February 22nd 2023

Interview with Andrew Hansen Global CEO and Managing Director Hansen Technologies Ltd

First half results commentary:

- FY23 guidance unchanged at 3-5% revenue growth and +30% underlying EBITDA margin.
- No loss of customers in 1H23.
- Underlying EBITDA margin remains above pre-pandemic level.
- Staff churn and wage pressure stabilising.
- Continued cash generation with rapid debt paydown while returning funds to shareholders.
- Focused M&A approach and expanded M&A capability.

Q: Your general thoughts on the result?

A: It's been a good six months for Hansen and we are on target for the full year. Despite global challenges, we've had a profitable six months. Our cash flow is strong. We have paid down debt while investing in our products and improving our global capabilities. Our underlying EBITDA margin is higher than pre-pandemic levels, and we're focusing on generating international M&A opportunities.

Q: How does the timing of your licence revenue affect your results?

A: FY23 will be a tale of two halves for us. Our licence revenue this half was lower than this time last year. This is really a timing difference created by how we need to recognise licence fees. We expect our licence fee renewals will be stronger in the second half. Excluding licence fees our revenue is 6.2% up compared to this time last year. This growth is higher than our historical average, and we'll continue to benefit from it in the second half of the year.

Q: Can you explain how the business is managing costs and revenue growth in this high inflationary period?

A: Like many businesses, we have experienced an increase in costs to retain and attract key talent. This was initially impacted by the tightness of the talent market and more recently with the inflationary pressures across the globe. That said, the benefits of retaining and attracting key talent is being realised by our business and our customers. We expect revenue uplift in the second half.

Q: Can you discuss your underlying EBITDA during the period?

A: In FY22, we expected some costs to return to the business. We are building back capacity, we have wage increases, and we are travelling more. Our long-term margins of around 30% are more realistic than the higher margins we experienced during the pandemic. Our current and projected underlying EBITDA margin of over 30% is very strong and higher than pre-pandemic levels. Overall, it's a great result.

Q: Can you comment on your cash allocation?

A: In the half, we paid down $20.9m of debt, and paid out $9.2m in dividends. Over three years, we've paid out $191m, a significant achievement. Our working capital was affected by the timing of receipts, but our net debt is now around $20m. We prioritise reinvesting in our business, as shown by our 44% increase in R&D expenditure compared to last year. We aim to provide returns to shareholders through dividends and reserve cash for M&A, especially as valuations in the market are decreasing. We've been a strong, cash-generative business for over 50 years.

Q: How do you look to generate greater revenue?

A: The reality is Hansen has grown through both existing revenue streams and also successful global acquisitions. When it comes to M&A we won't acquire where our proven approach does not demonstrate that the business will deliver value.

Q: Prices/valuations of technology companies have dropped in recent months; does that make a purchase from HSN more likely?

A: Hansen has made over 20 successful global acquisitions in the past 30 years. We're looking for companies that own their IP, with robust and mission-critical operations, regional expansion potential, and complementary applications. Our CFO Graeme Taylor has been promoted to Chief Development Officer to oversee group M&A. We're waiting for valuation multiples to come down further and we won't acquire unless our proven approach demonstrates value for the business.

Q: What level would you be comfortable to leverage the business to, and would you consider raising equity for the right M&A target?

A: The Board has a strong view of capital management, depending on the size of the acquisition, we will look to use cash and bank debt to fund our acquisitions. As you would appreciate our banks have enormous confidence in our business and are happy to support a sensible acquisition. However, if the deal is significant or transformational, we'd look to explore other potential funding options.

Q: Can you discuss your pre-COVID $500m revenue target?

A: We aim to hit our $500m revenue target through a combination of organic growth and M&A, but COVID and high valuations have slowed us down. We have developed a pipeline of M&A opportunities and are starting to see valuations moderate. We are committed to hitting this revenue target, with long-term incentives aligned to it.

Q: You and many of the key management personnel have been in the business for a long time. What are your thoughts on retention and succession planning?

A: As a company we look to promote staff from within and hold onto key staff who have come to us via acquisitions. We are very proud of the team we have developed at Hansen. You will have seen our announcement today that Graeme Taylor has been promoted to Chief Development Officer and Richard English will be replacing him as CFO. This is just one example of our successful succession planning strategy, and we remain committed to continuing staff development to further enable internal promotions. Equally, we are always looking for new talent to add to our business and support our strategic vision.

Q: R&D investment was up $3m (44%) this half; what can we expect for R&D spend in the current period?

A: We are leveraging AI capabilities to support our existing products and have increasing levels of cyber security. We are also investing capital in a variety of areas including cloud-native, regulatory compliance, B2B and enhanced customer experiences along with the continued opportunities that AI, 5G and IOT bring. These investments underpin both existing and future upgrades.

Q: Customer retention is clearly a very successful part of the business; how do you ensure customers remain?

A: At Hansen, we prioritise building long-term relationships with our customers and aim to become an integral part of their business. It’s by understanding their unique needs and providing outstanding service that we keep our customers loyal to Hansen. We are always looking to be relevant to our customers, not only for today but into the future.

Q: You have paid down a lot of net debt in recent years, which has gone from $151m in 2019 to $29m in 1H23. How important is further paying down debt to you?

A: We're a stable cash-generating business committed to reinvesting in our growth and maintaining a strong balance sheet for future opportunities. We've significantly reduced our net debt and expect it to be near net debt zero in early 2024, making us well-positioned for future acquisitions. Our banks are supportive of new borrowing when needed for the right acquisition. We have a strong record of rapidly paying down debt, particularly for a company of our size.

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Thank you, Andrew

Interviewer: Richard Allen Oxygen Financial Public Relations
Authorised by the Board of Hansen Technologies Limited