

24 November 2020

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TECHNOLOGY ONE LIMITED (TNE)

Information Technology

Buy

TNE A\$8.84

TARGET PRICE A\$11.88

Technology One Limited is Australia's largest ERP Software as a Service (SaaS) company. It is a software provider and consultant, servicing government, local government, financial services, health & community services, education, and utilities and managed services markets. Products include financials, HR & Payroll, supply chain and business intelligence. TNE also offers custom software development services for large scale, purpose-built applications.

Company Data

Number of shares	319.3M
Market Capitalisation	\$2,873.7M
Free float (%)	65.0
12-month high/low	\$10.19/\$6.74
Average Daily Turnover (\$m)	12.3264
% S&P/ASX200	0.16%
DDM Ranking	155
% All Ordinaries	0.14%
GICS Industry Group	Software & Services

Source: FactSet, Barclay Pearce Capital

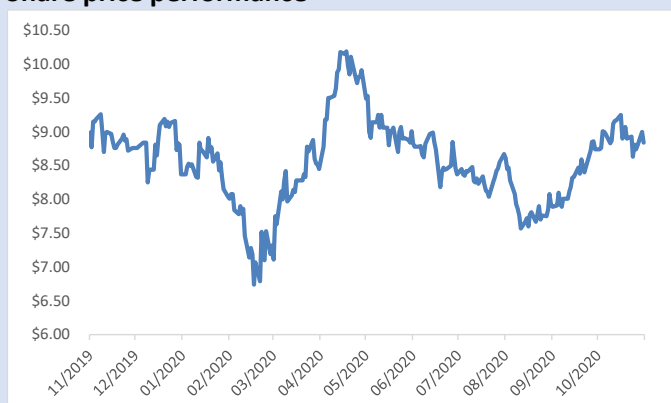
Earnings Summary (AUD)

Year end September	2020A	2021F	2022F	2023F
Revenue (\$M)	299.0	324.8	385.4	424.0
EBITDA (\$M)	86.1	112.5	142.7	165.3
Reported NPAT (\$M)	62.9	69.5	87.9	105.4
Adjusted NPAT (\$M)	66.1	66.5	84.1	107.9
Reported EPS (c)	19.7	21.0	25.7	29.7
Adjusted EPS (c - FD)	20.7	20.8	25.7	27.8
Adjusted EPS growth (%)	12.3	13.1	23.7	8.2
Adjusted P/E (x)	43.5	43.3	35.0	32.3
Dividend (c/sh)	12.9	14.3	17.5	18.1
Gross yield (%)	2.0	2.3	2.6	2.7
Net yield (%)	1.4	1.6	1.8	1.9
ROIC (%)	204.2	138.9	115.4	81.5

Source: Barclay Pearce Capital

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

Share price performance



Source: FactSet, Barclay Pearce Capital

FY20 Results Release

On 24 November 2020, Technology One Limited (ASX:TNE) announced its financial results for the year ended 30 September 2020 with the following highlights:

Financial Results

- Revenue from our SaaS and Continuing Business of \$269.8m, up 12%;
- SaaS Annual Recurring Revenue (ARR) of \$134.6m, up 32%;
- Total Revenue of \$299.0m, up 4%;
- Expenses of \$216.5m, up 3%;
- Underlying Profit Before Tax of \$86.1m, up 13%;
- Underlying Net Profit After Tax of \$66.1m, up 13%;
- Reported Net Profit After Tax of \$62.9m, up 7.5%;
- Reported Profit Before Tax of \$82.5m, up 8%;
- Cash Flow Generation of \$66.4m, up 49%;
- Cash and Cash Equivalents of \$125.2m, up 19%;
- Total Dividend of 12.88cps, up 8%; and
- R&D investment of \$68.1m before capitalisation, up 13%, which is 22% of revenue.

COVID-19

- When COVID-19 hit, TNE's solution enabled TNE's SaaS customers to seamlessly shift to remote working;
- COVID-19 has reinforced the significant value proposition of TNE's Global SaaS ERP solution which provides mission critical systems and enables TNE's customers' staff to work on any device, anywhere, anytime, seamlessly without interruptions.

Outlook

- The enterprise software market continues to be resilient;
- TNE key markets remain strong: Local government, higher education, government, and government related businesses;
- SaaS is creating significant opportunities and TNE expects to see strong continuing growth in SaaS ARR and profit; and
- TNE will provide further guidance at both the Annual General Meeting and with the first half results.

Earnings changes

TNE reported FY20 revenue of \$299m and adjusted NPAT of \$66.1m, up 4.5% and 13% on FY19, respectively. TNE's adjusted FY20 NPAT was 8% above market expectations of \$61.2m. As such, we expect positive earnings revisions of 8% for future periods.

We are initiating on TNE with a 12-month price target of \$11.88 and a Buy recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its clients. Mr Wright is General Manager of Research and has over thirty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2020 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.

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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.

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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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Barclay Pearce Capital Recommendation Proportions

