

**Luxoft Holding, Inc.**  
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Operator: Greetings and welcome to the Luxoft Holdings Fourth Quarter and Full Year Fiscal 2018 Conference Call. At this time, all participants will be 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, Tracy Krumme, Vice President of Investor Relations of Luxoft. Thank you. You may now begin.

Tracy Krumme: Good morning everyone. Thank you for joining us on Luxoft fourth quarter and full year 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 the webcast and on our website, 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 statements. 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 today's press release as well as in the supplemental tables in the slide deck.

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

Dmitry Loschinin: Thank you, Tracy, and thanks, everyone, for joining us today. I will begin my remarks with a discussion on the fourth quarter as well as a review of fiscal year 2018. I will then provide an update on our transformation and speak to the steps we are taking to ensure long term sustainable growth.

Slide number four provides an overview of the fourth quarter and our key highlights. Our Q4 results were largely in line with our expectations, and closed a year of strategic progress despite specific client related challenges that impacted our performance. While we navigated issues related to our top two accounts and two Fortune 10 telecom and healthcare clients, we advanced our revenue diversification strategy.

Excluding our top two accounts, total revenue increased 20%, and financial services revenue increased 37%. This demonstrates the long term growth potential of our financial services business and how our solutions are unlocking increased wallet share. In fact, this will--was our 13th consecutive quarter of over 20% revenue growth excluding the top two accounts. There is a clear path to future growth, and we are focused on deepening our customer relationships, expanding into tier two and tier three customers and wealth and asset management.

We delivered strong Q4 revenue growth of 58% in automotive. We continue to be positioned on the forefront of the mobility revolution and grow our relationships with top OEMs and tier ones. Matter of fact, this quarter marks the first time we have three automotive customers in our top 10. This speaks to our value proposition and differentiation as well as our rationale for investing in this fast growing market.

Q4 digital enterprise revenue was down 10%. As we stated last quarter, in an effort to align resources with highest margin opportunities, we trimmed down some of our low margin non-core business related to reduced revenue from two Fortune 10 healthcare and telecom companies. While it has a near term impact on the top line, the longer term benefits outweigh this action, as we bring margins to our standards and ensure healthy growth.

Another important element of our diversification strategy is growth of our high performance accounts, or HPAs. Momentum continued in the fourth quarter, as HPA revenue was up 44% compared to the last year and reached 41% of total revenue.

In our earnings release, we discuss our outlook. Given uncertainty at our top account and the resultant lack of long term visibility, we are taking a revised approach to providing outlook and introducing quarterly guidance for the forward quarter. Evgeny will provide more color in a few minutes.

We continue to build upon our strong foundation and long term value creation for our shareholders. Last month we announced a 60 million share repurchase program. This reflects our confidence in the long term growth of our business. We believe we can continue to invest in the initiatives that are key to our future success as well as enhance the value of our company by repurchasing the stock under this program.

Moving to slide number five, while this year was not without its disappointments and challenges, it was a year where we took important steps to create a more effective and efficient organization. Today we are better aligned to capitalize on key technology trends disrupting our markets from a solutions, sales, and cost perspective. While we have made significant progress to date, more work needs to be done. We will share details on our efforts during our Investor Day next week.

We are well positioned across our markets. Financial services growth is strong, and we have established a rapidly growing leadership position in automotive. We are making advancements in key areas that are critical to driving success, digital outcomes such as blockchain, AI, and cloud. The value we deliver is evident in our year-over-year revenue growth. Financial services growth ex top two accounts was up 39%. Automotive revenue was up 43%. And digital enterprise revenue was up 23%.

We are focused on strengthening our foundation for long term growth and are confident that our decreasing dependency on large accounts will be a key driver of long term accelerated performance. Revenue diversification is key to our growth strategy, and we are committed to enhancing our global delivery capabilities and optimizing our cost structure.

SG&A reduction continues to be a key priority across all lines of business. We have seen success here. SG&A as a percentage of total revenue has come down 60 basis points from fiscal '17, and we expect further improvement.

From a delivery perspective, we significantly strengthened our reach this year through addition of delivery centers in five new cities, three in Europe and two in APAC. This brings our total footprint to 42 cities. Our focus this year has been on enhancing our capabilities in critical regions like Asia-Pacific, given the rising demand for technology services in these growing economies. We opened delivery centers in Bangalore, India and Tianjin, China, and are now well positioned to meet this demand.

Turning to slide number six, this provides a snapshot of our progress diversifying our client concentration and de-risking our portfolio. Financial services remains an important and attractive long term market. Our value proposition is demonstrated by our growth despite

declines from our top two accounts. We see future growth from tier one banks, and are working to capture new business among tier two and tier three banks by leveraging our leading solution portfolio.

You can see that automotive as a percentage of total annual revenue increased by 3 percentage points compared to last year, as we continue to drive increased penetration of our digital cockpit, autonomous and connected mobility solutions. This line of business now represents 17% of our business as compared to 14% one year ago. And looking by geography, revenue in Asia-Pacific and Europe, excluding the UK, increased during the fourth quarter due primarily to increased penetration of those markets with our five new delivery centers.

Contribution from our top two accounts fell to 34% in the quarter from 38 last year. Top five customers were 47% compared to 52 in the prior year and 65% two years ago. Top 10 accounted for 56% of revenue compared to 62% last year and 74% two years ago. We have made notable progress diversifying our revenue and client base, and continue to be focused on capturing additional share.

Slide number seven shows our strong growth outside of our top two. As you can see, excluding our top two accounts, full year revenue grew 33% and financial services revenue grew 39%. We

are generating solid revenue growth outside these two accounts, which speaks to the value of our financial services solutions and growth within automotive and digital enterprise.

Turning to slide number eight and a review of DB, revenue from this account decreased 13% in fiscal 2018 as they continued to reduce their budget and shift their strategic investment priorities. As you have likely seen in the news, they have recently had a CEO and COO change, indicated a goal to be less dependent on investment banking revenue, and started scaling back operations in the U.S. Given all of these moving parts, we have reduced visibility into their plans and expect strong headwinds going into fiscal '19.

Slide number nine provides an update on UBS. We are seeing this account stabilize. Revenue was up 9.3% in the fourth quarter and down only 1% in the year. UBS continues to be a valuable partner, and we are making continued inroads in the sale of information security, wealth management, and digital offering.

Slide number 10 is a historical look at revenue contribution through our high potential accounts, or HPAs, over the last four years. HPA revenue increased 49% in fiscal '18, reaching 38% of total revenue versus 27 last year. In the last four years, we have taken HPA revenue from 10% of our total sales to 38%, which demonstrates both the attraction long term growth opportunities these accounts provides as well as our revenue rebalancing strategy.



I'd like to move to slide number 11 and discuss some highlights for each of our business segments. Starting first with financial services, despite the challenges related to Deutsche Bank, we continued to grow our business, with revenue up 15% in the quarter and up 6% for the year. We had 11 new clients organically and 22 clients through acquisitions during the year, bringing our total number of financial service customers to 96.

With the majority of MiFID II work behind us and challenges within tier one investment banking business, we are shifting our priorities to focus on wealth management and to go after new business among tier two and three accounts. We are well positioned to capitalize on the shifting trends given the breadth and depth of our solutions and delivery scale.

In fiscal '18, we've continued to build upon strong partnerships with a number of global banking institutions. We secured a strategic client win with an Australian multinational bank in the global market strategy space, increases our--increasing our presence in Australia and APAC.

We acquired derivIT in August, a technology consulting company and global alliance partner to Murex. We initiated a strategic lead platform and simplification program for a large Dutch global banking and financial services company, where we are decommissioning large legacy software packages and migrating to Murex.

Additionally, we acquired Unafortis, a wealth management consultancy that has strengthened our competitive position as we target growth within wealth management, private, and in universal banking. We are continuously aligning our service mix with the shift in value in the industry and have seen great success to date.

Turning to automotive segment, our automotive business delivered strong Q4 revenue growth of 58%. For the full year, revenues increased 43%, consistent with our expectations of 40% growth. We continue to grow our strategic client base. We organically added six OEMs, 61 suppliers, and five technology vendors to our portfolio.

A consistent theme in fiscal '18 was our ability to secure multiyear strategic partnerships in order to develop in-car technologies for our clients. We scaled up with a German OEM to integrate next gen infotainment system in all of its car classes. We were awarded a multiyear contract in the field of computer vision and autonomous drive. We are helping integrate their products into major auto OEMs, insurance providers, and commercial fleets in order to accelerate the development of autonomous vehicles.

We had a highly visible presence at CES, and worked with Daimler to unveil an intuitive and intelligent multimedia system. This user experience changes the game in terms of how a driver

or passenger interacts with the car. Autonomous driving is a fast growing area within their--this business. We see a lot of forward momentum and have secured a strong position here.

In addition, opportunities within our digital cockpit and connected mobility solution remained strong, continuing to rapidly expand. We recently announced a strategic engagement with the AutoSar consortium and cooperation of OEM suppliers and tool developers to develop the AutoSar adaptive platform standard for future in-car application. This enables OEMs to more flexibly integrate software from multiple sources, meaning they are less reliant on specific hardware platforms and lower level software stacks. We secured contracts for this technology with more than three independent clients, including two large German carmakers.

We became a founding member of the MOBI Alliance, a consortium that strives to enable mobility services through application of blockchain technologies. We co-created and launched an integrated cockpit hardware and software reference platform with Intel. We have built a very solid foundation, and I'm very excited about our strong market position and momentum in fiscal 2019 and beyond.

Lastly, looking at digital enterprise, Q4 revenue was down as we continued to eliminate low margin, non-core business and align resources with high margin opportunities. Revenue for the

year increased 23%. We added 13 new organic clients, bringing our total number of digital enterprise customers to 138.

Given expanding demand for emerging tech solutions, digital transformation remains a major global investment priority. Our clients' desire to be more agile creates new opportunities across a number of industries. During the year, we were chosen by Amazon Web Services as one of six IT and consulting services company on their blockchain advisory area. We also collaborated with SoftBank to create a hybrid cloud infrastructure for a humanoid robot, and will continue to evolve this platform to make robotics technology more accessible to business in North America.

In fiscal 2018, we realigned our business, forming digital enterprise. Prior to this, we served multiple industries through different silos such as telecom, energy, media, healthcare, and others. Although there are commonalities in servicing digital agenda within various industries, the creation of a digital enterprise allows us to provide concentrated efforts and strengthen our digital capabilities.

We are currently in the middle of transforming this business. We have trimmed low margin non-core business and are investing in areas that we believe will have the most demand in the years ahead. We took this approach in automotive and have seen great success. Our deep

domain expertise combined with our technical solutions in key areas like AI, blockchain, and cloud positions us well to capitalize on growing opportunities in 2020 and beyond.

Turning now to slide 14, in summary, we took significant steps throughout the year to build a stronger company. We made solid progress diversifying our revenues through growth in financial services, very strong performance in automotive, and a refocused digital enterprise strategy.

You have heard us talk about diversification for some time now. The information I shared today speaks to the steady progress we are making. More work needs to be done, but we are continuously taking the right steps to de-risk our business and extend our value proposition across our three lines of business. We will continue to invest in our digital capabilities, giving strategic priority to offerings that we believe we can scale based upon strong client relationships and key emerging digital tech trends.

We will capitalize on growth with our new approach to sales and marketing. To support our go-to-market sales and B2B marketing, our sales organization is now focused by industry and rests within each line of business. Our business realignment effort and change in revenue mix require optimization of our cost structure. We are taking a hard look at our internal

organizational structure and recognizing cost efficiencies through back office restructuring, among other things.

In sum, we are focused on investing in ourselves in order to drive improved execution and capitalize on industry growth. You will hear more about these initiatives at our upcoming Investor Day on May 31st. And hope--I hope to see you all at this event.

Thanks for your attention, and now I will turn it over to Evgeny.

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 on our Q4 and full year operational and financial results, and introducing guidance.

If you turn to slide 16, while conditions at our top account remain challenging, Luxoft delivered a healthy level of year-over-year and sequential revenue growth. Q4 revenue of 232.9 million was up 14% year-over-year. We have also made strong progress diversifying our customer and revenue base. Our revenue growth outside of our top two clients was 20% year-over-year.

Now let me give you the highlights of our Q4 financial performance; adjusted EBITDA of 29.4 million, up 1% and down 27% sequentially. Our adjusted EBITDA margin was 12.6%, down 170 basis points year-over-year. Gross margin was 36.2%, down 32 basis points from Q4 last year.

Weighted average diluted share count was 34.4 million shares, up 300,000 shares from last quarter. Diluted EPS amounted to \$0.34 per share, as compared to \$0.60 last quarter and \$0.40 in Q4 last year. On a non-GAAP basis, our diluted EPS was \$0.59 per share compared to \$0.89 per share last quarter and \$0.63 in Q4 last year.

Now looking at slide 17, you will see our full fiscal year 2018 financial highlights. Revenue of 906.8 million is up 15.4% from 785.6 million in fiscal '17. This number beats our fiscal '18 guidance of 900 to 905 million.

Adjusted EBITDA for the year is 134.4 million, up 0.4% from fiscal '17. Our adjusted EBITDA margin was 14.8%, down 220 basis points from fiscal '17 and slightly below our fiscal '18 guidance of 15 to 15.2%. Our gross margin is 37.4% compared to 39.5% in fiscal '17. This is in line with our message regarding companywide gross margin at or above 37% during the year.

Weighted average diluted share count is 34.2 million for fiscal '18, up 250,000 shares from fiscal '17. Diluted EPS amounted to \$1.66 compared with \$1.84 in fiscal '17. On a non-GAAP basis, diluted EPS was \$2.81 compared to \$2.89 in fiscal '17.

Turning to slide 18, during the fourth quarter, SG&A as a percentage of revenue was 26.4%, down visibly from 27.5% a year ago. Over the full year, SG&A as a percentage of revenue was 26.6%, down 60 basis points from fiscal '17.

SOP expense as a percentage of revenue was 2.6% in the fourth quarter, down 107 basis points from Q4 to--Q4 last year. For the full year, SOP expense was 3.2%, down from 3.7% in fiscal '17.

These numbers are in line with our expectation of annual SOP expense less than 30 million and below 4% of the revenue.

Let's move to slide 19. Luxoft finished the quarter with 104.4 million in cash and cash equivalents, with operating cash inflow of 42.1 million, financing activities using 8.2 million of cash, and positive net cash from investing activities of 0.4 million.

Full year DSO were 75 days, up from 69 days last year. DSO were up due to a structural increase in auto and some operational issue with collections in financial services.



We finished the quarter with 12,898 people, of which 10,844 were IT professionals. Our annualized revenue per engineer continues to grow and is now 84.9 thousand, up 10.5% from 76.9 thousand one year ago.

Turning to slide 20, as Dmitry mentioned, we have taken a new approach to guidance. We will not be providing full year guidance for fiscal '19. Given uncertainty and reduced visibility at our top account, we felt that it was prudent. We are introducing quarterly guidance on a forward quarter basis.

For Q1 fiscal '19, we expect revenue of 210 to 215 million, and adjusted EBITDA margin of 8.5 to 9.5%. The first quarter will be impacted by project timing, seasonality, ramp down of Deutsche Bank, and planned expenses related to SG&A optimization. We expect this quarter to be our bottom, and expect performance to accelerate throughout the rest of the fiscal year.

With this, we are opening the lines and look forward to your questions.

Operator: Thank you. If you'd like to ask a question, please press star-one on your telephone keypad, and a confirmation tone will indicate your line is in the question queue. You may press star-two if you would 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 Joseph Foresi with Cantor Fitzgerald. Please proceed with your question.

Joseph Foresi: Hi. So, my first question is on the commentary around FY '19. I know that the first quarter is going to be obviously a little bit lighter. But what gives you confidence that the revenue base is going to build from the first quarter on? And maybe you can just give us some color around what you think revenue growth for the year will be and margins will be.

Dmitry Loschinin: Yes. Hi, Joseph. This is Dmitry. So, a few things that gives us the confidence about Q1. The first one is this is the usual pattern. If you compare it to our previous year, Q1 is consistently the weakest quarter. Second, there are--most of the bad news are that happening now, they are kind of reflected in Q1 results. So, we see much more growth momentum going forward. But also the DB impact, it will remain throughout the rest of the year. That will be largely offset by the growth of our healthier core business.

So, this--yeah, this is about the Q1 performance. And as for the overall outlook for the year, we--basically what we are saying, that DB remains--is a major unknown. But outside of DB, we are very confidence in--very positive.

Automotive continues to grow the same way it's been growing. So, it's really very strong growth momentum. Our financial services is actually picking up, and we expect the same growth outside of top two as we saw in the previous year.

On the digital enterprise, we're still doing a significant transformational efforts, as we have also reported. We're trimming down some of the business. We're improving the margin. So, this one we're going to see some muted growth. But all in all, we are going to see much better performance throughout the year for the entire organization, ex of DB.

Joseph Foresi: Got it.

And then just on the DB side, you've given color in the past of what the account could do on an annual basis, and it sounds like basically with the new change there, you don't have the visibility this year. But, maybe--I think you've talked about it being down 15, 20%. Any thoughts on what that account can do? What are you modeling internally? What do you have staffed for? And how should we think about that throughout the year?

Dmitry Loschinin: Yeah, the range is too wide for us to provide, honestly, and the reasons are obvious. So, new management on board. They--and it's public knowledge. So, both CEO and

COO changed. We should expect some more changes, I guess, throughout the management structure.

The biggest question mark for us, what they are going to do with the IB, so investment banking side. As currently announced, they are going to reduce and maybe even exit that, so there are rumors, and scaling back their U.S. operation.

So, these are actually--IB is the largest chunk of the business for us. And to what extent will they go with this, we do not know. And still, there are no clear messages, and I guess they also don't know themselves. So, this is the biggest uncertainty, and we simply don't believe providing the range, that would help anyone at this point of time.

Joseph Foresi: Got it.

And then just on the margins, they're going to take a big drop, and I understand seasonality and some of the other factors are there in 1Q. How should we think about the margin recovery? And what is causing the biggest drop in 1Q? And how should we think about margins throughout FY '19?

Dmitry Loschinin: Yeah. So again, Q1 is typically weak. There is a seasonality, so we have less working days or--so, it's not a surprise. There is also some sort of a project timing that we also saw last year with--so, there we had large scale fixed price that have been realized in Q2 instead of Q1.

There is a ramp down of DB. That is quite material in Q1, so that is going to hit us. This is factored in, as well as what we reported, that we started in our Q4 quite significant rework and restructuring of our SG&A. That will lead to SG&A an improvement, but during the first quarter, as we do this restructuring and actually are letting some people go, we will have a hit. So, these are four major factors.

Joseph Foresi: And--.

Dmitry Loschinin: --As you will look throughout the year, I know you should a similar pattern in terms of the margin behavior. So, you're going to see improvement in Q2 and further.

Joseph Foresi: Okay. And just for clarity, what do you expect DB to be down in 1Q? Have they stopped spending and they're going to let you know what's going to happen? Or I'm just trying to get some color in just 1Q. Thanks.

Dmitry Loschinin: We are not--again, this--we are not breaking this down by account on a quarterly base because it doesn't provide you the relevant picture because there are also some seasonality that fits in the--in each of the account. There will be a reduction on DB's side. That's for sure.

Again, that--what we're going to say--I think this is the most important fact, that our growth outside of DB and UBS will remain pretty strong, similar to what we--around like 20% or even above. And DB--DB will decline, yeah.

Joseph Foresi: Okay. Thank you.

Dmitry Loschinin: Thanks.

Operator: The next question is from the line of Maggie Nolan with William Blair. Please proceed with your question.

Maggie Blair: Hi, guys. I'm curious about your expectations for headcount and in terms of growing the rest of the business. I assume you're not growing headcount much in financial services. But I'm wondering what your plans are for the full year and when kind of a decreased headcount growth starts to affect top line for future years.

Dmitry Loschinin: Well, the headcount is a function of the revenue growth. So, this is linear. It depends to some extent maybe less than linear, but in a way, this is fully in line. So, you see that the headcount had some decline, and this mainly due to the DB situation. Once we pass the DB cut, then headcount will increase.

The thing is there is not really anything significant to the bottom line except the fact that, if we do these cuts and decreasing in a large chunk of the headcount, then obviously we're going to-- it's going to increase our bench and will have some impact on our bottom line.

But rather than that, this is not an impact on the outside of DB performance. We are using them-- trying to use these people and refocus them or repurpose them for other accounts every time it is possible. It's not always possible.

Maggie Blair: Okay.

And then how should we expect to see SG&A move as a percentage of revenue because you're clearly working to create some leverage there, but you're also referencing some planned expenses in the first quarter? So, how do we view that in the first quarter and then also for the full year?

Evgeny Fetisov: Maggie, this is Evgeny. So, I wouldn't be breaking out that for--by the quarter. I can tell you for the year we're expecting about the same amount of reduction in percentage points, so that's the thinking. So, we want to continue to improve the--this year and next year, actually. So, that's the plan.

Maggie Blair: Thank you.

Operator: Our next question is from the line of Arvind Ramnani with KeyBanc. Please proceed with your question.

Arvind Ramnani: Hi. Thanks for taking my question. So, this is going to follow up on what you were mentioning earlier. So, when you have folks get freed up from Deutsche Bank, how are you sort of using those resources? And do you have kind of salespeople who are kind of focused a little bit more on financial services, just given you have kind of capacity and talent from DB?

Dmitry Loschinin: Yes. Hi, Arvind. So, obviously we try to leverage this free capacity as much as possible. And we have the--all of the way, so--and we can anticipate some of the cuts,



although with DB it's not always possible. But once we see something coming, then we would start looking at the opportunities. And we've done quite a bit of that in the past.

Once it goes to this relatively large chunk, then of course it is difficult. Also, the location matters there. The skill set matters. Not always guys from financial services you can repurpose and plan to use in automotive. It's nearly impossible.

But, we also have--are actually going to some of our clients and say, hey, look, we have this opportunity out there. The skill set exactly matches your profile, and we can become quite aggressive in the pricing. Now, we have had several pretty decent successes in that. But still, it cannot balance or outweigh there the entire downside.

Arvind Ramnani: Yeah.

And from your automotive kind of vertical, can you talk about some of the kind of offerings that have been getting traction? Clearly you have kind of differentiated kind of skill sets, but are there specific kind of offerings that are getting more traction than the others?

Dmitry Loschinin: In automotive?

Arvind Ramnani: Yes.

Dmitry Loschinin: So, automotive structured in the three major offerings today. The one has been digital cockpit. This is in-car infotainment and more than that. It's the entire user experience.

So, the skill set requires deep knowledge of the technology stack that's within the car and also knowledge of some of the hardware from OEMs. So, that's specific. And then on top of that, you need certain skills that you are--to be able to design a new car, the [unintelligible] also.

So, that's pretty much--but that's the largest area. So, today the fastest growing area in automotive is autonomous driving, the one which we just established a little more than a year. That showed incredible growth momentum, and it continues to expand and unreel.

And the third one is connected mobility. It's relatively small in size, but has great potential because that's how you connect the car and then you leverage all of the services around that. And they'll have lots of other adjacent industry that are tapping into this space. The skill set there are more kind of traditional. That--actually, that's where we can use some of our financial folks there, because they come with some mobile experience, some cloud experience, so on and so forth.

So, this is yet to realize the potential, though on the long run that can be one of the most promising areas, because that's where the future of the car industry and other industries are--remain--or will be.

Arvind Ramnani: Yeah.

And I know in the past you have had more success with kind of European car manufacturers.

Are you seeing kind of traction now with some of the U.S. or Japanese car manufacturers?

Dmitry Loschinin: We--you're absolutely right. We've been extremely successful in Europe where is majority of our business is at the moment. We see no reason for us to leverage the same expertise and the same success outside of Europe, even though we believe that European tier one, kind of their premium class OEMs, they are more advanced, and both on the technology front and overall the efforts and investments.

But the time is definitely coming for the U.S. carmakers to follow the same path. So, Daimler example with the MBUX has actually--has shaken the whole industry. And they went with this incredible user--outstanding user experience. We will show some of that in our Investor Day. That was kind of a surprise for the whole industry. Everyone is rushing and trying to do similar

things. And we are kind of the key partner there, and that's a super powerful sales pitch these days.

So, for sure--and actually, this is the area for investment in fiscal '19 to break through. So, we have clients in U.S., but we definitely need to get the growth momentum. The opportunities out there, just us to put more money, efforts, and people to support it.

Asian markets, China is definitely promising. We establish our office there. We start growing there. The presence, that requires some local support. Korean market looks interesting, although also that--it's not as big probably. There are not that many players, but we clearly see growth opportunities. We already have a client in Korea. And we actually are looking to set it up our operation in Korea in the near future.

Arvind Ramnani: Good.

And just a couple of other quick ones. With your buyback, when--what is the rationale for doing the buyback and when will it--when do you start your buyback?

Evgeny Fetisov: So, hi. This is Evgeny. So, the rationale for the buyback is very simple. So, we-- first of all, we think the stock is undervalued. And it makes perfect sense for us to return capital

by doing a buyback at these levels, because we believe in the longer term valuation of the business.

So, as for the start date, the earliest it could be is the end of May, as--when the window opens.

So, yeah, this is it.

Arvind Ramnani: Great.

And just from kind of modeling perspective, what should we be modeling for kind of--for tax rate? You may have mentioned on the call, but just a tax rate and kind of share count assumption for the year.

Evgeny Fetisov: So, 14 to 15% for the fiscal '19 is the rate which we expect ourselves.

Arvind Ramnani: Okay. Okay. And share count?

Evgeny Fetisov: Yeah, I think 34 to 34.5 million.

Arvind Ramnani: Okay, perfect. Thank you and wishing you the best for the next year.

Evgeny Fetisov: Thank you.

Dmitry Loschinin: Thanks a lot, Arvind. Thanks for your support.

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

Charlie Brennan: Hi there. Great. Thanks for taking my questions. I've got three, actually. Firstly on the cash flow side, it feels like it's come in a bit weaker than you were expecting. I think you were expecting a strong recovery that hasn't quite happened. I guess two questions. Firstly, is there any risk around the unbilled revenue balance? And secondly, where do you expect DSOs to end up for next year? And I've got a couple of follow ups around FX as well. Thanks.

Evgeny Fetisov: Thanks for the question, Charles. So, we--yeah, we did get the cash flow slightly weaker than we expected. So, we targeted below 80 days for Q4. We are 82. However, if you look at the quarterly dynamics, we are definitely on the right track and improving, getting where we wanted to be.

So, the target for the next year--again, this is ideal, but we would like to get down to the fiscal, say, '17 level, so--which was--which is around 76 days. So, that's what we target internally.

As for the unbilled, I don't see much risk. We--as you may see, we have decreased that to 33 million, down from 41 last quarter. And as we said, we think anything between 30 and 40 is actually a normal level, normal structural level, given the, say, client base and the contract we have in place.

Charlie Brennan: Perfect. Thanks.

And then just a couple of others around FX. Can you just quantify the FX benefit you had during fiscal '18?

Evgeny Fetisov: Yes, sure. So, the currency tailwinds we had were 3.2%. So, revenue in constant currency would have been 20.2. I'm sorry, 12.2.

Charlie Brennan: And so, when we think about your organic growth of 7 on a constant currency basis, we should we think that was 4. Is that the correct interpretation?

Evgeny Fetisov: I need to check. I wouldn't be able to give you the answer on this on the fly.

Charlie Brennan: Okay, maybe I could just turn to the first quarter guidance then. I think--.

Evgeny Fetisov: --And just before--yeah, before we go forward, just on the FX side, so--to be clear, so there was some tailwinds on the top line, but we get some negative effects on the bottom line, so we get negative impact on EBITDA and bottom line from FX changes, just to--yeah.

Charlie Brennan: And then just to continue that thought process through to the first quarter, I don't have a huge degree of confidence in my ability to forecast. But I think there's going to be a 3 or 4% FX benefit in the first quarter to progressively unwind as we go through the course of the year. You've also got acquisition benefits in the first quarter of the year that, again, will progressively unwind as we go through the year. Given those Q1 benefits that are going to fade, what gives you confidence that the rest of the business can accelerate to compensate for what could be 6 or 7% benefits, according to my model?

Evgeny Fetisov: I actually see the Q1 differently. I see this as having FX headwinds, given the exchange rate changes in dollars, in euros and pounds. That--this is our, say, key exposure. So, I would disagree. I think we're getting mainly--our current forecast includes the FX headwind. So, that's a different view that we have.



Dmitry Loschinin: And on the money side, there is some tail impact from the M&As which we did in our fiscal '18. But both M&As were small in size, so the impact is not really material. So-- and at the same time, we see growth which is not really driven by this--the organic growth is pretty strong outside of UBS and DB. So, that gives us the confidence.

Charlie Brennan: Okay, perfect. Thank you.

Operator: Our next question is from the line of Lou Miscioscia with Pivotal Research. Please proceed with your question.

Lou Miscioscia: Okay, thank you. If you look for where the shortfall was in digital, as you highlighted healthcare and telecom, could you just mention that, since it seems like revenue is falling and shorter than expected, even though the margin structure of what you're replacing might not be that attractive, why not just keep it for a couple of more quarters to help backfill, and I assume would help operating margin dollars?

Dmitry Loschinin: So, what we do, we actually are making steps to have a strong company going forward for long term, long run. And we are doing some structural changes that would

allow us to--first to properly manage the business, address the challenges, and the early we do the better.

And so, things what we do, obviously, we are running the business with three business units today. And we also change some of the management to make sure that each of the businesses is right hand. It has a clear strategy both for the growth and for the margins, right? And we are taking certain steps to fix the situation, to get it to the basics so that we are ready to grow, but not only grow the top line but also achieve proper bottom line.

So, we have taken kind of a hard look at the digital enterprise, which was the combination of several industries in the past without clear positioning and clear--or differentiation. It's key in there we were doing okay, but still not sustainable, not enough. And as we see incredibly good growth, and thus the super strong momentum in automotive, and that's pretty much what we have done there.

We run healthy margin accounts. We have extremely digitally aligned the offering. That is basically a reflection of what the--all the disruption that happened in the industry. And it took us a while 'til we got to the--that point, but we are simply repeating this success. We are structuring or doing these changes in the digital enterprise to have the same growth momentum. We believe it is only possible by redirecting our sales effort, redirecting or

changing and adopting the offering itself, and making sure that everything that we are going to grow will have proper marginality.

So, that's--it was not an easy decision to do, but we really want to fix it and get to the strong growth path. So, the way we see the business is incredible strong growth, automotive. We are actually having super strong growth in financial services except top two, and it will continue to make this line of business stronger. And the transformation efforts for digital enterprise should be finished this year, and we will get this third part of the business on the growth spurt. So, this is our kind of thoughts.

Lou Miscioscia: Okay.

Switching a little bit, when you look at first quarter guidance, let's take the high end, 215 million, consensus looks like it's 238. So, would that gap be basically just cutting Deutsche Bank massively, which would be helpful for us to understand because--if it's the case, 'cause then we could have a bit more confidence that now the Deutsche Bank number is low enough that even though it's going to be negatively impactful for the rest of the year, proportionately less?

Dmitry Loschinin: Yeah, DB is part of that, obviously. There is also a seasonality factor which I guess consensus didn't take completely into the account. And as we said, there is a portion

which is related to the muted digital enterprise growth. So that, and then going forward, again, seasonality will help. We have decent growth momentum outside of UBS and DB, and especially automotive. So, that's what is going to improve the following quarters.

Lou Miscioscia: Okay. I've got more, but let me pass it on to someone else. Thank you.

Dmitry Loschinin: Thanks.

Operator: The next question is from the line of Georgios Kertsos with Berenberg. Please proceed with your question.

Georgios Kertsos: Yes, hi. Two questions for me, guys. First of all, excluding Deutsche Bank, do you expect UBS to be flat or do you expect revenue from the UBS account to also contract year-on-year as we move into '19? That's first question, and then I have a follow up.

Dmitry Loschinin: So, UBS-wise, as we've said, we see a pretty stable situation. They still do-- continue to do some of the insourcing efforts. But again, we have opportunities on the other hand there. So, our expectation, that the behavior of this account will be similar to what we have seen and what we saw in our fiscal '18.

Georgios Kertsos: Okay, understood.

Second question is on the HPA accounts. Can you give us some color on what sort of expectations you have in terms of growth rates within your HPA account list into '19 and, to the extent you have visibility, for the next two, three years out?

Dmitry Loschinin: Yeah. So, the growth rate and the--actually, year-over-year it's a bit better than I initially projected. But, our expectation is to have it higher than 30%, close to 40%, and that has been historically the case. So, we expect that to continue. And for the next three years, that's it. I think this is the same commitment, 30 plus percent.

Georgios Kertsos: Understood. Thank you.

Dmitry Loschinin: Thanks.

Operator: The next question is from the line of Vladimir Beshpalov with VTB Capital. Please proceed with your question.

Vladimir Beshpalov: Hi. Hello and thank you for taking my question. First, I would like to--a little bit more quantification on your first quarter guidance, for just now you mentioned that you

expect UBS to be flat. But if we look at your guidance, it looks like, if we adjust it for growth like 20% for other accounts, excluding Deutsche Bank and UBS, the decline of Deutsche Bank and UBS will be to the tune of 37%, according to my calculations. And if we assume that UBS is more or less flat, then Deutsche Bank is down 75%, according to my calculations if these are correct. So, could you provide maybe some color. Is this correct? Are you looking at the--at your guidance here for the first quarter the same way?

Dmitry Loschinin: Right, right.

Vladimir Beshpalov: Thank you.

Dmitry Loschinin: Yeah, [unintelligible]. So, just--we give you the--kind of the outlook for the full--in terms of the growth, and we are saying that the annual growth of--outside of top two will be close to 20% or similar to what we saw in the past. And as for the first quarter, there is some seasonality factor, so you're--shouldn't be just putting everything together.

So, basically DB is going to decline but not at the magnitude that you described. And UBS and some other businesses, they have also its own seasonality. So, again, you should look at their full year expectation and full year expectation of UBS that the behavior should be similar to

what we had last year. As for DB, right, we will see probably worse than last year's situation, but not 75% drop. This is very unlikely.

Vladimir Bepalov: Okay, thank you.

And the other question that I have is on the decline in North America revenues that we saw. Could you maybe provide a little bit more color on what's going on there because it used to be like a kind of a focus area for you to grow, but we don't see this growth yet? Thank you.

Dmitry Loschinin: Well, this is easily--easy to explain due to several factors. So, one, we made a very strong push in automotive. And as you could have seen, the automotive growth, so up to date is mainly in Europe. We are going to change it, and the future, yes, provides tremendous growth opportunities. And that's what we're doing to do in our fiscal '19, actually investing in the sales people and our--there, the local presence, building a similar setup as we have in Europe. So, this is yet to come.

And then also, we've been quite actively investing in the Asia-Pacific market, which showed extremely good growth momentum. This has also continued to happen. At the same time, our focus area for U.S. remains, so the focus U.S. remained. And also, if you look for North America, the revenue was up 16% year-over-year in Q4. So, it's not bad, actually.

Vladimir Bespalov: The last question I have on your digital enterprise, and in particular on the cleanup of low margin accounts. It has been going on for quite a while, but based on your guidance for the first quarter, we see that--we don't see any major impact. And you mentioned that you're going to complete this transformation probably by the end of the year. So, do you expect that we will still see some pressure on margins coming for the next several quarter and like the improvement will be quite slow, or just we can see it much earlier? Thank you.

Dmitry Loschinin: So, we will provide more color some--all of our [unintelligible] performance and our plans and inspiration during the--at the Investor Day, so you're very welcome to join.

What we do in digital enterprise, so we took a look and that--again, as I explained, some of the accounts came from the acquisition, and they had really low margins. We initially expected us being able to convert, but we see that the nature of some of that is such--is really very hard to change. So--and it was easier to divest from that business instead of keeping investing and investing and running extremely low margin for long time, and at the same time, put the effort, sales team, everything to--through digital engagement.

So, that transformation started last year, will continue this year. We have changed the management of the digital enterprise. There are new people there. We also changed the way



we sell, so the sales approach is different. There are new people in charge. So, all in all, it will result to digital enterprise getting back into the growth path throughout the year and kind of getting closer traditional Luxoft margins, those margins that we have in automotive and in financial services.

Vladimir Bepalov: Thank you very much.

Dmitry Loschinin: Thank you.

Operator: Thank you. Dmitry, I'll turn the floor back to you for any final comments.

Dmitry Loschinin: Thank you, operator. And thanks everyone for participating today. We continue to make progress positioning Luxoft for sustainable long term growth through an expanding addressable market, a commitment to innovation, and client success. And we have focused on building a stronger company through a number of initiatives, and as we explained, enhancing our sales organization, improving cost structure, improving the offering.

We will provide more colors on each part of the business and our plans, so we look forward to hosting you at our Investor Day next week in New York. And we hope to see many of you.

Thanks again for your time and have a great day.

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