

ReadyTech Holdings Ltd

Ready for continued growth

ReadyTech Holdings Ltd (ASX:RDY) is a leading provider of mission-critical SaaS software to the education (~42% of H1 FY22 revenues), workforce management (31% of revenues), and government and justice sectors (27% of revenues). The group currently has >4,600 customers spread across its three segments. Education products range from student management, student self-serve platforms and analytics. Employment products include payroll management, onboarding, expense management and business intelligence. Government and justice products include a community engagement platform, events booking and a central enrolments platform for community childcare. RDY listed on the ASX in April 2019, raising \$17m at \$1.51/share together with a shareholder sell-down of \$33m. RDY has consistently acquired businesses for added functionality and exposure to new clients, and this has continued since listing with the acquisition of Open Office in March 2021 (\$54m + earn-out), Avaxa in September 2021 (\$2.2m) and Open Windows in December 2021 (\$4.8m + earn-outs). The recent H1 FY22 result delivered strong metrics across the board with like-for-like revenues growth of 16.8%, underlying EBITDA +55% and underlying NPAT growth of 64%. There are not many profitable mid-cap tech stocks to use as peers, but of those selected RDY is trading in the middle of the small sample on an EV/ARR basis at around 5.6x H1 FY22.

Business model

RDY sells a range of SaaS software products to its customers with ~85% of revenues estimated as recurring. The group has three key focuses: secure new customers in existing verticals; sell additional products to existing customers; and enter new verticals, with government and justice the most recent example via the acquisition of Open Office in March 2021. As an example, migrating customers from just the “payroll” product (HR3) to the full workforce suite (Zambion) is estimated by management to offer 3x the current ACV or ARPU.

Underlying NPAT grows 64% in H1 FY22

The H1 FY22 result delivered on the group’s strategy in terms of new clients (the addition of 22 “high-value customers”), increasing revenue per customer across the portfolio, high recurring revenues (85%) and a 97% customer retention rate. The result was like-for-like revenues growth of 16.8% (to \$35.7m), underlying EBITDA growth of 55% (to \$12.9m) and underlying NPAT growth of 64% (to \$6.9m). Organic revenue growth guidance for FY22 was unchanged at “mid-teens”, while the FY22 revenue target was upgraded from >\$125m to >\$140m on the back of recent acquisitions.

Profitable small- to mid-cap SaaS players are peers

Listed peers for RDY are small- to mid-cap, profitable SaaS-based businesses with EBITDA margins between 30% and 40%. These businesses do not have to play in the same sectors but rather have the same drivers and challenges as RDY, including continued customer acquisition and retention, product enhancements and recurring revenue mix. Peers include full-suite ERP solutions player (and competitor) Technology One (ASX:TNE), and energy, water and communication software provider Hansen Technologies (ASX:HSN). On the latest releases RDY sits between TNE (10.5x) and HSN (4.0x) on a EV/ARR basis at 5.6x H1 FY22.

Historical earnings and ratios (In A\$m unless otherwise stated)

Year end	Revenue	EBITDA Adj.*	NPAT Adj.*	NPAT Rep.	EPS Adj. (c)*	EPS Rep. (c)	EV/Revenue (x)^	EV/EBITDA (x)^	PER (x)^
06/19a#	33.00	12.80	5.70	2.20	0.08	0.03	10.31	26.59	35.75
06/20a	39.25	15.60	8.30	4.50	0.05	0.05	8.67	21.82	58.80
06/21a	50.03	18.88	10.60	6.20	0.07	0.02	6.80	18.03	42.00

Source: Company data; *EBITDA, NPAT and EPS adjusted for one-time, non-cash items; # Pro-forma ^calculated from current enterprise value and share price

Software & Services

11th March 2022

Share Details

ASX code	RDY
Share price	\$2.94
Market capitalisation	\$314.3M
Shares on issue	106.9M
Net debt at 31-Dec-2021	\$26.1M
Free float	50.44%

Share Performance (12 months)



Upside Case

- Success in new legal and government verticals
- New customer wins
- Cross-selling opportunities

Downside Case

- Higher OPEX to sustain core business
- Contract losses
- Further contraction in tech peer multiples

Catalysts

- Updates on acquisitions performance
- FY22 result (late August)

Comparable Companies (Aust/NZ)

Hansen Technologies (ASX:HSN),
Technology One (ASX:TNE)

Board and Management

Tony Faure	Non-Executive Chair
Marc Washbourne	Chief Executive Officer
Elizabeth Crouch	Ind. Non-Executive Director
Tim Ebbeck	Ind. Non-Executive Director
Tom Matthews	Non-Executive Director
Mark Summerhayes	Alternate Director

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FINANCIAL SERVICES GUIDE

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AFSL 456663

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- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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