

24 May 2022

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TechnologyOne Ltd (TNE)

Information Technology

BUY

TNE A\$10.04 **TARGET PRICE A\$12.01**

Technology One Limited (TNE) is a company that is involved in the development, marketing, sales, implementation, and support of enterprise business software solutions.

Company Data

Number of shares	323.1
Market Capitalisation	\$3,363.6
Free float (%)	81.0
12-month high/low	\$13.43/\$8.71
Average Daily Turnover (\$m)	4.66
% S&P/ASX200	0.159
DDM Ranking	132
% All Ordinaries	0.124
GICS Industry Group	Cloud Computing

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end September	2021A	2022F	2023F	2024F
Revenue (\$M)	312.0	351.6	388.0	432.5
EBITDA (\$M)	124.9	142.4	162.5	189.1
Reported NPAT (\$M)	72.7	85.1	95.6	113.7
Adjusted NPAT (\$M)	72.7	83.1	93.3	109.5
Reported EPS (¢)	22.5	24.9	27.1	32.2
Adjusted EPS (¢ - FD)	22.6	25.2	28.5	33.4
Adjusted EPS growth (%)	15.5	11.5	12.7	17.4
Adjusted P/E (x)	46.0	41.2	36.6	31.2
Dividend (¢/sh)	13.9	15.4	17.1	19.1
Gross yield (%)	1.9	2.1	2.3	2.6
Net yield (%)	1.3	1.5	1.6	1.8
ROIC (%)	140.0	115.6	103.3	105.8

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

Share price performance.



Source: FactSet, Barclay Pearce Capital

H1 FY22 Financial Results

On 24th May 2022, TechnologyOne Limited (TNE) announced its financial results for the half year ended 31 March 2022 with the following highlights:

Highlights:

- Profit After Tax of \$33.2m, up 18%;
- Profit Before Tax of \$42.6m, up 14%;
- SaaS Annual Recurring Revenue (ARR)1 of \$225.1m, up 44%;
- Revenue from our SaaS and Continuing Business of \$169.5m, up 21%;
- Total Revenue of \$172.5m, up 19%;
- Expenses of \$129.9m, up 21%;
- Cash and Cash Equivalents of \$116.4m, up 16% from 31 March 2021;
- Cash Flow Generation of \$1.6m as expected, and will be strong over the full year;
- Interim Dividend of 4.2cps, up 10%;
- R&D expenditure (before capitalisation) of \$41.5m, up 20%, which is 24% of revenue; and
- UK profit up 100%+.

Comments:

TNE's CEO, Edward Chung, said: "As we continue to win more customers and our SaaS Platform continues to scale globally, our profit margin will continue to expand.

We saw an acceleration of customers move to our global SaaS ERP solution, with more than 138 large enterprise customers making the shift, the highest number to date for any comparable period. This was driven by our 'end of on-premise program', with the majority of remaining on-premise customers now also committing to transition before 2024.

Over the next few years, our SaaS and Continuing Business is expected to continue to grow strongly as our legacy licence fee business comes to an end.

We are on track to deliver Total ARR of \$500m+ by FY26, from our current base of \$288m;

The economies of scale from our global SaaS ERP solution will also see continuing Profit Before Tax margin expansion to 35%.

The company is well positioned to deliver continuing strong growth over the full year, expecting Net Profit Before Tax growth for FY22 up 10% to 15% on FY21.

Outlook:

- TNE sees long-term continuing strong growth driven by its global SaaS ERP solution, increased product adoption by existing customers, new customers and expansion globally.

Earnings changes

TNE has updated its earnings guidance for FY22, expecting Net Profit Before Tax growth for FY22 up 10 - 15% on FY21. This compares to market expectations for FY22 NPAT growth of 14%. Hence, we do not expect any significant earnings revision for FY22 or for future periods.

Valuation

We are updating our 12-month price target from \$11.69 to \$12.01 and retaining our BUY recommendation. The price target is underpinned by our valuation.

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Disclaimer

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

Conflicts of Interest

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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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Valuation Methodology

Barclay Pearce Capital's methodology for assigning stock and credit ratings may include the following: market capitalisation, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of peer comparisons, market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

Barclay Pearce Capital Recommendation Proportions

Buy	37.9%	0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	22.8%	0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	39.4%	0.0% of stocks with recommendations are Barclay Pearce clients)