Redknee Solutions Reports First Quarter Fiscal 2017 Results

TORONTO, Feb. 8, 2017 /CNW/ - **Redknee Solutions Inc.** (TSX: RKN) a leading provider of real-time monetization and subscriber management software, reported results for its fiscal first quarter ended December 31, 2016. (All figures are in U.S. dollars unless otherwise stated.)

Fiscal Q1 2017 Financial Highlights
(Comparisons made between fiscal Q1FY2017 and fiscal Q1FY2016 results, unless otherwise noted)

- Revenue was $37.2 million compared to $50.1 million;
- Gross profit was $21.1 million (57% of total revenue) compared to $29.7 million (59% of total revenue);
- EBITDA was $2.0 million (5% of total revenue) compared to EBITDA of $3.7 million (7% of total revenue);
- Recurring revenue was 67% of revenue, compared to 52%;
- Net loss was $6.4 million, or $0.06 loss per share, compared to a net loss of $4.3 million, or $0.04 loss per share;
- Cash used in operations was $7.0 million; and,
- Order backlog of $162.1 million at December 31, 2016.

Fiscal Q1 2017 Operational Highlights

- Successfully implemented Redknee Unified, a converged multi-play billing, charging and customer care platform at Omantel, a leading communication service provider (CSP) in the Middle East;
- Completed an expansion of Redknee's real-time monetization and subscriber management platform at Telecommunications Services of Trinidad and Tobago Limited (TSTT); and,
- Signed multi-million dollar customer orders in APAC and EMEA, as Redknee continues to see demand for its products and services.

Highlights Subsequent to Quarter End

- Was awarded a contract by Telekom Srpske to upgrade its existing BSS solution to Redknee Unified 2016 and expand support to both prepaid and postpaid subscribers; and,
- Following shareholder approval, the Company completed a private placement with Wave Systems Corp. (the "Investor"), an affiliate of ESW Capital, LLC ("ESW Capital"), of 800,000 Series A Preferred Shares of the Company and a common share purchase warrant to the Investor for gross proceeds of US$83.2 million
  (the "Transaction"). The Company subsequently announced the appointment to its board of directors of four nominees of the Investor and accepted the resignations of three directors; and,
- Following completion of the Transaction, the Company used a portion of the net proceeds from the Transaction to fully repay all loans and borrowings.

Financial Guidance and Corporate Update

The Company is withdrawing the financial guidance it had previously provided for Fiscal 2017 for revenues of between $170 million and $180 million and adjusted EBITDA of between $15 million and $20 million.

In addition, the Board of Directors concluded that there are opportunities to further restructure the business to improve the operational and financial performance of Redknee with the objective of achieving best in class metrics, while ensuring long-term sustainability of the business.

Accordingly, the Board of Directors has directed management to develop and present various restructuring proposals with a specific focus on realizing additional cost savings, as well as a plan to finance any additional capital required to support any approved restructuring plans.

Management Commentary

"Our recently completed $83.2 million private placement and the restructuring alternatives being discussed will provide Redknee with a solid financial footing, permanently taking off the table any question of financial viability for our customers, employees and shareholders," said Lucas Skoczkowski, Chief Executive Officer, Redknee Solutions Inc. "The involvement of ESW Capital brings the additional benefit of an experienced, long-term strategic partner, as we focus on achieving our short-term goal of delivering best-in-class operating margin performance through additional restructuring opportunities."

"We are redoubling our efforts to support and expand our customer relationships. We are continuing to invest in agile solutions that deliver results for our clients, while broadening our software and service offerings to better address their evolving needs. During the first quarter, we launched a number of client projects and we remain actively engaged throughout the market. We see increasing interest from both clients and potential customers for our industry leading, business critical solutions, and we expect to see a number of exciting opportunities in 2017."

Fiscal Q1 2017 Financial Results

Revenue was $37.2 million compared to $50.1 million in the same year-ago quarter. The decrease resulted mainly from the impact of lower license revenue due to delays in customer purchasing decisions and overall reduced capital and operating spending in the global communication industry, compared to the same year-ago quarter.

Recurring revenue was 67% of total revenue, compared to 52% in the same year-ago quarter.

Order backlog slightly decreased by 3% to $162.1 million compared to $166.8 million in fiscal 2016.

Gross margin was $21.1 million, or 57% of total revenue, compared to $29.7 million, or 59% of total revenue, in the same year-ago quarter. The decrease resulted mainly from lower revenue from high-margin software license deals.

EBITDA was $2.0 million or 5% of revenue compared to EBITDA of $3.7 million, or 7% of revenue, in the same year-ago quarter (see discussion about the presentation of EBITDA, a non-IFRS measure, below).

Net loss was $6.4 million, or $0.06 loss per basic and diluted share, compared to a net loss of $4.3 million, or $0.04 loss per basic and diluted share, in the same year-ago quarter. Net loss in the quarter included the $3.2 million breakage fee payable to an affiliate of Constellation Software Inc., for which the obligation was satisfied by ESW Capital as a prepayment to their subscription.

Total cash at December 31, 2016 was $31.8 million. Cash used in operations was $7.0 million.

Please refer to the section regarding Forward-Looking Statements below which form an integral part of this release. These results, along with the annual audited consolidated financial statements and the Company's MD&A, are available on the Company's website at www.redknee.com and on SEDAR at www.sedar.com.

Conference Call

The Company will host a conference call tomorrow (February 9, 2017) to discuss these results. CEO Lucas Skoczkowski and CFO David Charron will host the presentation starting at 8:30 a.m. Eastern time. A question and answer session will follow management's presentation.

Date: Thursday, February 9, 2017

Time: 8:30 a.m. Eastern time (5:30 a.m. Pacific time)
Dial-In Number: 1 (888) 231-8191
International: 1 (647) 427-7450
Conference ID#: 59766721

The presentation will be webcast live and available for replay via either the Investors section of Redknee's website (www.redknee.com) or http://bit.ly/2jWDdXl

Please call the conference telephone number 5-10 minutes prior to the start time. An operator will register your name and organization.

If you have any difficulty connecting with the conference call, please contact NATIONAL | Equicom at 1 (416) 586-1955.

A replay of the call will be available until 12:00 midnight (EST) Thursday, February 16, 2017.

Toll-Free Replay Number: 1 (855) 859-2056
International Replay Number: 1 (416) 849-0833
Replay PIN: 59766721

About Redknee Solutions Inc.

Redknee monetizes today's digital world. We provide a complete portfolio of mission-critical monetization and subscriber management solutions and services that allow communications service providers, utility companies, auto makers and enterprise businesses of all types to charge for things in new and innovative ways. Redknee's real-time billing, charging, policy and customer care offerings provide the agility and scalability to drive a unique user experience, increase profitability and support any new product or business model. Available on premise, cloud-based, or as a Software-as-a-Service, Redknee's low-risk, flexible solutions power more than 250 businesses across the globe. Established in 1999, Redknee Solutions Inc. (TSX: RKN) is the parent of the wholly-owned operating subsidiary Redknee Inc. and its various subsidiaries. References to Redknee refer to the combined operations of those entities. For more information about Redknee and its solutions, please go to www.redknee.com.

Non-IFRS Measures

The Company reports "EBITDA", which is not a financial measure calculated and presented in accordance with International Financial Reporting Standards (IFRS), and should not be considered in isolation or as a substitute to net income (loss), operating income or any other financial measures of performance calculated and presented in accordance with IFRS, or as an alternative to cash flow from operating activities as a measure of liquidity. The Company defines EBITDA as net income (loss) excluding amounts for depreciation and amortization, other expenses, finance costs, finance income, income tax expense (recovery), foreign exchange gain (loss) and share-based compensation.

"Recurring revenue," which is not a financial measure calculated and presented in accordance with IFRS, and should not be considered in isolation or as a substitute to revenue. Recurring revenue includes revenue from support and maintenance agreements, long term service agreements, and term-based product licenses and software subscription.

"Order backlog" relates to contractual commitments as at period end, pending to be delivered and will be recognized as revenue in future periods. Order backlog is not a financial measure calculated and presented in accordance with IFRS and should not be considered in isolation or as a substitute to revenue.

Other companies (including competitors) may define EBITDA, recurring revenue, and order backlog differently. The Company presents EBITDA, recurring revenue, and order backlog because management believes these to be important supplemental measures of performance that are commonly used by securities analysts, investors and other interested parties in the evaluation of companies in Redknee's industry. Management uses this information internally for forecasting and budgeting. It may not be indicative of the historical operating results of Redknee nor is it intended to be predictive of potential future results. See *"Reconciliation of Net Income (Loss) to EBITDA"* below for further information on this non-IFRS measure.

Forward-Looking Statements

Certain statements in this document may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements use such words as "may," "will," "expect," "continue," "believe," "plan," "intend," "would," "could," "should," "anticipate" and other similar terminology. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Persons reading this news release are cautioned that such information may not be appropriate for other purposes. Such forward-looking statements include statements respecting order backlog contributing to increased revenue visibility for the Fiscal 2017; the impact of the challenging macro environment on the Company's revenue; our restructuring initiatives and ongoing cost management efforts are expected to result in significantly improved profitability next year; and financial guidance for Fiscal 2017; as well as statements regarding Redknee's future plans, objectives or performance for the current period and subsequent periods and regarding the markets for our products. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this document. Such forward-looking statements involve known and unknown risks, uncertainties and other factors and assumptions that may cause the actual results, performance or achievements to differ materially. Such factors include, but are not limited to, assumptions respecting : (i) the conversion of sales pipeline into orders and orders into revenue based on the extent and timing of historical conversion; (ii) the anticipated mix of the sale of products and services of the Company and associated margin being consistent with that realized in the past; (iii) the ability of Redknee to bring new products and services to market and to increase sales; (iv) the strength of the Company's product development pipeline; (v) the estimated size and growth prospects of the markets Redknee seeks to address; (vi) the Company's competitive position in those markets and its ability to take advantage of future opportunities in those markets; (vii) the benefits of the Company's products and services to be realized by its customers; (viii) the demand for the Company's products and services and the extent of deployment of the Company's products and services; (ix) the Company's financial condition and capital requirements; * the stability of general economic and market conditions; (xi) currency exchange rates and interest rates; (xii) capital markets continuing to provide the Company with access to capital. The risks and uncertainties that may affect forward-looking statements include, but are not limited to: the failure of demand for Redknee's products to develop as anticipated, the failure to obtain customer orders or meet customer requirements, the inability of Redknee's products to perform as expected, the inability of Redknee to achieve anticipated cost savings in the time frames and to the extent anticipated, unanticipated negative impacts on customer service or product development as a result of costs savings implemented, a material adverse change in the affairs of Redknee, and the factors discussed under the "Risk Factors" section of Redknee's most recently filed AIF which is available on SEDAR at www.sedar.com and on Redknee's web-site at www.redknee.com. Other unknown or unpredictable factors or underlying assumptions subsequently proving to be incorrect could cause actual results to differ materially from those in the forward-looking statements. Redknee does not undertake or accept any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements to reflect any change in its expectations or any change in events, conditions or circumstances on which any such statement is based, except as required by law.

Redknee Solutions Inc.

Condensed Consolidated Interim Statements of Financial Position

(Expressed in U.S. dollars)

(Unaudited)

	December 31, 2016	September 30, 2016
Assets		

Current assets:		
Cash and cash equivalents	$ 28,056,119	$ 37,080,510
Trade accounts and other receivables	38,864,854	43,209,046
Unbilled revenue	25,245,987	27,290,500
Prepaid expenses	2,710,247	2,999,539
Income taxes receivable	2,961,761	2,662,163
Other assets	165,744	268,929
Inventories	839,415	710,591
Total current assets	98,844,127	114,221,278
Restricted cash	3,722,176	4,582,293
Property and equipment	5,659,446	6,262,965
Deferred income taxes	1,874,139	1,984,479
Investment tax credits	347,786	355,914
Other assets	1,358,096	1,656,971
Intangible assets	33,122,489	35,721,065
Goodwill	32,271,078	32,271,078
Total assets	$ 177,199,337	$ 197,056,043

Liabilities and Shareholders' Equity

Current liabilities:		
Trade payables	$ 12,602,985	$ 14,212,869
Accrued liabilities	26,045,131	23,405,832
Provisions	18,606,138	21,981,367
Income taxes payable	495,243	724,412
Deferred revenue	15,257,256	18,915,596
Loans and borrowings	49,839,580	50,445,790
Total current liabilities	122,846,333	129,685,866
Deferred revenue	479,404	639,688
Other liabilities	1,631,973	2,264,482
Pension and other long-term employment benefit plans	19,518,183	20,387,584
Provisions	1,185,064	6,683,256
Deferred income taxes	643,911	687,947
Total liabilities	146,304,868	160,348,823
Shareholders' equity:		
Share capital	172,436,385	172,436,385
Treasury stock	(141,917)	(141,917)
Contributed surplus	10,354,237	9,812,545
Deficit	(140,308,486)	(133,954,043)
Accumulated other comprehensive loss	(11,445,750)	(11,445,750)
Total shareholders' equity	30,894,469	36,707,220
Total liabilities and shareholders' equity	$ 177,199,337	$ 197,056,043

Redknee Solutions Inc.

Condensed Consolidated Interim Statements of Comprehensive Loss

(Expressed in U.S. dollars, except per share and share amounts)

(Unaudited)

	Three months ended December 31,	
	2016	2015
Revenue:		
Software, services and other	$ 14,004,104	$ 25,118,234
Support and subscription	23,206,102	24,997,577
	37,210,206	50,115,811
Cost of revenue	16,131,529	20,397,916
Gross profit	21,078,677	29,717,895
Operating expenditures:		

Sales and marketing	5,035,137	8,401,274
General and administrative	7,721,945	7,288,271
Research and development	9,150,313	12,755,071
Acquisition and related costs	–	833,704
Restructuring costs	205,301	278,546
	22,112,696	29,556,866
Income (loss) from operations	(1,034,019)	161,029
Foreign exchange gain (loss)	412,716	(493,008)
Other expenses	(3,200,000)	–
Finance income	184,927	5,374
Finance costs	(688,447)	(1,048,531)
Loss before income taxes	(4,324,823)	(1,375,136)
Income tax expense:		
Current	2,018,650	2,381,289
Deferred	10,970	548,568
	2,029,620	2,929,857
Loss for the period	(6,354,443)	(4,304,993)
Other comprehensive loss:		
Pension actuarial adjustment	–	(77,702)
Total comprehensive loss	$ (6,354,443)	$ (4,382,695)
Loss per common share:		
Basic	$ (0.06)	$ (0.04)
Diluted	(0.06)	(0.04)
Weighted average number of common shares:		
Basic	108,252,436	109,136,362
Diluted	108,252,436	109,136,362

Redknee Solutions Inc.

Condensed Consolidated Interim Statements of Cash Flows

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended December 31, 2016	2015
Cash provided by (used in):		
Operating activities:		
Net loss	$ (6,354,443)	$ (4,304,993)
Adjustments for:		
Depreciation of property and equipment	779,464	1,003,027
Amortization of intangible assets	2,261,176	2,287,866
Finance income	(184,927)	(5,374)
Finance costs	688,447	1,048,531
Pension expense	(869,401)	196,552
Income tax expense	2,029,620	2,929,857
Unrealized foreign exchange loss	1,187,015	1,103,147
Share-based compensation	(55,976)	249,609
Change in provisions	(8,873,421)	(2,832,167)
Change in non-cash operating working capital	4,861,152	(719,629)
	(4,531,294)	956,426
Interest paid	(104,089)	(320,768)
Interest received	185,806	11,685
Income taxes paid	(2,574,428)	(2,456,657)

	(7,024,005)	(1,809,314)
Financing activities:		
Proceeds from exercise of stock options	–	37,500
Purchase of shares under normal course issuer bid	–	(1,106,482)
Interest paid on loans and borrowings	(1,084,943)	(829,640)
Repayment of loans and borrowings	(750,000)	(450,000)
Transaction costs on loans and borrowings	–	(90,496)
	(1,834,943)	(2,439,118)
Investing activities:		
Purchase of property and equipment	(290,345)	(507,420)
Purchase of intangible assets	–	(11,259)
Decrease in restricted cash	860,117	161,908
Settlement accrual paid	–	(6,639,799)
	569,772	(6,996,570)
Effect of foreign exchange rate changes on cash and cash equivalents	(735,215)	(576,957)
Decrease in cash and cash equivalents	(9,024,391)	(11,821,959)
Cash and cash equivalents, beginning of period	37,080,510	55,047,577
Cash and cash equivalents, end of period	$ 28,056,119	$ 43,225,618

Redknee Solutions Inc.
Reconciliation of Net Loss to EBITDA
(Expressed in U.S. dollars)
(Unaudited)

	Three months ended December 31,	
	2016	2015
Net loss for the period	$ (6,354,443)	$ (4,304,993)
Add back / (subtract):		
Depreciation of property and equipment	779,464	1,003,027
Amortization of intangible assets	2,261,176	2,287,866
Other expenses	3,200,000	–
Finance income	(184,927)	(5,374)
Finance costs	688,447	1,048,531
Income tax expense	2,029,620	2,929,857
Share-based compensation	(55,976)	249,609
Foreign exchange (gain) loss	(412,716)	493,008
EBITDA	$ 1,950,645	$ 3,701,531

SOURCE Redknee Solutions Inc.

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For further information: Investor Relations: Lawrence Chamberlain, NATIONAL | Equicom, T: 416-848-1457, lchamberlain@national.ca

CO: Redknee Solutions Inc.

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