LUXOFT HOLDING
Three Months and Full Financial Year Results March 31st, 2017
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Operator: Greetings and welcome to the Luxoft Holdings, Inc. call to report results for the three months and full financial year ending March 31st, 2017.

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 is now my pleasure to introduce your host, Alina Plaia, Vice President and Investor Relations Officer. Thank you. You may begin.

Ms. Alina Plaia: Thank you, Melissa.

Good morning, good afternoon to all. Welcome to our earnings call. We hope that you had an opportunity to review our earnings release filed after New York market hours. All of the updated investor materials, including the press release and the updated investor presentation, are on our website Luxoft.com Investor Center.

Our speakers today are Dmitry Loschinin, the President and Chief Executive Officer, Evgeny Fetisov, Chief Financial Officer, and Mukund Rao, CEO of derivIT, a leading Murex-based consultancy in Asia Pacific, in with which we recently entered into a Share Purchase Agreement. Also we have in the room today with us here Sam Mantle, who's the Head of Healthcare and Life Sciences Practice, that can address any questions you may have about this vertical during the Q&A portion of the call.

Some of the comments on this call may be deemed as “forward-looking” statements, such as our business and financial outlook, any comments with respect to high potential account development, integration of our acquisitions, and the answers to some of your questions. These statements are subjects to risks and uncertainties as described in the Company’s earnings release and other filings with the SEC. We follow U.S. GAAP accounting rules in our financial statements. However, during our calls and in our materials we will also refer to certain non-GAAP financial measures that we consider relevant for the better understanding of our financial dynamic.

Momentarily, Dmitry will start with an overview of the business performance and highlight major developments for the past year, Mukund will introduce derivIT and describe the synergies we envision between the two companies, and Evgeny will deliver financial overview as well as share our guidance for the new financial year ending March , 2018. With that, Dmitry, please go ahead.

Mr. Dmitry Loschinin: Hello, everyone. Good to have you on the call. It has been an important year for Luxoft that's delivered measurable positive changes into the structure of our company and operational business model. Financial year 2017 was the year when we delivered on our promise to the market, despite a large degree of economic and political uncertainty and currency-related headwinds. We have been successfully executing on several transformational initiatives, investing consistently to become a more effective agile global company, capable to compete for bigger deals, serving a wider variety of clients and servicing more geographies.

We have been focused on quality of our top line growth and preserving our margins while rebalancing revenue dynamic between older core account base and newer clients, while aggressively bringing down client concentration.

Our company achieved over 20 percent revenue growth, or 22 percent in constant currency, delivering $786 million in revenues for the year. Adjusted EBITDA margin came in at 17 percent, within the 17 to 19 percent range that we guide to every year.

We are aware that investors have been concerned with our client concentration for many years. I would like to attract your attention to how much our company has improved in the last six quarters in that regard, while maintaining impressive total top line growth. Our top three and five client concentration during last year alone is down about 10 percent, and our top 1 client concentration is down 7 percent for the same period. Our top 10 accounts are now responsible for 66 percent of revenues. That is 8 percent decrease from a year ago, exactly in line with the commitment we made to you on the May 2016 earnings call.

This year, we have two new names on the top five client list - United Healthcare and AT&T. There is also a new name on the top 10 list from automotive.

This year, we not only significantly reduced client concentration but also dramatically improved quality of our top 10 and top 20 customer lists and overall account diversification.

Minimum annual client revenue for them, uh, bottom top 10 account has increased by more than 60 percent year-over-year. Today, we have 6 out of top 10 accounts with annual run rates between 13 million and 20 million versus only 4 last year. Half of the top 10 list is now comprised of high potential accounts.

Our top 11 through 20 account picture became more solid, as well. There are seven accounts with 6 million in annual revenue and higher, versus only two last year. At the same time, top 20 client concentration decreased by about 5 percent. These shifts are explained by substantial diversification of our customer composition.

Our business outside of the top three accounts has grown more than 50 percent year over year. Growth in the financial services vertical outside of the top two accounts was 35 percent year over year, virtually all of which was organic.

At the same time, we have lowered revenue concentration for financial services vertical by 7 percent, bringing it down to 61 percent from 69 last year.

Let's now turn to HPAs. Today, we have a list of 48 HPAs versus 35 a year ago. They comprise now 30 percent of our 2017 top line versus being about 20 percent of the top line in the year prior. Part of our strong growth is stemming from the synergies derived from the value accretive acquisitions we undertook over the past two years. Our M&A strategy and our company's structure are congruent with our goal to stay competitive and relevant, to be a true innovation enabler, offering a full array of expertise, capabilities and solutions. Thus, bolt-on acquisitions are becoming a part of daily modus operandi, when buy is becoming a frequent answer in build versus buy dilemma as we strive to bring our clients to market faster.

We are focused on M&A that brings substantial rate of return to our shareholders. We aim to buy companies that have extremely compelling valuations due to their low margin profile or some scale limitation due to size. Immediately after the on-boarding process, we introduce a series of improvements that not only immediately unlock the synergies but also significantly increase effectiveness. Excelian is a great example of that.

At the time of purchase, Excelian was a high quality asset with a leading market position in Europe in Murex-related consultancy and delivery footprint in Asia Pacific. It had a very good client base to which they delivered premium services but, uh, a low single digit EBITDA margins due to high volatility of the business with relatively small deals, usually less than 1 million.

After the first year of full integration, we improved Excelian's EBITDA margins by 6 percent, and in the second year, we grew its revenues by 29 percent year over year. In two years' time, the business grew substantially thanks to cross-selling efforts throughout the combined client base. Average deal sizes increased to over 3 million. Margin improved further, close to our company's average 17 percent.

Excelian became our premium brand under financial services vertical. The entire management team was retained and moved into key positions throughout our financial services segment. The former CEO of Excelian, Jeremy Ward, for example, runs our packaged offering side of the business. Therefore, the value this business brought to the overall financial and competitive success of Luxoft is already far greater than the price we paid in 2014 for it.

Over the past two years, we have made five small bolt-on acquisitions, three of which we closed in financial year 2017. All of them were value accretive, supported out of our free cash flow and strategic in nature, allowing us to accomplish with each deal several strategic goals at once.

Let me briefly describe them. Symtavision, which was closed in February of 2016, brought a new dimension to our automotive vertical with under the hood software integration and timing analysis capabilities in the chassis, powertrain, body, and driver assistance domains as well as the in-vehicle networking. That was a small single-digit revenue business we used as a core to develop new very strategic UTH offering. Now we design next generation electrical architectures and develop the software that resides under the hood of autonomous vehicles.

In just one year, the business more than doubled in size, brought new logos like BMW and Audi and helped anchor new HPAs in Europe. Former CEO of Symtavision is now running our UTH practice.

Another small but very important addition was Pelagicore, which we acquired last September. It cemented our position as a leader and a one-stop-shop for HMI development needs for the global automotive industry. Now our digital cockpit solutions for infotainment, navigation, digital cluster enable carmakers to develop stunning user experiences that are natural extensions of consumers' digital lifestyles.

An outstanding digital cockpit offering is an important competitive advantage of Luxoft that open doors into OEMs and Tier I suppliers word-wide. The acquisition also expanded our client list with several significant OEMs and Tier I marquee logos and added expertise in Linux-based open source platform Qt.

Synergies between our organically built expertise and capabilities brought with Symtavision and Pelagicore coined a hefty advantage that Luxoft has on the market today. We work with virtually all premium European OEMs directly, a striking difference from two years ago when we only worked with 1 OEM. Former CEO of Pelagicore, Alwin Bakkenes, is now heading Automotive line of business for Luxoft globally.

With Insys, which was added to the Luxoft family in July of 2016, we gained access to healthcare and life science vertical with clients like United Healthcare and Novartis. We started new line of business, healthcare and pharma, and brought on board former CIO of Novartis Sam Mantel, who is on the call with us, to lead it. Insys acquisition also expanded our offering and expertise in the telecom sector among the wireless carriers and cable providers, reinforced presence in clients like AT&T and brought new premier logos into HPA list such as Verizon. Additionally it expanded our sales infrastructure and substantially increased our US footprint and the share of our US revenues.

IntroPro that we closed in February has solidified our expertise specifically around content delivery and management for TV, media, and entertainment industries. Thus, we extended our telecom service catalogue, playing into end-to-end premium services strategy. Synergies between our organically built expertise in telecom segment around SDN and NFV together with the expertise obtained through Insys and IntroPro not only solidify our position with AT&T but also allow us to roll out a unique offering to other wireless carriers and cable network operators. As an immediate result, AT&T became one of our top five accounts replacing Avaya in that list.

Last but not least, derivIT acquisition - this acquisition, which is expecting approval from the regulators, has significant synergies with Excelian, making us, as we believe, a leader in Europe and APAC in implementation of standard trading and risk management packages for financial institutions globally. Today, standard package implementation is a really massive trend because it is a crucial part of the transformation, taking place in the financial sector. Banks have no other choice but to utilize off-the-shelf software to simplify and lower costs of running certain parts of their infrastructure and address compliance needs.

This is where Luxoft has been strong for the past several years, and addition of derivIT should solidify that and propel us into the new markets. With our growing presence in two large geographies like APAC, and in Europe, our financial services vertical is firmly planted on the path of growth in these regions.

At this stage, we are covering nearly a full list of significant banking institutions in Singapore and Australia. In a few minutes, you will hear more on the acquisition and the impact on our synergies from derivIT's CEO Mukund Rao.

Hence, the synergies brought by these bolt-on quickly integrated acquisitions have a substantial effect on our business that is amplifying with every passing quarter and year.

Now allow me to give you a brief overview of our verticals. Financial services - the vertical posted 8 percent growth year over year and 35, uh, percent growth if we exclude the top two clients. All of it is organic.

The sentiment for the banking sector is changing for the better, in our view. The rates are likely to continue to rise steadily over the mid to long term, giving us hope that the worst of the downturn is behind. All of our HPA clients are performing very well, with Credit Suisse remaining to be the most significant HPA and one Nordic bank are the runners up into the top 10 list.

That said, there are still significant changes to be made to the structure and operating models of the banks, so Change The Bank related IT budgets are substantial.

There are three key items on COO and CIO agendas these days - they are likely to remain the same at least through 2020. First, efficiency of the operating model to bring the speed and agility to the business, second, effective compliance with regulations, and, third, digitalization. The latter is key in addressing the pressure the banks are under today - gain competitive advantage versus other banks as well as companies that are entering financial arena to service retail and high net worth customers via new age FinTech-based offering.

Our offering is unique and fits perfectly into each element of the equation these clients are trying to solve. Financial segment players are looking for partners that know the platforms and are capable to execute complex transformational engagements. The fact that we have high level of proficiency in standard packaged systems like Murex, Calypso and PEGA, coupled with deep understanding of FinTech and a wide catalogue of transformational services, allow us to execute the large-scale core projects. This is where we see strong opportunity for growth for the next several years, and we believe we have a unique offering.

To illustrate, let me give you an example of the latest in this transformational engagement we are working on. During the past quarter, we have embarked on a landmark project with a new HPA, who is a visible player in APAC. The core of the engagement is to build a digital transformation platform that spans across virtually all internal channels, providing maximum electronic collaboration and decision support for all employees across the globe. This platform represents a major overhaul in the way this institution structures its business, conducts its analytics, handles, uh, order management, information exchange, operates CRM and uses various new-age collaboration tools.

In terms of our top one and two clients, Deutsche Bank just finished their budgeting cycle, confirming the need for some of the deeper cuts to their budget across the board, not just IB. We are remaining a strategic vendor for the bank, heavily present through investment banking and capital markets segments and increasingly growing within the areas of wealth management and private banking. While we see an increasing demand for engagements around standardization and simplification of business processes, uh, Deutsche Bank has been cutting their run rates aggressively.

We expect the account to decline by 15 to 20 percent in the first two, three quarters with possible stabilization by the end of the calendar year and even potential growth next financial year.

UBS - as we maintain our strategic vendor status with the bank, we expect the revenues to be between flat and single digit growth, as the bank is slowly turning around the corner after some turbulence last year. The composition of engagements remains stable and evenly spread across investment banking, capital markets and trading, treasury, and wealth management.

Credit Suisse continues to remain on our HPA list with a lot of positive developments, good sentiment, and double-digit growth. We continue to see strong growth potential with this client driven by transformational engagements in many areas including wealth management, which is why we have improved our position with the bank during the year to a global vendor supplier status.

Our current pipeline of business in the financial services vertical has several significant names in APAC, a region that is, in our opinion, under-served in the premium service segment by IT companies with high degree of competency in cutting edge FinTech. Thus, we see this as another area with high potential for growth for our company.

In general, we believe that the population and business culture in the East Asia Pacific is a lot more digitally and technology driven. Also, historically, APAC has not been the center of attention of regulators, unlike Europe and the United States, and it has been less affected by financial crisis for the past eight years. We see business of many banks, especially in wealth management area, prosper in these geographies.

This is exactly what we see with UBS, among other clients. As per their annual report, the increase in new money coming into their wealth management business this year is 2.5 times higher in APAC than in Europe and the United States, and that business is a high margin business, usually in excess of 40 percent.

Therefore, Luxoft also has high aspirations for this area, which is moving more actively towards, uh, digital transformation than the rest of the world. That is why we have been investing aggressively in strengthening our presence and our client base there, opened delivery centers in Penang, Malaysia, Bangalore, India, building strong on-site presence in Singapore and Australia. All of that brought new clients and opportunities across the region. Therefore, derivIT is such a great fit into this expansion strategy that will help us harness more growth opportunities in that part of the world.

With that, I would like to pass the line to the CEO of derivIT, the company that is about to become the newest member of the Luxoft team. Mukund Rao will now tell you a bit more about the business, derivIT's strength and the synergies we are planning to realize working together for the years to come.

Mr. Mukand Rao: Thanks, Dmitry, for the introduction and welcome, everybody. Uh, my name is Mukund Rao, and I am a Co-Founder of derivIT. We are looking forward to become a part of the Luxoft family as we are currently awaiting approval of this deal by the Reserve Bank of India.

Ever since our inception in late 2007, we have been witnessing a gradual transformation of banking technology, largely driven by regulatory pressures, technology consolidation and digitization. Within the Asia Pacific region, there has been a sustained focus on deploying front to back multi asset class third party financial platforms rather than bespoke solutions. Riding on the back of this wave, derivIT was able to successfully carve out a unique position for itself and achieve consistent revenue and profitability growth.

derivIT has been a global alliance partner to Murex since 2008 and more recently also a partner to Moody's Analytics. Through our partnerships with some of these leading financial platforms, we have been delivering complex end to end implementation, migration and support services to a diversified set of clients within the Asia Pacific region, including the Middle East.

Over these years, we have also formed deep relationships with our clients, which has led to our clients seeking from us a broader range of services including cloud deployments, digital transformations, testing and traditional application development and maintenance.

In order to fully cater to our client needs and capitalize on the broad range of opportunities that lay before us, we decided to seek an alignment with a firm that has proven competencies in this area and also has a strong focus on financial services. Luxoft for us was an obvious choice given their deep presence in the financial services domain. What further made this an obvious choice was Luxoft's presence in the financial platform space boosted by their acquisition of Excelian. Combined with Excelian's Murex center of excellence, we are now arguably the large SI partner for Murex and with a true global footprint covering all key financial markets.

Our APAC presence is distributed across key markets such as Singapore, India, China, Malaysia and UAE. Our largest headcount is in Singapore, and we anticipate that it will continue to expand. China as well is an interesting play for us as banks there are looking at modernizing their systems, largely driven by increased regulatory compliance requirements.

Within these APAC markets, we have a dominant position, especially around Murex professional services. We are seeing increased traction on Moody's suite of risk management platforms, and we are on track to become a dominant player in this space, as well. Apart from Murex and Moody's solutions, we are also evaluating expanding into complementary platforms around TLM, reference data management, etc.

Some of our clients have been with us since inception. For example, we're working with a large British bank with a strong presence in Asia since 2008 and currently support their Murex and Moody's instances with a global team spread across key delivery locations. With the Luxoft brand behind us, we will be immediately and actively seizing transformation opportunities as soon as the transaction closes, opportunities not only at this bank but across some of the other key banks in the region. For example, many tier 2 banks in countries such as Malaysia, Indonesia and even India are now looking at significant investments in order to modernize their trading systems and have the infrastructure ready to handle upcoming regulatory requirements around FRTB, etc. Further within the region, a number of banks are also consolidating, which will throw open huge opportunities to be involved in large scale multi year integration transformation projects.

We are already seeing tremendous synergies with Luxoft and are excited about the journey that lies ahead of us, as soon as we receive the regulatory approvals to close this deal. Our team is currently comprised of techno functional consultants with many years of experience in deploying front to back solutions. Combined with the Luxoft and Excelian team, we are now uniquely positioned to address the entire gamut of the trade life cycle and providing end-to-end service offerings to our clients.

Uh, thank you, and back to you, Dmitry.

Mr. Dmitry Loschinin: Thank you, Mukund.

Let's keep moving forward with our vertical overview. Automotive - automotive vertical posted 41 percent growth year over year, 97 percent growth ex-Harman, driven by demand from new and existing clients who are well known European OEMs and premier global Tier I suppliers for the industry.

We covered a lot of trends and developments in our M&A section, so I just would like to add some more highlights. Over the past year, we made significant headway penetrating the European market, further reinforcing our leading position in the region. Now we are actively working with most of OEMs and Tier 1s in Europe. Europe continues to represent very high-growth playground, and we are just starting to penetrate other promising markets such as US, Japan, South Korea, China.

As of March 31st, we have 15 HPAs versus only seven HPAs a year ago.

We have talked in the past about trend of decoupling of hardware and software, which is the new way to operate, build hardware and build software either on the cloud or in other parts of the car. While in earlier days, software integration has been done by Tier Is, today, OEMs started to do software integration themselves in-house. Therefore, they need help from vendors who can effectively integrate new technologies into the car and develop back end, cloud based solutions for over the air updates, data collection, analytics, etc.

Over the past several years, more and more technologies like cloud, mobile, IoT, Artificial Intelligence, information security and others coming into the cars and becoming a must rather than discretionary features. Our knowledge of these technologies collected across various sectors over many years being an innovation driven IT services company stands us apart from other automotive Tier I suppliers who for years have been focused on this one sector only.

We also have very strong links/partnerships with major technology vendors who actively penetrate automotive space - Microsoft, Amazon, Google. All of that translates into an explosive growth in the vertical during the current year, and we believe this to be the case in the upcoming years.

One of the examples of the fast growing area is autonomous driving. Here we are closely working with one of our newest additions to the HPA list, a large European automotive supplier, developing and integrating software solutions for sensors, radars and parking and other ADAS features.

Another new client is a European OEM to whom we are helping with building their own remote diagnostic platform.

Our book of work and the pipeline continues to strengthen. Actually, the main inhibitor of our growth in the sector is our ability to quickly recruit needed high-level personnel with certain skill set and achieve scalability required by our clients in the shortest time possible.

Telecom - Telecom vertical advanced 88 percent. We finished the year with seven HPAs accounts versus four a year ago with two new customers wins in this space in the past quarter alone.

The last quarter has been very active for Luxoft telecommunications and networking business. With the acquisitions and integrations of Insys and IntroPro, Luxoft has assembled a very broad and deep offering for the communication service providers, network equipment manufacturers, and enterprises. We established ourselves as a player in the carrier space and also closed the gap in current offering by adding the media/content delivery, over the top capabilities. Thus, now we can serve the entire spectrum of services for carriers and cable/satellite providers.

AT&T is our flagship account in this vertical. Through our organic efforts and through integration of two acquisitions, it is becoming one of the most diversified companies in our portfolio, swiftly moving up within our top clients list.

Working in so many different areas within AT&T, which is a great proxy for the entire telecom industry, allows us to accumulate a critical mass of knowledge across several key areas. We are using that knowledge to hone our expertise and formulate an offering to cross-sell into other clients in the sector.

Going forward, we see significant new strategic customer acquisition opportunities in financial year '18 as we deepen and broaden our market reach.

Pharma - briefly on our new vertical, healthcare and life sciences, we believe there is a significant potential within each of these two fields especially in the R&D domain. For example, clinical, pharmacovigilance, and regulatory processes will be advanced and accelerated with techniques such as machine learning and natural language processing. Luxoft Digital has extensive knowledge and capabilities across this new technology landscape and the ability to build solutions that combine these various new technologies. Our goal is to deliver to our clients broad ecosystem of innovative solutions based on combination of capabilities we have within Luxoft Digital and advanced domain focused consulting. This is, what differentiates us from other providers in the space.

A recent R&D lab solution that successfully built with one of the big U.S. pharma companies is the prime example of what clients need today and what we can deliver both for operational efficiencies and business model innovation. We combined three different technologies, such as Computer Vision, to watch experiments and measure data, Big Data, to compile and track large quantities of dynamic data coming out of tests, and Machine Learning to interpret the data received. All of that was sitting on top of the cloud-based infrastructure for agility, efficiency and cost control. That's the piece that we believe nobody can do on the market right now, and that's how we believe we will differentiate.

Similar to our case with automotive, traditional IT vendors do not have deep technology and integration experience, while sector-focused providers do not have adequate capabilities with cutting edge technologies. In order to compile the best service offering, increase our presence in this domain, drive business across major clients in the life sciences, pharma, R&D and healthcare, we are pleased to announce the former CIO of Novartis Sam Mantle joining our company last month. As you know, Sam is on the line with us in case you would like to ask him any questions.

In conclusion, I would like to highlight that we are pleased with the results of the fourth quarter and the entire financial year. 2017 was a transformational year when the company achieved impressive success in reshaping the business and compensating muted growth of anchor accounts by aggressive growth of new business domains, HPAs and new accounts acquisitions.

As we enter financial year 2018, we are very excited to continue the transformation on top of all of the solid building blocks already in place. We expect to see higher organic growth, accelerated developments in multiple fields, and lower individual customer concentration, sub 15 percent of total revenues. We will also continue reducing concentration of financial services.

The company will persist with aggressive investments into new offerings, strengthening global sales teams and R&D. We see those as an imperative in order to secure leading market positions in our key verticals.

We are maintaining our commitment to you given since the IPO and expect to finish the year with at least 20 percent top line improvement or at least $945 million. Our targeted EBITDA range remains intact, 17 to 19 percent.

With this, I would like to pass the word to our new CFO, Evgeny Fetisov.

Mr. Evgeny Fetisov: Thank you, Dmitry.

Hello, everyone. Thank you for joining our call today. I am happy to be part of Luxoft's professional and dynamic team, which I joined in March this year, and I look forward to engaging with all of you in the near future in the upcoming conferences and other events that we're going to have throughout the year.

It is my pleasure to give you an overview of our annual performance for the financial year ended March 31st, 2017.

Revenue for the full year amounted to $785.6 million compared to $650.8 million in the prior year, which is a 20.7 percent increase.

Business dynamics by core vertical for the year were as follows - financial services amounted to 61.6 percent of total sales with $484 million of revenues. That represents an increase of 8.4 percent year-over-year. Our growth in this vertical outside of our top two accounts was in excess of 35 percent year over year. Automotive and transport vertical amounted to 14.1 percent of total revenue with $111 million, which is an increase of 40.8 percent year-over-year. This vertical ex-Harman grew in excess of 96.7 percent year over year. Telecom comprised 8.9 percent of total sales or $70 million, an increase of 87.9 percent year over year. Healthcare comprised 3.6 percent of total revenues bringing in $28 million.

In the financial year 2017, concentration of our top five client accounts continued to decline. Top five concentration amounted to 54.6 percent of sales, a 10.3 percentage points year over year decrease in percent of total revenues. Our top 10 accounts now comprise 66 percent of sales, a 7.7 percentage points decrease versus 73.7 percent in the previous year. We are very encouraged by such dynamics as it confirms the strength of the growth of business outside of large accounts.

Deutsche Bank, UBS and Harman continue to be our top three accounts. In the financial year 2017, Deutsche Bank revenue decreased by 5.4 percent amounting to 23.4 percent of sales down from 29.8 percent last year. In the same period, UBS grew by 7.5 percent to 20 percent of sales down from 22.4 percent a year ago.

Moving on to profitability measures, our adjusted EBITDA amounted to $133.8 million for the full year versus $123.5 million a year ago, representing an 8.3 percent increase. The adjusted EBITDA margin for the full year was at 17 percent.

Operating income margin for the full year on a US GAAP basis was 8.5 percent and 13.7 percent on non GAAP.

Our GAAP net income was $62.6 million for the full year versus $70.3 million in the previous year, a 10.8 percent year over year decrease. Our GAAP net income margin for the full year was 8 percent versus 10.8 percent last year. The decrease in GAAP net income is mostly attributable to expenses related to the stock option program, which is $29 million during the year, which represents an increase from $17.7 million last year.

The stock option program figures increased for two reasons. One is a compensation to the new senior management coming as new hires in the U.S., Europe and APAC, as the company continues to grow in these regions, as well as to the senior management of the companies that we acquire, and two is an additional compensation to the existing company management as we believe it better incentivizes for the long-term growth and profitability targets achievement.

Overall, uh, stock options program was at 3.7 percent of revenues, which we see as a reasonable level for our company.

Our non-GAAP net income was $98.3 million in the full year in comparison with 92.9 million last year, 5.9 percent growth year over year. Our non-GAAP net income margin for the full year was at 12.5 percent versus 14.3 percent in the same period last year.

Our effective tax rate in the full year was 11.2 percent. Going forward, we expect the rate to stay at around 12 to 14 percent medium term instead of 15 to 16 percent that we were guiding earlier, mainly due to positive impact of the stock option program tax deduction first applied in calendar 2016 and the utilization of tax losses due to establishment of tax group in one of our jurisdictions.

Our weighted average diluted share count for the past year was 34 million shares. Our GAAP EPS have exceeded our earlier guidance by 19 cents and amounted to $1.84 per share. On a non-GAAP basis, our diluted EPS were $2.89 per share compared to $2.72 per share last year and 4 cents per share better than our guidance.

Let's now turn to the balance sheet. We have finished the full year with $109.6 million in cash and cash equivalents. The company continued to generate healthy cash flow both in the fourth quarter and the fiscal year 2017 as a whole. During the financial year, operating activities generated $122 million of cash, which is 15.5 percent as a proportion of revenue, a 15.8 percent increase from the last year. $14.2 million of cash was used in financing activities. Net cash of $106.5 million was used in investing activities.

Our free cash flow to revenue ratio in the period was 12.5 percent. This is above 12.3 percent last year's number and substantially higher than our 10 percent mid-term target rate. We remained debt-free, financing our acquisitions with cash without issuing stock or taking on any leverage.

Our CapEx was at 3 percent of revenues or $23.8 million, which is 18.6 percent lower than the previous year. We forecast CapEx to remain in our historical 3 to 4 percent of our revenue range for the year ahead.

As of March 31st, our trade receivables, including unbilled revenue, were approximately $159 million compared to $147.3 million as of March 31st last year. The growth amounted to 8.2 percent. Unbilled revenue decreased from $16.1 million as of March 31st, 2016 to $14.5 million at the end of the last fiscal year, which represents a 10.1 percent decrease.

Days sales outstanding, or DSO, excluding unbilled and deferred revenues, stood at 64 days, down by two days in comparison with 66 days in the previous year. Full DSO including unbilled and deferred revenues stood at 69 days, down by seven days in comparison with 76 days in the year ended March 31st, 2016.

We have finished the year employing approximately 12,800 people, of which 10,807 were IT professionals. Our revenue per engineer increased 2.5 percent and is now over $78.3 thousand.

Now, I would like to give you the outlook for the full financial year ending March 31st, 2018. We expect to continue executing our company's strategy and delivering solid revenue growth. We have a strong pipeline of business in our verticals, and we continue looking at new M&A opportunities. We forecast our revenue in fiscal 2018 to reach at least $943 million. This represents an increase of at least 20 percent year-over-year.

Adjusted EBITDA margin expectations remains in the range of 17 to 19 percent. Thus, diluted EPS is expected to be at least $1.90 on a US GAAP basis and at least $3.26 on a non-GAAP basis. The EPS is based on an estimated weighted average of 35.035 million diluted shares as of the end of our financial year ending March 31st, 2017.

This is over to you, Dmitry.

Ms. Alina Plaia: We can move on with it to the Q&A part, and then Dmitry will conclude the call after that.

Operator: Thank you. At this time, we're conducting a question and answer session.

If you would like to ask a question, please press star-one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star-two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question comes from the line of Steve Milunovich with UBS. Please proceed with your question.

Mr. Steve Milunovich: Good morning, everyone. First wanted to ask about revenue. I think you'd been previously talking about a billion dollar target for next year. It looks like we're closer to 950 now. What's changed in the last couple quarters? Is that, uh, primarily Deutsche Bank or something else?

Mr. Dmitry Loschinin: Yeah, hi. Sure. We still keep it as a soft target. It's more challenging than before. The way we see it, it's still possible or feasible.

Deutsche definitely made an impact. And so, we initially forecast that single digit decline. It's now--the way we see it, it's double digit, so close to 20 percent decline. And that's the main factor.

Mr. Steve Milunovich: And you were saying it's a kind of 15 to 20 percent decline in the first half, flattish in the second half, and then potential growth in fiscal '19. Was that correct?

Mr. Dmitry Loschinin: That's correct. We expect the account to hit the bottom somewhat around second, third quarter of our fiscal year, and that will--should be, some improvement coming our way. But the impact for the financial year would be around 15 to 20 percent decline compared to our fiscal '17.

Mr. Steve Milunovich: Okay. Is Harman still the number three client? And, uh, if so, what's going on there?

Mr. Dmitry Loschinin: Harman is number three. Post the Samsung acquisition, there are quite a few things, kind of are being --how to say--quite a few decisions to be made, you know, the way Harman will operate and what will be the operating model. So, we also expect the growth with Harman to be muted or might even experience some minor decline.

Mr. Steve Milunovich: And then when you look at the operating margin decline this past year, how would you break that out among various factors such as smaller accounts making up a larger part of revenue, currency, pricing pressure, and so forth?

Mr. Dmitry Loschinin: There are two major factors. One is that we rebalanced our client portfolio. That's definitely the key factor for us.

And the growth comes from new accounts that grow very aggressively, and therefore we have to invest into the growth. So, overall gross margins are lower than our traditional anchor clients or legacy business. So, that would be the main reason.

And the second one is the M&As. Most of the companies we brought on board, they have lower margin profile than traditional Luxoft business. And it is that, you know, we are capable of buying them cheap, but it takes a while, usually two years, to bring them up to our margin profile.

Mr. Steve Milunovich: Okay. Thank you, Dmitry.

Mr. Dmitry Loschinin: Thanks.

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

Mr. Anil Doradla: Hey, guys. Congrats on the HPAs. You know, you're building it up well.

Dmitry, can you give us some long term targets? How should we be looking at the HPAs over the next call it two to three years, or even two years? That's the thing. Do you intend to get it to a certain amount? Do you have something you target?

Mr. Dmitry Loschinin: Yeah. We believe that HPA in the next two, three years will represent 50 percent of our revenue. And you know, cumulative growth of this at least is pretty high, so there it's--we are talking like 50 plus percent year-over-year.

So, that's the major driver of our growth. And by doing that, we will definitely reduce the concentration of our key accounts. As we've said, that we anticipate that by the end of our fiscal '18, uh, single client concentration will be below 15 percent.

Mr. Anil Doradla: Uh, great.

Now, the 20 percent top line growth for next year you know, obviously there's an organic and inorganic component. Can you break that down a little bit more? But more importantly, on the inorganic side, are there some acquisitions yet to be made to get to that you know, 20 percent, or pretty much most of have been baked in?

Mr. Dmitry Loschinin: Organic will accelerate, so we anticipate 15 plus percent. So, above--north of 15 percent definitely, better than in '17.

As for the M&A we are looking at some potential M&A in the pharma and the life science space. It's unlikely we will be that intense in terms of M&A activities as in our fiscal '17.

Mr. Anil Doradla: The 3 to 5 percent you know, inorganic, does not--did not include, um--or also includes certain acquisitions that are yet to be made?

Mr. Dmitry Loschinin: No, it does not. So, that what's reported today, in our forecast does not include any additional acquisition on top of what has been made today.

Mr. Anil Doradla: Okay.

And you're already talked about the operating margin compression, and in '18 that seems to be clearing out. But was there any FX impact of that, or, you know, revenue composition from these--you know, some of these trends, you know, of some of the currencies against the dollar?

Mr. Dmitry Loschinin: Uh, I will ask, uh, Evgeny to--.

Mr. Evgeny Fetisov: --Yeah, let me jump in here and--hi, this is Evgeny. So overall there has definitely been changes in the FX composition of the--both revenues and costs. But the overall impact on the bottom line has netted out. So, while we didn't get the various FX rates as we planned, the bottom line came in close to what we have expected.

Mr. Anil Doradla: All right. All right. Thanks a lot, guys.

Mr. Dmitry Loschinin: Thank you.

Operator: Thank you. Our next question comes from the line of Moshe Katri with Wedbush Securities. Please proceed with your question.

Mr. Moshe Katri: Hey, thanks. Just going back to the discussion on margin compression should we expect margin compression from the Deutsche Bank renewal this year as well?

Mr. Dmitry Loschinin: Not really. Again, Deutsche, as you can see is reducing. There will be some reshuffling, uh, costs so that we will redistribute the personnel from Deutsche to other accounts. But it's minor.

Overall, our margins with Deutsche stays, you know, pretty stable, as well as UBS. As we reported on previous calls, we have multiyear deals with those two accounts. So, we are kind of secured in terms of the margins there.

Mr. Moshe Katri: Okay, great.

And then when you talk about organic growth north of 15 percent, does that compare roughly to about 12 to 13 percent organic growth in fiscal '17? So, we're actually going through an acceleration?

Mr. Dmitry Loschinin: Yes, exactly. That's what we are saying. So, we actually believe that we should be somewhat around 17, 18 percent organic growth. So, that's about 5 percent improvement, uh, compared to our '17.

Mr. Moshe Katri: Yeah, that's great.

And then where are we in terms of, uh, the--in terms of progress on the ongoing plan to diversify your delivery centers, or the exposure to one specific area and then kind of looking at some of the other delivery centers across the globe?

Mr. Dmitry Loschinin: Yeah. So, we are doing great. We, uh, reported--I think we've been reporting that our concentration within one given geography is below 30 percent for a long time.

I believe Ukraine is the largest one today. That is about 28 percent, give or take, somewhat around that. And Poland is now number two with Russia and Romania being pretty close.

Our overall goal in terms of Eastern European geography is to have for these four geographies be equally distributed. At the same time, we start growing in some other parts of the globe. So, our Asian expansion goes well where we have, like really decent, operational footprint. As of today, we are in Vietnam, we are in Malaysia, and we are in India. And, obviously this region, as we said, you know, has very high potential for growth, and therefore the delivery operation will be growing there.

Also talking about, uh, Americas, uh, we have pretty decent footprint now in the States, and our Mexican operation has been aggressively growing as well. So, the company continues to diversify its engineering footprint.

Mr. Moshe Katri: And then the final question, you've indicated that the at least 20 percent top line growth guidance, assumes no further acquisitions. How's your M&A pipeline? How's your appetite for M&A for the fiscal year, looking at this point? Thanks a lot.

Mr. Dmitry Loschinin: Yeah, we already said that we won't be as aggressive in our fiscal, uh, '17.

We have several target profiles, I would say so in mind. And I think this time we will be more looking for something really very strategic and maybe a bit more sizeable than what you've seen in the past. But, uh, again, for now, it's early stage development, so nothing to report in the upcoming months, I would say.

Mr. Moshe Katri: All right. Thanks.

Operator: Thank you. Our next question comes from--.

Mr. Dmitry Loschinin: --Thank you--.

Operator: --The line of Joseph Foresi with Cantor Fitzgerald. Please proceed with your question.

Mr. Joseph Foresi: Oh, hi. What changed for you at, at Deutsche Bank from the original forecast for this year? And, you know, why does it get better after the middle of the year? Is that just comps?

Mr. Dmitry Loschinin: Well, Deutsche, we didn't know to what extent they will go with cutting of their run rate. And again, we anticipated some of the cuts. It is just, you know, happening, um, on a broader scale and more severe cuts, you know, which is understood, taking into account all of the troubles. And the bank, uh, committed to significantly reduce the run rate, and that goes across all of their business lines.

But the way we see--and that's, to some extent, similar to what we saw last year with UBS. So, they go and do the cut, and the cut will be completed by the mid of the year so we'll get into some stabilization phase. And then, you know, usually we will see some of their, um--some of the new opportunities coming our way because, again, once they more or less stabilize, they still need to execute on some of the strategic programs.

Still compliance and regulations is in their agenda, with MiFID II and 40 being probably the key elements, and then their whole digital conversion where Deutsche has committed to invest a pretty significant amount of money. That should be coming our way at the end of this fiscal year.

Mr. Joseph Foresi: Got it. And on the margin front, are we looking to come in at the lower end again this year, the 17, 19 percent range?

Mr. Dmitry Loschinin: That's likely, yes, and again, the company, uh, fulfilling its promise to stay within the range, at the same time where we are doing a lot of investments to rebalance the client list and open new verticals, for instance. Healthcare and pharma is a new one, and we will be, uh, heavily investing money there, as well as some of the new areas in automotive fields and telecoms. So, all of that requires expansion, and therefore investments.

We also said that we are building and beefing up our presence in Asia. And that's not just the presence in a key geography, but also we'll--you know, a strong footprint for engineering talents. And that will require some investments as well. So, all in all, you know, we will balance it so that we should be within the range, but most likely in the low end of the range.

Mr. Joseph Foresi: Got it.

And then finally, can you run through the factors on the EPS guidance? I seem to be coming in a bit higher. I know you talked about, uh, the tax rate assumptions and the share rate assumptions. I'm wondering, is there something in maybe the interest income or something that I'm missing, uh, because we're coming up a little bit higher than where your, where your guidance is? Thanks.

Mr. Evgeny Fetisov: Yeah, this is Evgeny. So, uh, I think you've briefly mentioned the key things. So, we don't expect any substantial interest income at this point of time, given the overall still low interest rate environment. So, it's, the amount of shares that is probably lower than you anticipate. And I guess, yeah, I guess this is it. So--.

Mr. Joseph Foresi: --Okay. Thanks.

Operator: Thank you. Our next question is from the line of Avishai Kantor with Cowen and Company. Please proceed with your question.

Mr. Avishai Kantor: Yes, hi. Good morning. My first question is on the margin profile. Is the automotive segment still below company's average regarding margin profile?

Mr. Dmitry Loschinin: Oh, it's never been the case actually. Uh, what we were saying, that, um, the gross margins in automotive are very good. They are better than any other industry or any other vertical. And it continues to be so and we actually see margin improvement there.

However, we put a lot of, uh, investment into the field and will continue doing so. So, in our way, we call it, uh, contribution margins that actually incorporates all of the--on top of their just, uh, run rate. But overall margins in automotive are very good.

Mr. Avishai Kantor: And my second question, with, um--with the focus on growing talent in India--in Asia-Pacific region, in Asia in general, should we assume that India is going to be one of the significant places?

Mr. Dmitry Loschinin: India is a delivery location. Andwe will be, you know, establishing and growing our self as a premium brand, carefully balancing, you know, some of the local talents and some of the Eastern European talents, as we've been doing in the past.

So, we don't anticipate a lot of business coming in that way. But in terms of the talent acquisition, that--we have opened and started this new geography for us.

Mr. Avishai Kantor: Thank you so much.

Mr. Dmitry Loschinin: Thank you.

Operator: Thank you. Ladies and gentlemen, our next question will be our final question for today. It comes from the line of Arvind Ramnani with Pacific Crest Securities. Please proceed with your question.

Mr. Arvind Ramnani: Hi. Uh, yeah, thanks for taking the question here. I just had a bit of a technical question, you know? Uh, can you let us know what this impairment loss is and how the gains and losses work you know, when you revaluate your contingent liabilities? I mean, the number is certainly big this quarter. And, uh, does it mean some of your acquisitions are coming in differently than what you expected?

Mr. Evgeny Fetisov: Yes, this is Evgeny. So, thank you for the question. Uh, indeed this is in regards to revaluation of I would say of the expectations for the acquisition that we had. So we've, uh--we're comparing, uh, the actual results to the--what was forecasted at the time of the deal.

So, as you may see, we have an impairment of roughly $5 million, which also comes in with, uh, a valuation of contingent liabilities of, uh, $10 million, which is a net $5 million positive effect, plus, $3 million of amortization on the deal, leaving us with a positive effect of $2 million.

So, the way we structure our deals is that they balance, the payouts are balanced with a performance of, uh--say of the business. So, overall we--while we are not, getting the--say the top line results that we planned for, overall bottom line is better than we expected.

Mr. Arvind Ramnani: Yeah. Great.

And you know, on your automotive vertical, you know, it looks like outside Harman, um, you know, you grew 95 percent year-on-year and, you know, kind of hooked your revenues about 16.4 million. You know, I'm just trying to figure out what's a normalized revenue base for this automotive business outside of Harman.

Mr. Dmitry Loschinin: Well, again, I'm not sure I understood the question about--what do you mean by normalized revenue?

Mr. Arvind Ramnani: I mean I guess like, you know, the revenue, uh, outside of Harman moved down quite a bit, right? Like, you have, um--.

Mr. Dmitry Loschinin: --That's correct, yes--.

Mr. Arvind Ramnani: --Uh, you know, like 16.4 million in 4Q. It was 20.6 in 3Q. Um, and then we kind of the first couple of quarters it was, you know, between like 11 and 13 million. So, um, you know, just trying to figure out what's a regular revenue for automotive, or do you expect the volatility to sort of continue?

Mr. Dmitry Loschinin: Well some volatility comes from the fixed price contracts. But overall the growth is sort of exceptional there. We also, during our fiscal '17, closed, many new logos, and most of them are, you know, really high potential accounts the way we see it.

So, our--and also, as we reported, uh, on the call, that our main inhibitor there for the growth is our ability to bring the talents on board and scale our practice, to reflect a customer request. In this sense, you know, we actually, from our side, do not push, uh, for Harman growth, uh, because we really need to establish a broader customer base and get, uh, the deals up and running everywhere.

So, again, at the end we expect that this business to be about 40 percent year-over-year. There are just, uh, tremendous opportunities, all over the place, especially in Europe. And still we are not in the States, seriously not in the States, and completely out of, uh, Asian geographies. So, we believe that the industry represents tremendous growth opportunity for the years to come.

Mr. Arvind Ramnani: Okay. Uh, thank you, and good luck for the next year.

Mr. Dmitry Loschinin: Thank you.

Operator: Thank you. Thank you, ladies and gentlemen. We've come to the end of our time allowed for questions. I'll turn the floor back to management for any final remarks.

Mr. Dmitry Loschinin: Thank you, everyone, for your time during our call. We look forward to seeing all of you in the upcoming conference during the next several weeks. Our next earnings call will take place in August. Cheers. Bye.

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