

TechnologyOne Limited
Equity Analysis
January 2022

TechnologyOne Limited (ASX:TNE) is an Australia-based company, which is a supplier of software solutions. The company is engaged in developing, marketing, sales, implementation, and support of fully integrated enterprise business software solutions. It operates through three segments, Software, Consulting, and Corporate. The Software segment consists of sales and marketing, research and development, software-as-a-service (SaaS) platform. The Consulting segment is responsible for services in relation to its software. The Corporate segment includes all corporate functions. The company's enterprise business software solutions include TechnologyOne Enterprise Asset Management, TechnologyOne Financials, TechnologyOne Human Resource and Payroll, TechnologyOne Enterprise Budgeting, TechnologyOne Supply Chain, TechnologyOne Property and Rating, TechnologyOne Student Management, TechnologyOne Business Intelligence, TechnologyOne Spatial, and TechnologyOne Performance Planning.

Average volume	610.02k	Recommendation	Buy
Shares outstanding	323.12m	Risk Profile	Moderate
Free float	252.10m	52 Week Range (\$)	7.600 - 13.600
P/E (TTM)	49.47	Dividend Yield	1.24%
Market cap	3.60bn AUD	Franking	60%
EPS (TTM)	0.2252	Ex-Date	2-Dec-21
ROE	43.70%	Pay-Date	17-Dec-21

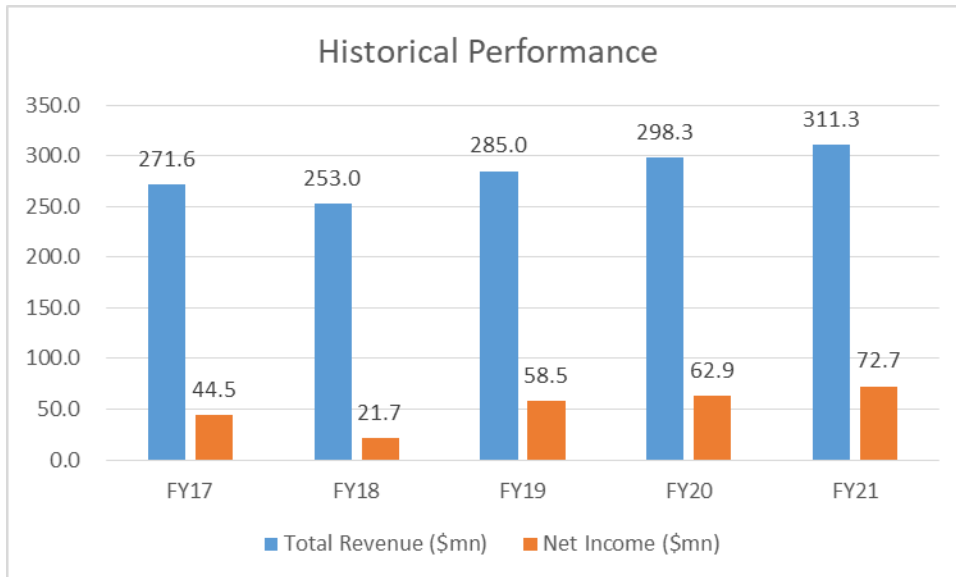
Source: (ASX and Refinitiv), Analysis By Kapitales Research

<u>Pros</u>	<u>Cons</u>
<ol style="list-style-type: none"> 1. Consistent improvement in profitability margins for the last five years. ROE better than the industry median 2. Topline and Bottomline for FY21 improved over previous year. Cash Cycle better than Industry median 	<ol style="list-style-type: none"> 1. Current ratio lower than the industry median; however it improved over previous year. 2. Increase in total liabilities for the company by the end of FY21
<u>Outlook</u>	<u>Risks</u>
<ol style="list-style-type: none"> 1. Strategic goal of reaching \$500 million+ Annual Recurring Revenue (ARR) by 2026 2. Incredible growth of its SaaS business, which doubles in size every 18 months 	<ol style="list-style-type: none"> 1. Contract Risk, Financial Risk, Software Risk, Insurance Risk, Project Risk, Sustainability Risk, etc. 2. Increasing competition

Source: Company Reports, Analysis By Kapitales Research

Historical Performance:

The past five years' performance delivered a compounded annual growth rate (CAGR) of 3.47% and 13.06% for the topline and bottom line, respectively. Its total revenue improved from \$271.6 million in FY17 to \$311.3 million in FY21, and its net income improved from \$44.5 million in FY17 to \$72.7 million in FY21. The cost of revenue for FY21 stood at \$41.4 million, compared to \$34.4 million in FY17.



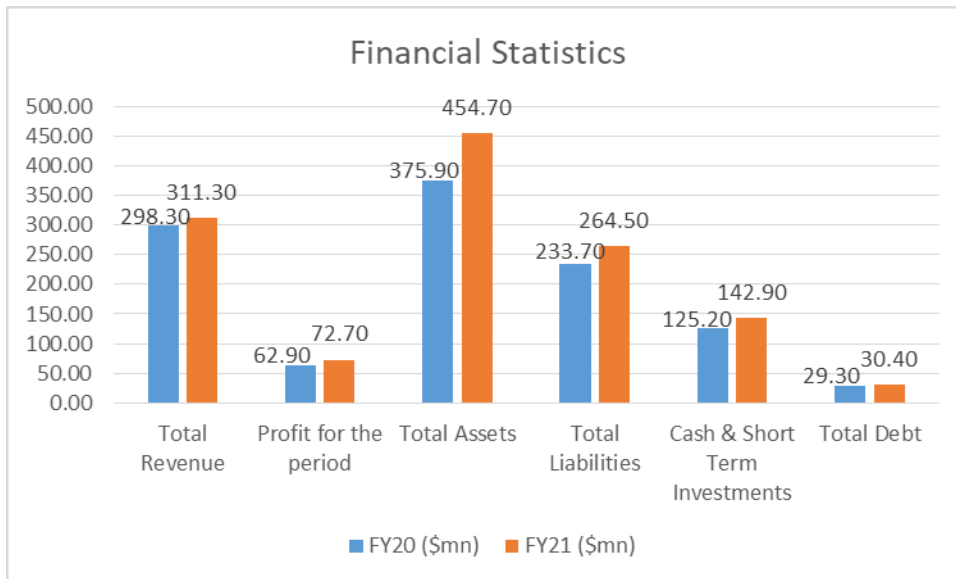
Source: Company Reports and Refinitiv, Analysis By Kapitales Research

FY21 Performance (Ended 30 September 2021):

The company's revenue from the SaaS and Continuing Business for FY21 stood at \$293.6 million, an increase of 9% on the previous year. SaaS Annual Recurring Revenue (ARR) stood at \$192.3 million, an increase of 43% on the previous year. This growth is all organic and includes no acquisitions. This year, it added around 100 enterprise customers to its global SaaS ERP solution. It now has 637 large-scale enterprise customers, with hundreds of thousands of users, making it the largest single instance SaaS ERP offering in Australia. It continued to dominate the Local Government sector, where it closed 20 significant deals with \$25 million+ in total contract value. It has more than 300 council customers in APAC. It closed ten major deals with \$30 million+ in total contract value in the Higher Education sector, cementing its position as the dominant provider to the APAC Higher Education sector.

Total Annual Recurring Revenue (ARR) stood at \$257.5 million, an increase of 16% on the previous year. The total revenue for 2021 was reported at \$312.0 million, an increase of 4% of the prior year. Expenses stood at \$214.2 million, a decline of 1% on the previous year. R&D investment for the period stood at \$77.0 million before capitalization, an increase of 13% on FY20. R&D investment comprised 24% of revenue. Profit before Tax for the period stood at \$97.8 million, an increase of 19% on the previous year. Cash Flow Generation was reported at \$63.9 million, an increase of 12% on the previous year. At the end of the period, Cash and Cash Equivalents stood at \$142.9 million, an increase of 14% on the previous year. The total Dividend for the period stood at 13.91cents per share (cps), a rise of 8% in the previous year.

In September, the company acquired Scientia Resource Management Limited (Scientia), a United Kingdom company servicing higher education. This acquisition forms part of its strategic focus to deliver the deepest functionality for Higher Education. It is expected to accelerate its growth in the competitive market in the UK and has significant benefits in the Australian Higher Education market. The integration of Scientia's advanced academic timetabling and resource scheduling capabilities, combined with its market-leading Student Management, HR & Payroll, Enterprise Asset Management, and Finance capabilities, is expected to provide smarter decision-making for customers, eliminating underutilization of space and resources that is paramount for Higher Education across the globe in a post-COVID world.



Source: Company Reports, Analysis By Kapitales Research

Ratio Analysis:

The company's gross margin, EBITDA margin, Operating Margin, and net margin for FY21 stood at 86.7%, 40.0%, 31.7%, and 23.4%, better than the industry median of 75.2%, 26.6%, 22.3%, and -25.7%, respectively, implying decent fundamentals for the company. ROE for FY21 stood at 43.7%, better than the industry median of 17.2%, implying that the company generated a better return for its shareholders than its peer group. Its cash cycle for FY21 stood at negative 172.0 days, better than the industry median of negative 4.1 days, implying that the company efficiently managed its asset-liability balances than its peer group. Its Return on Invested Capital (ROIC) for FY21 stood at a decent figure of 36.4%.

	Industry Median	2021	2020	2019	2018	2017
Gross Margin	75.2%	86.7%	87.1%	86.3%	85.6%	87.3%
EBITDA Margin	26.6%	40.0%	34.1%	28.5%	12.2%	22.5%
Operating Margin	22.3%	31.7%	27.9%	26.4%	9.4%	20.9%
Pretax Margin	(24.8%)	31.4%	27.6%	26.8%	9.8%	21.4%
Net Margin	(25.7%)	23.4%	21.1%	20.5%	8.6%	16.4%
Asset Turnover	0.39	0.75	0.86	0.95	0.95	1.16
ROE	17.2%	43.7%	50.6%	63.4%	18.5%	30.1%
Quick Ratio	2.79	-	-	-	-	-
Current Ratio	2.29	1.03	1.01	0.97	0.89	2.19
Times Interest Earned	27.0	68.5	57.2	-	-	-
Cash Cycle (Days)	(4.1)	(172.0)	(228.6)	(239.5)	(179.8)	(122.6)
Assets/Equity	1.32	2.39	2.64	2.98	3.67	1.58
Debt/Equity	0.01	0.16	0.21	0.00	0.00	0.00
% LT Debt to Total Capital	1.6%	12.3%	15.9%	0.0%	0.0%	0.0%
ROIC	-	36.4%	44.4%	60.5%	17.2%	26.9%

Source: Refinitiv, Analysis By Kapitales Research

Shareholding Pattern:

The company's top 10 shareholders constitute around 44.55% of the total interest in the company. Mactaggart (John Dugald) and Di Marco (Adrian) are its two most significant shareholders with 8.33% and 5.38%, respectively. Most of its shareholders have increased their stakes in the company.

Number	Investor Name	% Outstanding	Position (mn)	Position Change (mn)	Value (\$mn)	Filing Date
1	Mactaggart (John Dugald)	8.33%	26.90	-4.00	187.80	01-06-2021
2	Di Marco (Adrian)	5.38%	17.38	-3.00	121.31	01-06-2021
3	Fundsmith LLP	4.98%	16.08	+3.70	114.08	01-03-2021
4	Pinnacle Investment Management Group Ltd	4.94%	15.95	-0.18	100.66	22-12-2020
5	Hyperion Asset Management Limited	4.38%	14.17	-1.63	89.38	07-12-2020
6	Selector Funds Management Limited	4.20%	13.57	+13.57	85.63	07-12-2020
7	Modrian Investment Partners	3.44%	11.11	+11.11	70.10	07-12-2020
8	Invesco Advisers, Inc.	3.27%	10.58	+2.73	66.75	07-12-2020
9	Fidelity Management & Research Company LLC	3.09%	9.98	-0.56	72.98	07-04-2021
10	Wasatch Global Investors Inc	2.55%	8.23	+5.28	51.90	07-12-2020

Source: Refinitiv, Analysis By Kapitales Research

Outlook:

As per the company reports, TNE is focused and on track to achieve its strategic goal of reaching \$500 million+ Annual Recurring Revenue (ARR) by 2026. The strategies include driving the growth of the customer base, expanding within the vertical markets, expanding the product range and depth, and growth in the UK and beyond. Its current success has been underpinned by the incredible growth of its SaaS business, which doubles in size every 18 months. This is powering the growth of TechnologyOne, which continues to double in size every five years. It now has 637 customers on a global SaaS ERP solution. In FY22, the Corporate Services team is expected to deliver innovations that will underpin growth in sales to new and existing customers while driving improvements in internal systems and processes. By partnering with the business, it is expected to assist in transitioning customers to its SaaS platform, adopting more TechnologyOne products, and support winning new customers in the UK and APAC.

Key Risks:

The company is susceptible to specific risks such as Contract Risk, Financial Risk, Software Risk, Insurance Risk, Project Risk, Sustainability Risk, etc.

Valuation:

Relative Valuation Based on Price/Cash Flow	
TECHNOLOGY ONE LIMITED	TNE
Cash Flow Per Share (FY22E A\$)	0.4
Price/Cash Flow Multiple (NTM) (Peer Median) (approx)	35.3x
Target Share Price (A\$)	12.87
Current Market Price (A\$) (17 January 2022)	11.36
Recommendation	Buy

Source: Refinitiv, Analysis By Kapitales Research

Technical Analysis:



Source: Refinitiv, Analysis By Kapitales Research

The stock has taken support on 200 EMA, which is strong support. RSI (14 days) is at 36.65, indicating an excellent buying opportunity. It is expected to test the moving resistance, i.e. 20 EMA (\$12.026); then, it may test resistance at \$13.13. This resistance shall act like our first and second targets, respectively. Investors are advised to have a stop-loss at around or below 200 EMA (\$10.996).

Investment Summary:

The company's profit for FY21 was at the top end of guidance, underpinned by the continuing fast growth of the TechnologyOne global SaaS ERP solution. Its global SaaS ERP solution is increasing, which has enabled it to announce the end of its on-premise business by October 2024, which will further drive its SaaS business. Moreover, it is on track to hit a \$500 million+ ARR target by FY26. By FY24, TNE expects its entire business to be growing by 15+% per annum.

Hence after considering the facts mentioned above and current trading levels, investors willing to have good dividend income can have a "Buy" stance on the stock at the market price of \$11.360 as of 17 January 2022.

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Disclosure: The information mentioned above has been sourced from the company reports and a third party database, i.e. Refinitiv. Investors are advised to use strict stop-loss to protect their investments in case of any unfavorable/uncertain market events.

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