

Transforming business,
making life simple



Technology One Limited
2015 Half Year Report

Transforming business, making life simple



TechnologyOne (ASX:TNE) is Australia's largest enterprise software company and one of Australia's top 200 ASX-listed companies, with offices across six countries. We create solutions that transform business and make life simple for our customers.

We do this by providing powerful, deeply integrated enterprise software that is incredibly easy to use. Over 1,000 leading corporations, government departments and statutory authorities are powered by our software.

Letter to shareholders

On behalf of Technology One Limited (TechnologyOne), I am pleased to announce our results for the half year ending 31 March 2015.

TechnologyOne has posted a half year result which is in line with the market guidance provided at the start of this financial year, with Revenue up 3% (\$2.4m), and Profit Before Tax down 10% (\$1.4m). As we have previously indicated, half year results cannot be extrapolated to determine full year results, and TechnologyOne expects strong growth in both licence fees and profit over the full year.



Profit growth of 10% to 15% for the full year

TechnologyOne is well positioned for continuing strong profit growth of 10% to 15% over the 2015 full year based on the strength of our sales pipeline for second half, which will see strong licence fee growth over the full year. We are now preferred supplier for a number of very large contracts, which are under contract negotiation. Full year guidance is discussed in more detail under the heading 'Full Year Outlook'.

Half year results meet market guidance

At the start of the 2015 financial year, TechnologyOne set the following market expectations:

"In the first half of 2014 we saw a number of significant deals close earlier than normal which saw 2014 first half Licence fees up 24%. This was an unusual situation, which we do not expect to be repeated again this year. This year we see the sales pipeline is once again weighted strongly to the second half, so we expect the first half of 2015 to be challenging and not indicative of the full year results. Having said this, the full year pipeline is strong and supports continuing strong profit growth over the full year."

This is what in fact happened in the first half of 2015.

One vision. One vendor.
One experience.



Analysis of half year results

Highlights of our results are as follows:

- Revenue up 3%
- Net Profit Before Tax down 10%
- Total Expenses up 5%
- Expenses excluding R&D up 5%
- R&D expenses up 5%

Our results by revenue stream are as follows:

- Initial Licence fees down 11%
- Annual Licence fees up 13%
- Total Consulting Services fees down 2%
- Cloud Service fees up 100+%
- Other Revenues* up 11%

We have continued to invest heavily in a number of key strategic areas, including:

- TechnologyOne Cloud, contributing a loss of \$1.6m
- Our United Kingdom business, contributing a loss of \$494k
- Our new preconfigured solutions, contributing a loss of \$2.6m
- Our next generation of enterprise software, TechnologyOne Ci Anywhere, taking our R&D costs for the half to \$19.2m fully expensed.

We continue to take a conservative approach, with all costs associated with these investments being fully expensed as incurred. We expect significant revenue streams to emerge from these investments in future years.

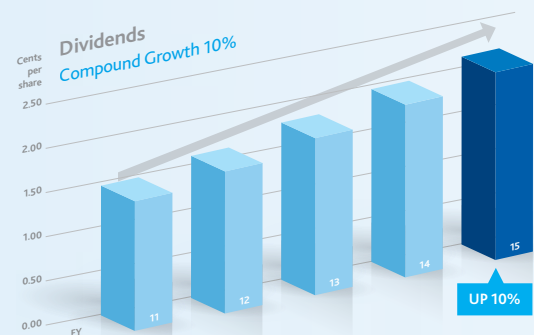
*Other Revenues includes Product Modifications, Interest, Sub Lease rentals, etc.

Dividends up 10%

The company is proud of its strong track record in increasing dividends, having continuously paid a dividend since 1996, through both the Dot-Com and GFC.

In light of our confidence in once again achieving strong growth over the full year, the dividend for the half year has been increased to 2.15 cents per share fully franked, up 10% on the prior year. This represents a payout ratio of 75%.

The company will once again consider the payment of a special dividend at the full year.



Ci Anywhere
Any device. Any where.
Any time.



Other commentary

Initial licence fees

Initial Licence Fees were down 11% (\$2.3m) in the half year, which was expected, and communicated to the market at the start of the financial year. At the start of the 2015 year we identified that the sales pipeline was weighted strongly to the second half of 2015.

Licence Fees being down at the half year is not an unusual occurrence, this having happened in prior years. The reason for this is that there is no compelling reason for customers to sign contracts before 31 March. This means contracts, particularly large, more complex contracts, can easily move into the second half, which is what has happened this year. There were a number of large contracts that could not be concluded at the half, for which we are now preferred supplier, and in contract negotiations.

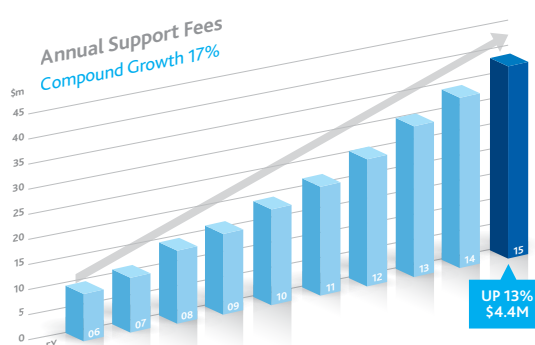
Further compounding this issue, is the fact that last year we saw a number of contracts close earlier than normal in the first half, which resulted in our 2014 first half licence fees being unusually high, up 24%. This was an unusual situation, which we did not expect to be repeated in the 2015 half year. This has also created an abnormally high first half for us to jump over in terms of both Initial Licence Fees and Profit.

The pipeline for the second half is strong and supports continued growth in Licences and Profit over the full year.



Annual licence fees

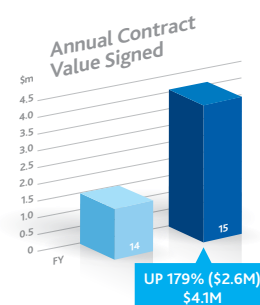
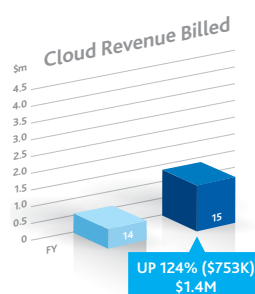
In keeping with our very high customer retention and satisfaction rates, our reoccurring Annual Licence Fees once again grew strongly by 13%. Our investment in our next generation product, Ci Anywhere, and our Compelling Customer Experience program are critical to our ongoing success in this area. We have just commenced a new phase of our Compelling Customer Experience training program for all our people, which we will roll out over the next 12 months.



TechnologyOne Cloud Revenues

TechnologyOne Cloud continued to grow strongly in the half, with Annual Contract Value now \$4.1m, up 100%+. We now have 47 customers committed to the TechnologyOne Cloud. Our target is to have 80 customers by December 2015, and Annual Contract Value of \$8m+. We expect this strong momentum to continue in the years to come.

The TechnologyOne Cloud contributed a loss of \$1.6m as we continued to invest strongly to build out this product offering. Over the full year we expect this loss to be \$2.3m. We expect with our new Cloud 5.0 architecture, which introduces the start of our mass production software as a service offering, and a massively scalable platform with significant economies of scale, this loss will reduce next year to \$1m, as we increase our cloud customer base. This is discussed in more detail later.



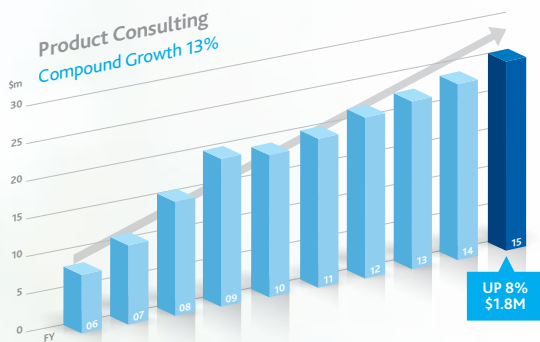
Enterprise software, incredibly simple



Consulting Services fees Including Plus

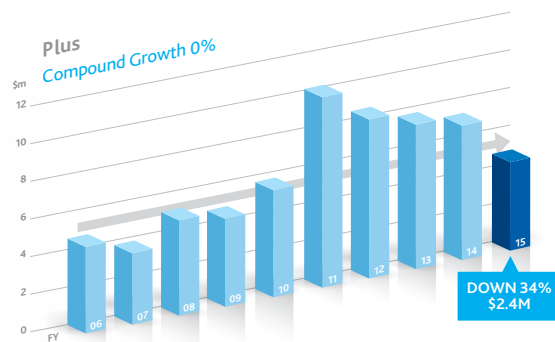
Though Consulting Services fees including Plus were down 2% (\$600k), the Product Consulting business was strong, with revenue up 8% as follows.

Application Managed Services (AMS) is a new service in our Product Consulting business which allows our customers to outsource the administration and management of their enterprise software to TechnologyOne, enabling us to continually improve their experience with our software. This has been well received and contributed revenues of \$2m up 315% (\$1.5m) in the half. We expect this strong momentum to continue in the full year.



We expect the full year profit for Product Consulting Services to be up on the prior year.

The Plus business continued to contract as previously forecasted, with revenues down 34% (\$2.4m) and profit down 86% (\$1.1m), as we continue to pursue our strategy to move away from services that are not related to our core products. Full year Plus revenues will remain down approximately \$2.4m.



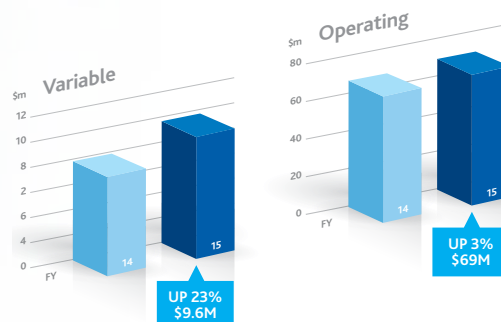
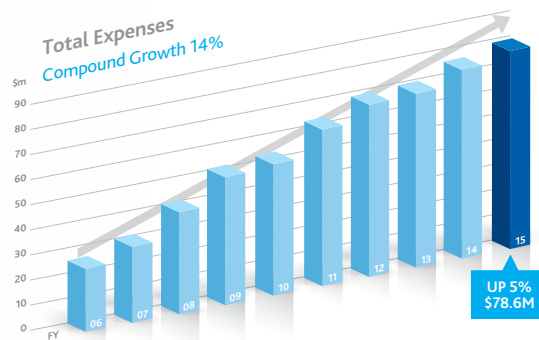
Expenses

Total Expenses were up 5%.

Variable costs, which are expenses directly associated with revenue growth, were up 23%. Variable costs included costs associated with Licence Fees and sales including:

- Third party costs were up 83% (\$934k), linked to our strong growth in the Health & Community services sector
- Cloud costs associated with TechnologyOne Cloud were up 100+% (up \$841k)

What is pleasing is that our Operating costs, over which we can exert greater control because they are not directly associated with revenue growth, were up only 3%.



TechnologyOne Cloud
Enterprise software
as a service



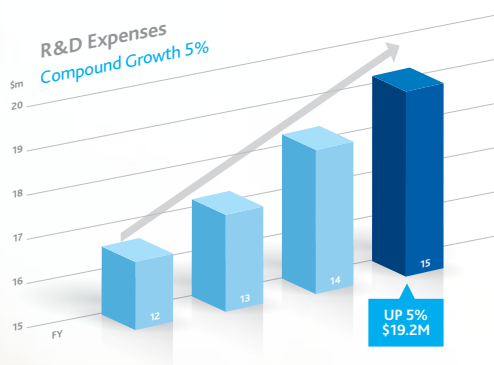
Significant achievements

Research & Development (R&D)

R&D continues to be a significant investment for TechnologyOne at \$19.2m for the half year, up 5% at the half year. R&D represents 21% of revenue, which still exceeds the average of our competitors of approximately 12%. R&D continues to be fully expensed in the period it is incurred.

R&D continued across our entire Ci Enterprise Suite, as well as our next generation product Ci Anywhere and the TechnologyOne Cloud.

For the full year, we expect R&D to be up 6% excluding acquisitions, which will be substantially below the 8% long-term target we set in 2011.



Ci Anywhere

Over the next 24 months, we will focus our R&D efforts to bring all our remaining products onto our new powerful Ci Anywhere platform, as well as start to transition our existing customer base to Ci Anywhere. This will be a challenging period for TechnologyOne. We have now finalised our roadmaps, strategy and project plans for this next significant phase of R&D.

Ci Anywhere will create a new standard in enterprise software, and give us a significant competitive advantage over our competitors. It will also allow us to consolidate our R&D resources for future strategic work.

TechnologyOne Cloud

TechnologyOne is uniquely placed because we own our software, unlike hosting providers which simply host someone else's software in the cloud. Because we own our software we are able to make a substantial investment each year in ongoing R&D to continue to improve our software for the fast changing cloud to capitalise on new technologies, concepts and ideas. Because our plan is to run our software for thousands of customers simultaneously, we have optimised our software and built the TechnologyOne Cloud specifically to do this, and we can achieve enormous economies of scale that cannot be achieved by hosting providers.

We are on track to deliver TechnologyOne Cloud 5.0 by June 2015, which will introduce the start of our mass production Software as a Service offering. This will provide a massively scalable platform with significant economies of scale.

All TechnologyOne Cloud costs are fully expensed in the period they are incurred.

We are confident the transition of our business to the cloud will be smooth over the next five years, with minimal impact on our business. We will come through this period with an even stronger, more resilient business model, and an even stronger competitive advantage.

Review of the UK Operation

This half year we have once again increased our footprint in the UK, adding four new customers, taking us to a total of 21 enterprise customers in the region. We remain focused on achieving critical mass in the UK, which will require in excess of 40 customers. Also important to our future success in the UK, will be to bring our Human Resource & Payroll (HRP) offering into the UK market. The adaption of HRP for the UK market is in progress now, with a target availability date of late 2016.

TechnologyOne Cloud

The TechnologyOne Cloud delivers the TechnologyOne Enterprise Suite through the cloud to our customers. TechnologyOne takes complete responsibility to provide the processing power, software and services including backup, recovery, upgrade and support services for our cloud customers.

The TechnologyOne Cloud provides a compelling value proposition to our customers, giving them what is essentially a very simple, cost effective and highly scalable model of computing.

Ci Anywhere

Ci Anywhere is the next generation of our Ci product, and allows organisations to embrace smart mobile devices, as part of our enterprise solution. We are delivering our entire suite of software and all our functionality on these mobile devices, as we envision a world where all work will be done on these devices in the near future, with the inevitable decline of traditional laptops and PCs.

Ci Anywhere opens up a new world of possibilities for our customers, allowing them to access their data from any devices, anywhere in the world and at any time. It is a new and exciting generation of enterprise software that is incredibly simple to use.

An enterprise solution that adapts and evolves



Acquisitions

TechnologyOne is not an acquisition driven business, preferring organic growth because of the significant cost, time, effort and management distraction that accompanies an acquisition.

Having said this, there are times when acquisitions makes sense, such as when the opportunity arises to acquire Intellectual Property (IP) that allows us to extend our enterprise footprint into new areas that we do not currently support, and which would take an inordinate amount of time, money and risk for us to develop ourselves. This is the case with two acquisitions we have undertaken:

- Icon Software which provides Online Planning and Approval software for Local Government that streamlines the process for development approvals, reducing time and cost for its customers.

- DMS which provides Digital Mapping Solutions allowing for the management and viewing of spatial data, and for the integration of spatial data into business processes. DMS has a strong presence in Local Government and Government.

Both organisations are well regarded in their markets, and TechnologyOne has partnered with them over many years. Our plan is over the next 24 months to redevelop these products on our powerful Ci Anywhere platform, and to deeply integrate them into our enterprise suite. They will also form a strategic component of our TechnologyOne Cloud offering. We expect both products to be earnings neutral.

Balance sheet strength

TechnologyOne continues to have a strong balance sheet with cash and cash equivalents of \$51.7m and undrawn banking facilities of \$2m. Our debt/equity ratio remains conservative at only 3% and interest cover is 123 times.

Operating cash flow was a negative \$2.3m this half. This is due to a number of factors:

- A significant prepayment of \$3m made to secure infrastructure for the TechnologyOne Cloud
- A significant number of new licence sales in the last two months of the half, which will be collected early in Q3

Operating cash flow will improve substantially over the full year.

Full year guidance - Profit growth of 10% to 15%

TechnologyOne is well positioned to once again achieve continuing strong profit growth in the full year due to the following factors:

- Substantial base of committed annual licence and support revenue in the second half
- Strong pipeline of new sales opportunities in the second half
- We are now preferred supplier for a number of very large contacts for which we are now in contract negotiations
- Careful management of expenses, with Operating costs expected to be up 5%, excluding acquisitions by year end
- Careful management of R&D expenditure, with R&D expected to be up 6%, excluding acquisitions by year end

We will once again need to manage the challenge that the TechnologyOne Plus business faces, as we continue to transition this part of our business to work around our products. We expect TechnologyOne Plus revenue for the full year will be down \$2.4m and profit also being down \$1.1m. We expect the UK business to continue to develop, and the loss to be reduced once again this year to approximately \$400k for the full year. The Cloud loss for the full year will be \$2.3m. We also expect the new acquisitions this year will be earnings neutral.

As such we expect Profit will be up between 10% and 15% for the full year.

Preconfigured enterprise
software solutions reduce time,
cost and risk



Full year outlook

Looking out over future years, we are excited by the significant growth opportunities ahead.

We expect our existing TechnologyOne Ci Enterprise Suite to continue to be strong in the coming years, coupled with the significant benefits associated with our preconfigured solutions, which reduce the time, effort, cost and risks associated with enterprise implementations.

We see continuing strong growth in our seven key vertical markets in Australia and New Zealand. These markets remain strong and resilient.

We also expect our newer products, such as Enterprise Content Management, Stakeholder Management and Human Resource & Payroll to become mature and increase substantially in profitability.

We see substantial growth from our existing customer base in the coming years, as our customers increase the usage of our products and services. For this reason, we are investing heavily in our Compelling Customer Experience program to ensure our customers receive the high level of service they need.

The UK operation will, in the coming years, move from a loss position to profit and given the size of this market, will provide us with significant growth opportunities.

Delivering our Ci Enterprise Suite on the TechnologyOne Cloud will also open up new areas of growth for us in future years.

The next generation of our enterprise suite, Ci Anywhere, will in the coming years, create a new platform for continuing growth for us by leveraging smart mobile devices as well as new and exciting technologies and concepts to further increase our advantage against our competitors. It will also secure our large existing customer base for the future by providing a simple and easy way forward using our powerful Ci platform.

Our offshore R&D centre will allow us to reduce our R&D expenditure as a percentage of revenue, without impacting on any of our strategic initiatives and at the same time improve the level of support our customers experience.

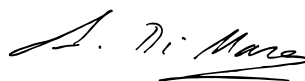
Given our ambitious agenda, our TechnologyOne Leadership Development program will allow us to actively develop the strong leaders we need to execute to the high levels we demand.

I believe these events will have a significant positive impact, allowing us to continue to grow our revenue and profit and substantially improve our profit margin in the coming years.

Afterword

I would like to once again acknowledge the hard work, passion and commitment of the TechnologyOne team and the great work being done to build, market, sell, implement, support and run our world class suite of enterprise software. Our people are deeply committed to our vision of building truly great products and delivering great services that transform business and make life simple for our customers.

Finally, I would also like to thank you, our shareholders, for your continuing support.



Adrian Di Marco
Executive Chairman

Transforming Business, Making Life Simple

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We participate in only seven key markets: government, local government, financial services, education, health and community services, utilities and managed services. For these markets we develop, market, sell, implement, support and run our preconfigured solutions, which reduce time, cost and risk for our customers.

For 27 years, we have been providing our customers enterprise software that evolves and adapts to new and emerging technologies, allowing them to focus on their business and not technology. Today, our software is available on the TechnologyOne Cloud and across smart mobile devices.

One vision. One vendor. One experience.

TechnologyOneCorp.com

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