



technologyone
business software solutions

25th May 2009

**Technology One Limited (ASX:TNE)
Letter to Shareholders**

On behalf of TechnologyOne I am pleased to announce our results for the half year ending 31 March 2009, showing continuing growth with revenue up 13% to \$55.9m.

Over the full year, the company remains on track to deliver continuing profit and revenue growth, which will be a significant achievement given the current economic environment.

HALF YEAR RESULTS IMPACTED BY PREVIOUSLY FORESHADOWED 'ONE OFF EVENT'

As previously foreshadowed the half year profit was \$4.96m, which was down \$4m (45%), in line with our previous guidance for the half year profit.

The half year result was impacted by a significant 'one off event', which was highlighted at the company's Annual General Meeting (AGM). This was caused by the flow on effect from the substantial growth in the prior year (revenue up 41% in 2008), which also saw a significant increase in expenses in that same year (expenses up 47% in 2008). This has had a significant and 'one off impact' on our first half results, with first half expenses up 26%, while revenue was up 13%.

More importantly, over the full year expenses will track down to be within the 15% to 18% growth range, which will allow us to achieve our full year guidance of profit growth of 10% to 15%. This is discussed in more detail later in this report.

ANALYSIS OF RESULTS

Highlights of our results are as follows:

- Profit Before Tax of \$4.96m, down \$4m (45%)
- Profit After Tax of \$3.9m, down \$3.1m (44%)
- Total Revenue increased 13% (\$6.4m) to \$55.9m
- Licence Fees increased 10% (\$1.2m) to \$13.3m
- Consulting increased 32% (\$4.8m) to \$19.9m
- Annual Support increased 14% (\$2.1m) to \$16.3m
- Project Services Revenue down 13% (\$684k) to \$4.6m.
- Expenses excluding R&D increased 25% (\$7.6m) to \$38.3m

- R&D increased 28% (\$2.8m) to \$12.6m, representing 22.5% of revenue, which is well outside our normal 18% target

Our results are especially pleasing given the fact that we continued to invest strongly in a number of areas as follows.

- The United Kingdom, which contributed a loss of \$806k
- Student Management, which contributed a loss of \$1.45m
- Newly acquired Performance Planning product, which contributed a loss of \$698k
- R&D for the half year, which was 22.5% of Revenue, outside our target of 18%, which had an impact of an additional \$2.5m expense to our results for the half

These items are all discussed in more detail later in this letter.

The company continues to have a strong balance sheet with Cash and Cash Equivalents of approximately \$14.3m, undrawn banking facilities of \$7m and a Debt/Equity ratio of only 6.4%.

ANALYSIS BY REGION

Our Central Region (New South Wales, Victoria, ACT), North West Region (Queensland, South Australia, Western Australia, Tasmania) and Asia Pacific Region (New Zealand, Malaysia and the Pacific Rim) all performed well.

Malaysia has improved as a result of the change in our strategy in Asia, with the appointment of a channel partner that will represent our products in the Asian region. We believe this will allow us to overcome many of the problems we have faced in the past, as it will provide us with the contacts and cultural alignment needed to succeed.

As expected, with the restructure of New Zealand now complete, and the region now operating as 2 separate and focused offices based around Auckland and Wellington; this has had a positive impact on our New Zealand results.

Our UK business continued to gain traction, with the signing of a number of high profile new contracts in the first half including:

- University of Hertfordshire
- Scarborough Borough Council

Both of these are strategically important contracts as they will provide us with reference sites in two very important sectors – Higher Education and Councils, which offer us significant long term growth opportunities in the UK. We now have a footprint in many of our key vertical markets, which will assist our sales. Our pipeline is good and we are building a solid team in the UK. We are targeting to come close to breakeven in the UK this financial year.

Building a new business in a new and challenging market like the UK is difficult at the best of times; let alone during such a difficult economic climate. Having said this, we remain committed to the UK market, and remain confident that in the next few years it has the potential to provide us with significant growth opportunities.

ANALYSIS BY PRODUCT

Licence fees were \$13.3m, up 10% (\$1.2m) in the first half.

This was primarily driven by good performance from the Business Intelligence, ECM, Human Resource & Payroll and Financials/Supply Chain products.

Student Management licence fees were minimal in the first half, but they are expected to improve substantially in the second half.

Works & Assets and Property & Rating licence fees were down in the first half; but again, they are expected to improve in the second half.

Performance Planning had minimal licence fees in the first half, and is not expected to improve in the second half. Performance Planning is a newly acquired product. We have taken immediate action to integrate this business into our House of Products business model, and have also developed a go forward strategy for this product that will see it deeply integrated into our Business Intelligence suite, which will make it a more compelling and streamlined sale. We see this product as having strong applicability to Local, State and Federal Government.

Finally Enterprise Content Management (ECM) performed strongly in the first half year. ECM is a product we acquired some 18 months ago, and the business unit is now fully integrated into our organisation. We are executing a new strategy for this product, which will see it bought across to our new Connected Intelligence platform over the next 2 years. The market will be challenging for this product over the next 2 years, until we complete the migration of this product onto our CI platform.

RESEARCH & DEVELOPMENT (R&D)

It is our significant investment in R&D that has underpinned our strong growth over the last 16 years, and has seen our profit increase by an average 31% per annum compound.

R&D increased 28% (\$2.8m) to \$12.6m in the half year. This was a significant investment, representing 22.5% of our revenue, and is well outside our normal 18% target. This expenditure, over and above our 18% target, impacted our results by an additional \$2.5m expense.

Having said this, R&D is critical to our future success, and we continue to invest in a wide range of areas that we believe will deliver significant revenue growth in future years, as follows:

- Our 'under development' Customer Relationship Management solution, which will, in the long term, have a significant impact on all our products
- Completing migration of our existing products onto the Connected Intelligence (CI) platform.
- Stabilisation of our Student Management CI product, which is critical to future sales
- Moving our newly acquired Enterprise Content Management product to the CI platform and providing deep integration across all our products

- Moving our newly acquired Performance Planning product to the CI platform and providing deep integration across all our products
- Continuing investment in our still maturing Human Resource & Payroll product
- Continuing investment in our important Works & Assets system to allow us in the future, to increase our footprint in asset intensive markets
- Investment in our new Loosely Coupled Architecture (LCA) that will allow us to upgrade our customers quickly and easily in the future, which is critical to our ongoing success as an enterprise solution provider
- Completing our investment in our new Mobility platform to create new, powerful solutions for field workers
- Further investment in new licensable product extensions for each product to drive future sales into our expanding customer base

TECHNOLOGYONE EVOLVE USER CONFERENCE

In February 2009, TechnologyOne held its biennial 3 day User Conference at the Brisbane Convention & Exhibition Centre, attended by our customers from Australia, New Zealand, Asia and the UK. At this conference we outlined our strategic direction, our product roadmaps, and showcased each of our products. The feedback from our customers has been overwhelmingly positive, and provides confirmation about our strategy. We expect many of our customers will look at extending the usage of our products within their organisations, based on the strength of our new Connected Intelligence series of products, in the coming years.

FURTHER DETAIL ON FULL YEAR GUIDANCE

Though the economic climate has deteriorated significantly over the last 12 months, TechnologyOne remains confident we can achieve continuing growth in the full year due to a number of factors as outlined below:

- Strong committed annual licence and support revenue in the second half
- Student Management and UK business to breakeven in the full year
- Continuing good sales pipeline for the second half
- Expense growth to track down

Strong committed annual licence and support revenue in the second half

TechnologyOne has a very strong and committed annual licence revenue stream from our existing customers, which is weighted disproportionately to the second half of the year (61% in the second half versus 39% in the first half), because of historical factors. In the first half approximately \$15m of annual licence revenue was accounted for, while in the second half this figure will be \$25m, taking the full year annual licence revenue to \$40m. The costs associated with providing the annual licence and support will not change between the first and second half, and as such the additional profit contribution to the second half will be approximately \$10m.

Student Management and UK business to improve substantially in the full year

The Student Management and UK operations significantly impacted our first half results by posting a combined loss of approximately \$2.26m.

In the case of Student Management we had a significant loss of \$1.45m in the first half, the major contributing problem being a lack of new business, as no new contracts were let in this period, while at the same time investing significant funds in R&D. R&D expenditure for the first half in Student Management was 81% of revenue for this business unit. We are now preferred supplier for two new contracts in the second half. Based on these contracts being successfully negotiated in the second half, we expect this group to perform substantially better in the full year.

In the case of the UK operations we had a significant loss of \$806k in the first half, caused by the fact that we increased staff levels significantly to meet expected demand in the second half. We expect the UK business to come close to breakeven in the full year, based on our pipeline of opportunities.

Continuing Good sales pipeline for the second half

Our overall sales pipeline for the second half continues to remain good, and combined with the above items, this supports revenue growth for the full year of 15% to 18%.

Expense Growth to track down

As previously discussed, in the first half, expenses were up significantly, (26%). On a full year basis we expect expenses to increase by only 15% to 18%. To ensure this happens we have now implemented a number of cost control measures that bring tighter controls on headcount, salary increases and non-rechargeable travel. As a result of these and other measures, R&D is also expected to move closer to its target of 18% of revenue by the full year.

On Track for Full Year Guidance

As such, on a full year basis, revenue growth is expected to continue, and come in between 15% to 18%. On a full year basis expenses will also be up approximately 15% to 18%. As such, full year guidance given in November 2008 remains on track for profit growth of 10% to 15%.

Our Competitors

A clear outcome of this challenging economic environment is that organisations are looking at driving greater efficiencies, and this is leading them to re-evaluate their current ERP supplier relationship. We are already seeing some of our competitors' customers coming back to the market seeking alternative solutions, and we are winning this business. Our strong position in the marketplace makes this potentially a good source of future revenue.

Economic Conditions

The economic climate has continued to deteriorate over the last 12 months. I believe TechnologyOne is well placed to meet the challenges ahead because of the significant investment we have made in the last few years. In particular:

- The release of our new generation Connected Intelligence (Ci) series of products, which positions us well in the market. Our competitors are still many years away from releasing a new generation product.
- Our significant investment in our 'One Enterprise Vision'. There has been a substantial investment to extend our product range to now allow us to deliver a complete 'end to end' enterprise solution

- Our House of Products business transformation to ensure each part of our enterprise solution is 'best in class', as well as simplifying our management structure
- Our diversification into new geographies, new vertical markets and new products
- Our significant investment in new systems to streamline our operations and create a truly scalable global business, and give us the controls and visibility to efficiently and effectively manage our business

Having said this, we believe it is at times like these that companies can truly go from 'good' to 'great' by embracing the challenges presented. In our case we continue to look at ways to streamline our business and increase our efficiency. We can and will do things better. We will look at continuing to refine our strategies and evolve our business. Across the board we are looking at how we can deliver better software, better services, faster and more efficiently. Key to this will be looking at how we can add significant value to our customers by substantially refining our solutions and services for each of our identified vertical markets. This is the number one priority for us in the coming 24 months.

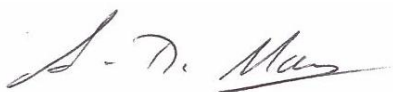
Dividend

In such a challenging economic environment the strength of our balance sheets is important. With Cash and Cash Equivalents of approximately \$14.3m, undrawn banking facilities of \$7m and a Debt/Equity ratio of only 6.4%, we are in a strong financial position.

Having said this, it is prudent for us to maximise our cashflow to ensure we have maximum flexibility going forward. As such the Board has set a dividend payout ratio of 65% to 75% this year. It has also decided to apportion the dividend between the first and second half years, in line with our actual results to maximise our cashflow. As such the first half dividend has been set at 0.88 cents per share. The full year dividend is expected to be at least equal to last year's dividend of 4.12 cents per share, based on our full year guidance

After Word

I would like to once again acknowledge the hard work, dedication and creativity of the TechnologyOne team. It is a great pleasure to lead such a talented team of people who are committed to our goal of delivering great software and services to our customers.



Adrian Di Marco
Executive Chairman