



# Investor Briefing HY 2024

**Transcript – (Cleaned/Edited)**

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## **Corporate participants**

Asif Peer – Group CEO & MD, Systems Limited

Roohi Khan – Group CFO, Systems Limited

Shankar Tarleja, CFA – Topline Securities

## **Zubair Hussain** – Insight Securities

I would like to welcome, you, and all the participants to the annual corporate briefing session of Systems Limited. On behalf of Insight Securities, I welcome the management of Systems. We have with us, Mr. Asif Peer, who is the CEO of the firm, Ms. Roohi Khan, who is the Group CFO, and Mr. Tahir Saeed, who's the Chief Investment Officer at Systems Limited.

Systems Limited has been a consistent "buy" with Inside Securities for the last seven years. The company has performed remarkably well. It's one of the fastest-growing, top-line growing companies. The five-year dollarized CAGR is 34%. The five-year PKR CAGR is north of 59%. And we have witnessed tremendous growth, mainly in the Middle East over the last few years.

We were computing the numbers on the Middle East side and the five-year CAGR is approximately 48%. In 2023, the revenue growth was almost 68%. So, there is some magic which, these guys are trying to work. So, let's hand over to them, to hear the Systems story and see what they must tell about the numbers themselves. So over to you.

### **Asif Peer**

Roohi, can you start?

### **Roohi Khan**

Hello, everyone! Good afternoon.

I'm just going to briefly take you to the presentation and then we'll keep more time for the Q&A. So, starting, this is the introductory slide for the people who are new here, most of the people are familiar with Systems, but I'll just quickly take you through. Systems was incorporated in 1977, and it's a true multinational originating out of Pakistan with our operations in 11 countries and our customer base in, almost all the continents now.

We are continuing to invest and, build our capabilities in digital, data and AI, cloud computing, data analytics, and automation. We have, a few more slides later in the deck, covering the use cases of data and AI.

So now here on this slide, you can see the System's growth trajectory. Systems has been able to continue with the growth momentum that we have built over the years, with, 40% revenue CAGR in USD terms and around 63% revenue CAGR in PKR terms. And we have a 36% EBITDA CAGR. Systems has a consistent policy of distributing, about 20% of our earnings as dividends. which translates, to about 6 Rupees per share for this year as well. And despite a 100% bonus issue in 2021, the price bounced back and has been consistent.

In terms of, accolades and awards and recognitions, the company has won various prestigious awards and accolades, and I've covered them here. We have been recognized by Forbes Asia as Best Under a Billion for consecutive four years in a row, and also, for being the fastest growing company in the region. Microsoft has recognized us as the Country Partner of the Year for Pakistan and for UAE. And not just that, we have won an exclusive Inner Circle Award, which is a testament to our exceptional solutions and delivery. Temenos has also recognized us as MEA Delivery Partner of the Year. And then ASIAMONEY and PSX have been recognizing us among the top 25 companies for the last three years.

Our collaborations with industry partners such as Microsoft, Temenos, SAP, IBM, Salesforce, and others have enabled us to offer innovative solutions and services to our valued customers, enhancing our competitive edge.

So, I just go to this slide where we are showing our headcount dispersion. Over the years, our employee base has also become diversified. And that gives us two benefits. It ensures business continuity from other regions if anything happens in case of an issue and gives us a larger pool of skill sets and makes us more competitive. And in this way, we can also share, and source the skill set that is not available from Pakistan. We can get it from other regions. We are continuously investing to upskill and reskill our workforce for newer technology stacks and upcoming technologies like AI and GenAI, we have collaborated with academia, and we are running multiple training programs to develop our human resources. This is also mentioned in our investment priorities, one of the key investments that we make is in resources, and development of our human resources is one of our key priorities.

So, even with this geographical dispersion, we are still focused on offshoring. And our priority is to move most of the work offshore to Pakistan, to get the cost advantage in the region.

Moving on to the vertical segments, with revenue contribution coming from NDC in core banking, our BFS vertical is the highest revenue contributor now at 29%, with telco being the second largest at 22%, followed by technology, retail, public sector, and other miscellaneous including healthcare, pharma, manufacturing, education. In terms of margin, Retail & CPG takes the lead as most of the customers, from this sector are US-based and the rates in the US and Europe markets are higher and better. For BFS, the reported margins, if you look at the segment note, are lower because of the amortization costs of the country model bank that we had acquired rights from Temenos in 2022. So that dilutes our profitability. But if I normalize that, our GP is around 20% with a 10% operating margin in the BFS segment as well.

In the essence of time, I will move to the financial performance. So here is this benchmark that we have prepared to show where Systems stand as compared to these global tech giants.

The size of the companies is of course much larger than Systems. But you can see that Systems' margins are comparable. I have also mentioned the headquarters of these entities. TCS, as you can see, has the advantage of huge economies of scale. And these two companies, primarily, have US-based customers so their margins are high. But a critical point to note here is are how the PE ratios and the trading multiples of these entities are as compared to Systems. Another point to note is that the high growth companies have lower margins as the companies need to invest in growth and expansion.

Moving on to our client composition, and, on this slide, I just want to highlight that our customer base is also very well diversified, the way we are diversified in terms of industries. Our top customer is contributing only 13% to our revenue, and 49% of our revenue is well distributed among 20 customers.

The performance, revenue performance, and EBITDA performance are covered in the summary slide. But I will just take you to the major reasons for variance that, I wanted to touch upon... which has put pressure on our margins: it is primarily the inflation because when the average dollar rate in 2022 was 205, the average dollar rate for 2023 was 280. It does give us some advantage in the revenue. It puts pressure on the gross side at the same time. So, the inflationary pressures, and change in the revenue mix are impacting our margins.

Additionally, in 2022, most of our entities, our newly incorporated subsidiaries, and NDC were not fully operational. 2023 was a full operational year for all the subsidiaries and for the acquisitions as well. That is why there is a higher admin and marketing cost, upfront investment in infrastructure and business development in these areas. And we have invested in highly skilled resources, which have been hired on-site. The other two important explanations that I want you to touch upon: one is the impairment adjustment which is in the investment of Jomo, which we took in June. We covered it in our June investor briefing session as well because the performance of the entity did not turn out to be what we expected it to be. So, we proactively charged it off in our June results. And now we have made two more adjustments.

One is, this share of the loss that is coming from Jugnu, but this is, just an offsetting adjustment. So, the shareholding percentage or own shareholding of Jungu has changed and we had to recognize a one-off gain on this investment. And to charge off, to adjust the value, we have brought it down and have recognized a corresponding loss on the same investment. So, the gain comes here in other income, and the loss is shown as a separate line item because of the accounting regulations. Similarly, there is a one-off impairment loss which has which we have recognized on EP systems. EP Systems had a valuation of around 660 million Rupees in our books. We recognized a one-off notional gain in 2021 when our shareholding percent changed in the EP Systems and we moved it from subsidiary to associate. As per accounting standards, we had to record, a huge notional gain on the derecognition of investment back in 2021. So, this loss adjustment is to just normalize that investment gain that we recognized. And it is notional. Again, there is no cash loss. The cash amount of investment is still intact. Only the notional gains/losses have been adjusted to reflect the true picture.

Moving on, to this currency mix slide. just wanted to highlight here that 95% of our revenue is in foreign currency as compared to 60% of our cost is in local currency. So, in economies like Pakistan, where 8 to 10% currency depreciation is the norm, we get this advantage here. I skip ESG, there is data that you can read and, ask questions and I will hand it over to Asif to cover the way forward.

### **Asif Peer**

Okay, good afternoon, everyone. Or wherever you are, good morning or good evening, depending on your time zone. Thank you, Roohi, for covering the financials.

So, I think, as we said, we have a strong momentum of growth, over the last five years. And we are confident, based on the pipeline that we have and based on the bookings, that what we take, into account. For 2024, we have a strong pipeline of orders and bookings, and we are confident that we will continue our growth journey.

Of course, as you can see from our previous analyst briefings and results, we are now very heavily focused on exports. As the slides suggest, even where we do domestic business in local currency, we try to cover ourselves with dollar hedging. This strategy has worked well over the past few years, and we genuinely believe it is beneficial from an export perspective. The dollar has appreciated by 4 or 5% since June, but we are fundamentally strong from that perspective. Our businesses are dollar-hedged, and most of our costs, over 60%, are in PKR terms.

We have changed our business model over the last few years, paving the way for us to be more export-oriented, leveraging a local supply chain to deliver globally, which is the best model we can have. The pipeline and booking are critical pillars we achieved last year, focusing on skills and service offerings.

In recent years, especially the last two years, technology has shifted rapidly, transforming operations and presenting challenges for everyone globally, regardless of market maturity. We are building strong skills and service offerings according to market needs, diversifying portfolios, verticals, and competencies, and leveraging our technology offerings.

We now have a very focused approach rather than targeting everything. We are strategically targeting specific banks, telcos, public sectors, and retail and CPG sectors, ensuring a precision approach where our success rate for opening new accounts is higher. We also focus on enhancing revenue within existing accounts, creating depth and maintaining growth momentum.

In the last two years, we invested heavily in opening new geographies, including lucrative markets like Saudi Arabia, UAE, and APAC. These investments are paying off, and we are now consolidating to achieve the expected return on investment.

We constantly review our performance and adjust where necessary, focusing on exploiting existing opportunities and exploring new ones, particularly in AI and data, where client interest is high.

Our investment priorities are clear: investing in talent, new service offerings, and strengthening current geographies. We see huge opportunities, particularly in the GCC region, where we are recognized as a leading player, filling a strategic gap between large Indian companies and smaller local firms.

We have emerged as a strong alternative for many customers, attracting attention and support from major principals like Microsoft, Temenos, SAP, and Salesforce, which bring us new opportunities.

Now, we'd love to answer any questions.

Please, Zubair. I'm assuming you have told people how to ask the questions, right?

**Zubair Hussain:**

Basically, the format we will be following is that you can put questions in the chat box, and we will take them one by one and try to skip those questions that have already been answered. So, to start off, please comment on the revenue outlook. This is a question from Muhammad Bilal Ahmad. Comment on the revenue outlook, considering the decline in the dollarized revenue from the European region in 2023, and what was the reason for the decline?

**Asif Peer:**

I think there was a one-off C loss. If you read our director's report, we put a note on it. There was a one-off C-loss transaction where we sold our corporate loan origination system to Temenos for close to \$15 million. So, that was a one-off recording of the revenue we did in Europe. It was not business revenue; it was one-off revenue. So, we have grown in Europe compared to last year, but since there was one-off revenue, it's showing an accounting result, not a normalized result. So, for 2024, from the booking and pipeline perspectives, Europe looks much stronger than in 2023.

**Zubair Hussain:**

The next question from Bilal is: In the fourth quarter of 2022, there was a significant surge in the revenue

from the European region. Do you expect the revenue from the European region to grow? I think that's already answered. There is a decline in the Retail and CPG segment in dollarized terms; please comment on that.

**Asif Peer:**

Yes, we get most of the Retail and CPG business from Europe and America. In this part of the world, we have grown, and as I said, it was mostly in banking and telco in our region. In the region, regional revenue is not much in retail and CPG. So, in Europe and America, revenue from retail and CPG was lower. That's why it is reflected. We are not selling aggressively in our region, meaning the GCC region does not have much appetite for retail and CPG.

**Zubair Hussain:**

Systems' long-term dollarized growth has been at an average of 20%. What is your outlook on the dollar price growth rate going forward? You always laugh at this question.

**Asif Peer:**

Yeah, I think it is not 20%. If you look at the CAGR, as Zubair said, it is more than that, more than 30%. It's 34% CAGR in dollar terms as well. Last year, when it was normalized growth, if you take the one-off out, it was close to 35% in dollar terms. So, as I indicated, I can't comment on the exact percentage, but now, based on the bookings and the pipeline that we have, we are very confident we will continue the growth momentum.

**Zubair Hussain:**

The US cost component has increased significantly in CY23. Can you please outline the reason, and what is the outlook for POS? Does the company foresee a further increase? Can we expect this component to increase up to 50% in the coming years? I think that's only because of foreign hiring. But please comment on that.

**Asif Peer:**

Yes, it's due to foreign hiring as well. While our entities in the Middle East and Africa are growing, we are hiring local people as well. It is an onsite and offshore mix. The services we are offering in these markets require onsite presence because of certain regulations and restrictions on data access and so on. So, as we grow, the cost will grow as well. It's directly proportional, but not 100% proportional. We can't keep growing in dollarized terms without the dollar cost going up. It will go up, but not 100% directly proportional.

**Zubair**

**Hussain:**

And Asif, if you would like to add to this, there's an understanding that usually, in the markets you covered before, the primary focus of the revenue was English-speaking markets. Now, you are mostly focused on the GCC markets. So, I think you probably need to hire separate Arabic-speaking people.

**Asif**

**Peer:**

It's not just Arabic-speaking people you need to hire. Now, we are a global company. Of course, we are a proud Pakistani company; we sell Pakistan from the heart and soul. But when we position ourselves, we are a global company. When you are a global company, you must have diversity. You can't just have one

nationality. Language is one aspect, but from a cultural perspective and diversification perspective, you need diversity. That's why we have that, and we will continue with that approach, from gender diversity to nationality diversity.

**Zubair**

**Hussain:**

So how would you like to respond to this? Can we expect this component to increase up to 50% in the coming years so that people have an idea of what the quantum of the foreign hiring would be?

**Asif**

**Peer:**

Our business focus is on growing offshore business because it is more profitable and puts less strain on cash flow. Of course, I can't give you an exact percentage, but foreign hiring doesn't mean the dollar cost will increase directly as well. There is a component of the dollar, whether it's \$0.50 on a dollar will be increased onsite as well. You need to invest rightly in resources onsite as you grow. But our focus remains directionally offshore-driven. That's what we want, what we would like to do, and what we are pushing for.

**Zubair**

**Hussain:**

In the last quarter, there was a dip in the quarterly gross margin. Any specific reason for that?

**Asif**

**Peer:**

It's quite natural. What happened is that you plan something based on assumptions. When we were in June, the dollar was 88 to 87 points something. We planned further investment, expecting the dollar to depreciate by 5 to 8% in the upcoming 12 months. So, we invested in HR, the market, planned, budgeted, forecasted, and projected accordingly. But in turn, the dollar appreciated by 3 to 4% since June. So, of course, there's a gap. We expected 5% depreciation versus 3% to 4% appreciation, creating a 9% gap, which is not typical of Pakistan's situation. We planned the usual way, so this was unusual. The cost has been committed. The first quarter results are almost over, showing a similar situation with the dollar further appreciated. But we are very confident in our model because our revenue is hedged with dollars. It's fine if margins are temporarily depressed due to currency appreciation because, in the long run, we are more secure. An export-based business will continue traditionally with 5 to 8% depreciation being normal. If one year sees appreciation, that's okay.

**Zubair**

**Hussain:**

Usually, we have a dollar devaluation in the range of 6 to 7% over the last 20 years.

**Asif**

**Peer:**

Yes, so 5 to 8% was the right assumption.

**Zubair**

**Hussain:**

So, it should normalize.

**Asif**

**Peer:**

Yes, it should normalize. But if it doesn't, then it's okay. It's a one-year or a few quarters here or there.

**Zubair**

**Hussain:**

For broader understanding, you mentioned the first quarter. You expect a similar situation to continue...

**Asif**

**Peer:**

Because the dollar rate is the same, and you all know that dollar rate.

**Zubair**

**Hussain:**

So, regarding margins, people are curious about the margins you anticipate.

**Asif**

**Peer:**

There are two to three things tied to the margin. One is, of course, it's tied to the dollar. If the dollar depreciates even a little, our margins go directly proportional because most of our standalone revenue is dollar-based now. A 1 rupee increase creates a good amount of revenue and profit growth, and similarly, a 1 rupee decrease impacts us. On the other side, we have invested and now we are taking measures. We are solidifying and doubling down, changing our plan to align with the current economic changes. We will continue growing but have tailored certain cost elements to get back on a better margin path. In an inflationary environment, you must adjust salaries yearly. You can't ignore adjusting your employees'

salaries, or they will leave. We must retain good people, and that's why we are in business. I'm confident we have managed that from both inflationary and dollar pressures. We are focusing on efficiency. Sometimes unknown events become a blessing in disguise, making us think differently as leaders. Through efficiency, if we can increase our base with this dollar rate, the future looks bright. Margins will automatically improve when the dollar follows its normal course of 5 to 8% devaluation. We are not just relying on the dollar to fix things. We are trying to bring increased efficiency and make correct decisions. We had done our planning based on certain assumptions, and now we have changed those assumptions and adjusted our decisions accordingly. We are confident it will be much better in the upcoming quarters.

**Zubair**

**Hussain:**

Okay, the next question is from Qaisar Nadeem: Generative AI is a big future market, but the skill set needed is not there in Pakistan yet. I see a dilemma here for Systems Limited. How are you planning to upskill existing talent and fill this gap?

**Asif**

**Peer:**

That's why we are leading in that area. We know these issues and challenges. We address them through training, upskilling, and reskilling our existing resources. We have talented people; AI and GenAI are not rocket science for data professionals to learn because they have the right concepts. We started upskilling and reskilling our people inside the company. And, of course, we are hiring as well. Now we are in different countries; the world is open for us to export and import talent. If we get one or two great people, they can train 20-30 people in Pakistan. We are creating those skill sets. There is a challenge, but we have never been bogged down by such challenges in Pakistan. We continuously produce more, and that's what we truly believe. You must be a production house, not waiting for someone to say there's a shortage. So far, I think we are covered, and if we see more demand, we will focus on training more people.

**Zubair**

**Hussain:**

There are a few other questions related to AI. How can we expect the revenue to grow in both foreign and local operations through AI offerings? Is your AI business more focused on local or foreign?

**Asif**

**Peer:**

Our AI business is more focused on foreign markets, which is the natural composition of our business.

**Zubair**

**Hussain:**

Are there any HR issues the company is facing? Moreover, with growing remote opportunities, does management foresee any issues going forward to retain talent?

**Asif**

**Peer:**

That's ongoing business. It's routine.

**Zubair**

**Hussain:**

Asif, I think I will club this with another question. How big a challenge is employee retention right now? You mentioned the number of employees is increasing on a net basis. On a gross level, how big will the hiring requirement be? Are your workforce requirements in terms of quality and training met by Pakistani graduates? And could you highlight the headcount at the end of the calendar year and how many employees you intend to hire this current year?

**Asif Peer:**

Yes, first of all, I think there is turnover everywhere, not just in IT but in every field. If you are in the capital market, there are many fund managers and accountants moving out. So, turnover will be there, and we expect that. We are building that into our plan to create the bench. That's what I was sharing earlier; the bench planning is what we do because we know that 15 to 20% turnover will be there no matter how good we pay or what we do. There is always an opportunity abroad. So, we must be prepared. This is a continuous process, not a one-off for us; it is routine. We will definitely hire more than the people who leave. I can't tell you how many because that will indicate how much growth we are going to have. You can have a multiplier



effect later. Yes, we will have a net addition. Every month there is a greater net addition to the company because of the new business and growth opportunities. So, we will continue to add, and of course, at the end of the year, which is positive, we will have a greater net addition to the resource mix as well.

**Zubair Hussain:**

Recently, we've been seeing that many regional tech companies have been laying off employees, perhaps facing the brunt of a slowdown. Are you confident that you will be able to support the addition, or do you think what is affecting them might eventually hit you as well?

**Asif Peer:**

You must see whom they are laying off. They have a "bigness" problem; they are big. They have different problems due to their size. They hired too many low-end employees whom they couldn't make billable or productive, expanding rapidly during their growth phase. Now, they need to lay off certain employees, but they aren't laying off key employees or those with the latest technology skills. There is a huge demand and shortage for such talent, which is why we are getting work outsourced to Pakistan and other parts of the world. As I mentioned earlier, the world has changed in the last 2 or 3 years with technological transformation. If you don't upgrade or upskill yourself as an individual, no matter what field you're in, you will become redundant. It doesn't mean something will take your job, but you have to challenge yourself, upskill, reskill, and learn new things constantly. You can't maintain the same mindset, and we genuinely believe in that.

**Zubair Hussain:**

This is a good question from Syed Hassan Raza of Maple Leaf Capital. Your total revenue in the Middle Eastern region reached nearly \$100 million, reflecting a year-on-year increase of almost 75%. Do you anticipate these growth levels to continue? In the Pakistan region, you experienced a loss at the gross level in the fourth quarter. What was the reason behind this?

**Asif Peer:**

Achieving a 75% growth rate is impressive, but it's not guaranteed to happen every year. However, our growth momentum in these regions is strong, and we are seeing consistent year-over-year growth. This isn't a one-time spike; it's sustainable growth. While I can't quote a specific percentage, I can assure you it's sustainable. It doesn't mean that we'll see a dramatic drop next year after this 75% growth; our business growth is steady and ongoing. As for the second question on the domestic market, yes, we are seeing a contraction. We are exiting smaller contracts and closing off public sector projects without signing new ones. This is partly because we follow IFRS 9 standards religiously from a collections perspective. When the GDP is negative and overall growth is down from a macroeconomic standpoint, the IFRS 9 model tends to work aggressively, leading us to make higher provisions than might actually be necessary. This was one of the reasons. Additionally, we had a few older projects that were in the red, which we need to complete. We expect these old projects to be finished by the second quarter of this year. Most of the future revenue will come from new contracts that we've secured at better rates and terms, leading to improvements in the domestic business—not necessarily in terms of volume, since we aren't aiming for aggressive growth there, but with a stronger focus on exports. That doesn't mean we'll leave good business opportunities on the table. As I mentioned earlier, we are focusing on a vertical-based approach. We're not targeting verticals with low margins or those that could lead to losses. Instead, we're focusing on those with higher margins

and opportunities for replication. For export markets, we're training talent locally and then exporting that talent. We've shifted our strategy from growing in every direction, as we did last year, to being very targeted about where we want to grow and how to maximize profits. This approach will help us improve profitability while supporting our current dollar rate and enhancing margins.

**Zubair Hussain:**

USD revenue dropped by 4% year-on-year in both America and Europe. How do you see these regions performing going forward?

**Asif Peer:**

From the pipeline and booking perspective, we see both regions will grow this year. I'm very positive because last quarter's numbers in those geographies were good, and this quarter looks great as well. So, we expect these two regions to post growth momentum going forward in dollar terms. In rupee terms, growth has been steady, but with the rupee and dollar rate constant for a couple of quarters, it doesn't matter much.

**Zubair Hussain:**

I've heard that Systems Limited is now receiving leads directly from ERP originators like Microsoft or SAP. It seems these companies have gained enough confidence in you to refer clients to Systems Limited in the Middle Eastern region. How true is this? Could you shed some more light on this?

**Asif Peer:**

Yes, definitely. This is the main growth engine. The major contribution to our growth is the relationships we've built with these channels and principals. While we do have our own sales team, most leads and opportunities come from these principals. When opportunities and leads come from principals, they are qualified and referred by them, which gives confidence to our customers. When a principal says we are one of their top partners, it boosts customer confidence. This generally improves our win ratio to over 33%. We compete with three partners, leveraging our cost advantage in Pakistan, which is unique. We offer passion, quality, and cost-effectiveness—better quality than larger companies, with greater agility and nimbleness.

**Zubair Hussain:**

Where have you received references from principals? If you could highlight the regions, that would be helpful. I see the Saudi market is now contributing significantly. Has Saudi Arabia received these references from principals that have helped? Is the reference from principals a major reason behind the growth, leading to scaling up?

**Asif Peer:**

Definitely. Our sales team and leadership have performed phenomenally well. They have captured any opportunity that came up, including marketing events. We have attended many events, generating leads organically. With similar customer references, it helps when we say we've done work in Dubai or Qatar. Saudi customers gain confidence from our experience in the region and similar work elsewhere. This is a

major catalyst for our success in new markets, thanks to the credentials we've developed over the last five years, which have created a multiplier effect.

**Zubair Hussain:**

Systems Limited's investment in Pakistani startups is turning out to be a cash-burning issue. What are we missing here?

**Asif Peer:**

As a country, we are missing something. At one point, we received \$650 million from foreign investors in the 2021-2022 period. Everyone had FOMO, thinking Pakistan would be like Indonesia and needed to invest. People were raising money based on PowerPoints, even if they were burning cash. Investors continued to put more money in, believing that the Western model would work in Pakistan. Unfortunately, that bubble has burst due to the economic crisis, dollar devaluation, and lack of predictability and stability. Investors have moved away from the startup ecosystem for the time being. As we see improvements in the economy and investor confidence returning, it will come back. The last two years have been exceedingly difficult for most startups, which have been on a cash-burning model and struggling to pivot. Investment dried up, so we chose not to invest further, focusing on our core business where we see a guaranteed return on investment rather than a risky proposition. While it was a good strategy at the time, we took a careful approach. Some investments didn't work out, but our investment in sales flow has been phenomenal. We have written off other investments, but the company is doing well. When we exit, we expect to get a return. Currently, we are not aggressively investing and don't have plans to do so. We remain open to great opportunities but are focusing on our core business.

**Zubair Hussain:**

When Systems Limited aims to develop proprietary software applications soon, we see that other global companies, like Systems Limited, which develop their own software, achieve much higher revenue per employee and gross margins.

**Asif Peer:**

We do that a lot. Otherwise, we can't win business. That's why we use a vertical approach. As I explained earlier, in BFS, we have all these accelerators, our proprietary solutions, and products that we present to customers. We are not running a SaaS-based model right now, but for the services business, it is especially important to have these innovations. If you don't, you risk becoming just another system integrator. We don't want to be one of those system integrators. We want to be a problem-solver and solution-oriented company that provides ROI-based solutions. Bottom line first, versus the traditional body-selling or system integration approach. We show the customer their bottom line through our solutions and innovation. So, it's a bottom-line first, ROI-based solution approach with a solution mindset, rather than just the traditional approach. We are strong in those verticals where we apply this approach.

**Zubair Hussain:**

Please share the impact of the ERF now being linked to the policy rate. Will this force the company to liquidate more of its dollars?

**Asif Peer:**

Yes, that's why I said we made certain assumptions, and it didn't work out right. It worked for a longer period than expected before the value started declining. But for now, if you see a considerable drop in our ERF, we have paid off a significant amount of money into the ERF and will pay off the remaining amount as well. As I mentioned, we need to change certain assumptions and strategies as things move along. We've made those adjustments, so our finance costs will be lower going forward.

**Roohi Khan:**

There are a few questions about the dividend rate and the return on the shareholders.

**Asif Peer:**

Growth companies often don't pay dividends. For example, if you look at IT companies in our benchmark analysis, none of them pay dividends over a longer period because they focus on growth. We reinvest the money we earn, rather than relying on bank loans. As you mentioned, with ERF payoffs and increasing finance costs, we use our own profits to grow rather than taking on expensive debt or raising equity. This reinvestment is why we've achieved a 65% CAGR over the past five years. We aren't borrowing or raising equity; we're operating from our own cash flows. Despite this, we maintain a generous 20% dividend policy, which is unusual for IT or growth companies.

**Zubair Hussain:**

I think we've all been witnessing the turmoil in the Middle Eastern region so far. There are many fancy statements from the Saudi government, including Vision 2030, and the UAE seems relatively unfazed. However, there is a possibility of this unrest spreading to the region. How concerned are you about this? A lot of growth is coming from the Middle Eastern region, so how quickly and agile can you be in reallocating resources to other regions if needed? I'd appreciate your thoughts on this.

**Asif Peer:**

To be honest, I don't know what turmoil you're talking about. Saudi does not have any turmoil. They have different plans, right? They are investing \$40 billion in AI and all these big investments going on, spending money like there's no tomorrow. So, they are investing money into IT and Vision 2030, the World Cup, and the Expo, and these things are lined up. I don't see turmoil in Saudi from that perspective. People are coming; I was at LEAP 2024, and it was an unbelievable success. It was crazy; there is a FOMO in Riyadh as well. So, everybody wants to be there, right? Every company wants to be there. I don't see turmoil. Yes, if anything unforeseen happens, no one has a crystal ball. Deploying those resources, we are confident we have the USA and Europe. We will shift focus to the USA or Europe and then figure out a way if there is turmoil and everything closes. Then, a lot of businesses will be impacted. It's not just IT companies, but I don't see that coming because of the planning you see in Saudi and Dubai. They are in a different zone right now. There is no difference.

**Zubair Hussain:**

So, in which year do you see Saudi turning out to be a \$100 million business?

**Asif Peer:**

It's in the near future, I can say.

**Zubair Hussain:**

That is a lot of confidence you have.

**Asif Peer:**

Yes, definitely. Everyone has confidence that something might happen, but, you know, you don't have a crystal ball for that. As I said, you can make certain assumptions and planning decisions in business. Looking at the situation, you make decisions based on what Saudis are doing right now. For example, investing \$40 billion in AI is a huge commitment. Just announcing even a \$4 billion investment is a lot of money. These actions give confidence that they are moving forward, not backward. They need to upgrade their youth and skill sets, and they are working on it. The young generation coming in is focused on IT. All businesses are competing in the IT space. Banks want to expand in the digital space, and telcos are offering digital services. So, you don't see that turmoil on the ground.

**Zubair Hussain:**

I was just trying to hear you out on that. I think we have mostly covered everything. If there are any questions that you think are left out, please mention them now.

**Roohi Khan:**

Yes. There's a question about the competitive advantage of Egypt-based employees. Have you addressed that?

**Zubair Hussain:**

What are the competitive advantages of Egypt-based employees that we don't get from Pakistani employees? How is the compensation different from other employees if it is?

**Asif Peer:**

Egypt is slightly more expensive than Pakistan, about 15 to 20% roughly. But what we gain is language skills, diversity, and a different resource pool from various markets. For example, if we are hiring ten people in Pakistan and open requisitions in both places, we can always find good candidates. Our approach now focuses more on building supply markets rather than demand markets, as we see growth from our current investments. We need to invest in supply markets in other regions, like Morocco and Uzbekistan, where there is IT talent to tap into. Interestingly, Egypt, which we initially intended to use as a supply market for our delivery, has also brought us a lot of business, which was a pleasant surprise. This entity is already cash flow positive due to local business from telcos and banks. We didn't plan for this, but Egypt has exceeded expectations. With our model and mix, we can turn any market into both a demand and supply market. We have an edge over Pakistan with our blended model, and it works effectively.

**Zubair Hussain:**

One last question from my side, or rather a leading question: There's a lot of talk about tech parks in Pakistan and the SIFC focusing on IT, mining, and agriculture. Given your relevance to IT, are you seeing any concrete developments on the ground, or is it just lip service? Also, what's happening with the tech parks? How do you see them shaping the tech landscape of the country?

**Asif Peer:**

First of all, these tech parks are especially important for the country because seeing is believing. When investors or clients visit and see the big IT parks and the security services, they experience a secure environment with large buildings, major companies, and young talent. This creates immense confidence. For example, when we take clients to our Lahore and Karachi offices, they are amazed by the world-class infrastructure, which exceeds their expectations of what Pakistan can offer compared to neighboring countries. This is crucial. I've been stressing this point to the government for a long time, and finally, there is a focus on it. There are projects in the works, and they are listening to us. This will shape the IT landscape. Additionally, suppose the STZA law is implemented and virtual STZA provides all its benefits. In that case, it will be a huge boost for IT companies through cost savings and for foreign companies looking to open offices and reap those benefits. Regarding the SIFC, it's not just a government or public-private partnership effort; companies like ours and individuals also contribute. We need to do more. Positive branding and messaging are crucial, and if we work on that, it will solve many problems. We need to build Pakistan's image and brand in IT, and everyone should contribute. We shouldn't outsource this responsibility to the SIFC or the IT ministry alone. We are doing our part, and with these efforts and interventions, it will improve. I have no doubt that it will help and enhance the situation.

**Zubair Hussain:**

Okay, I think that's mostly done. I hope I'm not leaving anything out. On this note, I would like to conclude this detailed presentation. On behalf of the management of Systems Limited and Insight Securities, I would like to thank all the attendees. We welcome any further questions you may have for the management and will get back to you on those. Please feel free to reach out to [info@Insightsec.com.pk](mailto:info@Insightsec.com.pk) with any subsequent questions. Thank you, Tahir, for coordinating this. Thank you, Roohi, for such an enlightening presentation. And as always, Mr. Asif Peer, thank you for answering the questions in such detail. We look forward to hosting you again. That's all for this investor briefing session. Stay blessed, and I look forward to seeing you again.

**Asif Peer:**

Thank you, everyone.

**Roohi Khan:**

Thank you everyone for joining.