ASX ANNOUNCEMENT

4 July 2018

TRADING UPDATE – FINANCIAL YEAR 2018

Objective Corporation (ASX:OCL) provides the following trading update for financial year 2018 (FY2018), based on unaudited management accounts as at June 30, 2018.

Headline results for the year are in line with FY2017, with FY2018 revenue of $63.0m (FY2017: $62.8m) and EBITDA at $10.5m (FY2017: $10.4m).

Our focus on transitioning our customer contracts to subscription-based revenue continued and recurrent revenue grew by 13% over the previous period to 61% of total revenue.

Cash flow from operations increased by 18% to $11.3m, representing 107% of EBITDA for the year. Cash balance at 30 June 2018 lifted by 27% $21.4m ($16.9m at 30 June 2017).

We also continued our investment in innovation with $12.8 million invested in research and development (R&D) in FY2018, which represented more than 20% of revenue. Since 2007 our total investment in R&D has exceeded $120m, all of which has been fully expensed as incurred.

Over the course of the financial year, the company invested in upgraded workplaces for our highly valued employees, relocating to new offices in Reading UK, Wellington NZ, Adelaide and Perth. These new premises complemented our global headquarters in North Sydney which we moved into midway through FY2017. Whilst the rent expense for all new offices (with the exception of Wellington) were profit and loss (P&L) neutral, the increase in depreciation charges and a modest increase in our effective tax rate has resulted in Earnings Per Share (EPS) dropping from 9.0 cps to 8.0 cps.

LINE OF BUSINESS RESULTS

Objective ECM

During the year our ECM business performed satisfactorily with a highlight being the signing of a new 6-year term agreement with the Australian Department of Defence under our Upgrade and Support Program, demonstrating their long-term commitment to the Objective platform.

In May 2016, Objective announced that it had been engaged as a subcontractor to complete a significant consulting services project, which was due to be delivered over FY2017 and FY2018. This project came to end in FY2018. At the point that Objective's work in relation to the project was materially complete, we were advised that the end customer had terminated the head contract for convenience on the basis of a changing IT infrastructure strategy with respect to the deployment of the Objective platform. The prime contractor has not yet settled the balance owing to Objective. At this time, there is no dispute between Objective and the prime contractor, with both companies working diligently to clarify the balance owing to the prime contractor by the end customer. Objective’s strong cash flow as reported above would have materially improved had this issue been resolved at 30 June 2018.

Objective Keystone

The Objective Keystone business unit returned to profitability in the second half of FY2018 and achieved 12% revenue growth for the full year. New software as a service (SaaS) licence revenues from the financial services sector exceeded 20% year on year. Several new customers, including SunSuper joined the Objective Keystone family.

Objective Connect

Objective Connect had another strong year with revenue increasing by 58% to $2.5m.

Objective Trapeze

The Objective Trapeze business was materially softer than expected in FY2018, with a 15% drop in revenue, moving from a profit of $0.3m in FY2017 to a loss of $0.5m in FY2018. The indirect go-to-market model that we inherited, of partners and OEM agreements, has not performed effectively. These arrangements are currently under review and we will be moving to SAAS-only licencing for all Trapeze products from FY2019.

FY2019 OUTLOOK

FY2018 presented Objective with isolated challenges that we did not expect to face. Accordingly, we accept that this year's result is less than we are capable of. We remain confident however that the fundamental drivers of customer demand for our products has not changed. Our long-term investments in R&D has positioned us with globally competitive products which have demonstrated attractive return on investment outcomes for our customers. The continued pressure for greater productivity and transparency in the public sector, in addition to growing regulation of information in the private sector, will continue to drive further adoption of the Objective portfolio of products amongst new and existing customers in APAC, Europe and North America.

We are confident that FY2019 will deliver significant margin expansion as a result of product enhancements delivered by our R&D investment, the leverage in our operating cost base and our ongoing transition to SAAS licencing.

In FY2019, along with all ASX listed companies, we will adopt new accounting standards in relation to revenue recognition, known as AASB 15. We have had a number of requests from investors to clarify the expected effect of AASB 15 on our accounts. Objective has always adopted conservative accounting policies with regard to revenue and profit recognition and we can confirm that AASB 15 will have no material impact on either revenue or profit going forward.

ABOUT OBJECTIVE CORPORATION

Objective Corporation (ASX:OCL) creates information and process governance solutions that are effortless to use and enable organisations to advance their own digital transformation.

Designed for regulated industries, these solutions turn the imperative of compliance, accountability and governance into an opportunity to streamline business processes and deliver the innovative services that customers expect.

With a heritage in Enterprise Content Management (ECM), Objective's expanded solutions extend governance across the spectrum of the modern workplace; underpinning information, processes and collaborative work-spaces.

FOR FURTHER INFORMATION, PLEASE CONTACT:

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