

InfoVista SA  
Q2 FY07/08 Financial Results  
Conference call Script  
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Philippe Ozanian

Thank you Karena and good morning and afternoon everyone.

We are pleased to report that our December quarter shows encouraging results and demonstrates that the corrective measures we took a few quarters ago are beginning to deliver. Our firm commitment to restoring growth and profitability is evident as we have delivered top and bottom line results above expectation and ahead of the upward guidance announced mid-December. Although the continued decline of the US dollar and some financial losses affected our top and bottom line performance, this was largely compensated for by better execution in all regions.

Today I will give you financial and operational highlights for the quarter and the semester and will also give you numbers on a constant dollar basis so that you can more easily assess the progress we have made.

I will also give you, when appropriate, the impact of the acquisition of Accellent on our financials. The impact on the top line and the operating expenses is however, marginal as the acquisition was completed at the end of November and only one month of Accellent's activity was consolidated in our December quarter.

Now let me review our top line numbers.. Q2 total revenues rose to **11.3 million Euros**, up 11 per cent sequentially and almost flat year-on-year. On a constant exchange rate basis, total revenues would have increased 5 per cent year-on-year to 11.8 million euros for the quarter.

Excluding any contribution from Accellent, total revenues would have been 11.1 million Euros or significantly above our initial guidance and slightly above the upward guidance communicated in mid December. For the first half of our fiscal year, total revenues including Accellent's contributions, reached 21.6 million Euros and on a constant dollar basis, total revenues would have been 22.5 million Euros, representing a significant 15 per cent of growth compared to the same period of last year.

If we review the breakdown per product line, this quarter licenses represented the bulk of our revenues with 6 million Euros or 53 per cent of total revenues.

Service revenues delivered 5.3 million Euros representing 47 per cent of total revenues. Maintenance revenues were affected by the weakened dollar and ended Q2 at 4 million Euros or 75 per cent of total service, while professional service brought in a total of 1.3 million Euros, or 25 per cent of the total service revenues.

For the first half of our fiscal year, the breakdown per product shows licenses revenue at 10.4 million Euros as compared to 9.2 million Euros for the same period last year. On a constant dollar basis, license revenues for the first half would have been 10.9 million Euros, representing 19 per cent of growth. For services, we have recognized 11.1 million Euros as compared to 10.3 million Euros for the same period. On a constant dollar basis, total revenues would have reached 11.6 million Euros or 14 per cent of year on year growth.

Now let's review revenues per geography. In EMEA, we saw a strong performance in the second quarter, with total revenues increasing to 6.7 million Euros, up 16 per cent year-on-year. We have received repeat orders from major service providers such as Telefonica, ONO, Cable and Wireless and T-Mobile. Deployments of Metro

Ethernet services were key drivers for our growth in the Service Provider segment and our recent partnership with Adva contributed to the win of repeat deals at Cable & Wireless and Telefonica. We've also benefited from our continued expansion into new territories during the quarter, having won three mandates from new customers based in Africa. One of them is Vodacom where we displaced one of our major competitors after demonstrating the flexibility of our solutions in the context of customer reporting. For the first half of our fiscal year, total revenues in EMEA represented 10.7 million Euros, a slight increase compared to last year's performance of 10.3 million Euros.

In the Americas region, total second quarter revenues amounted to 3.4 million euros, representing 30 per cent of total revenues. On a constant dollar basis, Americas' revenues would have amounted to 3.9 million euros. It is important to point out that American revenues in Q2 of the previous fiscal year were positively impacted by the recognition of a portion of the multiyear deal signed with Microsoft. Normalized from the contribution of the Microsoft deal, the performance in the Americas is obviously improving. We are happy to report that our long term relationship with the biggest service provider in the World, ATT, has strengthened with a new order received in Q2 and we expect this renewed momentum to increase in the coming quarters as ATT has clearly selected InfoVista as its preferred performance solution. Another testimony of our recovery in the Americas is a new order received from Citi. As you may remember Citi is a long term customer of InfoVista with a relationship which started 3 years ago with an initial order of more than 2 million dollars. In Q2, Citi selected InfoVista to manage their IP Telephony environment. These two examples, among others, give a sense of the competitiveness of our operations and solutions in the US and this will certainly be more visible in the current March quarter as we expect not only an improved performance compared to last year but we also expect to see further recognition of the Microsoft contract.

For the first half of our fiscal year, total revenues in the Americas went up to 8.4 million Euros, an increase of 13 per cent. On a constant dollar basis, the revenues would have been 9.2 million Euros, representing a growth of 24 per cent.

In Asia Pacific, Q2 total revenues increased to 1.2 million Euros, accounting for 11 per cent of total revenues for the second quarter. One example to illustrate the performance in that region is the repeat deal received from Telstra the leading telco company in Australia. Telstra is the leading provider of triple play services in that region and InfoVista was selected among various competitors to manage the quality of an IP Telephony application deployed at one of its largest customer in Australia. For the first half of the year, total revenues in the region amounted to 2.4 million Euros compared to 1.8 million Euros a year ago. On a constant dollar basis, the revenues would have topped 2.5 million Euros or 39 per cent growth.

Lets now review the major lines of our Income Statement for Q2. In line with our expectations, gross margin was approximately at 80% of revenues compared to almost 82% a year ago. As explained during last quarter's call, the slight decrease in gross profit margin comes from reclassification of costs from Sales and Marketing to Cost of Services.

Operating expenses for the second quarter totaled 8.6 million Euros, a slight decrease compared to last year and despite a significant increase of 32 per cent in R&D expenditures. Let's pause a moment on R&D. Investing in R&D and Product management is critical for InfoVista's future success and this is why we have modeled the R&D budget for this fiscal year expenditures at 24 per cent of total revenues. These expenditures have represented 2.7 million Euros in Q2 and about 5 million Euros for the first half of the year, an additional investment of approximately 1.1 million Euros compared to last year. These investments serve two purposes: first to augment the capacity of our Product development Group through the creation of an

extended development center in India where we have almost 25 people there and we expect to further increase that capacity in the quarters to come. Second is to invest in innovation and the creation of a new product line that will be launched next fiscal year. Creating new solutions is what will make us successful in the future by enlarging our addressable market and I know that Alain would like to touch on this in more detail in a moment.

Let's have a look now at our sales and marketing expenses for the quarter. With a total of 4.1 million Euros, sales and marketing slightly declined representing 36.0 per cent of total revenues. Although this trend is very much in line with our long term objectives, I don't want to give you the impression that 36 per cent of total revenues is what you should expect for sales and marketing expenses from now on. Our objective for this fiscal year is to be at 38 per cent on a full year basis which represents a significant savings compared to the 45 per cent of the prior fiscal year. However, in the next quarter, you should expect an increase in Sales and marketing costs that will be more in the 39 to 40 per cent range, catching up from the lower 36 per cent we saw in the past quarter.

General & administrative expenses totaled 1.7 million Euros and now represents 15 per cent of total revenues in line with our objectives for this fiscal year. This is despite an increase in bad debt provision due to a delayed payment from a long standing partner in Asia. We do expect these monies to be fully recovered in Q3, but decided to take a very prudent approach in making the full provision.

At the bottom line level, you can see that, for the second quarter in a row, we have produced a positive operating profit. In Q2, the operating profit represents 0.5 million euros or approximately 4 per cent of total sales. This is absolutely in line with our company objectives for this fiscal year as we expect to reach a 2 per cent

operating profit for the full fiscal year, excluding amortization of intangibles and we are already at 3 per cent for the first semester of this fiscal year.

The net result is also positive by 0.5 million euros. Two specific points need to be explained here. First we incurred **0.2 million Euros** in net financial losses due to the devaluation of a portion of our cash invested in a money market fund and affected by the subprime crisis. A positive income tax benefit following the acquisition of Accellent was also recorded during the quarter for approximately 0.2 million euros offsetting the financial losses mentioned before.

Let me now conclude with some quick comments on our balance sheet. Total Cash and cash equivalents stood at 17.2 million Euros. This does not include 6.6 million euros of our cash invested in a money market fund which have been moved to current assets. The bank through which these investments have been made have frozen the money market fund to wait for better market conditions before selling the securities. We don't expect to see better market conditions in the very short term therefore the cash invested has been moved to non-current financial assets.

The decrease in our cash position comes primarily from the acquisition of Accellent. The total initial purchase price was 13.7 million Euros of which 9.4 million Euros was allocated for goodwill. 1.8 million Euros was allocated to intangibles assets which will be amortized over 4 years. The remaining purchase price was allocated to tangible assets netted by liabilities. Our DSO stood at **92 days** at the end of December compared to **90 days** a year ago.

Now I'll turn the call over to Alain to provide you with further details of InfoVista's strategic drivers and the outlook for the coming quarter.... Alain please?

**Alain Tingaud**

Thank you Philippe

Our **Transformation and Execution Plan** is in motion and is delivering the results we expected.

On the Execution front, InfoVista is performing better. This is demonstrated by our top and bottom line performance for the past 6 months.

Top line reached **21.5 million Euros** for the six months or **22.8 million euros** on a constant dollar basis and this represents **17 per cent year on year growth**.

Operating profit moved from a mere **100 thousand euros a year ago to 700 thousand euros in the first six months of this year**. These encouraging results are consistent with what we have said. And, adding to that, our bottom line is better than we had anticipated.

However, as we've told you in December, our plan for the next 2 years is not just about improving execution but also about transforming InfoVista.

InfoVista's transformation has already started. You've probably seen on our press release that we now define what we do as **Proactive Service Assurance**.

This is an important evolution from our previous "Service centric performance management" positioning. It was made possible by major technical evolution in our technology foundation and by the acquisition of Accellent.

To propel InfoVista to a 70 million euros company with double-digit operating margin, we need to address three strategic priorities:

- One, expand our addressable market
- Two, engage InfoVista in Services
- And three, unlock the value of our Technology foundation

All this will be possible through innovation and investment which is essential to defining and developing new offerings.

As you know, InfoVista today, is the uncontested leader in managing the performance of **Business services** and

- New triple play services,
- Metro Ethernet solutions,
- media residential services

are the driving forces in that segment.

Our flagship product, VIN (Vista Insight for Network) is the solution of choice for the world's largest **Telecom Operators and Service Providers** as it allows them to monitor the performance of the business services they deliver to their final customers.

Philippe has mentioned ATT in the US, Telstra in Australia, T Mobile in Germany, Telefonica in Spain, Cable and Wireless in the UK. More than a hundred service providers, in fact, have retained our VIN solution in the past few years.

Managing the performance of business services using our flexible platform for customer reporting puts InfoVista in a great position. This is a **very healthy market to be in, but we want to go further.**

Our current and future technology will not only **monitor performance and Quality.** We also want to **assure the continuity of the services.**

***What does that mean? Well, let's take the example of a triple-play service, such as Video on Demand.***

To deliver optimal quality of such a service, Carrier and Cable companies need to ensure **no deterioration** takes place along the chain **from the server, through the network to the end user.**

With our recent release, Vista Insight for Network: **VIN 3.0 solution**, we will manage the performance of the transport on the network all the way **to the aggregation level or the DSLAM.** With its sister release, Vista Insight for Servers: **VIS 3.0 solution**, we will manage the **Server capacity** and with Accellent products we will **monitor the performance of IP applications.**

**With IP-based service assurance,** we already enjoy a truly distinctive positioning. However, InfoVista now goes a bit further, doing this in a **truly proactive** way, thanks to our **unique and patented** Vistafoundation. In fact we aim to help our customers resolve problems before **businesses can be negatively impacted!**

That's what we're able to do with the addition of Accellent's Products and Technology. We now complete the picture. We can not only monitor the performance of Transport, Network and Servers, but also **monitor the Application itself.** This is why our positioning is evolving from Performance Management to Proactive Service Assurance.

Application monitoring is:

- Very important for Service Providers, looking to improve **operations** and expand their offerings into **Managed Services**.
- It is also critical for IT organizations within Enterprises to ensure applications are **performing and delivered** to End Users or Customers.

For both Service Providers and Enterprises, **application monitoring solutions combined with IP service assurance offerings**, such as ours, enable powerful control and visibility throughout the chain for the IP Services and Applications that are delivered; from the client, the server, and the infrastructure

Our Proactive Service Assurance positioning will be enriched by new products and major releases which will be launched towards the end of 2008 and at the beginning of our next fiscal year..

- **Mobile and Cable solutions** around our Flagship Products VIN (VistaInsight for Networks )
- **Application Discovery and Mapping** using our Accellent products
- **V&V : Voice and Video Quality Monitoring**
- **Service Operation** around our new VIO solution
- **Data Center Optimization** around our VIS solution
- And **more** to be announced

### **Now allow me to conclude with the outlook;**

Due to the decisive actions we took a few quarters ago, the potential we see before us, combined with the transformation and execution we are implementing, leaves us in no doubt that InfoVista's performance will continue to improve.

For this March quarter we expect total revenues for InfoVista, including Accellent, to be in the range of **11.3 to 11.8 million** euros, or roughly 20% growth or about 30% growth on a constant dollar basis. For the third quarter in a row, operating profit will be positive.

I'm also taking this opportunity to confirm our full-year guidance of **46 million Euros and 2% operating margin**. **If the dollar remains more or less at current levels** this will probably represent **more than 48 million Euros on a constant \$ basis, or growth of almost 25%!**

With that Philippe and I will be pleased to take any questions you may have. Operator?