23 August 2023

Interview with Andrew Hansen
Managing Director
Hansen Technologies Ltd

FY23 results commentary:

- FY24 guidance of 5-7% revenue growth and +30% underlying EBITDA margin
- Effectively net debt zero as of June 2023
- Undertook materiality assessment and introduced ESG roadmap
- Staff churn and wage pressure has subsided
- $78.8m of operating cash flow generated in FY23
- Several new logos and renewals won during FY23
- No material loss of customers in FY23

Q: Your general thoughts on the result?

A: It's been a strong 12 months for Hansen. We have delivered impressive organic revenue growth, significant operating cash flow while simultaneously investing in R&D and the M&A pipeline. Our results for the fiscal year exceeded our revenue and EBITDA margin guidance and we are projecting stronger organic growth for FY24.

Q: You have signaled an increase for your FY24 guidance vs FY23. Can you provide more insight into this?

A: We have been building up our sales teams and have a clear organic growth strategy in place. By staying true to our customer-first approach we will see continued growth from new logo wins across existing customer upgrades and the full effect of our re-pricing into FY24. Today we have provided guidance for FY24 of 5-7% organic revenue growth with an expected EBITDA margin above 30%. This is well above our historical averages, which reinforces that our growth strategy is delivering results.

Q: Can you talk about the strategic CEO transition that occurred this year?

A: The transition has been a long time in planning. It frees up my time to focus on our strategic growth agenda, including our M&A activities. Graeme is a long-standing Hansen executive and will do an outstanding job managing Hansen's day-to-day operations.

Q: You have highlighted new logo wins and renewals over the course of FY23. Can you elaborate on Hansen's customer-first approach?

A: At Hansen we always follow the same, simple philosophy. We aim to never give a customer a reason to leave us. We've been very successful over the long run, with historical customer churn below 2%. We are mission critical to our customers and central to their operations and we take this responsibility very seriously. We of course pass on cost increases as and when we need to, but we always take a long-term strategic approach with our loyal group of long-standing customers.

Q: Can you discuss the enhanced strategy for organic growth?

A: Our organic growth strategy starts with keeping our customers happy by providing them with the features and functionality they require, now and into the future. We're also taking advantage of the rapid changes in the energy and communications industries, like renewable energy and 5G networks, which are creating more demand for our software and services. To make the most of these opportunities, we've expanded our sales team, enhanced our sales support, and continued to invest heavily in our product roadmap.

Q: Can you discuss Hansen's approach to R&D?

A: We invest in our products to make sure they stay agile, responsive and relevant to our clients' end customers. By working closely with our clients, we plan our R&D roadmaps to ensure quick adoption of new releases and maintain customer loyalty. In FY23, we caught up on a backlog of R&D due to lower staffing capacity in FY21 and FY22, which contributed to our increase. We're also continuing the investment in our Cloud-based solutions to support our longer-term growth aspirations. To stay ahead in the energy and communications market, we engage with customers, thought-leaders and technologists to help shape our product vision.

Q: Artificial Intelligence (AI) is a very topical subject. What is Hansen doing in this space?

A: Innovation is at the heart of our operations, and we have been building capabilities to help us harness AI and machine learning. We have hired resources with backgrounds in data science & AI to help shape our strategy, along with prioritising return on investments for our AI efforts. As part of our efforts in AI, we already have proof-of-concept projects running within our business. We are piloting AI capabilities that align with our existing eco-system and expect these to be delivering business benefits throughout FY24.

We are at the very early stages of harnessing AI to drive business performance gains; however, we are already seeing early signs of the type of efficiencies that can be gained. By way of example, creating test cases for new development can take days, sometimes weeks, to generate, but with AI assistance this can be achieved in hours. It is an exciting time, but we need to be careful and measured at this relatively early stage of the AI evolution.

Q: You have highlighted today strong underlying revenue growth excluding licence fees. Can you discuss the cyclical nature of the licence revenue and the recurring nature of your revenue streams?

A: Accounting standards can impact how we recognise our licence fees. The structure of some of our contracts require upfront recognition for licences. We don't structure our contracts to benefit revenue recognition. We structure them to support and adapt to what our customers require. The average renewal of our licence fees varies from 3-5 years and this can also impact how the licence fee line appears in our accounts from half to half and year to year.

Q: There is a lot of focus on Hansen's M&A pipeline; can you share any information on Hansen's targets?

A: We are committed to not just growing organically but also via targeted acquisitions, where we see value can be provided for our customers and shareholders. We are mainly assessing businesses within the communications and energy industries, in addition to a possible third vertical, with a focus on companies that can continue to deliver profitable innovation and growth. We have a strong pipeline of targets, and we continue to be in active dialogue, and different stages of due diligence, with many of them.

Q: With cost of capital increasing, has this altered your M&A approach and what you are seeing in terms of valuation multiples?

A: With the rising cost of capital, we are seeing valuation multiples subside. Of course, with higher interest rates we need to be increasingly confident of the synergies we can derive from a target, and this means we are doubling down on the due diligence on key targets. We won't waiver from our careful and patient approach to M&A. I think shareholders appreciate this disciplined approach.

Q: You highlighted today that Hansen is effectively net debt zero. What will you do with surplus cash?

A: That's correct. We are effectively net debt zero, as we forecast back in February. We of course are considering what the best options are now and into the future to drive value for our shareholders. At this stage though, we feel the best way to drive further value for our shareholders and our customers is through careful and targeted acquisitions.

Q: What are Hansen's plans for its remaining borrowings?

A: Our total borrowings at the end of FY23 are only $54.3m. We will continue to rapidly pay this down. We remain in active conversation with our banks to ensure we can raise appropriate levels of debt for a suitable acquisition. Our banks are extremely supportive and given our strong cash generation we can continue to work with them to obtain highly competitive interest rates. We have the balance sheet and the track record to underpin the debt facility required.

Q: The FY24 annual report describes your ESG roadmap, and materiality assessment. Can you discuss Hansen's approach to ESG and its longer-term aspirations?

A: Hansen is committed to continual improvement in our ESG approach. During FY23, with the support of independent experts, we commenced an assessment of our material ESG topics and developed our inaugural ESG roadmap. We will evolve our ESG roadmap over time as we work to ensure it continues to deliver benefits for the environment, our customers, our people, and the communities we operate in. The Hansen ESG roadmap has gained significant traction within all parts of our business. We are conscious of bringing all our staff, customers and vendors on the journey with us.

END

Thank you, Andrew

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