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**MARKET RELEASE**

## **MYOB FY17 Results Webcast and Transcript**

To watch a replay of the webcast discussing MYOB's financial results for the twelve months ended 31 December 2017 please click through to the investor centre here:  
<http://investors.myob.com.au/Investors/> under Reports and Presentations. 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. It makes business life easier for approximately 1.2 million businesses and accountants across Australia and New Zealand by simplifying accounting, payroll, tax, practice management, CRM, job costing, inventory and more. MYOB operates across three core segments – Clients and Partners (business solutions to SMEs and Advisers); Enterprise Solutions (larger businesses) and Payment Solutions. It provides ongoing support through 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.

**Company:** MYOB Group Limited  
**Title:** FY17 Results Presentation  
**Date:** 23 February 2018  
**Time:** 10:30 am

## Start of Transcript

Ladies and gentlemen, thank you for standing by and welcome to the MYOB Group Limited 2017 full year results conference call. At this time, all participants are in their listen only mode. Following the presentation there will be 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 key pad. I must advise you that this conference is being recorded today, Friday, 23 February 2018. I would now like to hand the conference over to your first speaker, Tim Reed, Chief Executive Officer at MYOB Group Limited. Thank you. Please go ahead.

Tim Reed: Well, good morning everyone and thank you so much for giving us the time to spend discussing our 2017 results today. I'm here with Richard, and the two of us are delighted to be able to share this with you. We'll quickly run through the deck which you've hopefully all downloaded from the ASX or from our website, and then leave plenty of time for questions from there.

I'll kick off on slide 6, which shows the financial highlights for the year:

- Revenue has grown 12% year-on-year, with recurring revenue up 13%;
- Underlying EBITDA came in at \$190 million, up 11% year-on-year;
- NPATA, our preferred measure of bottom line profits, at \$102 million, up 10% year-on-year.
- NPATA EPS is up 8%.

The Board of Directors, being confident in the financial position of the business, has declared a dividend at 5.75 cents per share which is 66% of the 2H17 NPATA. Of course, through this period we've also been returning capital to shareholders through our buy-back, and indeed we've returned \$170 million to shareholders in total since we've been a publicly listed company.

For me though, the real delight in these results comes in the operating numbers.:

- 618,000 are paying SME subscribers, up 6% on where it was a year ago;
- A massive 60% uplift on the number of online ledgers, we now have 399,000 of these;
- 94% of new clients to MYOB are now taking an online subscription which is up 2 percentage points. It's really getting very close as high as it can because we've still got a couple of areas where we have specific desktop products that the clients are really enjoying. But that trend continuing to build.

Slide 7, which as many of you know I like to call my favourite slide, is a five-year trend across key financial and operating metrics for our business. You can see the sustained performance of our business at the revenue, EBITDA and NPATA lines, with 11%, 12%, and 12% CAGRs.

You can see a growth in recurring revenue such that it's now at 96% of total revenue, the relatively constant high EBITDA margins, at 46% in 2017, and the growth in our EPS.

Across the bottom you can see the CAGR in paying and online subscribers, and the CAGR in online subscribers has now hit 58%, similar to the 60% in the 2017 year. The percentage of new clients coming to MYOB taking an online subscription has also hit an all time high at that 94%.

So, what's driving this performance and what can we expect going forward? We're just moving through to slide 9. I'm not going to talk to this slide, but if you were talking to clients, or trying to go back and recall what we discussed in this conversation, this is really a summary slide. It looks at the strategies that we focus on to create long term shareholder value. Then down the right-hand side talks about where our focus has been this year and what some of our accomplishments in those areas have been in 2017.

I'll skip past it through because each of those bullet points down the right-hand side effectively are the slides through the rest of the deck.

Moving on to slide 10. The growth in online subscribers (and if there's one key metric for a subscription business, it is the number of subscribers that you have) has been driven by a number of things, but there's no doubt that a key driver is our vision of the Connected Practice, which is really resonating with both SMEs and with accountants & bookkeepers, or what we collectively term advisers.

It's been formed by thinking about what mega trends are taking place in society. We believe there are three that are specifically going to change the way that the accounting industry works. We think they are:

1. Artificial Intelligence (or machine learning),
2. Data and Connectivity, and
3. Humans and the nature of work.

On this slide we've explained how those three mega trends are going to change the world for advisers, and how they will change them for an SME.

I've literally this morning been presenting to over a thousand accountants here in Sydney. We're right in the middle of our annual client roadshow "Incite", and we've now delivered seven of the eight capital cities across Australia and New Zealand. The change in the tone of conversation that we're having with our clients because of our vision of the Connected Practice, and the tools that we're delivering, is absolutely palpable, and it is again here today in Sydney this morning.

The way in which we're delivering tools and technology to enable them to live this fabulous future of the Connected Practice is then outlined on slide 11. We call it the MYOB Platform. We're focussing on a technology platform that enables advisers and SMEs to collaborate in real time, allowing an adviser to move seamlessly between the work that used to be done in what we would have called our SME products, and what we used to call our Practice products, such that they can gain maximum efficiency, and data simply appears where they need it to be.

This is a long-term development road map for us. But what you'll see this time compared to six months ago, more of those boxes down the bottom (online practice tools) have moved to the left, which means they're either in market today, or in pilot form being used by clients. There are also more in the middle, those that are under development, and less that are on the right hand side, which are those that we're still exploring when and how we'll start the development of.

Down the right-hand side, you can then just see the continued growth in the usage of the online Practice modules that we have put in market. Across the board as I'm out talking to accountants, the value of what we're delivering is becoming more and more apparent to them. What they really love is the way in which we're building this so that they can adopt those new modules and have them connect in to their existing tools such that they don't lose the productivity and keep one integrated practice system. But they're able to change the way they're working, and over time just continue to migrate one module at a time. It's much better change management for them, delivering ongoing sustained productivity to them.

Moving on to slide 12. In terms of our actual online user growth, on the left-hand side you can see the number of online users we have, broken down into the SME ledgers versus the practice ledgers. Practice ledgers are those that are used

for family trusts, or non-trading entities, or they allow accountants to bring data in from a competitor's product so that they can then still have the one set of productivity tools inside their practice. That's not as efficient as them working on an MYOB product, but it does enable them to meet those client's needs.

On the right-hand side, are the migrations from our desktop products to our online. These are non-paying clients who are actively using our desktop, and the number that we've been able to migrate to online subscriptions. You can see a big step up there, both as a percentage, but also as an absolute number.

We really experimented a lot during this period with this group of clients. We used quite sophisticated target marketing into a very specific micro segment within that group, having worked out what messages will really resonate with them. What are the barriers to adoption? What sort of pricing is attractive to them? We're then able to serve up offers that yielded quite phenomenal results.

We do call out that some of those were price led campaigns, and we run any price led campaign as a 12 or 24-month promotional offer, but then once they get online and start using all of the online services, after than period they'll revert back to full price.

So, while adding subscribers are one of the key factors in building a subscription business, the others are retaining your existing subscribers and continuing to get more value from each subscription. [Slide 13](#) shows those second and third elements. Particularly pleasing is the continued increase in our retention rate. You can see it here up 2 percentage points on a year ago and continuing to build.

Down below it you can see that we've continued to have an uplift in ARPU, from \$406 a year ago, up to \$424 (per year). That's a little bit slower than where it was growing previously, particularly in the second half growth over the first half in 2017. That is because of those sophisticated micro-segmenting that we were doing in our desktop base, and the promotional offers that we put some of those clients to bring on board.

Really, it's a deferral of ARPU increases because all of those promotions, as I said, at some point will absolutely expire. So long as we can drive continued retention rates up, it's a real win for our business. It's a real win for their accountant, and a real win for them as small businesses.

Moving on to [slide 14](#), the usage of our online ecosystem, starting with bank transactions - the number of transactions that we're bringing in through our bank fees into our online ledgers. Smart Bills, that this is the number of invoices that are being OCR'd and automatically entered into the accounting system; and PayDirect online. The number of bills that are being paid by that magic green button that says Pay Now, and we know brings forward the average debtor days from 61 down to single digits.

For an SME those three processes deliver reconciling to the bank, processing your invoices, and processing your bills, (both invoices that get sent to you that need to be paid, and the invoices that you send out to customers). These are the three really core features of an accounting system.

You can see how the technology that we're delivering is delighting clients, and the bank feeds usage continues to grow 35% year-on-year, even in it's fifth year as a feature. 60% year-on-year in Smart Bills in a third year as a feature, and up 100% year-on-year for PayDirect online in the second year.

We've said to you many times that the secret to our success is investing in R&D, so we deliver great capabilities to our clients that enable us to win more clients, continue to drive up ARPU, and continue to drive up retention. [Slide 15](#) highlights one of the exciting things that we've been working on.

It is first being rolled out with Officeworks. Any small business using our online accounting that also has an account with Officeworks no longer needs to enter the bill into their accounting software, they no longer need to even email or take a photo of the bill. We've connected our online accounting platform to the account part of the Officeworks website, such that when a new invoice is created the client can go and see it on the Officeworks website, and it also automatically comes through to their accounting software. They can view a copy of that bill in MYOB Essentials, or MYOB AccountRight.

Not only do the eight key pieces of data (the date, the total on the bill, who the bill comes from, etcetera) come into the accounting system, but every single line item with the individual GST element comes through automatically. This is a real wow moment for anyone who is in our industry. We've got a list of suppliers to small businesses that we're working with right now, such that this isn't just an Officeworks/MYOB thing, and we will expand it out across Australia and New Zealand so that more and more small business bills just get automatically and immediately into their accounting system with them not logging in or lifting a finger.

We're also continuing to invest in Payments. This is the third element of the way in which we drive long term shareholder value which is thinking who can we continue to expand our total addressable market. There's two areas that we've really been focussed on – our Payments and Enterprise Divisions.

You would all be aware that in April this year we acquired Paycorp. We've now rebranded Paycorp as MYOB PayBy. You can go and have a look at our range of services at [myobpayby.com.au](http://myobpayby.com.au). We've got them here on slide 16 as well. We're continuing to invest in expanding PayDirect online, by putting in new payment types. We're expanding it by moving from just Australia to also cover our clients in New Zealand, and we're also looking at new opportunities to continue to build what was the existing Paycorp business, now called MYOB PayBy.

It's early days for us in terms of payments, but we do believe it could be a massive market. In fact, we've sized the total opportunity for payments directly tied to invoices issued by small business at \$1.2 billion. It's unlikely that we'll end up with a 100% market share of that, given we don't have a 100% market share in the online accounting market, but it does just show the total opportunity that we believe exists. We're certainly working very hard to put a compelling proposition to our client to make sure that we catch our share of that opportunity.

Moving on to slide 17. The second area where we've been focussed on increasing TAM is in our Enterprise market. You can see that the number of MYOB Advanced Business Sites has grown again. It's up 83% year-on-year, and we passed 450, not quite at the 500 mark, but certainly continuing strongly. 58% of new businesses that took out an ERP solution with us in the period to MYOB Advanced, and that's continuing to build as we continue to develop the skills in our partner community, and as we continue to develop the features within the MYOB Advanced product.

On the right-hand side you can see where we sit in the ERP market in Australia. Now this work was done by iStart, and you had to volunteer information to be included here. But we have included what we believe are the four main players in the ERP market which all volunteered their information.

The “other” is not perfect information, but it's the only public source of information that we've been able to find and what it shows is relative to Microsoft, SAP, or Oracle what a strong position we have in the ANZ market when it comes to providing growing businesses that mid and larger business market with ERP solutions. We believe we stand alone.

The fifth part of our strategy to deliver long term value to shareholders, is to continue to make strategic acquisitions. We've talked about these in the past. Sometimes they're quite small because they really speed up and accelerate our product development road map. Sometimes they're bigger. Generally, it's because there is a strategic intent often around the client base of the business that we're targeting.

That was certainly the case with the Reckon Accountant Group. We had the opportunity to brief all of you about that at our strategy day last year. [Slide 18](#) is just a restatement of those main points that we made. We're excited about working with this group of accountants because accountants are so fundamental to who we are as a business. We're excited to provide the Reckon accountant with the next generation of online practice solutions which we're already building. We're also excited about what that will mean for their ability to work with their clients.

We know in our business that 50% of new sales of SME software come directly from a recommendation from the adviser. If we look at those that don't then they also influence another one quarter. So, when sales come directly from the SME, the SME tells us that one of the main points in making that purchase decision was the advice of their adviser.

We get far more referrals from advisers that use our practice solutions, which is what this chart in the middle and on the right-hand side says. In fact, they're nine times more likely to refer our SME solutions than those that don't use our practice solutions. So, we're really excited about creating a future for these clients. Reckon have been quite open about the fact that they would not be able to afford to invest in online practice solutions, but we're also excited about what that means to helping these accountants work more efficiently and effectively, work as a connected practice with their clients.

For the first time we thought we'd also share with you a little bit about our team. We are an intellectual property business. Our number one access leaves the building each day and comes back each morning, but it is really their choice to do that and it's their choice to really commit themselves to our passion to helping businesses success.

We've just got a few external data points on [slide 19](#). Our team engagement scores over the last eight years have continued to build up into the right with the highest score we've ever received coming through in December last year. But it's also what they're saying externally. So, you can see there on Job Advisor and on Glassdoor how high we rank.

We are very much a business that is driven by values, and those values really all revolve around and drive towards our vision. At MYOB we help businesses success and it is the passion of our 1500, almost 1600 staff now that come to work each day, the way in which they collaborate using those values, and the way in which they align around that vision that really enables us to have the impact on the lives of our clients, that allow us to deliver these financial results to you.

So, on that note, I'm now going to hand over to Richard who will talk through the financials in a little more detail.

Richard Moore: Great. Thank you Tim. It is great to be here and to run through another set of very strong financial results for our business. I'll take you to [slide 21](#), which is the summary slide of the financials.

On the left-hand side of the slide, you can see high level P&L and we are growing double digit, as Tim said, across all of our key financial metrics for the year.

- Revenue up 12.4% to \$416 million;
- Underlying EBITDA up almost 11% to \$190 million;
- Net profit after tax up 16% to \$61 million; and
- NPATA - as Tim said earlier, our preferred measure of after tax profit because it removes the impact of our acquired intangibles - it's up 10% to \$102 million.
- That's delivered an EPS of \$0.169 per share, which was up 8% on the year.

The next line down, recurring revenue, is a reflection of the quality of earnings for our business. It's up to 96.1%. That's really industry leading across the world, to get to 96.1% recurring revenue and there's not too far for us to go to make it 100%.



Our underlying EBITDA margin was 45.6%. We did note in our first half results, that we would expect to see margins improve back up into the 45% - 46% range and that's exactly where it's come through - a little bit down on last year, but still very healthy in the mid-45s.

I would like to just explain the impact of FX on our revenue. There was quite a material movement in the New Zealand dollar in the second half, relative to the Australian dollar, and that weakness reduced our revenue growth from 13.0% to 12.4%. So at the time we were setting guidance in the middle of the year, if the FX rate had stayed as it was, we would have been at 13.0% for the full year. Impact on EBITDA is smaller because we have a natural hedge in New Zealand because we have 15% to 20% of our revenue and 35% to 40% of our costs, which given our EBITDA margin in the 40s means that in New Zealand we have a natural hedge to the impact on EBITDA.

On the right hand side of slide 21, we've got our segment split. I'll take you through that in a bit more detail, but you can see strong organic growth rates across each of the segments - 10.5% in SME, 2.1% in Practice, 7.5% in Enterprise, giving a total organic growth for the business of 8.3%, which is very much in line with what we've seen across the last two to three years, and including acquisitions revenue growth as we've said previously at 12.4%.

Slide 22 shows our newly created Clients & Partners segment revenue. In the past, we ran our SME and Practice segments separately. With the move to the Connected Practice vision and the building of the single MYOB online Platform, it made much more sense for us to combine the go-to-market teams from SME and Practice into a single Clients & Partners segment. We also combined the support teams in those two segments into another new one, which is our Operations & Service segment which you'll see in our segment note.

So Clients and Partners revenue growth is all organic in 2017 with no acquisitions in this part of the business. On the left hand side of the slide, in SME we're seeing 10.5% revenue growth rate overall, with recurring revenue growing at 11.1% and it's now 99% of SME revenue. So the new software sales, those new perpetual licences have virtually disappeared, which is exactly what we want to see as we move to being a purely online subscription business in SME. So that 11% recurring revenue growth comes from two things - one, the growth in the average number of paying users, which is up 6% - and what really drives that is the 35% increase in our online SME subscribers.

The other part of the 11% is the movement in ARPU. It's about 4% and that's predominantly price, about 5%. That's then offset by two things. One is the mix shift to lower ARPU products, with some of that comes from what Tim spoke around earlier in those specific campaigns that we put into our active non-paying base, and the other is the impact of FX that I spoke about a moment ago with the New Zealand dollar in the second half. So we're really happy with 10.5% organic growth rate in the SME part of the business.

Practice grew at 2.1%. Of that, recurring revenue grew 2.4%. We have talked many times about the Practice side of our business being fully penetrated when it comes to software and really every year its price increase is offset by a very limited amount of client churn. Of the 2.4% recurring revenue growth, the majority of it is subscription revenue which was up 3.4% which is exactly in line with FY16.

The balance of recurring revenue is in consulting revenue and given where we are in terms of our journey in the practice side with building all of these new online practice tools, we are getting less opportunities to go out and implement the desktop, on premise solution that we would have done previously which generate the consulting revenue in our business. So it's exactly as expected and I would imagine when we start really rolling out the bulk of the online practice tools into these practices, we will get the opportunity to increase our consulting revenue again in the future. So that's Clients & Partners, 82% of our revenue and really growing strongly as you can see.

Slide 23 shows Enterprise Solutions - it's a really exciting part of the business. For the last two years the revenue in Enterprise has grown 25%. Obviously there's acquisitions in both years there but even so, the underlying revenue growth rate here, strong at 7.5% in FY17. Again as we have talked about with the other segments, recurring revenue

makes up a large portion of that. It's grown to 82% in Enterprise which is up materially from where it's been in the past and that's because, as Tim showed earlier, we're getting real traction in the sale of MYOB Advanced which is an online subscription sale as opposed to EXO which was a perpetual licence and you can see on slide 23 the new licence revenue actually shrinking year-on-year. It's exactly what we want to see.

You can also see the material contribution that the Greentree acquisition made in the year that was bought, mid-2016 delivered \$6.2 million last year and then an incremental \$9.6 million on top of that to a total of \$15.8 million in 2017. So that's been a great acquisition, has really opened up our channels to market for our larger ERP clients and we're very excited about how Enterprise is going to go in the future.

In terms of our investment, slide 24 shows the split of our operating expenses and cost of goods sold; and we are continuing to invest in sales and marketing, in our brand, in our product and in our support. So 14% growth overall in our cost base year-on-year.

A big driver of that is COGS, at the bottom of the chart, which is up 22%. That's really driven by two things. One is we have hosting costs for all of our online solutions and as our SME business in particular becomes more and more online, we do get higher costs to host those. That's a good thing because ultimately the lifetime value of those online subscriptions is materially higher than the lifetime value of the desktop, so while there's a bit higher COGS, it more than pays for itself in the long term.

The other thing that's changing is that Payments as a segment for us is a higher COGS/lower OpEx model and what that means is as Payment becomes larger for us, we will continue to see COGS grow but we won't see the rest of the expense base grow at the same rate. Broadly speaking, it operates at a very similar margin to the broader MYOB business.

When you take out that 22% increase in cost of goods sold, the rest of the cost base grew at 12% which is exactly in line with revenue growth and if I look at the other categories, our sales and marketing continues to be at 20% of revenue. So we continue to invest more so this year in brand and digital and less so on feet on the street because we have a very large and effective sales force that we're continuing to invest in. We've invested heavily in services and support, that's that segment we spoke about previously that we've put together the support teams from SME and practice into one segment and really investing in technology to drive the best possible outcome for our clients in that area.

R&D OpEx up 12%. I'll get to that on the following slide, and then our general office and admin costs up 13%. There's a chunk of cost in there that comes from acquisitions. If you looked at our business on a like for like basis, it's a mid-single digit G&A growth rate - we do work very hard to keep the business as efficient as possible.

Moving onto slide 25 where we look at our R&D spend, we come in just above 16% of revenue at 16.3%, which is as we guided, we'd be at the upper end of the previously disclosed range of 13% to 16%. The growth rates in total R&D spend is around 20% on the year but that's split 12% in OpEx and 30% on CapEx. That's happened because we are incrementally investing in the MYOB platform. Much of that is yet to generate revenue, therefore we capitalise any increased spend. We have put guidance out which Tim will take us through in a little bit more detail. We do expect, excluding the impact of the Reckon acquisition, R&D to be at roughly 16% of revenue in FY18 and we do expect to capitalise somewhere between 50% and 55% of that total depending on exactly which areas our teams spend time on in 2018.

Then finally our cash flow. We've shown our operating cash flow every time we have reported our results which is the table on the right hand side of slide 26, but we're adding a little bit more colour this year by putting a full cash flow bridge on the left hand side. So just starting on our cash flow conversion, 72% of our EBITDA has flowed through as operating cash flow before financing tax and dividends. A little bit down from last year and that's really because of the increased



capitalised R&D and also higher property plant equipment and other capital expenditure. That's been driven by continued investment in properties. We have opened a great new office in Christchurch and we are doubling the size of our development centre in Cremorne in Melbourne, so we are spending as the business grows to continue to provide the best possible workplaces for our team members.

On the left hand side you can then see the uses of cash below that. We obviously pay interest and tax, but we're really heavily investing in the acquisitions, so that's predominantly Paycorp, and returning cash to shareholders, with almost \$73 million of cash returned to shareholders through the two dividends and the buyback program that we announced with our half year results. So very proud to be able to continue to return a large portion of our cash back to our shareholder base.

Before I hand back to Tim to cover the outlook, just talk you through a couple of slides at the back in the appendix. On [slide 32](#) we have our key operating metrics that we've split on a segment by segment basis. For those of you that have been asking why we stopped showing contribution margin, I put it back in so you can have a look at that. The good news is that that's continuing to be very strong in our main segments.

On [slide 33](#), there's an income statement and a reconciliation between our statutory and underlying EBITDA. Really that's predominantly in our costs that relate to the transaction and integrational costs from our acquisitions and in FY17 that was Greentree and Paycorp.

On [slide 34](#) there's a balance sheet which, given our business is pretty stable, been not a lot of movement, but still very strong and gives us the opportunity to continue to grow

Finally on [slide 35](#), we forecast our amortisation of intangible assets and that is slightly different this year because we've put in an estimation of additions for both our R&D and our PP&E so we've just assumed for the purposes of this calculation only that the capitalised amounts in those grow at 10%. I would ask you not to build that into a model. It's just to show what we believe the amortisation will look like should that occur. The outcome is that we're continuing to roll off the amortisation of acquired intangibles, which are being somewhat replaced by the amortisation of software but broadly speaking, the total amortisation and depreciation is expected to come down over the next few years.

With that, I will hand back to Tim and he will take you through the guidance.

Tim Reed: Excellent. Thanks Richard. So just turning back to [slide 28](#), the guidance is a little more complex this time than usual because we've made statements sort of with or without the acquisition at the Reckon Accountants Group assets. We are confident that that will proceed and our lawyers have given us every reason to be confident, but regulators are regulators so we thought in the interests of being prudent, we will give you both sets of guidance there.

So number one, we do expect in FY18 that the Connected Practice vision, together with the development of the MYOB Platform, will continue to accelerate our online subscriber growth. In terms of revenue, we expect that organic revenue will remain in the 8% to 10% range and EBITDA margins will remain in those mid-40s. We've put here 43% to 45% as the likely landing place. R&D spend will be again approximately 16% of revenue and we will continue to pursue growth and investment opportunities while maintaining capital efficiency.

Then down on the bottom where there's two lines where there's a difference with the Reckon Accountants Group. With the Reckon Accountants Group, revenue growth is more likely to be in the 14% to 16%. So that 6% uplift being the revenue that we get directly from those clients. EBITDA margins will be down because as we said at the time, we will be reinvesting all of that EBITDA to really improve the relationships we have with those clients, knowing that in the long run they will be very profitable relationships for us.

On the right hand side, you can see with the Reckon Accountants Group, the acquisition transaction and integration costs, as we announced at the time, would likely be \$50 million. We think that in 2018 about \$15 million to \$20 million of that will be deployed. Obviously these are all based on our Q2 expectation of regulatory approval. There is every chance that the regulators will still approve but may take longer in their decision-making but this is the best perspective that we have at the moment which is still around a Q2 approval.

Then in terms of our longer term perspective here, on slide 29, we think that there are many areas for us to continue to not just deliver value today but significant upside potential going forward. Right there at number one, we are confident that we are on track to cross a million online ledgers by 2020. We have been out talking to accountants and talking to small businesses, building the capability inside our business. That just gives you sort of a medium term perspective on how we continue to see the acceleration in our business.

I won't go through all of the bullet points on the right hand side just in the interests of time because I do want to open up for a few questions in these last 15 minutes, but what you should read into this is certainly increased confidence from us and increased confidence from our Board with the declaration of the dividend and continued capital management program.

So with that Operator, I might hand back to you to open up for questions.

Operator: Certainly, thank you very much. 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 keypad and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Once again, it's star one to ask a question. Your first question comes from the line of Entcho Raykovski from Deutsche Bank. Please ask your question.

Entcho Raykovski: (Deutsche Bank, Analyst) Hi guys. I've got a couple of questions on the guidance and then one on the SME migrations. So the first two, firstly around your margin guidance into next year, what are the additional areas of spend which are driving margins slightly lower, particularly given that R&D guidance is still sitting at that circa 16% mark? Is it COGS again which is driving that down? If you could expand on that, that'd be great. Secondly, if we're looking at the revenue growth guidance, do you expect a similar sort of contribution from the various segments with SME driving the growth or do you expect payments to have a much greater impact? I suspect payments will be an uplift but I'm just interested in your thoughts.

Just finally looking at slide 12 and that uplift to SME migrations, just interested in your views on whether you're effectively expanding the market with that uplift or whether some of those migrations were previously going to competitors.

Tim Reed: Great Entcho, thanks for the questions. I think we've got them all down here so Richard and I will tag team a bit on answering them. I think the first one was just around what areas in the business are we investing more in and the answer is we're investing across the business, but certainly the largest part of that is going into sales and marketing. COGS will be a part of it as well. We continue to work with our vendors on COGS as much as we can, but sales and marketing will be the largest recipient there.

I think the second question, Richard, was around...

Richard Moore: Organic revenue growth?

Entcho Raykovski: (Deutsche Bank, Analyst) Revenue...

Richard Moore: Yes, so Entcho the 8% to 10% is organic, so that's what we're expecting from SME, from practice and from enterprise before any acquisitions. On top of that we will get some year-on-year benefit from payments, because

Paycorp was a Q2 acquisition this year so we'll get a full year from it and we are expecting it to accelerate. Then obviously on top of that is whatever revenue we do get from the Reckon acquisition when the approval comes through.

Entcho Raykovski: (Deutsche Bank, Analyst) Sure.

Tim Reed: Then on SME migrations, I might take that one. So is that expanding the market or were these customers going to competitors I think was your question, Entcho.

Entcho Raykovski: (Deutsche Bank, Analyst) Correct.

Tim Reed: Look, it's difficult to know exactly but I suspect it's an expansion of the market in the vast majority of cases. So these are clients who bought desktop software some time ago, have been using it for some time and as we went out and segmented the market, we found there was a group of them who are very open to particularly their bookkeeper or accountant moving them online, but there's a challenging conversation for the accountant or bookkeeper to have around price.

What we really wanted to do was ease that conversation and so it's where there's specifically a large number of files in a very small set of contact points for us and you know, we do have competitors who have been going around offering special offers in these areas and we felt it was worth us going out and working with those partners. Because by far the easiest thing is to move them to our products online, given they've been using our products to date on the desktop. So I suspect it was an expansion of the market, but I do also think that we're taking away opportunity that some of our competitors have been targeting.

Entcho Raykovski: (Deutsche Bank, Analyst) Got it and just from a product perspective, is it primarily Essentials that they're taking up?

Tim Reed: No, it's both. So it's certainly a good number that are taking up AccountRight.

Entcho Raykovski: (Deutsche Bank, Analyst) In terms of split, are you willing to provide that?

Tim Reed: It would be more than 50% on AccountRight. I don't know the exact per cent but...

Entcho Raykovski: (Deutsche Bank, Analyst) Got it, okay.

Tim Reed: ...it'd be more AccountRight than Essentials.

Richard Moore: Which is what you'd expect, Entcho, given they're on AccountRight today if they're non-paying desktop. So it's an easier migration for them.

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

Richard Moore: You're welcome.

Operator: Your next question comes from the line of Michael Peet from Goldman Sachs. Please ask your question.

Michael Peet: (Goldman Sachs, Analyst) Morning Tim and Richard. Just on that migration spike and you mention the ARPU just dropping price a little bit to standard to promote but should we expect that sort of for next gen? I'm just trying to get a feel for what sort of ARPU growth we should have 2018?

Tim Reed: Richard, do you want to talk about ARPU...

Richard Moore: Yes can do. So we haven't guided specifically on ARPU growth, Michael, but obviously you can see the broader guidance that we're putting out there in terms of revenue growth which we're saying from an underlying standpoint would be pretty much in line with the 8% to 10% we've seen over the last three years. So I think the key thing here is that these are programs that we're running that previously wouldn't necessarily have migrated at all because we've been quite sophisticated in the segmentation of the work that's being undertaken to find those users where price really will help drive a decision that probably would have left them on the desktop otherwise.

So there may be a small impact to ARPU, but ultimately this is incremental revenue to MYOB and in the long term as Tim said earlier, these prices only stick for a year or two and then they'll come back up much more to what the sort of standard - the standard book price. So yes, small impact to ARPU but bigger, positive impact to revenue and lifetime value I think.

Michael Peet: (Goldman Sachs, Analyst) Does that mean we should expect churn to go up as those potentially some of those are going to leave in is it 12 month contract or how does it work?

Tim Reed: Look, there's been a variety of offers into different segments. So there's some 12 and some 24 months. We did actually run a very small trial of this the year earlier and the reason that we expanded that was because the churn did not go up much. In fact, against all of our expectations, the churn behaved in a manner very similar to the overall client base. It was marginally higher, so there was slightly more churn, but it was largely very similar to the overall client base.

Michael Peet: (Goldman Sachs, Analyst) Can you give us a feel for what you're planning on this? So with the ATO single touch payroll, bigger SMEs are switching in 1 July, I mean I don't imagine many of them are non-paying but is there much strategy that you're targeting there? Do you think you'll get many conversions?

Tim Reed: Yes, so look, we've got a - we - (a) our products are already for single touch payroll, we've been working very proactively with the ATO; (b) we will be going out to all clients where we know that they are over 20 employees and there are still some of them on the desktop, but you're right, not many. Most of them would have already moved online. So we will be sort of putting a comprehensive program in place, but I don't expect at this point it will lead to a material change in the trajectory of sort of adding new subs or moving more online.

Where the real potential for single touch payroll is 12 months down the track. If the government chooses to, as they've said they will, make it compulsory for all businesses, then there absolutely will be an opportunity for us there to go back into all of those clients who are still on desktop products that are using payroll and then they will be required at that point in time to move to a single touch payroll compliant solution. They won't be required to adopt technology but they will be required to adopt or to comply with single touch payroll which will be very, very onerous if they don't use technology to help automate that process.

Michael Peet: (Goldman Sachs, Analyst) Just lastly on the margin guidance excluding Reckon, 43%, 45% obviously, is this is the new normal or do we expect some jaws to open up at some time in the medium term on the business?

Richard Moore: I think it's the new normal for a few years, Michael. We are confident that in the longer term, the strategy of the business will allow us to go back to a point where we have the margins we've been at over the last five years but certainly right at this point in time, we know that we need to invest. It seems like the perfect opportunity to invest for growth and that's what we're going to do.

Michael Peet: (Goldman Sachs, Analyst) Great, thanks Tim and Richard. Cheers.

Tim Reed: No problem. Thanks Michael.

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

Rohan Sundram: (Citi, Analyst) Hi Tim and Richard. Just a couple of questions. Can I just confirm that the Reckon integration spend or the transaction cost of \$15m to \$20m, is that in the guidance for 41% to 43% or is that a significant item?

Richard Moore: The reason we've used the word specifically in there, if you look on slide 33, Rohan, is that it will be classified as acquisition transaction and integration costs which go between our underlying and our statutory EBITDA, so it's not in the guidance.

Rohan Sundram: (Citi, Analyst) No that's fine. Thanks for confirming and how is that \$15m to \$20m - do you still feel you're on target for a total of \$50 million spend for that integration fund?

Tim Reed: Yes look, because the regulator has improved, we actually haven't been able to spend any more time really in digging into what will be required than we had when we last spoke. So we do think that that's the right number, but to be honest with you, it's no firmer than it was when we originally announced the acquisition.

Rohan Sundram: (Citi, Analyst) Okay thanks. Thanks for that.

Richard Moore: Thanks Rohan.

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

Mark Bryan: (Wilson's, Analyst) Morning Tim, morning Richard. I also wanted to dwell on slide 12 if we can. That strikes me as the - as a step change in the business we've learnt this morning. Just in terms of the migration activity, I'm assuming that given it's proving successful, that that will carry on this year. Could you please remind me of the size of the pool of active non-paying customers that you have and secondly, can you just help me understand how I read those two charts? So net cloud adds in the second half of 2017 stepped up a lot to 47,000 but the migrations coming in are 57,000. I'm assuming I'm not reading that correctly because I'm imagining there's a split. Where I'm heading is to try and understand I suppose the split of SMEs coming in, new formed SMEs versus existing customers for you. Thank you.

Richard Moore: Yes, it's old net versus gross adds, Mark. So...

Mark Bryan: (Wilson's, Analyst) Right...

Richard Moore: Let me answer the second half of your question first. If you do the net versus gross over the last 12 months, you'll see when you apply the churn rate to the total paying user base, that we've added in the range of 140,000 to 150,000 gross SME subscribers in the year. So that's online plus desktops, to get to the 618,000 closing number. The gross rate has been very similar in the last two years. We've always said in the past it was about, you know, 100k, 110k new and 40k-ish migrations. Obviously migration has gone up, which means there is a slightly lower new number.

From our standpoint, where we're seeing that is in the do-it-for-me space. So as BankLink comes towards the end of its life and gets replaced by the Connected Ledger, we're seeing a lower net movement across that. We're seeing pretty much the same gross rate in Essentials and AccountRight to new clients as we've always seen and we truly believe that as Connected Ledger continues to get features built into it, that we will get those new clients accelerating back up again.

In terms of your first question, you can work it out from the column - 57,000 was 10% of the average base that was available in the year in 2017. I'd say 570k was the average. It's obviously come down because we've migrated 57,000 of them so there's probably about 0.5 million of those that are still available for us to migrate in the future.

Mark Bryan: (Wilson's, Analyst) Yes okay and work that out, okay yes, I get that. That's good. Thank you.

Richard Moore: No problems.

Operator: Your next question comes from the line of Tom Beadle from UBS. Please ask your question.

Tom Beadle: (UBS, Analyst) Hi guys. Thanks for the questions. I've got two if that's all right. First one is just one R&D. How should we look at this beyond FY18? Is 16% of sales a reasonable assumption and just confirming, the 50% to 55% that you expect to capitalise, should we expect a similar capitalisation rate in future years or does that change shape as more of your products that you might be capitalising now start to generate revenue? So that's the first question and then secondly, more a high level question just on medium term subscriber growth. So you're calling out that you're on track to a million subs by 2020 and you've called out this could be due to an expansion of the market. So I'd be interested to understand your assumptions behind getting from that 400,000 or so today to one million in three years' time. Has your outlook for your TAM changed at all?

Tim Reed: So let me take those one at a time and Richard, by all means jump in. So we do think 16%, again in the immediate future is the right number for R&D. We do believe as we continue to expand the new modules we're working on, it's likely to be that 50/50. There will be a point in time, if you think back on that slide of the MYOB platform, slide 11, as more move from the right over to the left in that profile will at some point in time start to move back because once things are released into market, we start expensing those but for the next couple of years at least, there's still some modules that we haven't started on, so it's quite likely that it will be in that 16% and roughly that 50/50.

The second part of your question was...

Richard Moore: It was around the is it market expansion that allows us to get to a million.

Tim Reed: Oh yes. So back on slide 12, you can see the trajectory there that it's building and what we do believe is when you look at the SME market, that that is somewhere in the vicinity of sort of 40% online. Now we know that it's about 75% have an accounting solution, so there's still more opportunity to migrate clients online as well as bring those new SMEs immediately online. So that's expansion because we're going back into that installed base and we also think that there's a great opportunity for our practice ledgers. While they are a part of the subscription that we sell for the practice solution, they're a very important indicator because it shows that the accountants are moving fully online and moving online with us. So it's those two underlying things that clearly we've got to go faster than the 93,000 that was added in the second half to get there but to be honest, it's not a lot faster than the velocity that we've currently got.

Tom Beadle: (UBS, Analyst) Okay great, thanks.

Operator: Your next question comes from the line of Jules Cooper from Ord Minnett. Please ask your question.

Jules Cooper: (Ord Minnett, Analyst) Morning Tim and Richard. Just two questions from me. On the online SME sub growth which a few people have talked about, can you give us maybe a sense for the split between the connected ledger, whether that has bank feeds or not but just effectively the old BankLink product and then your DIY accounting products and just whether - just to the point that Richard made, that you haven't seen much change in your AccountRight Live and Essentials new subscriptions. Just if you could maybe talk about what your expectations are for the DIY accounting products in terms of new subscribers over time? That's question one.

Then question two, which is on the practice side, 2% organic growth, you've said primarily driven by ARPU. Could you maybe clarify what the average ARPU increase was in the period, just so we can understand the mix between price and volume in that division?



Tim Reed: Yes. So on the DIY do-it-for-me mix tools, again, sort of getting back to slide 12 there, but look the bottom line is Essentials and AccountRight continue to perform really strongly for us and we're happy, very happy, with the progress that we're making there and the movement from BankLink online did start to pick up in 2017. I think by the end of the year we had about 10% of the clients that we've migrated over the previous period, so the cumulative number, but we think there's more of that to come and again our confidence in the acceleration of these numbers, those - is partly based on the fact that we know that there are more practices who are making the move, more practices that are happy with having made that move and so on.

So there's - the results have been predominantly through Essentials and AccountRight and we believe that that - they will continue and layering on top of that, there's the do it for me product Connected Ledger will be adding to that going forward.

The second part of your question was around the practice solutions. So the trend there has been roughly the same, where price has been up in the order of sort of 4% and then there's a mix shift down. It's more to do with the number of people employed in practices because we charge per seat than it is churn of practices. So what we're seeing is a mild contraction across the industry just in terms of the number of staff that people have at the practices.

Jules Cooper: (Ord Minnett, Analyst) Okay, excellent. Thank you and maybe just one further while I've got the floor. Just the headcount, I can't sort of find anywhere where you've talked about the headcount number but are you able to give us a sense for where the business is at and maybe how the headcount is split across some of the key functions? I think you used to disclose that. I'm not sure if I've overlooked it or...

Richard Moore: Yes, it's probably somewhere in the annual report Jules, which we also release today. So there will be a bit of content in there. We're over 1500 now. The biggest group is in our development team. There's about 450 there, about 400 in sales, about 400 in support and then the balance in other head office functions. So it's reasonably consistent in terms of the percentage mix outside of the fact that the product team is growing faster than anywhere else.

Jules Cooper: (Ord Minnett, Analyst) Excellent and one last one, Richard. Just on tax paid in next year, should we expect that to start to go towards 100%?

Richard Moore: Yes, so we'll be in a tax paying position in the second half of this year, Jules. So in 2019 you can expect pretty much expect the tax that will be in the P&L to be what the cash flow is.

Jules Cooper: (Ord Minnett, Analyst) Great, thanks.

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

Roger Samuel: (CLSA, Analyst) Morning guys. Just two questions from me. First one just on the online practice ledgers, can you give us some idea of the ARPU under the online practice ledgers and how many left on desktop in your practice solutions? The second question is on SME subs and it looks like the desktop paying numbers declined quite significantly in the second half of FY17 and I'm just wondering if that's the migration of BankLink to its online?

Tim Reed: Yes. So on the first one there Roger, the practice ledgers. Practice ledgers are bundled as a part of the subscription that an accountant pays to Accountants Office or Accountants Enterprise. So the revenue is some portion of the revenue that is charged for that suite, but we charge that suite by the number of users rather than by the number of ledgers. I think the second part of that question was how many are on the desktop. The answer is we don't know because the way in which the licensing works for the desktop products is that it restricts the number of people who can log into the system, but it doesn't restrict the number of ledgers they can create. So I think there's a large number and a large pool that's available out there to us, but I can't give you an exact number.

The second question was...

Roger Samuel: (CLSA, Analyst) Was the drop in paying non-online SME in second half.

Tim Reed: Right. So paying non-online - so what we call active non-paying clients - I'll get my head around this. There's two reasons why that would contract. One because we get them to convert to being paying and obviously we had an uplift in that which is that 57 and the 10% conversion rate during the period and the second would be because they turn off and stop using. That has been running very consistently over a long, long period of time in the sort of high single digit rates. It's about three or four percentage points below the death rate of businesses and there's been no change in that trend.

Roger Samuel: (CLSA, Analyst) Thank you.

Tim Reed: We're going to have to end it there Operator, because we're seven or eight minutes over and Richard and I both have other appointments throughout the day, but let me thank everybody who's been on the call. Thanks for your continued interest in our business, thanks for your continued support of the business and we look forward to catching up over the days ahead. Thanks everyone.

Richard Moore: Thank you.

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

**End of Transcript**