Objective

Letter to our shareholders

FY2023 Half-Year

Objective Corporation Limited (ASX: OCL)

OBJECTIVE.COM

From Tony Walls

CEO, Objective Corporation

Fellow shareholders,

As we close off the first half of the 2023 financial year at Objective, I want to provide some insight into the past six months, the economic conditions as they apply to Objective, and share my optimism and confidence in the opportunities that lie ahead for the remainder of FY2023 and beyond.

The financial results for 1HY2023 are in line with our expectations, as outlined in our trading update published in November 2022. Several transient factors, that are largely within our control, have contributed to short-term revenue growth and operating profit not maintaining the trajectory we've enjoyed for a number of years now:

- **Focus on driving ARR growth** – We continue to prioritise subscription licencing over perpetual right to use (PRTU) licences, as this is the key to driving annual recurring revenue (ARR) that sustains our long-term strategy. The last remaining product in our portfolio to be sold on a PRTU basis is Objective ECM, which will transition to subscription-only for all customers by the end of FY2023. To evidence this point, ECM PRTU new licence revenue dropped by more than 50% in H1, whilst ECMaaS revenue increased by over 80% in the same period. All other Objective products are already offered only on a subscription basis.

- **Reducing the cost and time to deploy solutions for customers** – This is essential to meet both our scale aspirations and reputation for delivering value to customers; particularly with the strong outlook for new Objective RegWorks projects in 2HY2023. Looking ahead to FY2024 and beyond, we are establishing the frameworks for service delivery partners to assist with customer implementations that are either larger in scale, or outside of markets where we have an existing presence. These initiatives will result in a dip-in project delivery revenue in FY2023 as we drive out these strategies, but will ultimately deliver greater customer and shareholder value. We anticipate service revenues increasing again in FY2024 from increased new project volumes, albeit with more efficient delivery.

- **Face-to-face engagements with customers and our teams** – Whilst many companies have materially restricted travel, the opportunity to reconnect with customers in real life has been important in fostering positive, long-term relationships. A return to in-person events for our teams, in some cases for the very first time, enhances communication, builds bonds and fosters a strong organisational culture. However this engagement comes with a one-time reset of travel expenditure, back to more normal (pre-Covid) levels.

- **Tech company salaries** – As is well documented, there was an uplift in salaries for many technology company roles during 2022, particularly in engineering and development. We do encourage the best and brightest to join our team and this comes at a cost. With many high-profile tech companies continuing to lay off great people, the salary step up has moderated and we continue to hire to meet solid demand and to fuel our future product innovations.

MACRO FACTORS THAT CONTINUE TO DRIVE OUR MARKET

Following the slow initiation of new projects in 1HY2023, we are buoyed by the increased activity we're now witnessing in our primary target market – the public sector.

The macro factors that fuel our market remain consistent, and if anything, have grown more influential in driving demand for our products.

Regulation and transparency in the institutions society depends upon – This consistent and growing demand from society will always require technology to achieve; and technology to demonstrate. It is our overarching purpose at Objective to deliver outstanding software to drive stronger communities and nations.

Modern citizen and customer experiences – Government at all levels continues to strive to deliver modern, digital citizen experiences, relying on technology to support these interactions. There continues to be substantial improvement in government efficiency through digital transformation projects.

Public sector transition to cloud computing – This is evident in almost every engagement we undertake and was a strong theme that emerged in the CIO Survey we undertook in the first half of this financial year. We continue to evolve our cloud applications and maintain a vigilant security posture for customers.

Labour shortages and high job vacancies in the public sector – According to the Australian Bureau of Statistics, public sector job vacancies in Australia grew steadily from May 2020 to almost 50,000 vacancies by November 2022, a 6% increase since August 2022 and an annual increase of 37% over the previous year. For Objective, this situation translated into delays in some procurement processes and project commencements during 1HY2023, where customers simply lacked the resources to initiate projects. We are however beginning to see the easing of this challenge, with resourcing for projects growing and people returning to office premises from their home bases.

Re-housing Ukrainian refugees

The Welsh Government has assisted more than 500 families fleeing from the situation in Ukraine, to relocate into the homes of the people of Wales.

Using Objective Connect, the Government was able to share highly sensitive information securely between managing authorities to help relieve the housing crisis.

Andy Parker
Senior Operations Manager
Welsh Government
Watch Video »

Governments supporting economies through an uncertain financial landscape – Even with limited resources, the public sector aspires to demonstrate how to achieve more with less which drives demand for technology, particularly software. Historically, Objective has experienced solid growth in softer economic times.

GROWTH OPPORTUNITIES

During 1HY2023, we reinvested 24% of our total revenue in research and development and we continue to build go-to-market capabilities in international markets, including market development for Objective RegTech in the UK and go-to-market capacity in the USA.

FY2022 was a record year for Objective, releasing a number of major new innovations to market. As we mature these products and our go-to-market capacity throughout this year and next, we see significant growth opportunities in our existing target markets.

Looking further afield, the opportunity for our products in the public sector and regulated industries in international markets is strong. Efficiency in regulation and the digitisation of government is a global trend. As we develop these markets, we target segments where we observe similar challenges faced by our existing customers and where we have mature, proven solutions to solve these. We are pursuing these markets through direct sales strategies as well as nurturing partner networks.

Objective Content & Processes now has its broadest range of solutions ever, delivering ECMaaS, Nexus, Connect, Gov365 and now 3Sixty. We are witnessing momentum in all elements of this solution stack. Our Objective ECM solution (both on-premise and SaaS), along with Objective Connect, continues to grow and deliver for customers, whilst Nexus, Gov365 and 3Sixty form a powerful new axis for discovery and governance over a diverse range of information repositories, reaching far beyond just Microsoft 365. These solutions allow us to actively pursue opportunities in broader global markets.

We have materially invested in our Objective RegTech solutions since acquisition and continue to build out a solution capability which very uniquely addresses the needs of the modern and efficient regulator. Most recently, we have been partnering with New Zealand Police to deliver the country's new Arms Management System and we expect to contract our first UK regulator in the current half. With our sights now focused on growing both domestic and international markets, we are investing to enable the implementation of Objective RegWorks with greater frequency and greater efficiency for customers. We are hugely excited by the potential of this marketplace and the uniqueness of our solution.

We also continue our significant investment in Objective Planning and Building solutions. Objective Build has the potential to become the de facto standard in New Zealand in the near term, and we expect that more than 50% of New Zealand councils will implement Objective Build during CY2023. At the same time, Objective Trapeze has already become the clear market leader across Australia and New Zealand. The potential to add value to the ANZ building industry, government and applicants is significant, as is the application of Objective Build and Objective Trapeze in other markets.

FREE MONEY HAS A PRICE

In 1HY2023 we started to see the impact of underlying market forces that we have tracked for 6-12 months show up in the open. These are symptoms of a distorted price of risk and an appetite to acquire revenue at any cost, without focusing on developing sound, long-term sustainable business models.

We're witnessing materially reduced investment appetite for unprofitable tech companies and, therefore, moderating market valuations. Whilst Objective did not make an acquisition during 1HY2023, we believe we're yet to feel the full impact of the interest rate cycle and remain committed to our discipline of investing when the market opportunity is right and valuations are reasonable.

With a strong and sustainable business model that has been proven through many economic and market downturns, we see the end of this free-money period to benefit us.

Winner – Excellence in Government RegTech Award 2022

This award recognises the achievements of RegTech members that have demonstrated significant business growth, demonstrated innovation and produced measurable outcomes for their government customers.

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THE OUTLOOK IS BRIGHT

The outlook for contracting new business for the remainder of FY2023 is strong. While the estimated full-year results for FY2023 remain as stated in the trading update from November 2022, we expect our long-term revenue growth rate and margin expansion to return to trend from July 2023.

Objective is operating in the right markets, with the right products and the right people. Demand for solutions from the public sector, our primary target market, remains strong and we have a proven track record of delivering outstanding solutions to our customers.

Historically, we have had great periods of growth during softer economic times. This has been a result of being able to hire great people and maintain fiscal discipline. The outstanding people that make up Objective are key to our success. I've welcomed the opportunity to catch up with so many in person this half, and look forward to more throughout the coming year. As an employer, Objective is an attractive proposition: we've built a strong, welcoming, and respectful culture; we develop outstanding solutions and have great tech to work on; we move forward with excellent growth opportunities; and we can demonstrate financial stability at a time when it is viewed as a key differentiator by employees.

We are openly exploring acquisition opportunities across Australia, the UK and North America. We have a strong balance sheet and an ability to raise both debt and equity should we desire. But true to our proven model, we seek the right fit in an acquisition and one that will drive long-term value for all stakeholders.

Thank you to every individual at Objective, for contributing to our shared desire to help our customers deliver their community and national outcomes.

I look forward to the remainder of FY2023 and preparing for FY2024. We have the benefit of extensive experience in riding the wave of economic uncertainty. We also have the confidence, means and agility to embrace the opportunities that will present themselves.

As always, thank you for your trust and support.

Tony Walls
CEO, Objective Corporation