

Highlights Commentary

Half Year Results Ending 30 June 2018

Reckon is pleased to announce its results for the half year ended 30 June 2018.

A lot has changed since we last announced our results. We had anticipated that the sale of the Accountant Practice Management Group would have been finalised by now, but after a long and unnecessarily protracted process we were unsuccessful in obtaining regulatory approval for the transaction. Whilst this was disappointing, we do remain positive regarding the future prospects for and the value of this division. The division's blue-chip customer base, the largely subscription nature of the revenue, the highly experienced team and the comprehensive and integrated software suite, means that this remains a very valuable part of the Reckon Group. As expected, post announcement of the termination of the sale, we have been approached by several parties interested in acquiring this division. In the interests of ensuring that the best interest of shareholders, customers and employees are maintained, we have appointed Investec to assist us to manage this process and evaluate any offers that may be received. If anything requires announcement the market will be informed accordingly.

Group highlights

Despite the distraction to the business over the last year, the profitability of the group has increased in the half year. Underlying EBITDA has increased by 3% and underlying NPAT by 9%.

Expenditure on product development for the continuing business has reduced by 7%, thereby improving cash generation, and this together with the elimination of the cash drag from the now de-merged Document Management Business, has assisted in enabling a debt reduction of \$7m in the half year.

The board has approved the re-instatement of the dividend policy, and a fully franked interim dividend of 3 cents has been declared and will be paid to shareholders on 4 September 2018.

Business Group

- Cloud revenue has continued to grow strongly, up by 8% and now represents 42% of this division's available revenue. The number of cloud users now numbers 51K.
- We continue to be impacted by a reduction in desktop revenue as clients move to the cloud. Whilst this inhibits overall revenue growth in the short-term, it does provide a valuable opportunity to convert existing non-paying customers to the cloud subscription products over the coming years.

- ReckonOne continues to gain traction and the unique modular design and affordability continues to resonate.
- Our online point of sale product was launched in the half year, our single touch payroll compliant product has been launched, and we acquired Better Clinics, an online practice management product for the medical market, in July. All are expected to contribute to cloud growth in the future.
- We have signed our first white label distribution agreement with IPA (Institute of Public Accountants). IPA have 35,000 members, who in turn have reach into over 1 million clients in Australia. We believe that this partnership will provide a unique offering to IPA member firms and their small business clients and in turn also contribute to our future cloud growth.

Practice Management – Accountant Group

- Normal subscription revenue growth in this division was hampered by the sale process as clients held off committing to new business pending the completion of the sale. Despite this, subscription revenue still grew by 2%. Upfront and service revenue in the half year was negatively impacted for the same reason.
- The business remains entrenched as the product of choice amongst the major accounting firms. This was clearly evident from the recent feedback from the regulators.
- A major release of the Practice Management module occurred in the half year, and provided another big step in our cloudification journey, with integrated online/mobile timesheet functionality and a “client hub” cloud view of the client data added to the product in this release.
- Content revenue was again weaker in the half year as the market moves to subscription pricing.
- Costs were carefully managed during the sale process, and hence this division achieved EBITDA growth of 5%.

Practice Management – Legal Group

- This division experienced a weaker than normal half year in terms of new business generation.
- In addition, we have commenced transitioning the business away from an upfront sales model to a more sustainable subscription model.
- Focus remains on enhancing the product offering to clients, particularly for the new scan product, which has the ability to travel beyond the legal market.
- Profitability has also been impacted by \$0.6m in the half year caused by a significant bad debt arising from a new customer signed in the prior year.



Reckon Group MD, Clive Rabie said:

“We remain positive that future growth will be achieved in all divisions.

We have been focused on developing exciting new products which in turn are expected to open new markets to assist this growth over the coming years”

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