Luxoft Holding, Inc.
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Operator: Greetings and welcome to the Luxoft Holdings, Inc. second quarter fiscal 2018 conference call. 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, Ms. Tracy Krumme, Vice President of Investor Relations. Thank you. You may begin.

Ms. Tracy Krumme: Good morning, everyone. Thank you for joining us on Luxoft Holding's second quarter fiscal 2018 conference call. On the call with me today are Dmitry Loschinin, Chief Executive Officer and President, and Evgeny Fetisov, Chief Financial Officer.

Before we begin, I would like to note that we have provided a slide presentation to help guide our discussion. This presentation can be accessed on our website at Investor.luxoft.com. I would like to also caution investors regarding forward-looking statements.

Any statements made in today's presentation that are not based on historical facts are forward-looking. Such statements are based on certain estimates and expectations, and are subject to a number of risks and uncertainties. Actual future results may vary materially from those expressed or implied by the forward-looking statements.

We encourage you to read the risks described in our 20-F filing for the fiscal year ended March 31st, 2017. Except to the extent required by applicable securities laws, we undertake no obligation to update or publicly revise any of the forward-looking statements that we make here today, whether as a result of new information, future events, or otherwise.

Today's presentation will also include references to certain non-GAAP financial measures. We have reconciled the comparable GAAP and non-GAAP numbers in yesterday's press release, as well as the supplemental tables in the back of the slide deck.

With that, I will turn the call over to Dmitry. Dmitry, please go ahead.

Mr. Dmitry Loschinin: Thank you, Tracy. And thanks, everyone, for joining us today. Before talking about financials, I want to provide my perspective on the quarter and talk about our progress driving stronger execution, building momentum across our verticals, and implementing our business transformation. I'll begin my remarks on slide three, which highlights our results and progress.

Our Q2 performance was largely in line with our expectations. It keeps us on track to achieve our full year financial goals. We made continued progress diversifying our customer base and generated strong revenue growth across several of our key verticals. This included 76 percent revenue growth in automotive and 26 percent growth in telecom and media year-over-year.

We continue to make improvement strides rebalancing our customer portfolio and reducing our client concentration. Revenue outside our top two accounts grew 37 percent year-over-year. In financial services, we generated 43 percent year-over-year growth excluding our top two clients. This accelerated from 36 percent growth last year.

Our business transformation centered on commitment to expand and enter new verticals. We believe our technological expertise, innovative offerings, and strong team provide a differentiated value proposition to customers across the world. A key component for our

strategy is increasing our high performance accounts, or HPAs. During the second quarter, we added five HPAs, including three existing and two new clients, to our portfolio. At the end of the second quarter, HPAs totaled 37 percent of revenue versus 20 percent at the same time last year.

Another area of focus has been increasing our delivery center scale, particularly as we look to expand our global footprint in attractive growth regions like Asia-Pacific. The opening of the Bangalore office in India following our acquisition of derivIT represents a major milestone in our journey to becoming a top global technology consultancy. It represents our 37th delivery center, up from 28 a year ago.

As we have discussed before, we are focused on expanding our capability and platform in APAC, given the rising demand for technology services in growing Asian economies. We are now well positioned to meet this demand to deliver IT services to financial institutions in Singapore, Australia, Malaysia, and China from nearshore locations.

We are also building our expertise in cutting edge platforms in the digital space, as well as in the cloud, DevOps, blockchain, data analytics, Internet of Things, and AI. We believe this will strengthen our competitive position and add significant value to customers.

While our focus is primarily on organic growth, we continue to selectively pursue strategic acquisitions where we can acquire new capabilities to enhance our value-added offering and secure new HPAs to support our long term growth. To that end, we recently closed two acquisitions in the financial services industry that provide additional growth opportunities. I will speak more to these acquisitions in a few minutes.

As discussed last quarter, we continued to experience revenue headwinds at two Fortune 10 healthcare and telecom clients, [unintelligible] and IntroPro. The headwinds stem from external factors and are primarily due to restructuring at both companies. In total for fiscal year 2018, we expect an approximate 30 percent miss versus our full year plan from these two targets.

It is important to know that this shortfall is already included in our current full year guidance and has only top line impact, as we protected our self through the earn-out structure of both acquisitions, which essentially cuts our purchase price in half. While we are disappointed by these near term challenges, these acquisitions achieve our key goals of strengthening our expertise in telecom and media and establishing a presence in healthcare, acquiring talent, and provide access to new accounts in both verticals.

Turning to slide four, I would like to review our current revenue diversification and client concentration metrics. As you can see, financial services accounted for 57 percent of our revenue during the second quarter. This was down from 63 percent of revenues at the same period last year as we make further inroads into the automotive and digital enterprise markets.

From a geographical perspective, we have increased our presence in key areas such as APAC, which reached 4 percent of our sales in the second quarter. The success we are having expanding our global presence and growing outside of financial services is meaningfully impacting our client concentration.

Contributions from our top two accounts fell to 35 percent in the second quarter compared to 45 percent last year due to efforts to de-risk and diversify our revenue. Top five customers were 47 percent of revenue in the second quarter compared to 58 percent in the prior year, and down significantly from 72 percent in fiscal 2015.

Top 10 customers accounted for 58 percent of revenue this quarter compared to 69 percent in the second quarter of last year. Looking back even further, our top 10 accounted for 82 percent of our revenues in 2014, which also shows the strong progress we have made diversifying our customer base.

Overall, we have made strong progress executing our strategy but know we have much work left to do. We see a number of attractive growth opportunities across our verticals, and will remain sharply focused on expanding vertical and geographical footprints as we look to continue building a stronger, more diversified Luxoft.

As you can see, we have made significant progress diversifying our revenue base and reducing client concentration. Slide five provides a historical overview of our top two accounts, Deutsche Bank and UBS, and their revenue contribution. Revenues from both accounts were down 10 percent year-over-year, consistent with our expectations. However, combined quarterly revenue increased 10 percent on a sequential basis.

We continue to look for ways to offset client insourcing and cost-cutting by expanding our relationship in growth areas, including a regulatory change in wealth management. Our strategic acquisitions also strengthen our industry service offering and value proposition.

Turning to slide six, the main avenue to driving top line growth and transforming our business is our HPAs. Slide six demonstrates the increasing revenue contribution from HPA accounts over the last four fiscal years. You can see that HPAs have reached 37 percent of total revenue from just 10 percent in fiscal 2014.

HPAs require additional investment in the near term as we build the relationship, but offer Luxoft valuable long term growth opportunities as the relationship matures. HPAs are the valuable pipeline for our anchor customer portfolio, and I am pleased with our steady execution in this area.

Historically, our anchor clients used to be our top five, but that has changed as we have expanded our customer base and entered new verticals. While those clients were an important source of growth until fiscal 2016, today we are more diversified from a customer and vertical standpoint. Outside of these core accounts, in fiscal '18 we expect healthy year-over-year growth of 36 percent.

Part of our growth stems from the synergies derived from value accretive acquisitions we undertook over the past two years. Our M&A strategy and our company structure are congruent with our goal to lead customer enablement by expanding our array of expertise, capabilities, and solutions.

Turning to the next page, slide seven provides an overview of our digital transformation efforts and strategy. Today we are sharing with you the principal change we have made in our lines of business. Digital transformation continues to be a major trend for the foreseeable future. As it becomes completely foundational to future business, according to IDC the proportion of digital

related consulting engagements will increase from about half of all the businesses in IT consulting in 2013-'15 to approximately 70 percent of all engagements in 2020 or 2021, driving the market for digital strategy and agency services to well over $100 billion worldwide by 2021.

So, we decided to combine into one business unit solely focused on digital transformation. This will allow us to provide concentrated effort to better focus and strengthen our digital capabilities. In the past, we had multiple industries served in different silos, such as telecom, energy, media, healthcare, and others.

As we see a lot of commonalities in servicing the digital agenda of clients from various industries, we formed digital enterprise to be the third line of business, after financial services and automotive, to serve multiple industries, including energy, travel, manufacturing, retail, telecom and media, and healthcare. This business unit was created by combining industry focused practices and technology expertise in our global centers of expertise, including user interaction, digital experience, process automation, and data analytics in the innovation lab, which is focused on next generation technologies.

We structured our organization to best serve digital transformation agendas for multiple industries and provide an established and strong execution vehicle providing innovation at scale. To support our go-to-market, we have focused our sales organization 100 percent on

digital opportunities. A key benefit of our digital enterprise is our ability to provide digital services at scale to multiple industries while at the same time sharing expertise and best practices across our entire organization. As such, we will invest over $12 million this year to grow our digital capabilities and position us to best capture growth opportunities we see in our industries.

Turning to slide eight, this slide shows the key trends across our three lines of businesses and the way we structure our offerings. In financial services, our customers' key focus areas are regulatory, simplification, and digital/fintech. Looking at regulatory, there is a lot of work the industry still needs to do. Pressure is growing as many banks remain behind the curve. We see strong opportunities here and expect it will be a growth driver for the next several years.

Simplification will allow banks to reduce their costs and operational complexity by migrating a wide and disparate number of applications to fewer platforms. Luxoft's offerings significantly help financial institutions simplify their operation by using leading cloud-based and other digital solutions.

In addition to cloud-based solutions, other important digital trends in financial services include automation via robo-advisory and blockchain. Key areas of growth lie within wealth and asset management, given the increasing impact of digital technology on traditional banking business

models in the areas like robo-advisory, omni-channel enablement, and digital engagements. Regulatory actions like MiFID II and EMIR II drive strong demand, as well as replacement of legacy platforms due to the increasing need for digitalization, which also drives demand for our services.

We believe demand within the financial services industry will be driven by ongoing pressure to restore growth and profitability, industry wide regulatory reforms, requirements to increase transparency and manage risk exposure, and adoption of new technologies such as cloud computing, mobile, and data analytics.

We had several notable Q2 wins within financial services. First, we expanded in partnership with one of the largest American asset managers as they seek to take advantage of our high quality capability in central Europe.

Secondly, we partnered with a fintech startup to develop their enterprise platform for financial accounting of Bitcoin and cryptocurrency trading and system audits for distributed ledger systems.

Thirdly, we were selected by one of the largest asset managers in Singapore to build their mobile digital cloud-based CRM and collaboration platform. This will streamline the investment

approach and increase the asset managers productivity. Lastly, we have three new HPAs as a result of derivIT and UNAFORTIS acquisitions.

Switching now to automotive line of business. Key market trends that support our growth outlook include increasing digitalization, autonomous vehicles, and connected mobility. We are benefiting from our early push into this market and have quickly grown automotive into $150 million-plus business for Luxoft. The automotive industry is in the early stages of a seismic shift that will reshape the nature of driving and transportation for the future.

Today Luxoft is just important to startups, established suppliers, and major OEMs, who are all seeking innovative technologies and solutions given the forecasted disruption caused by autonomous vehicles. Autonomy remains an area of investment priority for Tier 1 and OEMs, and we continue to win business.

Our automotive line of business represents the largest area for growth and has grown from 12 percent to 18 percent of total revenues in just the last 12 months. We continue to execute on the broad demand for development of smart digital cockpit solutions, enabling carmakers to differentiate their vehicles with state-of-the-art user experiences.

We see strong growth in the area of vehicle platform software and autonomous driving solutions. With two major HPA wins this year, we developed strategic relationship with Tier 1 suppliers where we co-create the autonomous drive platforms and enable them to successfully deploy their customer projects. As an example, during the first half of fiscal 2018 we were awarded multiple contracts by a leading Tier 1 supplier in the autonomous drive space.

As carmakers strive to become software companies, we also form partnerships on developing smart cloud solutions. During this quarter, we were awarded a large cloud service deployment project for a major car OEM. We also see business coming from new entrants to the industry and companies seeking to change their business model from selling cars to offering mobility services.

We were recently awarded a multiyear contract from an innovative company in the field of computer vision and autonomous drive. With our value-added services and expertise, we can help them integrate their products into major auto OEMs, insurance providers, and commercial fleets, and accelerate the development of autonomous vehicles. We are pleased with this collaboration and look forward to becoming their strategic partner as they merge AI with computer vision to provide onboard safety.

Lastly, to our digital enterprise line of business. Digital transformation is a major trend on the global market. Ultimately, what we enable is monumental changes to established business patterns through the application of innovative technology. We help our customers change business models, economic structures, legal and policy measures, organizational patterns, cultural barriers, and more. They do this by creating new ways to connect their workforces, customers, and operations, and create connected products and services.

Today we believe we have built an offering that is different than our competitors and one that allows for customization based on industry or customer needs. There is notable growth potential here and we had multiple wins here this quarter. Several wins came from healthcare, including a new strategic implementation partner with PEGA Practice, a blockchain proof of concept with a large US healthcare payer, and increased exposure with a large global pharma to support digital transformation and expand global footprint.

On the telecom and media front, we added a new HPA, the result of leveraging big data and AI to improve customer experience. In energy, we completed an IT and cloud consulting project to design sensor-based preventive maintenance system. We were chosen as an implementation partner and are currently working to implement the system to collect telemetry, store it in the cloud, and analyze data in real-time to prevent or detect possible equipment malfunctions.

Turning to slide nine. Before talking about most recent acquisitions, I would like to talk about the approach we take towards target companies. While activity levels at acquired accounts might fluctuate, we believe we are adding great customers who investment priorities are in line with our current and future solutions portfolio. I think Excelian is a good example.

We purchased Excelian Group for roughly $20 million and today we derive revenues from it north of $78 million. We saw value in Excelian as they had a leading market position in Europe and a very good client base, but low single-digit EBITDA margins. This was due to high volatility of the business's relatively small deals, usually less than $1 million.

I am pleased to say that after the first year of full integration, we improve Excelian's EBITDA margins by 6 percent and in the second year grew its revenue by 29 percent year-over-year. In two years' time, the business has grown substantially thanks to cross-selling efforts throughout the client base. Average deal size increased from $1 million to over $3 million. Margins improved further, close to our company's average, 17 percent.

Excelian became our premium brand under the financial services vertical. The entire management team was retained and moved into key positions, including former CEO, Jeremy Ward, who now runs our packaged offering side of the business. Therefore, the value this

business brought to our overall financial and competitive success is already far greater than the 2015 purchase price.

In case of derivIT, we saw the great success we had integrating Excelian and we looked for acquisition opportunity to bolster that position and expand geographically from a core European base. DerivIT was a perfect match for that, not only matching Excelian's offering and deep Murex expertise, but also this highly complementary delivery in client geographies that can be leveraged for both broader cross-sales and wider APAC expansion. The synergies are already coming through in our ability to offer clients global delivery options competitive on both pricing and quality with scalability to match any of our global peers.

While our financial services offering have largely been focused on capital markets, we're organically expanding into the private banking and wealth management space to capitalize on the growing shift of internal investments and focus of many global banks such as UBS, Credit Suisse, and others. The acquisition of UNAFORTIS provides this as we expand our offering in this attractive space, building it around packaged solution implementation, technical consulting, and a local Swiss-German speaking presence, which is an essential requirement for many Swiss banking clients.

The decision for acquisition started with the selection of the Avaloq package as our preferred entry point. It had good traction with Swiss banks, aggressive global expansion plans, and limited existing vendor landscape, which contrasts to commoditized package solutions where you would be entering direct competition with global [unintelligible] names and the ability to differentiate is lower. UNAFORTIS is a clear example of taking a small, unsure team with deep subject matter expertise and combining with the global Luxoft platform to become a top-tier vendor and expand in ways this small team of experts would never have been able to do.

Before turning it over to Evgeny for the financial review, a few closing remarks. Luxoft has a solid foundation for growth and a clear commitment to business transformation that we have--we believe will position us for sustainable, long-term growth. As we look ahead, we believe we have the right strategy in place to capitalize on the trends, investment priorities, and growth opportunities across our verticals.

More work is needed to further diversify our business, to continue growing our HPAs, and ultimately, strengthen our long-term growth profile. I can assure you that the entire management here and all our employees are focused on continuing to advance Luxoft, accelerate our digital transformation, and become an increasingly critical service provider for our customers.

Thanks for your attention. Now I will turn it over to Evgeny.

Mr. Evgeny Fetisov: Thank you, Dmitry. Hello, everyone, and thank you for being on the call with us. I will go over some key numbers, provide additional color for our Q2 operational and financial results, and review our guidance.

If you turn to slide 10, Luxoft delivered a healthy level of year-over-year and sequential revenue growth. Second-quarter revenue of $228 million was up 16.1 percent year-over-year and 9 percent sequentially, as compared to $209.2 million in the first quarter of the fiscal year and compared to $196.5 million in the second quarter of fiscal ‘17.

While conditions at our top two accounts remain challenging, we have made strong progress diversifying our customer and revenue base. Revenue growth outside of these two top clients was 37 percent year-over-year.

Now let me give you the highlights of our financial performance during the past quarter. The financial services vertical delivered a 5 percent year-over-year increase in absolute dollar terms. When you consider the reduced spend from our top two accounts, this is a good achievement.

Our automotive vertical delivered 76 percent revenue growth year-over-year. Telecom comprised 11 percent of total revenue and revenue increase of 26 percent year-over-year. Our smallest and newest vertical, healthcare, which represents 3 percent of revenue, reported a 10 percent decline year-over-year. We are pleased to report the development of our HPAs, both organically and through acquisitions; brought our client concentration substantially down.

Moving on to the profitability metrics. Second-quarter adjusted EBITDA was $38.6 million versus $37.4 million in the same quarter of the last financial year and $26.4 million in the previous quarter. This represents 3 percent increase year-over-year and 46.1 percent sequential increase, respectively.

Our adjusted EBITDA margin was 16.9 percent versus 19.1 percent in the second quarter of last year, and 12.6 percent in the last quarter of this fiscal year.

Operating income margin in the second quarter on a US GAAP basis was 9.4 percent and on non-GAAP basis the margin was 14.1 percent. Gross margin in the second quarter was 38.9 percent, up from 35.2 percent last quarter and down from 41.5 percent in the second quarter last year. This is in line with our message last quarter regarding companywide gross margin at or above 37 percent for the remainder of the year and gradual improvement over next year.

Our GAAP net income in the second quarter was $18.4 million, and net income margin was 8.1 percent, compared to 8.3 percent a year ago and 3 percent in the first quarter of the fiscal year. Our non-GAAP net income for the quarter ended September 30, 2017, was $28 million versus $27.8 million in the second quarter a year ago and $17.1 million in the previous quarter ended June 30, 2017.

Our non-GAAP net income margin in the first quarter was 12.3 percent compared to 14.2 percent year-over-year and compared to 8.2 percent in the previous quarter.

Our effective tax rate for the second quarter was 15.1 percent, consistent for the same quarter on a year-over-year basis and up by 1.1 percent in comparison with the first quarter of fiscal ‘18. Annual effective tax rate is likely to be in the 14 percent to 15 percent range, up from 12 percent to 14 percent as previously guided, due to the revision of forecasted impact of excess tax benefit on our stock options plan as a result of Luxoft’s stock price decrease over the past quarter.

Weighted average diluted share count for the past quarter was 34.1 million shares, down by 0.18 million shares from the previous quarter. Our diluted EPS amounted to $0.54 per share, as compared to $0.18 per share in the previous quarter and $0.48 in the second quarter a year

ago. On a non-GAAP basis, our diluted EPS was $0.82 per share, compared with $0.50 per share last quarter and $0.83 in the second quarter of the last year.

Slide 11 shows the progress we have made managing our costs in order to drive margin enhancement. During the second quarter, SG&A as a percentage of revenue was 25.5 percent, down 2.1 percentage points from 27.6 percent, as the SG&A share reduction was driven by SOP expense limitations and efficiency improvement. SOP expense as a percentage of revenue was 2.7 percent in the second quarter, down from 4.6 percent in the second quarter last year.

Moving to the slide 12 and our organic growth. First, I want to inform you that in effort to provide more insight in our business and to make it easier for investors to understand our performance as it compares to our peers, we are adopting a 12-month organic growth timeframe as a more broadly-used metric.

Looking forward, on a 12-month basis we expect our full-year--our guiding growth rate to be approximately 8 percent of total revenue for the fiscal year 2018. This rate takes into account the headwinds at our top two accounts, Deutsche Bank and UBS. I think it is important to note that excluding these top two accounts, we expect 22 percent year-over-year organic growth. This demonstrates our increased focus on growth in core accounts, HPAs, and new accounts.

I also want to note that for illustrative purposes, we included our organic growth on a six-month basis, only to show the 13 percent growth full-year guidance we have previously provided. Going forward, we will only report organic growth on a 12-month basis.

As Dmitry discussed, we are taking a number of steps to accelerate our organic growth including our strategic focus on digital, introducing new solution offerings, and expanding to attractive new global markets. We continue to work to rebalance growth from our legacy anchor accounts to HPAs. As Dmitry mentioned, we added five new HPA accounts this quarter with two accounts coming from new clients. I also think the strong growth we generated in the automotive and telecom verticals demonstrates the success we are having diversifying our business. As the result of these efforts and our execution, we currently expect organic growth to accelerate in fiscal 2019 compared to fiscal 2018.

Let's move to the balance sheet. Luxoft finished the second quarter with $56.1 million in cash and cash equivalents; with operating cash outflow of $1.1 million, or 0.5 percent of revenue; financing activities using $0.2 million of cash; and net cash of $48.2 million used in investing activities. Our free cash flow to revenue ratio was negative 3.2 percent, predominantly due to increased accounts receivable and unbilled revenues at, uh, as of the end of the second quarter.

As of September 30th our trade receivables, including unbilled revenue, were $220.3 million compared to $174 million as of June 30, 2017. Unbilled revenues were up from $29.1 million previous quarter to $37.7 million this quarter. At the end of the second quarter days sales outstanding, or DSO, excluding unbilled and deferred revenues stood at 66 days, up by three days from 63 days in the previous quarter. Full DSO, including unbilled and deferred revenues, stood at 76 days, up six days from last quarter. The reasons for the DSO increase are temporary and predominantly linked to a change in the billing cycle at one of our top accounts, which caused growth of receivables in the second quarter. We plan for the receivables to go down in the third quarter as a transition to the new billing cycle and invoice processing with this particular client is complete.

Our CapEx was in line with the second quarter last year and stood at $6.1 million. We finished the quarter with 13,090 people, of which 11,128 were IT professionals, up 10 percent from just under 10,000 IT professionals one year ago. Attrition in the quarter was 15.3 percent, up from 14.1 percent last quarter and up from 11.5 percent in the same period one year ago. Our annualized revenue per engineer is increasing and is now $82,800, up 9 percent from $75,900 last quarter and up 5 percent from $78,900 one year ago.

Now to slide 13. The outlook for the full fiscal year remains unchanged from the last quarter. We expect our plan to increase approximately 17 percent, which would put us at approximately

$920 million for the year. Adjusted EBITDA margin expectation is in the range between 15.5 percent and 16.5 percent. We expect to end the year, uh, the year with our GAAP EPS to be at least $1.53 and non-GAAP EPS to be at least $2.85. The EPS is based on the estimated weighted average of 34.4 million diluted shares. With this, we're opening the lines and look forward to your questions.

Operator: Thank you. At this time I'll be conducting a question and answer session. If you'd 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 Anil Doradla with William Blair. Please proceed with your question.

Mr. Anil Doradla: Good morning, Dmitry and Evgeny, and congrats on the results, especially on the growth beyond the top two. So I had a couple of questions. So Dmitry, you talked about the top two diversifications moving in the right direction, but the data points of lately coming out from your top customer doesn't seem to be very encouraging. So the question that I had was when you look at your top account can you talk about the visibility into the business? Is it

pretty much consistent with what it was in the past, or is it a little bit more murky or getting a little better? Any comments there?

Mr. Dmitry Loschinin: Hi, Anil. So if I understood the question correct it's about the performance and the outlook for DB and UBS, right?

Mr. Anil Doradla: Correct.

Mr. Dmitry Loschinin: Yeah, so, as you can see there is some improvement, those two accounts kind of combined from Q1 to Q2. Going forward we see the performance of both accounts pretty much according to the plan, so no major surprises. There are still quite a few moving parts in, especially in DB as you probably have heard about some rumors recently, and it's hard to predict what will happen next year. So really just at the beginning of the planning cycles, and budgeting will be completed December-January, so when we have our next call we probably will have much more color on that.

Mr. Anil Doradla: So at least for the next couple of quarters it sounds like you have some confidence in kind of how it's going to work out. It's more of into the next fiscal year?

Mr. Dmitry Loschinin: That's correct.

Mr. Anil Doradla: And as a follow-up, I mean auto was very impressive, 75 percent year-over-year growth, strong sequential. Now you talk about a lot of good stuff happening right from cockpits to entertainment and all that kind of stuff, but is there any one particular one or two things that stand out that you would like to highlight on that strong strength, any particular customer or any particular, you know application?

Mr. Dmitry Loschinin: So there are two things I probably should mention. There's a very significant cooperation that is happening with one of the major European OEM that is really in a very strategic nature. And looking forward we see, you know, tremendous opportunities, very solid, kind of connection on all fronts and, you know, full alignment. So we have become a very important part of their long-term strategy. That's definitely very important. And you'll see some of these, numbers that we have presented or reported. That comes from that growth there.

The other one I would mention is in the autonomous driving space. If you remember last year we were predominantly focused on the digital cockpit. So for us it's a brand-new area. It's just about a year old, but it's, you know, pretty substantial already. So just in one year we are talking about $20 million-plus in revenue, so it started nearly from zero. We have several large-scale already accounts in this space, in autonomous driving space, and also we see that the

pattern in what we develop for these guys will be reused for the whole industry. So that is super promising.

Mr. Anil Doradla: Very good. Thanks a lot, guys.

Mr. Dmitry Loschinin: Thank you.

Operator: Thank you. Our next question comes from the line of Joseph Foresi with Cantor Fitzgerald. Please proceed with your question.

Mr. Joseph Foresi: Hi. So just to clarify the top two clients I think you had prior or previously said that DB was going to be down about 20 percent this year and UBS was going to have minor growth this year. Is that still the case? It sounds like it was, and next year I guess becomes a bit of an unknown on the Deutsche Bank side. Do I have that correct?

Mr. Dmitry Loschinin: So we may see some slightly improved performance from DB for the entire fiscal year, and UBS will be pretty flattish. As for the next year you are right. It's premature now to, you know, provide any guidance. We still see some of the moving parts. So we, what we say we need at least another quarter, a few months for us to come up with some firm, firm assessment of the future.

Mr. Joseph Foresi: Okay, got it. And then can you talk about utilization, maybe give us the metric this quarter versus last quarter? And if you could talk a little bit about where you expect that to go, have all the workers from the DB engagement been redeployed given the cuts?

Mr. Dmitry Loschinin: So utilization is up compared to Q1. And that's again, what we guided. I know we had some of the headwind from DB ramp down, so it's up and actually getting back to normal. Actually our Q3 we should be pretty close to our standard utilization rates.

Mr. Joseph Foresi: Got it. Okay. And then last one, having gone through this once with DB and maybe potentially going through it again, are there any contingency plans in place to maybe redeploy people quickly if there becomes an issue at the account again? And anything you can talk about also from a revenue diversification standpoint? I'm just wondering how you can maybe protect revenues, you know, obviously, handle a DB situation, and also think about margins, if it does happen. Thanks.

Mr. Dmitry Loschinin: Well, the smaller DB and UBS become in our overall portfolio, the easier it is to handle so that some fluctuations and ramp down. So that's pretty much, you know, the case. And as you can see, we've been executing on that. As for the redeployment, I think we've done really well. You know, you cannot just absorb, you know, like 500 people over a

few months. So it will impact some of the numbers, but as you can see, it just took us about a quarter to digest.

I think the mobility programs that we have within Luxoft, they are quite effective. We still see certain improvements we can do in the future. But all in all I think, the Company is well, uh, kind of positioned for that. Hopefully not, too many of those exercises, we should encounter. But again, it also depends to the growth of other accounts in the same space and more or less in the same geographies. And again, in our diversifying measures we really try to balance not just, industry or accounts, but also by geographies, by locations, by the skill sets. So then if something like that happens we have much more measures for mobility.

Mr. Joseph Foresi: 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. Dmitry, I don't remember a quarter where you had 9 percent non-GAAP EBIT margins. So maybe we can talk a bit about the pluses and minuses in terms of what impacted margins for the quarter. Are we seeing any sort of significant pricing pressure

from top clients or in general? And then maybe talk a bit about which percentage of your revenue base was actually generated from fixed-price work versus time and materials. Thanks.

Mr. Dmitry Loschinin: So the margins declined in Q1, and that's probably what you referred to was predominately explained by a ramp down of DB, and we talked about that, so we had some extensive bench and the rebalancing of the accounts and then growing HPAs so that also, you know, created some of the headwind in terms of the margin. So we had to invest, so that probably was the second.

And the third one is the impact from the recent acquisition that came on board with low margin. However, this quarter you can see clearly improvement on the bottom line front, and again, that's what we guided. So I guess if it's still about what our gross margins will be and how we deal with that and then how much we invest business in some of the key strategic areas. So for instance, we reported that we are going to invest quite significant amount in the digital space. It's over 12 million this, year as well as we growing our sales team to promote the offerings.

All in all we are pleased to say that the SG&A as a percentage of revenue has declined compared to what we had a year ago, so about two percentage points. So going forward that

will give us some extra leverage and some economy of scale to compensate some of the investments that we do, you know, to support the growth.

Mr. Moshe Katri: Well, is there a pricing compression from the top two clients during the quarter?

Mr. Dmitry Loschinin: No, not really.

Mr. Moshe Katri: Okay, and then what drives, uh, better EBIT margins in two thousand--you know, basically next fiscal year?

Mr. Dmitry Loschinin: So they are the same measures as we talked. It's first that we want to first and probably the foremost is the amount of investment needed to boost some of new accounts. So some of them will mature, and therefore they'll not require to the percentage of the revenue supported by investment will be lower. Secondly, the SG&A percentage is going to reduce. We'll keep reducing this and third and just overall profitability. And then extra to that, the utilization is definitely an important factor that impacts the profitability. Evgeny, do you want to add something?

Mr. Evgeny Fetisov: I think you've covered most of the things. So it's basically, uh, the increase of revenues and, uh, moderate growth of our SG&A, which will provide positive leverage to margins plus the improved utilization.

Mr. Dmitry Loschinin: Yeah, and the one I forgot is that we are still restructuring the performance of our recent acquisitions. So exiting some of the low margin deals and improving overall, you know, by introducing some of the nearshore and offshore. So again, as we explain in details how we did it for Excelian and similar exercise we do for our recent acquisitions.

Mr. Moshe Katri: All right, and was there--final question--was there any FX benefits or impact on the margin this quarter?

Mr. Dmitry Loschinin: Margin-wise it was, uh--

Mr. Evgeny Fetisov: Negative.

Mr. Dmitry Loschinin: Yeah, it was negative, but slightly negative.

Mr. Moshe Katri: Understood. Thanks a lot.

Operator: Thank you. Our next question comes from the line of Charlie Brennan with Credit Suisse. Please proceed with your question.

Mr. Charlie Brennan: Great. I've just got a couple of questions actually. First, it's on the guidance. If I look at your EBITDA margin performance in the first half of the year it's down something like three percentage points. If I look at your full-year guidance, just to get to the low end of the margin guide it assumes that second-half margins are broadly flat with last year. I haven't really got it clear in my head where you're going to find that three points of margin saving. Is that going to be all on the gross margin line, or is it further reductions in SG&A? And then the second follow-up question is all on the cash flow side. The working capital performance really does look quite poor. My math isn't great, but I think on an organic basis I think you've grown revenues by something like $18 million or $19 million in the first six months of the year, and we're looking at a $45 million working capital outflow. That seems to be a much bigger problem than Deutsche Bank. Can you just give us some color there? Thanks.

Mr. Evgeny Fetisov: Thanks, Charles. This is Evgeny. So on your first question we expect both the gross margin improvement like we've been guiding on the call last quarter. Plus we expect the containment of the SG&A costs, so that should provide the room for improvement for EBITDA. So for the working capital it's largely driven by one of these top accounts, and I won't be naming the customer. So that's with the change in the billing cycle which resulted in the

growth of both the accounts receivable and unbilled revenue plus some growth of the business. Like I said, we expect these numbers to normalize by the end of this quarter. So that's a temporary issue that we're having.

Mr. Charles Brennan: I normally associate things like unbilled revenues with fixed-priced contracts, but the proportion of fixed-price work that you do has been coming down. Can you just explain what the contract structures are that you've got in place that are giving rise to this unbilled revenue balance? And what's the delivery risk against that and the possibility that it could lead to some P&L pressure in the future?

Mr. Evgeny Fetisov: This isn't related to the contract structure or the arrangement that we have. It has to do with the billing cycles. So there have been delays with the issuance of invoices related to work on the client side. This is it. So we treat it as a purely operational matter, which until now has been resolved and we are normalizing now accounts receivable and unbilled revenue. So you would see a normal picture by the end of Q3.

Mr. Charles Brennan: Okay.

Operator: Thank you. Our next question comes from the line of Vladimir Bespalov with VTB Capital. Please proceed with your question.

Mr. Vladimir Bespalov: Hello. Thank you for taking my questions. First I would like to ask you about the revenue trend. We still see some slowdown in growth compared to previous quarter. For example, even though Deutsche Bank looks like performed better than expected there were some effects held, tailwinds. So would you comment is there something unexpected that happened during the past quarter which slowed down your revenues, and what should help you accelerate it going forward as implied by your guidance?

Mr. Dmitry Loschinin: Actually we don't have any surprises. We haven't had any surprises. We can see revenue acceleration in some areas such as automotive. Clearly it's, you know, it's really breaking through. And in some other areas, again, we see that, you know, some of the business has been materialized and growing. So I won't really say that we have anything specific that has happened during last quarter and going forward that should change the growth trajectory. Obviously the slowdown and kind of reduction, ramp down of top two accounts is a significant impact. We also reported that our recent acquisitions, IntroPro and INSYS, they had to operate a significant headwind from two key accounts there that actually caused us to kind of have a 30 percent miss in the plan. So that definitely is, you know, is a factor. At, the same time we expect this to kind of--to change in the future.

Mr. Vladimir Bespalov: And are you getting rid of some accounts with low margins? Maybe this also affects your revenues?

Mr. Dmitry Loschinin: It does. Yeah, it does. Again, some of the acquisitions which we recently did, we looked at - this is in the numbers which we reported - when we have a few accounts that are definitely a low margin, it's very hard to improve them longer-term. So, then we are slowly, you know, reducing the business.

But, then as we show in the slide number six, I think that pretty much explains the situation. We have what we call, "anchor clients," and these are our former top five accounts which includes Deutsche, UBS, HARMAN, AVAYA, and BOEING. So, this group as a total declines 11.0 percent and it used to be about nearly 70.0 percent of our revenue a few years ago. So, now it's significantly smaller.

So, this is the trend, you know, Deutsche and UBS being the major contributors, but also, AVAYA, because of this Chapter 11 and the recent acquisition of some of the asset that was not the fastest growing account. At the same time, our accounts which we call core accounts, that is outside of this group, they've been growing 36.0 percent, which is, you know, pretty decent growth, we believe. And then the rest is added by M&A.

Mr. Vladimir Bespalov: Okay, thank you very much. And a couple further questions on the geographic revenues and by verticals. On geography, you have some slowdown in North America. Could you, say what is behind this and some growth, very good growth, in Russia? So, maybe you could comment on this as well.

And on verticals, I have a question on healthcare and your strategy of this as one of the fastest-growing verticals that you expect. But you have a decline of 10.0 percent, which is due probably to the problems with one of the acquired accounts. Could you provide some maybe outlook for this vertical? Are you still expected to grow very fast over the next three years? Thank you.

Mr. Dmitry Loschinin: Thanks. So, for the North America revenue, just let me look at the numbers. We have some slight decline, about 3.0 percent. I wouldn't say this is major, right? I'm just looking at the numbers. Yeah, so this is like 3.6 percent decline. I wouldn't say this is something major. There's also some redistribution of the work. So, again, it just a number, and I wouldn't say it's a trend.

The spike in revenue in Russia there was caused by a pretty large project, fixed price project, that we completed in this quarter. So, going forward, you will see less concentration or less, you know, kind of contribution from the region, so nothing, again, special.

Then the question about healthcare, you are right. Healthcare, we have high hopes for this vertical going forward. And there are several large accounts that were acquired together with INSYS. One of those accounts, as we reported, is going through quite significant, internal transformation and there are quite, you know, a number of measures that they are taking. And this also caused the INSYS performance to be below the expectations.

So, this year, yes, because of that, you know, we see that overall revenue declining also. But, we are, you know, as a company, restructuring the business the introducing some of the digital offerings into the space. We've got some very interesting things lately, and you know, we reported some of them, you know. One is blockchain, you know, innovation project, another one that, you know, we deployed in large-scale another healthcare account. So, going forward, we should see some growth.

Mr. Vladimir Bespalov: Okay, thank you very much.

Operator: Thank you. Our next question comes from the line of Arvind Ramnani with KeyBanc Capital Markets. Please proceed with your question.

Mr. Arvind Ramnani: Hi, I just have a quick question here. I'm trying to understand your relationship at the Deutsche Bank and UBS, you know. Have you maintained market share at the Deutsche Bank and UBS, or have you kind of lost market share to your competitors?

And then the follow up for that is, you know, when you're cutting work with Luxoft, you know, who are you transitioning that work to because I assume you're doing, you know, fairly valuable work for Deutsche Bank?

Mr. Dmitry Loschinin: Okay, thanks. So, both UBS and Deutsche, at least according to are information, we haven't lost in terms of the market share. Actually, we gained a bit.

There are two things why the revenue is reducing. One was the cost-cutting, and in DB this year it's pretty severe and in UBS that was last year. The other one is so-called in-sourcing, you know. So, both companies are trying to come up with or kind of achieve a certain percentage or distribution of in-house IT people and then contract these vendors. So, these are the two trends, basically, that impact sale performance.

So, outside of that in terms of the, you know, losing business to other competitors or other vendors, we see very few of those. Actually, opposite, we have a number of cases in both

accounts when we were able to transition the work from other competitors or companies that are on the exit list.

Mr. Arvind Ramnani: That's very helpful. And, you know, on your guidance, you provided guidance that excludes kind of your top two. And I think that's certainly very helpful, and you know, really gives us a view of kind of the real growth of the company. But, you know, sort of given that, you know, kind of the dynamics that your top two accounts are kind of uncertain, what's the rationale behind that kind of quantified guidance that include the top two?

Mr. Dmitry Loschinin: Well, we guide both in the inclusion and exclusion. And I think we just, we can't do it a little in all of those two accounts. It's a matter of their business decisions. It's not our performance there, really. And, also, especially when some of them are generating losses that you can hardly expect them to grow and do significant investment in IT especially in some of the areas where we operate.

So, the reason we report these two is for you to understand how healthy business is outside of that. And I think Luxoft, for many years, has been seen as a company of UBS and Deutsche, and it's very rapidly changing, so probably another year or so that we will be completely diversified.

But the reality is, you know, that they are shrinking, and it impacts our overall growth potential because the base where they started, it's pretty large. Every year, it is reducing. What we try to do is to maximize our efforts and output and bringing onboard new accounts, and generating value for those clients, and therefore, growing the business out there. So, the final result will be, you know, a fully-diversified business with less, much less, dependency on what happens with some of the players.

Mr. Arvind Ramnani: Yeah, that's certainly helpful. And kind of last question for me is given the experience you've have with these top two accounts, is the company at the broader senior management level taking measures to make sure that you don't have another account that becomes a top 10 percent revenue account, and just to make sure that you don't run into this revenue concentration issue again? Have you taken such a stand to manage risks?

Mr. Dmitry Loschinin: Yes, yes, yes. I think in the past, what we did, we were focused on very few accounts, and you know, really pushed for growth and kind of distributed our efforts such that it was very highly-concentrated among those five/six logos.

Today, this is, you know, a completely different exercise. We actually treasure a lot of accounts at $10+ million because they provide diversity. They actually provide a healthy mix and they provide stability. And, again, if you look at the slide number four about the client

concentration, you'll see, actually, all of the top are declining, including the top ten. So, it's reaching like half of the business while it used to be, you know, much more than that. There also was more than 80.0 percent like in all of fiscal '14.

Mr. Arvind Ramnani: Great. Thank you very much, and good luck for the rest of the year.

Operator: Thank you. Our next question comes from the line of Alexander Vengranovich with Otkritie Capital. Please proceed with your question.

Mr. Alexander Vengranovich: Yes, good afternoon. Last quarter you had unexpected delay of one of the projects for, uh, Credit Suisse as far as I remember. And if I'm not mistaken, you were expecting that project to be delayed for next financial year. Can you remind us whether there are any changes in this outlook for Credit Suisse and how this should impact your performance this year and next year? Thank you.

Mr. Dmitry Loschinin: Yes, hi. So, we didn't mention Credit Suisse. We mentioned two accounts; one where the growth which we had displayed was a bit muted due to changed approach, I would say, from the client side, and that we also said that the growth is going to happen. It's just going to happen slowly. It is happening this way.

And there was another one deal, which was postponed from our Q1 to the beginning of the calendar year 2018, and it's still, you know, in plan. So, we expect that to happen, you know, during our Q4, yes.

Mr. Alexander Vengranovich: Okay, so that means that this deal is not impacting--the delay is not impacting your full-year guidance for '18, right?

Mr. Dmitry Loschinin: Well, as we reported, it was unexpected, for our Q1. But, now it's, you know--we already encountered that in our forecast in our new guidance.

Mr. Alexander Vengranovich: Okay, but your guidance hasn't changed since the last quarter, so why--.

Mr. Dmitry Loschinin: --Yeah, yeah, but because nothing changed. Nothing--in this sense, nothing has changed. We still expect this project to start in Q4. And by the way, also, Q4 is just last quarter, so there will be minor impact whether it starts or not. But, we expect this to start.

Mr. Alexander Vengranovich: Okay, thank you.

Operator: Thank you. Our next question comes from the line of Julia Gordeyeva with Sberbank. Please proceed with your question.

Ms. Julia Gordeyeva: Yes, good afternoon. Just to follow up, Dmitry, you have mentioned that, the short fall of about 30.0 percent, I guess, of IntroPro's revenues. You mentioned it will mean that you will pay less for the company. Can you quantify that or give us some color on that? Thanks.

Mr. Dmitry Loschinin: Yes, sure. What we said is that combined, short fall of both IntroPro and INSYS is about 30.0 percent of the planned, you know, committed by their management of this company revenue. The way we see it now is that we are going to pay half of the purchase price, or you know, their full purchase price.

So, we believe that, all in all, the deal has still been pretty good and pretty solid, just, you know, kind of a disappointment both on our side and, especially on the shareholder side of those companies.

Ms. Julia Gordeyeva: Thank you. So, just to clarify, you will pay half of both, so half for INSYS and half for IntroPro.

Mr. Dmitry Loschinin: Combined. Combined. So, we just, uh--.

Ms. Julia Gordeyeva: --Combined, yes, okay--.

Mr. Dmitry Loschinin: --We don't disclose which. But, you know, combined for those two acquisitions--.

Ms. Julia Gordeyeva: --Right--.

Mr. Dmitry Loschinin: --We're going to pay around half of their initial, kind of, full price, while their performance is about 30 percent below their plans. And, again, those two things will connect.

Ms. Julia Gordeyeva: Understand--understood. Thanks.

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

Mr. Dmitry Loschinin: Thank you all for joining our call today. I want to take this opportunity to wish you all a happy Thanksgiving and to thank our global team members for the tremendous

efforts and dedication that they have put in as we further advance our business transformation. Our team is focused on driving strong execution. We believe we have taken the right steps to deliver long-term sustainable growth and shareholder value creation. And, of course, we look forward to speaking to you again at the end of our third quarter. Thank you.

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