

Managing Through an Economic Crisis

Ness Technologies

Ofer Segev, CFO

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United States (34%)

500 Employees

Central & Eastern Europe (29%)

1,500 Employees

India

3,000 Employees

Israel (36%)

2,750 Employees

● Global IT services provider with Global delivery capabilities

- ▶ 2 Specialized Service Offerings:
 - ▶ System Integration & Application Development
 - ▶ Software Product Engineering
- ▶ 4 key geographic regions
- ▶ Over **20** countries with over **500** diversified clients

Looking at 2009 from the outside

Worldwide Economic Meltdown

● It swept like a wave from west to east:

- ▶ Started In the **US**
- ▶ Got to **CEE and Israel** early 2009

● It spread like a wild fire

- ▶ Everyone was surprised by the swiftness in which the crisis became global
- ▶ No one could foresee the steepness of the fall - demand evaporated
 - Discretionary spending fell off the cliff:
 - In the Czech Republic Q4 '08 to Q1 '09 sales dropped 35% (seasonally 15%)
- ▶ We were tuned for growth, not for vanishing demand

● First a crash, then a melt-down:

- ▶ The capital market sensed the global ramifications, and crashed before some economies did
- ▶ IT spending in Israel and CEE declined dramatically in 2009
- ▶ We saw it and started preparing

Looking at 2009 from the outside

Resulting Market Challenges

- **Normal revenue visibility** ➔ ➔ ➔ heavy fog
 - ▶ Customers moved from annual budget to monthly budget
 - ▶ Big project awards deferred or converted to phase-by-phase awards
- **Pipeline challenges**
 - ▶ De-booking: some projects and commitments cancelled
- **Nobody's home**
 - ▶ The network doesn't work any more – calls are not being returned
- **The season for rate-cuts**
 - ▶ Business is not owned by business owner or procurement anymore, but by the CFO's who dictate new prices – “comply or someone else will!”
 - ▶ One-sided price reduction letters
 - ▶ Even those who were not economically affected used the opportunity to better their position
- **Forex moved the wrong way**

Growth in Revenues is almost impossible!

Looking at 2009 from the outside

Crisis-Driven Capital Market - Related Challenges

● **Management of street's expectation**

- ▶ Almost mission impossible as per the low visibility and high level of contingency
- ▶ 2009 year-start guidance is of no value
- ▶ The window for no guidance has closed
- ▶ The market strongly react to anything that is even slightly different from consensus
- ▶ Pier group recovery was faster

● **Collapsing markets create challenging dynamics (vicious circle)**

- ▶ Redemption
- ▶ Price drops – margin calls – more redemption
- ▶ Loosing coverage – market cap drops – loosing more coverage

● **Assets that are out of favor for Wall Street**

- ▶ CEE
- ▶ Financial Services



Looking at 2009 from the inside

Before the macro-economic melt-down, we were a business that was based on growth	Due to the economic down-turn demand is vanishing, growth is more difficult - in all regions and all Service Lines
Growth requires cash investments: <ul style="list-style-type: none">▪ Working capital▪ M&As	Less cash investments <ul style="list-style-type: none">▪ Decline turns working capital into cash▪ No M&As costs
Execution 'hiccups' were lost in the general growth trend	Bad Execution in 'bleeding project' is setting the tone - nowhere to hide
We could afford a certain level of inefficiency to accelerate growth	Efficiency and tight bench management are the name of the game
We could afford overhead and management attention required by small businesses	Fixed costs become a major issue in small businesses <ul style="list-style-type: none">▪ Size matters - critical mass▪ Lack of management focus▪ Small becomes smaller (in our business, within our customers....)

What We Did About It



- Focused on three **goals**:

- ▶ Pipeline: Booking, booking, booking
- ▶ Reduction of expense platform
- ▶ Cash collection

- Optimized **processes**

- Became even more selective about **long term investments**

- Aligned our **strategy** to the new reality, focusing on the core strengths and differentiators of the company:

- ▶ **Competitive Advantage**: Leverage our competitive advantage: multi-shore
- ▶ **Market Share**: In recession, preserving market share is of strategic importance
- ▶ **Leading Position**: Strengthen our position in the markets in which we already operate
- ▶ **Efficiency**: Earnings are more dependent on our expense platform; improve efficiencies and apply efficiency programs where applicable
- ▶ **New Markets**: Lower priority for penetration into new markets

- **M&As** - we didn't do any in 2009. We focused on our own turn-around



Conclusions



- **All markets are connected**
- **Changes in market trends are more rapidly**
- **Strong balance sheet is a must**
- **Cash, Cash, Cash**
- **Real-Time financial and operational information**
- **Cut costs swiftly**
- **Fight to keep market share**



**Good Luck in Your next
Recession**