

# WELCOME TO SMALL TALK

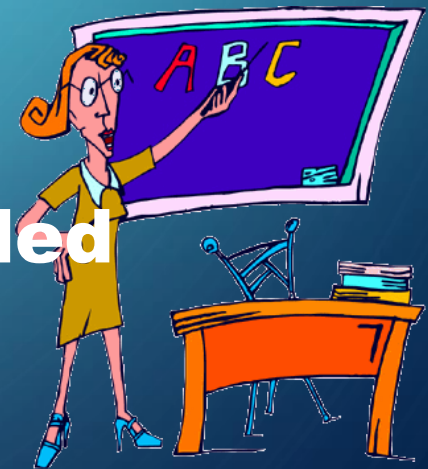


Stock for Discussion:  
Luxoft Holding, Inc. (LXFT)  
Presenter: Betsy Wills  
March 15, 2016

# Disclaimer:

**All stock references are meant to be used for educational purposes. No recommendation for purchase or sale is intended or implied.**

**This session is being recorded  
For future reference.**



# WHAT DOES LUXOFT DO?

- **Provides software development services and IT solutions to large multinational corporations – complete end-to-end services**
- **Often fully takes on the work as an outsourcer of choice**
- **6 core areas, dominated by financial services and automotive.**

# KEY DATA

- **Industry: Software Application; Sector: Technology**
- **Global firm, based in Zug, Switzerland**
- **Founded in 2000 as a subsidiary of IBS Group (which is still a substantial shareholder) – Controlled Company Exemption from independent directors**
- **Incorporated in 2006 in British Virgin Islands**
- **IPO and NYSE-listed since June 2013 (LXFT) (ADR)**
- **\$100 MM in cash FYE '16 (3/31/16)**

# STATISTICS

- **10,000 employees & 27 offices across 15 countries worldwide, covering North America, Western and Eastern Europe, Latin America and Southeast Asia**
- **8,800+ engineers**
- **Gross margins: 42-43%**
- **W. Europe = 50% of revenues**
- **U.S. = 30% of revenues**

# SALES OF SERVICES

- **LXFT's priority is to develop expertise in few core areas, dominated by financial services and automotive**
- **Core Activities: primarily software development and support and product engineering**
- **Non-core activities: external project consulting, quality management consulting, recruitment services to clients and training services provided to third parties**



# 6 CORE BUSINESSES

- **Financial Services**
- **Automotive**
- **Telecom**
- **Energy**
- **Travel and Aviation**
- **Technology, esp. embedded software**

# CUSTOMERS IN 3 TOP CORE BUSINESSES

Deutsche Bank



CREDIT SUISSE



**FINANCIAL  
SERVICES**

HARMAN



DELPHI

**AUTOMOTIVE**

AVAYA



HIRSCHMANN

JUNIPER  
NETWORKS



**TELECOM**



# GROWTH DRIVERS: FINANCIAL SERVICES

- **Focused on business transformation, including digitization and cost saving initiatives**
- **Constant regulatory compliance pressure**
- **Grid and Cloud Computing to enable speed and risk management**
- **All heavily dependent on IT**

# GROWTH DRIVERS: AUTOMOTIVE

- **Is one of only a few independent software service providers in automotive space**
- **Goal is to acquire most, if not all, OEMs and Tier 1 suppliers globally as customers**
- **Strong demand in Human Machine Interface (HMI) development and autonomous driving from OEMs**
- **Opportunities brought by Internet of Things (IoT) to further developments in the connected car space**

# SYMTAVISION ACQUISITION









- **Integration company offering real-time integration of engineering and electronics**
- **Builds engineering tools used by auto industry to model all the interactions of the functions going into the car**
- **Allows auto industry to predict how much computing power is needed, how much communication bandwidth is needed for the functions that consumers want in autos in most reliable and cost effective way**

# SYMTAVISION ACQUISITION

- **With autonomous driving, every component of the car is crucial in safety, security, driving experience and effectivity of the vehicle**
- **Acquisition of Symtavision addresses critical need to have the Under the Hood systems operating safely and securely in real time as well as to manage all Under the Hood operations by means of software**
- **Will bring in new customers – Porsche, VW, Audi, BMW, Toyota**

## Key Stats LXFT

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	Stock	Ind Avg	Relative to Industry
Price/Earnings TTM	29.2	87.2	
Price/Book	6.3	4.9	
Price/Sales TTM	3.1	4.5	
Rev Growth (3 Yr Avg)	24.3	9.6	
Net Income Growth (3 Yr Avg)	20.3	-17.7	
Operating Margin % TTM	12.8	9.9	
Net Margin % TTM	10.5	4.9	
ROA TTM	19.9	2.7	
ROE TTM	26.3	5.3	
Debt/Equity	—	0.5	

# SWOT OVERVIEW

- **STRENGTHS:**
  - Limited debt and strong cash flow
  - Sticky business: ability to handle its clients' projects from beginning to end
  - Foot-in-the-door: once it gains a small contract from a large client, the subsequent contracts have a tendency to grow much larger as the client learns how much Luxoft can do and how well it executes
  - Excellent management

# SWOT OVERVIEW

- **WEAKNESSES:**

- **Dependence on key customers:**
  - **Deutsche Bank and UBS together accounted for 47%, 52% and 56% of sales in FYEs '13, '14 & '15**
  - **Ten largest clients accounted for about 82% of sales in FYEs '13, '14 & '15**
- **Clients operate in a limited number of industries: in FYE '15, 67%, 11% and 7% of sales came from clients operating in the financial services, automotive and transport, and technology industries, respectively.**



# SWOT OVERVIEW

- **OPPORTUNITIES:**

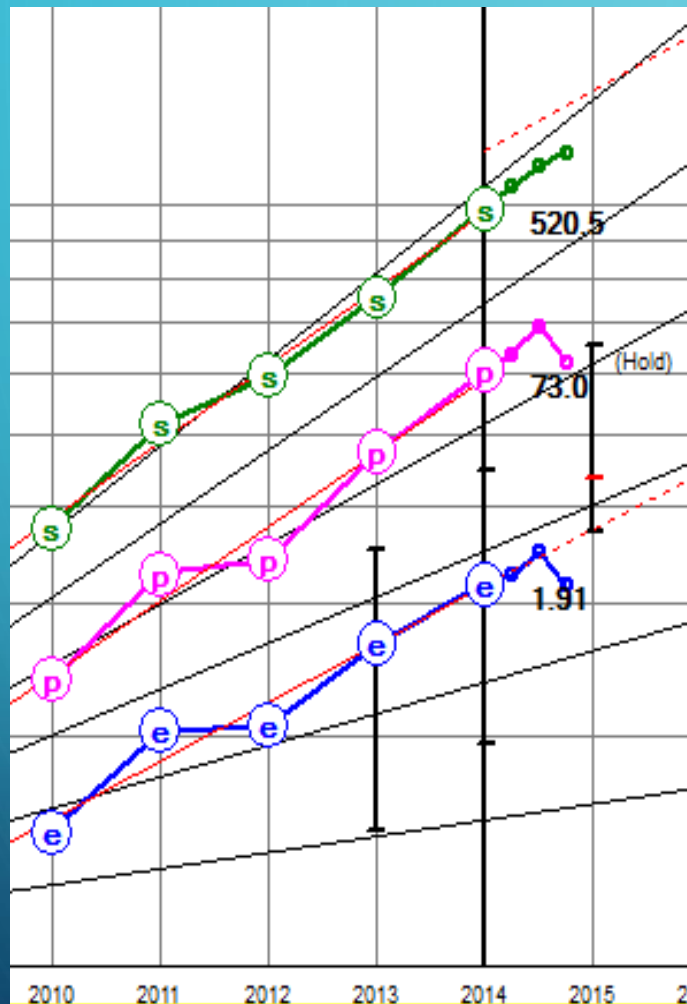
- Demand for IT services outsourcing is growing steadily in the United States and Western Europe
- Driverless car technology demand will continue
- Majority of LXFT's organic recurring revenue growth in the future will come from obtaining new High Potential Accounts ("HPAs")
- Acquisitions of smaller businesses

# SWOT OVERVIEW

- **THREATS:**

- Future fluctuations in currency exchange rates: in FYE '15, 60% of sales were in U.S. dollars, 30% were in euros and 21% of expenses were in rubles
- High rates of inflation in Russia, Ukraine, Romania and Poland affects results of operations and costs and expenses
- IBS owns ~ 40% of Luxoft's shares outstanding and controls several board seats – friendly relationship but potential for conflict if IBS wants different business decisions

# IS IT A GROWTH COMPANY?



FY 2015 Q3 (Ended 12/31/2015)

RECENT QUARTERLY FIGURES

	SALES (\$M)	EARNINGS PER SHARE (\$)
Latest Quarter	171.9	0.52
Year Ago Quarter	145.8	0.73
Percentage Change	18.0%	-28.2%

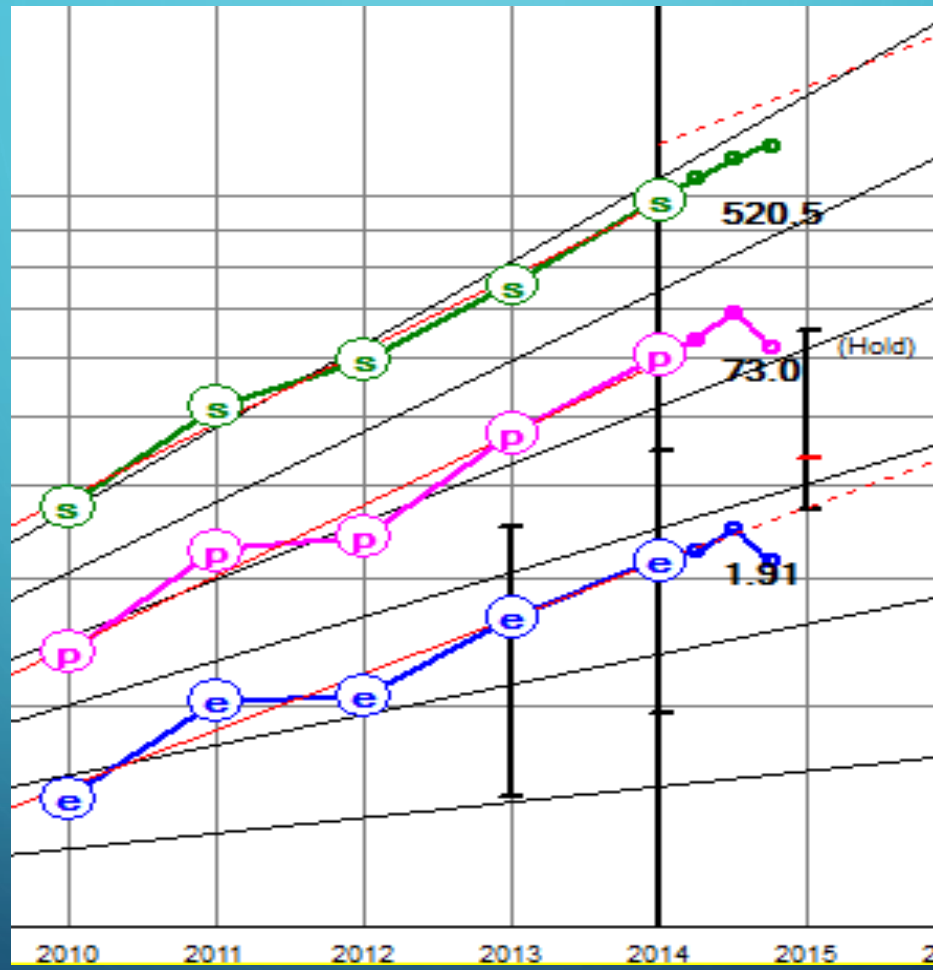
# 4 FACTORS AFFECTING Q3 EPS

- **Adverse foreign exchange/receivables on bottom line, esp. US\$**
  - **-\$3.5MM in Q3**
  - **-\$37MM impact for 9 months – affect on margins less due to ruble**
- **Gave lower pricing and discounts to few key customers = \$4.8MM, non-recurring**
- **Seasonal**
- **Stock options and R&D costs**

# HIGHLIGHTS OF Q3

- **On a constant currency basis, revenue would have climbed 24.5% YOY**
- **Customer concentration with LXFT's top client declined 6% and 10% YOY**
- **Second largest customer and other top 10 clients made up for decline**
- **Added 2 new HPAs in Q3, one of which is a “premier US-based computer data storage provider and hard disk drive manufacturer”**

# SSG...SECTION 1



3/15/2016

## **Poll Question: Sales**




- **24.0% - Company FYE 2016 estimate**
- **18.0% - Q3 2016 compared to Q3 2015**
- **28.6% - 3 year historical**
- **13.9% - ACE FYE 2017 estimate**



## **Poll Question: EPS**

- **17% - ACE FYE 2016 estimate**
- **19% - Historical**
- **24% - 3 year historical**
- **25% - Q3 2016 compared to Q3 2015  
(constant currency basis)**

# DO THEY HAVE QUALITY MANAGEMENT?

2010	2011	2012	2013	2014	5 YEAR AVG	TREND UP / DOWN
14.4	14.5	13.1	14.3	14.0	14.1	EVEN
			37.6	30.4	34.0	DOWN
0.0	0.0	0.0	0.0	0.0	0.0	DOWN

# SSG...SECTION 3

CURRENT PRICE (P/E) 53.89 (28.4)			52-WEEK HIGH (P/E) 80.64 (42.6)		
Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E
2010	0.0	0.0	0.90	0.0	0.0
2011	0.0	0.0	1.22	0.0	0.0
2012	0.0	0.0	1.24	0.0	0.0
2013	43.6	18.6	1.59	27.4	11.7
2014	55.5	24.1	1.91	29.1	12.6
AVERAGE		21.4		28.3	12.1
AVERAGE P/E RATIO		20.2	PROJECTED P/E RATIO		0.0
CURRENT P/E RATIO		28.4	PEG RATIO		0.0

## **Poll Question: High P/E**

- **28.3 – Average High P/E (SSG)**
- **28.2 – Current P/E**
- **20.3 – Zacks 2017 Estimated P/E**
- **42.6 – 52 week High P/E**
- **30.0 – BI Not to Exceed P/E**

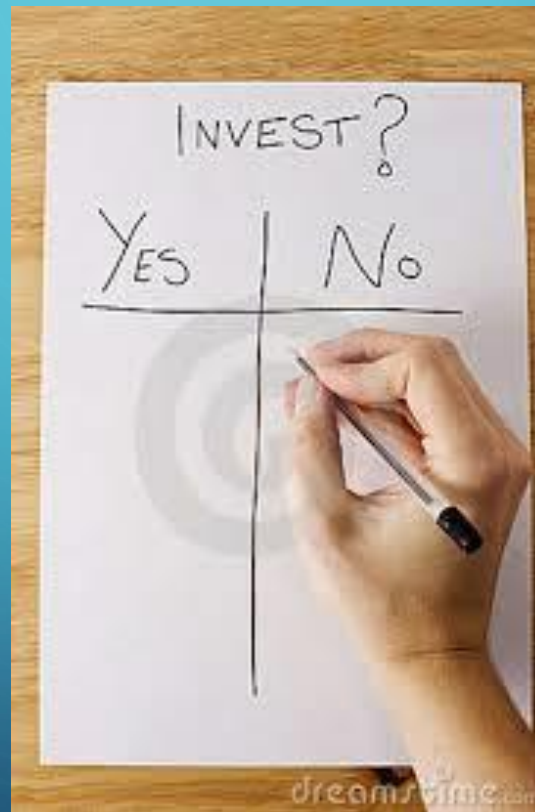
## **Poll Question: Low P/E**

- **12.1 – Avg. Low P/E (SSG)**
- **28.2 – Current P/E**
- **24.7 – 52 week low P/E**
- **30.0 – BI Conservative**

## Poll Question: Low Price

- \$\_\_\_\_\_ – Forecast Low Price
- \$21.40 – Average Low in last 5 years
- \$18.60 – Recent Severe Market Low (2013)
- \$34.70 – Price Variant Quotient
- \$42.72 – 80% of Current Price

# IT'S YOUR CALL!!





## **Poll Question: Consider Buying?**

- **Yes – Strategic and key supplier to financial companies**
- **Yes – Innovator in connected car technology**
- **Yes – Creating a substantial moat for a young company**
- **Maybe –The price is attractive, given the growth potential**
- **No – Too young, lacks a track record**

The background is a solid blue gradient. In the corners, there are decorative white line art elements resembling circuit boards or neural network connections, with lines and small circles.

# ANY OTHER QUESTIONS?

## What's Next?

**THANKS FOR ATTENDING THIS EPISODE  
OF SMALL TALK**

**HOPE YOU ENJOYED IT!**

**NEXT SMALL TALK: APRIL 19, 2016**

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