

ASX ANNOUNCEMENT

29 August 2018

OBJECTIVE CORPORATION

FINAL RESULTS FY2018

Objective Corporation (ASX:OCL) today announced its final results for the financial year 2018 (FY2018).

- Group revenue was \$63.1 million (FY2017: \$62.6 million), and EBITDA was \$10.5 million (FY2017: \$10.5 million). Net profit after tax (NPAT) was \$7.4 million (FY2017: \$8.2 million) for the year ended 30 June 2018.
- Recurring revenue grew by 13% over FY2017 to 62% of total revenue in FY2018. Financial performance in FY2019 will be underpinned by Annual Recurring Revenue (ARR) of \$40.5m at 30 June 2018, which grew by 17% over the balance at 30 June 2017 (\$34.4m). We delivered significant ARR growth in all our core subscription software solutions.
- In FY2018, the Company invested \$13.1 million in Research and Development (R&D) (FY2017: \$12.9 million) representing 21% of revenues. The company fully expenses all R&D expenditure in the year that it is incurred. Whilst increasingly unpopular in the sector, we believe this conservative accounting treatment best represents true profitability after factoring in all strategic investments.
- The cash balance at 30 June 2018 was \$21.5 million, an increase of \$4.6m over 30 June 2017. As at 28 August 2018, the cash balance is \$30.9 million. The Company has no external borrowings.
- Directors declared a fully franked dividend of 5.0 cents per share. Directors have also agreed to continue with the Share Buyback.

REVIEW OF OPERATIONS

Results summary for full year ended	30 Jun 2018 AU \$million	30 Jun 2017 AU \$million	Change (%)
Revenue	63.1	62.6	+ 1%
EBITDA	10.5	10.5	+ 1%
Net profit after tax	7.4	8.2	- 10%
Cash at balance date	21.5	16.9	+ 28%
R & D expense	13.1	12.9	+ 2%
Earnings per share	8.0 cps	9.0 cps	- 10%
Final dividend (100% franked)	5.0 cps	4.0 cps	
Special dividend	-	1.0 cps	

To provide greater transparency of financial performance, Objective Corporation reports revenue and operating profit by line of business, as shown in the figure below. Whilst our solution portfolio continues to grow, we have continued reporting within the same business lines.

BUSINESS LINE SUMMARY

Results summary for full year ended	30 Jun 2018 AU \$million	30 Jun 2017 AU \$million	Change (%)
Objective ECM			
Sales revenue	51.1	52.0	- 2 %
Operating profit	13.1	13.0	+ 1 %
Objective Keystone			
Sales revenue	6.6	5.8	+ 13 %
Operating profit	(0.4)	(0.4)	- 7 %
Objective Connect			
Sales revenue	2.4	1.5	+ 60 %
Operating profit	(1.7)	(2.4)	+ 32 %
Objective Trapeze			
Sales revenue	2.4	2.9	- 15 %
Operating profit	(0.5)	0.4	Large

COMMENTARY ON OPERATIONS BY PRODUCT LINE

ENTERPRISE CONTENT MANAGEMENT (ECM)

During FY2018 our ECM business maintained steady performance and delivered an operating profit margin of 26% (25% in FY2017). Revenue and profitability were in line with FY2017, which did not adequately demonstrate the positive impact of a number of developments throughout the year. A highlight was the signing of a new 6-year term agreement with the Australian Department of Defence (Defence) under our Upgrade and Support Program (USP), demonstrating the long-term commitment our largest customer has made to the Objective platform.

Overall performance for the ECM business was impacted by the outcome of a large consulting services project which came to an end in FY2018. In May 2016, Objective announced that it had been engaged as a subcontractor to complete a significant consulting services project, which was due to be delivered over FY2017 and FY2018. At the point that Objective's work in relation to the project was materially complete, we were advised that the end customer had terminated the head contract for convenience on the basis of a changing IT infrastructure strategy. Following the termination, the prime contractor has not yet settled the balance owing to Objective. At the date of this report, there is no dispute between Objective and the prime contractor, with both companies working diligently

to settle the balance owing. We consider this to be an isolated incident and has no impact on our confidence regarding the underlying strength of the ECM business.

Many of our achievements in FY2018 were the result of our continued investment in delivering outstanding software that expands our product suite and customer base. During FY2018 we released Objective ECM 10.4, which delivers a browser-first ECM product meeting the stringent requirements of the public sector whilst also delivering exciting new features, unprecedented usability and deep integration with Microsoft Office 365.

Over time, the flexibility and adaptability of our software has extended the use case for our ECM products well beyond the traditional Electronic Document and Records Management (EDRMS) market segment. With the separation of Objective ECM into Objective Inform and Objective Perform now established in the market, our customers are looking to utilise Objective Perform to provide much broader content services through the automation of business-critical processes within the public sector. These processes are often initiated by documentation and create further records as they progress through the organisation. Utilising the repository agnostic framework of our software, these documents and records are seamlessly and securely stored within our customer's existing records management solution. This approach has substantially increased the addressable market for our ECM products, provided us the ability for greater leverage from our existing customer relationships and facilitated access into specific market segments which have historically been largely closed to us.

A number of these business processes are common across a wide range of our existing and target customers, providing us the opportunity to identify and implement best-practice approaches to automating these processes and to deliver them as pre-packaged Industry Solutions. During FY2018 we launched Industry Solutions for specific public-sector processes including: Ministerial communication, Freedom of Information requests, GDPR, Cross-Agency Collaboration and Transformation to Paperless Office. We have demonstrated the value that customers can achieve by implementing these solutions and will continue to leverage our deep experience in the public sector to develop further Industry Solution products that facilitate the wider adoption of best-practice processes across public sector organisations.

The increasing penetration of Objective Perform has also increased the proportion of our customers who purchase our ECM software under a subscription license. We continue to offer our products under the revenue model that offers our customers choice but as we bring new products to market, we are offering these exclusively on a subscription basis.

During FY2018, we focused on increasing the go-to-market reach of our ECM business and in addition to expanding the relationship with our existing customers, we have deepened our partnership with Micro Focus, formerly Hewlett Packard Enterprise (HPE). This partnership has broadened go-to-market opportunities for Objective Perform, and throughout FY2018 we worked even more closely with Micro Focus in developing global co-selling opportunities. We expect that closer collaboration between Objective and Micro Focus in FY2019 on both sales, marketing and product development strategies will result in increased penetration of the Micro Focus customer base for value-add Objective solutions.

OBJECTIVE KEYSTONE

As forecast at the end of 1HY2018, Objective Keystone moved into profitability in 2HY2018, validating our continued investment in the product. Encouragingly, the profit was driven by strong performance in both the FSI and the public-sector market segments and overall revenue grew by 13% in FY2018 to \$6.6m (\$5.8m in FY2017).

In the FSI market, successful customer acquisition during FY2017 provided the momentum to drive revenue growth into FY2018 as all customers went live to deliver regulatory compliant documentation through the Objective Keystone platform. Throughout FY2018 we continued to win a number of high-profile customers, further expanding our customer base amongst the largest financial institutions in Australia across the banking, wealth management, insurance and superannuation sectors.

Objective Keystone is now at the forefront of the emerging Regulation Technology (RegTech) sector in Australia. In an environment of increasing regulation in the financial services industry, Objective Keystone is well placed to assist our customers to rapidly deliver various forms of publication-ready compliance documentation across their organisations.

During FY2019 we will leverage our demonstrated capabilities in the Australian market to expand into other key financial services centres that are facing similar regulatory pressures.

The performance of Objective Keystone in the public-sector market, which we cover in Australia, New Zealand and the UK, improved significantly in FY2018 as a result of new contract wins and lower customer churn. The improved market opportunity in this sector has allowed us to invest further in product features tailored to the public sector use cases, particularly in relation to Stakeholder Engagement, which we expect to continue to improve the position of Objective Keystone in this market.

During FY2018 we released continued improvements in the Objective Keystone product which enhanced the verification features for documents, management of portfolios of documents and media types which can be supported by Objective Keystone for inclusion in documents. An important development in the transition to capturing the global opportunity for Objective Keystone was the move of all customers to Version 5 of Objective Keystone on 1 January 2018 and the transition of our data hosting from a local hosted service into Amazon Web Services hyper-cloud, which substantially increased the scalability of Objective Keystone and simplified support of the product.

OBJECTIVE CONNECT

Objective Connect revenue grew to \$2.4m in FY2018, a growth over FY2017 of 60%, continuing similarly high growth in FY2017 (40%). By 30 June 2018, the number of connections grew to over 4 million, an increase of 85% over 30 June 2017, and the average number of new Connect Workspaces added grew to well over 100 workspaces per day, demonstrating the high level of engagement customers have with the solution. This increasing intensity of use sustains a network effect amongst existing customer organisations and attracts new customers as Objective Connect increasingly becomes the secure external collaboration system of choice for public sector customers.

As a software product born in the cloud, the security of our customers' data within Objective Connect has always been at the centre of the product strategy. Demonstrating our commitment to security, in FY2018 we moved all customer data in the APAC region to the Microsoft Azure Canberra Data Centre (CDC), the first hyper cloud vendor location to be granted "Protected" status by the Australian Signals Directorate.

The demand for efficient and secure collaboration in the public sector, whilst already a high priority for our customers, is consistently growing the addressable market for Objective Connect. We will continue to invest at a similar level to FY2018 in R&D to deliver further validation of our security credentials and integration with additional repository products, as well as in go-to-market development. This investment will position Objective Connect to capture more of the opportunities we see in this market in both existing and new geographies.

OBJECTIVE TRAPEZE

The Objective Trapeze business was materially softer than expected in FY2018, with revenue of \$2.4m representing a decline of 15% over FY2017 (\$2.9m). Profitability also decreased from a profit of \$0.4m in FY2017 to a loss of \$0.5m in FY2018. The indirect go-to-market model that we inherited, of partners and OEM agreements, has not performed effectively. These arrangements are currently under review and we will be moving to SaaS-only licencing for all Trapeze products during FY2019.

Despite the financial performance in FY2018, we believe that Objective Trapeze continues to offer us an opportunity to deliver significant value to our customers in the local government market. To position ourselves to capture this opportunity we maintained our levels of investment in product development and during the year rolled out Trapeze 10 to our customer base. Trapeze 10 offers customers powerful new functionality and a completely redesigned user experience, enhancing adoption and workplace efficiency across customers' sites. The development roadmap for Trapeze includes new features and product extensions which will extend the use case for Trapeze software with local governments and support the move to a SaaS revenue model.

A highlight of FY2018 was the launch of Objective Redact, a re-engineered version of the Rapid Redact product, which we acquired with Objective Trapeze as part of Onstream Systems. The new Objective Redact product retained all the powerful redaction features Rapid Redact customers rely on every day, delivered with an enhanced user experience. Objective Redact is offered as a subscription only product sold through a fully automated e-commerce platform and supported by a targeted digital marketing campaign. Objective Redact is benefiting from a global transition to greater access for individuals to data that is held by governments and other institutions and the need to protect specific data points amongst a more general information release. New regulations such as the General Data Protection Regulation (GDPR) in the European Union and similar "right to know" legislation in other jurisdictions will only expand this market sector. The global opportunity for the product has already been demonstrated with over 90% of the purchases to date being outside of the APAC region. The financial results for Rapid Redact and Objective Redact are reported in the Trapeze line of business.

OUTLOOK

Mr Tony Walls, CEO, Objective Corporation said: "FY2018 presented Objective with isolated challenges that we did not expect to face. Accordingly, we accept that this year's result is less than we are capable of. We remain confident however that the fundamental drivers of customer demand for our products has not changed.

"Our long-term investment in R&D has positioned us with globally competitive products which have demonstrated attractive return on investment outcomes for our customers. The continued pressure for greater productivity and transparency in the public sector, in addition to growing regulation of information in the private sector, will continue to drive further adoption of the Objective portfolio of products amongst new and existing customers in APAC, Europe and North America.

"We expect to further refine our go-to-market strategy during FY2019 to leverage full value from our partner relationships and to position Objective products consistently with target customers. This will allow us to fully leverage the depth of our relationships in the markets in which we currently operate and to identify additional cross-sell opportunities for our solutions within each end-customer.

"Prior year comparisons for the 1HY2019 will be impacted by the large consulting services project discussed previously which contributed significantly to 1HY2017 and 1HY2018 financials. Over the full year however, FY2019

will deliver significant margin expansion as a result of product enhancements delivered by our R&D investment, the leverage in our operating cost base and our ongoing transition to SaaS licencing.

“We are committed to delivering outstanding solutions and services to our customers and this would not be possible without the dedication of our outstanding people. The Board and management of Objective would like to thank all of our loyal customers, staff and shareholders for their ongoing contribution and commitment to the Company.”

ABOUT OBJECTIVE CORPORATION

Objective Corporation (ASX:OCL) creates information and process governance solutions that are effortless to use and enable organisations to advance their own digital transformation.

Designed for regulated industries, these solutions turn the imperative of compliance, accountability and governance into an opportunity to streamline business processes and deliver the innovative services that customers expect.

With a heritage in Enterprise Content Management (ECM), Objective's expanded solutions extend governance across the spectrum of the modern workplace; underpinning information, processes and collaborative work-spaces.

FOR FURTHER INFORMATION, PLEASE CONTACT:

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