

WILSONS  
ADVISORY

# Oversold Opportunities in the Tech Sector

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Our weekly view on Australian equities.

26 November 2025

# ASX Tech Has Materially Underperformed in Recent Months

The ~6% drawdown in the ASX 200 has been accompanied by a far sharper pullback in the domestic IT sector, which is now down ~25% from its recent highs.

This is the largest drawdown in local tech stocks since the April 'Liberation Day' correction and stands in stark contrast to offshore markets, with the Nasdaq Composite for instance only ~7% below its recent highs and the S&P 500 IT

sector down ~10% – highlighting the disproportionate pressure on Australian tech names.

There are several key domestic market factors that have contributed to this weakness, including:

- **Momentum unwind** – tech sector valuations had become demanding, peaking at ~100x forward earnings in August. With tech stocks effectively 'priced to perfection', even modestly

underwhelming updates from WiseTech, TechnologyOne and Xero have been enough to trigger a sharp rotation out of the sector, likely amplified by quant-flows.

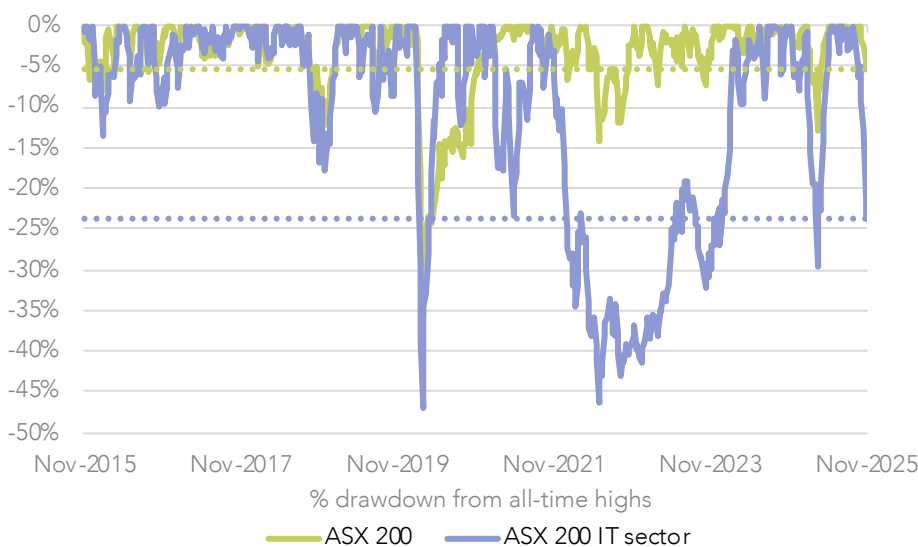
- **Australian bond selloff** – domestic government bond yields have risen ~40 bps since mid-October, and the AU-US 10-year spread has widened, driven by hotter-than-expected Australian CPI and solid labour market data. This has weighed on the valuations of interest-rate-sensitive growth stocks on the ASX, particularly within the tech sector.
- **M&A indigestion** – two of the ASX's 'big three' tech names have executed significant offshore acquisitions this year. Xero completed its US\$2.5bn purchase of Melio, while WiseTech closed its largest-ever acquisition – the US\$2.1bn purchase of e2open. Both deals have clear strategic merit, but carry integration risks, while they also face an ASX investor base that is generally sceptical of large offshore M&A. In Xero's case, the sizable capital raise appears to have contributed to material stock indigestion, with seemingly few incremental buyers for the stock post the raise.

- **Governance risks** – after a year of scrutiny, WiseTech faces an AFP–ASIC insider-trading investigation over blackout-period share sales by founder Richard White and other senior executives, with multiple former directors now being questioned. The ongoing uncertainty has created a material overhang on the company's share price, weighing on the broader sector.

However, last week Nvidia – a leading US tech and AI bellwether – reported a stellar quarterly result, easing concerns around broader sector earnings and valuations, boosting sentiment, and helping the sector stabilise in recent days.

Looking ahead, the pullback in the sector appears to have created attractive buying opportunities – the focus of this note.

**Figure 1: The ASX 200 IT sector has corrected ~25% from recent highs**



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

**Figure 2: The local tech sector's underperformance has tracked the selloff in Australian bonds and the widening AU-US yield spread**



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

## Tech Sector Corrections are Typically Good Buying Opportunities

While past performance is not a reliable predictor of future returns, drawdowns of more than 10% have historically presented attractive buying opportunities in the tech sector for patient capital willing to look through near-term volatility.

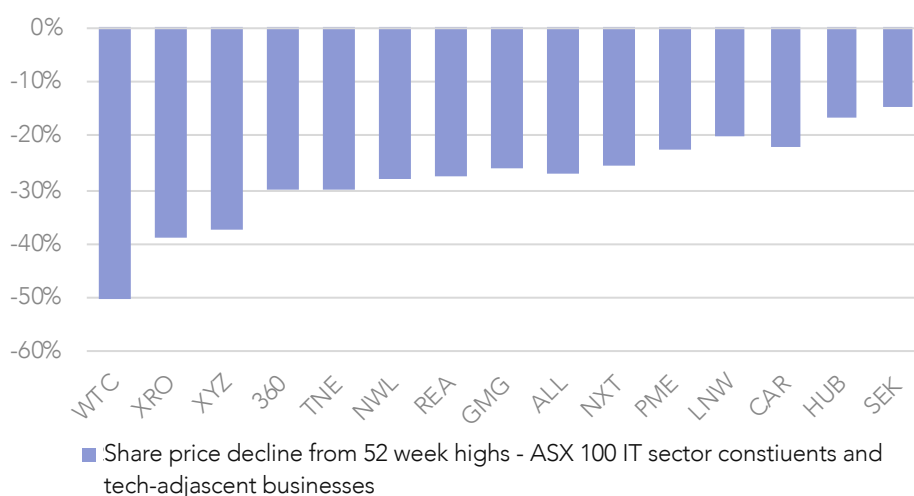
This has been particularly true when underlying company fundamentals remain solid and macro conditions – particularly long-term bond yields – are relatively stable. Both conditions largely hold today: the ASX 200 IT sector still offers a three-year forward EPS CAGR of 24% (well above the 8% offered by the broader ASX 200), while a consensus 'on-hold' RBA view – alongside our expectation of range-bound to lower bond yields – suggests tech valuations are unlikely to face additional material macro headwinds.

Our analysis of the past decade shows that subsequent 12-month forward returns from similar drawdowns have been compelling, with mean (median) returns of 17% (24%) following >10% drawdowns, 21% (19%) after >15% drawdowns, and 28% (25%) after >20% drawdowns.

With the current drawdown, at ~25%, marking only the fifth drawdown of 20% or more in the past decade – and the largest since the 'Liberation Day' tariffs in April – this pullback appears to offer a relatively rare opportunity to accumulate high-quality tech names at discounted entry prices.

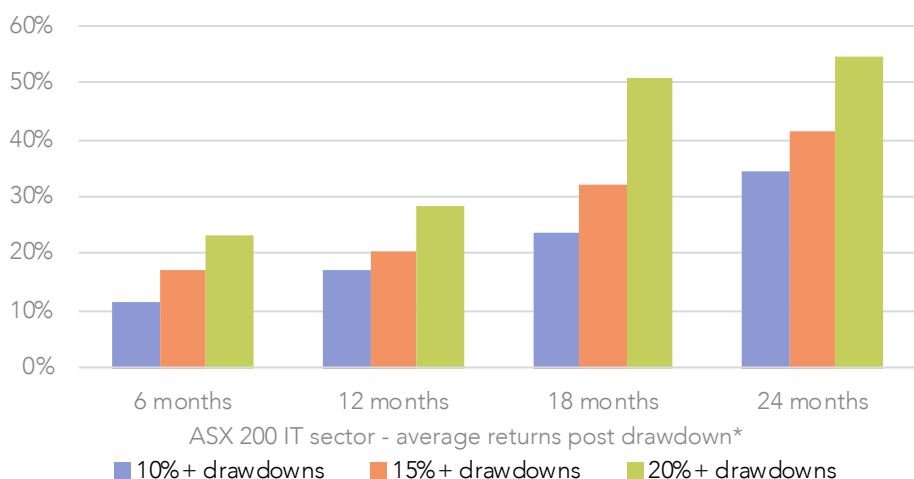
In the remainder of this report, we explore two such opportunities in our preferred large-cap tech exposures, **TechnologyOne** and **Xero**.

**Figure 3: There has been broadbased weakness in ASX 100 tech and tech-adjacent stocks**



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

**Figure 4: Tech sector drawdowns have historically presented highly attractive buying opportunities, particularly for corrections greater than 20%**



\*Based on our analysis of ASX 200 IT sector drawdowns over the past ten years.  
Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

**Figure 5: ASX 100 tech and tech-adjacent stocks comparison table**

Name	Ticker	Share price	% from 52 week highs	Forward P/E			12 mth fwd EPS revisions		3 year EPS CAGR (FY25-28)
				Current	+/- to 5yr avg	De-rate from 52k high	30 days	90 days	
WiseTech Global	WTC	\$67.04	-50%	48.5	-38%	-48%	-3%	-17%	26%
Xero	XRO	\$119.90	-39%	79.7	-58%	-10%	-23%	-28%	23%
Block	XYZ	\$96.76	-38%	15.0	nm	-35%	-8%	-8%	nm
Life360	360	\$39.10	-30%	59.4	nm	-38%	8%	3%	36%
TechnologyOne	TNE	\$30.04	-30%	59.2	23%	-29%	-3%	-3%	18%
Netwealth	NWL	\$27.58	-28%	46.2	-7%	-27%	0%	0%	18%
REA Group	REA	\$200.32	-28%	37.7	-16%	-30%	-2%	-2%	16%
Goodman Group	GMG	\$29.24	-26%	21.5	-13%	-26%	0%	0%	11%
Aristocrat Leisure	ALL	\$58.50	-27%	21.1	-5%	-23%	-2%	-2%	13%
NextDC	NXT	\$13.60	-25%	nm	nm	nm	0%	-3%	38%
Pro Medicus	PME	\$260.01	-23%	154.8	27%	-25%	0%	-1%	32%
Light & Wonder	LNW	\$145.00	-20%	14.0	-22%	-26%	3%	-1%	23%
CAR Group	CAR	\$33.33	-22%	28.6	-10%	-27%	0%	0%	14%
Hub24	HUB	\$101.86	-17%	60.0	27%	-16%	0%	4%	25%
Seek	SEK	\$25.46	-15%	39.1	-12%	-25%	0%	1%	30%

Figure displays ASX 100 IT sector constituents and tech-adjacent businesses. Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

## TechnologyOne – Growth Story Unchanged, Cheaper Valuation a ‘Plus’

**TechnologyOne (TNE)** has pulled back -15% since last week's FY25 result, which was broadly positive aside from its ARR (annual recurring revenue) and NRR (net revenue retention) coming in slightly below consensus. We view the market's reaction as disproportionate, with the stock now appearing oversold and offering an attractive entry point.

### Broadly positive result, albeit with a few wrinkles

TNE delivered a broadly positive FY25 result: profit before tax (PBT) rose +19% YoY to \$181.5m, well ahead of 13–17% guidance. However, headline EPS growth of +16% YoY was 2% below expectations due to a slightly higher tax rate, which we view as a ‘low-quality’ miss.

Key positives included a sharp improvement in free cash flow (+61% YoY), driven by working capital tailwinds and an excellent ‘Rule of 40’ outcome of 59%.

The main negatives were a modest ARR miss (-2% vs consensus), despite outstanding UK growth (+49% YoY), and slightly softer NRR of 115% in 2H (vs 118% in 1H25).

### Fundamental outlook unchanged, upgrade risks remain

Despite small misses on select line items, TNE's fundamental outlook remains intact. We are unconcerned about the softer 2H NRR, which was partly affected by product launch timing and a lower pricing contribution due to softer inflation.

Importantly, we believe back-book upgrade potential remains significant. TNE's new agentic-AI module, Plus, is expected to contribute +1ppt to NRR in FY26, with further upside over the medium-term. The upcoming 1 January 2026 front-book price increase should also drive some procurement pull-

forward, supporting ARR. We also see potential for new and larger customer wins to accelerate, considering early signs of success in the key UK segments and the upcoming Plus rollout.

Overall, taking a medium-term view, we continue to see potential for TNE to sustain NRR above 115% – a level not currently reflected in consensus forecasts over the medium-term, which underscores ongoing upgrade risks. Crucially, TNE has reaffirmed its medium-term targets: \$1bn+ ARR by FY30e and PBT margins of 35%+, which leaves the overarching growth story unchanged.

### Pullback presents a rare buying opportunity

The decline in TNE's share price following its result largely reflects the correction of its supernormal valuation – with forward P/E having recently peaked at ~90x – leaving effectively no margin for even a very modest miss at reporting.

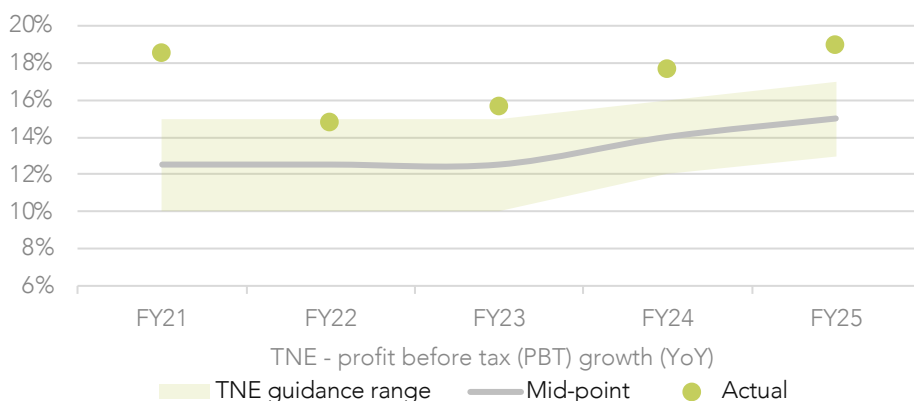
Most importantly, TNE continues to execute exceptionally well, and our conviction in the outlook remains as positive as ever.

With the forward P/E now back within its historical ‘normal’ range (i.e., within one standard deviation of the five-year average) at ~58x, or 2.9x ASX All Industrials, this presents a rare opportunity to invest into one of the ASX's highest-quality earnings compounders at a relatively attractive valuation.

Ultimately, we believe TNE warrants a P/E premium to both its own history and IT peers, supported by structural improvements in its growth trajectory (now a high-teens EPS grower) and its earnings quality (now predominately recurring), as well as our confidence in management's ability to deliver against consensus over the medium term.

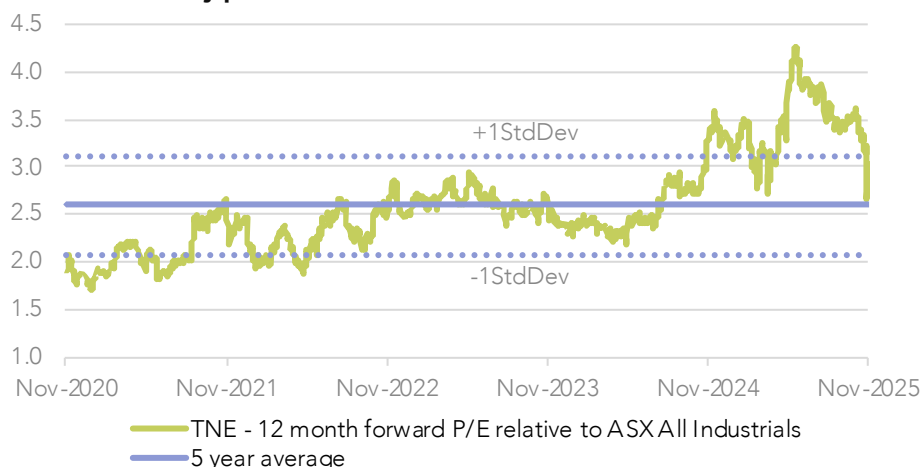
Canaccord Genuity Research has a 12-month price target of \$42.15, representing 40% upside to the last close.

**Figure 6: TechnologyOne once again beat its profit before tax guidance in FY25**



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

**Figure 7: The stock now trades back within its historic relative P/E range, offering an attractive entry point**



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.



## Xero – Pullback Appears Overdone, Outlook Remains Attractive

Xero (XRO) delivered a slightly softer-than-expected 1H25 result.

However, we remain constructive on the medium-term growth outlook and view the 14% share-price decline as overdone. With the stock already under pressure heading into the print, the pullback creates a particularly attractive entry point for investors with the medium-term growth story remaining intact.

We note that the large EPS downgrades for XRO shown in Figure 5 are largely driven by the inclusion of the loss-making Melio (and its associated share issuance) in consensus forecasts, rather than reflecting the performance of the core business.

### Mixed result, but underlying trends remain positive

While XRO's adjusted EBITDA was in line with consensus, on an EBITDA-less CAPEX basis (a better proxy for underlying cash generation), the result was -6% below consensus. This suggests CAPEX is trending higher, as XRO invests in new AI capabilities. Subscriber growth also modestly disappointed, with net adds of +176k, below consensus of +233k.

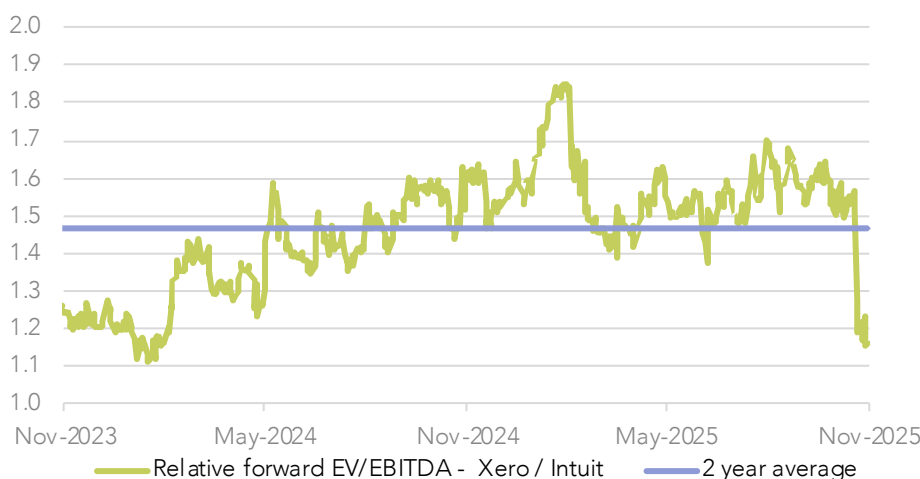
However, there were several clear positives. ARPU (average revenue per user) grew a strong 15% YoY, underpinning 20% revenue growth, in line with expectations. Free cash flow margins also improved meaningfully to 26.9%, well above the pcq (21%), while FY26 OPEX/sales guidance was lowered to 70.5% (ex-Melio), from 71.5%, highlighting improving cost discipline.

### Key growth levers remain intact

Our conviction in XRO's growth outlook is unchanged. We continue to expect attractive EBITDA growth to be driven by: 1) healthy high-single-digit subscriber growth; 2) continued ARPU expansion, underpinned by price increases, up/cross selling activity, and the monetisation of AI tools (including JAX); and 3) operating leverage which should support margin expansion over time.

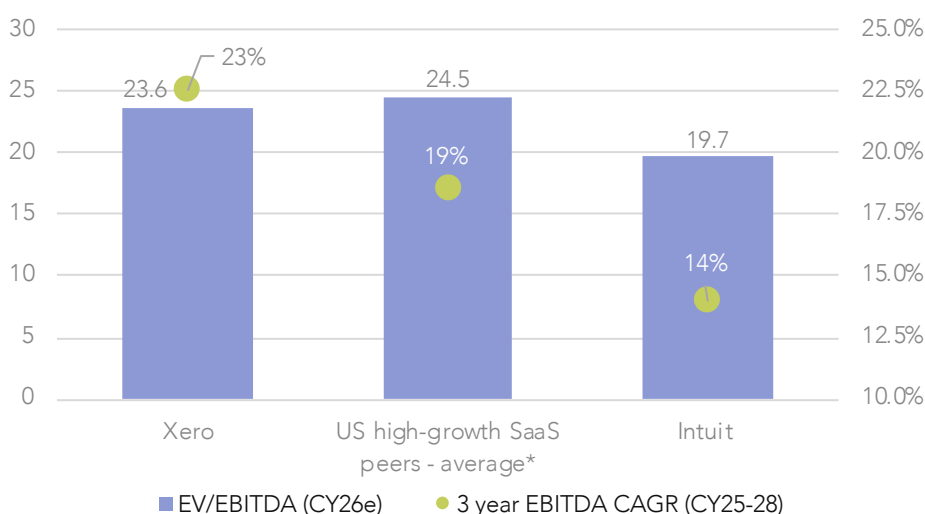
While the market remains cautious on Melio – which is likely to remain loss-making over the medium-term – we see the acquisition as strategically important. Melio broadens XRO's product offering, deepens its North American presence, and strengthens its ability to compete with Intuit, while also unlocking additional growth levers such as enhanced cross-sell opportunities.

**Figure 8: Xero trades well below its historic average EV/EBITDA premium relative to key US peer Intuit**



Source: Refinitiv, Wilsons Advisory / Canaccord Genuity.

**Figure 9: Xero's moderate premium to Intuit is warranted by its materially stronger EBITDA growth outlook**



\*Includes Microsoft, Salesforce, Adobe, Intuit, ServiceNow, Workday, Snowflake, HubSpot, Veeva Systems, MongoDB, Zoom Communications, WiseTech, DocuSign, Twilio. Source: Visible Alpha, Wilsons Advisory / Canaccord Genuity.

### Compelling valuation versus peers

XRO's forward EV/EBITDA has de-rated sharply, from ~38x in July to ~24x today – its lowest on record.

While XRO still trades at a ~20% premium to Intuit, this is materially below its two-year average of ~47% (since XRO's profitability pivot). Given XRO's three-year EBITDA CAGR of 23% versus Intuit's 14%, the market is currently assigning too small a premium, in our view. Put another way, on a growth-adjusted basis, XRO appears undervalued relative to Intuit, with an EV/EBITDA-to-growth ratio of ~1.0x versus Intuit at ~1.4x.

Overall, with the growth story remaining firmly intact, XRO offers attractive value at current levels.

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