

All right. Good day, everyone. I hope you had a nice weekend.

We've got a really good one for you today.

We're joined by Stephen Cavall, once again, the CEO of Atturra.

ATA is the ticker code here. We spoke with Stephen in around November of 2024, so this is well overdue.

If you do need a bit of a refresher, we'll cover some of the groundwork, but the high-level picture, just to frame all of this up, is that it's an IT solutions and advisory provider. So, they help big players

like instos, corporates, governments

navigate these really complex technology transformations and

let me tell you, if you've ever had to go through something like that, it's a thing. It's a real thing, and it's something that you definitely want to get right.

And also, let me add, speaking from experience, if you don't get it right, it can be one of the more painful things that you've ever experienced.

So I'm talking here like cloud migration, cybersecurity, data integration, and these kinds of things. These are very big projects.

They take a long time to do. But they're kind of necessary things for these kinds of players.

And

it's something you can't defer forever, which is interesting from an investor standpoint. So when we last spoke with Atturra, they were doing about a quarter of billion in revenue. And fast-forward to today, and the guidance at the moment is in the excess of \$364 million.

So there were some issues in the first half. We've seen a whole kind of general reaction on the market towards tech and growth and all this kind of stuff recently.

But as people have noted, we look at the underlying here, and there's a really interesting story that's at play. And of course, AI is the new hotness that's out there,

and as we know, a lot of hype and a lot of nonsense, but also a lot of relevance as well. And part of the challenge for us as investors is figuring it all out. And it's hard to think of someone better, actually, to help us do that than Stephen, who's right in the weeds with all of this stuff. So, listen, I've rambled on for too long.

I'll just finish by saying, if you do have any questions, please use that Slido link and I'll put them to Stephen when we get the chance.

And of course, just remember, none of this is advice.

So all said and done, Stephen, good to see you again.

Yeah, good to see you. It has been a long time.

Well, it has and it hasn't. Like a week is a long time in the market.

But, yeah, it's just amazing how fast

time seems to pass by. I guess it's probably worth, as

I said to you off-air, just laying the foundations a little bit before we get more into the detail of things. How did my high-level description go, and how would you flesh that out?

Yeah. So look, I think it was pretty much on topic.

It would be fair to say things have changed a little bit since two years ago. And

when we spoke last time, we talked about our core business having a managed services component, which is you kind of just help run and operate tech environments, and that was relatively new back then and growing.

Yeah.

And then we had an applications business.

And I talked back then as well, actually, we had a very large data business.

So obviously, we've still got that same sort of

makeup. We've got the advisory, we've got the managed services, the water and feeding, and then we've got the applications, which is really that business digital transformation.

Yep.

Probably what we didn't know back then was just how fast things would change around

AI.

Yep.

Back then it was quite fair, I think we actually spoke about, we had a small AI practice. That was before AI was cool.

Yep.

And we had a big data business. And so probably the big change for us is really been recently, we've had more of a rotation to our data business, where we're almost seeing unlimited demand in the next few years. So

back then, I think we had a team of 250.

We've got over 300 data experts now.

So

yes, we've got all those normal components, but where we're seeing that growth over the next year or two is around the data business.

And the reason the data business is now a hot topic is two things. Obviously, AI. AI requires data and needs you to have your data estate in order. And obviously garbage in, garbage out's still true, but also cyber.

Yeah.

Obviously securing and managing and doing that estate.

So still got those old components.

We're still very focused on industries, which has

also turned out to be a really fortuitous decision because  
as AI has disrupted,

I reckon, more of those horizontal players-

Yeah

... and what our clients are looking for now are technology  
and data experts with vertical knowledge.

Right.

So we're finding a really strong demand for our specialist  
business areas doing that,  
and helping organizations  
go through what I'd call...

To be honest, 90% of it's automation, 10% of it's AI-

Yep

... but everyone's calling it AI. I'd say that most  
of the time people say AI, it's technically not.

Right.

And it's automation, and people are still playing around the edges around  
AI and working out how to do that. So yeah,  
same business, more focus on the data, and  
we see a lot more growth in that area going forward.

Yeah.

I definitely want to get into it. Let's just dive straight into the AI stuff  
because it is so cool. I've just been playing around with it all weekend and  
stuff with our own site, and I'm a complete technical novice, and it's  
sometimes I think a little bit of knowledge is dangerous.

I think for me, it emboldens me to think I'm far more  
capable than I am, and then you get a little bit down the path, and you  
see, I notice anyway, two things. One is it's a genuine technology.

It's a bit of a game changer. But also, two, it's easy to get carried away with things.

What-So I'll break this down into two parts here.

Let's start with Atura itself. What are you guys using it for internally as opposed to what you might be doing for customers? Are your devs integrating it into their workflow? Is it giving you more flex with the human resources that you have?

Or yeah, just what does that sort of look like from where you sit?

Yeah. So we've,

and

really since probably September last year, so

relatively recently,

we've had a significant investment and push into

our AI internally. I mean, to the extent of

everyone's doing AI training regardless of role, and I'll loop back to answer your question.

No, yeah.

But I suppose we're doing what we speak to our clients about,

making sure everyone's trained. It includes me, even I'm

on an AI sprint right now, and everyone on the AI sprint, by the way, has

to actually have a project. That project's got to... It's quite complex.

We need everyone, including, by the way, our head of HR.

Yep.

So it's not just our technologists

come up with things of how to transform their work and how the data structure and all that. So-

Yep

... we're doing that because we're doing a lot of work internally.

In some cases, it's a bit restricted by our client base.

Mm.

Obviously, the stuff we do in government has to fall within the Australian AI policy and framework.

But internally, it is predominantly about efficiency and effectiveness.

Mm.

So that's stage one of AI.

Yep.

It's not materially about new offerings-

Mm

... but it's about doing what we do more efficiently.

In the stuff we produce in coding base, we have very few coders.

Mm.

So obviously the 50 or so coders we have, that world has completely changed.

Right.

Coding is no longer the bottleneck of creativity.

And I'll talk a little bit about that later because that's making fundamental business changes for us in a really positive way.

But internally, our managed services, we're automating fault identification, management.

We've even got, using an external company,

AI agents actually answering phones.

So we're doing those transformations, both pilot and production-

Yep

... internally. And we've just got to manage that through our clients' awareness of where we're doing it.

But

in our proposal response, our market scanning is all pretty much automated.

Yeah.

And then we put a human in the loop on pretty much everything. So for us, efficiency and effectiveness is the priority.

In terms of creating new offerings, not so much-

Mm

... because where we are with most of our client conversations is still in what's the governance needed-

Right

... what's the environment look like and how do you implement that?

So-

Yeah

... yeah, I'm expecting massive cost savings over the next few years. In fact, some of those cost savings are starting to come through now.

And then the other bit is really productivity.

So our clients are expecting more for the same.

Yeah.

We're not seeing, interestingly, any drop-off in the dollars.

What we're seeing is if a client had a million dollars to do work, their expectation on the return of that million dollars

is higher.

Yeah.

We're not seeing any decrease. Matter of fact, we're seeing increase in that.

Yeah.

So it's about that efficiency, productivity.

I think everyone pretty much uses AI

tools one way or another. Some of it's just gen AI.

Yeah.

We do advanced decision support, so we've got a whole heap of symbolic type

IT AI as well. So yeah, it's end to

end. We're,

what's that, eating our own dog food or drinking our own champagne with the AI on the menu?

Yeah. I mean, it's-

But we are doing one thing that is a bit different.

Yep.

We've been very clear to our staff base that,

and we recommend this to clients as well.

You've seen out there mass cuts in staff.

Now, where you're a pure programming company, that may make sense, but when you're a services business like us and a solutions business, we've actually gone to our workforce and said,

"If you do the training and you keep up to date and you do the projects, then we will retrain you.

It's only if you fail in that ability to be retrained-

Yep

... we don't see a massive reduction." And the benefit we've taken

out of that, and we've been doing that now for six months, is that one,

our staff are super on board about finding, creating projects and solutions, because they know as they're automating and changing stuff, that as long as they can maintain the training components we're putting in front of them, we will find them an alternate role.

So-

That-

It's weird

... is, yeah. That is so fasc- I think you've just hit on something then which is slowly starting to dawn for me. It actually reminds me of an economics concept called Jevons Paradox, which is, as things become cheaper, we actually use more of them.

Yeah.

It's a little bit counterintuitive.

And the media narrative is that AI's just going to replace everyone's jobs and you're not going to need it.

I've now spoken to a couple of CEOs on the ASX.

One in particular that stands out was Kate Quirk at Alcidion saying, "Well, rather than cutting back on our staff, it actually means that our existing staff can do so much more.

So where we sort of had these roadmaps and sort of ideas that we wanted to do and those sort of years out, so we've actually compressed that far forward." So I think in a way, the mainstream narrative is a little bit overly simplistic.

And it sounds like, I don't want to put words in your mouth, but it feels like that's, you're sort of seeming to agree with that perspective, that it's not-

Very much so.

Yeah.

Very much so.

Okay.

It does drive some interesting people challenges,  
and I think it does drive, and obviously we're close to the education  
system, it does drive some real challenges for education system because

I think

if you think through

the change we're pushing through our people that's bringing productivity benefits,  
my FPNA finance person's job is going to be completely different in 18 months.

Yeah.

It's going to be the same person going to be retrained.

Yeah.

But the core skill set I now need is learning agility  
and resilience.

Yeah.

And I would say our education system is horrendous at resilience.

Yes.

Participation awards do not drive resilience  
and learning agility, I think because some of that resilience is a  
challenge. So that workforce and our education  
system have got to match up because

I think there are going to be more jobs.

We're going to have not enough people because, yeah, I'm not a believer  
in AI doomsdaying.

Yeah.

I think there'll be ups and downs, and I think there are some roles that will  
disappear.

Sure.

By the way, you speak to people who walk down streets and knocked on doors to say it was work time and people used to light lamps. So jobs- ... come and go all the time.

Yes.

But there's no shortage of creativity, and I'm not speaking to any CIOs or any CEOs who haven't got a list, a laundry list of improvements they want to do to their business-  
Mm

... which is going to keep everyone employed for the next thousand years.

It's just there's not enough time and effort and brain space to get it done. So-

Yeah

... I'm definitely not a doomsayer. I know it's going to be disruptive.

I am very worried about learning agility, but people can get that learning agility. Yeah, I'm not worried at all. It's just about doing more with less.

That's exactly my take. It's an accelerant, and yeah, definitely change always brings challenges, but it feels at least, and at least until we get to the Skynet level- ... at least up until that point, it feels like a massive push forward for humanity.

So that's fascinating. All of that is super fascinating.

What about from the client perspective here?

And I mean, so we had the budget last week, right?

And I can't think of anyone who's more happy with the budget than accountants because all of a sudden there's a ton of work to do, right?

Yeah.

And

is there a parallel there with you guys and AI in the sense that you've...

I mean, you're a services company at the end of the day, and so if you've got more people, even if it's coming from a somewhat naive and ignorant standpoint from a board level goes, "Gosh, everyone's talking about this AI thing. I guess we need to do something." There's a few memes out there with what some of the corporate strategies are around it.

You feel as though it's more of a badge to say, "Hey, we're doing it," more than, "Do we really need to do it?" But still, is it driving more inbound kind of inquiries for you guys?

Yeah, it definitely is, and I think one of the big challenges is it's definitely driving a massive amount of inbound.

People do know, so they're really good.

People do know you've got to have your data right.

Right.

So the great thing is that's got to be there, and that's under all roadmaps.

Getting your data state in order is a requirement.

Yeah.

But the level of difference in maturity and understanding is different in every organization, and the challenge that we have and everyone else have is actually servicing the number of questions-

Right

... right now.

Mm.

So

we're not having a problem you traditionally have in a services business, which you've got to keep being out there to continually fill the pot.

We're not having any issues around that.

Mm.

I could fill up everyone's diary every day for the next month because people want to know what to do and how to do it. And the truth is, no one actually knows what it's going to look like in 18 months.

No.

People do know things are going to change.

Yep.

And it's being agile across that and making sure you're really clued on in your vertical specialization so you don't lose competitive position.

Yeah.

And then the second part of it, which is then what else can you add to your offerings as a client?

But we're seeing that in everything from manufacturing to education,

everywhere. So,

yeah. Right now, we're in a boom of demand.

But the demand, they don't necessarily know what they're wanting, and I don't think anyone does.

Yeah.

Everyone's going through this shakeup over the next 18 months, and anyone who pretends to know exactly where it's going to end up is just not telling the truth.

Yeah.

But everyone knows you've got to get your data in order.

Everyone knows security is critical.

Everyone knows or should know that taking your staff on that journey is going to be critical to success or you'll lose them, and that education around AI is really, really important.

Yeah. It's so well said. And it goes the other end of the spectrum as well. So

no one can predict the future, but I find it equally frustrating when people who are very hand wave, it's like, "Oh, it's all nonsense." I tried a free version of ChatGPT in 2024, and it wasn't perfectly accurate, therefore the whole field is a bust.

Which you seem to get a little bit of that take as well, and it feels as though, I think this is generally just true of business in general, is that there's just what investors in particular perhaps don't realize is how much experimentation is involved with this stuff, particularly on cutting edges.

There is an argument to be made of, well, just get in there and do it and figure it out. And a lot of things that look promising will prove to be a complete waste of time, but you don't know until you try.

Yeah.

And the really surprising wins often are surprising because it's like, oh, it turns out that this is the use case that-

Yeah

...

So I guess I always try and-advocate from a shareholder perspective is not to be afraid to experiment and try, even if it ultimately fails. If you're not failing, you're not trying hard enough is my general take on it. Not that you want to move fast and break everything, but you don't want to be so conservative as to let the world pass you by.

Yeah. No, you do it within your constrained environments, and that is part of the

education. Like, as we're tiering our education through our staff-

Yeah

... we're absolutely happy for some to experiment within the sandbox environments and break stuff, and that's learning.

And then when they go to client sites, they've got experience of what did and didn't work. So-

Yep

... to me, it's a really healthy thing.

There's always the 5% of flat Earthers you just don't bother with.

Yes.

Yeah.

Yes.

Sorry.

Well said, yeah. Well, yeah, you're not going to change their minds, so why-

No, you're not going to change their mind. Yeah.

Yeah. Why bother? I agree.

So I know, and this is sort of a longer arc with Altura, but we're sort of this, for want of a better term, more of a generic IT sort of services company, and now it's sort of

more this house of specialists

that you're going to. And part of the strategy, last time we chatted, we sort of got into this, there's

that desire to sort of try and balance the organic growth and the inorganic growth. Do these kinds of industry-wide changes

impact anything there in terms of what you might be looking to acquire or just the opportunity set of what's out there to acquire?

And if not, in terms of the AI thing, I'm also curious just on what that looks like in general.

Yeah. So you cut out halfway between that, so-

Oh, sorry

Yeah.

So I'll just repeat. Just more on the

balance between

organic growth and inorganic growth, do some of these changes within

the industry change any of the opportunity or strategy that you have there?

And just more generally-

Very much so

... what does it look like? Yeah.

Yeah. So it's definitely a massive change,

and probably not 100% predictable.

I think as I look forward over the next three years,

I definitely see

improved and growing profitability,

especially in that kind of now five-year type window.

What it means at a revenue level, I don't actually know.

Because we're going to have some interesting things where I think you will

see some lines of business, maybe in some areas you get a bit of

revenue drop, but you probably get higher profitability.

Right.

But then you're going to get super high revenue growth in things like that data

estate. So-

Yeah

... it is interesting. It doesn't change our strategy because it's still all the

same components about servicing, addressing the needs.

I think it'll be interesting what it looks like in a few years.

But I do actually see increasing profitability, and I'm seeing

a really cool kind of rotation to

companies wanting to talk value around AI and automation.

So we're seeing a really big increase in managed services demand, interestingly.

Mm.

And I think what's happening is we're seeing organizations sitting there going,

"I want my IT

team to be focused on the high-value AI

transformation. I don't want them focused on the low-value managed services activities."

Cool.

So where we probably would've predicted just two years ago, I think might've said that we see managed services as a good, solid, predictable growth business.

Mm.

But yeah, it's not going to shoot the lights out.

But as I look forward now, I see massive potential growth in managed services as people want to rotate to the high-value items.

Mm.

So that's really interesting. In the programming space, theoretically you should see a decrease in the demand, but we're seeing an increase.

They're just wanting more for less.

So it's

pretty hard to predict, but I think it's probably going to

be a pretty... I think the one area that's going to really struggle

is advisory, and you can see that. And no offense to the Gartners and that, you can see that in their-

Yeah

... kind of stock price. But

the reality is most of us use gen AI now for the first five cuts of advisory. So we're definitely seeing a real change in our advisory team where,

I think Deloitte's actually said, but

advisory's potentially dead in three to five years, so we're going to have to change that business. So there's one business I know will shrink.

It's a 5% of our business, that's not huge.

Yep.

But yeah, the other ones, I pretty much across the board see growth, to be honest.

Yeah.

And probably higher growth than we've seen since COVID.

Yeah.

In terms of the organic side of things, I know the sector, like a lot of sectors, it sort of goes ups and downs in terms of sort of the demand and what's out there.

And it wasn't that long ago, I'm sure you know, well, you would definitely know, where it was sort of like

a very capable dev, you really had to sweeten the deal.

Yeah.

Because they could go and work at Google for a gazillion dollars a year with foosball tables and kombucha and all the rest of it.

Yeah.

What's that space look like now?

Not disregarding what we were just talking about, but has it put the negotiating power more in the business's favor as opposed to the developer?

It's a good question. It's interesting because we're not programmer heavy.

I would assume as a programmer, they're going to have to retrain because that's going to be a job of the past. But-

Yeah

... we don't really have a lot of programmers.

We've taken a lot of our programmers and really taken them into the software architecture space, so-

Yeah

... one thing I think people, especially

retail investors, in many cases don't understand this who are in the industry, is

even though the current coding tools, for example, with the CloudNat, are great, we actually can't build anything usable-

Yeah

... or scalable or secure, unless you have really, really good software architecture capability.

So true.

So we're actually seeing probably-A shortfall in the market of software architecture capability. So we're retraining our things.

Luckily, we come from a business systems point of view, so most of our people are already software architects.

Yeah.

But I actually see in the next two to three years, there's not going to be enough software architects.

Yep.

So I think that there's still going to be a balance.

We're probably still going to have to

negotiate pretty hard and make sure we've got a really good work environment, because

I see unlimited demand for that software architecture

capability.

Yep.

And then obviously the long-term challenge we've got to do is how do we train and get those skills to continue to come through?

Because a lot of them historically come from coding and go up that career path.

Yep.

Coding

doesn't exist. It's going to be like being a punch card operator.

Yeah.

You just hit on such a nuance that I'm fast discovering.

It's like actually in my world with investing, so obviously it's just you can open up your favorite model and just sort of ask it what it thinks about a particular company, and it'll give you reams and reams of detailed DCF reports. Very impressive. But if you don't know what you're prompting, if you don't have a little bit of experience, it's probably more dangerous than helpful because it gives you a false bravado of things that look and feel very accurate and sophisticated and professional, but it's really a cosplay of what-

Yeah

... what a serious analyst would be able to produce.

And I'm sure it's the same with systems design and all of that kind of stuff. So it's super interesting to hear you say that.

Because it's not that good. It's really good at specific narrow tasks. It's not good at looking at the holistic picture and how everything sort of fits in. So that's really interesting to hear you say.

Just to get away from the AI stuff for a moment.

It's hard to do because it's so fascinating, but

I'm also interested in

Blue Connections, the Melbourne-based crew that you took on recently. That seemed like it sort of moved the needle a bit for you guys.

How's it all going there?

Yeah. So Blue Connection's going really well.

So you're right, that's the most recent acquisition.

It brought a few things to us. One was just the scale in managed services, but also our end user and cloud business. It brought some extra capacity and skills in there. So it's come on board. The integration of that, there's always two types of integration.

The technical integration's pretty much all bar done but one system.

Mm.

The people and culture integration's an ongoing thing as we kind of spread those teams out. So from a pure scale capability,

it's turned out to be fantastic. And one other thing that's really interesting, which to be honest,

when you think about Blue Connections, that wasn't that long ago, and when we acquired Blue Connections, it really was about just adding scale economics to managed services because it's a scale economics game.

Yep.

What we probably didn't realize the value out of Blue Connections and KMB before that is

now we're in those managed service relationships, we are the first people they're calling for what we do about AI.

So-

Great

... that cross-sell has traditionally been the bugbear of every company, including

ourselves.

AI's kind of breaking that down a bit.

So

Blue Connection's going really well.

The leads that are coming from there for potential future business are huge. It's just having enough people to service.

As I said, I could deploy people every day to have a conversation about business transformation.

Yeah.

You said something that was interesting in terms of the culture.

Now, it's one of those terms everyone sort of throws around and

it almost feels like it's just going through the motions, but I don't know.

It feels like to me, it's sort of as I get older and the more I do this, it's like actually culture,

it's a big deal. But it's very fuzzy and I can't put it in a spreadsheet.

And-

Yeah

... I feel as though, correct me if I'm wrong, I've got to say this very carefully,

and I say this with love and having

some of my closest friends as developers, but there's a particular archetype,

let's say, that's there.

Absolutely.

And I hesitate to use the term delicate

genius, and if my dev is listening, I don't mean this to you.

You don't mean the word prima donna or anything.

No, I don't mean anything like that.

That's what I was going to say.

I don't mean anything like that. But

I'm

serious because these are your, for want of a better term, your assets. And I could have a company that on the surface looks exactly like Itura, but if I've got a bunch of unhappy, disgruntled prima donnas, and you've got a cohesive one team, one dream kind of outfit, like the difference is just...

It's hard to overstate how big a difference it is.

Yeah.

I guess the question is, now that you've got a bit of practice with taking on new teams and integrating it in, do you feel as though there's a bit of secret sauce for Itura in sort of bringing new people into the fold and managing those egos and ensuring that you sort of get all the capability and culture that you're after?

Yes. It's a great question. So,

almost all of our acquisitions have done really well from a people retention.

We had one that didn't do-

Great

... so well a few years ago, and we kind of stuffed up.

Mind you, we stuffed up the people part.

So-

Okay

... we're actually a little bit complacent that we'd done so many so well, and in all those acquisitions, retention was better.

So we did one where retention was worse.

We

didn't put our normal process in. So our normal process, to be honest, is actually not very complicated.

Yeah.

It's super high touch. Make sure people are talking to each other every day, make sure we intertwine the social networks.

And you're right, across all the different roles, there's all different personalities.

Interestingly, we've not really struggled with-That ego side of it, and maybe it's a particular part of the market we're in.

So we've found pretty much with all our acquisitions, quite a humble culture and maybe that's part of our filtering-

Great

... process of-

Yeah

... when we acquire, we don't want companies that have grown 40% for three years.

We want companies that have grown 10% for 20 years.

Yeah.

And we've got all these kind of measures that may drive...

So we've found most people are actually low turnover, social. I think there's a bit of fear in a lot of those people right now around AI and that.

Yeah.

But yeah, interestingly, we've not really had that in our acquisitions either. So, touch wood, like the Blue Connections team, to be honest, super humble.

I think they grew up in Salisbury, so outside of the CBD. They've got a nice kind of family-knit group. There's a lot of them, so there's always one or two little issues, but the reality is-

Sure

... they're the sort of people you want to go down and have a beer with at the pub.

Great.

Yeah. So we've been really fortunate around that.

Yeah. It's huge. Again, a little bit of me always cringes when you talk about culture and stuff, but it is really important and particularly for a people's business. So I mean, the fact that it's-

It is

... in the retention sort of speaks volumes, right?

Mm-hmm.

What else can we talk about here? Oh, yeah.

So,

for those that might've just

coming along to the company now, there was this issue with a contract dispute in the first half, and there was also some big investments, and I think, well, it's worth

elaborating on all of that, but I think why potentially it's interesting is I'm always on the lookout for companies that hit a speed bump, but a speed bump that doesn't speak anything to its structural advantage and long-term opportunity.

In other words, and I think this is just par for the course for any business, whether you're a local fish and chip shop or BHP Billiton, these things happen.

Yeah.

But the market is the market, and the market goes, "Oh, there's something bad.

Boom" And it's just sort of like, I'm sure it's incredibly

frustrating for someone in your position.

Someone in my position, it's very interesting because if the market is being a

little too myopic and shortsighted on something like that, well, you

more or less get the same business at a much cheaper price.

So I'm not trying to lead the question here too much, but I feel it's probably

worth digging into some of those issues from the first half so people can probably

properly contextualize what's gone on there.

Yeah. So no, you're right. So right at the end, it was right at the

end of December, as a matter of fact. It was the last week of work.

Yeah.

We had a major client, to be honest, quite frankly, out of the

blue,

a non-commercial client, come up and say, "Oh, we're stopping all

this," actually the day before final delivery and everything.

And

yeah, and obviously, our point of view is they haven't filed the contract.

It was just the weirdest thing ever, and just stopped it all.

Yeah.

So now we made an error based

on history, just proves that the past doesn't always predict the future.

We had run a massive WIP up-

Right

... because in public sector,

agreements get canceled all the time.

It is not-

Just to interrupt very quickly, so work in progress is what Stephen's talking about

here.

Right. Yeah. Great.

Yeah.

So, basically work you've done that hasn't been billed.

Yep.

Yep.

And so we'd run up

a ridiculously large WIP. In our commercial business, we don't allow that to happen-

Mm

... because there's commercial risk.

In our non-commercial, our public sector business, we don't care about

WIP because-

Yeah, government's never going to run out of money. We know that, don't we?

Yeah, that's it. And the government actually cancels contracts all the time.

Mm-hmm.

And they pay up to the day of cancellation.

Yep.

And literally, we've probably had 20, because what will happen is,

a classic one is,

when the Iran war started, we were doing some defense work.

Some of them got canceled the next weekend because they

got different priorities.

Yeah.

So in government, that happens and there's no malice, there's no bad feeling.

It's just like, "Hey, this has happened," or the-

Yeah

... government's made a policy change.

So everyone who works with Canberra and government understands

that's what's said, and then they just stop it, and then you get paid to that date.

Yeah.

And there's proper record keeping from both sides to manage that.

Yeah.

When they stopped this, they said, "Oh, by the way, I'm not going to pay you."

That's what the issue was. So obviously-

Yeah

... we're going through the appropriate dispute process.

Yep.

The timing was horrendous, obviously just before Christmas.

Yeah.

And we'd run up a really large WIP. So

unfortunately, now we do have WIP rules in place for our

federal and other clients, our public sector clients-

Yep

... which we've never had to before.

So-

Yeah

... right now, if WIP gets to a certain level, we go to the public sector client

and go, "You've got to pay."

Yeah.

We've never done that before. And to be honest, I've spoken to obviously

peers

in my industry, because by the way, we weren't the only

vendor that was turned off at no notice.

Mm.

We're the only listed one. And yeah, all of us going, "Oh, we've

never seen this before." So we're just going through the process of saying, "Hey, that was incorrect."

Yeah.

And we'll come to a resolution on that following the process sometime in the future.

Yeah.

And then we'll book that as other income, by the way, when we do.

Yeah.

So kind of stands out, but-

But you're pretty confident it'll come through?

Is it just a matter of going through the process, or is there some sort of contention that means it's a question mark, or?

Oh, there will definitely be negotiation and all that stuff, but no, we're very comfortable in our position.

Yeah.

Yeah.

Yep. Yeah.

So we've got to go through that. Still super disruptive, because it was a large team

Yeah.

And

it did cause some restructuring costs in the first half and some in the second.

But yeah, it didn't really change our business fundamentally.

It doesn't change the things we do.

Interestingly,

the area that it happened in is kind of an isolated area in the government, so it hasn't stopped us winning any other government work, has had zero impact on that. So we'll just go through the

process and it'll come to closure,

I can't guess when, but at the right time.

But it doesn't really change what we do, how we operate.

Yeah, so that's why we kind of went to market and said, "This is the impact going forward." And if you look at our kind of going forward numbers, you'll see that it pretty much was what the second half was going to be anyway.

Yeah.

I mean, that's really interesting, isn't it? My condolences as well.

What a nice surprise just before Christmas.

Yeah.

When you look out over the next

five years or so,

I'm getting a sense from what we've spoken about previously and now, so there's a lot of opportunity that's out there.

There's a focus more towards the higher margin stuff.

There's still some inorganic growth opportunities.

And I know that you-- I've lost it here in front of my notes, but I think there was a

broader operational margin sort of goal as well.

Do those things all look about the same going forward?

notwithstanding the very rapid

change we're seeing in the industry-

Yeah

... and everything else.

We always love visibility as investors-

Yeah

... but also being very mindful that no crystal ball is perfect.

I guess I'm not fishing for any specific forecast.

I'm just more of that, since we last spoke, does the medium term look about as good as it ever has?

Yeah. I'd say the long term looks better-

Okay

...

and the medium as good as.

Yep.

Yeah, month by month, I think it would be really interesting as we kind of invest in the curve and what's happening.

But

yeah, I just see strong demand and it's not just us. I think kind of hearing that everyone who's playing in that data and sort of space, right?

And even the SaaSocalypse, right?

Yeah.

That they're talking about. We've got a product out there as well, where we've actually started to build up a bank of products.

Interestingly enough, we're going to have growing product revenue

just as the market seems to be devaluing product.

But the reality now for a company like ours, which is vertical-orientated, when we came across problems at a client site, it may be integrating a food processing plant, because you haven't got 100 or so manufacturing clients now.

Yeah.

We historically didn't have the capability to build solutions for clients. Now we do.

Because coding is no longer the bottleneck, and it's about software and business architecture.

Yeah, I mean, I see actually quite large increases in product revenue going forward. And we currently have one school student management system, which is your traditional real product.

I think-

Oh, is that Scolarian?

Scolarian. Yeah, that's it.

Scolarian. Yes. Okay. Yeah.

Yeah. And so there's that product, and we really plan to have one product because of our unique position in education.

I think there's going to be opportunities not to have kind of the same large-scale product as that, but to have lots of banks of IP and banks of products that we're building out.

And

for example, we'll have a client come to us now with a specific problem, and we'll actually have, depending on the potential repeatable use of that problem or solution we build, we'll sit with the client and either just solve it for them and they pay for it fully and full price, or we actually may do it as a discount to take the IP rights to that, and then we'll go sell that to five other manufacturing clients.

So-

Yeah

... which in a weird way is actually a reversion to the past.

If you think about the IBM of the '70s and '80s,

it was about having a house of IP and repeatable IP.

I actually see that phase coming back for services company.

Interesting. Yeah.

I see we're going to have a bank of IP.

We're going to have, as they call it, the helicopter, the Jesus nut, right?

That holds the blades on. We're going to have lots of those sort of spot solutions-

Yeah

... that we need to make sure that the process, they're managed, but it's once again, it's kind of more that higher margin work.

And we didn't do that stuff before because coding was a bottleneck.

Yeah.

Coding is not our bottleneck anymore, and we've already got the software architecture skills. So, we've released, just

in the last six months, several spot products that now have already got multiple clients

and are delivering over and above margin.

Or in some cases, we're using them just to be really sticky with our clients.

Yeah.

So yeah, we're deploying some of those solutions out there, and as an Altura client, you automatically get that solution.

That's super interesting. Speaking of the stickiness aspect, which was a real edge back in the day,

but I think more of the market sort of cottoned on to the value of recurring revenue and the rest of it.

I'm trying to think here. I think you've mentioned not too long ago, something like three quarters of revenue is pretty predictable-

Yeah

... for you guys. That might be worth elaborating on for those that are new to the business. Because again, there's contracts, there's services, work comes in, work wanes or whatever, but when you sort of see a

73-odd percent degree of

recurring revenue, I don't know if that's the technical, the most applicable term here, but more predictable kind of revenue.

That's interesting. So yeah, could you elaborate a bit on that?

Yeah. About half our revenue is recurring-recurring.

Right.

Another 25%, so let's say that's 75%, is

predictable. And what predictable revenue is, it's probably going to a few things for us. So that's where we're running projects at, A, longer than 12 months.

Mm-hmm.

So obviously you kind of know that's out there.

Or it's where clients have bought the same stuff from us continuously for many years. So we have-

Yeah

... many clients in local government, for example, where we almost have month-to-month contract, but for 11 years they've bought sort of a level of business services work from us. So yeah, about 75% of our business at any time running into a year is kind of locked in.

Mm.

And then 25% is either replacement, projects ending, or growth revenue, and those sort of things.

So yeah, roughly 25/75.

Yep. And

this is something I think markets and investors tend to over egg this particular pudding, but it is helpful to sort of get a lay of the land here on the competitive dynamic side of things. It is a competitive market.

You can't charge whatever you like, but I'm keen to get a sense

of

what those pressures are like at this particular point in time, and how

you might think they might evolve in the next year or two.

Yeah, look, I think in the data and AI space, which is the hot

space, it's super competitive.

How do I say this politically correctly? It's interesting.

There's a couple of organizations that are doing what they're doing, and we're

super

competitive there. So, there's people in that

space, we're in that space, got our true directions.

But like any boom,

there is the false gold prospectors out there as well that chase

in a time like this. So-

Yeah

... it's a really noisy market.

It's super competitive

and probably like the cyber market of five years ago,

for some people it's going to be super unprofitable.

Money's no longer free, so they probably won't hang around as long.

And the reason is, the skillsets are expensive.

Yeah.

And it actually takes a fair few to do that.

So yeah, I think it's going to be really interesting.

I think it's going to be super competitive.

Mm.

I think that's where we got the, for ourselves, unintended

benefit of managed services because we have a client base.

Yeah.

And we're going to manage that and look after them and communicate that. So I'm kind of glad we've got that base so at least when we're walking through the door of the CEO, or in many cases the CIO, we're a known entity.

Yeah.

Because it is going to be competition.

The competition is going to be not about dollars, I don't think.

Yeah.

I actually don't think it's about being the cheapest.

It's about being the one that the client has the highest trust in because of the materiality.

It's not going to make any difference if someone's \$100 or \$200 more or less expensive per day. It's going to be a lot more important about have they do it, do they understand, can they transform?

So it's competitive in the pitch

and spending the time with them. I don't think it's actually a margin compression competitiveness yet.

I think that's super interesting.

I think

if all you've got to compete on is price, you're in trouble as a business.

Yeah.

My personal-

Yeah.

Maybe if you're, I don't know, you're based in China or whatever and you just got a massive cost advantage, okay. But generally speaking, it's the weakest kind of moat, if you want to call it that.

And I can absolutely tell you from firsthand experience that there is very much a penny-wise, pound-foolish angle that you can take with some of this

work. Go, "Well, that's cheaper. I'm just going to go for that." And then-

Exactly

... it's been like five years later you go, "I spent 10 times more than I ever needed to spend if I just wasn't so tight at the beginning." So it's-

Yeah. And I think there's real,

there's always outliers, right? But I do think there's real recognition

in the client base that it's about the skills and

that sort of stuff. And it's funny you should mention China.

Like we

just last week, as a matter of fact, we've just come off the back of a heap of industry wins. We've won a Cloudera AI hackathon.

But in the Boomi world, and Boomi's all about data, right?

It's about-

Yeah

... moving, integrating, and managing data.

And we probably haven't pushed this in the market like we should have, but we actually,

and this proves the value over cost.

We actually won the Greater China Partner of the Year award.

Oh, congrats.

And obviously we're at a very different cost base than the skills there.

So-

Yeah

... yeah, no, we actually won APJ Partner, ANZ

Partner, China Partner, and Technology Partner of the Year award in the Boomi global world.

So,

but it's an interesting reflection of clients are seeing

that they want people who have done it before-

Yeah

... that have a low risk profile,  
and achievement. Matter of fact,  
the year before we did a project in Mongolia,  
and I can assure you we were not the cheapest people in Mongolia.

But yeah, I think as people start seeing that value, it's a  
competition for mind share and trust, not necessarily for the  
cheapest rate.

It's so true. It's a lesson hopefully anyone only has to learn once.

Yeah. Think we've all done it, right?

Yeah. It's so tempting, right? You just think, "Oh, looks okay." Particularly if  
you're naive as to what's involved with this stuff.

It's a bit like going to the mechanic and one says they can do it for this, the  
other, "Oh, I'll go the cheaper one," right?

Gosh, time is racing away here. I guess  
one sort of final line of inquiry from me and then I'll  
be keen to sort of ask you what we haven't explored that perhaps we should have.

But, just from the capital structure or the  
capital management side of things There's a bit of  
debt there, like 12% debt to equity, so not much, and there's a bunch of cash still  
on the balance sheet. Obviously, with an inorganic growth angle to what you're  
doing, it's something that you need to watch.

And the market being the market has made the cost of  
capital on the equity side a little bit more expensive.

I guess a very broad question is just do you feel like you've got the adequate  
capacity to do what you would like to do?

If I was to wave a magic wand and give you a billion dollars in  
cash, I'm sure there's a whole bunch of extra stuff that you could do.

And I guess I frame this up properly, sorry for the waffle, but

I think the

only thing that investors should really care about is not what is being spent, but what is the return on that spend.

And if there is a very high confident area of investment, even if it were to involve dilutive capital raises or taking on extra debt, mathematically, it's actually a very smart thing to do, although the market doesn't always see it that way.

So again, sorry for the waffle, but I guess what I'm asking is do you have the capacity to do what you would like to do and, or are you having to walk a little bit slower than you otherwise would've just because of the current conditions?

No. Yeah. So, we've got the capacity to what we want to do.

Though, to be honest, the only real constraint doing what we want to do is the fact we're listed.

Right.

And what I mean by that is obviously when you're listed, you're balancing the short-term return and the long-term return.

So, yeah, if we were private, we'd probably invest a little bit more in some areas, but it's more that, not capacity.

And we're investing a lot right now in the AI space.

When I say the AI space, it's actually the internal training, because if you think the training, I'm sending right now 50 leaders through project-based AI training.

So,

and that's everyone here. Our chief legal officer was sitting in our staff meeting on Monday, was walking through her AI project

to improve the business.

Like-

That's cool

... there's no exceptions to everyone doing that.

So-

Yeah

... we're spending a lot of money,

both in terms of, because we're taking all staff through different types of training.

Yep.

So there's a whole heap, when you're a services business, that means I'm taking 1,300 people off billability for a little while-

Yeah

... as well.

Yep.

And then,

I've got the cost of the course and then the cost of continuous updating and education. So, we are spending a lot of money on doing that.

Investing a lot of money, Stephen. Investing, not spending.

Yeah. No, we absolutely- ... it's absolutely investing.

Yeah.

And we see, especially as we're going from a low base to what we consider the minimum needed-

Mm

... that investment's going to last another year.

It's going to take that long, and then we've got to institutionalize.

So we're looking at things like continuous testing and learning.

Yep.

So,

we used to do that every 18 to 24 months.

We're kind of seeing we need to do that every eight to 12 weeks.

Yep.

So some fundamental shifts. So yes, we're doing all that.

We couldn't do that any faster, even if you threw unlimited money.

Right.

So, we're not constrained by that.

Okay. Yeah. No, that's great. And look, just for what I

advocate for what I

can,

not that I speak for all shareholders or investors in any way, shape, or form, but

I am always encouraging of longer term

investment,

as opposed to shorter term results.

I'd actually go as far to say at this point, having done

this for many decades now, is that the companies that

focus on the short term tend to screw up the long term.

So, you won't get any pushback from us for making sensible long-term decisions.

Well, I think it's kind of reflected. I think our...

Obviously, we've done a bit of buyback as well, because we had the cash-

Yes

... and the value was low. But-

Yep

... I think if you look, there's actually been

insiders, the management have increased

their holding over the last six months, not decreased.

That's interesting.

So

yeah, read into that what you want, but that's kind of view.

We've got a long-term high management ownership.

We're all on a very clear journey. We know where we want to get,

and,

yeah, that's gone up, not down.

I'm trying to think of the saying.

Insiders sell for many reasons, but they buy only for one.

That is correct.

Which is a nice saying, right?

Yeah.

Listen, I'll let you go, but I guess one of the

things I always like to ask at the end is, what didn't I ask you that I

should've asked you? I guess there are, when you're talking

to investors and various stakeholders, I'm sure you get the same questions all of

the time. I'm sure. So thank you for your patience, because I'm sure

it can be pretty tiring. But what are the things that you would wish that you could

speak of more that not enough people ask you or they don't

ask you in terms of the right,

in the right manner? Because we've talked a lot about AI

and things like that.

Yeah.

But are there any angles in here that we're missing as investors or that you'd like

to sort of people to take away from this chat?

Probably not. There's some really fascinating stuff we're doing that is more from

an emerging strategy point of view, around our sovereign cloud

and the importance-

Yep

... of sovereign technology, and the solutions coming out kind of in an unstable geopolitical world. But-

Yep

... the hot burning here on the table is exactly what we spoke about.

But

what we're doing internally from a long-term growth strategy is building our IP house up that I spoke about. Making sure we've got really clear view on where sovereign plays strong and where sovereign doesn't play strong.

Mm.

And I think geopolitically, that's going to become more and more important over the next few years. And I think for Altura and a few other tech companies that are genuinely Australian, I think we're going to be in a really interesting position because I do think you're going to see globalization, less of that-At least in the next three to five years.

And part of that is going to make sure that our data and our intelligence and our information systems, to use a really old-school term, are going to be controlled and managed and monitored by domestic organizations. So one thing we probably haven't touched on is if we look out five years, where do companies like Altura uniquely sit in the geopolitical atmosphere? And yeah, we're really well-positioned in Australia and New Zealand, where we've got over 350 nationally security-cleared staff, where we have a footprint in every state,

and we're of that size and scale and got the balance sheet that we can do those larger government programs now that I think the long-term view, even though right now the government's not spending much on external third parties, when that does rotate, there are very few companies in as good position as ourselves.

Yeah, super fascinating. Can I actually sneak one more question in?

Because you just reminded me of something.

I think, I don't know, maybe it's just my little bubble, but it's easy to take the black pill at the moment, the whole macro landscape.

It can be particularly bleak, but I think that perspective limits, at least us as investors, to opportunities that might be in front of us. And it strikes me as, and I think I got this from our first conversation, where people look at a lot of this work as sort of a nice-to-have, and I guess would be cool if we could do this, but a lot of the work, or I don't mean to lead the question, I could be wrong, and let me know if I'm barking up the wrong tree, but a lot of the work is kind of now you've got to do it, right? You might be able to defer it for a little bit, but at a point, there's either legacy software or various infrastructure artifacts that just have to be dealt with at some stage, particularly as tech stacks modernize and new technologies like AI and stuff come through.

Long lead-up to a very simple question, which is: Is the degree of cyclicity within this sort of broader managed services IT space somewhat

overly

emphasized unnecessarily? And again, I don't think we're particularly worried about lumpiness as longer-term investors, but getting a clearer picture on that can be a bit helpful.

Yeah. I think the whole cyclical nature's going to change completely, right?

And it's going to be disrupted and, yeah, it's like you can't fortify your environment.

Yeah.

You've got to have security. And fortify is probably the wrong term because that's kind of an old-school term, but you've got to have cyber resilience.

Yeah.

It's not a cyclical. Unfortunately, death, taxes, and cyber now. You've got to have it, right?

Yeah.

For you to compete long term in any industry, you're going to need to be managing your data and your information and your knowledge, right?

Yeah.

Now,

there's probably no panic rush in many industries.

Mm-hmm.

But it's not an option over the next two to three years.

It'd be like having a farm without a tractor-

Yeah

... during the Industrial Revolution.

But by the way,

I wouldn't necessarily say to a client, "You should go get the tractor now because it's version one and it doesn't work well."

Right.

So it's about being knowledgeable to know for your business and your industry what's the right amount to invest.

But the choice to invest, I don't think is an option.

Yeah.

I think there's some optionality on timing.

Like if you're a coding company, you've got to do it now.

You've got to do it tomorrow. If you haven't started, then you've probably got to go on a holiday and not bother coming back.

Right.

But there's a heap of other industries that you can really be a fast follower.

I don't think that's a massive issue.

Yep.

And there's others that you've got to be knowledgeable but can wait.

Yeah.

But the one thing I can say is between now and three years' time, everyone's going to have done something, otherwise you're in big trouble.

You're going to have missed that industrial revolution.

That

is such a great insight and a great point to finish it.

So look, thank you so much for your time.

I really shouldn't have left it as long as I did, and I won't leave it as long next time. But yeah, keep up the great work, and we'd love to stay in touch.

Great. Thank you.

Thank you.

See you. Bye