21 February 2024

Interview with Andrew Hansen
Managing Director
Hansen Technologies Ltd

1H24 results commentary:

- Record first half revenue of $167.7m up 12.5% of 1H23
- Strong EBITDA margin of 31.1% in the face of strong inflationary pressure
- Announced acquisition of powercloud a move that signifies a new chapter of growth and innovation
- $8m net cash positive
- Continued high customer retention
- Innovative and market leading software

Q: The company recorded very good organic growth in the first half of 2024. To what do you attribute this success, and how does it align with Hansen's strategic objectives?

A: The organic growth we achieved in the first half of 2024 can be attributed to a combination of factors. Firstly, our commitment to innovation and delivering market-leading products has positioned us favorably amid the rapid changes in the industries we serve. This growth aligns with Hansen's strategic objectives of fostering resilience, maintaining a customer-centric approach, and ensuring continuous innovation and expansion.

Q: You have maintained underlying EBITDA margins above the guided +30%. Can you discuss how Hansen has achieved this and what can stakeholders expect for the future?

A: Our 1H24 underlying EBITDA margin was 31.1%, despite increased pressure on costs as inflation hit many areas of our operations.

The diversification of our operations has helped us manage costs and maintain solid margins. With the fluctuations we saw in the early part of the half FX has played a small role in this. As we transition powercloud – which we bought earlier this month – into the Hansen Group we expect a temporary decline in our margin expectations.

Q: Diversification is key to stability. Can you provide insights into the key areas contributing to Hansen's revenue growth, focusing on services, licenses, and customer diversity?

A: Diversification of course plays a big role in our revenue growth strategy but let's not forget that our innovative market-leading products are what our customers use and what keeps them coming to, and staying with, Hansen.

It's the diversity of our customer base across regions, verticals, and industries and the skills and experience of our people and the knowledge they bring to these areas that also remains a fundamental strength of Hansen.

Support and Maintenance Revenue has increased 11.7%, demonstrating the predictability and recurring nature of this income stream. Services Revenue has also shown steady growth since 1H20, and Licenses has demonstrated a 9.2% compound annual growth rate since 1H20. There has, as expected, been a shift in the makeup of our revenues as implementations in EMEA roll off and move to an ongoing Support and Maintenance model.

Q: The acquisition of the Germany-based powercloud, announced on 13 February, appears to be a significant move for Hansen. Can you elaborate on how this acquisition aligns with your growth strategy and what opportunities it presents for the company?

A: Over the years, powercloud has continued to make substantial investments in advancing its technology platform. Hansen's acquisition of powercloud couldn't have come at a more opportune moment, aligning with the ongoing evolution of the German energy marketplace. This strategic move positions Hansen well to navigate the transformations in the energy sector.

The powercloud acquisition is a strategic cornerstone in our growth strategy. It aligns with our vision of not only expanding our scale but also deepening our operational presence, particularly in Germany and the broader DACH region. This move opens exciting opportunities for synergies, market disruption, and a strengthened product portfolio, reinforcing our commitment to excellence in the utilities sector.

Q: Can you explain a bit more about the growth opportunities you see in the DACH region?

A: Firstly, I should mention that Hansen already has existing strategic tier 1 customers in the region, so the region has been an ongoing focus for us.

Germany is the largest European economy and the third largest economy in the world and offers significant growth potential. The German government is also seeking to accelerate the rollout of smart meters and has adopted a draft law that enables large-scale smart metering rollout to start immediately before becoming mandatory from 2025 and provides a roadmap with binding deadlines to achieve an essentially full rollout by 2030.

There have also been recent changes in the competitive landscape, with a major incumbent declared end-of-life without a fully functional replacement.

Q: The acquisition of powercloud is 100% debt-funded. How does Hansen plan to manage this debt and balance future shareholder dividends, especially in the context of your strong balance sheet?

A: The decision to debt-fund the acquisition of powercloud is a strategic one, enabling us to leverage our strong balance sheet. Managing this debt is well within our capabilities, and we are confident that the interest, shareholder dividends, and overall financial commitments will be comfortably serviced with the cash flows generated by Hansen's operations pre-acquisition. In fact, today we announced that we have paid down over 80% of our borrowings following the acquisition of Sigma back in FY19. This approach allows us to maintain financial flexibility and continue delivering value to our shareholders.

Our M&A activities have not ceased with the purchase of powercloud. We are actively exploring further opportunities and our balance sheet position and company strength means we can integrate other opportunities into Hansen even while we integrate powercloud's market-leading software into the Hansen group.

Q: Maintaining a net cash positive position is commendable. Does Hansen plan to sustain this financial position, especially considering the acquisition of powercloud?

A: We have used our existing debt facilities for the acquisition of powercloud. Post acquisition, the Hansen balance sheet will remain particularly strong with a debt-to-EBITDA ratio of less than 1 times. Despite the acquisition being debt-funded, our solid balance sheet and prudent financial management will allow us to comfortably navigate the new debt, interest, and future shareholder dividends with the cash flows generated by Hansen's pre-acquisition operations.

Q: Integration is a critical aspect of acquisitions. How does Hansen plan to integrate powercloud into its operations, and what synergies are anticipated from this collaboration?

A: Integration is a meticulous process for us. In fact, we have so much experience in it that we have a name for it – 'Hansenisation'. We are confident our experienced executive team will ensure a smooth integration of powercloud into Hansen. This collaboration is anticipated to not only strengthen our overall capabilities but also enhance the value proposition for our stakeholders.

We take an 80/20 approach to integration and place our focus on the areas that matter most. We focus on driving and extracting synergies as early as possible. We focus on profitability, pricing power, upselling and cross-selling. We concentrate on integration of our shared sales functions, account, product and delivery management as well as leveraging our existing targeted approaches to R&D and leveraging our global development team.

Q: The inclusion of powercloud is expected to impact Hansen's FY24 results. Could you provide a detailed breakdown of this expected impact, especially in terms of revenue increase and the expected adjustment in EBITDA margin?

A: Excluding powercloud, Hansen expects to remain on track to deliver its original Revenue and Underlying EBITDA Margin guidance. powercloud is expected to deliver FY24 revenue of approximately $16-18m from 1 February 2024. The powercloud inclusion is projected to increase our guided combined revenue growth to 11-13% post its integration from 1 February 2024.

However, to maintain transparency powercloud has been investing significantly in R&D and other growth initiatives. As a result, the business financial metrics are substantially different from the Hansen Group. It is this situation that enabled Hansen to acquire powercloud for such a compelling price.

Off the back of the current powercloud trading performance, we anticipate a temporary drop in our expected underlying EBITDA margin to approximately +26%. It's important to note that powercloud's profitability has been affected by scaling challenges and additional regulatory requirements during the EU energy crisis. We see a clear roadmap back to bottom-line profitability, and gross margins remain strong. This will just be a temporary reduction in anticipated margins. Hansen has proven experience and speed to execution to successfully integrate and add value to our most recent acquisition. We remain confident of powercloud being EBITDA accretive within FY25.

Q: What potential benefits do you foresee from the powercloud acquisition, particularly in terms of product innovation, market disruption, and growth opportunities in the DACH region?

A: The powercloud acquisition holds immense potential for Hansen. powercloud adopted a visionary approach when it first entered the market. Under the original leadership team's guidance, powercloud developed a platform that was ahead of its time, effectively addressing emerging needs of energy retailers in the German marketplace. This foresight contributed significantly to powercloud's substantial growth and market share.

Beyond expanding its geographical footprint portfolio, powercloud brings innovative, flexible, and market-leading software into our ecosystem. This positions us as disruptors in the German market and opens exciting growth opportunities, especially in the wider DACH region. The move aligns perfectly with our commitment to delivering industry-leading solutions and driving sustained excellence in the utilities sector.

Q: The challenges faced by powercloud during the EU energy crisis and geographic diversification are noteworthy. How does Hansen plan to support powercloud in overcoming these challenges and ensuring a smooth integration?

A: We acknowledge powercloud's challenges during the EU energy crisis and geographic diversification, and we commit to support them as they turn the corner back to profitability. Leveraging our expertise and strengths, we aim to ensure a smooth integration, making powercloud an integral part of the Hansen Group. By aligning strategies and sharing best practices, we anticipate overcoming these challenges collaboratively and quickly.

Q: Recognising Hansen's continuous growth, how does the company plan to leverage its strong balance sheet to explore further acquisition opportunities, and what criteria guide the selection of potential acquisitions?

A: Our strong balance sheet positions us very well to explore further acquisition opportunities. We continue to actively seek acquisitions that align strategically, offer potential synergies, and contribute to the overall growth and resilience of Hansen and that deliver sustained value to our shareholders.

When we look for potential opportunities we primarily look for mission critical software in our existing verticals for utilities and communications. We seek companies that own their IP, have mature and predictable Tier 1 and 2 customers and provide opportunities for regional expansion.

I'd like to think that with our recent purchase of powercloud that it provides further confidence in our methodology. We still have a very solid pipeline of further opportunities but we won't waver from our patient and careful approach.

Q: The energy and communication sectors are experiencing rapid changes. How does Hansen plan to stay ahead in supporting customers and winning new business across both verticals?

A: Outperforming and remaining stable and dependable in dynamic sectors like energy and communication is integral to our strategy. We aim to support our customers by continually innovating our software and working on what our customers need most. A great example of this is our successful deployment of software to support areas such as Virtual Power Plants & Electric Vehicles.

By being at the forefront of industry changes, we ensure we not only support the changing requirements of existing customers but also improve our ability to win and retain new business across both verticals. Our deep and diversified knowledge means we can act as true innovators and thought leaders in the space. We build what is needed and what will deliver results for our customers and our shareholders.

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Thank you, Andrew

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