ASX Announcement **28 August 2017**

MYOB 1H17 Results Webcast and Transcript

To watch a replay of the webcast discussing MYOB's financial results for the six months ended 30 June 2017 please click through to the investor centre here: http://investors.myob.com.au/Investors/

A written transcript of the presentation follows.

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About MYOB

MYOB Group Ltd (ASX: MYO) is a leading provider of online business management solutions. MYOB 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 operates across four strategic segments – Small to medium sized businesses (SMEs), Practices (accountants, advisors and book-keepers), Enterprise (larger businesses) and Payments. It provides ongoing support via many client service channels including a network of over 40,000 accountants, bookkeepers and other consultants. MYOB is committed to ongoing innovation and delivering efficiencies and growth opportunities for its growing client base across Australia and New Zealand. For more information, visit http://investors.myob.com.au/Investors or follow @MYOB on Twitter.

Company: MYOB Group Limited
Title: First Half 2017 Results Presentation
Date: 24 August 2017
Time:

Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the first half 2017 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 will need to press star one on your telephone. I must advise that this conference is being recorded today, Thursday, 24 August 2017. I would now like to hand the conference over to your first speaker today, Mr Tim Reed. Thank you. Please go ahead.

Tim Reed: Thank you, Josephine. Good morning and welcome everyone. I'm delighted to have you all here to join us for the first half 2017 results for MYOB. I'm also joined by Richard Moore who will be talking through the financial results in detail a little later on in the call.

But let me start by just saying what a great six months it has been for us as a team at MYOB. We've made progress across all parts of our business and hopefully over the next 20 minutes, I'll be able to share with you the detail of that.

For those of you who haven't got a copy of our results presentation in front of you, it's available on our website, and I'd encourage you to download it. I'll refer to those slides as we go through the conversation this morning.

Starting on slide 6, the highlights of our results. Firstly $204 million of revenue for the first half of this year, that's up 14% year-on-year. Importantly recurring revenue is up 15% year-on-year. Our underlying EBITDA was $90 million, which is up 9% on the same period last year. NPATA, our preferred measure of after tax profit up 9% also, to $48 million.

That's been driven off strong growth in our online subscribers right across our business. We ended 30 June with 601,000 paying SME subscribers and 306,000 online subscribers, which is up 53% on where it was 12 months earlier. 90% of new SMEs to MYOB took out an online subscription over the second quarter, so the April, May, June quarter.

On the back of those strong financial and operating results, the Board have approved a $0.0575 per share dividend, which sits at 72% of NPATA, right in the middle of our stated range of 60 to 80% and also saw fit to announce a share buyback of up to 5% of the company's shares over the next 12 months. Again, just reinforcing that perspective that we are proactive managers of our capital, that we have plenty of capacity to fund both the organic, and the inorganic growth options across the business, and are keen to make sure shareholders get the best possible returns.

On the bottom of slide 6, are the key bullet points of our performance. We'll talk to those in more detail as we go through the next few slides.

Slide 7, I always refer to as my favourite slide. It shows the trends across the key metrics in our business over the last five years. You can see the 11% CAGR in revenue, 12% in EBITDA, and 12% in NPATA. At the bottom you can also see the 63% CAGR we've had over the last four years on our online subscriptions, and all of the positive trends that you can see across the other core metrics.

Let me draw your attention to slide 8 though, because this is going to provide the structure for all of the slides that follow. It really talks to three different parts of our presentation this morning. First is growth in our core business, and that's coming from growing our online subscribers and increasing the value of each of those subscribers.

The second component is about expanding beyond our core, which is through payments and enterprise and we'll talk to both of those. Then finally continuing to look to expand into new areas and new opportunities either within our core or in an area close to our core, such as payments was when we made the acquisition of Paycorp in the first half of the year.

Under each of those headings are the key drivers of value in our business.

1) Growing online subscribers:
    a. Firstly, by really our vision of the connected practice meaning that we are winning with advisors
    b. Seeing increased referrals through the MYOB platform
    c. We have also been investing in our brand. We have the most valued brand in our category in the Australian marketplace. We're investing in that to make sure we continue to attract new SMEs.
    d. Finally, the improved progress that we've continued to see in terms of migrating our desktop clients, who are non-paying clients, into paying online subscribers.

2) Increasing lifetime value:
    a. Firstly in terms of uplifting in price, particularly given the increased usage we're seeing of some of our connected services.
    b. Those services are increasingly leveraging AI and machine learning, and I'll talk to that later.
    c. The ARPU benefit from the mix shift online
    d. And also improved retention. That was probably one of the real highlights for me through this last six months, and we'll talk to that as we go through the presentation.

3) We'll then do similarly for the TAM, particularly on payments. It is an exciting opportunity for us. Really increasing the size of the market that we're operating in.

4) Enterprise, we've spoken about a number of times before, but we continue to make great progress there.

5) Then we'll also talk to acquisition opportunities.

But let me kick off on slide 9 just by reminding you all of the vision of the connected practice. This is a vision for the future of our industry. We see mega trends that are happening across the world will impact the local accounting industry. By that I mean all of the tools and all of the labour that go to produce the financial results for small businesses across New Zealand and Australia, that enable them to make more informed business decisions, and enable them to remain compliant with local regulations.

Historically that has been three separate business processes. Those of:

1) Transaction Processing where our SME tools have enabled small businesses to record all of the events that occur in their business.
2) Compliance where the output of that is validated and verified, and an accountant generally helps that small business owner ensure that all of the lodgements are made with local regulators.
3) Then finally Advisory where either the small business owner themselves, or the accountant, or a third-party advisor is able to analyse the results of that business and feedback information that allows for more informed business decisions.

Those combined business processes are changing, and they're going to change quite radically. We believe that they will become one business process. That those business process will be done in real time, that it will leverage artificial intelligence and machine learning heavily, which means that less manual work is done, and more information and more insight will be able to be gained in real time.

We're excited about this future. We believe that the role of the advisor will grow in the future. That they will be more important in terms of day-to-day decision making in the life of the small business, and we believe that that will improve small business success rates. We also believe that the small business owner will be the main beneficiary of the time gained here, and that will enable them to spend more time doing what they love. Whether that be spending more time with customers, more time building and conceiving of new products, or simply more time at home.

So, we're very excited about this as we've spoken to the industry about our visions for the connected practice. We continue to get great feedback about it being a guiding light, not just for us in developing our strategies, but also for others in the industry.

The way in which we're developing tools that will bring this connected practice world to life is through the MYOB platform. Slide 10 talks to that. On the left-hand side, what is the platform? Well, it's a single set of tools that does the transaction processing, compliance, and the advisory work. Different interfaces used by different players within that system. The small business would simply see what is exposed to them. Maybe it's all of the transaction processing tools, or maybe in the future it's only some part of those. Then the advisor having all of the tools that need to be used for the compliance and advisory work.

On the right-hand side, you can see the uptake of the core modules that we have released to date. We continue to see great uptake in practice ledger, in usage of our portal, and of the MYOB dashboard. In fact, I've commented on this before, but when I look at those uptake rates, I've never seen accountants in my 15 years in this industry adopt new solutions anything like as quickly as we're seeing the uptake in these solutions. We released new components, new functionality and new modules on the MYOB platform.

This is what we're investing, and we'll have a talk about our investment in R&D which as we guided was right at the top end of the 16% of revenue range. But it is really this MYOB platform which will bring to life our vision of the connected practice which is where we're leaning, and given the uptake you can see down the righthand side, we believe for very good reason.

With that vision, and with those tools becoming available, they are underpinning the growth in our online subscribers. On slide 11, you can see the 53% year-on-year growth from 200,000 to 306,000 online subscribers through the period. You can see the breakdown between SME and practice ledgers in the chart.

On the righthand side, is the stock of our SME user base today, and three years ago. You can see there's been an 8% CAGR in terms of paying subscribers up to the 601,000. That's really being driven by the blue bar which is the growth in online subscribers.

In the last 12 months, we have converted 7% of the non-paying desktop base to paying subscribers. That's up from 5% where it was three years ago so that conversion rate continues to grow.

Moving on to slide 12, it's also very important to us to continue to make sure that we are attractive to the next generation of business owners. That new entrepreneurs who are starting their business, are starting it and thinking of MYOB. We want them to visualise us and think of us as a company of the future. Of a company that will be there to help them succeed as their business evolves and grows and moves forward in the years ahead. That was the future of business campaign that we've run in the first half in both Australia and New Zealand.

In our latest brand surveys where we measured that the impact and the power of our brands and compare it to our competitors, you can see down the righthand side there in terms of our category awareness of our brand is 2.3 times the next nearest competitor and preference for our brand is at 3.1 times the nearest competitor. Both incredibly strong metrics to underpin the future of our business as we help small businesses with the future of theirs.

Moving from growing our online subscribers into increasing the value of each subscriber, slide 13, really talks to the values that each of our individual clients takes from our platform. You can see bank transactions, which continue to grow. These are the number of transactions that get fed into our online platform, a 40% growth since June 2016. We know businesses that use our daily bank transactions service are saving on average 10 hours per month. If you just pause and think about the greatest gift that anyone can give a small business owner it is time. Simply by turning on that feature we know that our clients tell us on average they're saving 10 hours per month.

We've also seen great uptake in the use of Smart Bills. I'm pleased to say that over the last couple of months we've been moving over from our first-generation algorithms on Smart Bills, to our second-generation ones which really leverage machine learning. What that means is now that the Smart Bill systems improves its accuracy the more it sees an invoice from a given supplier. So, when we look at suppliers like Bunnings, we're now in the high 90% rate for being able to accurately extract data from those invoices. The more invoices that those algorithms see, the more they learn, and the more accurate they become. So, we've seen a rapid improvement in the accuracy there, and it will continue to grow and grow as our algorithms learn from more invoices over time.

PaySuper, on average saving eight hours per month for clients who are using that as their Super Stream compliant method of lodging their quarterly statements with each of their employees' superannuation fund.

PayDirect Mobile is next, up 30% year on year, but perhaps more exciting for me is the growth in PayDirect Online given all of the others of these charts start generally back at either 2012 or 2014, but this one just starts back one year ago, at June 2016. What you can see there is a material growth in the number of transactions through that platform. The reason it excites me is what we know is every invoice that is paid using PayDirect Online, is paid 33 days earlier than invoices for those same businesses that aren't paid using PayDirect Online. That's a 73% improvement in cashflow timing on those invoices.

MYOB exists to help businesses succeed. We invest in tools and technology to enable our clients to have a more successful business, to make their business life a little bit easier. It is the delivery of capability like PayDirect Online that really enables that to happen. The great thing about PayDirect Online is it also creates an economic value for MYOB, and I'll talk to that when we talk about the Payments opportunity.

But just rounding out on the increasing the lifetime value of our clients, slide 13 is how we're adding more value to clients, and therefore the reasons that they have to both pay the subscription and pay more for the subscription as they get more value for it, and also to remain using the products for longer.

But slide 14, is the output of that. So, you can see that our ARPU which has continued to grow over the last three years, and was $421 per client per annum in the last six months, and the retention rate which over the last four six-month periods has continued to grow, but has really stepped up in this last period.

We know the more of those services that clients leverage, the stickier they become, so the less that churn. You can start to see the uptake on the charts on slide 13 really improving our retention rate on slide 14.

Slides 9 to 14 cover the first two components of our strategy which really describe the success that we've had in continuing to build the strength of our core business providing business management solutions building towards our vision at the connected practice for small businesses and accountants across New Zealand and Australia.

Slide 15 then shows what sort of opportunity that creates for us as a business. You can see that’s what we've called our core market TAM. So, we think that it's somewhere north of $1.5 billion, which is the annual revenue opportunity for our core market - the SME and Practice Solutions building that vision of the Connected Practice. But when we look at our business overall growth in Enterprise and a new entry into Payments, takes that TAM up towards $3 billion in total.

You can see the large part is coming through payments which is new to our business since the acquisition of Paycorp earlier this year. We've calculated this TAM by looking at the value of invoices that are raised annually using SME accounting software in Australia ($1.2 trillion). We've assumed a very conservative 10bps fee that might be charged if you were providing a payment solution on that. You can see the size of the opportunity.

Now, obviously PayDirect online today are offering credit card payments. There's more like a 200bps price that is charged for that functionality. But as we broaden out into a wider range of payment types, we don't think that that will be the average in the long term. But it is an enormous opportunity and when you think of the business, those that we've accelerated bringing cash into the business 73% faster than they were able to using non-integrated payment methods. We're very excited about what this could mean as a revenue opportunity for our business, and therefore the expansion in TAM.

It's not just payments, however, that is driving that increased opportunity. We continue to get great results in our Enterprise Solutions business. You can see the 120% growth year-on-year in MYOB Advanced customers. We continue to invest in the MYOB Advanced platform. We continue to get great feedback from customers and partners, but we also know that this is an opportunity for us to continue to strengthen in the months and years ahead.

So, for the first six months 54% of new clients in our enterprise solutions are taking out MYOB Advanced. We were making more progress on that. Obviously in the acquisition of Greentree means that we've added more products there into the purple, but despite that we're still seeing increased share going to our online solution, and I do believe like SME that this will continue to build and at some stage in the future it will be purely online ERP that we're selling through the Enterprise Solutions business.

I will note the Greentree and PayGlobal have both delivered very good results through the period. We track at a revenue level the growth in those businesses and separate that our in our results so you can see it through the first 12 months, but looking back to PayGlobal which is now beyond that period, we continue to see good growth in that upper end HRM market as well.

Then just rounding out, there are a few new faces in our Executive team and so I thought I'd take a minute just to briefly introduce them to you on slide 17. From left to right, Nick Burkett. Nick is Head of Service and Operations at MYOB. Nick has been with us for about five years and has been recently promoted to an executive role. Nick has been an extraordinary contributor to our business through those years. I'm thrilled that he's joined the executive team.

Moving further across, Carolyn Luey, who I introduced during our call six months ago. Carolyn is GM of our Enterprise division based in Auckland. She also heads up the local team as GM of New Zealand. Luke Rattigan joined us more recently. Luke is our General Manager for Clients and Partners. Luke brings a wealth of background in B2B sales from his time at Reed Elsevier, but also in terms of online selling from his prior roles.

If I move a little bit further across to the right, Helen Lea has joined us as our Chief Employee Experience Officer. Helen has a great background with a number of global organisations, including BAT, Telstra and the Seven Group. In fact, Helen led the Future Way of Work at Telstra, really defining the employee experience as something that was going to be a part of the future and distinct and unique to Telstra. We're thrilled to have Helen as a part of the team.

Finally, Hugh Fahy, our new GM of Engineering. Hugh and his family have just relocated from London to Melbourne to take on this role. It was a global search. We really wanted to somebody who had built SaaS platforms at the scale that we're building and to find a candidate of Hugh's calibre, that meant that we needed to do a global search and I'm delighted that Hugh has joined the team.

This team, when I stand back and reflect on it, is a great blend of people who know and understand our business, our clients and the organisation that we are. There are several of us there who are in the teens in terms of our tenure, there are a group who are in three to six years and we've now got a number of new starters as well. It's that blend that I really enjoy of really having depth of knowledge of our business, while also bringing in new skills, new energy and frankly the DNA that strengthens the business.

That's it for my comments. I might just wrap up by again stating how proud I am of the work that the MYOB team have done for our clients through this period. We are touching the lives of more businesses today in more ways and having more impact than we ever have before. The chart that shows the expansion of TAM really represents that for us. We're a team of people who are very committed to our clients and very committed to doing great things for our clients. But it's also great on mornings like this morning to be able to stand back and share with our shareholders the returns by focusing on our clients.

So to take that to a level of depth a little further than what I have, I'd like to know hand over to Richard, who'll take you through the financial reports.

Richard Moore: Thanks, Tim, and thanks, everyone, for giving me the opportunity to talk you through our results for the half. Can I just draw your attention to slide 19. On the left-hand side you can see the table of our financial performance and on the top line, very strong revenue growth for the period, 14% reported. When we strip out the impact of acquisitions we've got a just over 9% organic growth rate, which is up from 8% in the prior year and it's really comforting to see each of the segments continuing to accelerate in terms of organic growth rates.

In terms of recurring revenue, 96% of total revenue for the first half; slightly up on the year before and really continues to reflect the very high quality of earnings that our business continues to deliver. We're confident that we'll continue to see that recurring revenue increase over time as we bring more and more of the base onto online subscriptions. In terms of our profit, our underlying EBITDA, which is our preferred operating profit measure, up 9% to just under $90 million.

You'll probably see that the growth rate is slightly lower than revenue, which is reflective of the significant investment we've made in the first half in brand and product that Tim referenced earlier. That's then reflected in the EBITDA margin for the half, just under 44%, down 2% on the prior year. But one of the things we'd like to really clearly point out is we consistently see a lower EBITDA margin for our business in the first half than the second, and there's a chart at the bottom of slide 19 that just shows that over the last three years.

That's based on two things. One is the timing of our subscription adds, which are very heavily focused around the financial year end, so May through to August, does mean that we see more revenue growth in the second half than we do in the first. Obviously this year we've invested really quite heavily in brand, which means that we've had more spend in the first year than we will see across the average. So we're very confident that for the full year we'll see EBITDA margins in the 45% to 46% range, which is broadly in line with what you've seen over the last two years from the business.

The right-hand side of slide 19 shows the segment revenue. This chart shows it on an organic basis, with the acquisition stripped out. SME growing at 12%, so that's up 2% on the prior year on the back of really strong underlying subscription growth and price. Practice up just under 2%, broadly in line with what we've seen historically from the practice segment, and Enterprise up 8%. A little bit down on the prior year, but you'll see when we get into the analysis that that's good and what we're expecting as we continue to see that shift from perpetual licences to subscriptions that come with the increased mix from MYOB Advanced that Tim referenced earlier.

In terms of acquisitions, they delivered $8.8 million of revenue in the first half; that's $6.6 million from Greentree and $2.3 million from PayCorp, remembering PayCorp was an acquisition on 1 April, so that's just one quarter's contribution from that acquisition. But overall really pleased with the financial results of the business and it sets itself well for a strong second half and full year.

So we'll now look at the individual segments. On slide 20, we've got SME Solutions. It's 62% of our revenue, growing at 12% and we tend to define that as the engine room of growth for MYOB. 99% of that revenue is recurring, so the quality of earnings here is particularly high. As there were no acquisitions through 2016 or 2017 all of this growth is organic. We're really pleased to see that 12% organic growth rate flowing through the business.

What's driving that? As I say, 99% of the revenue is coming from recurring sources. It's growing at 13% and it's growing basically equally from price and from volume. So our average paying users over the period grew 6%, that's very much driven by the 32% increase in online SME subscribers, and ARPU also grew just over 6%. That's predominately price, and as Tim talked to the fact that we are seeing increased uptake in our connected services, the way that we then monetise that is to increase prices rather than charge specifically for many of those connected services that are wrapped up into the online subscription.

We're also seeing a little mix shift within SME, where we're seeing faster growth in the higher-ARPU segments, so that's Essentials and AccountRight in that do-it-yourself segment growing slightly faster than the other products in the portfolio. Broadly speaking, this business continues to perform very strongly and continues to be that engine room of growth.

On slide 21, we have Practice Solutions. Pretty consistent growth. It's been in the 2% to 3% range for a long time. This year we see a slightly different mix in terms of revenue. We've seen an increase in new licence revenue for the first time in a period and that's on the back of some quite material client wins that we're really excited about. Those are driven by the fact that we have new clients seeing the long-term upside from the connected practice strategy and what that can deliver to their business over time.

So we're really excited about that, because ultimately it's bringing these new practice clients on board that really helps drive the referrals of new SME clients into our business and helps them drive the total business forward, so really good to see that positive uptake in new client wins. Recurring revenue in Practice is 98% of total. It's grown just under 2%. There's, again, a little mix shift within this. Over more than 80% of that revenue comes from subscriptions. They're growing at 3.5%, broadly in line with what we've seen in the past.

What we have seen this year though is a drop in consulting revenue. That comes from just there being less opportunities to drive consulting in the organisation. That comes from the fact that we're pushing more and more online solutions into the practice. Online solutions don't need someone to go out and set them up on a system and ensure that it works perfectly for the practice, because they're online; they're hosted in the cloud and generally work as soon as you switch them on. So what you'll see over time is a shift within that recurring revenue and practice more into subscription revenue and given that that grew at 3.5% in the year gives us confidence that we'll continue to see that recurring revenue growth in this business. Broadly speaking, you've already seen the uptake of the online practice tools earlier in the presentation. To see the way that the dashboard, the portal and the practice ledger have been taken on by clients is really gratifying and gives us great confidence in this segment going forwards.

Slide 22, we have Enterprise Solutions. It's the fastest growing segment within the business, obviously helped in the first half this year by the Greentree acquisition. Overall, it's 15% of our Group revenue and we certainly expect that percentage to increase over time. Our recurring revenue is just over 84% of the total, growing at 11%, same as prior year. That's on the back of strong growth from both the online solutions and also the subscriber growth from previous acquisitions on the - some of the on-premise solutions. But really excited by that underlying growth rate within the Enterprise business.

We have seen a contraction in new licence sales, but as I said at the start, exactly what you would expect and hope with that mixed shift moving away from on-premise Exo solutions to the online Advanced. We're also really pleased with the $6.6 million revenue that Greentree delivered. The business is now fully integrated into MYOB of a core part of our Enterprise Solutions going forwards.

Slide 23 then shows our investment in the last six months, continuing to invest heavily in sales, marketing and R&D. We are investing for growth. I think the top line performance of the business shows that that investment is certainly paying dividends. 19% growth overall. That's obviously impacted quite materially by the ongoing OpEx from the two acquisitions that are present in our P&L for the first half, being Greentree and PayCorp.

We don't split out the contribution from new acquisitions and a big reason for that is that because we integrate them very quickly into MYOB, we actually reach a point where a lot of the underlying costs get rolled up into our other Group general office type expenses and we can't actually clearly articulate the contribution, but what we do know is that these businesses in their first 12 months run at a materially lower margin than the rest of the business. They delivered $8.8 million of revenue, so you can roughly work out that the underlying growth rate in the cost base would be low double digit as opposed to the 19% that we've shown from a top line standpoint.

If you look at specifically through some of the lines, the biggest increase in terms of percentage was in cost of goods sold. That's heavily impacted by PayCorp. Whilst in the long term we expect that business to run at similar EBITDA margins to the rest of the business, it is quite a different mix of spend.

Where MYOB consistently has been a low COGS, higher OpEx mix, our payments business is a higher COGS, low OpEx mix, so as I said the total margin will be broadly similar, but as we see more and more payments, you'll see faster growth in cost of goods sold and a slower growth in the other expense lines. The other thing we're doing is investing heavily in digital sales and marketing and obviously brand in the first half, maintaining a total sales and marketing spend of about 20% of revenue, up 18% in the first half.

Investing in services and support, Tim spoke earlier about Nick, our new GM, of Ops and Service. We invested quite heavily in new technology to support our clients in the Ops and Service space, which is getting very, very positive feedback from clients over the financial year end and we will continue to invest there to make sure that our clients get the best possible experience with MYOB. Then R&D, we'll get to on the following slide. Another thing I'd just like to call out is general office admin costs up 10% including the impact of the acquisitions, which shows good cost control, because if you take the acquisitions out we would be low to mid-single digit growth there in our underlying GA costs.

In terms of R&D on slide 24, Tim noted at the start we're right at the top of the 13% to 16% range at 16.0%, up from 15.7% last year. The growth has been more on the platform than it has been on the other products, which means that you see faster growth of capitalised spend, given that many of the platform modules are yet to generate any revenue. We do expect this investment rate to continue through the year, finish the year broadly at the top end of 13% to 16% range and at about 50/50 OpEx/CapEx.

Then the last takeaway from a financial standpoint is our cash flow conversation, so really pleased with the cash flow conversion in the first half of this year with 83% of our underlying EBITDA flowing through to cash before financing tax and dividends driven by a very strong result in our net working capital movement in the half. That comes from the seasonal movements that we see in unearned revenue. We do see our unearned revenue balance increase at the end of the first half and then roll off through the second half.

Why you didn't see that last year was we had some specific annual prepayments that we made in the second quarter that masked that. We've now moved those all onto either monthly or quarterly payments, which means that you don't see that movement in working capital flowing through to the same degree. Very stable CapEx outside of R&D and we've already discussed the fact that R&D was $16 million capitalised in the period. So 83% or $75 million of cash from

EBITDA; that's before financing, tax and dividends, so it does obviously give us lots of capital to consider using for other investments.

There are a few appendices, which I'll just quickly run through, which should give you some more information in analysing the business. We have the key metrics by segment on slide 30. Really positive trends across the board. A detailed income statement on 31. A balance sheet on 32 that summarises where the business sits. You'll note net debt to EBITDA is under 2.2 times, so notwithstanding the fact that we've made a sizeable acquisition in the half maintaining a pretty strong cash balance for the business.

We've got the slide which shows the amortisation of intangible assets on slide 33. Based on questions that have been raised over the last few months, we've added in the depreciation of our capitalised software as well as our property, plant and equipment. The key takeaway from this slide is it includes everything that's been capitalised up to the point of 30 June 2017. Then we assume no further additions, obviously because we don't want to make any forward-looking statements. So it shows the runoff of what we've built to this point.

Then finally on 34, there's a reconciliation between our underlying EBITDA and the statutory reported one, which are small movements between those two and there's detail there to explain them.

So overall really strong financial result for the business. A great cash flow performance and the business really well placed going into the second half.

Tim Reed: Great. Thank you, Richard. So I might just conclude by drawing your attention to slide 27, which is the guidance that we've provided for the full year 2017. Our success is going to continue to be driven by the connected practice strategy and the uptake of the MYOB platform. On the trends that we can see, we're confident that our revenue growth for the full year will be in the 13% to 15% range. We had been guiding to double digit and we're able to tighten that and be a little bit more specific at this point of the year. Similarly, with our EBITDA margins, that they will be between 45% and 46%.

As Richard said, we always see EBITDA margins higher in the second half and so we're also able to tighten that range for you. We are going to continue to invest in the MYOB platform. Our total R&D investment, we believe, will remain at the upper end of our long-term range of 13% to 15%. As I mentioned upfront, we do want to be proactive in terms of capital management. We've always said that that is our approach that we view the funds that we have is our shareholders' money, not our own.

To that end, we've obviously declared the dividend. We've also announced this morning that we'll be engaging in an on-market share buyback. But we do continue to believe that inorganic growth is a part and important part of our strategy and continue to look for opportunities where we can see well-placed acquisition targets. So that's it. I might hand back to you, Josephine, just to open the line for any questions that anyone might have.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question, please press star-1 on your telephone and wait for your name to be announced. If you do wish to cancel your request, you can press the pound or hash key. Our first question comes from the line of Eric Choi from UBS. Please ask your question.

Eric Choi: (UBS, Analyst) Hey, guys. Thanks very much for the question. Just two - the first one just on margin, completely understand your decision to invest more to tap that $3 billion TAM. Just wondering then should we be expecting that R&D as a percentage of sales just to continue at that rate or potentially even higher in FY18? Then I'm also interested in the mix of that FY18. Just wondering if more of that R&D will become revenue generating, so should we be flowing some of that back into OpEx rather than CapEx?

Then second question, obviously a really good lift in retention rate this half. I don't know if I've done my maths correctly, but it looks like the gross adds slowed a little bit though. So just at a higher level, I'm just wondering if there's anything driving that change, for instance, do you think overall market growth has slowed or has there been more competition? I'm just interested in what you're seeing. Thanks.

Richard Moore: I'll take the first one, Eric. So on R&D, we've specifically guided to the end of 2017 and not beyond. I absolutely believe that we'll be at the top end of that range for the foreseeable future. You can see we've been between 15.7% and 16% for the last 18 months, so I would certainly expect that to continue. In terms of the OpEx and CapEx split, our current modelling based on what's going to be expensed in the future and what's going to be capitalised has us staying pretty close to 50/50.

If you look at the current year result, one of the reasons that we did see a reasonable increase in the expense was that the MYOB Advanced expenditure at the end of 2016 would have been capitalised is now being expensed, because that product is in the market. So that will continue to happen, but based on our run rate, we think it will be pretty close to 50/50. I'd say it's plus or minus 2%, either way, would be how we are looking at it.

Tim Reed: Richard, I think the other part of Eric's question was around retention and net adds to gross adds. Do you want to grab that one?

Richard Moore: Yes. So obviously the 82% retention is a particularly pleasing number for us, Eric. Broadly speaking, we have seen net adds in total adding at a similar rate to what we're seeing before. If you do the math, it does mean that gross is probably 1% or 2% down from where it was, but overall we're really excited about growing our online subscribers by 53%.

I think looking at the specifics over a six-month period is probably not doing justice to the growth in the business. So it's more that top line 53% growth and even within the SME to see 32% growth in the period still gives us a lot of comfort. We're growing momentum and continuing to accelerate the growth rate and our online adds.

Eric Choi: (UBS, Analyst) That's great. Thanks very much, guys.

Operator: Our next question comes from the line of Mark Bryan from Wilsons. Please ask your question.

Mark Bryan: (Wilsons, Analyst) Thank you. Morning, Tim. Morning, Richard. A couple of questions if I may. Firstly, just around the growth in online subs, obviously that has been very strong. Can you just talk please around the marketing plan for Connected Ledger over the next six to nine months, because I'm envisaging that's going to be pretty important in terms of driving next stage of growth for online. Then secondly, I wanted to also dig into retention. I'm also pleased to see that retention rate moving up. Can you dig into that around the base of products? Was that pretty consistent across the base of products? Was there anything particularly behind it? I'm imaging as you move more and more clients online that retention rate potentially could improve. I'm just wondering where you think it might be able to get to. Thank you.

Tim Reed: Yes. So maybe I'll grab those, Richard.

Richard Moore: Yes.

Tim Reed: So just in terms of the Connected Ledger marketing program, Mark, for those of you online who don't know, Connected Ledger is our online do-it-for-me solution where an accountant or bookkeeper does the transaction processing on behalf of the business. So they're going through coding all of the daily transactions for the business. We have had a market leading product in that category called MYOB BankLink for a number of years. But BankLink sits on the server in the accounting practice and therefore doesn't feed into our online numbers here. Connected Ledger was released about nine months ago to market in the early form where we worked with 10 or 20 practices and we've continued to build out the functionality from there. This six months we're continuing to invest and we will be continuing to invest in the products, Mark. We're getting great feedback.

In particular we'll be investing in the capabilities needed for rural businesses where the accounting is on the number of units, rather than the number of dollars, i.e., how many cows do you have, rather than the dollar value, this will expand the market more into rural BankLink practices, as it has always been much loved in regional Australia and New Zealand.

The feedback we're getting from those clients that are moving ledgers online though is very positive. In fact, what we're seeing is a number of practices who have moved a handful online coming back and starting to migrate more and more BankLink ledgers to Connected Ledger. But also importantly putting brand new clients straight on to Connected Ledger. I think it will be a three or four-year program for us to migrate most of that base online.

That's faster than generally we've seen clients move products in the past, accountants, but I think based on the uptake that you can see there on slide 10 of the online modules we've released, I'm reasonably sure that in a three to four-year timeframe we'll have the BankLink clients migrating onto the Connected Ledger and that it will feed into online ledger growth. We're not going to give specific numbers, because we never do in terms of units for given products in 2018, but I would say that everything is very much on track and that it will be a strong part of our business going forward.

The second part of your question was around the retention across our products. You're right. As we've mentioned in the past, we do see higher retention on a like-for-like basis on an online product. We continue to see that. We also see higher retention as clients use more and more live services, which is why the importance of connected services there, because as that usage drives, it will drive retention higher. Across the portfolio, as Richard mentioned, there was a slightly positive mix shift.

We are seeing higher retention at the higher end of our SME portfolio, but it's hard to know if that's because it's the upper end and those businesses perhaps are just more stable and have a longer life, or whether it's because we've had products online in that part of our portfolio longer than we have in terms of Connected ledger.

So we'll track that going forward, but certainly no warning signs. In fact if anything there could be some very positive interpretations around those by-product trends.

Mark Bryan: (Wilsons, Analyst) Okay, thanks Tim.

Operator: Our next question comes from the line of Entcho Raykovski from Deutsche Bank. Please ask your questions.

Entcho Raykovski: (Deutsche Bank, Analyst) Hi Tim, hi Richard. I've got three. The first one is on the margins in the current year. Just looking at the revenue growth rate that you've achieved and you've guided to for the full year looks to be going quite well, but obviously you're at the bottom end of your previous EBITDA margin range. Has there been an incremental investment made or are you planning incremental investment relative to where you were at the start of the year? Where is that going? Is it in the marketing that you've spent in the first half, or is it in R&D? If you can provide any more colour that'd be useful.

Then secondly, how are you seeing the competitive dynamics in the industry at the moment, particularly with Intuit appearing to push pretty aggressively into the Australian market? Are you seeing that intensify, and I guess linking it back to the first question, does it mean that marketing spend has to step up over time?

My final question is on ARPU growth. Are you expecting a pickup in the second half? I know you put some price increases through back in April and they seem to be in the 8% to 14% range. So is that likely to drive ARPU in the second half?

Tim Reed: Do you want to take the margin one Richard and I'm happy to take the others?

Richard Moore: Yes, can do. Entcho I think it's more of a clarification on EBITDA margins than a material shift. If you look at what we've done in the first half over the last five years it's been in the range of 42% to 46%. You can probably add percentage point onto that for the full year so 43% to 47%.

We've historically given pretty broad guidance and we just felt it was more appropriate that we narrowed it down and pulled it back to say where it's more likely to end up, 45% to 46%.

Tim Reed: In fact I think we have one comment from someone that you could drive a truck through the guidance that we've put out there. We were just trying to be a little more useful.

Richard Moore: Yes. So I think it's consistent with what we've done in the past. Absolutely in the first half we've made some very targeted specific investments in brand that you can see in the presentation have really added value in terms of awareness and preference. So we're very pleased about that. But broadly speaking it's not a shift in strategy; it's just where the business is at in terms of first vs second half.

Tim Reed: So in terms of competition, there's no doubt that this is a competitive market. Having been here 15 years I'd say it always has been. There's always been different competitors who are pivoting in some way or another. For a few years there the competitive set was relatively stable, but if I look back over time there's always been something new that's been happening or somebody who's trying to outmanoeuvre in some way, shape or form, and frankly I think that's very good. I think ultimately it's good for our clients that it remains a competitive market.

You mentioned Intuit in particular. Intuit have been in the market I think for about four to five years now so they're not really a new entrant in the market. We track brand recognition of their products in the market. We have a look at all of the announcements that we make and we certainly review the product updates that are put out there.

Look they're targeting really a very, very low functional user base that they're trying to differentiate by putting mobile first, which is attractive to people who have very few simple businesses and almost that home/office type user. We also see them out doing bulk deals to sell into the channel and we remain aware of those and talk to partners and accountants who have been attracted by that.

There's nothing that we see there again that causes us to feel like we need to change our strategy, but there is I think increased advertising spend across the category and we have been part of that in this first period, and draw your attention to it going forward.

The third part of your question Entcho was around ARPU growth and price increases. So we did put through a range of price increases. We do every year. They were from zero up to - I think there were some north of 10% - but they weren't just the 8% to 14% range you referenced in your question, and we have a look at each of the products. We have a look at the investment we've made in them. We have a look at the feature usage and therefore the value that we think clients are getting from using different products in the portfolio as we go through and make those pricing decisions. The fact that retention rates are up as we've done that to me says that we've probably got those decisions reasonably correct.

For our AccountRight base, the date at which that price kicks in for our subscribers is on the anniversary of the month in which they subscribed. So that does mean that the full effect of that takes 12 months to blend through our revenue, but for all of our other products it happens on the day that we make it effective across the base.

So that naturally means there is a little bit of ARPU growth in the second half, even if prices don't change, but that does then come back to a mix of products new clients are coming in to as well. So those two factors mean that they're probably on net is some upside in ARPU in the second half, but I wouldn't anticipate much.

Entcho Raykovski: (Deutsche Bank, Analyst) Tim, perhaps as a follow-up, so given that - you're right, your base Essentials package didn't go up in price. Are you seeing most of your growth at that level, given that the other packages went up?

Tim Reed: No, I wouldn't say that at all Entcho. In fact we've seen growth in AccountRight, we've seen growth in Essentials and we've seen some growth coming through in our do-it-for-me products. So it's across the board.

We really do price them looking at all of those factors; looking at retention, looking at feature usage, looking at the competitor set out there and seeing where they're priced.

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

Tim Reed: No problem.

Operator: Our next question comes from the line of Rohan Sundram from Citi. Please ask your question.

Rohan Sundram: (Citi, Analyst) Thanks guys. Just one question from me. Do the new client wins in practice management - does that meaningfully impact the growth outlook of the practice business, or are there offsets from lower consulting fees?

Tim Reed: Thanks Rohan. So look we had some great wins in practice solutions in the last six months, but that business is a very, very steady business. The churn rate is very low. Movements between different competitors in the market tend to be small in any given period, but there were a couple of great wins that we did have throughout that period.

So that's - it's not material in any given six month period because (a) it's all recurring revenue and (b) it's across the board not on one product. I don't know if you'd add anything about that mix for the services Richard.

Richard Moore: Yes, nothing really. As I said, we'll continue to see with the majority of the growth within the practice coming from the actual underlying subscription revenue. The other thing that's exciting about the client wins is the opportunity to drive further referrals of our SME solutions. So there's a likelihood we'll see more incremental revenue in the SME business from the wins within practice even than we will within the Practice business.

Rohan Sundram: (Citi, Analyst) Thanks guys.

Operator: Our next question comes from the line of Jules Cooper from Ords. Please ask your question.

Jules Cooper: (Ord Minnett, Analyst) Thanks. Just on the buyback and the rationale, are you able to talk about that in relation to perhaps your confidence around your continued development in the connected practice, and should we be looking at this as you're becoming increasingly confident around the pace of product releases and your ability to deliver that in a timely manner when we think about that buyback?

Tim Reed: Good question Jules. I don't know that I'd say that there's a tight correlation between those two things, but we are thrilled with the release of the MYOB platform and the uptake is usage of the features that are on it. But I think it's more a matter of just sitting back and having a look at the business.

I mean we are a business that creates a lot of cash and we obviously pay out a chunk of that in dividends, but through the period that we've been public we've continued to deliver. When we stand back and look at it as a Board, we believe that we can undertake this; still pay the dividend; look at the inorganic opportunities that are out there, and be able to digest anything that's likely to come along in the next 12 months, and fund the R&D that is needed to drive the performance in the business going forward,

So once we stood back and had a look at all those things and said alright we can do all those things, then we felt our responsibility was to move forward and do them, frankly because again we just have an underlying philosophy that we're not here as a cashbox to sit on shareholders' money. As soon as we feel like it's there and it's clearly available and theirs, that our responsibility is to find an efficient way to get it back to them. It was far more about that, but it was only after having ticked off the fact that we do believe that we can invest what's needed; organic growth and that we could still make targeted acquisitions. That we then said alright we need to return these funds back to shareholders.

Jules Cooper: (Ord Minnett, Analyst) Fantastic. Maybe just then one follow-up. If we assume markets are broadly efficient, when you're contemplating buying back your own stock here, can you maybe talk about the upsides you might see or what you see differently perhaps to what the broader market thinks around things like revenue growth margins or free cash flow generation over the medium term from where we are - I know it's what's imputed into the share price.

Tim Reed: I don't know if that's what a politician would call Dorothy Dixer but I think we've got a sensational business. I just look at slide 7 and just look at those five year trends across our business and it's hard for me to understand why anyone wouldn't want to be a shareholder in our business.

Now I'm not a professional investor. I'm a CEO and my responsibility is to make sure that those charts continue to trend that you can see there, and frankly you and your colleagues' job is to work out what you put on that. But I stand back and look at that and look at growth profiles like that, and I'm a large investor in our business and certainly intend to remain one because I believe it's a great investment. But as I say, I'm the CEO so that's probably what I'm meant to believe.

Jules Cooper: (Ord Minnett, Analyst) Okay, thank you.

Operator: Our next question comes from the line of Sameer Chopra from Merrill Lynch. Please ask your question.

Sameer Chopra: (Merrill Lynch, Analyst) Hi there, just had a few questions around ARPU which was excellent. Could you talk to how you went with the $421. How did it track during the course of the year - uptick towards the very end. Thinking around the second half just on this ARPU and in terms of people who are now signing up to MYOB they own better ARPUs, lower ARPUs, just want to get a handle on that $421 number.

Richard Moore: No problem Sameer, so through the first half - this is a measure that is, as Tim said - it's a pretty simple, recurring revenue divided by the movement in subscribers over a period. The first half it increased consistently every month. That's what we've seen for many years is because we roll the pricing through on the AccountRight product on the month of anniversary you don't tend to see a big uplift in any particular month. It just increases over time, so it's been a very consistent growth. It's fair to say every month is higher than the last.

As I said in the SME summary, we've seen 6% ARPU growth in the period. The vast majority of that being price and a little bit of mix. I think that based on what we've seen in the first half, something similar will flow through in the second.

Sameer Chopra: (Merrill Lynch, Analyst) You would have exited the first half with a number well north of that $421.

Richard Moore: On a pure monthly basis, if you looked at the ARPU in the month only, yes it will be ahead of the $421, because it's an average over the whole six months.

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

Richard Moore: No problem.

Tim Reed: Operator, we're well past the hour. There's two more questions in line, so maybe we'll take those two and close off questions after that.

Operator: Absolutely. Your next question comes from the line of Roger Samuel of CLSA. Please ask your question.

Roger Samuel: (CLSA, Analyst) Hi, morning Tim and Richard, thanks for taking my questions. I've got two. Firstly, just the organic growth in enterprise division. That slowed down to 8% in this half from 10.6% in FY16 and that was despite the headwinds of the transition from Exo to Advance. Can you just describe why or what happened in the first half? What caused the slow down?

Tim Reed: So, let me tackle that one first and then we'll come back to your second one.

Roger Samuel: (CLSA, Analyst) Yes.

Tim Reed: So, the 9.5 down to 8.3, as you can see the recurring in both periods continued to grow at 11.3%. It was the new licence revenue that came down in that period. As we move from selling on-premise perpetual systems to selling our online ERP, we're going to continue to see new licence revenue come down. Most businesses model out the movement from upfront licence to subscription as dipping before you come back through.

So, when we started this we actually expected that the total organic growth in Enterprise would be down in the low single digits. It's only that we're having such strong volume growth that we've been able to keep it in the high single digits despite the fact that we're foregoing that upfront revenue hit that you get with a perpetual licence. I'm actually delighted. When we five years ago started this movement, we thought that it would be considerably slower organic growth in the early years with acceleration at the end, because the recurring revenue for every client that goes onto MYOB is approximately two to two and a half times what the recurring revenue is for every client that takes out a perpetual licence. That's a very good trend and very healthy trend for us.

Roger Samuel: (CLSA, Analyst) Sure and my second question is on the margin by division. I just couldn't find any breakdown by SME and practice and enterprise. Could you give us a feel of the trends in the first half; how they compare against last year?

Richard Moore: So, we don't actually measure the business that way anymore Roger. You'll see in the segment note in our statutory accounts that we've shifted away from those segments used, to looking at SME and practice combined. Really that's on the back of the fact that with the connected practice strategy it's effectively one segment now. You can see in the segment note a combined contribution for SME and Practice, under Clients and Partners. When we used to split them out they were the same. You can look at the year on year movement there. I haven't actually got the numbers in front of me, but I would imagine it's pretty stable. So, we are now reporting the way that we report internally which is much more aligned to how our clients see us.

Roger Samuel: (CLSA, Analyst) Okay thank you.

Operator: Our last question comes from the line of Peter Stamoulis from Evans and Partners. Please ask your question.

Peter Stamoulis: (Evans and Partners, Analyst) Hi, good morning and thanks for your time. I was wondering what your thoughts and expectations are in the accounting as a whole? Are MYOB accounting practices outpacing industry growth and if we see consolidation play out in the space, do your firms stand to benefit or what may be the implications there, just from a practice perspective. That would be helpful, thanks.

Tim Reed: Absolutely, so I think as we look across the industry we see broad trends that practices, and particularly thought leading practices, are starting to broaden the scope of work that they do. Practices have traditionally been very reliant on compliance and we're seeing increasingly more practices and I would certainly say more MYOB practices expanding into transaction processing and also in advisory.

I think that those are trends across the industry and because we have such a large group of accounting practices I think we probably understand industry trends pretty well. In terms of mergers and acquisitions, we haven't seen a material change in those across our client base anyway. They have been happening - mergers and splits have been happening since accounting practices have been around and they continue. We haven't seen anything definitive that says that there's a significant shift where consolidation is occurring and the number of practices is dropping by five or 10% or anything like that.

We do continue to see lots of new practices formed and we see them taking up our software as well as and we see them taking up our software as well as different practices combining to merge.

Peter Stamoulis: (Evans and Partners, Analyst) Okay great and just on the connected practice rollout, could you talk to initiatives for migrating the traditional bank link customers to the online connected ledgers. In the past you've talked to traditional bank link pricing of about $11-$12 a month and that you'd be grandfathering those for a couple of years. Is the new online pricing expected to remain around that $15 per ledger per month? Thanks.

Tim Reed: Yes, so you're absolutely right Peter. We have put that grandfathering in place; that remains in place. Yes, the price is still roughly in that range.

Peter Stamoulis: (Evans and Partners, Analyst) Just lastly, I note you are currently a targeted campaign around AccountRight subscriptions for two years when customers sign up for Paydirect Online. I think you were offering $1 a month for that. In that unique campaign do you see pay direct customers as perhaps underpenetrated in terms of accounting software adoption or perhaps if you could provide some colour around the type of customers that would typically take up the pay direct solution that you're targeting there? That would be helpful thanks.

Tim Reed: Yes, absolutely. You're very tapped into our client base somewhere because we're not running that campaign across the whole business. We actually ran an A/B test campaign to a very small sample just out of interest to see how attractive payments are to winning new clients. So, somehow someone that you've been talking to is part of a very small subset of customers where that test campaign has gone out.

The idea and the logic there is when you see the possible TAM opportunity from payments effectively being as big as the accounting software opportunity then the question is what do we lead with. What's most attractive and compelling as a bundle proposition around leading with pace of the payments and get the accounting software or leading with pay for the accounting software and get the payments for a period of time.

We're really testing a variety of different approaches. In the end we believe once we get clients online and get them on board and using those features they're going to be very sticky. It's really just a different marketing campaign.

Peter Stamoulis: (Evans and Partners, Analyst) Those Paydirect customers would be more the self-employed type, those out on the road with the handhelds devices?

Tim Reed: Not necessarily, no. We're testing it across a range of different businesses. We continue to test marketing campaigns and AB test images, words, offers. We'd be running multiple AB tests continually. We'll trial them across all clients, across different segments, see how they go. We're discussing Paydirect Online, not Paydirect Mobile, just to be clear. It actually has more value to bigger businesses than it does to small.

Peter Stamoulis: (Evans and Partners, Analyst) Okay, thank you for that.

Tim Reed: No problem. My pleasure. So, listen thank you everyone again for your interest. I apologise that we went over time, but we did want to have an opportunity to answer all of your questions. Let me again just say thank you for your ongoing support of our business. We're delighted with the results we've been able to share with this morning and the strong performance that we've had over the last six months and we look forward to catching up with many of you in person over the next couple of weeks. Thanks everyone, have a great day.

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

End of Transcript