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Market Announcements Office
ASX Limited

MYOB FY16 Results Webcast and Transcript

To watch a replay of MYOB's financial results for the 12 months ending 31 December 2016 please click through to the investor centre here: http://investors.myob.com.au/Investors/

A written transcript of the presentation follows.

Ian Boylan
Company Secretary
MYOB Group Limited

Contacts:

Investors/ Analysts
Christina Nallaiah
Head of Investor Relations
T: +61 2 9089 9122
M: +61 468 362 553
christina.nallaiah@myob.com

Media Enquiries
Sarah Beyrath
PR & Corporate Affairs Manager
P +61 2 9089 9043
M: +61 427 223 841
sarah.beyrath@myob.com

About MYOB

MYOB Group Ltd (ASX: MYO) is a leading provider of online business management solutions. It makes business life easier for approximately 1.2 million businesses across Australia and New Zealand by simplifying accounting, payroll, tax, practice management, CRM, job costing, inventory and more. MYOB provides ongoing support via many client service channels including a network of over 40,000 accountants, bookkeepers and other consultants. It is committed to ongoing innovation, particularly through its Connected Practice Strategy and through the development of the MYOB Platform. For more information, visit http://investors.myob.com.au/Investors or follow @MYOB on Twitter.

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Title: 2016 Financial Years Results Presentation
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Time:

Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the MYOB financial year 2016 results presentation. At this time, all participants are in a listen only mode. There will be a presentation, followed by a question and answer session, at which time, if you wish to ask a question, you need to press star-1 on your telephone. Please be advised that this conference is being recorded today, Thursday, 23 February 2017. I would now like to hand the conference over to your speakers today, Mr Tim Reed, CEO, and Mr Richard Moore, the CFO. Thank you. Please go ahead.

Tim Reed: Thank you and good morning, everyone, and thank you for taking the time to join with us today. It's Tim speaking and I'm here with Richard and we're delighted to share with you our 2016 financial results. There's lots of good news in this presentation today and so we'll step you through it. I'm going to start by going through the operational results and then Richard will take you through the financials. For those of you who have been able to download the presentation from our website, we'll reference the slide numbers as we move through the deck.

I'd like to start on slide 6, which is just the financial highlights for the year. The great news here is that we had double-digit growth across all of our key financial metrics. You can see revenue up 13% year-on-year to $370 million. Importantly, our recurring revenue grew at 14% and is now 96% of total revenue, as we finalise that transition from selling software licences to selling subscriptions.

Our pro forma EBITDA at $171 million, up 12% year-on-year, which is a fabulous result, and $97 million of NPATA, which is our preferred bottom line profit metric, up 13% year-on-year. On the basis of those strong financial results, the board has declared a $0.0575 per share dividend, which we're delighted with, 15% up on the dividend that we paid for the same period last year.

Our key operating metrics across the bottom of slide 6, 585,000 paying SME subscribers by the end of the year, 7% growth on prior year. Our online subscribers at 249,000 online ledgers by the end of the end, which was up 47% on where we ended 2015. The percentage of new SMEs coming to MYOB who are choosing an online subscription is now at 92%, which is up 14 percentage points year-on-year. As you stand back at look at that snapshot, and I hope you're as delighted as I am across the board, with the performance both from the operating metrics and also the financials.

We thought we'd put that in the context of history for you and that's on slide 7, where we've just looked at the five year trends across our revenue, EBITDA and NPATA: 9.4% CAGR in revenue, 11.4% CAGR in EBITDA and 13.2% CAGR on NPATA. You can see what that's being driven by - the 10% CAGR in our SME paying subscribers, 66% compound annual growth rate in online subscribers and the percentage of new clients coming to MYOB choosing an online subscription growing from 24%, where five years ago we were really just at the start of that transformation of our business, up to 92% at the end of last year. I'm enormously proud of slide 7. In fact, I was commenting to Richard earlier on that it is my favourite slide in the deck, because what it shows is the opportunities that we've been able to convert into results, but it also shows, I think, the opportunities that are yet to come.

Moving on to slide 8, this is a summary of the rest of the deck, so everything that is a bullet point here, we've then taken into more depth. So I'm going to move past that and go straight on to slide 9, but if you want to get a succinct summary of how the period played out for our business, slide 8 is a great place to look.

Slide 9 articulates our strategy and there are five core components to our strategy:

- the Connected Practice,
- MYOB Platform,
- our strategies around winning and continuing to serve new clients,
- our brand; and
- our move into bigger business.

For those of you who made it to the investor day that we held in our Richmond offices in November last year, we spent the whole day going through each of the pillars of our strategy and I'll, on the subsequent slides, go through each of them now and talk about the progress that we've made in the period.

Starting on slide 10 with the Connected Practice. The Connected Practice is our vision for the future of the industry that we're a part of, so the future of the accounting and bookkeeping industries. We believe that they are changing quite radically. On the left-hand side, you can see the large technology shifts, the large changes in our society that we think are driving the future of our industry. They are the internet of things and having mobile devices everywhere, artificial intelligence and machine learning, the way that we think services delivered by people are going to be augmenting technology to deliver solutions and experiences to clients, and also the nature of work and the way in which we see the role of an advisor changing with their relationship with small businesses. We call that vision the Connected Practice. What it really says is in the future, these underlying societal changes will change accounting in two ways.

Firstly the three separate business processes that we have been helping automate and streamline for our clients for decades now, transaction processing, compliance and advisory, will each be impacted by changes like automation through artificial intelligence. But probably most importantly is the way in which these three separate business processes that in the past has been done in series over a time period of about 18 months for most businesses are going to be done in real time. We think that the role that used to be separate people fulfilling each of these functions is going to start to break down, such that there will be more likely a single person who in real time is completing all three of these. We've put that person at the centre of this diagram and we believe that that is a trusted advisor to small businesses. In many cases, that will be an accountant. In some cases, it might be somebody who started their career as a bookkeeper and builds up their service offering from there. We are building the future of our solutions, what we call the MYOB platform, to serve the needs of the professionals in this vision of the future.

You can see on the right-hand slide of slide 10 how we think things will be different. Transactions won't be entered manually by small businesses and then re-entered for compliance purposes by accountants. They will captured electronically in real time. They will be processed automatically by machines and algorithms that learn and understand what the implications of those transactions are and know how to deal with them. The service delivery, the interpretation of those results, will be through a combination of people and technology. What we'll see is the connected practices of the future have high efficiency in compliance, that they start to own the transaction processing, which today is done by the small business owner, and they're increasing the value that they deliver to their client through advisory services. We've been out talking to our clients. In fact, we're in the middle of our large annual client roadshow called Insight, where we've got over 10,000 accountants and bookkeepers. We're sharing this vision with them and then taking them through the individual components that we're delivering.

I've got to say the response has been overwhelming. People are loving the vision and really buying into the change that they need to bring about to their business to prepare it for the future.

Slide 11 then talks about what we need to do to enable that and this is the MYOB platform. It starts by us investing, which drives an increase in online accounting. As more of the services that we deliver through the platform are used, it allows us to increase our ARPU, both from getting high utilisation of what we've put out there, but also through adding new connected services. As they are adopted, it lowers our churn rate and that, of course, all leads to revenue growth which allows to invest more and the cycle here, the virtuous cycle continues through. Why are we doing this? We've captured that right in the middle there.

It will increase the lifetime value of our customers. It will enable us to continue to drive our market share higher and it increases the total addressable market that we are chasing and the lifetime value of our customers, which means that it drives our bottom line results and our ability to perform for shareholders. But this isn't just talk and down the right-hand side we've shown the uptake of some of the early deliverables that are part of the MYOB Platform: our practice ledger, which had its first full six months really in the market; our MYOB Portal, which you can see driving up there with rapid growth in the second half of last year; and the MYOB Dashboard, which we only released in the first half of last year, where there are now 6,000 out of the 12,000 accounting practices across Australia and New Zealand who are using that dashboard in its first year of operation. I've been in this industry for getting on towards 15 years and to see 50% of the industry take up a new innovation in the first 12 months is absolutely unprecedented in my experience. That's what excites me about the fact that the vision that we're painting and the tools that we're delivering are really achieving the needs that the market has.

Moving on the third component about strategy, which is just making sure that we continue to do an awesome job to both attract new clients to MYOB and to service our existing clients. The best metric of that is looking at the use of our online subscriptions, our online ledgers, and this is the metric that you can see hitting 249,000 by 31 December last year, up 47% year-on-year. This is the core driver of the future of our business, the number of online subscribers we have, whether they be small businesses or whether they be accounting practices putting those ledgers online, and we're delighted at the progress that we made with much faster growth in the second half of last year than we've ever seen previously. Where is the growth coming from? Well, in terms of small businesses, it is coming from new businesses that are being formed as well as us continuing to convert our install base of clients.

When we look on slide 13 at the number of new clients registering MYOB products, divided by the number of businesses that registered for GST in the period, we are north of 50% and continue to be north of 50%. On the right-hand side, you can see that it's not just new businesses though. We continue to drive the uptake of the new innovative solutions from our installed base. You can see the change in nature where we've moved from a third of our total active clients paying a subscription, where we're knocking right on 50% now. The conversion rate of the yellow going down into the pink or green there, you can see has lifted over the last three years from 4.7 up to 6.4%, so 35% increase in our conversion rate over those three years.

What that leads to is the waterfall diagram on slide 14. We always report on the net position in terms of our paying subscribers being the 585,000 on the right-hand side of that chart that I mentioned earlier. This chart factors out into the gross adds and then the churn. A few things I'd highlight: growth adds continue to increase and we're delighted in the progress that we're making in that sense. When you look at the churn and pause to think for a moment that of the 2.4 million businesses in Australia and New Zealand, about 12% to 13% shut down each year, which is somewhere north of 300,000. Given about 50% of businesses use our solutions, our churn rate is lower than what that death rate in businesses is. We continue to work to drive more value into our clients, so that we can continue to make sure that more clients stay with us for longer, but by far and away the overwhelming driver of what you're seeing here is simply the natural birth and death cycle in small businesses. Really proud however that the gross adds were the highest number that we've ever seen there.

Also proud of the reason for that and we've tried to highlight this on slide 15, by giving you some more insight into the way in which our products are being used. You can see these services, which are only available to clients who are using our online products and paying a subscription, continue to be used more and more heavily by our clients, which we're delighted with, because what we know is it means that they're getting more and more value from the innovation that we're building.

- You can see the chart on the top left, the number of bank transactions that are being leveraged through our online accounting solutions, starting back five years ago, just in its infancy and now continuing to build.
- Similarly, we released SmartBills in 2014 and you can see the process there. What SmartBills does is mean that a small business owner doesn't have to key in an invoice when they receive it from a supplier, but our optical character recognition algorithms do that for them.

- MYOB PaySuper, where we've completely automated a super pay run for clients, cutting down what is frequently hours and hours of work on a quarterly basis and making it just minutes.
- Then very excitingly the uptake of our integrated payment solutions, both PayDirect Mobile and PayDirect Online, where we've seen small businesses leveraging these to improve their cash flow. The results are really quite stunning. We know that we're taking weeks off the cash flow cycle, weeks off the collections process for small businesses every single time that one of these services are leveraged. That's why we exist. We exist to help businesses succeed and when I've got out and talked to the clients that are using MYOB PayDirect, it is absolutely fulfilling that vision that we have. On the basis of the success that we've had there, I'm proud to announce this morning that last night we signed a contract for the acquisition of Paycorp.

Paycorp are a payment processing solution provider based here in Sydney. They work with over 6000 clients over all different sizes to provide payment solutions and they are the partner that we've been working with to bring PayDirect Online to market. We see an enormous opportunity to continue to help our clients improve their cash flow by integrating more payment options into the invoices that they send out. We know the convenience that that creates for their clients, but we also know the positive impact that it has on their cash flow cycle. Deutsche Bank did some analysis several months ago of what the opportunity for integrated online accounting and payment solutions are in terms of the fees that can be collected on those payments to the provider of those solutions. They estimate that it's a $700 million opportunity.

If I put that in context and reflect on the years that I've seen as a part of this company, there have been two moments in time where we've seen a significant step up in our TAM. The first would have been with the move from selling licenced desktop software to selling online subscriptions and the lifetime value of a customer went up about 2.5 fold when we made that transformation. This is the second and obviously it's very early days, but the opportunity for us to really tap into the payments flow, deliver value to our clients and have a significant expansion in our TAM is absolutely there. It's the proof back on slide 15 on those two bottom charts that this is something that is attractive to clients and therefore we wanted to get deeper into this part of the value chain, such that we could (a) increase the margins that we collect on these solutions, but (b) innovate more quickly in the way in which we expand those payment solutions and the acquisition of Paycorp will enable us to do both those things.

The fourth part of our strategy is to really rejuvenate and refresh our brand, making sure that we are the choice of the next generation of entrepreneurs in New Zealand and Australia. Many of you would have seen the new visual imagery that we rolled out in the back half of last year in relation to this. I'd encourage you to get online and have a look at the way that we are presenting and reaching out to that generation of business owners through partnerships like Myriad, the Wade Institute and SheStarts by the way in which we're engaging in social media. I'd encourage you to jump on Glassdoor and have a look at what it means to work at MYOB and what our team members are saying about it. We are here to help businesses succeed and we do that by simplifying their success. That message comes through very strongly and it's really resonating with our target audiences.

Moving on to slide 18. Of course, to do that well, we've got to have an awesome team and some great depth of talent I our leaders in the business. I'm pleased to share with you three new team members. Fiona Pak-Poy, who joined us on 1 January as a member of our board of directors. Fiona has an outstanding pedigree in terms of being a non-executive director. She's had experience working with start-ups in really helping the venture capital community in this country get on its feet. She brings all of that experience to MYOB. Carolyn and David have joined us as new executives. Carolyn is based in Auckland, she's going to be running our Enterprise Solutions and will also head up our overall operations in New Zealand. David, who has joined us as our GM of Product. Each of them bring their own experience and we are continuing to strengthen the talent at the senior levels within our business.

Just closing off before I hand over to Richard. The fifth component of our strategy through these years is to drive the success of our Enterprise Solutions team. We know that bigger business has similar needs, different solutions to meet those needs, but faces similar needs as small businesses. We've known for many years that we've been successful in being able to build a partner channel that can work with those bigger businesses to meet their needs. What we're really excited about is being first to market in that segment with an integrated payroll and ERP online solution. MYOB

Advanced, as you can see on the right-hand side of slide 19, continues to become a bigger and bigger part of our Enterprise Solutions team and two weeks ago we launched Advanced People, our online payroll solution in that area. I can only see that continuing to grow and continuing to drive the growth within our Enterprise Solutions. So with that, I might hand over to Richard, to take you through some of the more detailed financial results.

Richard Moore: Thanks very much, Tim, and thank you all for the opportunity to take you through our strong financial results for 2016. On slide 21 you can see on the left-hand side that revenue is up 13% to $370 million. EBITDA, our operating profit metric, is up 12% to $171 million and NPATA, which our preferred after-tax profit metric, up 13% to $97 million. We choose NPATA, because it removes the amortisation of intangible assets from our result, which gives a clearer view of our after tax operating result and it is the basis of our dividend. As Tim said at the start, we're very pleased to be able to announce a $0.0575 a share dividend based on the second half results.

I'll also add that we are continuing to report our results on a proforma basis in 2016. The reason we do this is because when we listed last year we changed our capital structure materially during the year and those proforma adjustments restate the 2015 results as if that capital structure was in place from 1 January. The adjustments in 2016 are very small and we will not be reporting proforma results in 2017 when we're reporting our statutory results. But for 2016 this allows us to show a like-for-like, year-on-year comparison. If you look at a couple of the metrics that sit with our financial results, recurring revenue, as Tim said, almost 96% of total, shows the quality of the earnings in our business and the sustainability of those earnings. And EBITDA margins, very strong at just over 46%.

If I turn to the right-hand side of slide 21, we show our revenue by segment. We're showing this slightly differently from the past, as this is the organic growth in each of the segments and then we show the revenue from acquisitions just on top. We've done that so you can see the strong underlying performance across all three of our segments, with SME and Enterprise both growing double-digit in terms of organic growth, and Practice continuing to be very consistent and stable at around 3%. Overall revenue growth of 13%, organic at over 9%, growing from the prior year and a really nice trend for us to see. At the very top of the bar in the FY16, there's $1.5 million of New Zealand grant revenue. We get that on our R&D that we undertake in Auckland. We've increased our development team in New Zealand sizeably as we continue to develop modules in MYOB Advanced, so it's really great to see the support that we're getting in terms of that grant income.

I'll now dig into each of the segments in a little bit more detail. On slide 22 we have SME Solutions, the real engine room of growth for us in MYOB, delivering 63% of our overall revenue, growing at 14% year-on-year. When we take out the impact of acquisitions, organic growth rates in SME are 11% which is a really strong number. You can see on the chart on the left-hand side, recurring revenue delivering $25 million of incremental revenue year-on-year. What's driving that? On the right-hand side, you can see recurring revenue, 98% of total revenues, is driven by two things. Our ARPU is up 7% year-on-year and our number of paying users, as Tim alluded to earlier, up 7% to 585,000. Those combined with a small mix shift result in the overall 13% organic recurring revenue growth and, as I said, really do drive the broader business revenue growth. The acquisitions that we made in mid-2015 have been very successful, ACE and IMS contributing $8.2 million in the year, the vast majority of which was recurring. So excited by what's happening in the SME segment, underpinned by that strong growth in online users, that Tim spoke about, driving the paying user base up.

In terms of Practice Solutions, there on slide 23, a strong, consistent performance from this segment, with 3% revenue growth, in line with the prior year, and recurring revenue at 98% of total. This is a business that we're very proud of, it underpins very much the Connected Practice strategy that we're going to market with. I'm really excited by the initial uptake of the first modules of that Connected Practice strategy, as Tim said at the start, with Practice Ledger, Dashboard and Portal all having an incredibly solid uptake. That gives us a lot of excitement for the future potential of this segment going forwards, once we've released more of the online Practice Suite.

On slide 24, we have Enterprise Solutions, the fastest growing segment within MYOB. This is a business that's transformed over the last few years, with a combination of the launch of MYOB Advanced and a really strong acquisition strategy. You can see there 26% total revenue growth, and when we strip out the impact of the Greentree acquisition that we made in August, organic growth in Enterprise at 11% which is the highest it's been in this segment for some years. What's driving that? We're continuing to see strong recurring revenue and it's grown materially over the year before. That's the impact of MYOB Advanced becoming a larger and larger proportion of our new sales in the Enterprise segment. We're also seeing new license revenue up which is the first time we've seen that for a period. That's driven by a great performance in our PayGlobal business that we acquired a couple of years ago. So each of the Enterprise businesses are continuing to exceed our expectations. Advanced is going from strength to strength. With Advanced People launching this year, we're really excited about the opportunity that that can deliver. We're also seeing great revenues, as I said, from PayGlobal, and the Greentree integration has been very, very solid for our business.

So that's revenue. Really excited about the future opportunities there. But it's underpinned by significant investment right across the board. Slide 25, on the left-hand side, shows the nature of that investment. This is a sown in a different way to previously. Where we used to show staff costs, advertising, cost of good sold and other, we're now breaking it into the nature of the investment itself. So from the bottom to the top, costs of goods sold, our sales and marketing, services and support, R&D and general office. Hopefully this shows that it's very much a story of investment.

Our cost of goods sold has continued to increase as we continue to bring more and more of our solutions online. The biggest investment that we're making is in sales and marketing. Tim spoke about the new brand and our new go-to-market strategies. But we're also investing heavily in digital marketing and our field sales teams that work with clients to deliver the Connected Practice strategy. We continue to invest in services and support. We'll talk a little bit about R&D in a moment. And I'm really pleased at the cost control that we're showing in our general expenses which were only up 3% year-on-year. Which shows we're investing in the right places to deliver growth and we still bring very strong rigour to our overall management of costs across the organisation.

The right-hand side of 25 shows our R&D spend in the year; 15.1% of revenue, or $56 million, and that's up from 14.2% in the prior year. The key thing to take away from this one is, on the right-hand side there of the chart, you can see we put two blocks that explain the overall growth. We're continuing to spend at similar levels in our existing products and all of our incremental investment is going into the MYOB platform. Because the majority of that platform is yet to deliver any revenue, we're capitalising that expenditure, consistent with how we have treated our R&D since we listed two years ago. Looking forward, we certainly expect to continue to invest at the very top end of that 13% to 16% of revenue range that we expressed previously. Based on the teams we have in place today and what we'll be delivering over the next period, we would certainly expect that OpEx to CapEx ratio to remain roughly 50/50 over the next couple of periods.

Finally, before I hand back to Tim, cash flow on slide 26; 77% cash flow conversation, in line with the first half and absolutely as we expected. It has come down a little from the prior year. There's a number of drivers of that. Our net working capital is negative compared to FY15 and much of that driven by what Tim alluded to at the start of the conversation. As we move from selling up-front licenses and annual contracts that are paid for up-front, to monthly subscriptions across all of our products, we do see an impact in our unearned revenue coming down and that's reflected in that change in net working capital. We are increasing our investment in R&D and we've also increased our investment in the team including our new office in Richmond and other things. So a combination of all of that has brought the cash conversion down a little bit. But 77% is still a very strong position to be in and gives us the opportunity to continue to invest in the business and obviously pay dividends to shareholders as well.

There are a few slides in the appendix that I'll just draw your attention to that you can peruse at your own leisure. We have the key operating metrics on slide 31 and you can see really positive trends across the board on each of those. We've got a full income statement on slide 32 where you can see right down to NPATA, and a balance sheet on 33 where you can see a very, very stable balance sheet for our business. I will note that our net debt to EBITDA is now under 2.2 times, so continues to drop from around the 3 times where it was when we listed almost two years ago. I've updated the slide on 34 which shows our expected intangible asset amortisation. Then the final slide in the appendix shows the reconciliation between our statutory EBITDA and NPAT and the numbers that we've reported as proforma.

As you can see and as I said at the start, the vast majority of those adjustments happened in 2015. The small amount that did impact us in 2016 are predominantly linked to the integration of the acquisitions that we made during the period and we won't have any proforma reporting in 2017.

So, in summary, I'm really pleased with the financial results of our business. We continued to see that double-digit growth across both the top and the bottom line. We continued to generate lots of cash and the business is extremely well positioned to continue to invest and to deliver that top-line growth that we've seen over the last period. Tim.

Tim Reed: Thank you Richard. So that takes us to slide 28 which is our outlook. I said upfront that my favourite slide was slide 7 where you can see those long-term trends. That gives us real confidence in being able to make and share with you an outlook for the business going forward. From a strategy perspective, we are going to continue to make progress on all five of those pillars that I discussed earlier. Really believing that the Connected Practice is the future for our industry and that our success in that future is going to come through the delivery of the MYOB platform. We are expecting to continue double-digit revenue growth, and we're expecting our EBITDA margin to remain in that 45% to 50% range. We are going to continue to lift our investment. It is the way in which we build that virtuous cycle that I spoke about earlier. We do expect out spend on R&D to be at the upper end of the 13% to 16% of revenue range. We do continue to look for acquisitions. We're really excited about Paycorp today and what we believe will be several years of innovation that we're going to be able to drive to our clients in the payment space. But we do look for other targeted acquisitions as well that continue to accelerate our progress, enabling us to deliver on our vision of helping businesses succeed.

So with that, operator, I might hand back to you to see if there's any questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Your first question comes from the line of Sameer Chopra from Merrill Lynch, please go ahead.

Sameer Chopra: (Merrill Lynch, Analyst) Morning, a very strong result, congratulations. I had two questions, Tim and Richard. One is just on the second half ARPU. Can you give us a sense on what the numbers look like for the second half ARPU and what is your assumptions looking out into financial year '17? Like I'm trying to understand what drives that double-digit revenue growth rate. Just on that, if you could walk us through whether Paycorp is part of the guidance or not and maybe some financials around what Paycorp's contribution is going to be into next year? Thanks.

Richard Moore: Thanks Sameer, Richard here. So in terms of trying to answer your questions in order, what we see from an ARPU standpoint is, because our pricing increases effectively flow through the entire year, they don't all go in at one point in time, I would expect to see, from an SME standpoint, that 7% that we saw in 2016 to be roughly continued through to 2017. We've often said 5%, 6%, 7% is what we expect in ARPU, that's the price increases that we put in. We do see some mix impact but I think it's fair to say that ARPU will continue to grow in that range. In terms of the guidance being double-digit, you can see from our results that our underlying revenues, our organic growth rate, has been 8% or 9% over the last couple of years. The recurring revenue that drives that is continuing to grow. Then obviously we will have, in 2017, a full year of contribution from the Greentree acquisition that we made in August 2016. So a combination of organic revenues growing very close to 10%, plus a full-year contribution from Greentree will get us into double digits. We have not built the impact of Paycorp into our guidance.

Sameer Chopra: (Merrill Lynch, Analyst) Just on Paycorp's metrics, is it profitable, what sort of earnings contribution could it make?

Richard Moore: It'll be EPS positive from day one. We signed the deal last night, Sameer, so we're not going to be putting out any specific guidance on the acquisition. It completes on 1 April and by that point we'll be in a better position to think about exactly what it's going to deliver.

Tim Reed: I think the underlying rationale though, Sameer, is that (a), to Richard's point, it was accretive on day one. So it is a profitable business and, therefore, we're happy to pay what we've paid. But what we're more excited about is really bringing innovation to our clients in combining payments with online accounting. It's really building off that payment cycle where small businesses today have to do separate things in different systems to be able to issue invoices and then receive different types of payments back through. As we look at extending where we see the boundaries of those business processes and our assistance to small businesses in completing those processes, we know that we can make it faster and better for them. Both from making it easier, as well as achieving a better end result which, ultimately for them, is improving their cash flow and speeding up their cash collection cycle. So it's a great business stand alone. But what we're really excited about is, over the next few years, the way it will enable us to innovate and really differentiate our platform from others.

Sameer Chopra: (Merrill Lynch, Analyst) Great, thank you.

Operator: Your next question comes from the line of Eric Choi from UBS, please go ahead.

Eric Choi: (UBS, Analyst) Hi guys, thanks for the questions and good results as well, congratulations. First question, I was just wondering if could drill into that FY17 revenue guidance a little bit more. If I took out ACE, IMS and Greentree from FY16, can you just confirm that the organic growth was around 9%? So then I guess if you take that forward, like you said Richard, and you add sort of eight months of Greentree, you already get a revenue growth rate 11%. Then you put Paycorp on top of that, so we should be thinking of a revenue growth rate sort of north of 11%?

Richard Moore: Yes, sorry, Eric, yes I think it's pretty much the same answer as I gave to Sameer. I won't put any numbers in it, but yes the double digit - I think you've articulated how we got in double digit pretty clearly, and yes we haven't included Paycorp, so it will be north of that. But it'll still be double-digit, I don't think we'll get to triple.

Eric Choi: (UBS, Analyst) Great.

Tim Reed: We're pushing hard, Eric. Are you still there Eric?

Eric Choi: (UBS, Analyst) Yes, sorry, second question just on margins. So all else equal, you'd expect your margins to tick up in FY17 just on leverage. And I know you're not giving explicit guidance on acquisition metrics, but can you at least tell us whether the margin - or how the margin profile of Greentree and Paycorp sit versus the core business? Just wondering if these two will have a dilutive impact on margin next year. Then maybe just a last question, just on the gross adds analysis, Richard, the good growth in your gross adds this period. Just wondering, based on that last six months of data, where do you think your shares tracking versus Xero? So is it still about 50% of gross adds in Australia? Thanks.

Richard Moore: Yes, thanks Eric. So just on the contribution from acquisitions, in the first year of acquisitions the contribution tends to be below the EBITDA margin of the rest of the Group. Just because it takes us a while to get it fully integrated and all the synergies that we would have expected through. Broadly speaking, you can see the revenue contribution from ACE and IMS and Greentree. They won't have a huge impact to that broader EBITDA margin that we're showing at the moment. So I think what I would expect to see, we've talked about it being 45% to 50% range, I don't think you'll see a material movement in margins in 2017 compared to where they were in 2016 is probably the best way to put it.

Tim Reed: And the gross adds?

Richard Moore: And the gross adds, yes, I mean I just would refer you back to Tim's comment on, in Australia, in terms of new clients that are registering with GST, we are comfortable that we are getting more than 50% of those. The SME paying users, it's a difficult one to do a direct comparison back to our competitors, just because everyone discloses their numbers in a different way. But we are confident that we're getting more than 50% in Australia.

Eric Choi: (UBS, Analyst) Thanks and a good result, thanks guys.

Richard Moore: Thanks Eric.

Operator: Your next question comes from the line of Entcho Raykovski from Deutsche Bank, please go ahead.

Entcho Raykovski: (Deutsche Bank, Analyst) Hi Tim, hi Richard. Firstly, thanks for the free plug on the report around payments. A couple of questions for me. The first one is just around that ARPU growth, again, accelerating in SME Solutions over the last 12 months. I guess to what extent do you feel you've been able to do that, given that your key competitor has also been increasing pricing quite aggressively? I know you've obviously spoken about the next 12 months similar growth, but do you see a risk to the extent that Xero perhaps pulls back a little bit?

Tim Reed: We really don't. For most of our clients, what they think about is the value that they receive for their hard-earned cash that they share with us. The chart on slide 15 is probably the best one to point you to. Because if you just look at say the top-left chart there with bank transactions, we know that for every client that takes on bank transactions, that there are about 10 hours that they save per month in processing. If you go over then to the smart bills, we know there that that probably increases that to another four or five hours per month in processing time. We go over to paid super and we know that, dependent on the size of the pay run, but it's probably 10 to 15 minutes per employee that they save on a quarterly basis. So if we stand back and look at that, Entcho, there's opportunities for us to continue to really drive great value. And the 7% that probably works out at $4 or $5 a month impact on average below that really is pretty small when you're talking about hours of extra savings that each of those small businesses make each month. I think that's the relevant thing that goes through a client's mind.

In terms of new customers entering the category, then there's probably a little bit more of a price comparison. But as we continue to go out and talk to new customers, price is one of the lower things in their consideration set when choosing between different brands. The higher things are references from accountants, references from other small businesses, confidence that the business is going to be there to serve them in the future, and the applicability of the product to their particular needs. All of those come in above price on the considerations of a new SME choosing which brand to work with. So we don't see any pressure there. I guess the ultimate one then comes down to our retention rates and we haven't been seeing any pressure there either.

Entcho Raykovski: (Deutsche Bank, Analyst) Great, thank you. If I can ask one on payments as well. Given that you're more aggressively getting into that space now with Paycorp, how do you view the risk of commoditisation of payments more generally and what do you see as an appropriate margin that you can make from a payments transaction?

Tim Reed: Yes, so, look, there is no doubt in my mind that the payment space is proliferating and, therefore, there's new innovation that's taking place and more options out there for clients. I think tightly integrated payments into accounting software is something that, for our clients, we will have a unique ability to deliver. So, overall, I think that there will be commoditisation of payments and ultimately that's likely to lead to some sort of squeeze on margins. But we will have a materially differentiated offering into our client base. That's really what we want to be offering. What we want to be able to say is clients who use PayDirect save X hours per month from their collections process. I think those X hours per month will be far more valuable than perhaps what we might charge on a merchant fee compared to the cheapest in the market for an unintegrated solution.

So our view here is not that we want to enter the broader, more commoditised area of the payments industry. But that what we really want to do is be one of the drivers of innovation who's adding value by the way in which we offer an integrated payment solution. As Richard said, it's early days for us, so we don't want to give specific guidance on what we're expecting from a margin perspective in that part of our business. But we are very excited by it and we now are just focussed on really getting to completion and then starting the pretty exciting journey of the innovation that we're planning ahead.

Entcho Raykovski: (Deutsche Bank, Analyst) Okay, thank you.

Operator: Your next question comes from the line of Jules Cooper from Ords, please go ahead.

Jules Cooper: (Ord Minnett, Analyst) Good morning gents and great result and good to see the guidance being forward-looking on the revenue, I think that's quite a noticeable change. Three questions, if I can. On the online subs, they were a bit stronger than we expected in the second half, which is obviously fantastic. But, Tim, as you look into 2017 and despite what will naturally be higher churn, do you expect you could exceed that 55,000 added, excluding Practice Ledgers, in '16?

Tim Reed: Jules, look we don't get down to getting very specific with individual metrics and giving guidance on that. So I'm going to resist giving a direct answer. What we are continuing to see is the investment in our Connected Practice strategy, and particularly in the MYOB platform, driving the uptake of those components on the right-hand slide of the slide 11. We genuinely believe that this is the cycle and that, as we go through this cycle, it will mean higher growth for us and increased market share. We obviously have to prove that and I'd much rather be talking about what we have proved in this last period and point you there as to what you make of it. But needless to say, and hopefully it comes through in our tone and in the data points that we've put here, we are seeing growing momentum in our business and have good confidence about what that will mean going into 2017.

Jules Cooper: (Ord Minnett, Analyst) Fantastic, very clear. The other two, on the Practice, previously you've sort of talked about the number of subs in that segment, I think it was 40,000 that's been there for quite some time. Has that changed much? I just couldn't see anything in the deck about that and just wondered whether you're seeing any change in that number? Then there's one further question.

Tim Reed: Yes, that's a good question, Jules, and I don't think we have put anything in here. So the answer is no, in short, we're not seeing material change in there. We're not seeing big changes in market share between players in that category at this point in time. I think there is some sort of overall contraction in the number of accountants that are being employed. As I get out and talk to more accounting practices, as someone leaves, they may be going from 17 staff to 16 staff, because of the efficiencies that we're driving through these processes that we're talking about. I wouldn't say that there's pressure under them in their accounting practises to do that, but it is a trend that I hear from more of them, but it's a good point, we might think about updating in our next results that overall operating metrics to include that one for you.

Jules Cooper: (Ord Minnett, Analyst) Just a last one, on the Paycorp integration, can you give us a sense for the timeline with which you expect the payments will be fully integrated? Then could you just make a comment whether the integration or the focus on that in any way would change the timeline around tax and other key modules of work you're doing on the practice side?

Tim Reed: Yes, absolutely. So I think you'll see several years of continued innovation in the payments space from us. We've mapped out a roadmap that without having that team internally, it was difficult for us to think through what we think the estimate of time to deliver would be. But we're pretty excited about five or six different sets of innovations that we'll be releasing in the months and years ahead.

Whether it will impact anything else, so we will obviously, because we think of R&D as a percentage of revenue, with more revenue be able to expand the investment that we're making to be able to deliver that. We will have to make some priority calls as to, let's say, the next team of eight to 10 engineers that we hire, what we allocate them to. So I don't think it will have a material impact because it's likely to be one or two teams of engineers that we'll have working on the payments space, but to some extent yes, it could be a couple of months of impact where we shuffle back, bringing on one or two teams in other areas of the business to be able to bring that one on.

The obvious question is, well why can't you just bring more on both at once, which I'll share with you is one of the questions that I grapple with the most, is just really how do we continue to expand so that we can deliver more value to our clients more quickly. It's just literally the operational challenge of hiring, on-boarding and spinning up more team members.

Jules Cooper: (Ord Minnett, Analyst) Just on that, Tim, if I could then just ask one more question, thank you very much for that one though, by the way, you've obviously expanded the R&D team pretty substantially, highlighting the investment in the business over the last year, but are you pleased in tracking with just how quickly solutions are being delivered from that team and are you starting to see the benefit of greater efficiency coming through the R&D after what was a pretty big step up in the team over the last 12, 18 months?

Tim Reed: Yes, I am Jules and we're absolutely starting to see that flow through. If you go back to slide 11 where we talk about what we've released with the Connected Ledger and Practice Ledger and Portal & Dashboard and Connected Services, I was on a weekly update call for the Connected Ledger team this morning where I go through every week and talk about what they're doing and where they're at. What we're going to see is greater and greater depth coming into all of those solutions throughout the year, which will just make them more and more applicable to a broader and broader set of our clients.

That's ultimately what we want to be doing, so it's a big effort to get something new to market and then you get the opportunity to really add depth and capability to it so that it just becomes more and more attractive to more and more clients. That's the phase that we're getting to on those key deliverables which is exactly where we'd like to be.

Jules Cooper: (Ord Minnett, Analyst) Excellent, very encouraging, thank you very much.

Tim Reed: You're welcome.

Operator: Your next question comes from the line of Rohan Sundram from Citi. Please go ahead.

Rohan Sundram: (Citi, Analyst) Hi guys, I just had a few questions. I might just start off with, is there anything you can pinpoint or any change that in terms of the big ramp up in new SME subscribers online from low 80s to 92%, is it just the case that you're getting returns from prior year investment or has there been any change in marketing or process or customer engagement that you can pinpoint?

Tim Reed: It's a good question Rohan. In some senses you expect an S curve, where you'd expect once you approached that 90 it might take a long time to get the last 10% over the line. But I just think that the market has changed and the other way to ask is, who are the 8% who still walk into a shop and buy software in a box? They exist out there, right, but there's not a large number of them. I don't think there's any one thing in particular, but just continued delivery from all fronts.

Richard Moore: From an investment standpoint, probably the investment we've made on the website and the digital marketing side of our business, just by nature means more and more of our sales are coming through that channel and all of the sales through that channel are put straight into online subs. So there's been an investment shift from us which has supported this, but as Tim said, ultimately there's just a small pocket that over time will disappear that continue to walk into the store.

Rohan Sundram: (Citi, Analyst) Great, thanks. Richard, can I just confirm what impact Greentree acquisition, or sorry, integration costs had in that period? Was it meaningful and were there any other one-offs that might have impacted performance in that result?

Richard Moore: So they are captured effectively below the line. They're in that summary that I spoke about, that reconciliation on slide 35 and you can see there, total annual cost of $4.2 million of integration costs that were there. Absolutely Greentree would have been the largest portion of that, when you compare that to Ace and IMS which are also in there. But as I said at the start, these adjustments are really not particularly material to where they were 12 months ago.

Rohan Sundram: (Citi, Analyst) No problem and just to confirm, sorry if I missed it earlier, how will Paycorp be reported in the results?

Richard Moore: Yes, Tim and I were chatting about that this morning. We signed the deal yesterday, we want to have a bit of a think about internally exactly how we record the revenue from payments. So once we've circled the wagons within, we will make it very clear to the market how we're going to report that going forwards.

Rohan Sundram: (Citi, Analyst) Okay, no problem. Thanks guys, well done.

Richard Moore: Thank you. We've probably got time for one more question.

Operator: Your next question comes from the line of Peter Stamoulis from Evans and Partners. Please go ahead.

Peter Stamoulis: (Evans and Partners, Analyst) Good morning gents. Just on the gross editions and breaking that down a little, if we assume 85% retention across your online subs, which I think you've previously disclosed, it would suggest about 80,000 gross ads relating to online and about 70,000 replacing desktop or legacy BankLink customers. Is that fair and should we consider only the $0,000 to relate to incremental cloud market share gains? Cheers.

Tim Reed: I'm not sure I follow the maths there, Peter. Richard, do you?

Richard Moore: Yeah, look it's probably a question that we should take offline and have a bit of a chat about. I wouldn't want to come back with an off-the-cuff answer on something that would take a bit of mathematics.

Peter Stamoulis: (Evans and Partners, Analyst) Just on that 150,000 in the gross ads, if you assume, say, 85% retention rate on your online subs, then it would suggest about 50% of those are relating to incremental online gains, that's fair?

Tim Reed: No, I wouldn't assume that there's any correlation between where customers are churning from and where they are coming to.

Peter Stamoulis: (Evans and Partners, Analyst) Okay. Just considering that incremental growth period-to-period, could you just provide a bit of an insight into the take up across your products and the spread across those gross editions?

Tim Reed: So as you know, Peter, we don’t break down any specific numbers into individual product lines, but if you stand back and have a look at what we did do, there's been a material uptake in new customers taking on online products and that's the 92% that we were just talking about earlier. So the move is far more towards online than what you would see in the mix of churn from the installed stock of customers.

Peter Stamoulis: (Evans and Partners, Analyst) Okay, fantastic. Just lastly on Practice Solutions and that revenue model, perhaps if you take a long term view and the investment you've made in the Connected Practice, what do you think sustainable price increases are there or perhaps new revenue streams that could be generated as that model evolves over time? Thank you.

Tim Reed: Yeah, no problem. So we've not made any decision to change our pricing driver there, which is effectively based on the number of people in the practice who leverage our software. Now the obvious alternative one is the number of clients that they serve, but we've gone out and researched with our clients whether they have a strong preference one way or the other, in what circumstances they might prefer one to the other and we haven't found any basis for making a change. The instant that you make a change like that, all of a sudden all of your client managers' time, et cetera, get taking up in explaining the change and we haven't seen any particularly strong reason to do that. It's certainly not a negative for us relative to our competitors that we choose to price this way.

Peter Stamoulis: (Evans and Partners, Analyst) Just on R&D going forward, is it fair to assume that 50/50 split between capitalised and expensed R&D?

Tim Reed: Well no, I wouldn't do that. In fact I think if you listened to Richard's comments when he was talking about that, what he said is that it's relatively flat dollar investment in our existing products and that the incremental investment is going in to the new platform and that's there on slide 25. Now as we look forward and as we start to earn more revenue from the platform, additional work does get categorised in the expense part of product development, so it's sort of building out the new and then the new starts to become the existing and it's that lens there. But we've given guidance on the total and I'd say that we could say that the blue is growing faster than the purple.

Richard Moore: Yeah and the 50/50 that I referenced was really for 2017, Peter. The cycle that Tim alluded to with new becoming existing means we really don't want to give guidance beyond that point.

Peter Stamoulis: (Evans and Partners, Analyst) Okay, fantastic. Thank you.

Operator: I would now like to hand the conference back to today's presenters. Please continue.

Tim Reed: Great. Look, I think there are two more questions on the line, Operator, so we'll take those quickly and then wrap up.

Operator: Sure. Your next question comes from the line of Roger Samuel from CLSA, please go ahead.

Roger Samuel: (CLSA, Analyst) Hi guys, thank you very much for the time. I just want to touch on the questions asked previously. Just firstly on the online paying users in SME, obviously it's very strong growth in the year, I'm just wondering if you have a breakdown of how much is BankLink, which is a much lower ARPU product. The second one is on the ARPU, so you mentioned about price increases, but I'm just wondering how much of the increase of the 7% is also caused by just increased penetration of your payment products.

Tim Reed: Yes, so Roger, as you know we don't break down specific user numbers by products. We haven't and we don't. We're also, with the release of Connected Ledger, seeing that the clients that would have once gone to BankLink are now going to Connected Ledger. So this is the reason why we've never released these numbers, because we know over time there's going to be that transition. I'd say if you looked across the broad mix, though, then we're not seeing a mix shift of any magnitude across our SME products. We are seeing a substitution, though, for example where Connected Ledger is starting to replace the flow to BankLink.

The second part of your question was?

Roger Samuel: (CLSA, Analyst) Yeah, was just on the ARPU, so just trying to understand and I'm just wondering how much is coming from payments.

Tim Reed: Yeah, so we haven't broken that out specifically, but you're bang on the money in that there is a part of the payments revenue that we've been earning from PayDirect which is included in SME revenue and therefore the use of that service is part of the reason why ARPU is going up. But we haven't indicated where and as Richard said, now that we've bought Paycorp, we're just going to reflect and think about more what information we do disclose going forward and how we break that out for you.

Roger Samuel: (CLSA, Analyst) Alright, fantastic. Thanks very much.

Tim Reed: Pleasure.

Operator: The last question comes from the line of Lucas Goode from Credit Suisse. Please go ahead.

Lucas Goode: (Credit Suisse, Analyst) Morning everyone, I promise I'll be quick. Just on Paycorp, just wondering if you could give us an idea of what the business model looks like for that company, appreciate you can't give me metrics, but is this sort of a transaction-based business model or more subscription based or services based? Then just secondly, it looks like from the customer numbers you've given that Paycorp's largely providing services to smaller enterprises at the moment, but given your commentary, the idea is to then roll that into your SME offering. Is that correct?

Tim Reed: So on the latter part, yes, that's absolutely correct and we have been working with Paycorp for over a year as the back end provider of PayDirect online, but yeah, their clients tend to sit in that smaller enterprise space, so you're bang on there. In terms of the revenue model there, it is predominantly transactional.

Lucas Goode: (Credit Suisse, Analyst) Great, thanks guys and congrats on the result.

Tim Reed: No problem, pleasure. Excellent, well look thank you everyone for joining us today. As I said, Richard and I are delighted to be able to share these results with you. They are the outcome of the work of our entire team here and we are proud to be able to share them with you because there are a lot of very committed, very dedicated people at MYOB who collectively are motivated by helping businesses succeed by driving innovation and really delivering value to our clients. So it's great that we've been able to do this in the period and been able to share those results with you today. Thanks again for joining us.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating, you may all disconnect.

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