

Techniche Limited



Techniche

Techniche Limited (ABN 83 010 506 162) and its Controlled Entities

10 November 2016

AGM PRESENTATION

Please find attached the Chairman's and CEO's presentation which will be given at the Company's annual general meeting today.

John Lemon
Company Secretary

About Techniche

Techniche Limited (ASX: TCN) is a listed investment company headquartered in Brisbane, Australia. We acquire, manage and build niche business-to-business (B2B) software & services companies. These businesses develop and deliver proprietary software solutions that serve critical needs in the day-to-day operations of our customers. Techniche employs an active management approach by working with and incentivizing management, to successfully grow our businesses in Australia and around the world both organically and via strategic acquisitions.

Contact

To learn more about Techniche or about this Market Release please visit our website at <http://www.tcnglobal.net> or contact:

David Nelson, Chief Executive Officer

Ph.: +61 1300 55 66 73

Email: davidnelson@tcnglobal.net

###

Techniche Chairman & CEO AGM Presentation

November 2016

This presentation contains forward-looking statements that are subject to risk factors associated with the Techniche Limited Group's business. Forward-looking statements include those containing such words as "anticipate", "estimates", "should", "will", "expects", "plans" or other similar expressions. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a range of variables and changes in underlying assumptions which could cause actual results or trends to differ materially. These include, but are not limited to: business Risk, changes in law, asset impairment, litigation, contractual risk, acquisition, integration and expansion risk, dependence on key management personnel, additional capital requirements, intellectual property, competition risk, foreign exchange movements, customer concentration, remote management for diverse business units, changes in taxation law, legislative and regulatory developments, economic and financial market conditions in various countries and regions, and political risks.

STATSEEKER

- Total contribution up 241%
- New business sales up 34%
- Total revenue up 10%
- Increased sales capacity
- New pricing strategy
- Developing new markets in IOT/OT sector

Techniche Year-on-Year Profit Variance

■ Increase ■ Decrease ■ Total

ERST

- Revenue up 14%
- Profit contribution up 13%
- Growth via acquisition strategy

FY15
Operating profit
2,191,300

Plus: Increase
in Statseeker
JV Profits
448,446

Plus: Increase in
ERST Profit
Contribution
350,281

URGENT

- Completion of customer funded product redevelopment impacted revenue and earnings
- Major overhaul of core product & platform
- Product focussed
- New CEO
- Additional sales & marketing investment
- Developing pipeline

Less: Decrease
in Urgent Profit
Contribution
-1,332,415

Less: Net increase
in Head Office &
Other Expenses
-73,157

FY16
Operating Profit
1,584,455

HEAD OFFICE

- New CEO
- Improved internal systems
- Focus on growing returns to shareholders

-
- STEP 1. Review everything
 - STEP 2. (Re-)Define the Techniche vision & strategy
 - STEP 3. Stabilise Urgent Technology
 - STEP 4. Develop & execute multi-faceted expansion plans for each portfolio company
 - STEP 5. Build out Techniche operating model & capabilities
 - STEP 6. Deploy excess cash and/or raise external capital to support growth plans
 - STEP 7. Monitor & evaluate portfolio company progress for Hold or Divest decision
 - STEP 8. Earn stock re-rating to eliminate implied PE discount to market
 - STEP 9. Build group NPAT \geq \$7M
 - STEP 10. Achieve \geq \$100M market cap

STEP 1. Review everything

STEP 2. (Re-)Define the Techniche vision & strategy

STEP 3. Stabilise Urgent Technology

STEP 4. Develop & execute multi-faceted expansion plans for each portfolio company

STEP 5. Build out Techniche operating model & capabilities

STEP 6. Deploy excess cash and/or raise external capital to support growth plans

STEP 7. Monitor & evaluate portfolio company progress for Hold or Divest decision

STEP 8. Earn stock re-rating to eliminate implied PE discount to market

STEP 9. Build group NPAT \geq \$7M

STEP 10. Achieve \geq \$100M market cap

- Held numerous meetings with Board, management, staff, investors, partners and customers
- Conducted Techniche SWOT analysis
- Identified specific priorities amongst the wide range of issues:
 - TCN is subscale and 'below the radar' of most investors
 - We have been unfocused, opportunistic and lacking a coherent strategic direction
 - We face concentration risk with high share of earnings from a single company (ERST) and high share of revenues from a single client (BP)
 - Our prior-year (FY15) earnings not sustainable and no immediate replacement income streams = short term pain
 - Significant turnaround needed at portfolio company (Urgent Technology)

STEP 1.	Review everything
STEP 2.	(Re-)Define the Techniche vision & strategy
STEP 3.	Stabilise Urgent Technology
STEP 4.	Develop & execute multi-faceted expansion plans for each portfolio company
STEP 5.	Build out Techniche operating model & capabilities
STEP 6.	Deploy excess cash and/or raise external capital to support growth plans
STEP 7.	Monitor & evaluate portfolio company progress for Hold or Divest decision
STEP 8.	Earn stock re-rating to eliminate implied PE discount to market
STEP 9.	Build group NPAT \geq \$7M
STEP 10.	Achieve \geq \$100M market cap

- **Techniche is a listed Australian company that acquires and builds high-growth, market-leading global B2B software companies**
- Our portfolio investment strategy will focus on companies with:
 - Australian heritage that are taking on the world
 - The potential for scale and scalability (we want to own two \$50M businesses not 10 \$10M businesses)
 - The potential to identify and own key market niches (go 'narrow and deep' versus 'broad and shallow')
 - Opportunities for organic *and* acquisition-lead growth
- We will be unique among ASX stocks for our combination of pure focus on software, portfolio diversification, high-growth potential and high dividend yield

[We note and track the success of international peer companies like see peers Constellation Software (TSE: CSU) & Actua (NASDAQ: ACTA)]

STEP 1.	Review everything
STEP 2.	(Re-)Define the Techniche vision & strategy
STEP 3.	Stabilise Urgent Technology
STEP 4.	Develop & execute multi-faceted expansion plans for each portfolio company
STEP 5.	Build out Techniche operating model & capabilities
STEP 6.	Deploy excess cash and/or raise external capital to support growth plans
STEP 7.	Monitor & evaluate portfolio company progress for Hold or Divest decision
STEP 8.	Earn stock re-rating to eliminate implied PE discount to market
STEP 9.	Build group NPAT \geq \$7M
STEP 10.	Achieve \geq \$100M market cap

- **Actions**

- Conducted 'deep dive' to focus and refine business strategy
- Prioritise short-term 'fix the core' program of activities
- Streamlining and slimming down cost & organisational structure
- Rebuild customer relationships
- Kick-started sales and marketing pipeline

- **Outcomes**

- 10-15% reduction in overall headcount
- Increased sales pipeline from <£1M to ~£5M in total contract value
- Closed one major new client and on track for annual new sales target
- 2 customer upgrades approved; June '17 to migrate all (non-BP) clients
- Working with one channel partner; in active discussions with multiple others

STEP 1.	Review everything
STEP 2.	(Re-)Define the Techniche vision & strategy
STEP 3.	Stabilise Urgent Technology
STEP 4.	Develop & execute multi-faceted expansion plans for each portfolio company
STEP 5.	Build out Techniche operating model & capabilities
STEP 6.	Deploy excess cash and/or raise external capital to support growth plans
STEP 7.	Monitor & evaluate portfolio company progress for Hold or Divest decision
STEP 8.	Earn stock re-rating to eliminate implied PE discount to market
STEP 9.	Build group NPAT \geq \$7M
STEP 10.	Achieve \geq \$100M market cap

- **Urgent**

- Defined our vision to become the leading global CMMS vendor for the multi-store fuel & c-store retailing segment
- Accelerate sales growth by building out market expansion & channel partner strategies (which lead to the unsolicited offer to acquire Urgent);
- Target bolt-on acquisitions to fast-track product roadmap & build scale
- Prepared detailed quarterly milestone plans for next 36 months

- **ERST**

- Defined strategy to grow via acquisition a diversified German IT software & services
- Sourced 100+ proprietary opportunities > 20+ qualified opportunities > 2 term sheets issued thus far
- Closely monitor and assess rising valuation multiples in the current low interest rate environment
- Develop & execute a medium-term exit strategy.
- Prepared detailed quarterly milestone plans for next 36 months

- **Statseeker**

- Working with JV partner to develop strategies for aggressive pivot into greenfield market opportunities in Operational Technology (OT) / Internet of Things (IoT)
- Repaid all external debt and have are fast-tracking cash repatriation to JV partners

STEP 1.	Review everything
STEP 2.	(Re-)Define the Techniche vision & strategy
STEP 3.	Stabilise Urgent Technology
STEP 4.	Develop & execute multi-faceted expansion plans for each portfolio company
STEP 5.	Build out Techniche operating model & capabilities
STEP 6.	Deploy excess cash and/or raise external capital to support growth plans
STEP 7.	Monitor & evaluate portfolio company progress for Hold or Divest decision
STEP 8.	Earn stock re-rating to eliminate implied PE discount to market
STEP 9.	Build group NPAT \geq \$7M
STEP 10.	Achieve \geq \$100M market cap

- Redefined clear corporate vision
- Established proper group and business unit HR framework (KPIs, job descriptions, etc.)
- Overhauled employee incentive programs
- Upgrading internal IT systems with priority on financial and BI capabilities
- Planning for overhaul of Techniche website and greater engagement and quality in our digital / marketing strategy
- Steadily in-sourcing various administrative functions to Techniche HQ to add value to portfolio companies
- Creating model investment templates to streamline and standardise our workflows

- | | |
|-----------------|--|
| STEP 1. | Review everything |
| STEP 2. | (Re-)Define the Techniche vision & strategy |
| STEP 3. | Stabilise Urgent Technology |
| STEP 4. | Develop & execute multi-faceted expansion plans for each portfolio company |
| STEP 5. | Build out Techniche operating model & capabilities |
| STEP 6. | Deploy excess cash and/or raise external capital to support growth plans |
| STEP 7. | Monitor & evaluate portfolio company progress for Hold or Divest decision |
| STEP 8. | Earn stock re-rating to eliminate implied PE discount to market |
| STEP 9. | Build group NPAT \geq \$7M |
| STEP 10. | Achieve \geq \$100M market cap |

- Continuing to work with retained M&A adviser to originate proprietary deal flow leading to qualified and uncontested new investment opportunities
- Engaging with shareholders and other potential capital providers – both equity and debt – to create awareness and understanding of Techniche strategy and potential future capital requirements
- Excess cash today (~\$2-3M) could grow to ~\$13M with the Urgent sale; this can be leveraged into acquisition(s) to the value of ~\$20M delivering substantial incremental earnings stream and significantly advancing us towards our objective of creating a \$100M market cap company

Outlook for FY17

[Retain Urgent scenario]



A\$'000s	FY17 [Forecast]	FY16 [Actual]	1H17 [Forecast]	2H17 [Forecast]	Commentary
Trading revenue ¹	8,538	9,182	3,442	5,095	<ul style="list-style-type: none"> Urgent forecasting drop in y.o.y. revenue (especially weak in 1st half) due to non recurring project work ERST conservatively forecasting modest y.o.y. fall in revenue with some revenue shifted into 2nd half Statseeker & Urgent new business expected to accelerate in 2nd half
Portfolio profit contribution	2,848	2,648	573	2,276	<ul style="list-style-type: none"> Cost of Urgent AU office closure will impact 1st half Statseeker ramping up sales & marketing spend to drive medium-term growth
Less: Head office expenses	(978)	(789)	(500)	(479)	<ul style="list-style-type: none"> Investment in new head office structure adds cost
Earnings before interest & tax (EBIT)	1,870	1,858	73	1,798	
Less: Income tax expense	(211)	(260)	(74)	(137)	<ul style="list-style-type: none"> Lower taxable profits from ERST
Net operating profit after tax (NOPAT)²	1,659	1,599	(1)	1,660	<ul style="list-style-type: none"> Modest y.o.y. growth in NOPAT forecast Fall to break-even trading in 1st half before rebound in 2nd half

1. Trading revenue includes contribution from Statseeker fees & interest plus share of JV profit
2. This figure excludes the impact of potential foreign exchange gains and losses

Outlook for FY17

[Divest Urgent scenario]



A\$'000s	FY17 [Forecast]	1H17 [Forecast]	2H17 [Forecast]	Commentary
Trading revenue ¹	6,088	3,442	2,645	• Loss of Urgent 2 nd half revenue contribution
Portfolio profit contribution	2,285	573	1,712	• Loss of Urgent 2 nd half earnings contribution
Less: Head office expenses	(978)	(500)	(479)	
Earnings before interest & tax (EBIT)	1,870	73	1,798	
Less: Income tax expense	(191)	(74)	(117)	
Net operating profit after tax (NOPAT)²	1,116	(1)	1,117	
Capital gain	3,632	3,632	-	• Estimated net gain on sale of Urgent equity, IP and inter-company loans
Net profit after tax (NPAT)	4,748	3,631	1,117	<ul style="list-style-type: none"> • One-off gain in 1st half • 2nd half demonstrates a higher margin, higher growth, more sustainable portfolio trading performance (plus cash in the bank for acquisition of new earnings streams)

1. Trading revenue includes contribution from Statseeker fees & interest plus share of JV profit
2. This figure excludes the impact of potential foreign exchange gains and losses

- We identified a potential channel partner in the US and reached out to them in May of this year to explore potential synergies; discussions have progressed steadily and have now lead to a non-binding written proposal to acquire Urgent.
- Techniche has executed the non-binding proposal to sell Urgent Technology to a US-based software company
- The transaction is for 100% of the issued and outstanding share capital of Urgent for a total consideration of US\$8.0 million (~A\$10.6 million) on an cash-free, debt-free basis
- The consideration would be 100% cash payable as follows:
 - US\$6.5 million cash at closing; and
 - US\$1.5 million cash paid 13 months post-closing subject to satisfaction of a range of performance- and transaction-related conditions.
- The transaction, if it proceeds to completion, is expected to close by 31 December 2016 and Techniche has agreed to a period of exclusive due diligence with the buyer
- There is no certainty that the Non-Binding Proposal will result in a binding offer and Techniche will continue to keep the Market informed in accordance with its continuous disclosure obligations.