year. We continue to invest in creating one global operating platform for all of our business units and with the integration of Conject we are looking to bring the entire Company onto one set of operating systems and standards. I will cover this in more detail later in the presentation.

Last year Aconex delivered significant revenue growth and large increases in operating contribution across all of our regions and our international business is tracking the trajectory of the ANZ business. We delivered strong growth of 35% in the ANZ market as mentioned before, taking revenue to $50 million and contribution to nearly $35 million or just over 70% margin.

The Americas region had a sensational year growing revenue to over $20 million at a 45% growth rate. In the short term as we continue to invest in that region we do not expect contribution margins to lift significantly but over the long term we expect them to approach the contribution margins we see in Australia.

Revenue in the EMEA region grew rapidly partly through the acquisition of the Conject business, to $40 million representing 90% growth over last year. Contribution was $17 million at nearly 50% margin. Again over time we expect the EMEA contribution margin to approach the Australian business as that region continues to develop.

The Asia region didn't have quite as strong a year as some of our other markets. It still remains a larger longer term opportunity for the Company with lower penetration levels in other regions. Asia grew 30% and generated $2 million of contribution.

Overall international revenue was up 61% for the financial year, a tremendous growth rate which shows the long term opportunity we have in this very large unpenetrated market around the world.

You can see on the right the progress of each of our regions over the last couple of years and that revenue is accelerating as the Company increases in scale. On a constant currency basis and excluding Conject our international growth rate was 29%. Asia had weaker growth at 19% but both the Americas and EMEA grew rapidly at 35% and 31% respectively.

I'm now going to touch on some of the operating and sales highlights across each of our regions. Firstly, we have continued to expand our global network around the world and currently have 47 offices serving 4.5 million project users on projects in approximately 65 different countries. This global office infrastructure provides an unparalleled capability to serve our customers and projects wherever they are and is a significant differentiator from other providers in the market.

We've had a great year in ANZ winning new customers and transitioning accounts across to enterprise agreements which now represent nearly two-thirds of our revenue in ANZ. We have an experienced account management team which is continuing to drive penetration and further embedding Aconex across our customers' project portfolios. The other key strategic driver for us in the ANZ market is the growing adoption of new products with Aconex Field in particular being widely used. From a customer standpoint we have already mentioned the CIMIC agreement. We have

also secured new enterprise agreements with Probuild, Scentre Group and Westfield, Hickory Group and Fletcher out of New Zealand.

We've had an incredible year in the Americas securing significant relationships with influential customers right across the US, Canada and Latin America. We continue to drive adoption with these global market leaders and we're seeing accelerating momentum in tier one particularly in the heavy engineering space and also in building and construction. Significant new customer wins include Fluor, Burns & McDonnell, ExxonMobil as I mentioned before, Caltrain, a large rail project and we are particularly excited to be involved in the Tesla Gigafactory development in Nevada. Overall in the Americas we delivered outstanding wins and increased our momentum. We will continue to invest in our rapidly growing presence in the North American market.

The Asia region represents a sizeable long term opportunity for Aconex and we are building a platform to enable us to capture this opportunity. We are executing a targeted set of sales initiatives going after key influences and big infrastructure opportunities such as the multi hundred billion One Belt One Road program being driven by China. Significant wins in the region include projects with China State Construction with Nippon Koei, with Sinopec in the oil and gas space, with SK Engineering and Construction out of South Korea and also with IKEA for retail projects across China.

In Europe, the Middle East and Africa we are consolidating our market leadership position. We are well down the track of integrating the Conject business which is going very well at an operational and at a people level. I'll talk more about that - in more detail about that in a couple of slides. We have a strong customer base in Europe including market leaders as Mace, VINCI and ArcelorMittal. While Brexit has created some uncertainty in the region we expect to be able to continue growing the business over the coming year.

We've had solid growth in the Middle East through customers such as Aldar, TDIC and Bluu. It has been a more challenging year in the Middle East given the reduction in infrastructure projects due to the oil price decline. However, the region still performed well and we think new business will improve this year on the back of a stabilising oil price and renewed interest in developing key infrastructure projects across the region.

All in all, it's been a great year across our regional businesses with significant growth in both new customers and also existing accounts. A strength of Aconex is its diversified revenue both across regions and industry sectors. This has enabled the business to grow through challenging conditions and economic cycles over the last 15 years.

The breadth and quality of the Aconex product suite is a key competitive differentiator and we are continuing to invest in new and deeper product functionality to extend that advantage. This investment in product also helps drive higher yield as our customers take up additional Aconex modules to increase the value to their projects. There are four primary areas that we have been investing in over the last 12 months, firstly extending field processes with PDF forms; BIM Mobile which is enhancing our functionality around building information modelling particularly for use out on site; cost and schedule management initially through the Worksite acquisition and then extending that product - we have a number of customers currently using the connection cost product and with a full launch plan for later this financial year - and insights and reporting providing our customers with valuable insights and analytics drawn from the rich dataset on Aconex. This investment into R&D is supported by over 200 staff in our products and engineering teams in our development centres around the world.

Over the last 12 months Aconex has completed three significant acquisitions all reinforcing our strategic focus on growth. The largest of these is the Conject acquisition consolidating the global leadership position of Aconex and adding significant revenue scale. We have the number one position in Europe and have brought additional capability to our product, sales and customer service teams. The integration has been progressing very well. Migration plans are in place and to date we have not lost a single customer. We have retained all key staff and we have a very engaged team.

We have very good cultural alignment between the two businesses and we're also making solid progress on operational integration moving toward one single operating platform and set of standards for the Company globally.

The CIMIC Keystone acquisition is also progressing very well. We have added a significant volume of projects from CIMIC through this agreement and we have completely integrated Incite Keystone and Aconex teams in our Sydney office. The team is now developing new functionality for the platform to provide a common login across all of our instances, what we call our lobby project.

Lastly the Worksite acquisition has also been a success for Aconex. We acquired the company to provide additional product capabilities around cost management for projects. We are now in the process of integrating and building out our Connected Cost module which has been rolled out on a beta basis to customers. We have received very good feedback and are preparing for a full commercial launch later this financial year. We also opened our new San Francisco office and similar to the Incite Keystone operation have consolidated our teams together in this new office. We are very happy with the progress and value created so far through these three acquisitions.

To summarise, the Aconex team has delivered strong operating performance across our three strategic focus areas. We continue to rapidly grow the network securing high profile enterprise agreements across our regions. We've also consolidated our global leadership position through the Conject acquisition. One further highlight was the recent Construction Technology Summit in Australia where we brought together around 40 construction technology start-ups and representatives of the industry to discuss the digital construction future and how these new technologies are both disrupting and also providing new opportunities to automate the industry to become more productive.

During the year we have increased the value we provide to our customers through our product. We've launched new modules such as Connected Cost and added new functionality across our suite. We have dramatically accelerated the pace of product development investing 92% more in R&D. We continue to drive both higher quality and more efficient customer service providing market leading support to our customer base around the world.

Aligned to the financial scale and increased profitability of the Company we are building one common operating system around the world. We've invested in our core systems to support this scalability and growth. We have also enhanced the depth of our executive team with a number of notable new additions, Ilona Charles as Chief People Officer and Anna Gorton as General Counsel and Company Secretary. As a company we invest heavily in our people. We have an incredible culture that makes Aconex a great place to work and really sets us apart in our market. It's been a key way that we both attract and retain amazing talent within the Aconex business.

I'll now hand it over to Steve to run through our financials.

Steve Recht: Thanks, Leigh.

As Leigh mentioned total revenue grew 50% year-over-year reflecting both organic growth and the acquisition of Conject as well as our strategic partnership with the CIMIC Group. Conject contributed one-quarter of revenue totalling $9 million. On a constant currency basis excluding Conject year-over-year revenue growth was 31%.

Starting with the results for the first half of fiscal 2017 we will report total revenue for the integrated business and will not break out Conject revenue or other financials. We will also report revenues for five regions instead of the current four, splitting EMEA into two regions, Europe and Africa and the Middle East.

Gross profit increased 49% year-over-year with gross margin continuing at 75% of revenue. Operating expenses grew 36% less than revenue reflecting our continued growth investments in engineering and product development and sales and marketing respectively. As a result of top line growth, steady gross margin and controlled operating costs EBITDA from core operations increased 350% to $13.6 million excluding acquisition and integration costs of $4.1 million related

to the Worksite, Incite Keystone and Conject transactions. NPAT from core operations lifted substantially from a loss of $2.5 million to a gain of $9.9 million also excluding acquisition and integration costs. For a full reconciliation of statutory results to EBITDA and NPAT from core operations please refer to appendix A at the end of this presentation which was lodged with the ASX this morning.

Over the last five years total revenue has grown at a compound annual rate of 29%. Gross profit growth has followed a similar trend and accelerated from fiscal 2015 to fiscal 2016 as a result of the Conject acquisition. Segment operating contributions which consist of regional revenues minus direct costs have increased at a compound annual rate of 36% over the same period. This trend reflects the positive impact of global scale and driving profitability ahead of revenue growth and validates our strategy of investing a portion of near term profit in strategic long term growth opportunities.

We began integrating the Conject business in the fourth quarter of fiscal 2016. EBITDA margin of 11% for the full year reflects the business consolidation including one-quarter of Conject operations at breakeven EBITDA as well as the increasing profitability of organic revenue growth.

Under the software and service or SAS accounting model we recognised revenue evenly over the term of our subscription agreements which averaged 42.5 months in fiscal 2016 varying somewhat by region as a result of market practices and customer preferences. Our revenue recognition policy provides high visibility of forecasted revenue that has already been committed by both enterprise and project subscriptions. At 30 June 2016 our visibility of fiscal 2017 revenue was 72%. Having this level of insight helps us plan our growth investments to ensure that we achieve a balance in meeting our profitability targets.

Segment operating contributions were positive across all regions in fiscal 2016 tracking closely to revenue growth. ANZ led with a contribution of $34.5 million followed by EMEA at $17.4 million, the Americas at $2.2 million and Asia at $2 million. The operating contributions of our international regions totalled $21.6 million for the year and grew 150% from fiscal 2015 on 61% revenue growth. The ANZ contribution increased 36% on 35% revenue growth. Total operating contributions grew 65% on 50% revenue growth demonstrating the increasing profitability of regional revenue growth. Segment operating contributions reflect the careful balance of our strategy to invest in sales to drive revenue growth while improving profitability over time.

In fiscal 2016 revenue from enterprise agreements accounted for 41% of total revenue with revenue from project engagements contributing 59%. While we continued to sign new enterprise agreements and renew existing agreements during the year we saw significant volume of new and larger project wins across all regions. Examples were the Caltrain electrification program and the Interstate 405 project with Parsons for the Orange County Transportation Authority in the US, the Pakistan Highway project with China State Construction and Engineering Corporation and the Dubai World Trade Centre development for Expo 2020.

As in prior years fiscal 2016 revenue was balanced across vertical sectors which offset cyclicality in specific industries. The government, infrastructure and power segments accounted for 50% of total revenue as we continued to win new enterprise agreements and mega projects for infrastructure development in the Middle East, the US and Asia. Commercial and residential construction contributed 37% of total revenue reflecting strong building trends in ANZ and other regions. Our exposure to the continued softness in the mining and oil and gas sectors was limited to 13% although we continued to win significant new projects in both segments and signed and enterprise agreement with ExxonMobil, the worlds largest publicly traded international oil and gas company.

The five-year trend in operating cost underscores our dual commitment to growth investments and expense control for increasing profitability. For fiscal 2016 we reported $16.9 million for engineering and product development, $46.2 million for sales and marketing and $23 million for general and administrative. Our cash expense for R&D was $22.8 million or 18.5% of total revenue. We capitalised $10.1 million under the [unclear] accounting rules for new software development and amortised $4.2 million of capitalised development expense which resulted in the reported R&D expense.

The $10 million year-over-year increase in sales and marketing reflected our continued investments in the US, Europe and other regions with high growth potential. The increase in G&A included additional public company costs related to the increase in the Company's market capitalisation. Also included in G&A were increased costs for leases, improvements and furnishing for new and expanded offices to support the growth of the business, particularly in locations where we added engineering and sales talent. Both line items were impacted by $4.1 million in expenses related to the acquisition and integration of Worksite, Incite Keystone and Conject.

On the balance sheet at 30 June 2016 we had total assets of $248.9 million compared with $67 million at 30 June 2015. Our cash balance including restricted cash was $52.5 million compared with $29.1 million at the end of the prior financial year. These significant gains reflected net proceeds from equity capital raising of $132 million, specifically an institutional placement of 23 million shares for $120 million and a share purchase plan for existing shareholders which involved the sale of 2.3 million shares for $12 million. Offsetting the cash increase were business acquisition payments totalling $104.7 million.

Net operating cash flows from core operations for fiscal 2016 were $9.2 million compared with $6 million for fiscal 2015. These annual figures are indicative of actual cash flows from a full operating cycle of the business as opposed to seasonally impacted quarterly cash flows. Also these cash flows have absorbed the impact of a shift from upfront payments for multiyear contracts to annual and quarterly collections in advance. For a complete reconciliation of statutory net operating cash flows to those from core operations please refer to appendix B at the end of this presentation which as I mentioned earlier was lodged with the ASX this morning. You will also find appendix A and B attached to our lodged announcement of fiscal 2016 results.

Exactly one year ago when we reported our fiscal 2015 results we disclosed our operating model and outlook. We reaffirmed that outlook in February with the reporting of first half fiscal 2016 results. When we reported the Conject acquisition in March we provided an outlook for Conject operations after integration with Aconex. Today following the three acquisitions completed in fiscal 2016 we are providing a near term outlook for the integrated business. We have now increased the scale of the business to the level of the medium term outlook for revenue growth provided earlier. Accordingly, we expect revenue growth of 20% to 25%, gross margin of 75% to 77% and EBITDA margin of 11% to 16% until the Conject business is fully integrated. These estimates take into account multiple factors including our current business momentum, the ongoing integration of Conject and our significantly higher revenue and cost base.

In summary we are effectively executing our growth strategy both organically and inorganically and balancing our strategic investments with increasing profitability. The performance of the business if fiscal 2016 was consistent with our expectations factoring in the financial impact of our acquisitions to expand our network, deliver increasing value to customers and drive our global economies of scale.

Now I'll turn it back to Leigh for his closing comments on a strong year and a positive outlook.

Leigh Jasper: Thanks, Steve.

The outlook ahead for Aconex is very positive as better recognition of the benefit of digital construction solutions is increasing demand for Aconex. The construction and infrastructure sectors have traditionally had very poor productivity and low uptake of IT solutions. Research by consulting firms McKinsey & Company and the Boston Consulting Group highlight that construction is inefficient, productivity is poor and the industry is among the least digitised. Most projects typically take longer to complete than expected and over 80% run over budget, which is a massive problem in the industry. Productivity has not moved since the 1990s and lay significantly behind other industries. Construction is one of the least digitised with IT expenditure of less than 1% of revenue and R&D spending is among the lowest of all industries.

These significant issues are driving the industry to look for ways to improve the performance of their projects and digital construction technology is gaining momentum. There are six key areas that industry experts see as opportunities for digital construction to transform the industry and Aconex is working in all of these. The first is digital collaboration and mobility, something that Aconex has done since inception. Next generation BIM, data driven design and construction, the internet of things, the digital twin and virtual handover and advanced analytics are all areas in which Aconex supports the industry to drive significant performance improvements.

Aconex is investing in the platform to increase the value it can bring to our customers across these areas. The impact of digital construction technology is massive and has been estimated between US$0.7 trillion and US$1.2 trillion in value during the engineering and construction phases and a further US$0.3 trillion to US$0.5 trillion in the operating phase. Clearly this digital disruption of construction is a massive opportunity for Aconex.

The Aconex business is in a great position and we have significant momentum to capture this large market opportunity. We will continue to execute our three-point strategy. We will serve market leaders as a way to drive significant uptake in our network. We will build on our sales momentum in the Americas. It's been a great year for us in the Americas with many opportunities to further extent our rapidly growing presence in the market. We will continue to transition project customers to enterprise agreements providing long term revenue stability for the Company.

Part of our approach is to extend our key account management program ensuring our most important customers are given market leading service to successfully execute projects on Aconex.

Increasing customer value is a key part of our overall strategy. We will drive our Connected Cost product rollout over the coming year and we will also launch further analytics functionality in our insights and reporting module. We will further enhance our security to our Aconex Gov initiative meeting the data protection and security standards of both FedRAMP in the US and IRAP in Australia for Federal Government projects. This has been a differentiator and a significant differentiator. For many of our customers working on complex government projects they require these high levels of compliance and security.

Finally, we will drive strong performance as we scale revenue and profitability by consolidating our global leadership through the Conject acquisition. We will move to one set of operating systems and standards right across the Company to enhance the productivity of our team and we will continue to invest in our people. As I said before we have a unique culture and it is a significant competitive advantage for Aconex.

To close our presentation, it has been a truly outstanding year for Aconex. We have grown the Company substantially and completed an industry shaping acquisition. We are in the sweet spot of a digital disruption that's transforming global construction and infrastructure. Aconex is connecting people and data to drive this transformation, increasing value to our customers and driving long term value for our shareholders.

Thanks again for joining us on the call today. I'll now hand it back to Rachel and we'd be delighted to take your questions.

Rachel Cooper: Thanks, Leigh.

That concludes our formal remarks today. Operator, please begin the Q&A session.

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

Your first question comes from the line of Jack Briggs from Credit Suisse. Please ask your question.

Jack Briggs: (Credit Suisse, Analyst) Good morning, guys. Just wanted to dig into the cost management product rollout a little bit more. You mentioned it'll be out at some point in FY17. Could you give us some more guidance on the timing, on the customers who have been using it, what the feedback has been and also on whether there's been any presales or what the demand looks like from existing customers?

Leigh Jasper: Sure so as I mentioned in the presentation we've had the product out with a number of customers and we're receiving very good feedback from those customers. We're moving towards a launch later this calendar year and expect to have the product out in more customers' hands in the next few months. The rollout and I think what we're seeing aside from the uptake of those customers is also that it's increasing demand for general collaboration as people see the roadmap of product that we have ahead of us. It's providing a significant area of differentiation for us and it's an area that clearly people see as adding a lot of value to their projects. Over time we expect it to be a significant product for us but as with all of our products it will take some time to build that customer base as companies start to move their processes across onto the new module.

Jack Briggs: (Credit Suisse, Analyst) Yes, perfect. Just secondly on Brexit, in the tail half of the last couple of months have you seen any delayed investment decisions or slower close of contracts for projects you thought would go ahead? What do you anticipate in the next 12 months?

Leigh Jasper: I think any uncertainty in markets wherever it is around the world can slow investment decisions for projects. I think it's fair to say that we have seen some project decisions slowing down particularly in the UK obviously but one of the strengths of Aconex has always been this diversification across both regions and also across industries. While it may be a little bit slow in decision making in the UK at the moment we're seeing of course other regions move ahead and it's not impacting those regions.

The other thing we see is once the uncertainty settles that those projects that may have been on hold do tend to come back through to even in the Middle East for example with the oil price dropping back over the last 18 months or so we saw initially a slowdown in decision making but we're now seeing because that uncertainty has now stabilised that people are making decisions now and investing in projects.

Jack Briggs: (Credit Suisse, Analyst) Perfect. 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. I'd just like to run through the Europe result in a little bit more detail. Can you talk about the contribution from Conject first as your expectations? What had you anticipated for that quarter and how has the organic performance trended in that second half?

Leigh Jasper: Thanks, James. I think it's still pretty early days on Conject given we're only three months into the acquisition. Certainly from a financial standpoint the performance of the Conject business has met expectations and even slightly exceeded expectations. The $9 million in revenue was exactly in line with our expectations for the quarter. From a customer viewpoint we're seeing strong engagement from customers and again as I mentioned before we haven't lost a single customer and we expect that engagement to remain.

I think longer term we'd see that there's significant opportunity of course with the two businesses together and as the market leader in Europe to accelerate our growth in that particular region but so far so good. We're seeing good engagement both from customers and also from staff in the business and I think it's a testament to the strength of the Aconex culture that we've been able to align quite closely with the culture in Conject. I think from the point of view of staff we've seen all key staff retained and just generally very positive sentiment from the Conject team and also strong sentiment from the Aconex team towards the Conject team.

I think again still pretty early, three months in but so far the integration's going very well and we're seeing financial performance in line or even slightly exceeding our expectations.

James Bales: (Morgan Stanley, Analyst) One feature at the half year was the change in cash flow profile from upfront payments to pay as you go sort of thing. What's Conject's profile like in terms of prepaid work and how should we expect the cash conversion to look going forward?

Leigh Jasper: Conject perhaps slightly different to Aconex had I think more contracts on the annual and quarterly basis. Whereas Aconex pre IPO tended to draw a little more cash forward Conject tended to invoice more in line with revenue recognition. From that point of view the Conject business is reasonably well aligned to where we're moving the Aconex business. As we've explained, as we've shifted more towards those annual and quarterly payments there's been a little bit of an unwinding of that cash that was drawn forward pre IPO which clearly from a deferred revenue point of view saw our deferred not grow quite as quickly as revenue growth has been over the last year or two. We expect that to settle down in the next year to 18 months.

James Bales: (Morgan Stanley, Analyst) Then finally on Asia that looked a little - I guess given your comments today saying that Asia would be the biggest part of your business long term are you happy with the result firstly and what are the constraints to accelerated top line growth in that region?

Leigh Jasper: I think we have some work to do in Asia. I don't think we were - we certainly weren't happy with the performance in the region relative to some of our other regions. I think it's important to note that we have invested more in those other regions so Asia perhaps hasn't had the investment profile as some of our other regions which we see as shorter medium term opportunities, particularly in North America for example. Long term though we still believe Asia - it is the world's biggest construction market so as penetration lifts in that market we would expect it over the long term to be our biggest region. We're seeing great uptake across projects in the region for example the One Belt One Road project being driven by China.

The reality is Asia hasn't penetrated as much as some other regions so there's a lot of work to do in that region still to drive penetration, to drive uptake, to drive an understanding of the benefit of digital construction collaboration technology that Aconex provides.

James Bales: (Morgan Stanley, Analyst) Great. Thanks guys.

Operator: Your next question comes from the line of Michael Higgins from Macquarie. Please ask your question.

Michael Higgins: (Macquarie Group, Analyst) Hi, guys. I had a couple of quick questions. First of all, I just wanted to get a bit more clarification on your guidance comments, Steve, just in your piece. Could you just tell us again those and do those comments include the contribution of Conject?

Steve Recht: Yes, they do. Essentially what we're saying is by doing the Conject acquisition we have leaped up in terms of scale from a revenue point of view and I think everybody recognises the bigger you get the harder it is to grow big percentages. We provided the guidance here on the call that we expect revenue to grow at 20% to 25%. We expect margins including Conject to stay in the same range that we had expected previously, 75% to 77% but in the near term as we integrate Conject we think EBITDA margins are going to stay kind of in the same range that we've been, 11% to 16% with the expectation that that may change once we have completed the full integration of Conject. We think Conject itself has the potential to have the same levels of profitability that we had been projecting for our medium term but we're not yet to the medium term in integrating Conject. We incorporated all that in our guidance.

Leigh Jasper: I would add to Steve's comments that the 20% to 25% is on a completely consolidated basis assuming Conject is already in the mix. Clearly this year we've had three months of Conject and next year we will have nine months of additional Conject revenue so there's a step change in growth in the next six to 12 months and then we see it settling down to that 20% to 25% over the medium term.

Michael Higgins: (Macquarie Group, Analyst) Just to clarify, with that 20% to 25% growth on PCP, your PCP in that calculations includes the contribution of Conject in that year? Is that correct?

Leigh Jasper: Yes, yes.

Michael Higgins: (Macquarie Group, Analyst) Right, okay and just my second question. It's just regarding some of the recurring revenues and the visibility you've got over the next 12 months. There's a chart in the pack which has the visibility to FY17 is around 72% visibility. I think it's down a bit from what was happening in previous periods in the mid-70s to mid to high 70s. Is there anything going on there or is that just noise?

Leigh Jasper: It usually has run at around 75%, 76% the last few years. This year one of the impacts that we seeing - the way we're forecasting the business is we have some additional clearly large customers on user based agreements that will step up over time. There's some of that impact. We would have been comfortable with our budgeting to include a slightly lower rate going in but it's there or thereabouts. We're pretty comfortable with where our forecasts are for the year in terms of the budget but there is that factor of having both some new product and also the user based agreements with some very large customers that we'll ramp up over time.

Michael Higgins: (Macquarie Group, Analyst) If you could just touch on that...

Steve Recht: We've been doing a significant amount of investment in new product so I would think there's a slightly bigger proportion of our forecasted revenue that's going to come from new product on a go forward basis. Obviously if we haven't had it before it's hard for it to be in our trail and already been contracted for.

Michael Higgins: (Macquarie Group, Analyst) just if you could provide a few comments on how we should expect some of those larger contracts that have been signed over the last 18 months to ramp up, in particular the Bechtel and the Fluor and just if you could say how they're trading in regards to your expectation?

Leigh Jasper: It is a little difficult to know exactly how they're going to ramp up of course because it's dependent on the projects that they're winning. Clearly those businesses, they're in sectors that have been somewhat impacted by decreasing oil prices for example. Those businesses, we depend on how quickly they win projects and then transition across. It's very hard to predict whether that's a three year ramp up or a five, six year ramp up.

I think the other thing to remember is that these projects are often very long projects so it takes time to transition a Bechtel or a Fluor across to have 100% of their projects on the system by virtue of the fact that there are some very long projects that they're serving.

We're certainly very happy with the progress we're having in both of those agreements. There's been strong engagement from the businesses and as they win projects they're rolling across onto the Aconex platform but whether that's a three-year ramp or a five-year ramp really depends on how quickly and how successfully they're winning projects within their markets.

I'd also mention of course ExxonMobil is in the oil and gas sector and their work level is significantly below what it was a year or two ago just given the way their capital expenditure works. We're simply entering ExxonMobil at a low point in the cycle or what we hope is the low point in the cycle so that will ramp as they start to do more projects on the platform.

Michael Higgins: (Macquarie Group, Analyst) Okay, thanks guys. That's all from me.

Operator: Your next question comes from the line of William Morgan from Intrinsic Investment Management. Please ask your question.

William Morgan: (Intrinsic Investment Management, Analyst) Thank you. Leigh, two questions. One is on customer migration and one on revenue projections. Just on customer migration, just with the cost modules can you just run me through how you're advising clients to do that? Is it a matter of for a particular building having two estimation teams one using the Aconex system and one using the traditional system so that they've got confidence in the Aconex module? Or do you just get them to work a bit harder or how do you advise your clients to migrate?

Leigh Jasper: Typically, a customer would start with one project would usually be the way, one or two projects, moving that across onto the Aconex platform whether that's for collaboration or cost or whatever the product is. We then - and typically they'll fully replace. It's very rare - they might run two systems in parallel for the first month or two of a project but they'll very rarely run two systems all the way through a project. One of the obviously important factors for us in how we rollout Connected Cost to our customers is making sure that it's a quality product day one, that it has the confidence and trust of our customers so they can fully migrate those processes across onto the platform.

That doesn't mean they're going to fully migrate their entire accounting system onto Aconex. The important thing to remember is they still have a general ledger and an accounting system sitting behind their firewall. What we're providing is a project costing system to manage their projects on. That process is done carefully with our customers and we've already got a number of beta customers that have rolled out cost to their projects and essentially they're using it as the single tool for managing cost on those projects.

William Morgan: (Intrinsic Investment Management, Analyst) Okay, secondly on guidance and I'm appreciative of the context with which you provide the revenue growth and your margins but just there's going to be obviously regular updates that may well exceed that and you're obviously going to have risen and falls at different rates. I'm just trying to get an understanding of where you recast, at what point do you get where you recast it? If you come up with 30% revenue growth in the first year does it mean that your long term targets become looking too pessimistic? I'm just trying to get an understanding...

Leigh Jasper: Clearly there's a step up with the Conject acquisition so that's not included in that 20% to 25% longer term growth rate. That's a onetime step up. We do expect there to be overs and unders so when we say 20% to 25% we may grow one year at a bit more than that, we may grow one year at a bit less than that but that 20% to 25% we see as a good medium to long term average. I think we said this before, we do feel very confident that we can keep growing the business at that rate for many years to come given the large market that we're penetrating.

If there's an over one year I wouldn't necessarily expect that we continue to run those overs but certainly in this year there's been a onetime step up with Conject which is significant. That's why we've grown at 50% this year. We've got that underlying growth rate of 25% plus in the last year or so plus a bit of currency impact. Actually 30% underlying plus currency plus Conject takes us to that 50% growth rate but again we think on a like-for-like basis the business can grow by a 20% to 25% rate for some years to come.

William Morgan: (Intrinsic Investment Management, Analyst) Okay, thank you.

Operator: As a reminder, ladies and gentlemen, to ask a question please press star one on your telephone key pad and wait for your name to be announced.

Your next question comes from the line of Paul Mason from RBC. Your line is open. Please ask your question.

Paul Mason: (RBC Capital Markets, Analyst) Hi, guys. I just had one question around margins. I just wanted to get a bit of context around your 11% to 16% EBITDA margin. This year it looks like your EBITDA margin's about 4.6% and your R&D - I don't know, it looks like that's a bit above where you guys have historically said would be about 15% of sales. I was interested to get your comments on which elements of your cost base you think will shrink as a proportion of your revenues as your revenue base grows to get to that 11% to 16% range and over what sort of timeframe you think those margin expansions will occur.

Leigh Jasper: Firstly, on an EBITDA basis we're running at about 11% this year so we're into the bottom of that range. I think our previous forecasts have had that stepping up a little bit a little bit quicker. The reason we believe that will stay in that 11% to 16% range for the next year or two is just the integration of Conject. It was essentially a breakeven business and as we bring that and leverage the base that we have in Aconex we can then step that up to that higher margin. We will though continue to grow margin while we grow revenue. It's really this balancing that we talk about, balancing out revenue growth, balancing with growth and profitability and investing across the different elements to drive that, both the revenue growth and while ticking up profitability.

In terms of the areas that will expand, we are investing a lot in product and we've been very clear that that's a key competitive differentiator for us. On a cash basis that's now running at about 18%, up from 15%. That's been a conscious choice to invest more aggressively in the product. We think that supports longer term higher revenue growth. The areas that we will continue to get leverage, obviously there's - with G&A costs they have stepped up as we've become a public company but we would expect those to not grow as fast as revenue over the coming years particularly again as we get the scale benefits of having the Conject business integrated into Aconex.

We would also expect sales and marketing to come down progressively over time again. Not too quickly because investing in sales and marketing is key to driving growth but we are seeing a leverage effect and as our network becomes stronger the cost of sale goes down. We've seen that clearly in the Australian market where as we've become the market leader and the widest or most used network in the country that that sales cost goes down over time.

The two areas, G&A and then clearly sales and marketing over time as we expand but we expect to keep investing in product at around current rates into the foreseeable future.

Paul Mason: (RBC Capital Markets, Analyst) Okay, great. That's all from me. Thanks.

Operator: Your next question comes from the line of Martin Byers from UBS. Your line is open. Please go ahead.

Martin Byers: (UBS, Analyst) Hi, guys. Yes, just following on with respect to R&D obviously the capitalised component reflects the new software development. Would we expect that level of capitalisation going forward relative to the overall cash expenditure?

Steve Recht: Yes, we would. That's our expectation if you break down all the different projects. Obviously you only capitalise those things that represent new product or significant separable new functionality. The capitalisation rate's been running in the high 40% of the total cash expenditure and we would expect that to continue for the foreseeable future.

Martin Byers: (UBS, Analyst) Okay, thanks guys.

Operator: As a final reminder, ladies and gentlemen, to ask a question please press star one on your telephone.

Your next question comes from the line of James Bales from Morgan Stanley. Please go ahead.

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James Bales: (Morgan Stanley, Analyst) Hi, guys. One follow up. In the half year result you guys gave a number for enterprise - new enterprise deals secured in the half. How's that gone in the second half?

Leigh Jasper: It's been good. I think one of the - obviously we're winning a lot of enterprise deals. I don't know the exact number of the top of my head but certainly the percentage of enterprise revenue is stepping up as we - or running at about what it was so that 41% and we're seeing markets like Australia where that's now running at about two-thirds of our revenues in enterprise deals. The logos really depend to some degree on the size of the companies that we win as well. We can win more revenue out of a fewer number of logos. I think it's there or thereabouts in terms of what it has been. Maybe slightly lower than the first six months but still a significant number of new customers coming in enterprise wins.

James Bales: (Morgan Stanley, Analyst) Have you seen any major losses to competitors in competitive situations?

Leigh Jasper: Certainly not on the enterprise deal front. Once a customer has decided to standardise on the Aconex platform they literally don't move. Where we do have some movement is if a company goes out of business or there's been a merger or something like that. We do have some - there have been some very small enterprise agreements often with architects and engineers. They can potentially move a little bit but again very much at the margin and the vast majority or 90% plus of our enterprise accounts are maintained as enterprise accounts.

On the project space as you would all know as we enter a new account we tend to enter on projects, getting a couple of projects going first, building that number of projects and then moving across to enterprise accounts. In the case of the project deals of course we're always competing for those or not always but often competing with those. Most often though we're competing against status quo in terms of how a company already manages those projects. That may be spreadsheet, email, that may be an internal system. Where we do lose it tends to be to those status quo or no decision almost where companies are saying I'll just stay with my existing system, which is generally not a competitor to Aconex. It's an internal system.

In terms of competitive opportunities, we will lose a few but it's a much lower percentage. We would win by far well more than 50%, 60% of what we go into competitively. We get very good win rates and again it depends by markets. There's different competitors in different markets but certainly we tend to win most of those competitive deals that we go after.

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

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

Raju Ahmed: (CCZ Statton Equities, Analyst) Hi, guys. I had a couple of questions around Asia. The first one is I note the revenue pie is relatively small compared to the other regions. Are you able to just give us a flavour of which countries were the biggest contributors?

Leigh Jasper: Sure so Hong Kong and Singapore have traditionally been the areas in that market where we have been very strong. We've seen good progress this year out of China. We're continuing to build up that market. Then we're also seeing Malaysia's been very good this year as well. It'll ebb and flow between different markets. A market like Malaysia's been very good this year or two. We've won some very large projects there. That might not necessarily continue next year so it just depends where the projects are around the region. We work right across South East Asia including Singapore through into China including Hong Kong and then into North Asia across Japan and Korea so it's quite a wide market and of course India as well I forgot to mention. It's a wide market, what we call Asia and it really depends on where the project activities are but certainly South East Asia, Malaysia's been very strong and we're seeing good progress in China over the last 12 months as well in terms of building accounts and getting some pretty significant wins like China State Construction and on to the One Belt One Road projects.

Raju Ahmed: (CCZ Statton Equities, Analyst) Okay so something like - I think from memory you guys got the enterprise agreement with Samsung in Korea so that's reflected - the revenue's reflected in other regions? Is that the way - is that a fair comment?

Leigh Jasper: We don't have an enterprise agreement with Samsung. We have project agreements with Samsung and they are spread around the world. For example, one of them is Roy - we work with Samsung on Roy Hill. Roy Hill happens to be paying for that but that's an example where we're working with Samsung. We also have the [Luckta] project in Russia which is paid for by Samsung but would be accounted to the European business. Where a contractor's working outside of our home market that revenue will tend to be counted in that region. For example, Japanese and Korean contractors and Chinese contractors working in the Middle East will generally be attributed to revenue in the Middle East.

Raju Ahmed: (CCZ Statton Equities, Analyst) Right, okay. The second question is around you talked about I suppose a lack of appreciation of construction collaboration platforms in the broader Asian market right now. How do you break that road block? Is it more heads on the ground? Is it just a case of time will inevitably catch up with them and they are forced to pick it up? What's the growth model there?

Leigh Jasper: There's a few things. Firstly, we're certainly targeting the Japanese, Chinese, Korean contractors that are working globally. As they do more and more work globally they need systems to enable them to manage those projects. That's one way we've been able to show the value. I think what we always see is when customers have a higher perception of risk they're more likely to adopt Aconex. We're looking for those projects where customers are working outside of their comfort zone whether that's an international project or a larger project or a JV. That provides a way in. We're certainly focusing on those segments that are more likely to adopt. Infrastructure's an example of that, large mixed developments for example. We're focusing on those sectors where companies are more likely to adopt.

I think long term we see no reason why Asia will be different from other regions. Obviously the cost base in terms of labour is a bit lower which perhaps has slowed adoption but all the same challenges - whether you're working in North America, Australia, Middle East, Europe or Asia those challenges in terms of how do you coordinate a project team, how do you bring everybody onto the same page so to speak, how do you keep people aligned in terms of information, how do you track and control all the data, all those problems are still present and I think over the long term we will see Asia adopt like other regions and ultimately be our largest market.

Raju Ahmed: (CCZ Statton Equities, Analyst) Okay, thank you. The last one is around the guidance revenue 20% to 25% medium term. How should we think about Asia? There's going to be higher growth rate purely because of the smaller absolute number?

Leigh Jasper: Clearly this year Asia was weaker than that. As I said before it wasn't the best year for the Asian business. I think over the long term we would see it growing faster than that. It's such a big market to penetrate. Whether we can get into that higher growth rate in the next year or so really depends on a range of factors in terms of how fast we're able to win business. We're certainly investing into the market and we expect that market to pick up and over the long term I would expect it to grow faster than that average growth rate.

Raju Ahmed: (CCZ Statton Equities, Analyst) Okay, thanks guys.

Operator: Your next question comes from the line of Martin Tavella from L1 Capital. Please ask your question.

Martin Tavella: (L1 Capital, Analyst) Hi, guys. This is probably more for Steve. I'm just looking at the receivables. There's a bit of drag there from the cash flow but just going through the notes it looked like there was quite a decent

step up, about $6 million of past year receivables. I'm just trying to reconcile that against most of your clients paying in advance or why that receivable deterioration occurred.

Steve Recht: Actually what we've got is there is a significant increase in receivables. Part of that is due to assimilating Conject so that's a big portion of the increase. Then the other portion of the increase if you actually go back and calculate it is a direct relationship to the increase in revenues. Receivables as a percentage of revenues for our base business for Aconex is essentially the same. I would say that with respect to receivables there are different challenges in different markets. Typically, the Middle East is extremely difficult. We've had excellent collections results in the Americas and ANZ so overall the receivables balance is pretty much where I would expect it to be based upon the acquisition of Conject and the overall growth in the business.

Martin Tavella: (L1 Capital, Analyst) Was that - just more in regards to the past year your 30 to 60 days went from about 1.8 to six. Is that more the nature of the Conject business? Has it been more of an issue than your core business in terms of receivables? Because I get the growth in terms of sales but that's nearly a [fourfold] step up.

Steve Recht: Yes, I guess the way I characterise it is we get fluctuations all the time. I'm going to say six or nine months ago we just had a set of accounts say in the Americas that got a little longer than we would want them to be. That's all kind of fixed now. Whatever - that over 90 days kind of kicks around quite a bit. I'll be frank, at the end of June every chief financial officer is trying to avoid paying anybody so that they can make their balance sheet look nice with a lot of cash and I think that's part of what happened with respect to us in respect to our receivables. At 30 June for example our largest receivable was about 4% of the total receivables balance and we received payment of that in the following week. It bounces around quite a bit. I'm very comfortable with where we are from a collections perspective.

Martin Tavella: (L1 Capital, Analyst) Okay, cool. Thanks.

Operator: There are no further questions from the telephone lines. I would now like to hand the conference back to your presenters for any closing remarks. Thank you and please continue.

Rachel Cooper: Thank you, operator. We would like to thank all of you for joining us today. A replay of the webcast will be available at this same site www.openbriefing.com which will also be linked and available on the Aconex investor centre website. Thanks again and we look forward to speaking with you soon.

End of Transcript