LUXOFT
Reports Results for Three and Nine Months Ended December 31, 2016
February-15-2017
Confirmation # 13653359

Operator: Greetings, and welcome to Luxoft Holdings Call on Financial Results for the Three and Nine Months Ended December 31st, 2016. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star-zero on your telephone keypad. As a reminder, this conference is being recorded. It's now my pleasure to introduce your host, Alina Plaia, Vice President and Investor Relations Office. Thank you. You may begin.

Ms. Alina Plaia: Thank you, Rob. Hello, everyone. Good to have you with us. Welcome to our third quarter earnings call, during which we discuss Luxoft Holdings' financial and operating results for the three and nine months ended December 31, 2016. Our earnings release was published after the market closed last night. We hope that you had a chance to review it, along with the six-day form that was filed with the SEC earlier this morning, Eastern Standard Time.

As you probably know by now, there is a webcast available during this call. All of our updated investor materials, including the earnings press release, company's fact sheet, and the updated investor presentation, can be found on our Website, Luxoft.com, and Investor Center. Our two speakers today are Dmitry Foschini, the President and Chief Executive Officer; and Roman Yakushkin, Chief Financial Officer. Please be aware that some of the comments on this call may be deemed forward-looking statements. These include our business and financial outlook, any comments with respect to high potential account development, impact of our acquisitions, and answers to some of your questions.

Such statements are subject to risks and uncertainties as described in the company's earnings release and other filings with the SEC. Please note that we follow US GAAP--sorry--accounting rules in our financial statements. During our call, we will reference certain non-GAAP financial measures that we believe are relevant for better understanding of our business dynamics by the market.

Dmitry will give you operating overview of the business, followed by Roman, who will highlight all of the key metrics within our financials. Dmitry, please go ahead.

Mr. Dmitry Loschinin: Hello, everyone. Thank you for joining us today. We are pleased to announce strong results for the quarter ended December 31st, 2016. Our company posted top-line growth in excess of 50 percent year-over-year, or nearly 22 percent of growth in currency terms. All of our core verticals experienced healthy growth, with automotive and telecom leading the way at 37 and 92 percent respectively.

Automotive services vertical is increasing its weight in the overall revenue mix of the company, as expected. Now it's close to 16 percent versus about 14 percent a year ago. We continue to experience favorable revenue concentration dynamics with respect to the top three accounts, as well as concentration of the financial services vertical. Financial services vertical is now comprising less than 60 percent of the revenues versus 67 percent a year ago. Deutsche Bank is now around 22 percent of revenues. Thus, top one client concentration has declined close to7 percent for the first nine months of the year on a year-over-year basis.

Our quarterly growth with our top three accounts was over 50 percent year-over-year and 46 percent year-over-year for the first nine months. Concentration of top five and top ten accounts is similarly down 67 percent for the nine--for the first nine months. We continue to diversify our top five and 10 account lease. Therefore, year-over-year comparison is not quite well at this quarter.

The accounts that comprise our top 10 now outside of the top three names that you already know are Citi, Credit Suisse, AT&T, Boeing, Avaya, a premier German OEM, and European Bank with a significant retail presence. Our HPA account strategy is intact. To date, we have closed 50 high potential accounts, which comprise about 30 percent of our revenues for the past 12 months. The group continues to grow over 110 percent on average year-over-year.

Revenue for delivery engineer continues to rise with 3.6 percent annual increase in the third quarter to over $80,000 US. We believe that the growth of this metric reflects the fact that our clients are willing to pay premium pricing for the quality and uniqueness of the solutions that we bring to them while executing on complex domain focus engagement. We are forging ahead on our bolt-on acquisition strategy. Our M&A pipeline remains active with interesting potential acquisitions which we are excited to add to our Luxoft family. The latest transaction that we were happy to announce just two weeks ago was IntroPro, a European-based IT services and consultant provider focusing on content delivery and management for telecom and media enterprises. We will speak about it in a bit later on the call.

A centers of expertise update, centers of expertise continues to enhance the offerings we bring within various domains by applying new technologies, such as cloud, big data, IoT, and DevOps, to the front office, revenue driving programs where customers are seeking digital transformations. We are proud to be one of only eight global consultant and system integration companies to qualify to join Amazon's Web serves IoT competency partner program as a consultant competency partner. Our IoT and big data, data analytics teams are closely working with retail, automotive, agriculture, and healthcare clients to build bespoke telemetry, diagnostics, and other solutions.

Going forward, we will be pushing new technologies and capabilities. Big Data CoE will soon add Artificial Intelligence/Machine Learning capabilities. New COEs will include Information Security COE and Intelligent Device COE, extending our HMI offerings into other verticals. Over the past month, we have been witnessing many interesting market changes. We are watching carefully the moves that the new administration in the US is planning to undertake.

One, rate hikes, ultimately we believe that gradual interest rate hikes should eventually have positive impacts on the large investment banking clients, including Brighton Futures for the capital market divisions. Second, immigration reform, most of the potential changes seem to be related to H1B visa program. It's unclear when and how the changes are to be made at this junction. As you know, our business model allows to continually support Luxoft clients with approximately 85 percent of high quality offshore personnel.

As of December 31st, 2016, Luxoft has less than 10 employees on H1B visas in the United States out of nearly 1,000 employees in the country and over 12,000 worldwide. Therefore, at this stage, we consider our exposure to any changes in the immigration and visa laws as immaterial. Our execution has never relied on such heavy onshore presence. This business model may actually prove to be more competitive now, and the limitation of the H1B program might have positive consequences, since our peers would be unable to bring qualified personnel into the United States.

Three, Brexit, we believe that currently we are still quite far from any definite steps to be undertaken by the UK, and thus our clients. But, we anticipate that any changes in operations and regulations related to Brexit should be neutral to positive for Luxoft in mid- to long-term. Without any concrete directive, uh, from legislatures and regulators with respect to Brexit, most of our clients are in the midst of finalizing their RTB and CTB budgets, a process that is unlikely to conclude before mid-March for many of our significant customers.

Let's move to the vertical updates. Financial services, despite the widely discussed challenges within Financial Services sector, our clients are generally upbeat about both business prospects and IT investments. There is a good dynamic across our HPA client base in this vertical, especially those who aspire to bring FinTech into wealth and asset management areas. While the core of our work and client's immediate concerns still focus on regulatory work, core systems build out, and optimization, there is much interest in various options of deployment of the latest FinTech.

2016 set off an explosive growth of the financial technology industry underpinned by new trends in Financial Services sector, as well as investments pouring into new tech startups and solutions. By mid-August of 2016 investments amounted to more than 15 billion year-to-date, with the U.S., Europe and APAC attracting most of this money. Legacy financial institutions are forced to compete with companies like PayPal and Venmo. Thus, most of them are moving towards digital banking and involve partners like us to assist with these initiatives.

We're seeing healthy growth in infrastructure, cloud, DevOps in the context of our large legacy accounts. Historically Luxoft has not played in operations and infrastructure space. Today DevOps is gaining traction as best practice and cloud is generating an increasing amount of engagements as financial institutions are starting to get comfortable with the security implications of hosting software with third parties. Both DevOps and Cloud are driving efficiency in Software automation and we are excited to support digital disruption in these segments.

As Fintech trends are becoming more pronounced, we see continued interest in big data processing and data analytics tools, launch of initiatives around increased automation, robo-advisory, and adoption of Blockchain. Robo-advisory is becoming a noticeable disruptor in the investment advisory space across private banking and wealth management space. Some of the statistics we see in financial publications like Business Insider state that as much as $8 trillion in assets by 2020 will be managed by robo-advisors, which use algorithms to recommend stocks to end customers.

New account growth is progressing well and as planned. The vertical growth outside of our top two accounts was over 35 percent for the quarter, and for the nine months on a year-over-year basis. In addition to the opportunities around digital transformations and significant Murex implementations with European retail banks that have been growing with us for nearly two years, we now have a larger global opportunity with one of our most significant HPAs that spans across several functional areas, including consulting.

Despite the talks regarding possible repeal of Sarbanes-Oxley and Dodd-Frank regulations under President trump, we do believe our regulatory workload is unlikely to get much lighter, even if that happens. For one, the amount of work is based on the changes needed and there is no shortage of such. Another point - global watchdogs will continue to enforce vigilant monitoring of the financial transactions regardless of what the U.S. does. Basel Committee's FRTB and E.U.'s MIFID II are the latest regulations with deadlines as soon as next January.

MiFID is EU framework for financial institutions and overall trading activities of various financial instruments. MIFID I standards are now being revised to further improve functionality and transparency on the market for all instruments, trading in which may have been unclear up to now, such as some derivatives and fixed income instruments. The changes, known as MiFID II, are currently set to take effect in early January 2018. We expect to see significant demand from many institutions with securities trading activities in Europe. Our teams have several ongoing sizable engagements being discussed with clients around that subject.

Deutsche Bank update, the revenues for the year ended March 31st, 2017, should come as expected at a single digit decline rate. As you might have heard, the $14 billion fine has been reduced to $7.8 billion. We are remaining to be the key vendor for the bank, in-line with the SPP program that was launched in 2014. While conversations about failed vendor consolidation are slowly ongoing, DB remains a wildcard during this calendar year, meaning, uh, further noticeably run rate decline is possible in our financial year 2018.

That said, we hope this account will bottom out some time in the 12, 18 months. We are very much keeping an active presence in the bank, making strides to expand the areas outside of IB and focus on asset management, wealth management, and other areas.

UBS updates, the revenues should be coming in as expected with a single digit increase. We discussed this dynamic on many other calls. We feel that UBS has turned around the corner at this time and should have an easier calendar 2017. Immediately after our last earnings call, we signed a three-year contract as one of only a few strategic vendors outlining the minimum target span of UBS of $300 million US. We are very excited about this announcement, as it marks a paradigm shift in the way large enterprises are starting to think and engage with their vendors in the form of multi-year managed capacity, managed delivery, and engagement, and strategic relationships.

These institutions are looking for partners that can support numerous ongoing initiatives driven by both regulatory aspects, and digital disruption. The way we see it, UBS has been carrying out changes in order to create more business aligned structure, rather than enhanced operations. And that should bode well with Luxoft for the long term.

Automotive vertical continues to post strong growth, 45 percent year-to-date, predominantly organic. Symtavision, an acquisition from early 2016, has been fully integrated. And Pelagicore's integration is ongoing since October and has practically no bearing on nine-month figures. Our top account, Harman, is keeping quite salient. We continue enjoying a strong relationship as R&D partner of the company.

As you know, Samsung Electronics recently agreed to acquire Harman International. The deal is expected to close in the spring. In our view, it was an interesting deal, neutral to potentially positive for us in the long run. We believe that Samsung will allow Harman to operate independently for some time, as the company has no vertical focus in the automotive software development skills in house. At the same time, Samsung has other business lines that we believe may open doors for cross selling opportunities in the telecom, electronics, and embedded software development segments for our company in the future.

Other automotive business continues to grow exceptionally well outside of Harman. The vertical grew around 100 percent year-over-year during quarterly and the nine months timeframes, driven by significant demand from several OEMs and Tier I suppliers across all segments, digital cockpit, ADAS, connectivity and under the hood. We are pleased to announce that during this quarter, we were able to penetrate commercial vehicle division of one of the largest OEMs in Europe.

This one, we previously worked on passenger vehicles only. We are hopeful to continue to make headway into the commercial space with other vehicle manufacturers. In terms of new clients, we obtained at least one HPA during the quarter, which is a large Asia-based national manufacture for electronics, automotive parts, and electrical equipment. As many of you know, Consumer Telematics and Electronics Show took place in early January. Autonomous driving, various industrial related technologies, and the future of self-driving car have been given an enormous amount of potential.

On every earnings call, we are doing our best to explain Luxoft's strategy and describe our company's progress in the automotive sector. We hope that by now the state has a good understanding of where Luxoft stands in automotive software development space. We believe that our company is truly unique in this segment, being viewed by many top players as a go-to system integrated and/or R&D partner. Luxoft is developing software for numerous areas within the cockpit and under the hood of the car, covering from infotainment, navigation, HMI, and digital cluster space, ADAS, and semi-autonomous driving-related software. Our latest addition to the multitude of services we bring to our clients is driven by new practice diagnostics.

We enjoy delivering this expertise to Luxoft clients not only from automotive but also from other verticals, such as agriculture and industrial equipment. For example, we have started cyber security related projects with one of the largest European manufacturers of industry, commercial, and agricultural vehicles. Another project that's ongoing is one of the larger--large global engine manufacturers. Luxoft built an application stack that allows connecting an engine with a mobile device for maintenance, malfunction, and repair monitoring.

In one of its recent insight reports, analytics and advisory firm ISG called Luxoft the heavyweight in the connected car ecosystem. In addition to growing our customer base and increasing our awarded share with the accounts in this vertical, we also continue to play an active role in various communities, such as Rinspeed, and alliances such as GINIVI that help advance, uh, key technology for the cars of tomorrow and self-driven cars of the future.

Thus, during CES, Ford and Toyota spoke about their newly-formed SmartDeviceLink Consortium, a nonprofit organization working to manage an open source software platform - a standard set of protocols and messages that connect applications on a smartphone to a vehicle's head unit. The goal is to give consumers more choices in how they connect and control their smartphone apps on the road by encouraging the apps used in cars to be open-source and thus more uniform across all car technology platforms. Luxoft is proud to be one of the first supplier members in the group, along with Mazda, Fuji Heavy Industries and Suzuki Motor Corporation.

During the event our company showcased AllView II, our second-generation automotive cockpit reference design platform that demonstrates Luxoft's vision of future designs for in-vehicle infotainment technology for autonomous driving, connected car, and Internet of Things-related elements. AllView II clearly illustrates how user experience features have evolved in a short couple of years. Some advanced integrations include natural language understanding and text-to-speech, gesture recognition, and the feature that captivated many who used the demo at the Show, control and driver monitoring through eye tracking.

Telecomm, during the past quarter our company completed the integration of Insys and Telecom LOB joint selling efforts to wireless carriers and service providers, including AT&T and Verizon. The vertical posted a top line growth of 72 percent for the past 9 months, year over year.

Luxoft's extensive enterprise and network capabilities give us a unique and valued contribution to our U.S. carrier customers' operations, and strengthen our offerings to global service providers and network equipment manufacturers.

As a result of digital transformation over the past several years, the boarders between carrier, cable, and media companies have faded and verticalization of the supply channel has started. Hence, in a strategic move to expand our footprint along this vertically integrated supply channel of wireless carriers and cable/media/content providers, we acquired IntroPro. The company is an engineering consultancy with deep expertise in complete lifecycle of enterprise and embedded software architecture, development, testing and QA, maintenance and managed services for content delivery. It is specifically focused on TV, Media, and Entertainment industry. This acquisition further deepens Luxoft's vertical expertise and widens current offering for the wireless and cable/satellite providers, a customer audience that we have been actively targeting for the last few years.

IntroPro generates over 90 percent of its revenue from the telecom/media sector, serving several blue chip clients based in North America. The company resembles Luxoft in culture of engineering excellence, in complexity of the engagements, in impeccable quality of execution, precise domain focus, operational agility and Eastern European DNA. IntroPro employs seasoned professionals at its offices in the U.S., with strong offshore support from Ukraine. The acquisition rationale comes from synergies of highly complementary offerings between Luxoft and IntroPro to essentially the same client base around legacy and next gen embedded software development services for various content delivery devices.

Post integration, both Luxoft and InterPro will be utilizing augmented capabilities of Luxoft's COEs in DevOps, Cloud and Big Data that both companies have expertise in, such as content management, subscriber management, and big data analytics. As a result Luxoft should firmly anchor with one of its core telecom clients in at least three different functional areas, SDN/NFV, big data analytics/IoT/predictive analytics, and now content delivery, management and next gen embedded services.

Telecom and media segment has been heavily exposed to the digital transformation era, and the livelihood of enterprises is being influenced by changes in ways goods and services are being consumed today. The changes are dictated not only by end customers but also by the regulators, who insist that content and services acquired by consumer should be visible and accessible across all of consumer devices. IntroPro has been an active contributor to multi-media strategies of its clients focused on migrating content delivery to web-based multichannels that can be accessed everywhere through dynamic and agile modern software development methodologies. We believe that Luxoft can achieve good success packaging its current expertise as an offering to many content providers in the U.S. and worldwide.

The convergence of computing and telecom networks continues at full pace. The interplay of information and its way of transmission mean that network resource allocation is in the mercy of software controlling it. The distributed nature of computing and networks requires new skills and new ways of thinking about the total network and information technology connected to the network. These changes provide opportunities and challenges for our customers and their eco-systems. Especially after the IntroPro deal, our expanded capabilities allow Luxoft be more relevant in addressing customer pain points.

In conclusion, I would like to highlight that we are pleased with the results of the third quarter of our financial year. We are proud of the growth rate and the operational efficiencies that we reached despite various headwinds and significant investments into the company's strategic initiatives on the sales, acquisition and R&D fronts.

Before I pass the call to Roman for the financial overview I would like to make an announcement. Roman will actually be moving on to pursuing other personal endeavors and will remain with Luxoft in a non-executive capacity, continuing to serve as one of the managing directors of Luxoft Global Operations. He will also ensure a smooth transition of his CFO responsibilities to his successor, Evgeny Fetisov, who is a former CFO of the Moscow Stock Exchange. Evgeny will assume Luxoft CFO position on April 1st of this year. We would like to thank Roman for over a decade of wonderful service to our company. With this, I would like to pass the call to Roman Yakushkin for the financial overview.

Mr. Roman Yakushkin: Thank you, Dmitry. Hello, everyone. Let's go over some highlights of operational financial result for the three nine month ended December 31st. We are quite pleased with the results for the past quarter and nine months. Despite the political and macro volatility, our company has generated almost 21 percent growth in constant currency and more than 22 percent growth in constant currency on a year-over-year basis. Once again this quarter we demonstrated that we are on the steady part of decreasing client concentration as well as the concentration of the financial vertical. For the past 9 months, our business growth without the top 5 legacy accounts including DB, UBS and Harman, and without any impact from this year's acquisitions, is nearly 40 percent. These accounts represent about 60 percent of our business. HPAs, which represent 28 percent of the business, grew over 110 percent.

We view this as a strong dynamic, as we are shifting sources of revenue growth and building up new account base. Further, we made a series of improvements on the balance sheet front, generating strong cash flow. We have finished the 9 months of the year with close to $100MM in cash, on top of M&A activities financed by the company cash flows. Our free cash flow conversion rate is at the record high, above 120 percent. Therefore, while keeping strong balance sheet and cash flow generation, we are pleased that our company is able to execute on its transformational initiatives and strategic M&A moves, ensuring synergies for the sake of future organic growth. Let's take a look at some numbers. I would like to highlight some of the dynamics and will call your attention to the numbers that will be rounded to the nearest million in consideration of time. Full set of details and the exact figures are contained at the end of the earnings release:

Revenue for the first 9 months amounted to $581 million, compared to $482 million for the first nine months of the prior year, which is a 21 percent increase. On the constant currency basis, we have delivered $588 million on the top line, which corresponds to 22 percent annual growth.

Our revenue during the third quarter of the fiscal year 2017 amounted to $207 million compared to $172 million in the third quarter of the previous year. That translates into an increase of 20 percent year-over-year and 5 percent sequentially. In constant currency we delivered $210 million of revenue, which corresponded to 22 percent year over year growth.

Our performance by key geographies for the past nine months was as follows. UK decreased by 2 percent to 29 percent of total revenue. Germany increased 38 percent to 15 percent of the total. U.S. increased 23 percent to 32 percent of the total. Rest of Europe increased 88 percent to 15 percent of the total and other geographies increased 6 percent and now comprise 9 percent of the total.

Our core vertical dynamic for the last nine months of the year was as follows. Financial services amounted to 63 percent of total sales or 11 percent year-over-year increase. Automotive and transport, 14 percent of total sales. It's an increase of 45 percent year-over-year. Telecom comprised 8 percent of total sales and an increase of 72 percent year-over-year. Technology vertical, it's now 6 percent of total revenue, a 2 percent year-over-year increase.

In the first nine months of the financial year 2017 our top 5 accounts amounted to 57 percent of sales, which is 8 percent decrease from 65 percent last year. Our top 10 accounts in the same period amounted to 67 percent of sales, 7 percent decrease versus. The first nine months of prior year. Notably, once again in the third quarter our customer concentration, in comparison to the previous quarter, continues to decrease without giving up our overall growth rate. Our top five accounts in the third quarter amounted to 53 percent of sales representing 10 percent decrease year over year, and 5 percent decrease sequentially. Our top 10 accounts in the December quarter amounted to 64 percent of sales, which represents 8 percent decrease on a year-over-year basis, and 5 percent decrease sequentially. As Dmitry mentioned please remember that our Top 5 and Top 10 lists for the quarter and the past 9 months are not the same as for the same periods a year ago.

Top three clients dynamic, our top three accounts remain to be DB, UBS and Harman. In the 9 months DB decreased by 4 percent amounting to 25 percent of sales and down from 31 percent last year. In the same period UBS grew by 16 percent to 21 percent of sales from 22 percent a year ago. In the first three quarters of financial year 2017 Harman grew by 5 percent to 6 percent of total revenue.

Moving on to profitability measures, our adjusted EBITDA amounted to $105 million in the first nine months of the year, versus $97 million in the first nine months a year ago, representing 8 percent increase. Our adjusted EBITDA margin in the nine months was 18 percent versus. 20.1 percent in the first nine months of last year. In the third quarter our adjusted EBITDA was $38 million versus. $33 million in the same quarter of last financial year, and $37 million in the previous quarter. Our adjusted EBITDA margin in the third quarter was 18.1 percent versus. 19.1 percent in the third quarter last year and 19.1 percent last quarter.

Operating income margin in the third quarter on a US GAAP basis was 9.7 percent and 14.6 percent on non-GAAP.

Our GAAP net income was $49 million for the first nine months of the year in comparison with $56 million in the first nine months of the previous year, a 12 percent year over year decrease. Our GAAP net income margin in the first nine months was 8.4 percent, versus 11.6 percent in the first nine months last year. In the third quarter, our GAAP net income amounted to $19 million versus. $18 million last year and $16 million in the previous quarter. Our GAAP net income margin in the third quarter was 9.0 percent compared to 10.5 percent a year ago, and 8.3 percent in the second quarter of this year.

Our non-GAAP net income was $77 million in the first nine months of the year in comparison with $74 million last year, 4 percent growth year over year. Our non-GAAP net income margin in the first nine months was 13.2 percent versus. 15.4 percent in the same period last year. In the third quarter our non-GAAP net income was $28 million versus $25 million last year and $28 million in the previous quarter. Our non-GAAP net income margin in the third quarter was 13.5

percent compared to 14.4 percent year over year, and 14.2 percent in the second quarter of this year.

Our effective tax rate in the first nine months remained stable at 15.0 percent. We expect to keep the rate between 15 and 16 percent in the near term.

Our weighted average diluted share count for the past 9 months was 33.9 million shares, a decrease of 0.4 million from the nine months of the previous financial year. On December 31st we have finished 9 months with SOP-related expenses of $22 million, or 3.7 percent of revenue. This is our most significant non-GAAP adjustment.

Our diluted EPS amounted to $1.44 per share as compared to $1.62 per share in the nine months a year ago. On a non-GAAP basis, our diluted EPS was $2.27 per share compared to $2.16 per share last year.

As of December 31st main FX drivers were as follows. On the revenue side, US dollar 56 percent, euro 29 percent, pound 6 percent. And on the costs side, US dollar 48 percent, ruble 12 percent, Polish zloty 12 percent as well.

Cash flow and the balance sheet, we have finished the nine months with $98 million in cash and cash equivalents. During the first nine months, operating activities generated $75 million of cash, which is 12.8 percent as a proportion of revenue. $12 million of cash was used in financing activities. Net cash of $72 million was used in investing activities. Our free cash flow in the period was $59M, which comprises 10.2 percent of revenues and 121 percent of our GAAP net income. In the third quarter, operating activities generated $26 million of cash, which is 12.7 percent of revenue. Only $0.4 million was used in financing activities. Net cash of $7 million was used in investing activities. Our free cash flow to revenue ratio was 8.4 percent and free cash flow to net income was 93 percent. Once again, we have ended the quarter with almost zero debt.

Our capex remains at the usual for us level and does not exceed 4 percent of revenues. As of December 31st, our trade receivables including unbilled revenue were $163 million compared to $178 million as of September 30, 2016. At the end of the third quarter, days sales outstanding, excluding unbilled revenues, stood at 69 days, didn't change from the second quarter of the year. For the first nine months DSO stood at 66 days. We would like to highlight improvement in our full DSO to 72 by 2 days from a year ago.

We have finished the quarter with more than 12 thousand personnel, of which 10.1 thousand were IT professionals. Attrition in the first nine months of the year was 12.5 percent versus 10.3 percent last year. Our revenue per engineer increased by 2 percent based on the annualized revenues for the first nine months of the year, and is now close to $79 thousand.

Finally, at this time we would like to confirm our outlook for the full financial year ending March 31st, 2017. We expect to continue delivering solid revenue growth with at least 20 percent year-over-year in USD terms, or at least $781 million in sales. Adjusted EBITDA margin expectation remains in the range of 17 to 19 percent. Given the 9 months dynamic, it will be clearly closer to the bottom of the range. Diluted EPS is expected to be at least $1.65 on a GAAP basis and $2.85 on a non-GAAP. The EPS is based on an estimated weighted average of 34.0 million diluted shares as of the end of our financial year ending March 31st, 2017.

In conclusion, I would like to thank my colleagues at Luxoft. It was wonderful to be a part of the growth and transformation the company has gone through for the past 10 years. Also my thanks are going to the investors and sell side analysts I really enjoyed my time as a CFO and it was a privilege to interact with all of you. With that, we would like to open the lines for the Q&A. Operator, go ahead, please.

Operator: Thank you. We'll now be conducting the question and answer session. If you'd like to ask a question today please press star one on your telephone key pad. And a confirmation tone to indicate that your line is in the question queue. You may press star two if you'd like to remove your question from the queue. For participating speaker equipment it may be necessary to pick up the handset before pressing the star keys. Our first question is coming from the line of Steve Milunovich with UBS. Please go ahead with your questions.

Mr. Steve Milunovich: Great. Thank you. Good morning. You put a soft billion dollar revenue target out there for fiscal '18, which implies about 28 percent growth. Can you give us some sense how you think about that growth today? And how much of that is likely to be organic versus inorganic? And particularly the organic piece, do you think that's going to accelerate, or slow going into fiscal 18?

Mr. Dmitry Loschinin: Hi, Steve.

Mr. Steve Milanovich: Hi.

Mr. Dmitry Loschinin: We continue to target it, there is some uncertainty with some of our major accounts. Specifically Deutsche and their budget constraints for the next year. So, we don't know it by now, they are going through some cuts. We don't know how serious those cuts will be. Also it's unclear what will be the impact on the Harman plans as some of the initiatives that the company has been undertaking they put on hold just to get to the integration matters. So, these are the major factors that would impact our ability to achieve the target.

However, we are confident that we can do our minimal 20 percent growth. As for organic, non-organic, our organic growth will be for sure double digit. And we expect that the organic should resume, and should accelerate.

Mr. Steve Milunovich: Okay. And then the high potential accounts, I think you said were 28 percent of revenue. That sounds like a higher number. I thought in the past it's been closer to 20 percent. And you say it's growing over a 100 percent. So, if you've got 20 percent of revenue growing 100 percent, that's, you know, over 20 percent revenue growth right there. Should we expect the growth rate of the HPA's to fall off fairly dramatically going forward as they get somewhat larger? I would think 100 percent would be hard to sustain.

Mr. Dmitry Loschinin: Well, most of them look very promising. And you are right. They are growing very aggressively. You're right it's close to 30 percent as of today. The main reason the rest of the whole company doesn't grow as fast is due to our legacy accounts. Their combined revenue is flat. So, we have to very much base of that and then re-balance that growth. But, you are right that we expect this to continue. And there are some accounts that will come in out of the list. So, this is definitely a major growth drive.

Mr. Steve Milunovich: And last question on regulatory work in the financial area. You sort of defending it and said it’s not going to go away. But, can you give us a sense what percentage of your financial work is regulatory?

Mr. Dmitry Loschinin: I would say 30 to 40 percent as of today. So, it’s been re-balancing this year. We had much larger proportion a year ago. A lot of things which we do today related to overall IT landscape and the rationalization, and quite a bit on the digital transformation side.

Mr. Steve Milunovich: Great. Thank you Dmitry.

Mr. Dmitry Loschinin: Thanks Steve.

Operator: Our next question is from the line of Avishai Cantor with Cowen. Please proceed with your questions.

Mr. Avishai Cantor: Hi. Good morning. Thank you for taking my question. My first question is on the pricing environments with digital engagements. Do you see any changes, starting this calendar 2017 compared to when we were in 2016?

Mr. Dmitry Loschinin: I wouldn't say there are any major changes. They will continue and try to reduce the cost base. There's no surprises. It was the same a year ago. We see a quite favorable environment for us in automotive as the industry moves very fast. And there's a lot of disruption going on. Financial services, again, I won't call it any major changes. Just that some of the procurement organization becoming quite strong here and there. And therefore, we really have to protect our margins. But that is just business as usual.

Mr. Avishai Cantor: Then my second question is regarding the new administration in the US. It sounds like you don't really have exposure to any changes in immigration policy. But, regarding potential board adjustment tax, which seems to be a little bit more relevant for new show providers like you guys. Do you see any changes in clients' behavior? And any commentary about that so far?

Mr. Dmitry Loschinin: Well, today it's all speculation than anything specific. We don't believe it will impact our industry. It may be a serious disrupter for some of their goods industry, because

I suspect that still the goods have to cross the border. And our business - we do services in IT. And again the services we provide for US clients we provide through our US entities. So, very unlikely we will see any impact there.

Mr. Avishai Cantor: Thank you so much.

Operator: Our next question is from the line of Moshe Katri with Wedbush Securities. Please proceed with your questions.

Mr. Moshe Katri: Thanks. Good morning. Dmitry, looking at the UBS contract renewal. Can we get some color on any major differences in the new terms? Especially in terms of pricing versus the original contract. Are there any specific changes here? Thanks.

Mr. Dmitry Loschinin: Well, the contract first guarantees us some minimal revenue commitment level, which is very good. It provides securities to us, and to our investors. More importantly, it’s much more manage delivery driven. So, this puts a lot of discipline requirements on our end, but also allow us to be more flexible in how we deliver the work and achieve some efficiency gains, and also maintain our margins for a long run. Again, it’s good to have the contract in place as in the past we had discussions, and negotiations every year. So, I think we have a very clear future with UBS for the next few years.

Mr. Moshe Katri: Okay. And then does the Deutsche Bank account also have to get renewed, or this has already been taken place, or we're just waiting to see where it goes?

Mr. Dmitry Loschinin: Deutsche, we did it last year. So, we have similar station to UBS. Overall it presents contractional framework for the strategic partnership of one another. It would be another three years. So, similar to UBS.

Mr. Moshe Katri: Okay, understood. And then last question that kind of focuses on margins. When you talked about fiscal year 2018 we are expecting an acceleration in organic growth. I think that's what you said. Any sort of guidance on margin trends? Are we sticking with the same range that we had historically?

Mr. Dmitry Loschinin: Well, again, we are targeting to be in the range of 17 to 19 percent. Still, business is experiencing massive rebalancing, and we have a lot of new accounts and very aggressive growth of HPA's, which traditionally come with low margins. So again, our top two and the top three concentration will continue to reduce. As you can see, it went down very significant. It will continue next year. And then in parallel, we are continuing to run some of our key initiatives, investing in R&D cells and overall business transformation. So, I would say that you should expect similar margin pattern profile for the next fiscal year.

Mr. Moshe Katri Great. Thanks for the color.

Mr. Dmitry Loschinin: Thank you.

Operator: Our next question is from the line of Anil Doradla with William Blair. Please proceed with your question.

Ms. Maggie Nolan: Hi this is Maggie Nolan in for Anil. You're obviously making pretty great progress growing your HPA's, but I wanted to talk a little bit more about your goals for this group. And in terms of how you're going to provide service and how you're going to staff the accounts and what kind of attention are these accounts getting and have your target numbers for these accounts changed at all?

Mr. Dmitry Loschinin: Yes. Hi, Maggie. So, the goal is obvious - rebalancing and reusing the client concentration, we have to do it as some of those clients have reached their sort of saturation point. And also, some of them experiencing tough time, and it's been our strategy since IPO so you put the very significant bet on HPAs often as you could see if in the past that group represented below 15 percent of our revenue now. It's now growing around 30 percent. And you see some of the new entries, in top ten list. So, the goal is obvious to continue building up the momentum within the group, introducing some high various services, and therefore achieving the same growth momentum. Actually, bringing some of those HPAs to the level of the business that we have with our top three accounts, which we believe is quite achievable and doable. Again, even within the current economic situation and market situation, we believe that many companies they elect companies that can drive them through the changes and through all of the disruption and at the same time, doing it the cost effectual way and fast time to market execution.

Ms. Maggie Nolan: Great. And you've talked about how your revenue per engineer is a good indication of the value that you're bringing to the table and it's continuing to grow. Is there anything that you're doing--any initiatives that you're taking specifically to decouple the top line growth for headcount growth? Or is it purely a reflection of that value that you're bringing? Thanks.

Mr. Dmitry Loschinin: It helps us to decouple. If you remember a few years ago we were below 70K per engineer, now we at 80. And we believe that we can continue the trend. And it's a reflection of two things: how good your services and solutions that we provide, as well as pretty significant amount of work that you can do in managed capacity or managed delivery form. Where it's really not about the rate, but it's about the productivity. So, being very efficient in the execution side and the same time being positioned higher up in the value chain makes us able to continuously increase this revenue for employees.

But at the same time, our [unintelligible] is gaining momentum here and there with the modified line of business doing quite well. I would say that today they have roughly about ten percent of the revenue that comes from IP-related activities. Still quite small compared to the total size of the company.

Ms. Maggie Nolan: Thanks.

Operator: Our next question is coming from the line of Joseph Foresi with Cantor Fitzgerald. Please proceed with your questions.

Mr. Joseph Foresi: What was the organic versus inorganic growth in the quarter?

Mr. Roman Yakushkin: In the nine months, the organic is 12.5 percent out of 21 percent that the company has grown.

Mr. Joseph Foresi: Okay. Thanks. And then, on the margin front, what's the key factor there? Is it the HPA brand, the acquisition activity, moving resources from core clients to new projects? I'm just wondering what we should be looking at to judge where margins could land in 18.

Mr. Dmitry Loschinin: This is a combination of factors. Deutsche and Harman, mature businesses, well established so we don't need to put additional investment to sport the growth and the work. And they usually come with pretty decent margins. While a new HPA's or early stage development, the first year we usually do very low margin deals because of significant investment on our end and then second or third year margins becoming better and better so only on the fourth or fifth year we can get margins to the average level of the company. So, this rebalancing is a major factor, as well as a significant investment that the company has been doing and building in multiple geographies. Predominantly in Asia. Moving forward, as I already said, we expect the margins to be at least in the third 2018 fiscal year at the same level. We do expect some margin improvements starting fiscal 19.

Mr. Joseph Foresi: Got it. That's helpful. And then just lastly, on the acquisition front, what specific areas are you targeting in the upcoming years? Obviously, you've had some positive growth in auto and some of those areas, but I'm just wondering what you're targeting and how evaluations are looking these days. Thank you.

Mr. Dmitry Loschinin: Yes, the strategy is aligned with our business strategy so it's not really numbers driven, by quality driven. As you can have seen that all of the positions in the past, they had specific purpose. So, we have few companies in automotive space that provided some nuclear point, expertise, which are crucial for our strong offering in some of the sub domains such as digital computer under the hood and then we started developing and growing the expertise around that and then the acquisition of [unintelligible] was two-fold. One was to establish our self as a player in the carrier space, which we were not in prior to that. We only get work in the infrastructure space, moderately involved clients, network equipment manufacturers, and we clearly saw the opportunities being moved from that space to the carrier space, and the recent acquisition of IntroPro was to kind of to close the loop and add the media site, the content delivery site so that we can serve the entire industry.

So, going forward, we will maintain the same logic and as we see some of the strategic directions of the company will support this acquisition. So, currently one of the areas where we definitely saw opportunity for growth is Asia Pacific and especially in the financial service space. It's not as regulated as Europe and the US as well as digital transformation is taken extremely far space there. Digital transformation also because it's not as regulated, so one area of potential investment would be to expand our business in this domain, as well as we want to continue and build a stronger offering in some of our key [unintelligible] such as healthcare, definitely high growth opportunity. We just did first inroads within this acquisition. We want to grow the business so that would be another area for potential folks.

Mr. Joseph Foresi: Thank you.

Operator: Our next question comes from the line of Alex Veytsman with Monness Crespi. Please proceed with your question.

Mr. Alex Veytsman: I was wondering with the latest acquisition, which obviously does offshore and Ukraine, IntroPro, what is now your exposure to the Ukrainian market and how do you expect to evolve in fiscal 18, what is your latest target?

Mr. Dmitry Loschinin: Before IntroPro, we were somewhat around 26 percent in terms of our labor for concentration in the Ukraine. So, it will definitely increase. The concentration in Ukraine will be around 30 percent. Going forward, we'll continue to diversify. Our key geographies in Eastern Europe, Poland, Romania, Russia and Ukraine. They are nearly the same level. Somewhat around 2,000 or 3,000 people in that range. So, going forward we will continue keeping that balance, we might also expect growth in some new geographies.

We started Bulgaria. We might consider some other geographies in Eastern Europe, as well as diversify and grow outside of Eastern Europe, so we will continue growing our operation in Mexico and in America, as well as in Asia. So, we have two operations in Asia, Vietnam and in Malaysia we will add probably add some more delivery locations in the region as well.

Mr. Alex Veytsman: Okay, that's helpful. Just shifting gears, regarding Credit Swiss, it certainly looks like one of your strongest accounts, I think at some point you can reference that it will double, like in the course of three years. First of all, is this something which you expect, especially given that yesterday they announced layoffs of about 6,500 people? So, definitely seemed like a relatively soft quarter, you know, in terms of the hirings.

Mr. Dmitry Loschinin: Definitely Credit Swiss was one of the most promising accounts. You know, we expect growth of about 30 percent of the client, maybe even higher than that. Lots of opportunities across all domains. We are very strong in all of the digital transformational initiatives. We also believe that we've been able to upgrade our overall status and become strategic vendor from more or less at the regional supplier. So, this is one of the accounts actually mentioned on the call. It's a very, you know, high growth opportunity there.

Mr. Alex Veytsman: Sounds good, thank you.

Operator: The next question comes from the line of Georgios Kertsos with Berenberg. Please go ahead with your questions.

Mr. Georgios Kertsos: Thanks for taking the question. Actually, most of my questions have been answered. The one quick one still remaining, can you please comment a little bit on what would be your best guess about the estimate the group's effective tax rates if we were to see a reduction in the US Corporate Tax Rate. I know that it's very much a guestimate at the moment, but do you expect your sort of 15 percent effective tax rate to materially change? Thank you.

Mr. Roman Yakushkin: Hi Georgios, that’s Roman. In fact, we do not think that the changes in the US tax rate would have significant impact on the effective tax rate of the company as a whole because we just pay a small portion of taxes in US. So, basically, the range that we announced today 15 percent, and we are sticking to that range. This year we will likely end up with 15 percent, maybe even slightly below that number. And how the ETR will evolve depends more on what's going to happen in Switzerland because basically that’s where we end up paying about 80 percent of our taxes today. And as you probably know, the Swiss waters turned down the proposal and now the administration has 12 to 24 months to come up with the new one.

So, basically the impact from Swiss or Swiss side can be between one and two percent. So, all in all, most likely we should be able to continue keeping ETR within 15, 16 percent range.

Mr. Georgios Kertsos: Thank you.

Operator: Thank you. At this time, I would like to turn the floor back to management for closing remarks.

Mr. Dmitry Loschinin: Thank you everyone for your time today. Please follow our event schedule at the IR portion of the website if you'd like to meet with us in person. We look forward to seeing you in the upcoming conferences until we meet on our next call in May. Bye for now.

Operator: Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.