

# 2017

## HALF YEAR REPORT





DELIVERING IN A  
**CLOUD FIRST  
MOBILE FIRST  
WORLD.**





UP **93%**

Cloud  
ACV  
\$19.9m

UP **30%**

Initial  
Licence Fees  
\$24.1m

UP **10%**

NPAT  
\$8.1m

UP **10%**

Dividends  
2.60 cps

UP **13%**

Revenue  
\$113.9m

UP **10%**

Annual  
Licence Fees  
\$47.9m

UP **26%**

Cash & Cash  
Equivalents  
\$57.5m

UP **177%**

Operating  
Cash flow  
\$2.6m

**9%**

PBT  
Margin  
(9% last year)

**61%**

Return on Equity  
(adjusted full  
year 2016)

Profitable since

**1992**

**IN LINE**  
Total Consulting

**17 YEARS** of consecutive  
record revenues



Edward Chung, Chief Executive Officer and  
Adrian Di Marco, Executive Chairman





## Letter to Shareholders

Technology One Limited (TechnologyOne), is pleased to announce the results for the half year ending 31 March 2017.

TechnologyOne has posted a half year result that exceeded market expectations with Licence Fees up strongly 30% (to \$24.1m), and Profit Before Tax up 10% (to \$10.3m). Our Cloud business continues to grow strongly with Annual Contract Value for Cloud Services (ACV) up 93% (to \$19.9m).

As we have previously indicated, half year results cannot be extrapolated to determine full year results, however we expect strong profit growth over the full year.



## Profit growth of 10% to 15% for the full year

TechnologyOne is well positioned for continuing strong profit growth of 10% to 15% over the 2017 full year based on the strength of our sales pipeline for the second half. Full year guidance is discussed in more detail on page 20.

## Analysis of half year results

### Highlights of our results are as follows:

- Revenue up 13%
- Net Profit Before Tax up 10%
- Total Expenses up 13%
- Expenses excluding R&D up 15%
- R&D expenses up 9%

### Our results by revenue stream are as follows:

- Initial Licence fees up 30%
- Annual Licence fees up 10%
- Total Consulting Services line ball
- Cloud Service fees up 93+%

## Profit up 10%

Our profit was up 10%, driven primarily by our strong Licence Fees in the first half. At the same time we have had to contend with a number of 'one off events' as follows:

- Our very successful Evolve customer conference that is held every 3 years. The costs associated with this event were significant, approximately \$1.8m, and have been fully expensed in the first half.
- Total Consulting Profit was down \$4.1m, impacted significantly by the Brisbane City Council (BCC) project and attendance by our consultants to our Evolve customer conference. We do not expect any further impact on our P&L from either the BCC project or Evolve.

Both these items are discussed in greater detail later.





**"SINCE IMPLEMENTING THE  
ONECOUNCIL SOLUTION, WE  
SAVED MILLIONS OF DOLLARS  
IN OPERATING COSTS."**



Justin Thomas, ICT Manager  
**Noosa Shire Council**



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### INITIAL LICENCE FEES GREW STRONGLY UP 30%

Initial Licence Fees were up 30% which exceeded our expectations, because several deals closed earlier than originally anticipated. We added 30 new

customers this half year. The pipeline for the second half is also strong, which will allow us to achieve continuing profit growth over the full year.

### DIVIDENDS UP 10%

The company is proud of its strong track record in increasing dividends, having continuously paid a dividend since 1996, through both the dot-com crash and GFC.

In light of our strong balance sheet, strong cash flow, and our confidence in once again achieving strong profit growth over the full year, the dividend for the half year has been increased to 2.60 cents per share partially franked (75%), up 10% on the prior year. This represents

a payout ratio of 101%. The dividend is partially franked because we have paid less tax due to the R&D Tax Concession and the TechnologyOne Share Trust. We expect the 2019 dividend to be fully franked once again.

The company will once again consider the payment of a special dividend at the full year.

### R&D EXPENSES UP 9% \$23.6 MILLION

#### Total Expenses

First half Total Expenses were up 13%. If our Evolve customer conference, that is held every 3 years, is excluded, Total Expenses are up 11%.

#### Research & Development

Research & development (R&D) continues to be a significant investment for TechnologyOne at \$23.6m for the half year, up 9%.

R&D represents 21% of revenue, which far exceeds our competitors' average spend on

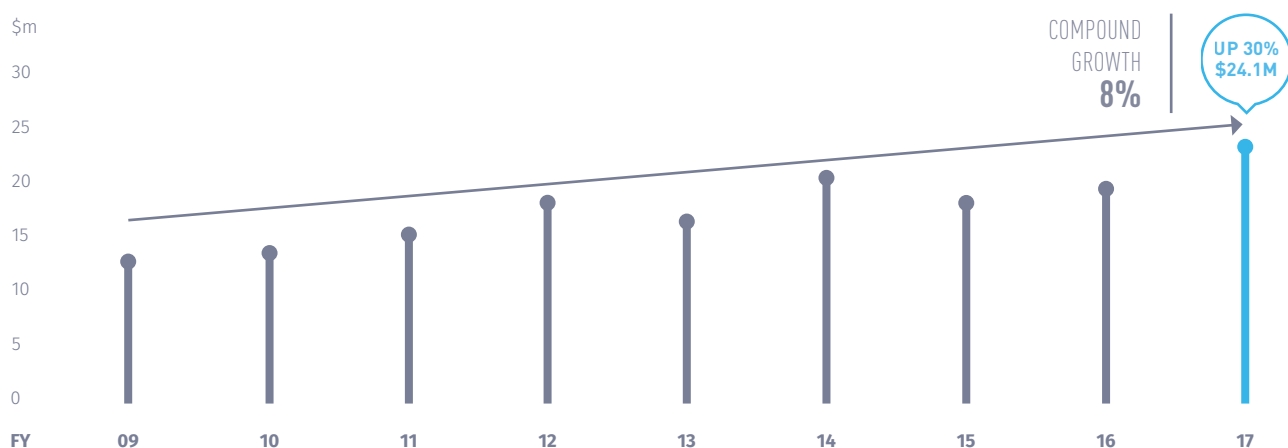
R&D of approximately 12%. R&D continues to be fully expensed in the period it is incurred.

R&D continued across our entire Ci Enterprise Suite, as well as our next generation product Ci Anywhere and the TechnologyOne Cloud.

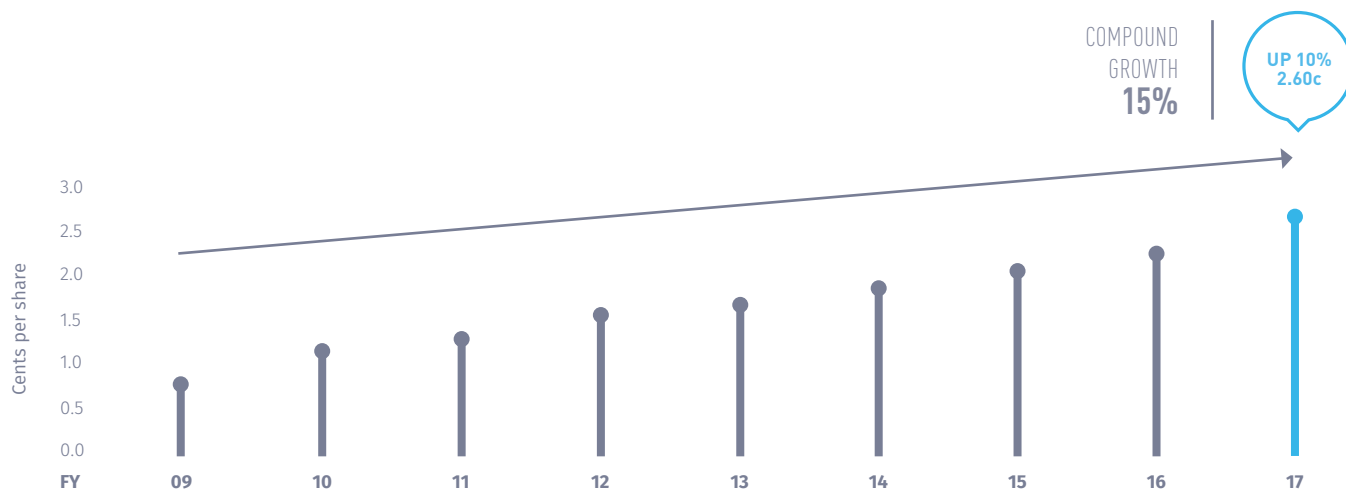
We remain committed to delivering Compound Annual Growth (CAG) of 8% or less over the next 5 years to 2021 (compared to our historical growth rate of 16%), which will save approximately \$75m over the 5 year period.



## LICENCE FEES



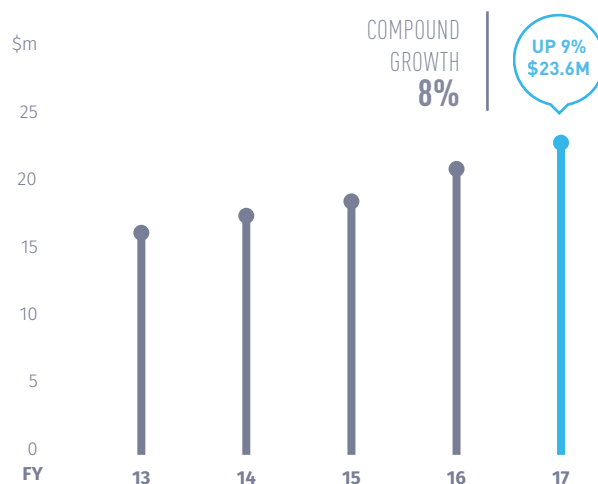
## DIVIDENDS



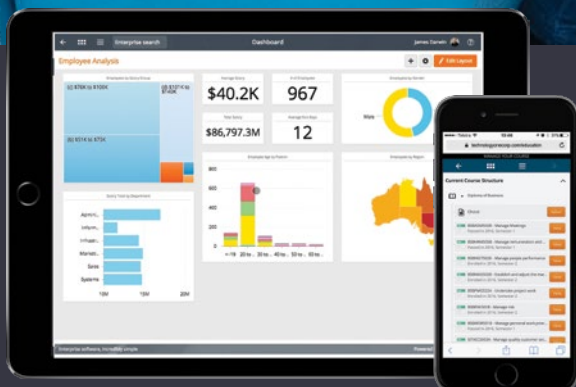
## TOTAL EXPENSES



## R&D EXPENSES







**"TECHNOLOGYONE'S CLOUD-BASED SERVICES HELP US DELIVER A BETTER EXPERIENCE FOR OUR STAFF AND STUDENTS."**



**LA TROBE**  
UNIVERSITY

Peter Nikolettos,  
Executive Director and CIO  
**La Trobe University**



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## TECHNOLOGYONE CLOUD SERVICES FEES GREW STRONGLY UP 93%

It is important to note that the Cloud Services fee is the incremental revenue we earn for running our enterprise software on the TechnologyOne Cloud for our customers, and does not include any associated licence fees.

TechnologyOne Cloud Services fees continued to grow strongly in the half, with Annual Contract Value now \$19.9m up from \$10.3m, an increase of 93%+ from last year. We now have 199 customers committed to the TechnologyOne Cloud.

For the first time, TechnologyOne Cloud contributed a \$937k profit in the half, compared to a \$922k loss this time last year. This is due to our mass production Software as a Service (SaaS) architecture which is starting to deliver significant economies of scale and will continue to improve over the coming years.

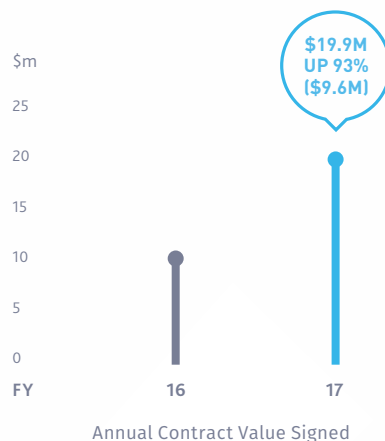
Over the full year we have revised Cloud Services profit to increase from \$1m to \$2.5m, a significant improvement

compared to the \$2.2m loss at the end of the 2016 financial year.

Our target is to have Annual Contract Value of \$28m+ by financial year end. We expect this strong momentum to continue in the years to come and this business to generate an additional \$143m of annual recurring revenue by 2022.

TechnologyOne Cloud has now been independently audited and recommended to be certified to the Federal Government IRAP security standard, making us the first enterprise SaaS vendor to achieve this high level of security accreditation in Australia, which gives us a significant competitive advantage.

### CLOUD SERVICES FEES





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## ANNUAL LICENCE FEES UP 10%

In keeping with our very high customer retention and satisfaction rates, our recurring Annual Licence Fees once again grew strongly by 10%. Investment in our next generation product,

Ci Anywhere, and our Compelling Customer Experience program are critical to our ongoing success in this area.

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## TOTAL CONSULTING SERVICES IN LINE

Though Total Consulting Services revenue was flat, profit was down \$4.1m (down 100+%).

This division was impacted by a number of 'once off' events as follows:

- TechnologyOne Evolve customer conference, which saw all our consultants attend the conference, and which impacted our utilisation and other associated costs to an amount of \$1.6m.
- The Brisbane City Council LGS project, in which TechnologyOne has been frustrated by BCC to deliver against the contract, as BCC is attempting to protect their negotiating position. This impacted the business unit by \$2m. We do not expect any further impact on our P&L over the full year.
- The United Kingdom consulting practice loss increased by \$475k, which was expected as we build this new practice.

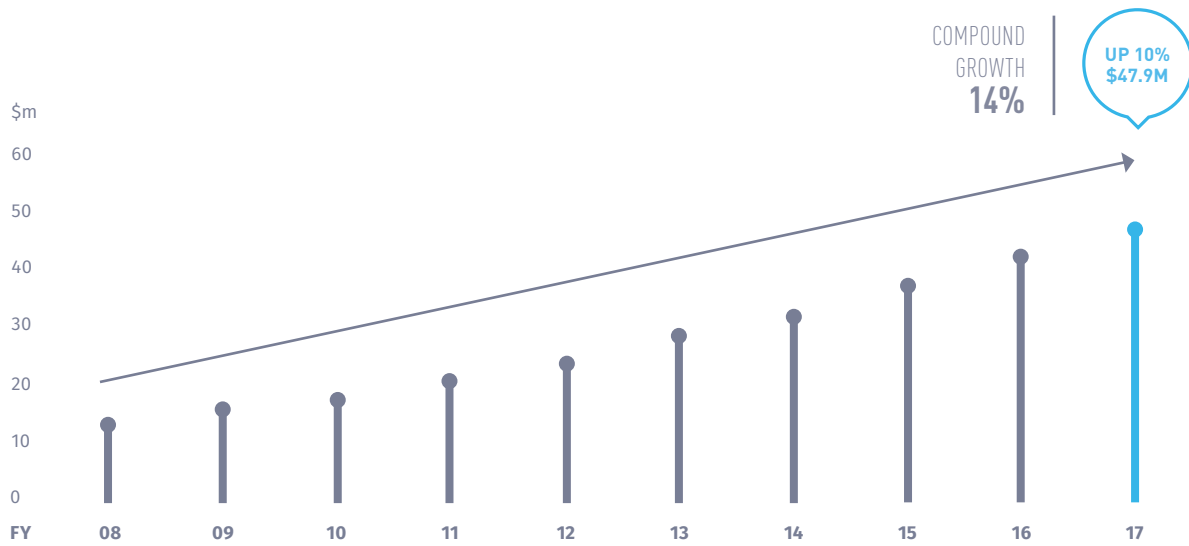
Our expectation is that for the full year the Total Consulting Profit will be down

approximately \$1.5m for the full year. We expect in the 2018 financial year; this division will return to profit growth.

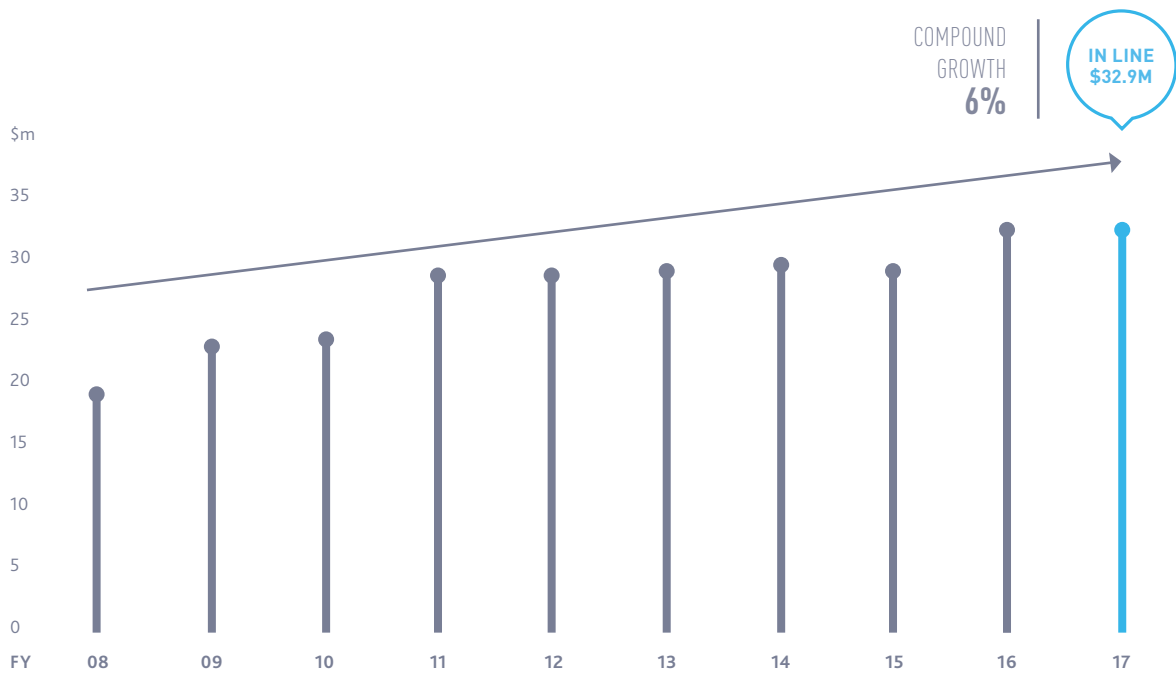
We are also midway through the restructuring of our Consulting practice, which will see this business separated into two separate and focused business units, as follows: Consulting New Customers and Consulting Existing Customers. These business units will have different cultures, systems and processes to deliver excellence for their respective area of focus. Consulting New Customers will be a project focused business, to deliver large and complex projects 'on time and to budget'. Consulting Existing Customers will be an account focused business, with a service culture driven by a dedicated service delivery manager, guaranteed service levels, a catalogue of services, and premium support. We have appointed a new Operating Officer to implement this strategy, Mrs Nancy Mattenberger, who has extensive experience leading the INFOR consulting practice in the USA.



## ANNUAL LICENCE FEES



## TOTAL CONSULTING SERVICES



# ENTERPRISE SOFTWARE INCREDIBLY SIMPLE

## Ci Anywhere

Ci Anywhere is the continuation of our very successful Ci product, and allows organisations to embrace smart mobile devices including iPad, iPhone and Android devices, as part of our enterprise solution. We are the only major enterprise software vendor committing to deliver our entire suite of enterprise software and all our functionality on these mobile devices, as we envision a world where all work will be done on these devices in the near future. We see our customers flowing across smart mobile devices throughout the course of their day. Our software has been designed to be incredibly simple to use, and to adapt to the device, allowing customers to continue their work seamlessly as they flow across devices.

Ci Anywhere opens up a new world of possibilities for our customers, allowing them to access their data from any device, anywhere in the world, at any time. It is a new and exciting generation of enterprise software that is incredibly simple to use. Ci Anywhere will enable our customers to embrace the digital revolution.

## Ci Anywhere

We continue to work aggressively to complete our Ci Anywhere suite by late 2018.

## TechnologyOne Cloud

The TechnologyOne Cloud provides a compelling value proposition to our customers, giving them what is essentially a very simple, cost-effective and highly scalable model of computing.

We have now delivered our mass production SaaS platform. This provides a massively scalable platform with significant economies of scale.

All TechnologyOne Cloud costs are fully expensed in the period they are incurred.

We remain confident the transition of our business to the cloud will be smooth over the coming years, with minimal impact on our business. We will come through this period with an even stronger, more resilient business model and significant competitive advantage.

## Fast track subscription licences

An important goal for us was to move away from perpetual licences, and to move all new business to subscription licences, to create a strong, long term annuity business. This half we achieved over 80% of all new business being recurring subscription licences.

## Review of the UK operation

Licence Fees were \$678k, down 50%.

The pipeline for the full year remains strong, and we are on target to grow licence fees by 33% over the full year to \$4m, and achieve a profit of \$500k. This will be a substantial improvement on the prior year profit of \$66k.

We are now entering a period of substantial growth for the UK business. We expect this strong momentum to continue in the years to come and this business to generate an additional \$93m of annual revenue by 2022.

## Appointment of new CEO

Recently TechnologyOne announced the appointment of its long serving and highly successful Chief Operating Officer, Mr Edward Chung, to the new role of Chief Executive Officer, effective May 23. Mr Chung has been an executive of TechnologyOne for approximately 10 years. Mr Adrian Di Marco, TechnologyOne's founder and one of Australia's longest serving CEOs over a period of 30 years; continues in the role of Executive Chairman working with the executive team and Board; as well continuing to focus on strategy, innovation and creativity to ensure the company continues to build future platforms for strong growth.

These changes have been a long time in the planning and have been openly discussed for the last few years with shareholders and staff. Over the last five years we have built a very strong and talented executive team.



## Review of the UK operation

We see the UK as a platform for significant growth for TechnologyOne in the coming years. Our 'blue ocean' strategy is gaining traction, which is to provide a total ERP solution for higher education and local government sectors.

Important to the success of this strategy will be the introduction of our Human Resources & Payroll (HRP) product and Student Management product to this market. The regionalisation of these products for the UK market is in progress, and we will work with early adopters in the UK to establish these products.

As we bring more products into the UK market, this increases our product offering, and also allows us to move into the less crowded 'blue ocean' space, as we will be one of only a few enterprise vendors in the UK market.

**"OUR PARTNERSHIP WITH TECHNOLOGYONE  
WILL GREATLY BENEFIT THE WAY WE  
WORK ACROSS THE COUNCILS; IMPROVING  
RESOURCING, COLLABORATION AND  
DRIVING EFFICIENCIES."**

Karen Spicer, System Accountant  
**Horsham District Council, UK**





## TechnologyOne Cloud

The TechnologyOne Cloud delivers the TechnologyOne Enterprise Suite as a service through the cloud to our customers. TechnologyOne takes complete responsibility for providing the processing power, software and services including backup, recovery, upgrade and support services for our cloud customers.

TechnologyOne is one of only a few companies globally delivering enterprise Software as a Service (SaaS), offering a fully configurable solution, based on a mass production line of servers that run our software for any and all of our customers.

TechnologyOne is uniquely placed because we own our software. Unlike hosting providers that simply host someone else's software in the cloud, we own our software and are able to make a substantial investment each year in ongoing R&D, to continue to improve our software for the fast changing cloud and capitalise on new technologies, concepts and ideas. Because we run our software for thousands of customers simultaneously, we have optimised our software and built the TechnologyOne Cloud specifically to do this, and we can achieve enormous economies of scale that cannot be achieved by hosting providers. The TechnologyOne Cloud will deliver a level of service, reliability, scalability and future proofing that hosting providers cannot ever achieve.

As part of our SaaS offering we automatically make available new releases of our software, with new features, functions and concepts. Our customers do not need to do anything to seamlessly get these new releases into production.

TechnologyOne is at the very forefront of delivering the benefits of mass production to the enterprise software industry. As we have seen in other industries, the economies of scale of mass production will change the face of the software industry.

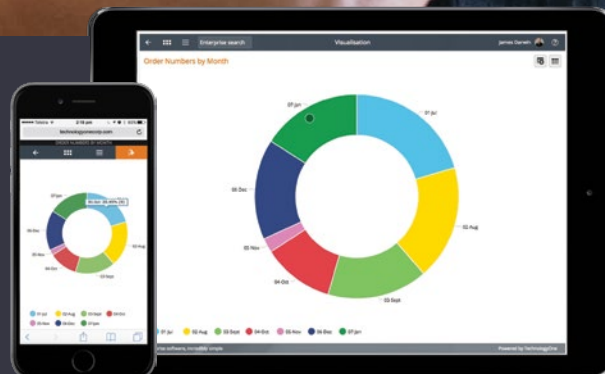




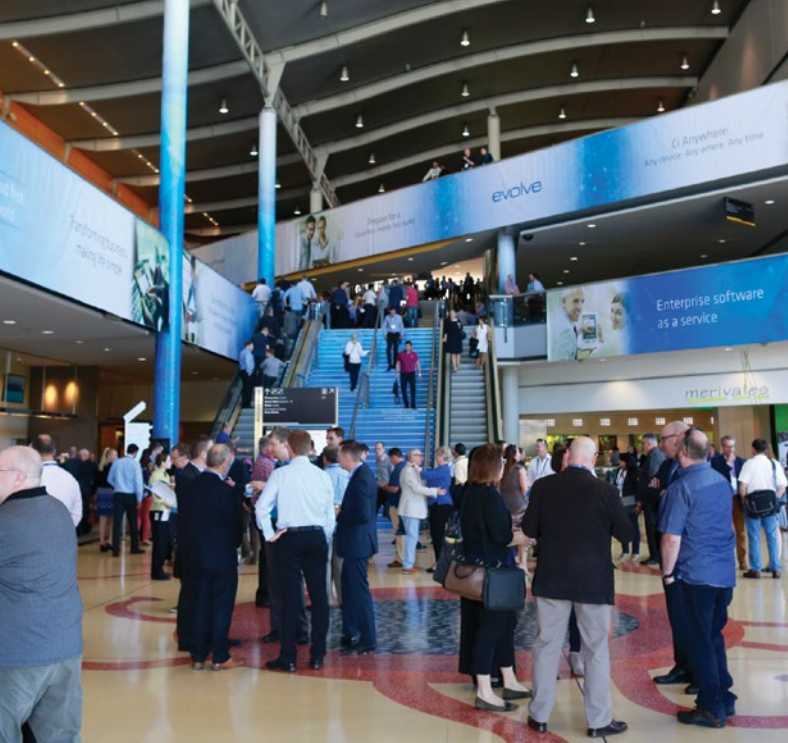
technologyone

**"WE ARE THE FIRST AUSTRALIAN  
ENTERPRISE SAAS VENDOR TO BE AUDITED  
AND RECOMMENDED FOR CERTIFICATION  
TO THE FEDERAL GOVERNMENT IRAP  
SECURITY STANDARD."**

Adrian Di Marco, Executive Chairman  
**TechnologyOne**











## Evolve user conference

Following the success of our Evolve customer conference - which saw more than 2,300 attendees, over three days with 11 concurrent streams by industry, and a huge exhibition area - we are now running our Showcases throughout Australia, New Zealand and the United Kingdom.

These Showcases demonstrate our vision for a digital future, with a focus on our Ci Anywhere enterprise suite and the TechnologyOne Cloud. This event will create significant sales momentum for us in the coming years.







**"WE HAVE HALVED OUR  
MONTHLY REPORTING TIME  
WITH TECHNOLOGYONE'S  
SAAS SOLUTION."**



Maree Quizon, Senior Accountant  
Royal Flying Doctor Service Queensland



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## OUR ENTERPRISE VISION

# THE POWER OF A SINGLE, INTEGRATED ENTERPRISE SOLUTION

## Balance sheet strength

TechnologyOne continues to have a strong balance sheet with cash and cash equivalents of \$57.5m and undrawn banking facilities of \$2m. Our debt/equity ratio remains conservative at only 0.01% and interest cover is 216 times.

Operating cash flow was a positive \$2.6m this half. Operating cash flow will improve substantially over the full year, and will once again approximate our full year Net Profit After Tax.

## Full year guidance — Profit growth of 10% to 15%

TechnologyOne is well positioned to achieve continuing strong profit growth in the full year due to the following factors:

- Substantial base of committed annual licence and support revenue which is heavily weighted to the second half
- Strong pipeline of new license sales opportunities in the second half.

In particular we see Total Expenses being up 10% over the full year as follows:

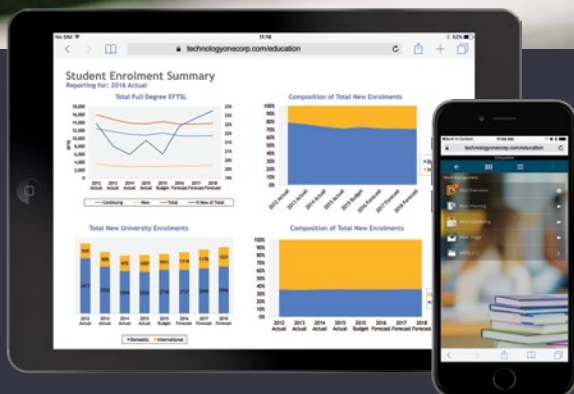
- Operating costs are expected to be up 10%
- R&D is expected to be up 8%.

Other factors also include:

- We expect the Cloud profit for the full year will be \$2.5m
- We expect the UK business to contribute a profit of \$500k
- Total Consulting Profit will be down \$1.5m on pcp
- No new acquisitions this year.

As such we expect profit will be up between 10% and 15% for the full year.

# HELPING OUR CUSTOMERS REMAIN COMPETITIVE IN A NEW, DIGITAL WORLD



“WORKING WITH TECHNOLOGYONE  
ENABLES OUR ORGANISATION TO  
DRIVE EFFICIENCIES VIA INTEGRATED  
AND AUTOMATED BACK OFFICE  
PROCESSES.”



Jodi Schmidt, CEO  
TAFE Queensland

## Long-term outlook

We continue to be very excited about the significant growth opportunities over the next 10 years.

We see continuing strong growth in our eight key vertical markets in Australia and New Zealand. These markets remain strong and resilient. The UK operation has now moved from a loss position to profit and given the size of this market, this will provide us with significant growth opportunities over the coming years.

The TechnologyOne Cloud has now moved from a loss position to profit, and will continue to grow quickly and profitably over the next five years, as we prove the substantial benefits of our ‘mass production architecture’.

Ci Anywhere is also gaining momentum, as it enables our customers to embrace the digital revolution. It will secure our large existing customer base for the future by providing a simple and easy way forward using our powerful Ci platform. This will inevitably lead to our customers increasing the usage of our software in

their organisations and drive licence fee growth.

Both these initiatives (TechnologyOne Cloud and Ci Anywhere) further increase our advantage against our competitors.

We see continuing growth from our existing customer base, as our customers increase the usage of our products and services. We also expect our newer products, such as Enterprise Content Management, Stakeholder Management and Human Resource & Payroll to continue to mature and contribute substantially to profitability.

Our two offshore R&D centres are allowing us to reduce our R&D expenditure as a percentage of revenue, without impacting on any of our strategic initiatives and at the same time improving the level of support our customers experience.

These initiatives will allow us to continue to grow our revenue and profit and substantially improve our profit margin in the coming years.





## Afterword

We would like to once again acknowledge the hard work, passion and commitment of the TechnologyOne team and the great work being done to build, market, sell, implement, support and run our world class suite of enterprise software. Our people are deeply committed to our vision of building truly great products and delivering great services that transform business and make life simple for our customers.

Finally, we would also like to thank you, our shareholders, for your continuing support.

Adrian Di Marco  
**Executive Chairman**

Edward Chung  
**Chief Executive Officer**



Transforming business  
making life simple

### Transforming business, making life simple

TechnologyOne (ASX:TNE) is Australia's largest enterprise software company and one of Australia's top 200 ASX-listed companies, with offices across six countries. We create solutions that transform business and make life simple for our customers. We do this by providing powerful, deeply integrated enterprise software that is incredibly easy to use. Over 1,000 leading corporations, government departments and statutory authorities are powered by our software.

We participate in only eight key markets: government, local government, financial services, education, health and community services, asset intensive, project intensive and corporate. For these markets we develop, market, sell, implement, support and run our preconfigured solutions, which reduce time, cost and risk for our customers.

For 30 years, we have been providing our customers enterprise software that evolves and adapts to new and emerging technologies, allowing them to focus on their business and not technology. Today, our software is available on the TechnologyOne Cloud and across smart mobile devices.

TechnologyOneCorp.com

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