SEB Reports Results for First Quarter, 2018

written by Raj Shah | May 1, 2018

April 30, 2018 ([Source](#)) — Smart Employee Benefits Inc. ("SEB" or the "Company") (TSXV:SEB) today reported its financial results for the three-month period ending February 28, 2018.

	Three months ended February 28					
		2018			***2017***	
Revenue	**$**	**25,510,434**		**$**	**23,147,959**	
Cost of revenues		18,527,677			19,427,565	
Gross Margin		**6,982,757**			**3,720,394**	
Gross Margin as a % of Revenue		*27.4*	%		*16.1*	%
Operating costs		6,567,698			3,202,834	
Professional fees		156,439			458,107	
Adjusted EBITDA		**258,620**			**59,453**	
Share based compensation		49,826			54,873	
Transaction costs		–			160,105	
EBITDA		**208,794**			**(155,525**	**)**
Interest and financing fees		608,262			913,715	
Depreciation and amortization		1,149,195			1,133,045	
Income tax		1,764			634	
Net loss	**$**	**(1,550,427**	**)**	**$**	**(2,202,919**	**)**

CONSOLIDATED PERFORMANCE

The first quarter is typically the slowest quarter for SEB, largely due to the Christmas holidays and a shorter billing period in February. There are approximately ten less billing days than other quarters which translates to a 15% to 20% reduction in normalized revenue. There is also an impact on SEB's profitability as a result of approximately 45% of SEB's workforce being employee based and their costs prevail even on non-billable days. SEB is transitioning more and more business to "Managed Services" type business which will reduce the impact of fewer billing days. Growth in the Benefits Processing business will also reduce this seasonal impact. However, year over year, the results have been positive and within our expectations. We expect strong performance throughout the remainder of the year, with the fourth quarter being our strongest quarter, typical of past years.

All comparisons (except where noted) are between Q1 of Fiscal 2018 and Q1 of Fiscal 2017.

- **Consolidated revenue** was $25.5M for the quarter versus $23.1M for the same quarter in the previous year. The $2.4M increase is attributable to the benefits processing business acquired April 2017 from Aon. The Technology Division was relatively flat quarter over quarter.
- **Gross Margin** was $7.0M for the quarter, up from $3.7M the same quarter the previous year. Over 80% of the increase is attributed to the growth in the benefits business from the Aon transaction.
- **Adjusted EBITDA** (as described in the MD&A for the quarter) was $258.6K for the quarter, versus $59.5K the previous quarter.
- **EBITDA** (as described in the MD&A for the quarter) was $208.8K versus a negative $155.5K the previous year, an improvement of $364.3K. The only adjustment in Q1/18 to Adjusted EBITDA was non-cash share-based compensation of

$49.8K.

- **Interest, Financing and Transaction Costs** were $608.3K for the quarter, versus $1.074M the previous year. The $22.5M of debt refinancing with the Bank of Montreal (April 2017) and the paydown of debt significantly reduced interest costs by over $2.0M, annually.
- **Consolidated loss** for the period was $1.6M in Q1/18 versus $2.2M for Q1/17. Contributing factors to the improvement include a reduction in professional fees of $302K and a reduction of $305K in interest and financing costs, partly as a result of the refinancing which occurred in April, 2017. Non-cash expenses included in the loss for the quarter were approximately $1.2M.=

DIVISIONAL PERFORMANCE		
	•	The Technology Division revenue was relatively flat to the same quarter last year at $23.1M for the quarter. Operating income was $958K for the quarter compared to $941K the previous year’s first quarter. The first quarter had over $120M of new contract wins and renewals. Contracts (Backlog, Option Year, Renewal) remain over $450M.
	•	The Benefits Division revenue was $3.3M for the quarter vs $0.5M the previous year. The Aon Transaction together with the new products platform sales and several cross selling initiatives is expected to significantly increase these revenues in the coming months. The operating loss for the quarter was $276K vs $507K for the same quarter the previous year.

		• Since the Aon transaction closed in April, 2017, 18 contracts were renewed of which 6 were in Q1/18; 2 net new clients also went live in Q1/18. Contract Backlog remains over $60.0M. • Significant expense was incurred during the quarter in transitioning existing clients to the FlexPlus environment from the various legacy environments acquired from Aon. By November, 2018 we expect less than 10% of our clients will be operating on legacy environments. This is expected to result in hundreds of thousands of dollars of annual cost savings. Additional costs were incurred in new client implementations. Several new client implementations are in process. These transition and implementation costs are typically recovered over the life of the contracts. • Development initiatives, in the form of new functionalities and new modules, were also ongoing during the quarter.
	•	Corporate total costs were $474K in Q1 F2018 versus $589K in Q1 F2017.

TRAILING TWELVE MONTHS ("TTM") COMPARISONS			
	TTM	**FISCAL YEAR**	**FISCAL YEAR**
	FEB 28/18	**NOV 30/17**	**NOV 30/16**
Revenue	$108,645,312	$106,282,838	$97,227,776
Gross Margin	30,213,091	26,950,729	18,908,694
Adjusted EBITDA	3,221,128	3,021,987	2,080,129
EBITDA	$918,135	$553,842	$(503,550)

Revenue, on TTM basis, increased over the fiscal years 2017 and 2016 by $2.4M and $11.4M, respectively. At a minimum, the $2.4M increase in the first quarter is expected to prevail quarterly throughout the year. Additionally, during the quarter over $150M of contracts were signed, of which approximately $70M were new multi-year contracts and the remainder were renewals, the majority starting in the third quarter.

Gross Margins for the TTMs are $30.2M vs $27.0M for fiscal 2017 and $18.9M for fiscal 2016. SEB has a very scalable fixed cost structure and has reached the point where over 60 percent of the growth in gross margin dollars are forecast to go to EBITDA.

Adjusted EBITDA for the TTM was $3.2M vs $3.0M for fiscal 207 and $2.1M for fiscal 2016. Continued growth is expected during the year.

EBITDA for the TTM grew to $918K from $554K in fiscal 2017 and a loss of $504K in fiscal 2016. The primary difference between Adjusted EBITDA and EBITDA is one-time costs. In 2017, the majority of the one-time costs were associated with the costs of transitioning the Aon infrastructure from Aon to SEB. In the first quarter, the only adjustment was non-cash share compensation (i.e. option valuations).

PREFERRED SHARE FINANCING

On February 28, 2018 SEB closed a private placement with a major Canadian Investment Fund, pursuant to which the Company received $3,000,000 in gross proceeds. The Company's wholly-owned indirect subsidiary, Paradigm Consulting Group Inc. ("Paradigm"), issued 3,000,000 preferred shares ("Preferred Shares") at a price of $1.00 each. The Preferred Shares are entitled to a quarterly 8% cumulative dividend and a bonus equal to 20% of the gain in enterprise value of Paradigm, payable at the maturity date of May 31, 2023. Each Preferred Share (at its issue price) is exchangeable into one Common Share of SEB at $0.45 per Common Share until November 30, 2019 and at $0.50 per Common Share at any time after November 30, 2019 until November 30, 2022.

CONVERTIBLE NOTES FINANCING

Post the quarter, SEB finalized the terms of a Convertible Note financing for $650,000 for a two-year term, ending April 25, 2020. The interest terms are 5% per annum with a conversion over the term at $0.50 per SEB common share. This financing was an extension of an existing Vendor Take Back facility issued on an acquisition.

MANAGEMENT COMMENTS

John McKimm, President/CEO/CIO of SEB, states:

"SEB has progressed significantly year over year. Our Technology Division maintains a solid base of business with multiple years of healthy EBITDA and significant growth expected in fiscal 2018. Our Benefits Processing business has gained solid traction with the Aon transaction in April, 2017. Our "One Processing Environment" technology environment for health benefits manages over 90% of all processing associated with a benefits transaction and integrates additional automated solution modules including Voluntary Products, Disability Management, Health & Wellness, Employee Discount Programs and Human Resource Solutions. Our "White Label Channel Partners" go to market strategy is also gaining strong traction. We have more than a dozen Joint Venture negotiations in progress. For our "Channel Partners", we turn "Cost Centres to Profit Centres" as their back-office technology partners. This strategy is unique in the marketplace. During the period since November 2017, on a consolidated basis, we have finalized over $150M of contracts, of which approximately $70M is new business and the remainder renewals of multi-year contracts. We have, since 2016, removed over $5M of cost structure through integration and consolidation of business processes, infrastructure costs and financing costs. Our debt has been significantly reduced during the year, with the majority of our debt being with a major Canadian bank and over 80% of the remainder being insiders. Our Contracts (Backlog, Option Year Renewals) are maintaining a base of over

$500M. SEB is well positioned for strong organic growth in revenue, EBITDA and earnings over the next three years with annual revenue under contract of over $100M per annum."

CONFERENCE CALL DETAILS	
Date/Time: Wednesday, May 2, 2018 at 11:30AM ET.	
Canada & USA Toll Free Dial In: 1-800-319-4610	
Toronto Toll Dial In: 1-416-915-3239	
Callers should dial in 5-10 minutes prior to the scheduled start time and simply ask to join the call.	
Webcast Link: access at http://services.choruscall.ca/links/sebq120180502.html	
Conference Call Replay Numbers:	
Canada & USA Toll Free:	1-855-669-9658
Code:	2247 followed by the # sign
Replay Duration: Available for one week until end of day May 9, 2018.	

ABOUT SEB

SEB is a Business Process Automation and Outsourcing Technology Company providing software, solutions and services to a national and global client base. SEB has a specialty growth focus in cloud enabled SaaS processing solutions for managing employer and government sponsored benefit plans on a BPO (Business Processing Outsourcing) business model, globally. This is a major growth focus, SEB currently serves corporate and government clients across Canada and internationally. Over 80% of SEB's revenues derive from government, insurance and healthcare organizations. SEB's technology infrastructure of over 860 multi-certified technical professionals, across Canada and globally, is a critical competitive advantage in supporting the implementation and management of SEB's Benefits Processing

Solutions into client environments. SEB's Benefits Processing Solutions can be game changing for SEB clients. SEB currently administers over $1B of Premiums for more than 50 of Canada's corporate elite companies, representing over 330,000 plan members. SEB's revenues are over $100M with contracts (backlog, evergreen, option year) valued at over $500M.

The core expertise of SEB is automating business processes utilizing SEB proprietary software solutions combined with solutions of third parties through joint ventures and partnerships. SEB's client acquisition model in benefits processing is "Channel Partnerships" where SEB processing solutions both improve cost structures and enable new revenue models for Channel Partners and clients. All SEB solutions are cloud enabled and can be delivered on a SaaS platform. SEB solutions turn cost centers to profit centers for our Benefits Processing Channel Partners.

For further information about SEB, please visit www.seb-inc.com.

THE FORWARD-LOOKING INFORMATION CONTAINED IN THIS RELEASE REPRESENTS THE COMPANY'S CURRENT EXPECTATIONS AND, ACCORDINGLY, IS SUBJECT TO CHANGE. HOWEVER, THE COMPANY EXPRESSLY DISCLAIMS ANY INTENTION OR OBLIGATION TO UPDATE OR REVISE ANY FORWARD-LOOKING INFORMATION, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE, EXCEPT AS REQUIRED BY APPLICABLE LAW.

All figures are in Canadian dollars unless otherwise stated.