



technologyone  
business software solutions

# Half Year Results – Dec 2005

Connected Intelligence

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[www.TechnologyOneCorp.com](http://www.TechnologyOneCorp.com)

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- AIFRS\* Implications for TechnologyOne
- 2006 Half Year Results
- Significant Achievements Last Six Months
- Outlook
- Our Strategy for Growth

*\*Australian International Financial Reporting Standards*

- Our approach - adopt AIFRS and also look at 'world best practice' where there was ambiguity
- Revenue recognition – substantial change:
  - Revenue previously recognised:
    - Firm proposal had been issued and accepted by the customer
    - A firm Purchase Order/Letter of Intent had been issued by the customer
    - Software was shipped and accepted by the customer, and
    - Contract was a certainty
    - Contract was signed before results finalised
  - Revenue now recognised **ONLY** where a signed contract exists before period end
  - New policy major impact is half year results, as clients go on Christmas break, and contracts can not be finalised/signed before December 31<sup>st</sup>. In most circumstances, minimal impact in the full year expected.

- Research & Development (R&D) – no change
  - All R&D fully expensed as incurred – no capitalisation
  - This is clearly best practice globally and widely adopted by international software companies
- Amortisation of Goodwill – minimal
  - estimate: \$296k in this half
- Foreign Currency – minimal
  - estimate: \$7k in this half

- Because of transitional AIFRS issues we will provide
  - comparison to prior year adjusted for AIFRS (mandated)
    - ie H1 2006 AIFRS vs H1 2005 AIFRS
  - comparison to prior year as was previously reported (ie under AGAAP)
    - ie H1 2006 AIFRS vs H1 2005 AGAAP
- H1 2006 AIFRS vs H1 2005 AGAAP is a better comparison

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- Record Half Year Revenue \$31.7m: up 20%
- Record Half Year Profit Before Tax \$7.2m: up 14%
  - Profit After Tax \$5.1m: up 13%
- Expenses excluding R&D: up 27%
  - Substantial increase in cost to put in place the platform for our international expansion and to become a global software company
    - Product Service Delivery added over last 2 years
    - Product Marketing added over last 2 years
    - Product Specialists in R&D teams added over last 2 years
- Company continued to invest in its future
  - R&D \$5.8m, up \$877k, up 18% - represents about 18% of Revenue
  - R&D fully expensed as incurred

- Initial licence fees to new customers of \$6.9m up 70%
- Licence fees to existing customers of \$1.3m down 2%
- Annual licence fees of \$9.5m up 14%
- Consulting services of \$8.0m up 22%
- Project Services revenue of \$4.4m down marginally 3%



- Strong result because:
  - Continuing strong demand for our products (70% increase in Initial Licences)
  - Continued investment in our HR & Payroll (R&D loss of \$336k)
  - Continued investment in our Supply Chain (R&D loss of \$608k)
  - Malaysia poor performance (loss of \$427k after Royalty)
  - No Student Management Licences in this half
  - Central Region performance improved substantially, but still below expectations

- Financials Licences up \$2.6m (to \$5.2m) up 100%
  - Involved in all deals
- Supply Chain and HR & Payroll Licences up
  - Amounts still relatively minor (up \$312k & \$29k respectively)
- Business Intelligence new initiative, strong performance
  - Licences of \$1.0m
- Student Management Licences down 83%
  - Strong opportunities expected in H2
- Property & Rating Licences down 30%
  - Better opportunities expected in H2

- Return on Equity (adjusted) improved to 28% (vs 24% last year)
- Strong Operating Cash Flow of \$4.2 million (vs \$5.1m NPAT)
  - Revenue recognised not invoiced because of staged payment terms on larger contracts
  - Prepaid income tax for the period greater than actual
- Balance sheet strong
  - Cash on hand\*: \$22.6m (vs \$24.6m last year)
  - Debt/Equity : 4% (vs 3% last year)
- Transparency of results – all R&D fully expensed
- Dividend to remain steady at 1.40 cents

*\*Cash includes short term investments*

# Half Year Reporting Table

## 2006 H1 AIFRS vs 2005 H1 AGAAP

The Power of **One**

H1 2006 AIFRS v H1 2005 AGAAP	H1 2006 \$ (000)	H1 2005 \$ (000)	Variance \$ (000)	Increase %
<b>Total Revenue</b>	<b>31,659</b>	<b>26,311</b>	<b>5,348</b>	<b>20%</b>
<b>Revenue (PRE 3rd party costs) (excl interest)</b>	<b>31,026</b>	<b>25,660</b>	<b>5,366</b>	<b>21%</b>
Expenses (excl R&D, Depn, Amort)	18,024	14,206	3,817	27%
<b>EBITDAR</b>	<b>13,002</b>	<b>11,454</b>	<b>1,549</b>	<b>14%</b>
<b>R&amp;D</b>	<b>5,842</b>	<b>4,965</b>	<b>877</b>	<b>18%</b>
EBITDA	7,160	6,489	672	10%
Depreciation and amortisation	551	479	72	15%
Amortisation of Intangibles	14	333	(319)	(96%)
EBIT	6,595	5,676	919	16%
Net Interest Income	633	651	(18)	(3%)
<b>Profit Before Tax</b>	<b>7,228</b>	<b>6,327</b>	<b>900</b>	<b>14%</b>
NPAT Reported	5,080	4,491	588	13%
<b>EPS cents Reported</b>	<b>1.69</b>	<b>1.50</b>	<b>0.19</b>	<b>13%</b>
Dps cents - standard	1.40	1.40	0.00	0%
ROE adjusted	28%	24%		
Cash and Cash Equivalents	22,601	24,585	(1,984)	(8%)
Net operating cash flows	4,199	5,620	(1,421)	(25%)
Debt/Equity	4%	3%		
EBITDA Margin (Total Revenue)	23%	25%		
Net Profit Before Tax Margin (Total Revenue)	23%	24%		
<b>R&amp;D as Percentage of Total Revenue</b>	<b>18%</b>	<b>19%</b>		

- Following is a summary of half year results based on comparison to H1 2005 adjusted for AIFRS
  - ie: H1 2006 AIFRS vs H1 2005 AIFRS
  - Provided for statutory requirements only

- Record Half Year Revenue \$31.7m: up 31%
- Record Half Year Profit Before Tax \$7.2m: up 52%
  - Profit After Tax \$5.1m: up 46%
- Expenses excluding R&D up: 29%
- Company continued to invest in its future
  - R&D \$5.8m, up \$877k, up 18% - represents 18% of Revenue
  - R&D fully expensed as incurred

- Initial licence fees to new customers of \$6.9m up 182% (vs 70% under AGAAP)
- Annual licence fees of \$9.5m up 22% (vs 14% under AGAAP)
- Licence fees to existing customers of \$1.3m down 2% (no change)
- Consulting services of \$8.0m up 22% (no change)
- Project Services revenue of \$4.4m down marginally 3% (no change)

# Half Year Reporting Table

## 2006 H1 AIFRS vs 2005 H1 AIFRS

The Power of **One**

H1 2006 AIFRS v H1 2005 AIFRS	H1 2006 \$ (000)	H1 2005 \$ (000)	Variance \$ (000)	Increase %
<b>Total Revenue</b>	<b>31,659</b>	<b>24,185</b>	<b>7,474</b>	<b>31%</b>
<b>Revenue (PRE 3rd party costs) (excl interest)</b>	<b>31,026</b>	<b>23,533</b>	<b>7,493</b>	<b>32%</b>
Expenses (excl R&D, Depn, Amort)	18,024	13,961	4,063	29%
<b>EBITDAR</b>	<b>13,002</b>	<b>9,572</b>	<b>3,430</b>	<b>36%</b>
<b>R&amp;D</b>	<b>5,842</b>	<b>4,965</b>	<b>877</b>	<b>18%</b>
EBITDA	7,160	4,607	2,553	55%
Depreciation and amortisation	551	479	72	15%
Amortisation of Intangibles	14	35	(21)	(60%)
EBIT	6,595	4,093	2,502	61%
Net Interest Income	633	651	(18)	(3%)
<b>Profit Before Tax</b>	<b>7,228</b>	<b>4,744</b>	<b>2,484</b>	<b>52%</b>
NPAT Reported	5,080	3,490	1,590	46%
<b>EPS cents Reported</b>	<b>1.69</b>	<b>1.17</b>	<b>0.53</b>	<b>45%</b>
Dps cents - standard	1.40	1.40	0.00	0%
ROE adjusted	26%	18%		
Cash and Cash Equivalents	22,601	24,585	(1,984)	(8%)
Net operating cash flows	4,199	5,620	(1,421)	(25%)
Debt/Equity	4%	3%		
EBITDA Margin (Total Revenue)	23%	19%		
Net Profit Before Tax Margin (Total Revenue)	23%	20%		
<b>R&amp;D as Percentage of Total Revenue</b>	<b>18%</b>	<b>21%</b>		



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- Strong demand for our products, particularly Connected Intelligence (Ci) series
- Signed 35 new contracts in the half
  - TechnologyOne Financials underpinned all new deals
- Performed strongly in our core markets:
  - General Commercial – 23 new customers
  - Local Government – 5 new councils
  - State and Federal Government – 5 new agencies
  - Higher Education – 2 new customers

Adelaide Bank  
Australian Medical Council  
Bananacoast Community Credit Union  
Catholic Archdiocese of Sydney  
City of Bayswater  
City of Cambridge  
City of Gosnells  
Education Queensland  
Enhance Group  
Goulburn Mulwaree Council  
Government of Papua New Guinea  
Hawkes Bay District Health Board (NZ)  
Hostworks Ltd  
La Trobe Home Loans  
Ministry of Justice (NZ)  
Mondial Assistance  
Multicap  
NLC

Northern Territory Legal Aid Commission  
NT Airports  
NZ Education Institute (NZ)  
Premier Media Group  
Property Council of Australia  
Qld Airports Ltd  
Returned & Services League of Australia  
Roaring 40s Renewable Energy  
Rodney District Council (NZ)  
Royal Flying Doctors WA  
The Cancer Council South Australia  
The Gandel Group Pty Ltd  
Uniting Church NSW  
University of the Sunshine Coast  
Upstream Petroleum  
Wannon Region Water Authority  
Workcover QLD

- Opportunities in the Tier One space
  - High profile organisations included whole of Government of Papua New Guinea and Ministry of Justice (New Zealand)
  - Tier One organisations becoming disillusioned with our competitors offerings and strategy
  - Ci and Power One seen as a strong alternative
  - Opportunities and challenges

- TechnologyOne HR & Payroll (People One) in 19 new deals
  - 126 HR & Payroll customers now
  - Gaining momentum – On the way to being one of Australia’s leading HR & Payroll solutions
  - Untapped potential in our existing user base
  - Another 12 to 18 months before we go after “Best of Breed” HR & Payroll market
- TechnologyOne Supply Chain (Retail One/Sales One)
  - Involved in the majority of all new deals
  - Focus on our core markets
  - Retail and Distribution now merged into this group

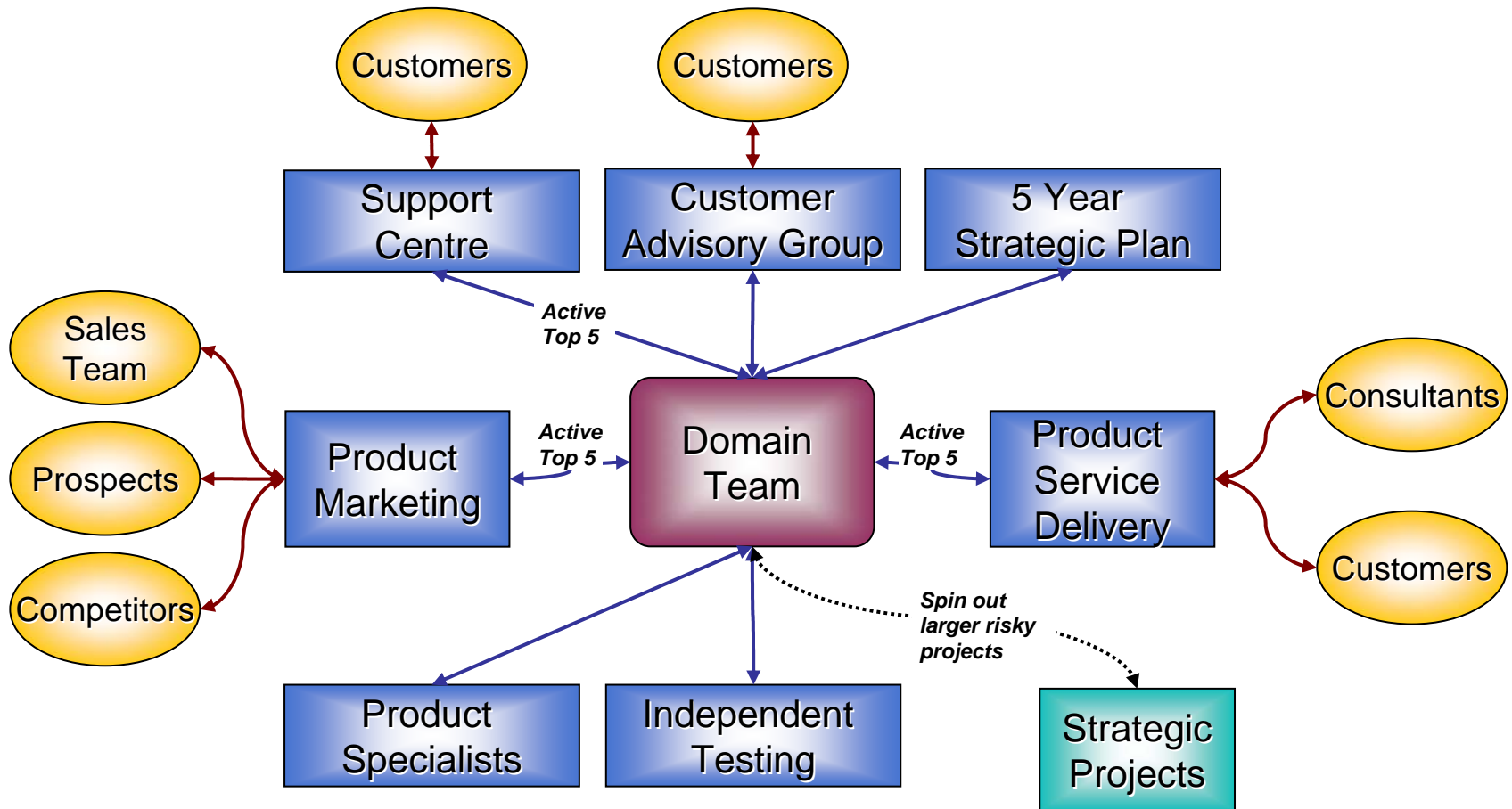
- TechnologyOne Student Management (Student One)
  - No new deals
  - Remained profitable – focus on existing customers
  - Strong opportunities in H2
- TechnologyOne Property & Rating (Proclaim One)
  - No new deals
  - Remained profitable – focus on existing customers
  - Good opportunities in the H2

- Continued penetration in New Zealand
  - Hawkes Bay District Health Board, Ministry of Justice, NZ Education Institute, Rodney District Council
  - Good opportunities going forward
- Malaysia
  - No new deals
- Project Services
  - Business stabilised
  - Focus on Queensland
  - NSW and Victoria progressively moving to new Integrate One initiative

- Continued strong R&D program
- Financials Ci continued to gain traction
  - Underpinned all new deals
  - 90+ sites now committed; 31+ sites now fully live
- Release 11.2 nearing completion
  - Extensive modifications for the UK
  - HR & Payroll Ci to be “patched” back into R11.2



- Continued organisational changes
  - Significant changes to R&D to deliver “Awesome Software”
    - Domain teams – small, creative and empowered R&D teams with deep ownership of product areas
    - Product Specialists added to R&D teams for user input
    - Consolidating Financials, HR & Payroll, Supply Chain, Work & Asset Management, Business Intelligence into our Core Enterprise Suite under talented executive
    - Introduced long term strategic planning
    - Commitment to a more leading edge/aggressive R&D cycle
    - Greater market focus by engaging with our Product Marketing group
    - Greater customer focus by engaging with our Product Service Delivery group
    - Release Control process and Product Rollout process



- Create “active” linkages to the market
- Domain teams to become empowered and market driven

- Preparation for TechnologyOne UK gains momentum
  - Continued as per our plan for international expansion
  - Strategy finalised: Power of One business model adopted
  - United Kingdom office location selected: Maidenhead
  - Country Manager appointed
  - TechnologyOne Financials (Ci) selected as first product for United Kingdom
  - Extensive modifications for United Kingdom available in R11.2
  - Initial staff relocated to United Kingdom in March
  - Other staff identified for United Kingdom
  - Office opens late March
  - Rebranding of our products for international expansion

- Rationalise our product brands to maximise our effectiveness
  - Always promote TechnologyOne
  - TechnologyOne Enterprise suite
    - TechnologyOne Financials (was Finance One)
    - TechnologyOne HR & Payroll (was People One)
    - TechnologyOne Supply Chain (was Retail & Sales One)
    - TechnologyOne Work & Asset Management (was Work One)
    - TechnologyOne Business Intelligence (was Enterprise One)
    - TechnologyOne Property & Rating (was Proclaim One)
    - TechnologyOne Student Management (was Student One)

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- Clearly on track for continuing profit growth:
  - Continuing strong opportunities for TechnologyOne Enterprise suite
  - Strong opportunities for TechnologyOne Student Management
  - United Kingdom costs contained to \$800k this financial year

- Continued organisational changes
  - Continue to challenge the 'status quo'
  - Continue on our 'Awesome Software' initiative
  - Focus now on our Consulting Business to deliver "Exceptional Customer Service"
  - Focus now also on our Sales and Marketing to increase our market penetration
  - Important platform for our international expansion

- Aggressive R&D program to continue
  - 18% to 19% of revenue
- Complete move of our applications to the Ci platform
  - Supply Chain
  - HR & Payroll
  - Student Management
  - Property & Rating
- Continued enhancements across all products
  - Work closely with existing customers
  - 'Best in Class' focus for HR & Payroll



- **Business Intelligence**
  - One integrated/unified BI workplace across all our applications 'out of the box'
  - Extend the functionality
- **General research**
  - Customer Relationship Management (CRM)
  - 'One System' initiative
  - TechnologyOne Mobile

- Extend our product offering through partnerships:
  - Budgeting – Chameleon (completed)
  - Strategic Planning – Outcome Manager (completed)
  - Strategic Asset Management – under negotiation
  - Document Scanning – under negotiation

- Enterprise market confusion continues
  - Unique time in the history of enterprise applications
  - Microsoft has four overlapping products that will be replaced with Project Green.
  - Oracle has three overlapping products that will be replaced with Project Fusion
  - Project Green and Project Fusion - the technical and logistical challenges are enormous!
  - Opportunity of significant customer seepage from our competitors to us in the coming years
  - Emerging opportunities with Tier One organisations

- Integrated solution from one vendor
  - 'Best of Breed' no longer in favour
  - TechnologyOne is one of a few companies that can deliver this
- Higher Education consolidation in progress
  - Viability of alternative solutions in the Australian market in question
  - Callista has recorded major losses
  - Oracle now has two offerings – PeopleSoft and Oracle student administration solutions
  - Competitors not responsive to legislative changes required by Australian universities
  - Competitors growing unhappy customer base
- Local Government consolidation inevitable
  - Three major players – consolidation is inevitable
  - Our strategy 'Last Man Standing'
    - Total 'Best of Class' solution
    - Connected Intelligence
    - Power of One business model

- United Kingdom
  - United Kingdom 3+ times size of Australian market, with substantial opportunities
  - Same competitors as Australia
  - Key drivers for our success identified:
    - Enterprise market confusion (Oracle, Microsoft etc.)
    - New generation offering (Connected Intelligence series)
    - Unique business proposition (Power of One model)
    - Local knowledge (our Country Manager and others recruited locally)
    - Company knowledge (Australian staff relocated)

- Opportunities for 2006/2007:
  - Enterprise market - increased 'win rate' and Tier One opportunities for TechnologyOne Enterprise suite
  - Higher Education - capitalise on our competitors weakness with TechnologyOne Student Management Ci
  - Improvement in sales in NSW and Victoria
  - Continued growth in New Zealand
  - Migration of existing customers to Ci platform
    - Consulting and Licence fee revenue

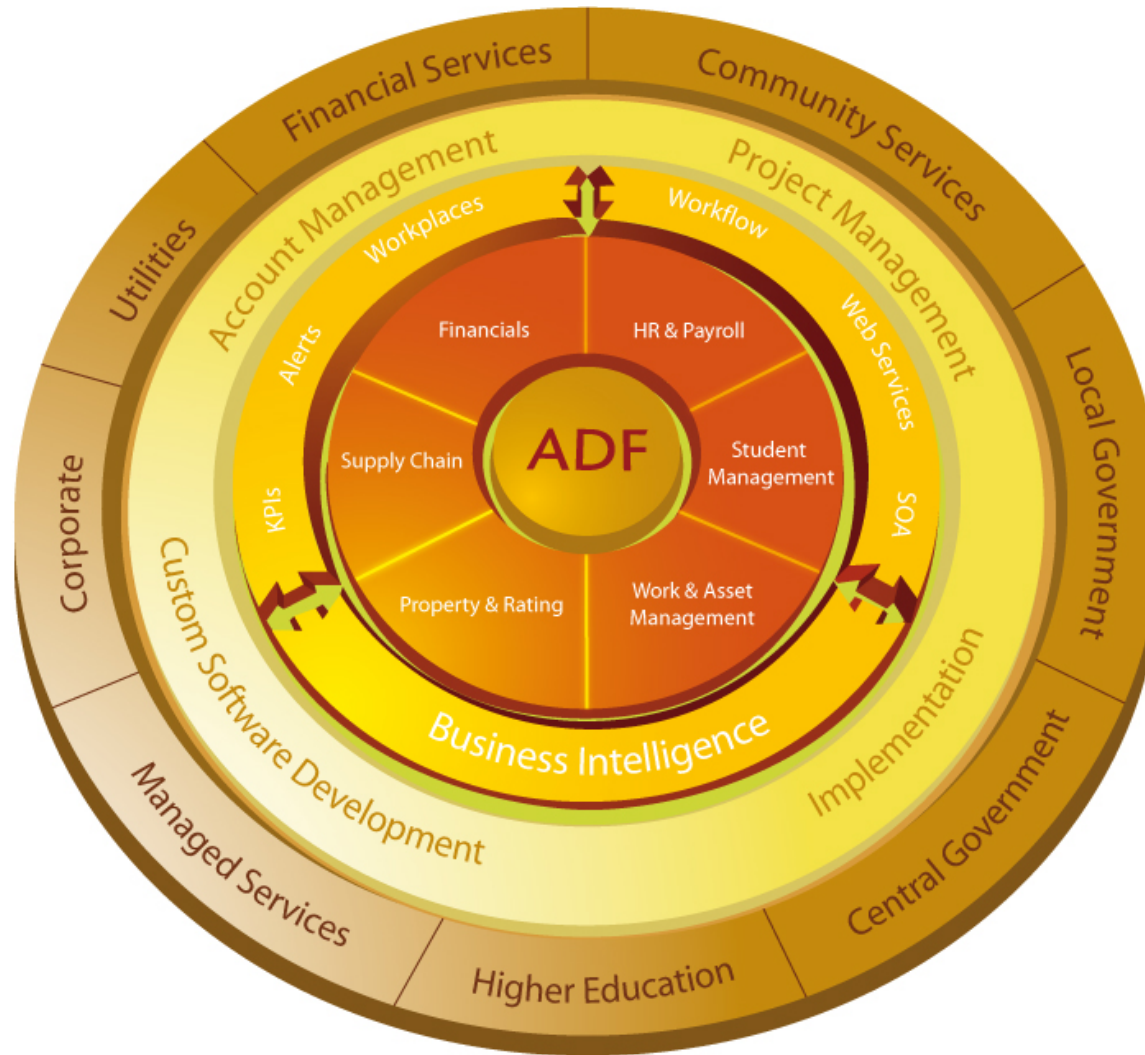
- Opportunities will see growth accelerate:
  - United Kingdom – very large market with significant growth opportunities for us (3+ times ANZ market)
  - Higher Education in Australia – continuing opportunities
  - Local Government in Australia – consolidation coupled with our new TechnologyOne Property & Rating Ci
  - TechnologyOne HR & Payroll Ci sold as ‘Best of Breed’
  - Acquisition and partnerships – new opportunities
  - TechnologyOne Student Management and TechnologyOne Property & Rating opportunities in the United Kingdom

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# Our Strategy for Growth

The Power of **One**



- Management of risks is critical as we expand internationally and continue aggressive R&D program
  - Focus on our core markets and strengths
- Sharp focus on our core markets/strengths
  - Identified as:
    - Financial Services
    - Health & Community Services
    - Local Government
    - Central Government
    - Higher Education Managed Services
    - Utilities
  - Re-align R&D, acquisitions and partnerships to enhance this
  - Re-align sales and marketing
  - Expand incrementally out from the core markets

- Focus on our core strengths and markets
  - Minimise execution risk and improve the efficiencies in the business
- Progressively develop and release other Ci products for our core markets
  - To achieve clear market leadership and increased win rate
- Entry into United Kingdom market with TechnologyOne Core Enterprise\* suite
- Increased services and licences to existing customers through Ci rollout

*\*TechnologyOne Financials, Supply Chain, Work & Asset Management and Business Intelligence*

- Capitalise on market confusion and consolidation
  - Traditional mid tier opportunities
  - Emerging Tier One opportunities
  - 'Last Man Standing' in Local Government and Higher Education
- Acquisition and partnerships
  - To 'add value' in new areas, extending our product breadth
- Introduce other TechnologyOne products to the United Kingdom
- Continued geographical expansion



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