MPC MARKETS

# SMALL-CAPS

## RECOMMENDATION

Objective

## OCL:ASX

## October 2024

GENERAL ADVICE ONLY - THIS RECOMMENDATION IS GENERAL ADVICE ONLY AND DOES NOT TAKE INTO ACCOUNT YOUR SPECIFIC CIRCUMSTANCES

***Objective Corporation Limited OCL:ASX***

Objective Corporation is a technology company that specializes in providing software solutions for content and workflow management. The company primarily serves government and regulated industries, focusing on ensuring high levels of accountability and compliance. Objective Corporation's software facilitates secure access to information, allowing organizations to manage documents, collaborate efficiently, and maintain transparency in decision-making processes. Their products are widely used in the public sector across the  Australia, New Zealand, and the UK, supporting functions such as regulatory compliance, document management, and process automation

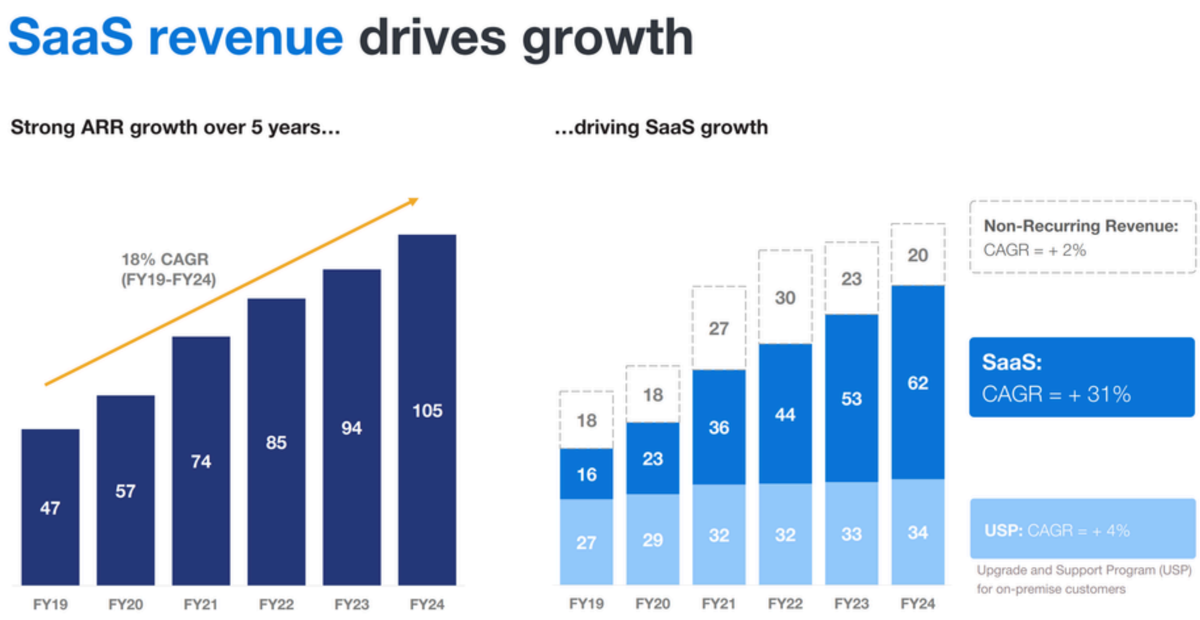

The company's product portfolio includes several key offerings tailored to different industry needs. Its information governance platform, which is a significant revenue driver, is used by organizations like local councils to manage documents securely and efficiently. In the fiscal year 2024, this platform generated $80.3 million in revenue, accounting for 70% of the company's total revenue. Additionally, Objective Corporation provides regulatory solutions to clients such as the New Zealand Police, contributing 19.3% to its revenue. The company also offers planning and building workflow products specifically designed for councils, which made up 10.7% of its revenue during the same period

# OBJECTIVE CORPORATION LIMITED OCL:ASX

## INVESTMENT CONSIDERATIONS

### *Leadership*

Objective Corporation is led by its founder and CEO, Tony Walls, who owns a significant 65% of the company. This large ownership stake aligns his interests closely with those of other shareholders. Walls takes a minimal salary, preferring to benefit from dividends, which amounted to $10.5 million in FY 2024. This approach suggests a strong commitment to the company's long-term success.
The board includes experienced members like Nick Kingsbury, Darc Rasmussen, and Stephen Bool, each holding substantial shares and possessing relevant software industry expertise. This lean board structure is considered efficient for a company of Objective's size.




### *Financial Performance*

In FY 2024, Objective Corporation reported a 6% increase in revenue to AUD 117.5 million and a substantial 49% rise in net profit after tax to AUD 31.3 million
The company has fully transitioned to a subscription-based model, with recurring revenue now constituting 81% of total revenue
This shift underscores its focus on sustainable growth and customer retention. Objective's strong balance sheet, with AUD 96 million in cash and no debt, positions it well for future investments and potential acquisitions. The company's profitability score is high, reflecting robust financial health and efficient operations

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## INVESTMENT CONSIDERATIONS

### Valuation

Objective Corporation has historically traded at high price-to-earnings (P/E) ratios, reflecting investor optimism about its growth prospects. However, the current P/E ratio of 48x is significantly above the market average, suggesting that the stock may be overvalued unless future earnings growth justifies this premium.

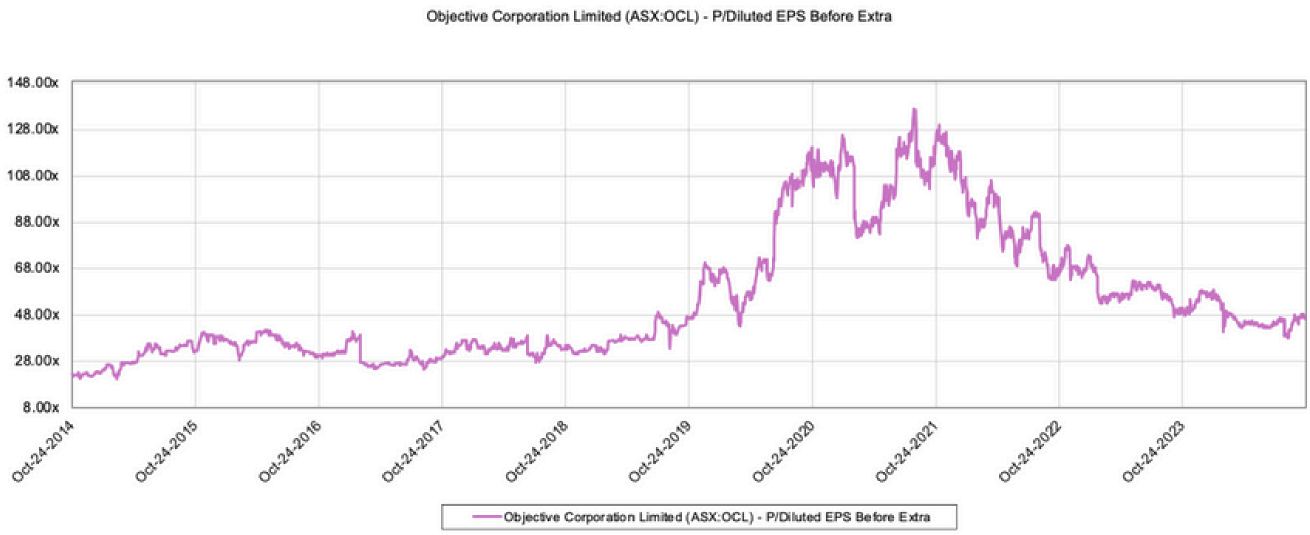
The intrinsic value of the stock is estimated at AUD 10.37, compared to a market price of AUD 15.1, indicating a potential overvaluation by 31%.

The company has set ambitious targets for annual recurring revenue (ARR) growth of 15%. However, recent years have seen growth below this target due to delays in contract signings

For FY 2025, a revenue growth expectation of 12% is reasonable given past performance and market conditions.

**FY2024 Financial Highlights**

| REVENUE | ANNUALISED RECURRING REVENUE | ADJUSTED EBITDA | NET PROFIT AFTER TAX |
|---|---|---|---|
| $118m | $105m | $44m | $31m |
| + 6% vs FY2023 | + 11% vs FY2023<br>+15% SaaS ARR vs FY2023 | +66% vs FY2023 | + 49% vs FY2023 |




### Sociological Factors

Objective Corporation's inclusion in the S&P/ASX All Technology Index has positively impacted its share price and increased analyst coverage.

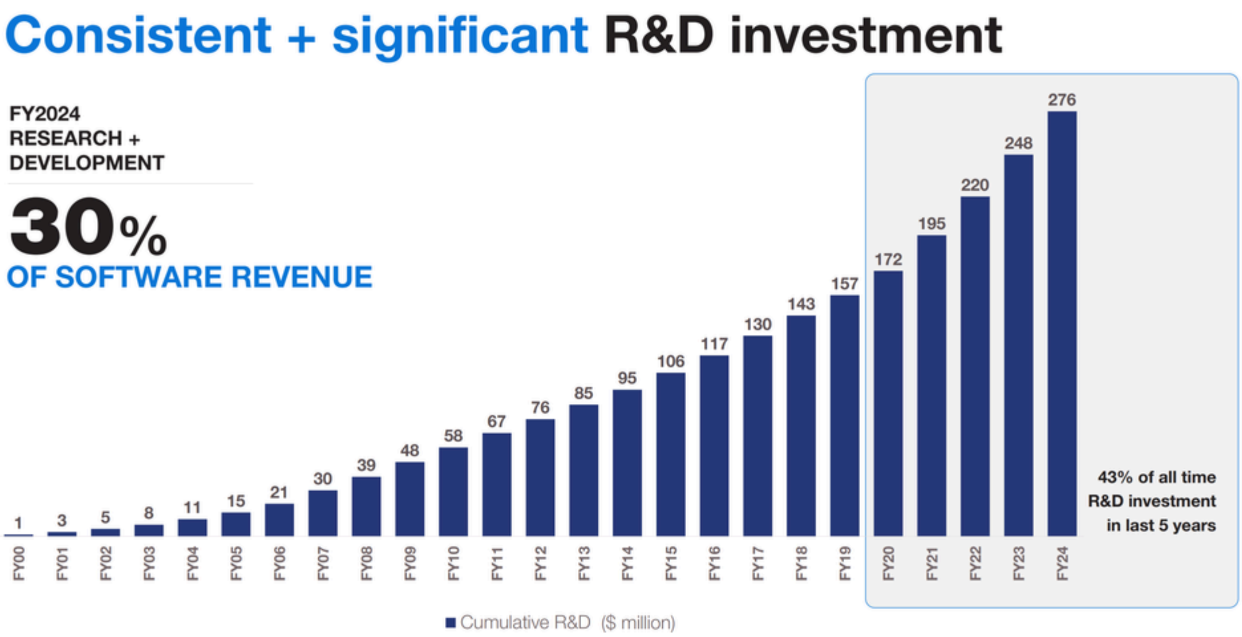
Despite this, the stock remains relatively illiquid. A former director's gradual sell-down of shares has occasionally pressured the stock price but also improved liquidity.

If Tony Walls were to sell a significant portion of his holdings, it could further enhance liquidity and potentially lead to inclusion in larger indices like the ASX 300 or ASX 200.

# RISKS

### Risks

Objective Corporation aims for annual growth exceeding 10%, yet recent years have fallen short of expectations. The company attributed its latest underperformance to delayed contracts, a situation the market has largely overlooked. However, persistent delays could erode management's credibility, potentially leading to a negative impact on the share price. Additionally, Objective faces external risks such as fluctuating interest rates, GDP growth variations, and changes in government fiscal policies. As an occasional acquirer, there is a risk that a poor acquisition could diminish the company's value, although past acquisitions have generally been successful.




### R&D spending

Overspending in research and development (R&D) poses significant risks for Objective Corporation, as it can lead to financial strain and misallocation of resources. While R&D is essential for fostering innovation and maintaining a competitive edge, excessive expenditure without clear strategic alignment can inflate costs without ensuring proportional returns. High R&D spending does not necessarily correlate with innovation success or improved market performance. Therefore, it is crucial for Objective Corporation to carefully balance its R&D investments with strategic objectives to avoid potential financial pitfalls. By aligning R&D efforts with long-term goals, the company can ensure sustainable growth and value creation, avoiding the risks associated with unrestrained spending.

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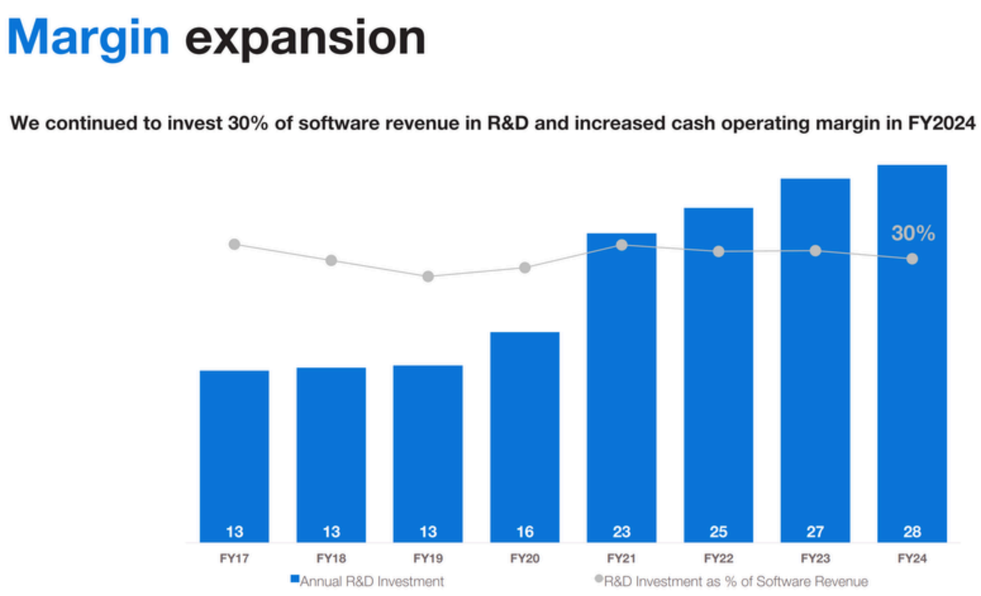
## WHY HOLD THE COMPANY?

***Why hold the Company?***

Objective Corporation is led by a management team known for its alignment with shareholder interests, honesty, and competence. Despite operating in a competitive market, the company enjoys high gross margins exceeding 90% and maintains solid net profit after tax margins above 15%, indicating it does not heavily rely on price competition. The company's strong balance sheet and free cash flow position it well to pursue acquisitions when suitable opportunities arise. Meanwhile, transitioning from its legacy information governance platform to the new Nexus cloud offering is expected to drive organic recurring revenue growth.

Objective benefits from long-term trends favouring digital process automation, which reduces costs and improves outcomes in bureaucratic functions. Although the stock may not be undervalued, it represents a high-quality business with trustworthy management. Objective shares are particularly appealing to investors seeking a long-term growth opportunity in their portfolios. The company's strategic focus on innovation and customer-centric solutions is further evidenced by its substantial investment in research and development.




***Conclusion***

Objective Corporation presents a compelling investment case due to its strong leadership alignment with shareholder interests, robust financial performance, and strategic transition to a subscription-based model. However, potential investors should consider the high valuation multiples and recent challenges in meeting growth targets. The company's future performance will depend on its ability to capitalize on delayed contracts and maintain its growth trajectory amidst market expectations.

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