FINAL TRANSCRIPT

Redknee Solutions Incorporated

First Quarter Results

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CORPORATE PARTICIPANTS

Lucas Skoczkowski
Redknee Solutions Incorporated — Chief Executive Officer

David Charron
Redknee Solutions Incorporated — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Steven Li
Raymond James — Analyst

Michael Urlocker
GMP Securities — Analyst

Todd Coupland
CIBC — Analyst

Paul Treiber
RBC Capital Markets — Analyst

Justin Kew
Cantor Fitzgerald — Analyst

Scott Penner
TD Securities — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Redknee Solutions Inc. Fiscal 2015 First Quarter Results Conference Call. At this time, all participants are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for a question.

Before beginning its formal remarks, Redknee would like to remind listeners that today's discussion may contain forward-looking statements that reflect current views with respect to future events. Any such events are subject to risks and uncertainties that could cause actual results to differ materially from those projected in these forward-looking statements.

Redknee does not undertake to update any forward-looking statements, except as required.

I'd like to remind everyone that the call is being recorded today, Thursday, February 5, 2015.

I'll now turn the call over to Mr. Lucas Skoczkowski, Chief Executive Officer of Redknee Solutions Incorporated. Please go ahead, Mr. Skoczkowski.

Lucas Skoczkowski — Chief Executive Officer, Redknee Solutions Incorporated

Great. Thank you. Good morning, everyone, and welcome to Redknee's first quarter conference call.

I'd like to draw your attention to Slide 2 of our presentation where we have outlined the Company disclaimers and cautions regarding forward-looking statements.

I'm Lucas Skoczkowski, Redknee's Chief Executive Officer, and joining me on today's call is our Chief Financial Officer, David Charron.

Today we'll be discussing the results for the first quarter of fiscal 2015, which were issued after the close of market yesterday. The press release and accompanying financial tables are available in the Investor section of our website.

If you haven't done so already, I encourage you to download the presentation, which provides further analysis of our quarterly results. David and I will be referring to this presentation during today's call.

Following my opening remarks, David will review our financial results, and then I'll return to give an operational before we open up the call to your questions.

During the first quarter of fiscal 2015, we made solid progress on executing our operating plan, and we are encouraged by our order bookings, steady revenue mix improvement, and EBITDA margins. We look to build on this to derive further mix improvement while continuing to solidify our EBITDA margins, and drive improvement in our cash flow generation.

Our revenue came in at $621.6 million in the quarter, and more importantly, our gross margin was at 58 percent of our revenues. This resulted in an adjusted EBITDA of $11 million, or 18 percent of revenue, and on a trailing 12-month basis 7.4 percent.

Our focus remains on revenue quality, and we made progress in continuing to drive toward a software product model while minimizing low or negative margin items from our top line.

The current revenue in the quarter was 44 percent of total revenues, or 27.4 million, and we anticipate the final two former NSN customers will roll off our platform by the end of the fiscal year, which combined we expect will not account for more than 10 percent of the current quarterly run rate.

Our order backlog at the end of the quarter sat at $171 million, giving us good forward-looking revenue visibility.

Our cash balance at the end of the quarter was $101.5 million. Within the quarter we saw the impact of foreign exchange rate fluctuation on our business. However, due to the natural hedges we built into our operating model, the full impact has been minimized.

Specifically, isolating for the fluctuation in foreign exchange rates on a constant currency basis, adjusted Q1 revenue would have been $63.7 million. Applying the same principle, our order backlog would have otherwise been $175 million. Conversely, our operating expense would have been approximately $52.1 million instead of 51.4 million. The net result of adjusted EBITDA is minimal.

I'll provide a more detailed operational update in a few minutes. However, first, I would like our CFO, David Charron, to walk you through the financial results for the quarter.

David?

David Charron — Chief Financial Officer, Redknee Solutions Incorporated

Thank you, Lucas, and good morning, everyone. I'd like to spend the next few minutes summarizing our financial performance for the first quarter of 2015, and to put this discussion in context, I encourage you to review the Company's financial statements, MD&A, and earnings release, which were posted on SEDAR, and are also available for download on our website.

Please note that our financial results are presented under International Financial Reporting Standards, and are presented in US dollars. And for comparative purposes, our previous year's results are also shown under equivalent accounting standards and functional currency.

Now on to our results. Overall, total revenue for the first quarter increased 4 percent to 62.6 million from the 60.4 million in the same year-ago quarter. The improvement was driven by a 53 percent increase in software and services revenue. And as Lucas mentioned, if we were to isolate for the impact of foreign exchange rates, which varied greatly in the quarter, our total revenue would've been 63.7 million.

Recurring revenue, which we define as revenue from support and maintenance agreements, term-based product licences, and long-term service agreements was 27.4 million, or 44 percent of total revenue in the quarter as compared to 33.4, or 55 percent of revenue in the same year-ago quarter.

Gross margin was 58 percent of revenue as compared to 55 percent in the same year-ago quarter. Adjusted EBITDA was 11 million in the quarter, or 18 percent of revenue compared to an adjusted EBITDA of 5.4 million, or 9 percent of revenue in the same year-ago quarter.

And as presented in the reconciliation of net income to adjusted EBITDA in our press release, the Q1 2015 net profit includes 0.4 million of cost linked directly to the BSS acquisition, as well as 0.3 million in costs related to restructuring plan, and 2.7 million in losses due to the impact of foreign exchange rates in the period.

Net income for the quarter was 2.2 million, or $0.02 per share compared to a net loss of 3.1 million, or $0.03 per share in the same year-ago quarter. And excluding the impact of the acquisition, changes in FX rates, and the restructuring cost incurred in the quarter, adjusted net income was 5.4 million, or $0.05 per share.

Now looking a little more closely at revenues for the quarter, we saw software and services revenue increase 53 percent to 33.8 million, or 54 percent of total revenue from 22.1 million, or 37 percent of total revenue in the prior-year quarter.

Breaking down the software and services revenue further on Slide 8, we see that in the current quarter our estimated split for revenue was 20 million for software licences and 13.8 million for services revenue compared to 12 million for software revenue and 10.1 million for services revenue in Q1 of fiscal '14. And on a trailing four-quarter basis, our average split per quarter was 19.1 million for software revenue and 12.5 million for services revenue.

The other point I'd like to make here is that we have grown our software revenue substantially in the last six quarters from 7 million in Q4 of fiscal '13 to 20 million in Q1 of fiscal '15, which shows the progress we've made in improving the quality of our revenues in service of transitioning to a software business model.

Support and subscription revenue decreased to 24.6 million, or 39 percent of total revenue, and this compares to 33 million, or 54 percent of total revenue in the same period last year. The decrease is mainly the result of the transition of specific customer contracts off of Redknee's platform. These customers had indicated their intent to leave prior to the acquisition, and this is in line with Redknee's three-year post-acquisition plan.

Sales of third party hardware and software components in the quarter decreased to 4.2 million, or 7 percent of total revenue from 5.3 million, or about 9 percent of total revenue one year ago.

Gross margin improved in the quarter as a result of improved revenue mix, as well as the decreased dependence on outsourced contractors.

During the quarter, operating expenses, adjusted to exclude acquisition restructuring and amortization costs, were 25.6 million, or 41 percent of total revenue compared to 27.6 million, or 4.6 percent of total revenue a year ago.

Now discussing each of the OpEx lines separately. First in the quarter, sales and marketing costs totalled 9.5 million, an 11 percent increase over the same period last year, and as a percentage of total revenue, sales and marketing expenses were 15 percent, up slightly from the 14 percent recorded one year ago. This was due to both investments we're making in growing the overall sales team, as well as increased sales compensation costs in the quarter.

Second, general and administrative costs decreased 14 percent to 7.1 million in the quarter from 8.2 million in Q1 at fiscal 2014. And as a percentage of revenue, G&A expenses decreased to 11 percent from 14 percent of revenue, reflecting our continued efforts to improve the leverage we're driving in corporate overhead. Excluding amortization, G&A costs decreased to 5.1 million, or 8 percent of revenues.

R&D expenditures decreased to 12.3 million compared to 14.9 million for the same period last year, and as a percentage of revenue R&D expenditures declined to 20 percent from 25 percent in the comparable period.

The decline was largely the result of the following three factors: first, the impact of the reduced use of external contractors, which is a major focus area for us as we've discussed on previous results calls; two, the transfer of some resources to the cost of goods sold for work done on specific projects; and third is a onetime credit which benefitted R&D expenses.

Total cash costs related to the acquisition in the quarter were 0.4 million compared to 0.9 million in the same year-ago period, and this reflects some settlements of severances and other compensation per the BSS framework agreement.

Last year we announced details of our normal course issuer bid under which we could purchase up to 9.4 million common shares. The NCIB commenced on June 3 of 2014, and will terminate on June 2 of 2015. And as at December 31, we have not purchased any common shares under this NCIB. However, this opportunity remains available to us, and we've also announced last night that we've instituted an automated share purchase program under the NCIB.

At this point, I'd like to turn your attention towards some specific balance sheet items that we reported in the quarter. Cash and equivalents totalled 101.5 million at the end of the quarter, and this represents an $8 million decrease from the 109.5 million cash balance we recorded at Q4 of 2014, primarily as a result of the following three factors: first, about $3.5 million of cash payments that were made toward the restructuring plan; two, was the negative translational impact of foreign exchange rates which impacted our cash balance by about 1.9 million; and the impact of the increased accounts receivable due to the timing of collections at the December year-end quarter.

And as a result of that last point, accounts receivables increased 6 percent from 71.4 million in Q4 to 76.2 million as at Q1 of fiscal '15. And our corresponding day sales outstanding increased to 107 days compared to 101 days we reported in the prior quarter. I will note that this is still in line with our targeted DSO in the range of 100 to 110 days.

We saw a small increase in unbilled revenues from 42.4 million in Q4 to 43.6 million in the current quarter. And conversely, deferred revenue decreased 3.3 million to 21 million from the 24.3 million last quarter.

I'd like to point out that we saw some improvements in other balance sheet accounts; specifically, our accrued liabilities decreased by 6.5 million to 32 million in the quarter as compared to 38.6 million at year-end. And we also saw inventories decrease to 2.6 million from the 5.2 million at the September quarter-end.

Overall, working capital decreased slightly to 131.9 million from the 132.2 million reported last quarter. Our order backlog was 171 million versus the 169 million we recorded Q4 of 2015. And of the $171 million backlog, approximately 80 percent is expected to be recognized as revenue over the next 12 months, with the remaining to be recognized over future periods.

This completes my financial summary. I'd like to turn the call back over to Lucas for his operation update.

Lucas Skoczkowski

Great. Thank you, David. We feel it is important to view our financial results within the context of our overall growth strategy.

Here I would like to update you on two areas. First, I would like to discuss our short- to medium-term management priorities, and then I would like to discuss our long-term growth strategy.

With regards to our short- to medium-term management priorities, as previously discussed, we see a significant opportunity to continue to build value for our shareholders. During the first quarter, we continued to progress steadily towards achieving this objective.

Number one, with regards to the support values, we continue to see gradual improvement in the support margins we are deriving from our increasing customers. I stated on the last call we expect to complete the renegotiation of these support contracts by April 2015; that we anticipate also that in fiscal 2015 we will see some lumpiness in support values as we continue through this process. At the same time we also expect to see margin approach our target EBITDA margin as we begin to replace underpriced contracts with more of industry-standard valuations.

Number two, with regards to increase upselling of our software, we have continued to close on upgrades, licence expansions, and upsells, providing validation for our customers that we are taking care of their investment while providing them with a competitive advantage through the latest version of Redknee unified platform. We're pleased with the traction we're experiencing here, as we have strong bookings and secured over 95 purchase orders for new licences, upgrades, upsells, and expansions.

Finally, I would like to provide you with an update on our long-term growth strategies, and these are comprised of three main elements which build upon the short-term objectives we described earlier: number one, continued evolution of our business critical software product offering; number two, market share growth and leadership in our served, addressable market; and number three, an increasing proportion of sustainable recurring revenues.

Expanding on these, on the product offering front in the quarter we continued to announce secured contracts for our core telecom business, as well as Redknee Connected Suite, a software platform that fully leverages Redknee unified product line to support the Internet of Things market.

Number two, on expanding our market share and leadership, we currently are deployed with over 200 global service providers supporting approximately 2 billion subscribers. As a company, we are relentless about our customer-for-life approach. This approach to customer service is why we have continued to retain all of our clients, and we have not lost any customers from the acquisition to date. And more importantly, we see the remaining two NSN customers will roll off, as mentioned before, by end of the fiscal year.

Number three, on the sustainable recurring revenue front, our recurring revenues are primarily comprised of support and SaaS or term licences that together in the quarter comprised of $27.4 million, or 44 percent of revenues. As previously discussed, the anticipated decline in recurring revenue relates to the specific remaining two customers that have made the decision to move off of the platform prior to Redknee's acquisition of the Nokia Network BSS asset.

After all of this we see an opportunity to continue to increase the support margin while providing more opportunities for SaaS or terms licences. We continue to focus on sustainably growing our recurring revenues while progressively scaling our EBITDA margins.

We do see opportunity for us to continue to grow our EBITDA margins from where we are today towards our long-term goal of 20 to 25 percent of total revenues over the medium to longer term.

In summary, we have seen continued growth in our order backlog as we have executed on our three-step plan. We are building strong quality revenue streams, improving gross margins, and EBITDA margins while looking to further improve our cash flow.

Before opening the call to your questions, on behalf of the entire management team I would like to say thank you for the continued support from our employees, our partners, and our customer base.

Now with that, we're ready to open the call to your questions. Operator, please provide the appropriate instructions.

Q&A

Operator

Certainly. At this time, if you'd like to ask a question, please press *, 1 on your telephone keypad. If you wish to withdraw your question, simply press the # key. Remember please limit yourself to one question and one follow-up, and we'll pause for just a moment to compile the roster.

And your first question comes from the line of Steven Li from Raymond James. Your line is now open.

Steven Li — Raymond James

Thank you. Hi, David, Lucas. Lucas, on the support with the expected churn, did you say that it's worth not more than 10 percent of the quarterly run rate, which means it should bottom around $22 million?

Lucas Skoczkowski

No, so I was looking more at the combined recurring revenue, so I think recurring revenue is about 27 and a bit. So I see it getting closer to 24, and then for us to rebuild that towards larger numbers over the following quarters.

Steven Li

Okay. So bottom around 24. And so can it grow in 2016? And what would be the drivers for the support revenue growth?

Lucas Skoczkowski

So I think it's a very good question. I think if you see this quarter, we attempted to provide additional, I guess, insight on how we're changing the model towards software. So following the feedback from the long-term investors, we felt it was important to demonstrate how our software line is growing.

As we sell more software this is going to bring within usually the first year of software coming online based on this agreement that the support it actually comes online as well. So we would start stacking up associated support, increased support values, and we start seeing that in 2016 and beyond.

Steven Li

Okay. And how about the pricing increase you've talked about in the past; is that also going to be a factor in 2016?

Lucas Skoczkowski

Yeah. I think from the—so within the contracts we've seen improvement, especially in the first 12 months post-acquisition. Over the last 12 months I would say that improvement was offset but also I think probably customer focus on some of the OpEx reduction on their side. But I would say we still see opportunity on a contract-by-contract basis to drive improvements in margin contribution and in pricing power.

So we do see—and we have a plan, account by account, to drive improvements, but this is not something that happened—the cycle here is annual versus quarterly. So we need—every year we use opportunity to upsell and increase the value from those customers.

Operator

Your next question comes from the line of Michael Urlocker from GMP Securities. Please go ahead.

Michael Urlocker — GMP Securities

Yeah. Thank you. Lucas, I think it's certainly good to see the strong EBITDA margin and the strong EBITDA in the quarter, but what I'm struggling with, and probably a lot of investors are trying to understand, is there seemed to be a lot of parts still moving as the Company's undertaking some cost cutting, some shedding of low-margin business; there was a spike from a catch-up contract or what was a previously delayed contract that was recognized in this quarter. So what we're really trying to understand is what's a sustainable level of EBITDA and EBITDA margin that the Company can generate? Now I know you don't like to give guidance, but anything you can offer that helps us understand how the business and the financial model is evolving will be helpful.

Lucas Skoczkowski

So I think from our perspective we've been talking since really April of 2013 of the new platform that Redknee has as a company. Our view has been to move the Company towards increased proportion of licences, both perpetual, as well as term licences.

We have, I think as David spoke to, increased that. Prior to Redknee acquiring the BSS asset we were roughly between 3 million to 4 million as an estimate of licences. Following the acquisition, that number started at 7. So incrementally we only were driving $3 million of licences from the acquired business. Today, I think the average run rate is in probably kind of high teens, probably around 19 million over last 12 months.

So to me we have taken a business which was generating 3 million and added incrementally about $50 million of licences to really change the equation. I think the work is ongoing. We do see additional opportunity, which we've spoken to over last several quarters about driving term licences. We're making gradual improvement, and my view is as opposed to being ahead of ourselves we want to stick to our targets, which I spoke back in 2013, and we continue to repeat with respect to we are now squarely in the second year of the three-year plan. And we want to drive on a sustainable way mid-teen EBITDA margins.

We need to prove that. I think last quarter there wasn't—last two quarters we've seen, I think, some more tangible improvements on this journey. And there's nothing I can say here to give folks comfort. All I can say is we're sticking to our objectives, we're going to execute, and over next several quarters I hope that we can have more discussions about how we can create more value.

Michael Urlocker

Okay. I think that's helpful, and I appreciate it. And then if we look at collections, I mean to be direct, we want to see consistent cash collections every quarter and there was a small cash burn here. Is there a further improvement in process required here? Or how would you describe that situation?

Lucas Skoczkowski

I think so. We want consistent cash collections more than you do since everybody in our company gets paid on that metric. So that's very important.

I want to point out I think the team has done a very good job. At the same time in the quarter there’s two realities we need to remind ourselves. December is one of the more not normal months. That means it's shorter and also for most of our customers it's the end of the fiscal year. So as you can imagine, our customers become less available as they want to manage their own cash positions.

But that being said, I think we have a clear visibility, and we are very diligent to making sure that we continue to drive improvement in collections, as well as the metric about, as David spoke to, about day outstanding.

David?

David Charron

Yeah. No. I think I certainly would echo those comments, Lucas. And these comments may ring a bit hollow, given the results, but collections is front and centre to the entire team, and we've made some great progress over the last couple of quarters to prune systematic processes internally with the challenges we had with Nokia in terms of just a process point of view. And I spoke to that in the past.

So that's behind us. What's ahead of us is more continuous improvement of cash collection and managing our balance sheet. So for those of you who've had a chance to look through the financial statements, if you look at Note 10, which is the change in noncash working capital, we've consumed some operating cash through reducing some of our liabilities ahead of collecting and reducing our AR. So that's a timing issue that in hindsight wasn't the best approach, but we've got a very good handle on the underlying processes. We're managing this and the relationships with our customers in a very positive way.

So I am confident that in future quarters our cash collections will improve and we will be generating cash from operations.

Operator

Your next question comes from the line of Todd Coupland of CIBX (sic) [CIBC]. Please go ahead.

Todd Coupland — CIBC

It's close enough. Good morning, everyone. I wanted to be specific on the bottoming of the support revenue. So, David or Lucas, I think you said 24 million and that comps against the 27 million in the first quarter. When do you think—which quarter do you think it bottoms in in 2015?

Lucas Skoczkowski

So I would say that it really depends on the customers, but we expect somewhere between Q3 and Q4. And I also expect that some of the additional support aspects will start kicking in as of Q4 as well. So I think that there'll be kind of a crossover around that time, Todd. Is that helpful?

Todd Coupland

That's helpful.

David Charron

Maybe I'll just add to that. The dynamic that you're seeing here is customers have declared they're moving off. They have to be somewhere. So if there are delays in the competing platform being available to them to transition subscribers, then they stay in our platform a little longer.

Lucas Skoczkowski

Yeah. And to that, David, that's a very fair point, some of those customers we expected those to transition last year. They haven't because there have been delays up to and over a year from what was initially said. So that's positive.

But I think from my perspective what I'm more excited about is the fact that we are winning some marque customers and we're bringing them online. And we want to make sure that we concentrate around building value for that.

Todd Coupland

Okay. And then just, Lucas, what do you think the growth rate of your sort of target market is in 2015? And how can Redknee do against that market? Thanks.

Lucas Skoczkowski

So I think it is—we're in a consolidated market where we see overall space for BSS, so Business Support Systems, in our space growing somewhere in the low single digits. We are actually growing faster, but you won't see that because the way I look at the business is we are right now generating double-digit growth internally to replace some of the low-value business with profitable licence business, term licence business, and high-value services business.

So this transition doesn't necessarily make it easy, but from internal-external reporting because I will be judged based on the top line number—but that's before—my focus is on driving transition while delivering—translating that into sustainable EBITDA margins.

And I think the tone of our discussions probably will—as we execute—will improve because people, I think, all of our stakeholders look for us to execute as opposed to talk about what we aspire to do.

So my view is we are growing; we're taking market share. Let us convert it into profit, and then we can discuss how we see our competitive positioning improve because from what I see on the ground from a cash flow perspective, we are well positioned. And in fact in combined it with a solid financial performance, I think we can come back and focus again in the future about taking out our competitors through acquisitions.

Operator

Your next question comes from the line of Paul Treiber from RBC Capital Markets. Please go ahead.

Paul Treiber — RBC Capital Markets

Thanks very much. You have a couple of large cash outflows in the next year. I think there's the restructuring payouts and then the NSN earn-out. What's your confidence that you would have sufficient free cash the next year to finance those? And then related to that, could you comment on some of the covenants in your credit facility? Just how much leeway do you have against those covenants currently?

David Charron

Sure. Thanks, Paul. It's a good question. So from a cash perspective—and you can see on our balance sheet what we've sort of recorded as a current liability for both the provision, which is the restructuring provision, and the contingent consideration, which is the earn-out; those are the two items you're talking about, Paul—and they're about approximately 14 million each that we're expecting would come out of cash for this year.

And as I said on previous calls, based on the visibility that we have, I believe that that will be covered by operating cash flow. Now I know that the payments against restructuring from an accounting perspective is considered part of operating cash, but I think if you exclude that piece the rest will be covered by operating cash.

And that was the first one, and second regarding the covenants of our debt facility, so first of all I'll state that all debt facilities have covenants. I am very happy to say that the covenant that we have and the relationship that we have with Wells Fargo is one where we have a lot of leeway in terms of—and room to achieve those. And we have never even come close to tripping those covenants in the past. And I think, given the trajectory we're on in the last couple of quarters, we will have even more room.

Paul Treiber

Thanks very much; it’s very helpful. One follow-up. The split between software and services that you're now providing is very helpful. It looks like services has averaged maybe 15 to 20 percent of total revenue over the last year. Is that the right mix for the business going forward? Or should we expect further declines in services? And then, Lucas, you mentioned profitable services a couple questions back. Could you just elaborate on what that means in terms of gross margins on services and versus where it is right now?

Lucas Skoczkowski

Okay. So I think there's a couple things. In terms of services, we believe that a healthy software business has a kind of 20 to 25 percent services mix because really our customers not only buy technology, but they want to be able to use the technology in their business, and we are probably best positioned to do it in an effective manner.

So the way we—obviously what we're doing is we've done more automation in services so that we can make people available to provide more of the expertise consulting and more of transformation support to our customers to be able to transform their business and capturing new revenues in their business.

So we see ability for us to support. I think we still can improve margins there by probably I would say over next two to three years 20 points improvement from where we are today. And we see improvement probably from where we see services on growing services business probably be in the 35 to 40 percent margin range.

That being said, we do see customers asking us to do more SaaS and more also managed service. SaaS is a higher margin than that, whereas I would say managed service, on-site managed service, tends to be a bit lower, probably in the kind of 20 to 30 percent range.

So that mix will flow, but I think it will somewhere be in the 35 to 40 percent on the services medium to long term. Is that helpful?

Operator

Your next question comes from the line of Justin Kew from Cantor Fitzgerald. Please go ahead.

Justin Kew — Cantor Fitzgerald

Thank you. Good morning, Lucas, and good morning, David.

Lucas Skoczkowski

Good morning.

Justin Kew

Good morning. So just a first question on the R&D. David, you talked about a onetime credit in there. What is the—how large was that? And how do we expect R&D expenses to look for the balance of the year?

David Charron

Yeah. No. It's a good question. I think I'm going to say it's approximately $0.5 million of onetime credit. And I wanted to be very transparent on it because I know we've talked a lot about the improvements in our OpEx, and I know you guys are trying to understand what's kind of the sustainable run rate here, so I thought we could be transparent on that.

I also mentioned that some of the resources that were a part of R&D are being used for customer projects, and so those were charged against the cost of goods sold. So that also was in my explanation for change in R&D costs.

Justin Kew

Okay. Excellent. Thanks. And then a follow-up question. Lucas, just because now we're starting to see non-telecom deals; we're starting to see those starting to flow now, and so winning these deals, what type of competitors are you seeing? And where do you think you've got a unique positioning in terms of winning these deals?

Lucas Skoczkowski

Yeah. So I think I would say I mean we have shot out a couple bullets to test the market. I think I've mentioned before for us this is we want to validate and obviously engage in this opportunity over the coming three years, but obviously most of our resources are still focused on our core business.

So I just want to temper up the enthusiasm, but I think for us for the competition varies. They usually tend to be larger, both kind of complex companies that deliver hardware, software, and services. And without naming names of companies, like I would think Siemens, companies like GE, companies like large providers of infrastructure.

But we see them both today some of the opportunities are our competitors, but we are in dialogue with a handful of companies that we went up against, and now that we are working with them to see how we can potentially partner with them. And some of those already are being integrated as partners.

So this actually should help us. We're testing the market. We have a very good competitive advantage with respect to us probably being one of the most scalable platforms in the world, having strong intellectual property base, and having strong expertise in highly scalable virtualized systems where if I look at we deploy—we can very easy deploy and bring a system online for 5 million to 10 million subscribers with complexity that is probably not as easily implemented in a regular enterprise IT environment.

So we win hands down on the product side. We need to partner to have the vertical expertise. So I see that opportunity over the next three years as we clarify and zoom in our lens, the opportunity will be more about working with some of the big partners where our software platform and preferably our cloud offering gets embedded into their service/product offering that they bring to market. Is that helpful?

Operator

Your next question comes from the line of Scott Penner from TD Securities. Please go ahead.

Scott Penner — TD Securities

Thanks. Just, Lucas, first question was just on the maintenance side. As those two remaining customers roll off, is the balance of the support base at an acceptable margin? Or is there, let's say, another shoe to drop as some of those lower-margin customers are moved up in price?

Lucas Skoczkowski

Yeah. So I think there's no shoes to drop. I think these particular two contracts were known for the last, what, three years for us because we needed back in negotiations when we were looking to acquire the business.

We see ongoing work to drive improvement in support. There's obviously—that's nicely, I think, matched with the tension that our customers what to drive their costs down. But I think we still have opportunity on price and scope of what we do for customers while we're making sure that we are disciplined on costs. So we do see opportunity for us to increase value.

We see also, as we sell more software to these customers, the relevant figures also improve. So I would say what we want to bring is clarity of what we see today is an opportunity for us to build on recurring revenue so we can be in a kind of nice quarterly run. And this develops our share with the market.

But I don't expect any other—we've done quite a bit of work over the last few quarters to make sure that we are, I would say, removing some of the unprofitable aspects, and everything else needs to be right now on the right trajectory.

Is that helpful, Scott?

Scott Penner

Yeah. No. That is helpful. Can you give us what the—sort of what the support gross margin, let's say, is right now and maybe where it's come from and where you're targeting?

Lucas Skoczkowski

I'm not sure yet in terms of with all the other bits we're trying to provide clarity on. I would say that probably we've probably moved the needle—we probably are halfway to where we want to be, but we've come a long way from where we took on the business. And where we took it on with ourselves, the margin contribution was maybe breakeven on the support where we see obviously. So we've increased the value we generate to the business considerably.

And the team has done an awesome job. We've done that while we have improved all the metrics for customer service. So doing those two things are the two conditions that we set out for ourselves. I think the comments I received from different stakeholders were that this was an impossible task. The team has done an awesome job.

I see opportunity for us to make more money on that because what we do is—remember, we are sticky for our customers. So it takes two to three years to come off of our platform. Number two, our customers love the support we provide them, and we are there when they need us.

Number three for us is to really drive the value that we have more predictability in our business. You see our software licences are still lumpy, but as we bring on more virtualized and term licences, and you've seen all of the contracts we have signed for the non-telecom are all enterprise licence-driven—term licence-driven rather, we want to do more of that. And then I think this would drive in the long term EBITDA margins, which we want to be kind of a 20 to 25 percent EBITDA margin.

Scott Penner

And do you guys still see the EBITDA margin for, let's say, exiting this year or this year as a whole in the mid—sort of the mid-teens range despite what's going on in FX?

Lucas Skoczkowski

Yeah. I think so. We cannot—FX is changing so fast. It's always fun (phon) for all the operators in the business, but we do have quite a bit of natural hedges built into our business. And I believe that I have nothing to tell me that we won't be close to the mid-teen EBITDA margin.

At the same time, we're watching it very carefully making sure that we are conservative in how we approach the execution of the business. But that's what we are targeted to drive. Remember, the two key metrics for us are EBITDA and cash flow, which is what I think we measure internally overall performance of the business. Okay?

Operator

We have no further questions. I'll turn the call back over to the presenters.

Lucas Skoczkowski

Great. Thank you for participating on today's call. We really do appreciate your questions, as well as your ongoing interest and support of Redknee.

I look forward to reporting back to you in a few months' time on the result of the second quarter of fiscal 2015, as well as I hope to see many of you at our annual general meeting, which will be conducted in March.

Thank you. Take care.

Operator

This concludes today's call. You may now disconnect.

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