

## One to Watch

# ReadyTech

## Meeting with CEO Marc Washbourne

26<sup>th</sup> October 2023

Venn Brown sat down with Marc Washbourne, CEO of ReadyTech, to discuss recent wins, a growing addressable market, international opportunities, growth prospects, digitisation and cloud migration, cash flow, and margin expansion.

### Thanks for meeting with me today, Marc. To start with, can you give us a brief overview of ReadyTech?

ReadyTech's platform is a modernised ERP<sup>1</sup> that provides mission-critical solutions to a range of markets. Our key markets are education, local government, justice, and workforce management. Our technology is a technology backbone that manages a business's core system of record, compliance and critical workflows.

It is offered in the cloud as a software-as-a-service (SaaS). Across these markets, we find that all our customers face similar challenges in managing their critical software infrastructure. Many of them are in a digital transformation. They are upgrading to the cloud, but many in these sectors have been slower to adopt the new technology. They have now reached the point where they want to increase efficiency and automate more of their business.

Another key driver is a desire to improve and modernise their customer's experience. For instance, there is a significant shift in education to improve the student experience. In local government, there is a very significant transformation underway to offer a better and digitised modern experience for citizens in the local community. So often, customers are adopting a cloud-based strategy at the same time as going through a digital transformation strategy. And so, I think all of those things are very important to them, and we look to support our customers through that in a very customer-centric way.

I see our job is to help them manage that transition on our software and continue to innovate for them over time.

<sup>1</sup> An ERP (Enterprise Resource Planning) system is a software used by large organisations to manage various aspects of their operations, such as accounting, inventory, human resources, and supply chain. SAP and Oracle ERP are two of the largest ERP providers.

## ReadyTech

### ASX:RDY

Sector	Software & Services
Date	26th October 2023
Share price	\$3.57
52-week range	\$2.80 / \$4.28
Market cap	\$416.9m
Free float	56.6%
Dividend	-
Yield	-

Year-end 30 June	FY20	FY21	FY22	FY23
Revenue	\$39.3m	\$50.0m	\$78.3m	\$103.3m
EBITDA	\$15.5m	\$17.0m	\$26.8m	\$31.0m
EBIT	\$6.1m	\$5.9m	\$12.7m	\$13.7m
Net profit	\$3.9m	\$2.2m	\$8.8m	\$5.0m
Earnings per share	\$0.05	\$0.02	\$0.08	\$0.04
Operating cash flow	\$13.8m	\$19.5m	\$17.0m	\$27.8m
Free cash flow	\$13.1m	\$19.1m	\$16.4m	\$26.3m
Cash & equiv	\$9.2m	\$12.0m	\$9.2m	\$20.6m
Net debt	\$18.9m	\$21.6m	\$28.1m	\$31.5m
Net debt / EBITDA	1.2	1.3	1.1	1.0
Dividend per share	-	-	-	-
ROA	4.6%	1.3%	4.7%	1.9%
ROE	11.9%	2.9%	9.0%	3.9%

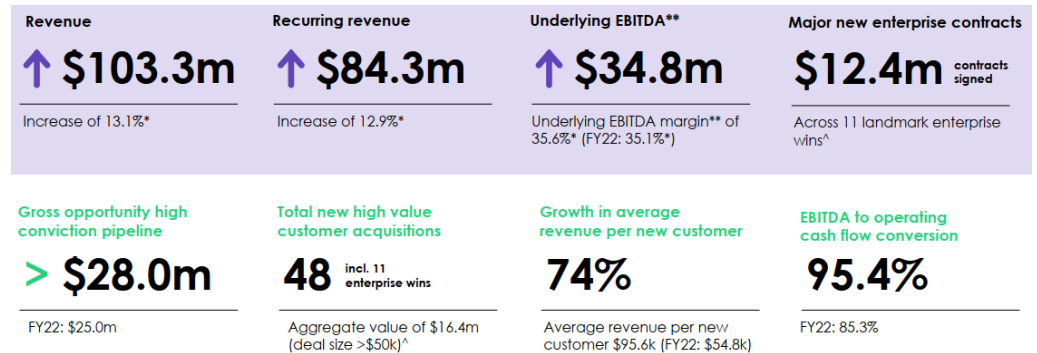
### 3-year Price Chart



### Analysts

Andrew Wilkinson      awilkinson@vennbrown.com

Figure 1: FY23 revenue grew +13%, revenue per new customer grew +74%



Source: ReadyTech

Can you talk us through some use cases to help people better understand what the platform does and the solutions it provides?

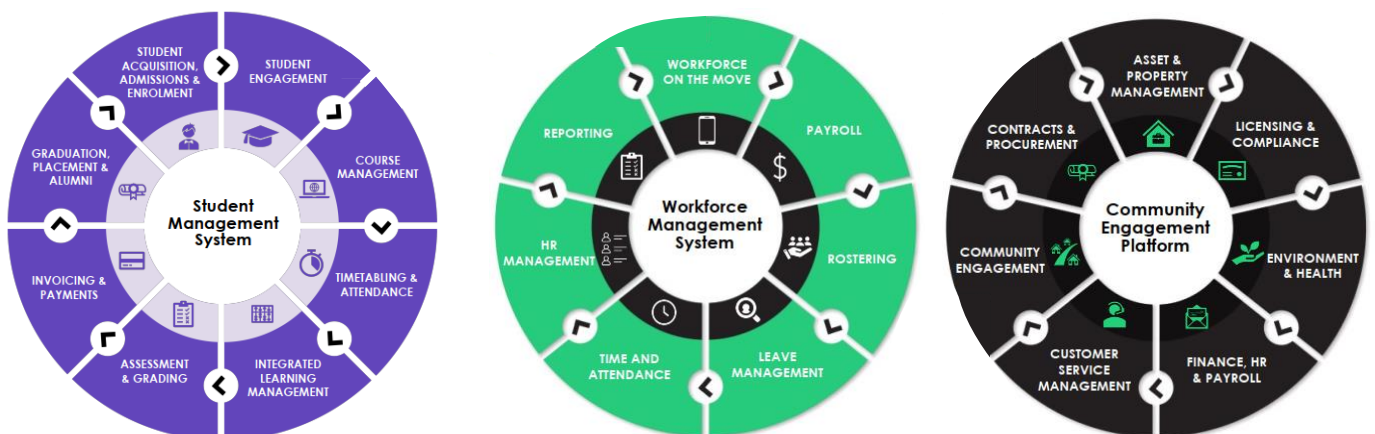
So we have three business segments:

1. education and work pathways;
2. workforce solutions, a payroll, workforce management and HR offering for the mid-market; and
3. government and justice.

The three segments are all pretty equal in size. It is not quite a third, a third, a third, but it is not too far off.

Our local government clients use ReadyTech to manage everything from finance and payroll to the core management of community services and interaction. The community aspects include the council's primary responsibility of managing properties and rates as well as the range of other services, from animal licences, business permits and town planning applications.

Figure 2: ReadyTech operates across three main solution sets



Source: ReadyTech

We aim to provide customers with agility and choice. For example, Our Local Government platform has 70 separate modules, and we take a very modular approach, giving our customers the flexibility to roll out the system in a way that best suits them and that allows them to curate a best-of-breed solution. Unlike earlier ERP systems, we think of ReadyTech as an open and connected ecosystem of modules that are effectively building blocks, providing customers flexibility and choice in the software they use.

Education is another key market for us. We work in the tertiary sector with colleges, TAFEs and universities. We provide a student management system, managing the entire student lifecycle from student marketing, acquisition, and enrolment to complex timetabling, grading and eventual graduation. And within that complex life cycle, as with all our systems, there are compliance and government reporting requirements, which, again, make our systems extremely mission-critical.

Our platforms are usually part of a broader ecosystem of interconnected systems so interoperability is a major focus for us. For example, in the case of education, we don't provide learning content, but we integrate with learning management systems that allow students to learn online. Our platform allows data to flow freely across the ecosystem, which has often been a major challenge under older types of technology and legacy systems. This need for integration and interoperability is often a key driver of customers seeking our solution.

#### Do you compete with the likes of SAP and Oracle?

At times, we certainly bump into those ERP systems at the very upper end of our market. You will certainly see those technologies used in the largest government agencies, local governments or universities. The challenge with those systems is their complexity in fitting the customer needs. They require enormous amounts of configuration and customisation, with implementation projects measured years and millions of dollars.

Figure 3: ReadyTech is winning significant enterprise contracts



Source: ReadyTech

The value proposition of our vertical software focus is to meet complex customer needs “out of the box” and require relatively minimal configuration, significantly reducing both cost and risk. We have also designed our systems to remain aligned with ongoing market requirements, including regulatory and compliance requirements. An obvious example is payroll and human resource management with its ever-changing regulations, awards and compliance requirements.

**Do you have direct competitors in Australia?**

We do. For example, one of the larger competitors that we have is increasingly is Technology One. Their two key markets are similar in local government and education. We find that we tend to compete more with local players in these markets. The key reason for that is, again, the level of localised complexity in local government and education means that it can be difficult for international players to adapt their technology to the local environment.

**Is your market exclusively Australia or is it international as well?**

Over 90% of our revenue is from Australia and New Zealand. Some of our products are proving portable to new territories, the key one being our justice platform. So, we have a court management product, which is a very advanced platform to manage courts and tribunals in the judiciary. We won the tender from the Ministry of Justice in the UK, and they are now our largest customers with an initial three-year contract worth \$9 million. As you can imagine, this type of system creates highly sticky customers, with our platform now a mission-critical component of the lifecycle within the UK judiciary.

So, back to your initial question, we are very focused on Australia and New Zealand because there is such a large growth runway with an enormous amount of older technology that needs to be replaced. We will remain disciplined when exploring international markets and believe it is a long-term opportunity, but the focus right now is on Australia and New Zealand.

**The complexities of employment regulations must provide some protection from competitors for your workforce offering?**

Yes, absolutely. Australia is going through significant industrial relations changes right now, and it really highlights the strong position we are in. One of our key moats is we are seen as a highly trusted provider that essentially keeps the critical systems in line with compliance and regulatory change. That is really in our DNA; It is a core competency for us.

We find this across all our markets. When you’re the provider of mission-critical services, it makes the software very sticky and places you at the heart of the ecosystem, allowing you to offer additional value-added services to customers. There is a huge benefit in being part of the compliance and core system of record.

**Given the stickiness of your platform, what is your churn?**

Last year, customer churn accounted for about 3% of revenue. A lot of that is in the SME space is involuntary in nature, where businesses either close their doors or are acquired. Generally, businesses stay with us for ten years or more.

### What is the typical size of your customers?

We started our products at the smaller and SME end of the market, but a really universal strategy across every segment has been to target the largest customers. We have been going through a four to five-year transition to move the software products, the product fit, and our sales and marketing efforts into the upper end of the market, which we consider the enterprise market. Our sweet spot is organisations with between 200 or 300 to 5,000 employees.

Obviously, this means much larger customers and big ticket contracts. We have also found that many larger customers are only in the infancy of the transition to the cloud transition. So, there's a very significant growth opportunity at the larger end of the market.

We have been effectively moving through that shift in the last 24 months across all our markets. We have really had some great breakthrough wins, which are very important because it gives other customers confidence that we can manage this scale of customer transition.

For example, we now look after three of the largest TAFEs in Victoria. We have won our largest local government customer, the City of Salisbury, which is one of the largest councils in Adelaide. And these successful projects and implementations open up the larger enterprise opportunity.

By expanding into these larger enterprise-sized clients significantly expands our serviceable market to around \$970 million in revenue.

Figure 4: ReadyTech's enterprise strategy increases addressable market to \$970m



Source: ReadyTech

### Can you tell me about your sales process? Large ERP suppliers typically partner with implementation partners, like consulting groups such as Accenture, KPMG or EY. Is this your process as well?

We manage our own sales teams and undertake most of our sales and implementation ourselves. The education and local government markets are defined markets, and our teams can manage accounts effectively.

We have some implementation partners for the workforce and local government products, which is part of our longer-term strategy to scale and accelerate growth in enterprise, but at the moment, we are largely direct.

**Do you charge for onboarding?**

Yes, we charge an onboarding fee, but the critical aspect is the subscription revenue. Over 80% of our revenue is recurring subscription revenue. We obsess on building scalable software solutions that provide ongoing subscription revenue. This model gives us operating leverage, and it is one of the key reasons we are profitable with strong cash flows.

We see subscriptions as high-quality revenue and know customers paying subscriptions represent significant customer lifetime value. As I mentioned, most customers are with us for 10 or more years.

**Where do you see the biggest growth opportunities over the next three to five years?**

We are targeting overall growth in the mid-teens, driven by a combination of client retention (targeting 105% net revenue retention) and the balance from new customers.

We definitely see enterprise as the biggest opportunity for us. Through the expansion of our serviceable markets and the breakthroughs that we have had in TAFEs, a significant number of large education providers are on older technology and will need to move to a cloud-based system. There anticipate some regulatory changes coming that likely provide a further imperative for them to move.

We also had a breakthrough with universities last financial year, FY23, winning a contract with UNSW. Combining this with the larger local council wins I mentioned, I believe we are now seen as a serious enterprise player. We are the challenger brand, but we are a really strong alternative to some competitors out there. And so that is the big opportunity to continue winning those large customers. Across all our markets, we have an opportunity to move into a market leadership position or certainly to challenge for it; that is a big opportunity for the Company.

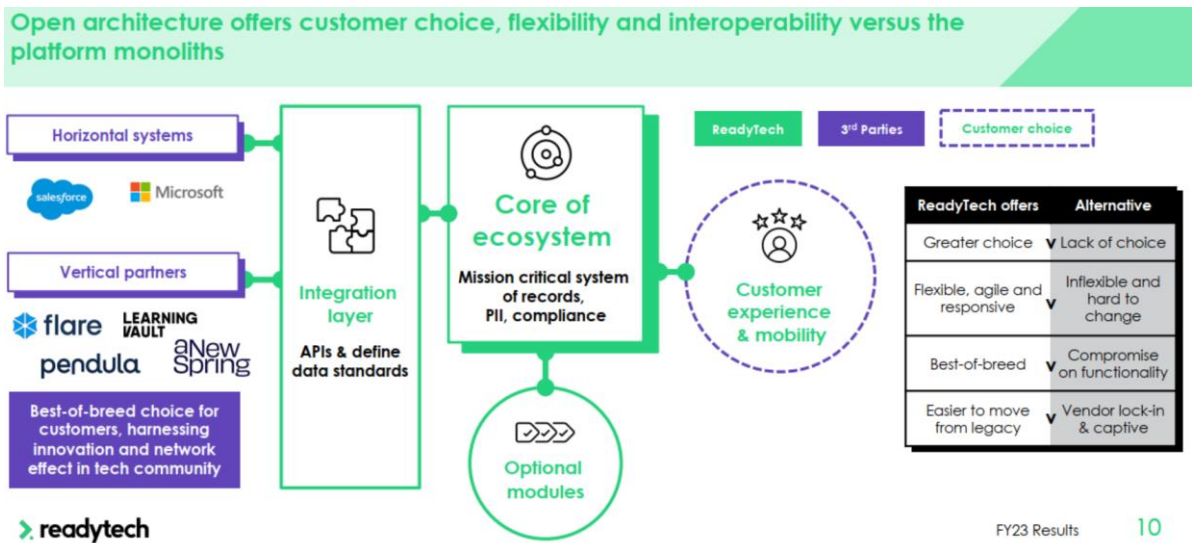
**When you win one of these large projects, are you displacing existing legacy systems?**

The vast majority of customers we win are using legacy technology. Often, it is either an on-premise or a hybrid cloud/on-prem solution being displaced with our truly built-in-the-cloud technology.

And what that gives them, firstly, is the interoperability I talked about. What we have been able to help customers do is to de-risk these often quite complex implementations by taking a phased approach to adoption.



Figure 5: ReadyTech’s open ecosystem is a major point of differentiation



Source: ReadyTech

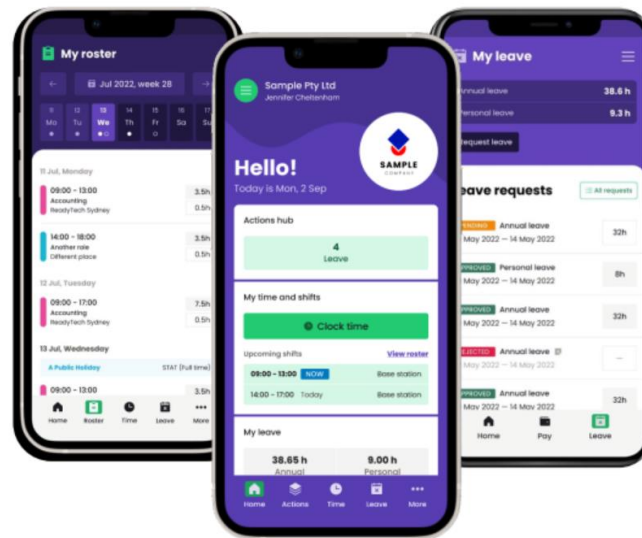
One of the key aspects of our software is that it helps our customers provide a much improved customer experience to their own customers. In local government, for example, we can offer their residents self-service capabilities. Usually, this is the first time these local governments have this option.

Through our system, residents can access their own accounts and manage all of the services the council offers, completely online, 24/7, improving the customer experience while significantly reducing the workload of council staff. Fewer phone calls, fewer emails, less paperwork, shorter wait times, fewer angry residents. It is an elegant and modern digital solution for the local community.

Community expectations are growing so strongly around this. I think people are far less patient these days with any service that is not digitised and frictionless, which is a real tailwind for us. We estimate that over 75% of local governments or councils purchased their system more than 10 years ago, providing us with a huge opportunity.

We are providing a similar solution in workforce management, giving employees direct and mobile access to shifts, leave management and payroll information., which, again, improves the employee experience while reducing paperwork and overall workloads for HR departments.

Figure 6: Employee & customer self-service improves outcomes businesses, employees and customers



Source: ReadyTech

#### **What are the biggest risks to you achieving your medium and long-term goals?**

We operate in a defensive areas. In times when there are macro or economic headwinds, this is a business that will continue to perform well and grow. And we have proven this over a long period.

Sol, the risk is probably more around timing and execution. The sales process of large enterprise opportunities can be complex. We are very confident in the scale of the opportunity. It is the timing and execution that may pose a challenge, but the diversity of industries we service provides a dampener and helps smooth the lumpy nature of enterprise contracts.

#### **How do you think about organic and acquisitive growth?**

The key priority for the Company is organic growth. We have a growth target to grow revenue mid-teens organically every year, and that is our number one priority. But we have found that in these areas of software where customers are inherently sticky, M&A can make a lot of sense. We have found opportunities to buy software companies to access their customer sets and help those customers transition to our cloud-based technology. A really good example is a company called IT Vision which had 170 local government customers on an older technology. We can now offer them a transition to the cloud, ongoing support and updates and a subscription model.

We also find that because we do have this technology ecosystem, we can acquire capabilities we don't currently have that our customers would love. That strengthens the overall product set while also offering upsell and cross-sell opportunities to our customers. And again, I think that we have executed well on those and extracted synergies and realised benefits. So we have been very disciplined about our acquisitions, and you should expect the discipline to continue.



**You've already got quite a diverse product set. Are there key new products you want to develop?**

Over time, yes. We have a lot of shared capabilities as well as best practices that sit across the ReadyTech platform. We share an enterprise brand that is now highly trusted in the enterprise end of the market. We have significant shared capability around the management of software and critical infrastructure. We also have playbooks around sales, marketing, and customer success that we think can optimise a software as a service company.

What this means is that over time, we could bring our software to new markets that share the same requirements as our existing markets, namely: mission-critical technology and the management of people and data. This is our core and adds significant value to those companies and helps accelerate their growth.

There are certain industries with similar characteristics. The ones we have spoken about in the past are health and care. That is something where we think we could add value and play a part.

**You mentioned targeting mid-teen revenue growth, what will this do to margins?**

For the last three or four years, we have been very much focused on revenue growth and we feel that we got the business to the stage where we can grow at mid-teens in a sustainable way.

The breakthrough wins we have discussed in education and local government have really proven that we have product market fit, but also signal our deeper investment phase in new product development and R&D is coming to an end.

The investments we have made ensuring the systems are as configurable as possible, thereby minimising custom development, means the platform scales very well. From here, we see the ability to grow margins through the inherent operating leverage of the software-as-a-service business model.

**What do you think investors most misunderstand about ReadyTech?**

I think the most misunderstood aspect has been our M&A strategy. As I said, we have acquired several companies. In our situation, where our customers are very sticky, that makes a lot of sense. We feel that we have bought well, integrated very well and have been very disciplined. All of the acquisitions to date have met their earnout targets. It is working very well but can sometimes take some explaining. But we are also seeing the strong performance coming through, and our successful enterprise strategy is also very much connected to our M&A strategy.

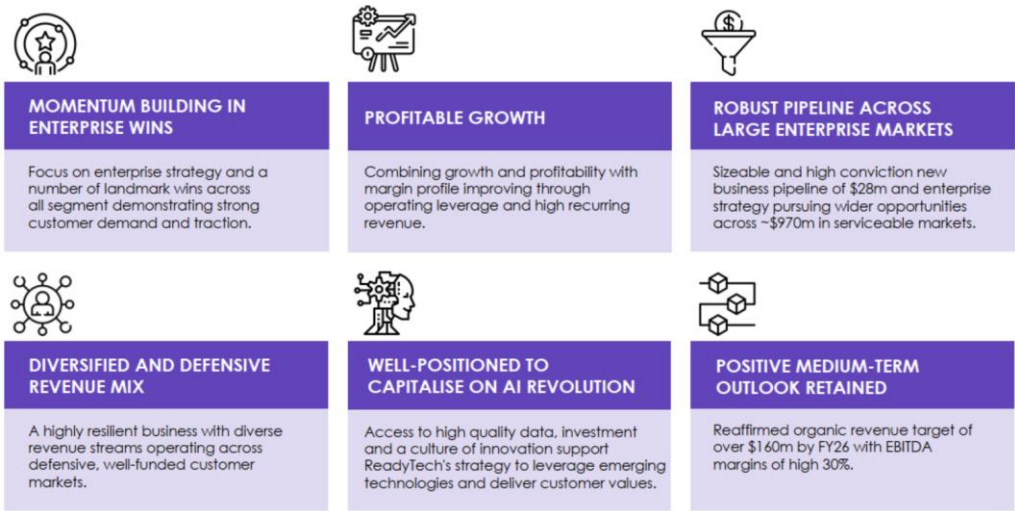
**What is something you wish more investors knew more about ReadyTech?**

I think the size of the prize. I think it is important for investors to understand the scale of the opportunity and just how much digital transformation there is to go. In most of our markets, at the enterprise end, a minimum of 70 to 80% of customers or potential customers are still on a legacy technology. We believe the breakthroughs we have had and the momentum we have position us well to meet this demand.

Also, the investments we have made in the product, the differentiation of the open ecosystem, the track record we are building in customer case studies and customer advocacy

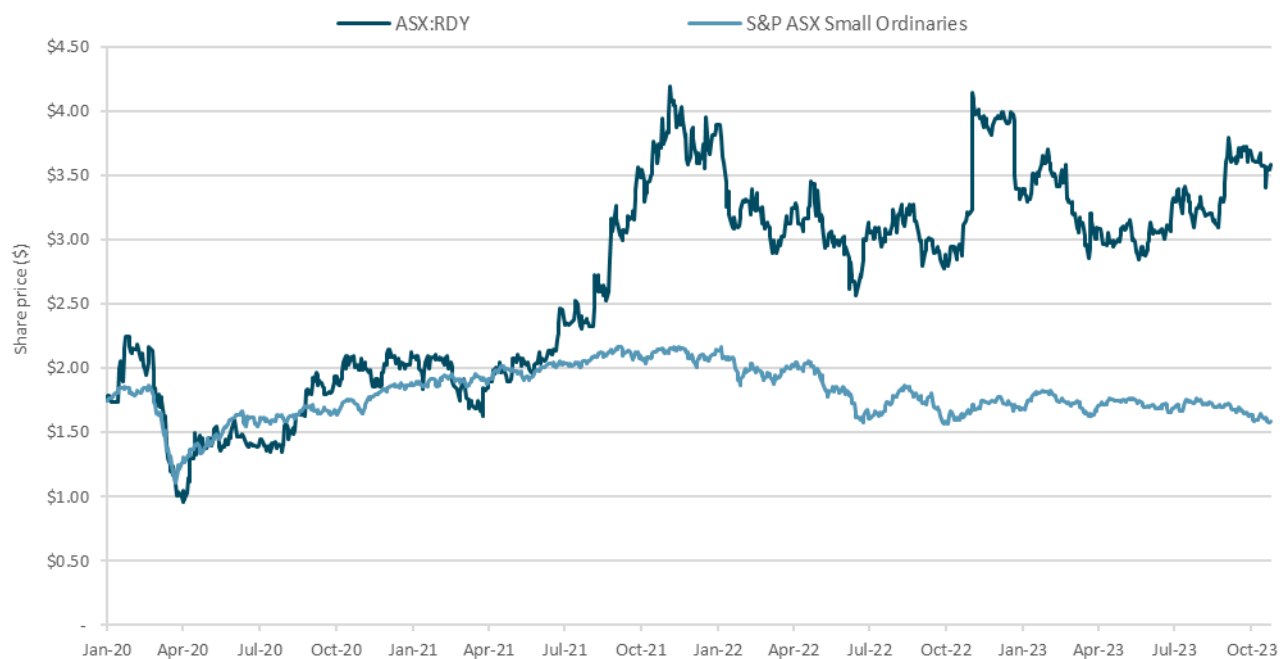
are positioning us very well to capitalise on this significant shift to the cloud across these markets.

Figure 7: ReadyTech is well-positioned to continue its profitable growth trajectory



Source: ReadyTech

## Share price performance



Source: S&P Global

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