

MYOB announces half year results for the six months ended 30 June 2018

Record Growth in Online Subscribers – On Track to Reach 1 million by 2020

MYOB Group Limited (MYOB, ASX: MYO), a leading provider of online business management solutions to Australian and New Zealand businesses is pleased to announce its half year results for the six months ended 30 June 2018.

Highlights

- Solid half year financial results delivered during investment period; Revenue and underlying EBITDA maintaining growth, up 7 per cent and 3 per cent respectively year on year
- Strong operational growth with online subscribers surging to 492,000, up 61 per cent on prior year and on track to reach 1 million in 2020
- MYOB Platform delivery is accelerating, with new online tools released to market across compliance, tax and advisory in 1H18; MYOB awarded #8 in AFR's Top 100 Most Innovative Companies list
- Lifetime value of SME subscriber base continues to strengthen through improvements in online subscriber numbers, ARPU and retention rates
- Proactive capital management, with dividend and share buyback delivering \$69 million of capital returned to shareholders in 1H18
- Accelerated investment strategy in place to drive online growth; FY18 – FY22 guidance reaffirmed

Financial Summary

Revenue for the six month period increased to \$218.5 million, up 7 per cent on the prior year and underlying earnings before interest, tax, depreciation and amortisation (EBITDA) grew to \$92.7 million, up 3 per cent on the prior year. MYOB's preferred measure of after tax profit, NPATA¹, was \$45.6 million, 6 per cent lower than the prior year, with associated NPATA earnings per share of 7.7 cents, 5 per cent below prior year due to higher costs under the investment period.

Key Financial Metrics A\$m; 6 mths ended 30 June	1H18 \$m	1H17 \$m	YoY % change
Revenue	218.5	204.0	7%
Underlying EBITDA	92.7	89.6	3%
NPAT	25.3	28.3	(10%)
NPATA	45.6	48.5	(6%)
NPATA EPS (cents)	7.7	8.1	(5%)
<i>Recurring Revenue %</i>	<i>96.3%</i>	<i>96.0%</i>	<i>0.3%</i>
<i>EBITDA Margin %</i>	<i>42.4%</i>	<i>43.9%</i>	<i>(1.5%)</i>
Number of online subscribers ('000)	492	306	61%
Number of Paying SMEs ('000)	631	601	5%
SME ARPU (\$)	430	421	2%

¹ MYOB considers NPATA (net profit after tax and after adding back the tax effected amortisation expense related to acquired intangibles), rather than NPAT, to be a more meaningful measure of after tax profit due to the large amount of non-cash amortisation of acquired intangibles that is reflected in NPAT.

Tim Reed, Chief Executive Officer:

“The first six months of 2018 has seen exceptional growth in our online subscriber base, reaching almost 500,000 online subscribers. This growth demonstrates that SMEs and accountants have embraced our Connected Practice vision for the industry and recognise the role we play to help their businesses succeed.

The continued momentum in online subscriber growth, including both newly formed SMEs and migrations from our non-paying subscriber base, supports our decision to accelerate investment in the MYOB Platform, which features industry-leading online tools, real time data feeds and automation delivering greater efficiencies for small business owners and their advisers.

The first half of this year saw advancements in our online tools released to market, with a focus on compliance, tax and advisory. This included the launch of MYOB Advisor, which uses AI and Natural Language Generation alongside financial data visualisations, to enable accountants and advisers to start a conversation with their clients and support their clients’ business needs and financial position. This innovative technology enables advisers to play a more integral role in the lives of their clients, beyond servicing compliance and transaction needs.

It is exciting to see our investment yielding results for our clients and with our commitment to invest further for future growth, we are looking forward to this momentum continuing to deliver long term value for our clients and shareholders.”

Capital Management

The Company’s balance sheet remains strong and as a reflection of the Board’s confidence in the growth trajectory of the business, the Board has declared an interim dividend of 5.75 cents per share, representing a payout ratio of 75 per cent of 1H18 NPATA.

As previously announced on 24 August 2017, MYOB initiated a share buyback of up to 5 per cent of the Company’s issued capital. Since then, MYOB has acquired more than \$38 million in shares up until the close of 1H18, with the buyback arrangement coming to an end on 7 September 2018. Together, the dividend and buyback represent a total of \$69 million of capital returned to shareholders in 1H18, and more than \$238 million returned to shareholders since listing in 2015.

Justin Milne, Chairman:

“MYOB has delivered a solid set of half year results. The growth in online subscribers of 61 per cent year on year has been outstanding.

This growth trajectory supports the Company’s decision to advance its investment plans, and to achieve its target of 1 million online subscribers by 2020.

It is also pleasing to see continued growth in MYOB’s two expansion segments, Enterprise Solutions and Payments, contributing 17 per cent to total group revenue in 1H18.

Additionally, the return of \$69m in capital to shareholders in the period is a testament to the Board’s confidence in the business and MYOB’s commitment to delivering value to its shareholders.”

Investing for Future Growth

As previously announced, MYOB has embarked on a strategic plan to accelerate its investment in R&D and sales & marketing to leverage growth, capture market share and achieve its target of 1 million online subscribers by 2020. *For further details, refer to ASX announcement (31 May 2018) Investing for Future Growth.*

In summary, the Company's 2018 – 2022 investment plan comprises of:

- **\$50 million MYOB Platform R&D acceleration** over the next 2 years to bring forward the delivery of MYOB's online platform. This investment will bring new online Adviser and SME solutions to the market more quickly and will allow MYOB to retire legacy solutions.
- **\$30 million Sales & Marketing investment** over the next 2 years to increase the size of MYOB's Adviser sales team and maximise the impact of the accelerated platform delivery by increasing the rate of referrals from the Adviser base of accountants and bookkeepers. MYOB will also invest further marketing spend over the next 2 years to support direct SME sales.

MYOB continues to provide leading solutions that enables our clients to manage their business efficiently, and importantly remain compliant within the evolving regulatory environment. To this end, MYOB has commenced notifying clients that it will no longer provide features, patches, compliance updates or product support for AccountRight Classic desktop (v19) as of 30 September 2019.

Other legacy products will be retired as the MYOB platform is built out over the next 3 years.

Guidance: Reaffirming FY18 and Beyond

As in prior years, revenue growth and EBITDA margins are expected to be higher in 2H18 than 1H18. Full year 2018 revenue growth is expected to be > 8 per cent.

Measure	Past 2016 - 2017	Current Year 2018	Investment period 2019 - 2020	Target 2022
Organic revenue growth	----- High single digit % -----			
Research & development ¹	15.1% - 16.3%	<20%	<20%	<16%
Underlying EBITDA margin ²	45.6% - 46.3%	42% - 44%	>40%	>45%
Free cash flow ³	\$125m - \$130m	>\$100m	>\$100m	>\$200m

Note 1: Total R&D (opex + capex) as a percentage of revenue

Note 2: Underlying EBITDA as a percentage of revenue

Note 3: Statutory EBITDA less net working capital and capex

Segment Revenue Performance

	1H18	1H17	YoY % change
Clients & Partners: SME	135.6	126.4	7%
Clients & Partners: Practice	43.9	43.5	1%
Enterprise Solutions	33.7	30.6	10%
Payment Solutions	4.0	2.3	75%
Group	1.2	1.3	(2%)
Total Revenue	218.5	204.0	7%

Clients & Partners

(82 per cent of total revenues)

Revenue from SME products grew by 7 per cent compared to the prior year. Growth was primarily due to an uplift in SME recurring revenue of 8 per cent, representing 99 per cent of total SME revenue in 1H18.

SME recurring revenue growth was driven by:

- Average Paying users growing 6 per cent, which was driven by a 32 per cent year on year increase in online SME subscribers (from 257,000 to 340,000), an increasing rate of migrations from active non-paying to paying online users and a record 83 per cent retention rate.
- ARPU growing by 2 per cent year on year to \$430 in 1H18, impacted by price-led migration campaigns in 2H17. ARPU growth expected to be >3% for FY18.

Revenue from Practices grew by 1 per cent, slightly below 1H17. Recurring revenue was up 2 per cent, which is in line with 1H17 and driven by a 3 per cent growth in subscription revenue, offset by a reduction in services due to uncertainty around the Reckon transaction. As new online modules continue to replace desktop sales opportunities, MYOB saw a 33 per cent decrease in desktop software sales.

During 1H18, MYOB launched a number of innovative new products and connected services to SMEs and Accountants, including the release of new Compliance tools such as Online Assets in Client Accounting, plus enhancements in Online Tax, Portal, Dashboard, Essentials, Connected Ledger and MYOB Advisor. Key updates include the addition of capturing rural quantities, single touch payroll, enhanced security and new payment functionality (BPay).

Enterprise Solutions

(15 per cent of total revenues)

MYOB Enterprise Solutions continued its strong momentum, delivering organic growth of 10 per cent in 1H18 compared to 1H17. The number of sites for MYOB's online ERP solution, MYOB Advanced, increased by 57 per cent on the prior year, reaching more than 500 sites at the end of 1H18. Organic recurring revenue growth of 11 per cent was driven by continued strong uptake of MYOB Advanced, with Advanced Business sales continuing to make up more than half of MYOB ERP sales in 1H18 (58 per cent). New licence revenue grew by 7 per cent with continued strength in Tier 2 PayGlobal and Greentree products.

Payment Solutions

(2 per cent of total revenues)

Payments Solutions revenue for 1H18 was \$4 million. This revenue represents six months of revenue from the Paycorp acquisition (rebranded MYOB PayBy), compared to 3 months in 1H17. Separately, revenue from MYOB's online invoice payment solutions, integrated within the SME online software, is accounted for within the SME Revenue in Clients & Partners. This grew organically by 91 per cent in 1H18 as the number of merchants and transactions continued to climb, boosted by the introduction of BPay in late 1H18.

Further information and web conference details

The MYOB ASX release should be read in conjunction with the corresponding MYOB Interim Financial Report and 1H18 Investor Presentation. All documents are available on the MYOB Investor website: <http://investors.myob.com.au/Investors/>.

A live webcast and conference call will be held at 10.00am (AEST), and can be accessed via the following the link <http://webcast.openbriefing.com/4576/>. Playback facilities and a conference call transcript will be made available on our investor site.

Dial in details

Conference Call ID: 1597465

Country	Number	Country	Number
Australia toll	+61 2 8038 5221	Japan	0120 994 669
Australia toll free	1800 123 296	New Zealand	0800 452 782
Canada	1855 5616 766	Singapore	800 616 2288
China	4001 203 085	United Kingdom	0808 234 0757
Hong Kong	800 908 865	United States	1855 293 1544
India	1800 3010 6141		

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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. MYOB has been awarded the Top 8th innovative company in Australia and New Zealand by the [Australian Financial Review's 2018 Top 100 Innovative Companies](#). For more information, visit <http://investors.myob.com.au/Investors/> or follow [@MYOB](#) on Twitter.