

# “DATA GLOVE ACQUISITION – ANALYST CONFERENCE CALL”

February 11, 2022

## ***MANAGEMENT:***

**Mr. Sandeep Kalra**

*Executive Director and Chief Executive Officer*

**Mr. Sunil Sapre**

*Executive Director and Chief Financial Officer*

**Ms. Nitha Puthran**

*Senior Vice President, Cloud and Infrastructure*

**Mr. Saurabh Dwivedi**

*Head of Investor Relations*

**Moderator:** Ladies and gentlemen, good day and welcome to the Persistent Systems Limited conference call for discussing the acquisition of Data Glove. We have with us today on the call, Mr. Sandeep Kalra- Executive Director and Chief Executive Officer, Mr. Sunil Sapre - Executive Director and Chief Financial Officer, Ms. Nitha Puthran – Senior Vice President, Cloud and Infrastructure and Mr. Saurabh Dwivedi - Head of Investor Relations. Please note, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the opening remarks. Should you need assistance during the conference call, please raise hand from the participants' tab on the screen. Please note that this conference is being recorded.

I now hand over the conference to Mr. Sandeep Kalra. Thank you and over to you, sir.

**Sandeep Kalra:** Good morning. Good afternoon. Good evening. Hope all of you are doing well. Today, we have an important announcement to make, and as we walk through the next few slides, I will set the rationale for our M&A strategy, what we are announcing today and so on. Before we get into what we are announcing today, for those of you who have not been following us for the last few quarters, I just want to give a slight context on where we stand today and then delve into what we are announcing.

So as of this point in time as you would know, possibly that last quarter we did \$199.1 million. Our annualized run rate translates into \$796.4 million, and the trailing 12-month revenue is \$701.1 million. We have been talking about our aspirations of being a billion-dollar company and beyond and with that, we have also been talking about our M&A strategy, which is basically based on tuck-in acquisitions, which would make us smarter, more relevant to the customer base, more relevant to the partners that we work with. Our acquisitions are, if you look at whatever acquisitions we

have announced so far and even the forward-looking strategy, is based on capturing the high growth markets that we play in. And these markets span across domains such as cloud, infrastructure, security, data, Salesforce and in the industry verticals that we operate in, whether it is the Technology companies that we service, the Banking Financial Services companies that we service or Healthcare Life Sciences. That is broadly the strategy that we have been articulating over the last many quarters. These companies that we look at in terms of tuck-in acquisitions are supposed to be either, for example, the acquisition that we did of SCI making us smarter in a micro vertical in Financial Services. In the case of SCI, it was Payments, in the case of the earlier acquisitions that we did, CAPIOT, it was on the integration side of the house as a service line, and so on. So, these are to bolster our capabilities or bring adjacent capabilities and to expand our footprint in either a vertical or a geography. So, keep that in mind as we walk through what we are announcing today.

Now before we get into the specifics of the acquisition that we have done, I want to walk you through what happened over the last 7 to 10 years in the cloud transformation journey of our customers. So, if you look at the horizontal technology set, the CIO organization that we work with, that is where the earlier things were, the data centre side of it, where people used to have on-premise data centres. They moved from on-premise data centres to co-lo data centres. Over a period of time, people started to experiment with having private clouds. That translated into hybrid clouds where people started adopting one of the public cloud vendors such as Amazon, AWS or Microsoft Azure or IBM or Google Cloud. With time, this translated into people thinking about how to leverage multiple clouds for the sake of not getting logged in with one particular cloud, or with respect to the money that they spend on various clouds, being more competitive on that. It also came across that if you adopted technologies from IBM,

such as Red Hat and similar technologies from other major hyperscalers, you could possibly build once, deploy over multiple clouds and that also brought strategic advantage to things. With this journey, obviously it makes it imperative for service providers like us to be not just vested in one particular cloud or the other but be able to be the trusted partner to our customers and be able to bring them the latest technologies that make them more competitive in their arena. So, think about our technology like a Red Hat from an IBM working with an AWS, Azure or GCP or a combination thereof, and be able to move things across these clouds as customers deploy their solutions in different regions of the world, where there are different cloud providers who have different capabilities. So that is one of the underlying reasons of our M&A strategy in the cloud side.

Now, the other thing that is also happening in our world when it comes to the different industry segments that we work in. So, earlier the cloud started off as a horizontal technology, and more and more, if you look at the hyperscalers, whether it is AWS, Azure, GCP, IBM and the likes, there is more verticalization that is happening. So, if you look at Microsoft, Microsoft has launched health-related cloud. So, there is a specific offering around Healthcare, there is a specific offering around BFSI. Similarly for other major cloud providers, that is the case. Why is this important? It is important for companies like us when we play in these verticals, whether it is Technology vertical, Healthcare Life Sciences, or Banking Financial Services that we become more and more aligned to what we can offer to our customers using the power of these hyperscalers so that the customers bring their secret sauce on top of certain services that are exposed by these cloud providers at scale, and which makes things faster, better, more competitive from a cost perspective. So this is another reason why people like us, if we have to differentiate ourselves and be known for what we have always been known for - the best technology services company

working like a niche, not working on the traditional ERPs, on mainframes and so on, but more on modernization and forward-looking, whether it is cloud native revenue-enhancing platforms, working with the business buyers or working with the CTOs of product companies, developing health-tech, fin-tech, or other tech platforms, or even enterprises like large banks, insurance companies, healthcare providers, healthcare pharma companies and so on to build their products and platforms leveraging all these technologies at scale. And these are, you know, more and more you will see the custom development happening, but leveraging these platforms and their native services, and that is where it beckons for us to get deeper into this.

Now the proof point of how all this panned out. Even over the last two years in the pandemic times, it is not a secret for anyone, the people who were more digital on their journeys were the ones that survived, thrived, and for the people who were not, they started embarking on their digital transformation journeys and accelerating that. The proof point of that is in the consumption revenues or the overall revenues as we see from various hyperscalers. If you look at the hybrid cloud revenue from IBM, that grew year-on-year by 20%, if we look at the last year. If we look at Azure, Azure was one of the biggest market gainers over the last year in terms of cloud hyperscalers. Azure grew by about 46% year-on-year. Similarly, AWS and Google saw stupendous growth in their revenues. Now keep in mind, this revenue is the consumption revenue what these hyperscalers get. What people like us, the service providers, the market opportunity for us, if I was to look at the total addressable market, it is multi-fold of what these cloud hyperscalers make and that is why this is a very attractive market for us. And just to remind everyone, we have grown very well over the last 8 quarters. If you look at our journey for the last quarter, year-on-year we

were 36% on a growth level. Most of it was organic, small pieces inorganic tuck-in acquisitions.

What we are announcing today, is to see if we can, like we have our relationship with IBM, IBM is today at a clip of a \$100 million-plus relationship for us. Similarly, our attempt is to take Microsoft relationship to a fairly big clip and combined with acquisition that we are announcing, we are going to be a fairly significant player in this market as we go along this way. Similarly, if you look at our footprint in the SaaS-based world of Salesforce, today I am proud to say our business on Salesforce across various clouds, across the new things like MuleSoft, with our CAPIOT acquisition and scaling the CAPIOT acquisition, we are significantly above the \$100 million-mark as a run-rate business. So, if you were to look at it, our attempt here is, if you were to look at Persistent of the future, we would be very relevant in the 5 key technology players' ecosystems. So, when you talk of an IBM ecosystem, you talk about the Microsoft ecosystem or an Amazon, Google or a Salesforce ecosystem, you should see Persistent as becoming even more relevant as we grow our revenues, our footprint over a period of time, and that would be backed up by significant capability that we already have and with bolt-on acquisitions, like the Data Glove acquisition that we are announcing today.

So, coming to the Data Glove acquisition. To give you more details on the acquisition, so Data Glove is a company that was started in 2010. It specializes in working around the Microsoft technologies, mostly around the cloud technologies and their work is mostly around application, data modernization, cloud advisory services, modern workplace services, intelligent automation and so on. So, Data Glove clocked \$48.96 million for the trailing 12-months ended December, 2021. They have been growing healthily over the last 2 to 3 years. They are a premier consulting services partner to Microsoft consulting, which is now industry solutions, delivering

different kinds of cloud transformation programs across verticals. The footprint for the company spans across Americas. When I say Americas, it is both North America and Central America, Central America more specifically in Costa Rica. The clientele that they have spans across Software High Tech verticals, BFSI and a small amount around Public Sector. Data Glove brings to us the experience of having done 100-plus cloud transformation engagements, some of them being marquee engagements that Microsoft has engaged them with Microsoft consulting over the years. These span across some of the biggest transformations in the Telecom sector as well as the sectors as I talked about, the Software Hi-tech and BFSI and so on.

Overall, if you look at Data Glove, what we are also getting is 700-plus colleagues who are well experienced around cloud technologies. 33% of this workforce is around Americas, which means roughly about 200-plus people, roughly 225-230 people are between North America and Central America. We also get to add more muscle in our locations in India across Bangalore, Hyderabad and Noida. So, this is where Data Glove and our footprint put together makes us even more relevant in the Microsoft ecosystem as we go along. Now the strategic rationale, a few of it I have alluded to before. If we look at it, with this, we have said we are launching our Microsoft business unit. So, what we are doing is bring together the Microsoft initiatives that we have around cloud, data AI, security and other services. As a company, we have significant footprint in other Microsoft technologies where, for example, in development we use dot net and other technologies that will continue to remain in the verticals. This business unit will be responsible for creating capability, capacity, industry solutions, working with our bigger team and Microsoft. It will also be a true 360-degree relationship, which will include our sell-to Microsoft, where we do product development and IT services for Microsoft, sell-with Microsoft

to their customers and marketplace offerings where we will attempt to deliver our services and solutions through Microsoft. So, that is the rationale behind this Microsoft business unit, and we have the blessings from Microsoft as well to embark on the journey.

It will also strengthen our Azure competencies, bringing together the competencies that we have across both organizations, whether it is in terms of certifications, in terms of go-to-market partnerships and so on. And as I alluded before, it will also bolster our vertical and industry capabilities into the entire Microsoft ecosystem, and hopefully as Microsoft creates the wave more and more in different industry verticals, we will work with them to enhance their service delivery, making sure that we have more Azure percolation. So, it is a win-win. We have services revenue, customers get to accelerate their digital transformation journeys and Microsoft gets to gain through Azure consumption and the likes.

So overall, if I look at it from an industry-service line perspective or service line value proposition, right from AI/ML to computer vision and many other things, this is where the acquisition brings more might. Last but not the least, we also from an IP and accelerator perspective, we pride ourselves in bringing many frameworks, which are reusable frameworks that can accelerate customer's digital transformation journey and move to the cloud. Same with Data Glove. They have a slew of SKUs as they call it, which are basically small reusable components that accelerate the journey to the cloud, application modernization and so on in addition to bringing the strong talent that they bring in.

In terms of the geographic footprint, I have talked about Costa Rica. Today, as we embark on these cloud and other digital transformation journeys, a significant amount of our customers are also looking to have onshore, nearshore presence in addition to having the traditional offshore



presence. So, Costa Rica, we are getting a good seed and we are intending to grow even more in Costa Rica, and some of our biggest customers, whether it is IBM, whether it is Microsoft, whether it is others also have a footprint in Costa Rica and that should bode well for us as we expand the centre.

These are some of the quotes from various partner and analyst sites. So, if you look at Microsoft, we have the blessings right from the Microsoft India leadership and we will circulate this presentation. We would encourage you to go through these quotes. So, right from Anant Maheshwari, who is the President of Microsoft India to analysts like Pari Natarajan, who are also thought leaders in their own world. There is a significant amount of brainstorming we have been doing with a number of these while deciding our M&A strategy and the kind of targets to go after. I am also proud to say we are acquiring a set of leadership in this acquisition. So, we are getting a set of talented folks who have built this company, and this is a good mix of people, the entrepreneurs who built this company in terms of Rajiv and Rahul. Steve is a professional who has done different kinds of infrastructure and other programs, has been with the company for long. Pritam has a long history of working with GSIs, such as Tech Mahindra, handling relationships with Microsoft on go-to-market for earlier roles in his life with the other GSIs. And so, there is a significant strength that we are also getting in terms of go-to-market experience. Last but not the least, we have David Driftmier who is joining us from Data Glove, who has spent a significant amount of his time building his career at Microsoft, spending 25 years in business applications. So, from both solutioning perspective, capability perspective, senior management perspective, this acquisition hopefully will be very accretive for us as we go on.

With this, I will hand over to Sunil to walk through the financials of the acquisition, and then we will have Nitha talk about the vertical and the horizontal solutions of the company. Sunil, please go ahead.

**Sunil Sapre:**

Hi, thanks Sandeep, and good morning, good evening, everyone. So, you would have seen from the stock exchange filings about the total consideration for this transaction at \$90.5 million, split into \$50 million or so upfront and balance in earnouts and retention, of which about \$35 million is in earnouts and \$5 million is retention. So, it is 50-35-5 in simple terms to remember. In terms of the, you can say EV to revenue multiple, it reflects 1.95x the revenue multiple. So far as the margin profile of Data Glove is concerned, you would have seen that Data Glove with its combination of US, India and Costa Rica delivery has EBITDA margin, which is similar to Persistent. So, this acquisition is neutral with respect to EBITDA margin. So far as gross margin is concerned, it comes slightly lower. However, the SG&A profile is also lower, resulting in similar EBITDA. The amortization will be to the tune of 75 basis points, which will be a headwind for EBIT to start with. But by leveraging these new capabilities to grow the synergy revenues, we expect to create a margin headroom and absorb the EBIT impact over a period of time.

I think you can go to the next slide. Nitha can walk you through. Nitha, over to you.

**Nitha Puthran:**

Thank you. Good morning, good evening, good day everybody. As Sandeep alluded to, this acquisition will form the foundation of our new Microsoft business unit. Two teams coming together, Data Glove and Persistent bringing in complimentary skills, a little overlap that will strengthen the muscle, the transformation solutions that we have been taking out to the market over the last few quarters and years. With this coming together, with Data Glove coming together, we will be able to provide

transformation solutions across the offerings, and will be a one-stop shop for our customers who seek to go the Microsoft way, whether they are solutions related to Cloud Infrastructure and Security or whether they are solutions related to Data and Analytics or Workforce Productivity or Modern Workplace Solutions. Our underlying principles of the Microsoft business unit remain the same, to capture the market that we have been doing, but to do it more aggressively to bolster our existing capabilities by tucking in the skills and the expertise that Data Glove brings in and to expand our footprint in these customers. Remember that I mentioned that we have complementary skills and complementary strengths, we have experienced with our existing several hundreds of customers that we are already working together in providing solutions, other engineering solutions and infrastructure solutions.

I'm just making sure you can hear me because I see, okay. Thank you, a sneak preview to our ambition matrix. A sneak preview to our ambition matrix at the bottom of this chart, you will see our core expertise that we bring to bear or that we have been bringing to bear, which is evident based on the progress or the growth that we've had over the last few quarters and years. We intend to bolt-on Data Glove's expertise and bring in focus. When Sandeep said that we are going to, we are going to make sure that this Microsoft unit focuses on building capability, building solutions and bringing in next-gen aspects of the solutions to our customers. Case in point, Sandeep mentioned about verticalized solutions, industry solutions. We want to, we intend to build service catalogues that will make it easy for customers to consume some of the solutions that these hyperscalers rolled out like Microsoft Azure rolls out, making it easy through our experience, business experience and knowledge with our existing hundreds of customers. Last but not the least, we intend to do this across the breadth of solutions that are available and that our customers are

looking for. A few representative Data Glove engagements, be it transformation, getting a seat at the table at the largest Telco transformation, one of the largest Telco transformations in the industry. Be it moving from legacy, moving legacy, doing legacy transformation for some of our customers or helping customers, Public Sector or otherwise helping customers improve their adoption of Cloud and make customer experience seamless for their end customers in turn.

**Sandeep Kalra:**

So, with this we will stop, we will be willing to take question answers. And before we go there, I have one other comment to make. So, there have been some questions over the last day or so about Data Glove's relationship with Trimax as well as the Data Glove relationship with EBIX. So, I want to clear one point here - the Data Glove relationship with Trimax was started in 2014. Trimax was a customer of Data Glove. In 2014, Data Glove entered into a licensing agreement with Trimax to use the Trimax brand name in the Americas. In 2015, given the difficult times Trimax went through, Data Glove severed the relationship and let the agreement expire to both of the companies' satisfaction. Subsequently, there has been no association between Data Glove and Trimax. As far as EBIX is concerned, Data Glove had set up a joint venture with EBIX to provide cloud services to EBIX customers last year. As a part of our diligence, our intent to acquire 100% of Data Glove's business, we had requested Data Glove to terminate the joint venture with EBIX, which was done in September 2021 providing a three-month notice and concluded with that. So, as of this point in time, to your inquiries, some of you who had asked about these two, there is no relationship that Data Glove has between themselves and Trimax and between themselves and EBIX, apart from a service provider relationship to EBIX and some of their customers. So, hopefully that kind of clarifies and we do not expect Data Glove to have any adverse implications on its business on account of any of these past relationships. And we have done

enough diligence, and just to give you reassurance, any acquisition that we do, we have a slew of partners that we have, who come with us for the diligence, whether it is a big-5 from a tax finance perspective, HR diligence and so on and we have done our diligence pretty well over the past six months. And so, rest assured, there's nothing between Trimax, EBIX and Data Glove that can come in the business way. So, with this, we'll open for question-answers.

**Moderator:** Thank you very much. We will now begin the question-answer-session. Anyone who wishes to ask question can raise your hand from the participants tab on your screen. Participants are requested to use headphone or earphone while asking a question. Participants are requested to ask a maximum of two questions at a time. For follow-up questions, please join the queue again. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Please note that this call is for 45 minutes only. First question is from Mr. Abhishek Bhandari.

**Abhishek Bhandari:** Yeah, hi Sandeep. I have two questions actually. My first question is, you said Data Glove makes for Microsoft. So, if you could elaborate your relationship with Microsoft, what is the total revenue Data Glove gets from Microsoft and what do they actually do for them? That's the first part. Second part is more on the transaction multiple. For a company, which is having a similar EBITDA like us, probably two times trailing EV to sales appears slightly on the lower side. So, what went behind this negotiation that you were able to buy at this valuation? Those will be my questions. Thanks Sandeep.

**Sandeep Kalra:** Sure. Sounds good Abhishek. So about 75% to 80% of the revenue of the company comes from Microsoft. And this has been the case in a little varying capacity for the last three years-plus. Now, in terms of what they do with Microsoft, so Microsoft, when Microsoft goes for any large

engagement., and so is the case with any of the hyperscalers, whether it is Google, whether it is Salesforce. Usually, you will see any of the hyperscalers take the bigger transformation programs and then partner with a set of companies for delivering those. So, Data Glove is a partner to them, whether it is one of the largest Telco transformations, one of the largest Public Sector transformations, one of the largest Healthcare transformations and so on. So, that is the kind of work that they do. This transformation can be on the infrastructure side, on the application side, whether it is application modernization, application lift-shift, even at times doing refactoring and so on. So, that's the nature of business at a high level. Now, in terms of EV to EBITDA and so on. So look, we started these discussions pretty much 9 months back, and we have been able to work together to give each other the comfort level. And it's not just about the valuation that you give. The valuation, anybody can give a higher valuation, and the earn outs and other conditions are also there. It is about the chemistry between the two teams, the confidence of meeting those goals, the confidence of meeting the entire transaction value, not just the hypothetical, the value that you may see between the base and the earnings. And last but not the least, look every company has their own dynamics. So, Data Glove has been a good partner to Microsoft. They have a certain sales channel. Companies that have a different sales channel get different valuations. So, there are many such factors, but I think this is a good satisfactory multiple from their perspective, our perspective and we all see good synergies in being able to build the synergies together and make their earn outs happen and give all of them a good career path. So that's where it is.

**Abhishek Bhandari:** Thanks Sandeep and all the best.

**Sandeep Kalra:** Thank you.

**Moderator:** Thank you. Next question is from Mohit Jain.

**Mohit Jain:** Two questions again, one is a follow-up of the previous one. So, when you say 75% to 80% of the revenues are from Microsoft, that means the billing is happening through Microsoft or is it directly supplying some software or services to Microsoft? So, that was one and if that is the case then we should sort of classify that as Hi-tech or would you classify, because case studies given are more on BFSI and other verticals. So, that was one. And second, if you could give some colour on the client buckets like what kind of deals these guys sign? And what kind of momentum are you seeing from an outlook perspective?

**Sandeep Kalra:** Sure, so the first part, most of the revenue that is billed to Microsoft. So, I would say, let me say this. Two kinds of revenues from Microsoft. One is bill to Microsoft where the end customer may be a Telco, the end customer may be whatever. And it's basically under Microsoft. The second revenue is where Microsoft introduces Data Glove and then Data Glove directly goes. We have classified both as Microsoft revenue right now, but obviously there will be as we go along, we will bifurcate in industry verticals and so on and so forth. So, that's one. Second, in terms of momentum, they have seen a significant momentum, the earnouts are based on 22.5% growth year-on-year. So, that is the least that they are expected to achieve. Obviously, the synergy revenues are on top of it. And if you look at our own history of taking acquisitions. of late if I was to take the example of CAPIOT, which we did about a year back. I can say with confidence, we have been able to take their capabilities, our real estate. We have a very good set of customers, established relationships. We have been able to double the revenue of CAPIOT within a year. I am not saying we'll double our revenue of Data Glove within a year, but the fact is, our go-to-market is fairly strong. We have proven over the last eight quarters our ability to grow our organic revenues with a small sliver of inorganic.

We are at 36% year-on-year. So think about taking capabilities of a Data Glove, the real estate of a Persistent and multiplexing it. And our customers are absolutely gung-ho about their transformation journeys. And they are very enthusiastic even in the last one day we have got very enthusiastic response about the acquisitions. So, we are hopeful of carrying forward the momentum and obviously, it will take a little bit of time to integrate, but we are very hopeful that the acquisition will bode well for us as an organization.

**Mohit Jain:** The second one on client bucket sizing, anything on the contract size?

**Sandeep Kalra:** So, look the contract sizes vary, the top 5-7 customers may be bigger customers, which may be anywhere between, let's say \$2-3-4 million plus on an annual basis. The highest maybe even in the range of \$8 million to \$10 million. And then there is a slew of customers between the category of \$1-2, category of below \$1, given the size of the company, but given the capabilities, that's where the combination makes sense where we will be able to scale this to a bigger level.

**Mohit Jain:** Understood sir, thank you.

**Moderator:** Thank you. Next question is from Abhishek Shindadkar.

**Abhishek Shindadkar:** Yeah, hi. Thanks for the opportunity. And congrats on the acquisition. Two questions. First, you highlighted, you've been discussing these acquisitions with nine months in. Who are the competition involved, if any? Given that the technology is in high demand, I'm sure there could have been other participants as well. The second thing is now in the last 6-8 months we have digested good amount of acquisitions. So, what's the strategy here, we have consumed a good amount of cash as well. So, what's the strategy going ahead. I'm sure it must be consuming management bandwidth as well. So, that and just a part of it is how do we plan to fund it? Do we also



plan to raise any borrowings for this, or it could be all cash from that?  
Thank you for taking my question.

**Sandeep Kalra:**

So, bunch of questions. If I miss anything, please remind me. So, first look, our philosophy on acquisitions has been this. While we encourage a lot of inbound acquisition queries that come to us for people wanting to get acquired through various sources, deal advisors and investment bankers and so on, we have been trying to go after the targets that we want to go after. The value is not in when somebody has already prepared a company to sell, changed their website and made it to look the world's greatest technologies and hired an investment banker to clean up their act and then punt them over for multiple EV multiples of three, four whatever. At that point in time, you have a diamond which is already polished. We are going after companies that are having the value that we want, may not be the fully polished diamond, but that's where the value creation has to happen for our investors, and that's where we have to be able to get an EV to the revenue side at a multiple that we want, but the capabilities that we want. And we know how to go to market. So, for the last 8 quarters, 10 quarters, our credibility of scaling revenues, our confidence of scaling revenues ourselves gives us the confidence to go after companies proactively. Data Glove was not basically being shopped around by an investment banker, we reached out. We did an analysis of the market, we scanned the market for companies that are good partners to various people like an IBM. And that's where in the Financial Services FTM and other things, came SCI.

Next one is, you know, the proactive outreach for Data Glove, where we wanted a strong Microsoft partner that could help us scale the thing. And there are similar other pursuits that we have done including CAPIOT, which was not necessarily investment banker-led. We welcome investment banker-led deals, but usually they are where the value is already kind of at a much higher level. So, this was, that is the reason it was a 9-month

pursuit. It took us time to convince each other that we can work with each other, it makes sense for them, make sense for us. And that's where the various things are.

So, now in terms of the cash consumption and so on, we are sitting on \$275 million, give or take off cash before this transaction. So, we are not necessarily consuming all the cash. And the cash, just remember what Sunil said, there is a certain amount up front. There's a certain amount in earnouts over two years. There's a certain amount in retention over three years. So, we are being prudent in making sure whatever we are lining up at acquisitions, whether it was CAPIOT, SCI, Shree Partners, Data Glove and maybe more. We are making sure we have enough cash. We are preserving cash to be able to do this and still have a reasonable amount of cash on our balance sheets. And do not forget, we can today go out in the market and there are many people who would love to give us debt or work with us to finance our transactions, given the strong balance sheet that we carry, given the strong growth momentum that we have. Now, in terms of management bandwidth, rest assured the acquisitions that we are doing. they are spread over in different buckets. So, for example, CAPIOT was in Data and Integration. SCI was in Financial Services vertical. Data Glove is in our Cloud business. There are different leaders responsible for this. So, we have the management bandwidth to take it. And we are not distracted, if we were distracted, we would not be delivering the results that we have been delivering over the last many quarters. So, we are being prudent on how we go after which target. And these are more or less proactive outreach so that we get a better deal. And we are not necessarily distracted. We are going in a focused manner on what we want to acquire, why we want to acquire in line with our ambition metrics and the markets that we want to capture. So, that's the rationale in terms of cash being

deployed. Sunil, please go ahead, whether we are using internal accruals and answer.

**Sunil Sapre:** Yes, so Abhishek for this deal we plan to draw about \$35 million worth of borrowing. And as you know, this is only towards the funding of the upfront. The subsequent pay outs will be funded internally. Thank you.

**Sandeep Kalra:** And for that it's very simple, the rationale for that is our internal return on capital versus the cost of borrowing from the market. It makes more sense for us to use the debt while preserving the cash.

**Abhishek Shindadkar:** Perfect. Great to hear your thoughts. Thank you for taking my questions.

**Moderator:** Thank you. Next question is from Dipesh Mehta.

**Dipesh Mehta:** Yeah, thanks for the opportunity. A couple of questions. First, about one clarification, you indicated EV to revenue multiple of 1.95. Based on the EV and revenue number indicated, it works out to be lower. So, is there a difference between gross revenue and net revenue? Just can you help us understand that arithmetic? Second question is about how big could be Microsoft practice post the transaction? Third question is about M&A gaps. You indicated five buckets where we want to build capability and gave some sense about three buckets. AWS and Google Cloud you have not highlighted much. If you can provide whether we want to build that rcapability through M&A or organic, thanks.

**Sandeep Kalra:** Sure, so let me let me answer two questions and I'll lean to Sunil for the EV by revenue part. So, on the Microsoft practice side, you know, if we were to just look at the Cloud part of it, the work that we do in Cloud and things like Data, AI and Security. And not just, not include the development work that we do using dot net and so on and so forth. If I'm just looking at Cloud-related work, today it is about \$25 million only on Azure and Azure-related things. Combined would be about \$75 million to start with. And then we

have aspirations to grow it fairly significantly. And that is just the Azure side. I'm not including other clouds. Now, in terms of your question about AWS and Google, we didn't say anything about it. In terms of how we are going. So, two parts to it. Organically we are definitely investing, and maybe we'll do a tuck-in acquisition in one of the other two. And so that is where it is, but all our attempt is, this is a high-growth market. We have done very well if you look at our Product Engineering business, there's a significant amount of Product Engineering business we do on these clouds. So, and we are seeing the pattern, if we were to see the tea leaves that are there it only beckons that we go with urgency in these markets. And we have taken steps like this before as well. Four quarters back in October, November, December of 2020 when we hired 1,642 people. A lot of people said why are you hiring so many people and our answer was we see the demand. And we also see attrition. We were the first ones to flag it. We want to be ahead of the curve. We are seeing this pattern, we are seeing this pattern to be an important thing for Persistent to remain at the growth cusp, at the technology cusp and be with our customers where they need us. So, we will further enhance, organically, inorganically, if we do anything inorganic, we'll do a session like this. And we'll update you. Sunil, if you can answer on the EV by rev.

**Sunil Sapre:** Yeah, yes. So, this revenue has a small component of about 5% to 6% of revenue, which we have made an adjustment in our own minds that we would like the revenue to be reckoned as 46 or thereabouts. That's why you get a higher revenue multiple. We look at it in that sense, while the revenue is there but that's a way the revenue composition is.

**Sandeep Kalra:** More clarity, why we are looking at that way is because certain part of revenue may be with other service providers, which may go away given that we have acquired the company. So, we are factoring for that and so on. It may not happen, but we are just being conservative on that.

**Moderator:** Thank you, Mr. Dipesh. Next question is from Sandeep Shah.

**Sandeep Shah:** Yeah, thanks for opportunity. Just Sandeep, one strategic question, in a long term, we will have two relationships, which would be big, one is IBM and second being Microsoft. So, don't you believe there would be a renewal-related risk where our bargaining power may be slightly lower or you believe the kind of work, which we do it will have an equal opportunity of bargaining on both the sides, you and the partners either way.

**Sandeep Kalra:** Okay, so in the longer run, we will continue to have five relationships, not two, five. Salesforce is already at a clip, much beyond \$100 million in terms of what we do with them and with their customers. And by the way, they are a very strong partner, it's a very tight partnership there. With IBM as well, we do multiple things. With Microsoft, this will be a business unit. Similarly, you know, maybe down the line we will announce Google business unit, AWS business unit as well. And look at it this way, today if you look at industry leaders, whether you look at Arvind Krishna, whether you look at Satya Nadella, IBM and Microsoft CEOs. They don't look at each other as competition, it's a co-opetition. A Red Hat today works as seamlessly with AWS or Azure or GCP. And they are also working with IBM cloud. And they are looking at AWS, Azure and others as partners. Similarly, you know, each of these technology players works with many different GSIs and companies like ourselves. And it is only prudent for people like us, if tomorrow we are coming to you and you are the customer, we have to be vendor-neutral. We have to do what is best for you as the customer, to be your trusted advisor. So, we will need to have a slew of these relationships. And each of these principals respects that. They understand it and even when we did this announcement, for example, I'm pretty sure based on our discussions with our principals, whether it's an IBM and others, they are looking at this as very good synergistic thing for them, and they are looking at Persistent to take their

technologies along with these even more. So, I don't think there's an issue in getting renewals or building these partnerships. I don't think this is one or the other. These are one and the other, if we have to be genuine to ourselves, our customers and even these principals. So, I don't think we have any worries on this.

**Sandeep Shah:** Just to follow up, Sunil sir, if you can make us understand to whom the earn out payments will go, because we are not buying the legal entity, we are buying the business. So, to whom the earn out payments will go?

**Sunil Sapre:** So, these will be to the founders actually of Data Glove. So, they are coming on board with us. You're right, there's an asset purchase and not an entity purchase. So, the shareholders are not involved.

**Sandeep Kalra:** A certain amount of earnouts and retention, so retention is broad-based. A certain amount of earnouts is also to the other key management employees. So, there is a certain factoring that has been done on that. So there is a good amount that will go to the founders, a certain amount that will go to the key employees from earnouts, and the retention is based on a broad-based retention of the key employee base that we want to carry forward. These are the senior leaders in the company across functions.

**Sandeep Shah:** Okay. And those founders will also come to Persistent's rolls and they are largely the shareholders of this Data Glove. Is it fair way to assume?

**Sandeep Kalra:** Yes.

**Sandeep Shah:** Okay, and just on this \$35 million debt, will it be a foreign currency debt?

**Sunil Sapre:** Yeah, this will be a foreign currency debt. And like we have done in the earlier case, it will be a 7-year amortizing kind of structure.

**Sandeep Shah:** Okay. And last thing on 70 bps amortization impact. So, if I do a backward calculation, it looks like if a 7-year amortization assumption is there, this

may work out to be 55% of the 85% EV in which would be going to the acquired amortization asset. So, is it that high, will it be that big?

**Sunil Sapre:** See, what happens actually that the first year we are not factoring the benefit out of synergy revenues, which will have to be worked upon as we integrate the business. So, you are right, to that extent there is a potential for this to moderate, but we don't want to, right now, in the first year we definitely be conscious of how much headroom we have to create in margins to absorb this impact. This is only a headwind for margins, right? We have to work on several things to ensure that we actually don't have a dip in margins. So, we need to be conscious of that and have the line of sight.

**Sandeep Shah:** But approximately percentage-wise, how much value of the EV which will go into acquired intangibles?

**Sunil Sapre:** It would be roughly 45%.

**Sandeep Shah:** OK. Thanks, and all the best.

**Moderator:** Thank you. That was the last question. I would now like to hand conference back to Mr. Sandeep Kalra for the closing comments.

**Sandeep Kalra:** Thank you. Thank you all for your time today, and we are very hopeful with this acquisition and with a series of acquisitions that we have done, which are smaller, tuck-in acquisitions. We are very hopeful of building our capabilities and scaling our revenues and building on the organic strength that we have shown. So, please stay tuned and we'll report the progress as we report the quarterly earnings. Thank you. So, moderator, on behalf of Persistent, we conclude the call.

**Moderator:** Thank you.

\*\*\*\*\*