Synchronoss Technologies Inc (SNCR)

Q1 2016 Synchronoss Technologies Inc Earnings Call

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CORPORATE PARTICIPANTS

- Daniel Ives, Synchronoss Technologies, Inc. - SVP Finance and Corporate Development
- Steve Waldis, Synchronoss Technologies, Inc. - Founder & CEO
- Karen Rosenberger, Synchronoss Technologies, Inc. - CFO

CONFERENCE CALL PARTICIPANTS

- Tom Roderick, Stifel Nicolaus - Analyst
- Darren Jue, JPMorgan - Analyst
- Michael Nemeroff, Credit Suisse - Analyst
- Sameer Kalucha, Deutsche Bank - Analyst
- Priya Parasuraman, Wells Fargo Securities - Analyst

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to Q1 2016 Synchronoss Technologies, Inc. earnings conference call.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to turn the conference over to your host, Mr. Daniel Ives, SVP Finance and Corporate Development. Please go ahead.

Daniel Ives, Synchronoss Technologies, Inc. - SVP Finance and Corporate Development

Thank you. So good afternoon, and welcome to the Synchronoss Technologies' first-quarter 2016 earnings call. We will be discussing the results announced in the press release issued after the market closed today. I am Daniel Ives, SVP of Finance and Corporate Development of Synchronoss, and with me on the call is Steve Waldis, Founder and CEO; and Karen Rosenberger, CFO.

During the call, we will make statements related to our business that may be considered forward-looking statements under federal securities law. These statements reflect our views only as of today and should not be reflected upon as representing our views as of any subsequent date. The statements reflect our current views regarding the future and are subject to a variety of risks and uncertainties that could cause actual results to differ materially from expectations. On our website, you can find our earnings press release, which is intended to supplement our prepared remarks during today's call and provide the reconciliation of differences between GAAP and non-GAAP financial measures.

Unless otherwise specified, we refer to non-GAAP metrics on the call. The non-GAAP measures exclude the net impact from revenue deferrals and the impact of integration, stock compensation, and restructuring charges. The non-GAAP financial measures provided should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP.

I want to also let investors know we will be presenting at the Jefferies Investor Conference in Miami, May 11 and 12, and the JPMorgan Tech Conference in Boston on May 25, followed by our Analyst Day at the Lotte New York Palace on June 9 in New York City. Sign-ups are on the website in the investor relations portion. We look forward to seeing you there.

With that, I will turn the call over to Steve, and Karen will come back a little later to provide some further details regarding our financials and forward-looking outlook. Steve?

Steve Waldis, Synchronoss Technologies, Inc. - Founder & CEO

Thanks, Dan, and thanks to all of you for joining us this afternoon to review our first-quarter financial results which met or exceeded the high end of our expectations on both the top and bottom line.

Our non-GAAP revenues in the quarter were $145.6 million, which represented 9% year-over-year growth and was above the midpoint of our guidance range. From a profitability perspective, we generated 23% non-GAAP operating margins and a non-GAAP EPS of $0.49, which was also towards the high end of our guidance. We also achieved robust quarterly non-GAAP free cash flow of $24 million, and as we outlined on the last call, this continues to be a core focus of our management team in 2016 as we expect another strong cash flow year ahead.

Synchronoss' strong revenue growth and profitability in the first quarter was highlighted by an 18% year-over-year growth in our cloud service business, which we believe is on course for a very positive trend in 2016, as we will discuss in our guidance a little bit later on this call. Now a key contributer to the performance was the continued healthy subscriber adoption and continued success of our Verizon relationship and further evidenced by our new enterprise strategic partnership announced last quarter.

During the quarter, we also made great progress advancing our cloud initiatives and also migrating many of our F-Secure clients to the Synchronoss personal cloud platform, a trend that we expect to continue for the remainder of 2016 and should lead to ample cross-sell opportunities over the next 12 to 18 months. Overall, we saw a balanced quarter with good, steady, underlying trends in the activation business and particular strength in ***cloud.***

I'm also pleased with the progress we've made building out the next leg of our growth stool, which is on the enterprise front. We believe our proven success on the personal ***cloud*** front is laying the groundwork for incremental ***cloud*** pipeline opportunities, both domestically and especially internationally, with large Tier 1 mobile operators. Now although we currently have over 160 million customers on our ***cloud*** platform, we're only 5% penetrated on the global market of the roughly 3.5 billion subscribers of our existing cloud customers who are under contract with Synchronoss.

We believe there's a lot of runway ahead for us. And other ***cloud*** customers such as BT, T-Mobile, and SoftBank represent just a start of building a ***cloud*** pipeline into 2016 and to 2017. Now, at AT&T, we are busy on the activation front of the business with new wins with our flagship customers, as part of the DirecTV deal where we should lead the incremental revenue opportunities over the next coming quarters.

On the overall activation business during the quarter, we saw a combination of some new and solid expansion deal activity at AT&T with generally stable transaction volumes during the quarter. After a speed bump from some delayed international deals in the fourth quarter, activations were in line with our plan and we expect to see seasonal strength on this segment in the second half of the year.

It's important to note that we are not factoring in major lift from new smartphone releases of new form factor devices into our guidance. And while activation remains a sweet spot on the AT&T front, we also remind ourselves that the focus that we have on additional cloud technologies and services to our existing production platform in 2016, and we remain on a healthy growth trajectory into 2017 as we discussed on our last quarter, as it relates to the AT&T cloud business.

On the enterprise front, we are progressing well and on target with our Goldman Sachs strategic partnership as we are currently in beta stage with a number of enterprise customer pilots from various verticals with core focus on financials and healthcare. Our team of engineers have spent thousands of man-hours commercializing the next generation of BYOD software and is now expected to be general availability the second week of June, along with a handful of exciting customer wins that we look forward to sharing with all of you on our analyst day. We are pleased at how quickly our sales force and strategic partnerships have translated into some early enterprise success in terms of building a robust pipeline of both potential customers and subscription revenues in late second half 2016 and into 2017.

Now, we also believe our Synchronoss Universal ID platform with Verizon partnership that we completed in late December is a very powerful and complementary solution to our secure mobility suite. Our plan is on target to release an enhanced fully-commercialized version of this solution in late second half of 2016. We are already working with approximately 30 enterprise accounts in deploying this enhanced solution. And we believe a method to credential and authenticate users on our secure mobility platform will provide Synchronoss a good opportunity to open up the doors to a multi-billion dollar TAM over the next coming years.

And finally, we are actively working on even more exciting opportunities with Verizon, that we'll detail a little bit later in 2016, as we launch and announce these new initiatives. We believe these efforts will further validate our go-to-market opportunities and will help continue to build on a highly successful consumer ***cloud*** and new enterprise ***cloud*** partnership.

And finally to note, in March, we announced the acquisition of privately held Openwave Messaging that includes its core platform optimized for today's most complex messaging requirements worldwide for the particular strength in APAC. As we discussed in the past, messaging has proven to be a key part of ***cloud*** adoption and more importantly engagement with our existing customers. With this acquisition and combined with Synchronoss' current global footprint, we now have access to over 3.5 billion subscribers around the world for our flagship cloud platform. And more importantly, bolsters our go-to-market efforts into internationally while providing some strong cross-sell opportunities.

Now while financially speaking, there is a negligible revenue impact to our 2016 financial outlook from this deal, we believe Openwave gives us the distribution channel, deep relationships, and customer base in APAC with marquee customers like Telstra, SoftBank, among others, that will be major focus for our international strategy going forward. We view APAC as a gross opportunity in underlying mobile consumer base that aligns very well with both our strategy and product footprints and enables us to parlay the proven success that we've shown in the US market over the past decade into this untapped market.

We also see messaging coupled with our cloud solution helping us open the window to some larger customer content deals in the second half of this year and lays the groundwork for another major growth opportunity on the horizon as we combine and integrate these platforms. With that said, while our international business has been a slower trajectory growth than we had anticipated over the past 18 months, we now feel the trifecta of a strong international pipeline and an upgrade on the feet on the street. The Openwave acquisition puts us in a much stronger position to succeed both in APAC and EMEA over the course of 2016 with a pivot away from more emerging markets.

Additionally, we also want to announce that Chris Halbard, our EVP and President of International, will be leaving Synchronoss this quarter, and we wish him good luck on his new endeavors.

We have a proven history of execution, launching, and scaling new offerings and leveraging technology opportunities into something that becomes much bigger. First it was activation, then it was ***cloud,*** and now we're well on our way in 2016 with the enterprise. We believe this enhanced and customer diversified product footprint with the new strategic international vision gives us the runway to massively expand and attack this $15 billion greenfield market opportunity over the coming years.

With that, let me turn it over to Karen.

Karen Rosenberger, Synchronoss Technologies, Inc. - CFO

Thanks, Steve, and good afternoon, everyone.

As Steve reviewed, our business performed well in the first quarter, and I will now review our results in more detail and finish by providing our guidance for the second quarter and update full-year 2016 guidance.

We are very excited to be starting 2016 off with solid momentum, and now let's go through the numbers. Starting with the top line, non-GAAP revenues were $145.6 million, which were above the midpoint of our guidance and up 9% on a year-over-year basis driven by stronger than expected ***cloud*** revenues. Our ***cloud*** services revenue in the first quarter was $84.3 million, which represented 58% of our total revenue and grew 18% year over year, exceeding both Street and internal expectations.

Our ***clou***d business continues to benefit from strong adoption of our solution across all of our carrier customers, and particularly at our core customer, Verizon, which outperformed expectations again in the quarter on the heels of healthy customer adoption. We note we had no major one-time license impact in the quarter on the ***cloud*** business, unlike last quarter.

Our activation services revenue was $61.3 million for the quarter representing 42% of our total revenue, down 1% year over year. We saw consistent volumes as expected in the first quarter and believe seasonality trends will strengthen into the second half of the year. Breaking revenue down further, 73% of our first-quarter non-GAAP revenue came from recurring sources. Nice growth from 66% in the fourth quarter and up from 72% in the year-ago quarter with healthy contributions from ***cloud*** subscription deals. The remaining 27% came from nonrecurring sources such as professional services and licenses.

As a reminder to investors, our revenue stream from our activation and ***clou***d businesses generally consist of 65% to 75% transaction and subscription revenues and 25% to 35% professional service and license revenues with quarter-to-quarter variability. We are pleased to see 73% of our revenue come from recurring sources this quarter as visibility remains a core tenet of our business model and combined with more subscription business from Openwave, enterprise, and other subscription deals, we expect stronger recurring revenues looking ahead over the next 12 to 18 months. While it's in product ramp phase, we saw negligible revenues from our recently launched enterprise business during the quarter and still expect to see revenues in the single-digit range for the remainder of 2016.

As Steve discussed, we have seen the surge of customer interest in our enterprise solution as we believe it hits on a major pain point in today's IT ecosystem around BYOD. And we look forward to discussing this positive dynamic more at our analyst day in June.

Turning to costs and expenses, non-GAAP gross profit in the quarter was $85.2 million or a gross margin of 59%, which was slightly below our guidance and 60% to 61% as we accelerated our enterprise IT development initiatives during the quarter in light of a stronger than expected customer pipeline. We expect to see a benefit in the second half on gross margin based on these front-end loaded cost initiatives. As we have said in the past, there will always be a certain amount of variability in our gross margins depending upon the mix of revenue and investments.

Non-GAAP income from operations was $33.2 million in the first quarter representing an operating margin of 23% at the top end of our guidance. During the quarter, our operating margin benefited from the increase in ***cloud*** revenues. Net income in the first quarter was $23 million, which led to a non-GAAP EPS of $0.49, towards the high end of our guidance range based on a 30% non-GAAP tax rate. On a GAAP basis, EPS was a loss of $0.17. We note this is part of our ongoing restructuring, cost cutting, and integration efforts in the quarter.

This is part of a broader restructuring effort as we look to shed nonperforming assets, cut costs, change the direction of our international strategy, and position this Company for a stronger profitability and cash flow trajectory over the next few years, as we pivot towards higher growth areas of the mobile and enterprise landscape going forward.

Looking at our cash, total cash, cash equivalents, and marketable securities were $194.7 million, a decrease from $233.6 million at the end of the fourth quarter. Subsequent to our $100 million buyback plan announcement in the first quarter, we've repurchased 553,000 shares at an average price of $30 for a total amount of $16.6 million and now have $83.4 million remaining in our buyback program, which we plan to opportunistically deploy during the course of 2016. We used approximately $100 million of cash for the Openwave acquisition during the quarter, which was completed in March along with an equity component and incentives associated with the deal.

On the Openwave front, given the ***Saa***S recurring nature of this model coupled by our ongoing sunsetting initiative, we are expecting a minimal financial contribution from this business in 2016. However, with our strategic growth initiatives for the second half of the year in APAC and particularly Japan, combined with the Openwave distribution channel and customer base, we believe this revenue stream will likely be north of $40 million in 2017. The underlying goal is that our efforts in APAC will yield a third 10% customer over the next 12 to 15 months and help us strengthen our international presence and revenue base accordingly.

We had another robust cash flow in the quarter as we generated $37.1 million in non-GAAP cash flow from operations with a strong free cash flow of $24 million in the quarter. This continues to be a major focus of our Company as we balance strong growth with solid profitability and cash flow generation.

On a related note, CapEx in the quarter was $13.2 million, a significant decrease from $24.2 million in the year-ago period as we recognize the efficiencies of moving forward to a more virtualized software-centric model.

DSOs came in at 99 days versus 84 days in the prior quarter and 93 days in the year-ago quarter, as a handful of international deals came in later than expected in the quarter. We expect DSOs to improve for the second quarter and the rest of the year based on the timing of deals in our pipeline.

Now, let me move to guidance for the second quarter and an update for our 2016 outlook. Non-GAAP revenues are expected to be in the range of $155 million to $160 million representing year-over-year growth of approximately 14% at the midpoint.

Breaking our revenue guidance down further, we currently anticipate our ***clou***d services revenue will be in the range of $92 million to $95 million or a growth of 30% at the midpoint of our range as we have a visible stronger pipeline heading into the second quarter and the second half of the year, on the heels of a number of ***clou***d deployments with new and existing customers. We currently anticipate our activation services revenue will be in the range of $63 million to $65 million or a decline of 3% at the midpoint of our range primarily due to new near-term industry headwinds.

Please note, we are not factoring in a major uplift from new smartphone or form factor releases for the remainder of this year, in line with our usual estimation guidance methodology. That said, we are seeing a healthy pipeline of domestic and international activation customers that gives us comfort with our activation growth for the rest of the year.

Turning to profitability, we currently expect non-GAAP gross margins of 60% in the second quarter with a slight uptick from the first quarter, as enterprise development expenses continue to be front-end loaded ahead of our June GA target date and high customer interest from our ongoing beta stage. In terms of operating profitability, we expect non-GAAP operating margins of 23% to 24% leading to a non-GAAP EPS of $0.51 to $0.55, assuming a tax rate of 30% and 48 million diluted shares. We are expecting total restructuring charges for the year to be roughly $10 million to $15 million to reflect cost-cutting initiatives and sunsetting of non-core assets.

In terms of 2016 full-year guidance, we are updating our outlook in light of a stronger than expected ***clou***d pipeline coupled by a modest revenue impact from the Openwave acquisition in the latter part of the year, with a more significant revenue impact from this deal expected in 2017. The acquisition has a neutral impact to the bottom line this year.

For 2016, we now expect total revenues of between $665 million and $685 million representing 16% year-over-year growth at the midpoint. This is an increase from our prior range of $655 million to $680 million, based on our increased visibility and health of the ***cloud*** business. To this point, our new ***cloud*** services range for 2016 is for revenues of between $390 million and $400 million, representing 27% growth at the midpoint versus our prior forecast of between $378 million and $391 million. On the activation front, we are tightening our range to between $275 million to $285 million, versus our prior forecast from $277 million to $289 million, representing 4% growth at the midpoint with seasonal strength expected headed into the second half of the year.

On the enterprise business, we continue to expect revenue in the single digits for the year with dilution of roughly $0.20 for 2016. We believe this near-term investment is already yielding early returns, and we expect the enterprise unit to have a positive earnings contribution for the full-year 2017. For 2016, we still expect non-GAAP gross margins of between 60% and 61% with a pickup in the second half of the year versus the first half, while we are slightly raising our operating margin guidance range for the year to 24% to 26% versus our prior guidance of 23% to 25%. Non-GAAP EPS is now expected to be in the $2.32 to $2.56 per share versus our prior guidance of $2.22 to $2.45 per share on a diluted share count of approximately $48.5 million assuming a tax rate of 30%.

Turning to cash flow, we expect to achieve substantial growth in free cash flow during 2016 as our model scales more efficiently, as evidenced by our robust cash flow performance in the first quarter. We continue to expect CapEx to be approximately $60 million to $65 million or approximately 9% of total revenue. This would be in line with 2015 and down meaningfully from 16% in 2014.

That said, we are raising our non-GAAP free cash flow expectation range to grow year over year to 15% to 20% versus our prior expectations of 10% to 20%, in light of our strong free cash flow quarter and modestly improved outlook for the rest of 2016, as this is a key strategic focus for the Company. This highlights the power of our business model as we move to a more virtualized infrastructure.

In summary, we feel proud of the Synchronoss team for delivering another strong quarter with exciting opportunities ahead as we look into the rest of 2016. We plan to share greater insight and visibility into our strategy including our new enterprise business at our analyst day on June 9 in New York City. We look forward to seeing many of you there.

And with that, let me turn it back to the operator to begin the Q&A.

QUESTIONS AND ANSWERS

Answer – Operator: (Operator Instructions)

Tom Roderick, Stifel Nicolaus.

Analyst: Tom Roderick, Stifel Nicolaus - Analyst

Question – Tom Roderick: Hello, guys. Good afternoon. Thanks for taking my question. Steve, I wanted to -- since we didn't have a call on the OpenWave acquisition, I wanted to start there.

It's an interesting addition to the business, and I was hoping you could kind of explain some of the -- I get the geographic rationale, but maybe you could talk about the technology portfolio. What it is you're buying here, and how, I guess if I'm thinking about this right as a pure messaging -- carrier grade messaging platform?

How you see that sort of sliding in with the rest of the ***clou***d business. And then I've got a couple follow-ons on that. Thanks.

Answer – Steve Waldis: Sure, Tom. So first off, clearly to your point earlier giving us a pivot directly into not only Asia Pac but particularly Japan and some of the markets that there is a high desire to really use the ***cloud*** products that we have in leveraging that made a lot of sense to us. What was equally important is that messaging as you saw here in the US with Verizon is such a key part of engagement in the ***cloud.***

When you integrate that especially over time as you can see other vehicles for ad placement and other things become much more valuable to get additional revenue opportunities for the operators. So the combination of both the regions, to your point earlier, but also the technology of being able to pull that in for the operators and really create this kind of super platform that really competes effectively against a lot of these over the top guys. It kind of completed the puzzle for us and we solved synergies on both sides of the fence.

Question – Tom Roderick: Got it. That's helpful. In terms of where -- this might be a better question for you, Karen, but for anyone who wants to grab it, jump in. In terms of where this is all going to bucket in, I'm presuming this is going to drop into your clou***d bus***iness.

How much of the revenue today is subscription as opposed to sort of more traditional pure maintenance revenue for an on-prem deployment? And actually, I will just leave it at that and then maybe one quick follow-up on that. Thanks.

Answer – Karen Rosenberger: Okay, so you are correct in that the OpenWave revenues will be part of our ***clou***d revenues. From a overall recurring nonrecurring stream of business, you know clearly the recurring streams is both subscription and transaction.

A piece of that is the maintenance portion. We don't break out the maintenance from the remainder but everything as far as the contribution of OpenWave keeps us in line with the increase in the recurring revenue stream this quarter.

Answer – Steve Waldis: One point to that, too, Tom, that I'd add a little color to what Karen had said, is that also in some of the messaging customers that are going to be converting over to cross-sell clo***ud wi***ll now be part of a subscription monthly pay associated with an active user.

Question – Tom Roderick: Got it. Okay. And last question just on the revenue contributions.

I hear you're saying not meaningful to this year's revenue. Paying $100 million for not meaningful revenue contribution might suggest that there is sort of more in the backlog here, some more stuff coming, but knowing this was a fairly mature business. Maybe you can just talk about what that means for not material and if you can kind of repeat your statements around 2017.

I just want to make sure I'm thinking about this not material from both a pro forma revenue and GAAP revenue basis or maybe I'm just looking at a wrong. Thanks.

Answer – Steve Waldis: So couple of things and I'll let Karen add a little color on the number side of it but yes, Tom, you are right. When you look at the 2016 contribution for it being negligible, a couple of things fit into that. One is that there's a lot of items that OpenWave as a company prior to us acquiring them were shed off from an asset perspective.

There are some elements there that we're sunsetting as part of the go-forward strategy. The main goal for us was to really establish direct relationships and connections with these potential 10% customers. We're really, Karen said in her remarks, going after that third customer.

Secondly, during the due diligence process, what's important to us is that the messaging is so critical to our clo***ud th***at we proved here in North America that when we went out and met with some of the major customers in the region. How we've already had discussions underway that are going very positively around integrating this into the core clou***d pla***tform. And so the combination of that and the new model that will head into the next year, what we indicated is that gives us the level of confidence that we think it'll be at least north of $40 million for 2017 as we start to deploy these guys inside our clou***d set***s.

Answer – Karen Rosenberger: Right.

Question – Tom Roderick: Perfect. Thank you, guys. I appreciate the detail.

Answer – Operator: Sterling Auty.

Analyst: Darren Jue, JPMorgan - Analyst

Question – Darren Jue: Hi. It's Darren Jue on for Sterling. I am sorry if you actually mentioned this, and I must have missed it, but did you comment on how much revenue you are getting today from the Verizon venture?

Answer – Steve Waldis: We haven't broken out any of the specifics to it.

Answer – Karen Rosenberger: No.

Answer – Steve Waldis: The EBU remains on target in terms of total kind of single-digit kind of million revenue contribution for the year, which includes both the Verizon initiative that we're working on as well as the Goldman Sachs partnership as well.

Answer – Karen Rosenberger: That's correct.

Question – Darren Jue: Okay. And then you commented on cash flow and it looks like you had the strongest first quarter for cash flow at least since we have your model going back as far as our model goes, but it looks like you had pretty significant growth in deferred. Can you just comment on what businesses drove them?

Answer – Karen Rosenberger: I mean overall, the overall mix of business drove that. In this quarter, we were particularly pleased with our ***cloud*** revenue growth. Also, in line with expectations was the enterprise component and as we move forward in the year, we were excited to be able to talk about the fact that we are going to increase our cash flow and free cash flow projections for the year.

Answer – Steve Waldis: And one other comment, too, to add color to Karen is that as you saw as she pointed out that virtualization of all of our ***clou***d products is just continuing to generate the cash flow that we had anticipated when we spoke about a year ago, and it's actually coming in even stronger than we anticipated so the whole virtualization is worked out frankly better than we had anticipated and that's another strong driver to add color to what Karen said.

Answer – Karen Rosenberger: And that's further evidenced by the 9% CapEx spend in the quarter. Clearly, we are seeing benefits again along with that virtualized software approach.

Question – Darren Jue: All right. Thanks, guys.

Answer – Operator: Michael Nemeroff.

Analyst: Michael Nemeroff, Credit Suisse - Analyst

Question – Michael Nemeroff: Hello, guys. Can you hear me okay?

Answer – Steve Waldis: Hello, Mike.

Question – Michael Nemeroff: Thanks for taking my questions and nice quarter. Just a couple. Steve, just curious, signing up AT&T, they've got that new Locker product that you're helping them with.

I'm just curious what the -- when you expect to see some kind of a big ramp in their marketing or programs that they expect to launch to make the rollout there look anything like what we saw at Verizon in 2013 and 2014. And then also maybe for Karen, if I may, the OpenWave acquisition, what do you expect that to contribute in 2016, and did it contribute anything in this quarter?

Answer – Steve Waldis: Let me take a shot at the first question, Mike. So we successfully, as we discussed I think on the last quarter, were on target to deploy which we did the new Locker products so that was migrated over to our platform, so it's our technology in place today. I think the real benefit in growth that we are all looking for as adoption rates go -- increases as the year goes on.

Part of the efforts that we have here in the second half of 2016 is really integrating that in partnership with AT&T to make the process, the sign up for the service, to make it more embedded, all of the things that we've kind of shown in our recipe book that drives really high adoption. All those things are scheduled for this half of the year.

Obviously, there's a lot of activities going on at AT&T, especially as they get -- they absorb the DirecTV acquisition. And so as those things go out through the year, our expectation and we still feel very good about it, is that we will have that healthy trajectory exiting 2016 that gives us the confidence into 2017 that the growth will be there. To your point around marketing, once those components get finalized both in the efforts that we do in our software but also the collaboration with our partners at AT&T, then I think you will start to see a level of comfort and kind of more visibility on the marketing front toward the latter half of the year.

Answer – Karen Rosenberger: Yes, as far as the revenue question that you had asked Michael, we closed this acquisition in the last month of the quarter so it was minimal contribution to the quarter. As far as the year goes, it's a negligible impact. Clearly, one of the reasons along with the strength of ***cloud*** revenue that we have raised our revenue guidance overall for the year, but really we see the more meaningful impact to the 2017 and likely to be in the $40 million or better range.

Question – Michael Nemeroff: Okay. And then if I may, just one more. Steve, last quarter you had some issues around activations with some international carriers. I'm just curious, did those launch or did they turn on as expected this quarter or are there still some that are in somewhat of a holding pattern and then that's what gives you confidence for the back half of the year.

Answer – Steve Waldis: Yes, so we have a lot of -- especially in some of the emerging markets, it's definitely taking slower than expected and we factored that into our guidance component of it. But what gives us strength in terms of second half of the year is obviously activation is always seasonally higher. The move starts in the spring, and then obviously the back to school holiday season and that there's events that are typically handled towards the latter half of the year.

So it's all of those elements of but one of the things that's important in the Synchronoss story as everybody in the industry goes through the different headwinds around smartphones, a big portion of our business has always been provisioning and activating broadband capabilities. So DirecTV is a huge wind at our back, and as you see AT&T heavily promote DirecTV and the ability to integrate that with wireless and the activations associated with that and the promotions and services, that gives us winds at our back that we feel good about in the latter half of the year.

It's early, and we're just getting in the process of it but it's a contributor that we're starting to get better visibility onto the course of the year. So it's a combination of those elements that give us the confidence on the second half of the year and again, we didn't factor even in that if the event there is a special device that would come out or different form factors for different providers. Obviously, that would be a benefit to the numbers.

Question – Michael Nemeroff: Great. Thanks very much for taking my questions.

Answer – Steve Waldis: Thanks, Mike.

Answer – Operator: Nandan Amladi.

Analyst: Sameer Kalucha, Deutsche Bank - Analyst

Question – Sameer Kalucha: Hi. This is Sameer calling in for Nandan. A question on the buyback. When you guys announced it, it sounded like it was going to go much quicker than the pace we saw in the quarter.

So how do you expect the trend during the rest of the year? Do you think it'll be linear, or of course with the stock coming back, or it's going to be slower?

Answer – Karen Rosenberger: Yes, so we announced the buyback and then clearly we started repurchasing shares as soon as we were able to. And as far as the remainder of the year, we are going to take a look at a number of factors and -- take a look at factors and opportunities -- opportunistically -- I can't speak today. But anyway, we're going to take a look at various factors and continue to progress through the buyback as we progress throughout the remainder of the year.

Question – Sameer Kalucha: Do you still expect to complete it through the year?

Answer – Karen Rosenberger: Right now, the buyback arrangement is for an 18-month timeframe.

Question – Sameer Kalucha: Got it.

Answer – Steve Waldis: This is Steve to just clarify Karen. There is certain requirements of periods of time before we can enter into a plan and then actually start to execute it. So you saw a little bit of that lag into the first quarter, but obviously, that's been corrected and so you'll see that even healthier in Q2.

Question – Sameer Kalucha: Got it. And then on just a clarification on the joint venture. Last quarter, there were some revenues that was coming from Verizon directly but they had to go through joint venture. I believe the number was roughly in the half range. Is there a similar dynamic this quarter, or it doesn't really make much of a difference?

Answer – Steve Waldis: No. Last quarter was, as Karen had mentioned in her script in her portion that, that was last quarter. For this year, it generates exactly what it would typically, if you follow the Company, you will see that subscription revenues typically come out of your one-time events that were associated with this particular license.

So that is exactly what happened. I think you saw an uptick this quarter in subscription revenue. That was not the only piece but a big piece of activities that we do, you subsequently see in latter quarters the subscription revenues go up.

And as a reminder, we do enter into those licenses from time to time, our services because we believe that we have a clear line of sight for subscription recurring revenues within that next two, three quarters-plus out. You are starting to see a little bit of that evidence in the quarter. The health of the core subscription revenue I think showed really strong this quarter.

Answer – Karen Rosenberger: Right.

Answer – Steve Waldis: And it has evidenced both at Verizon as well as some of their implementations that we're moving underway.

Question – Sameer Kalucha: Got it. Just a quick one on OpenWave. It's negligible this year.

Going to [$40 million] the next year. What kind of growth rates are you baking in or you were baking in when you made the acquisition in terms of normalized growth rates for the acquisition over the next say two, three, four, five years in the normal range?

Answer – Steve Waldis: I think the way we looked at this particular opportunity was really around A, giving us that pivot directly into these key markets, so obviously when you can generate next 10% customer which is what we think we have a good line of sight on, that's obviously going to give us pretty significant growth. But what's most important is that messaging was a data class that wasn't as important when you are getting adoption to our service providers.

It's very critical when you want to get engagement because messaging provides a unique opportunity for the operators to even potentially present content in the messaging as people talk about different items or they do things inside the clo***ud.*** So we assumed both the pivot into the new areas and the new growth markets that made a lot of sense to us and the fact that our ***cloud*** products are growing nicely, that the combination of those two things we looked at a very strong growth rate.

And that's why we have the confidence of looking at the accounts today. Clearly, that should contribute north of $40 million in 2017.

Question – Sameer Kalucha: Got it. Thank you.

Answer – Operator: (Operator Instructions)

Gray Powell.

Analyst: Priya Parasuraman, Wells Fargo Securities - Analyst

Question – Priya Parasuraman: Thanks. This is actually Priya Parasuraman for Gray. There has been a lot of focus on the AT&T programs and people often overlook American Movil. So where are you with that deployment, and how do you think about the long-term opportunity there related to a Verizon or an AT&T?

Answer – Steve Waldis: So both the AT&T, as we discussed earlier, American Movil, very similar process. We finished the integration off F-Secure into our platform, very similar platform. It's one of the clients that, as Karen indicated in her script, that is a contributor to the latter half of the year, and it has a lot of potential.

British Telecom is another company that we finished that has a lot of potential. So we're moving into the phases where the technology that we've deployed is now integrated. The migrations are completing as we finish that portion of the integration. And now, it's a process of just integrating into the back offices of the companies more effectively and rolling out the programs to scale.

Question – Priya Parasuraman: Thank you.

Answer – Operator: (Operator Instructions)

I am showing no further questions at this time. I would now like to turn the conference back over to Mr. Daniel Ives.

Answer – Daniel Ives: We appreciate everyone's spending time today. I know it's a busy earnings night, and we look forward to seeing a lot of you at conferences over the next month, and then at our analyst day June 9 in New York. Sign up is on the website and really excited about that event.

You'll see more about the strategic vision. Thanks, again, and have a great night.

Answer – Operator: Ladies and gentlemen, this concludes today's conference. Thank you for your participation and have a wonderful day. You may all disconnect.
