ASX Announcement **27 August 2018**

MYOB 1H18 Results Webcast and Transcript

To listen to a replay of the webcast discussing MYOB's financial results for the six months ended 30 June 2018 please click through to the Investor Centre here: http://investors.myob.com.au/Investors/

A transcript of the webcast follows.

Enquiries:

Investor and Analyst Enquiries

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

Natalie Barrington
Investor Relations Manager
T: +61 2 9089 9185
M: +61 404 307 006
nat.barrington@myob.com

About MYOB

MYOB Group Ltd (ASX: MYO) is a leading provider of online business management solutions. It makes business life easier for approximately 1.2 million businesses 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.

Company: MYOB
Title: Half Year Results
Date: 24 August 2018
Time: 10:00am AEST

Start of Transcript

Tim Reed: Thank you, operator and good morning, everyone. It's Tim from MYOB here and I'm joined by Richard. The two of us are really pleased to be with you this morning and thank you for taking the time to review our first half 2018 results together. It's been an exciting time for our business and I'm sure many of you have already downloaded the presentation and had a look at that, so over the next half hour or so we'll try and put some context around the performance and then leave plenty of time for any questions at the end.

We'll kick off though by turning to **slide 6** of the results presentation which goes through the key highlights. The big one for us, and the thing that we were most pleased with in the half, was the strong growth that we had in online subscribers, up 61% on where it was 12 months ago, just closing in on half a million online subscribers and well and truly tracking toward that goal of having over a million subscribers by 2020.

Down the left-hand side of the slide you will see the key financial results. Our revenue came in at $218 million for the six months, up 7% year-on-year. Our recurring revenue was up 8% year-on-year and that makes up 96% of the total. We always have a slight first half, second half skew and those of you who have flicked ahead will see that we've confirmed our guidance for a revenue of 8% and above for the full year.

Underlying EBITDA came in at $93 million, up 3% year-on-year and as we go into the presentation we'll talk about some of the accelerated initiatives around the delivery of the MYOB platform and our sales & marketing initiatives that meant that EBITDA grew slightly less than revenue. NPATA came in at $46 million, down 6% year-on-year. The main difference between the underlying EBITDA and the NPATA being the increased amortisation of capitalised software that has been capitalised in the past and is now starting to roll through the P&L. On an EPS basis, that means NPATA was down 5% to $0.077 per share.

Moving onto **slide 7**, this puts a frame around our performance for the last six months, and you can see the purple line which has, over the last two years, built solidly period on period on period. Such that now over the last 12 months you can see we've added 186,000 online subscribers, well and truly leaving a couple of competitors behind and closing in on becoming the number one provider of online accounting in Australia and New Zealand. Which is something that we've been working towards for a number of years and this period has been one of continued performance on that key metric of making sure that we are building the client base for the future of the business.

Moving onto **slide 8** and closing out on the highlights of the period. As many of you would know, we terminated our engagement with Reckon to purchase the Reckon Accountants Group a couple of months ago, and at that point in time confirmed that we were going to continue with the acceleration that we shared with you at our strategy day last November. That was in two parts:

- Firstly $50 million towards the MYOB platform, which is really building out the platform that will enable our vision of the Connected Practice, reimaging the workflows for small businesses and their trusted advisors, really streamlining that end-to-end process. As we get into the presentation we'll have a talk about some of the elements that we have delivered in the period, but of that $50 million, $4 million of it was deployed in the first half of this year.

- In terms of Sales & Marketing, that was a $30 million uplift that we would spending over the next couple of years to increase the size of our sales team and also to lift our marketing presence in the market, along the parameters that we previously discussed of making sure that we maintain sales productivity and that our CAC Months remain within the guidelines provided. As we go further into the presentation we'll give you an update on both of those metrics, but in short, everything is travelling as we expected. We have deployed $3 million of that extra $30 million and today we're very pleased with the results.

So just moving into a little more detail, **slide 10** goes through our long-term strategy which remains unchanged. Our vision is to help businesses succeed and through that we believe that we will deliver value to our clients which in turn will return value to our shareholders. Specifically the five elements of our plan are to:

1. Grow the number of online subscribers we have, both by going direct to market to small businesses, but also to work with their trusted advisors, really deliver on our vision of the connected practice and make it particularly advantageous for accountants and book-keepers to recommend our products to their SME clients.

2. Once we have those clients, to make sure that we continue to work hard to increase the lifetime value of them, and that means by delivering great service, by delivering high quality experiences to those clients so that we retain them for longer, by delivering more value to them and capturing some of that through an uplift in ARPU and making sure that we continue to match the right product to the right client, so that we get a positive mix shift wherever possible.

3. The third element is then continuing to increase the penetration that we have of newly opened opportunities, and the first of those is through our small business financial services or in particular our payments and lending offerings. We've got a slide later on specifically about Payments but we've seen a real uptick in terms of the use of our invoice payments capability, and those come with a transaction fee so that feeds directly into revenue for us. We also did see some great results for MYOB Loans through the period, that's a product that we offered to market in partnership with OnDeck where we own a 30% stake in OnDeck Australia.

4. It was a strong period of performance for our Enterprise Solutions, and we will go into a little more detail on that, but it was the fastest organic growth that we've had in our Enterprise Solutions business for the last five years, and the trends there continue to look very positive.

5. Then finally in terms of strategic acquisitions, we continue to look out the targeted acquisitions that will strengthen our core business or allow it to expand into near opportunities. Obviously during the period we spent a reasonable amount of effort on trying to get the regulators to approve our acquisition of the Reckon accountants' group, and that failed, there's nothing else that we have to share with you today in relation to this, but to confirm that acquisitions remain an important part of our strategy going forward.

So moving into the detail, and we'll step through each of these five.

In terms of growing online subscribers, the story is probably best illustrated on **slide 11** where you can see that we've had 61% year-on-year growth coming both through our SME ledgers and our practice ledgers and you can see our ambition out there in December 2020 to go past a million online subscribers. Again, I confirm that we believe that we are on-track for that goal. There is obviously a road ahead to get from half a million to over a million, but it's one that we are particularly energised about and believe that we have the plan and investment in place to make sure that we're able to accomplish that.

Moving onto **slide 12**, our subscriber growth isn't just about winning new clients, while that is how the majority of our subscribers come in, it is also importantly going back to our non-paying base and making sure that we migrate them from old desktop versions of our software to online. You can see in the 12 months to June 2018, 57,000 of those clients migrated, or 12% of that active non-paying base. That blue line continues to step up, we have spoken about some of the targeted campaigns that we did in the back half of 2017, really testing whether price is something that will stimulate this market.

You will see the impact of those coming through when we discuss ARPUs, but it certainly did create a step-up in migrations in the 12 months. We are refining our approach here so we're not going out with the same level of discounted campaigns, but we have learnt a fair bit through that to help work out exactly which segments respond to what type of approach. So we remain optimistic about our ability to drive upgrades from that non-paying base going forward.

Slide 13 then moves onto the delivery of the MYOB Platform, and we are investing in a generation of tools for small businesses and accountants that is beyond what exists in the market today, beyond what we currently provide and beyond what our competitors provide. The streamlined workflows that we have been delivering and will be delivering to both the small business and their trusted advisors, are really unparalleled by any online or on-premise solutions that are available to clients today.

I'm pleased that with all of the elements that are in market you can see them there from the MYOB Portal right through to the release that we have made, some of the first elements of Client Accounting and the early release of the some of the Tax forms. I can confirm that we have had clients in our offices using the tax forms that haven't yet been released in live working software and they will be released over the financial year that we're currently in. So we're making really good progress on both Client Accounting and Tax and are starting first to work on Corporate Compliance and Document Manager in the near future.

You can see the results coming through in the three charts there, there's strong growth in terms of MYOB Ledger, the usage of MYOB Portal just continuing to build and, really pleasingly, MYOB Dashboard. MYOB Dashboard is where accountants or bookkeepers can very easily and simply access all of their clients' underlying management accounts and so it is one of those critical areas for those reimagined workflows that really drive productivity between the SME and the practice. So we're thrilled to see the usage of that tool continue to build.

Part of the transformation of our business isn't just delivering the new but is also making sure that we limit the investment in our desktop products. Today we have announced that as of the 30 September 2019 we will no longer be supporting AccountRight Classic, which is the old desktop-only version of AccountRight. AccountRight Live has been in the market since 2012 and we now have 94% of all new small businesses coming and running in the cloud. So we have not been selling AccountRight Classic to new clients for a number of years, but we have been supporting existing clients that have still been on that version of the software.

1 July next year will be the last update that we put out there, so we will enable clients to use Payroll to be able to run through July 2019 through to June 2020, but from the 30 September 2019 we will not have any resources dedicated to that platform, and between now and then we will be working hard to make sure we migrate as many clients as we can to the new AccountRight platform.

Slide 14 talks about MYOB advisor, which was a great product launch that we had in the first six months of the year and is a key part of our strategy for growing online subscribers. We were named one of the 10 most innovative companies in Australia on the basis of MYOB Advisor, and particularly for the way that it uses artificial intelligence and natural language generation capabilities to take financial information and translate it into everyday prose. Just spoken words that small business owners are easily able to understand.

I've spoken to a number of accountants and book keepers who are now using MYOB Advisor as a regular part of their engagement with clients, and all of them are telling me that it is absolutely meeting the goal that we set out there, that it's making it easy for them to engage in conversations about business performance with their clients. That's really what we wanted to be able to do, to allow them on-scale to quickly initiate those more meaningful and deeper business conversations.

A part of us continuing to grow our online subscribers is having the leading brand in the market, and our brand preference and brand awareness remains best in category, as you can see on **slide 15**. We have done a lot around this over the last few years and the vibrancy and the contemporary nature of MYOB in the market, I'm sure you can all see as you see it through online as you see it in billboards and as you see it on TV. We were very pleased this year to partner with Network 10 around their Shark Tank program which is Australia's favourite show for small businesses, and in particular Janine Allis who will be talking at our partner conference later next month has been a great ambassador for us through the entire period.

On **slide 16** we move onto the second part of our strategy to deliver value to shareholders, which is increasing the lifetime value of our subscribers. You can see the three elements there, it's having more subscribers, retaining them for longer and ensuring that we continue to monetise the value that we provide to them by increasing ARPU. You can see over the past few years that our subs have continued to grow, churn has continued to come down (or retention has continued to go up), which we're delighted with, and that ARPU has continued to lift. If you multiply those all together there has been approximately a 40% uplift in the lifetime value of our SME client base since the first half of 2016, so just two years ago.

While we are pleased about all of these, the ARPU growth in this period has been a little more muted than what it has been it he past, but that really has to do just with those very specific discounted files that we trialled to see if there were new and different ways that we could get more of our desktop base to move online.

In **slide 17**, we view the usage of these core Connected Services as the underlying indicator that our clients are getting more value from the services that we provide. So for example we know that everyone that uses our bank feed capability, that they save on average 10 hours per month from manual data entry. We know that those that use Pay Super on average take what used to be eight hours a month to pay and disperse super out to each of their employees down to minutes. Similarly with Smart Bills.

Our Online Invoice Payments has been a real delight for us through this period, you can see on the right-hand side the number of transactions per month increasing up to 23,000 and it continues to build and I will talk about the importance of that, just in a moment on the next slide.

Before going there, I just want to touch on one of the big compliance drivers for us this year which was around Single-Touch Payrolls. For those of you who are unaware, the Australian government changed the regulation around the reporting of payroll information to the ATO, such that rather than doing it at the end of the year, employers with more than 20 employees have to report it every single time they did a pay run. We were ready across all of our payroll products for that, it has been an increasingly seamless offering for our clients, seamless experience for our clients, and as we understand it from the ATO, more than 50% of all submissions through the Single Touch Payroll infrastructure has been coming from MYOB payroll products, which we are delighted with.

Just moving onto point 3, which is our strategy to increase our TAM through Payments and through Lending, and really focusing here on Payments. Our Online Invoice Payments have been in the market now for a couple of years and last year we acquired Paycorp who were our payment service provider partner when we first launched this, such that we would increase the margins that we make on each of these transactions.

You can see on the top right the spike of activity that happened in the lead up to financial year end. That's not an accident, it has been a well-planned strategy for us to increase the number of payment types that we have available. On the bottom left there you can see rather than just Visa or MasterCard which were the only payment types available when we launched this product, we have added BPAY, and it's the usage of BPAY that has really lifted those overall transactions.

Clients are getting paid four times faster on average when their customers pay using our online invoice payment capabilities and that's really what this is about, it's about delivering value to small businesses, helping them with the number one challenge that every small business has, which is around cash flow and cash flow management, making it simple for their customers to pay so that they get paid more quickly. We're delighted with the positive impact we're having here, but also delighted with what that does for us as it creates another revenue stream for us and ultimately increases our SME ARPU.

Then just moving onto point 4 of our growth strategy which has really been to double down on the strong position that we have in the enterprise market. You can see on **slide 19** that MYOB Advanced business sites are up 57% from where they were 12 months ago. You can see on the right-hand side there the mix of new clients coming to our Enterprise division that are taking Advanced up slightly from 54% to 58%.

There are a couple of functional areas within MYOB Advanced that we still need to build out to push that materially higher. They will be coming over the next 6, 12 and 18 months. We do expect that number to continue to grow, but it will grow slowly over those next three reporting periods.

That's really it for the operational update. I'll hand to Richard now to take you through the financials. Perhaps let me just summarise by again saying how delighted we are with the result today of our accelerated investments, particularly coming through in those online subscriptions. Over to you, Richard.

Richard Moore: Thanks, Tim, and thanks for the opportunity, everyone, to talk you through our financial results over the next 10 minutes. As Tim said we are very pleased with the operational results of the business in the last six months. The record online subscriber growth is testament to that. The financial results also reflect that investment that we've been making, both in sales & marketing and in product over the period.

If I can take you to the left hand side of **slide 21**. Revenue growth of 7%, slightly slower than prior years, but absolutely where we expected it to be, impacted by the very specific price-led campaign to our active non-paying base in the second half of last year. We do expect the impact of that to minimise over time as more higher price subscriptions come into the base, and we are reaffirming our guidance of greater than 8% revenue growth for the full year.

Our operating expenses grew 10%, but that includes the incremental sales and marketing investment kicking in. We spent 22% of our revenue on sales & marketing in the first half, which is up from a long term run rate of around 20%, so an incremental $3 million of that $30 million that we announced being spent in the first half. If we were to take that $3 million out, our operating expense growth would have been 7%, so absolutely in line with our revenue growth. It also would mean that our underlying EBITDA growth would have been 7% and our EBITDA margin would have been pretty much flat year-on-year at close to 44%.

We're very pleased with the investment that we made. Our sales efficiency measures that we outlined in May we'll cover off later in the presentation, but we're absolutely in line with our expectations.

Our after-tax results of both NPAT and NPATA - and, just to remind you, that our NPATA is our preferred measure because it removes the impact of the amortisation of acquired intangible assets. They're a non-cash amortisation, therefore the NPATA is a much closer reflection to our after-tax cash profitability; both slightly down on last year, a combination of the sales & marketing investment that we've noted together with the higher levels of amortisation of capitalised software, which is also part of our investment strategy.

These results are very much what we were expecting, and we're very pleased - Tim talked through some of the new product initiatives that we brought to market in the last six months, and we're very pleased with how that's rolling out.

Right hand side of slide 21 shows the revenue by segment. We'll get into that in a bit more detail in a moment, but you can see organic revenues of just over 7% in SME, around 1% in Practice, double digit 10% in Enterprise, giving us a total organic growth rate of just over 6% and a total revenue growth rate, as we've said, of just over 7%.

On slide 22 we have the first of our segment views. We'll talk through clients and partners, which is a combination of our SME revenue and our Practice value. Our SME revenue grew 7.3%, recurring within that grew just under 8%. Recurring revenue is a function of two things. It's the number of paying subscribers that we have and it's the ARPU that each of those subscribers delivers.

The average number of paying users grew 6% in the first half. You can see in the table in the middle that the closing number grew 5% but the average grew 6%, and the ARPU grew 2% year-on-year. Tim has already explained that that was impacted by the price-led migration campaign, and we are calling out that we do expect that ARPU to improve through the second half and the full year impact to be above 3%.

The most pleasing number on here for me is the SME retention, up 1.7 percentage points to just over 83%. We've seen over three percentage points improvement in retention in the last two years, which is really driving the lifetime value of our SME base.

Then, finally, on SME you can see that the perpetual licence revenue continues to run off, exactly as we would expect. We are now selling more than 95% of our new SME sales are directly on to an online solution. I would expect that perpetual licence revenue to disappear over the next 12 to 18 months. So good outcomes from SME, as expected, and we're expecting an improvement in ARPU in the second half.

In terms of Practice revenue a total revenue growth of about 1%. Recurring is slightly up on last year at 1.7%. Within that recurring revenue we have both subscriptions and services revenue. The subscription revenue actually up round ab out 3%. The reason that our services revenue came off was just a degree of uncertainty across our clients and our Practice base around the impact of the potential Reckon transaction, so we are hoping that as that uncertainty has now gone that we'll see an uptake in our services revenue in the second half, but good to see recurring subscription revenue staying around 3%.

New software sales down 30%, just around $600,000 in the first half. As you would expect, we are building out brand new online tools for practices as part of the MYOB Platform, so that means that we're really not selling too many desktop modules anymore. Again, that's another measure we would expect to continue to decline, but recurring revenue in Practice now also about 99% of total revenue.

If I move on to expansion segments on **slide 23**. A great result from Enterprise in the first half, organic revenue up double digit and recurring revenue within that up 11%. That is driven by the continued strong uptake of MYOB Advanced that Tim mentioned earlier, making up almost 60% of our sales in ERP software in the first half. The other strong result was in new licence software within Enterprise where it grew by 7% this year, having shrunk in the prior year. That's because our tier 2 products, PayGlobal and Greentree, are continuing to grow and go from strength to strength, and we're seeing new software sales there. Those combining to help deliver that 10% growth overall in the Enterprise space. At $34 million it's really becoming quite a material target for the MYOB portfolio.

Then, finally, in terms of revenue we have the Payments revenue, which we've not disclosed in this level of detail before. You can see made up of two things. One is the Payment Solutions segment, which goes to market under the brand PayBy. That's, effectively, the new brand for the Paycorp acquisition we made last year. It's grown 75% year-on-year, predominantly due to the fact that we have six months of revenue versus three. We acquired the business on 1 April last year, and really strong revenue growth in terms of our online invoice payments that Tim spoke about earlier.

The revenue has doubled in the year to $1.4 million, and we're continuing with the launch of BPAY to see number of merchants increasing, the number of transactions per merchant increasing, and the size of each of those transactions increasing. That's a pretty good triple whammy to look forward to. Just a reminder that that $1.4 million of revenue is reflected in the SME line above. We've just pulled it out here so you can see the total impact of Payments on the MYOB P&L.

Maybe we can talk a little now about the reinvestment that we've been making on **slide 24**. Our total expenses and COGS up 10% year-on-year, really driven by the incremental spend in sales & marketing, which you can see on the second line on the table on the right hand side. We've increased our spend by 16% year-on-year, which is up almost $7 million, and $3 million of that is the incremental spend from the $30 million investment announcement that we made at the end of last year, and committed to again in May when we announced the Reckon termination.

Without that $3 million of investment our sales and marketing would have been up 9% and sitting at a stable 20% of revenue. With the investment it's sitting at 22% of revenue. Our total COGS and Opex without that investment would have been up 7%, in line with revenue. We're very happy to make that investment based on the initial outcomes that we're seeing in terms of our brand health and also in terms of our initial sales results.

When you look at the reset of the costs across the P&L pretty much growing in line with revenue, so we're very much focussing on sales & marketing and R&D in terms of investment and maintaining pretty strong cost control across the rest of the business.

On **slide 25** we'll get into those sales & marketing investment metrics a little bit more closely. We released our targets on these in May when we announced the incremental spend. You can see on the top chart the block shows the number of sales heads that we had in the business. It's growing 10% on the first on the first half of this year to around 375. We expect that to be over 400 by the end of the year.

The purple line shows the number of referrals per salesperson that we achieved overall. We do expect those numbers of referrals per salesperson to drop down towards the bottom end of the 200 to 300 range. That's bound to happen in the short term as we invest ahead of the curve. You invest, you hire the salespeople and in takes a while for them to become fully efficient, so I would expect that to drop but then to improve quite materially over the longer term, up toward the middle to top end of that range.

It's a similar story in terms of CAC months. Just as a reminder what CAC months are, they're the number of months of revenue that are required to cover the sales and marketing investment of adding a new SME subscriber, so you know that if our ARPU is $430 per year, 10.5 CAC month is about $380 to bring a new subscriber on board.

As you can imagine, with an 83% retention rate we're looking at an average customer life well over five years, which means if you are spending 10.5 months of our ARPU to bring them on board, it's a pretty good return.

Again, we expect that to be up towards the top end of that 8 to 12 range by the end of this year, and then we expect it to come down as those salespeople and the marketing investment gives us the stronger returns.

The other side of the investment is in product, on **slide 26**. We spent almost $40 million of investment in R&D in the first half, 18% of revenue. We've incrementally spent about $4 million of the $50 million accelerated spend that we discussed earlier, which has all been capitalised. You can see there the mix of spend is roughly 60/40 Capex to Opex. Opex is flat year-on-year. All of the incremental spend that we put in has been on new Platform modules not yet generating revenue and, hence, it's been capitalised, driving 21% growth overall. In terms of our guidance for the rest of the year we expect the spend to be in the 20% of revenue range and for Capex to continue to make up about 60% of the total.

In terms of our cash, on **slide 27**, you can see a 70% cash conversion which is pretty strong. Slightly down on last year, but that's exactly as we would expect with the incremental increase in investment in R&D. You can see our PP&E - our plant and equipment, went up because we are investing in sites to house our rapidly growing team. We've doubled the size of our development and building in Richmond in Victoria, so we're now have the facility for almost 500 software developers there as we continue to ramp up that spend and the fit-out of that is about $11.7 million.

If I look to the left hand side of the chart, where you can see the uses of capital, Capex at $35 million, small numbers through interest and tax. We repaid almost $10 million of our debt when we refinanced it in May. You can see there some acquisitions, including increased investment in our partnership with OnDeck that Tim mentioned earlier and the acquisition of some IP through the year. By far the largest number on the page is the return of capital to shareholders in the first half, almost $70 million across the dividend and share buyback we put in place at the end of last year, resulting in a June ratio of net debt to EBITDA of about 2.1 times, which is pretty healthy.

Then, finally, just confirming that capital management story on **slide 28**. The Board approved an interim dividend of $0.0575 per share, which is 75% of our NPATA. What that means in the first half is that $69 million of capital returned. If you've been a shareholder in MYOB since we listed just over three years ago we've returned almost $240 million capital, which is a pretty great return.

Before I hand back to Tim to talk through the outlook, I'll just quickly run through some of the appendices and explain just what's in there for you. On **slide 34** we have our key operating metrics, both at a Group and a divisional level, consistent with what we've reported in the past.

On **slide 35** we have an income statement, right down to NPATA and a reconciliation of our statutory to underlying EBITDA. Really, the vast majority of the variance between those two is linked to acquisition transaction and integration costs, half coming from the Paycorp acquisition last year and half coming from fees associated with the terminated acquisition of Reckon in the first half.

There's a balance sheet on **slide 36**. As we always see it in June, a couple of movements relative to our December balance sheet, with other current assets and other current liabilities being relatively high. That is linked to the funds that we hold in our superannuation clearing products. They're always high in June, just because of the cycle. We only hold them for two days, so two days into July those numbers are right back down again. I would expect them to be pretty consistent with the December 2017 balance sheet by the end of the year.

Then, finally on **slide 37**, we show, as we always have, the forecast amortisation of intangibles. If you were to compare this back to six months ago, really, the biggest difference is the increased amortisation of capitalised in-house software, which comes from the fact that we have - we are accelerating that $50 million of spend over the next two years, so immediately that results in higher amortisation.

Interestingly though, what it's really doing is replacing the commercialised software that was capitalised as part of the acquisition by Bain seven years ago. You can see at the bottom total amortisation and depreciation pretty stable at between $75 million and $90 million per year, and the absolute balance of intangible assets also very stable at roughly $1.25 billion.

We haven't yet reflected AASB 16, the new leasing standard, in here. It doesn't apply to us until next year, but we will reflect that in the future. Just to confirm that as part of our first half result this year we have adopted both AASB 9, the new financial instruments standard, and AASB 15, the new revenue recognition standard. Neither have a material impact to our financial results. They're clearly articulated in the notes to our financial statements if you wanted to see it in a bit of detail.

That's everything from me. As I said , very pleased with the operational results, a good financial outcome in a year of investment. I'm happy to hand back now to Tim just to close up.

Tim Reed: Excellent. Thank you, Richard. I'll just wrap up, just reviewing the guidance and outlook going forward, and then we'll come to questions.

I take you back to **slide 30**. We put out this medium term guidance during the first half. I'll just go through the line items there.

- Organic revenue growth high single digits. As we said earlier, we're confirming the guidance that we put out for the full year 2018 as being in the 8% to 10% range.
- Research and development of less than 20%. We are on target for scaling our research and development efforts, exactly as we would have expected under the plan that we outlined.
- Underlying EBITDA margin is 42% to 44%. Again, confirming that 42.4% for the first half of the year and free cash flow of over $100 million. We still believe that we're on track to there.
- As I said up front, the acceleration initiatives are rolling out the way we expected them to, so no changes to the 2019 through 2022 guidance either.

Just out on those medium term targets on **slide 31**, a million online subscribers is our target out there for 2020. Going beyond 2020 we do expect the free cash flows that we're generating in the business to continue to build, and by 2022 for it to be north of 200 million with R&D capping at about $100 million per annum, give or take a few, which is roughly back down below 16% of revenue, and an EBITDA margin growing again back up to that mid-40% range once we put the acceleration of sales and marketing through and then start to see the recurring nature of those subscription revenues kicking in following the investment that we're making.

That's it from us. I think there are a couple of questions out there, so maybe we'll take the first question, operator.

Operator: Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request please press the pound or hash key. Once again, if you wish to ask a question please press star one on your telephone.

Your first question comes from the line of Tom Beadle of UBS. Please ask your question.

Tom Beadle: (UBS, Analyst) Hey, guys. Thanks for the questions. I've just got three if that's okay. Just firstly on your guidance, you're effectively guiding to revenue growth in the second half of the 9% to 12% or 13%. You've said that ARPU growth will be 3% for the year, so that probably gets me to the bottom of that range if you hold the other drivers from the first half constant. Just wondering what else you're assuming might accelerate the first half. That's the first question.

The second question is just on costs. If I strip out R&D and the incremental strategics that are sales and marketing from your cost base, I get costs growth of 9% in the first half, so a little more than your revenue growth. Just wanted to see if you could talk about the drivers there, if there are any timing issues and how we should think about this in the second half.

Then finally, just can you provide an update on the strategic investments that you announced in May and just any key early learnings or things that might have changed since then? Just in particular interested to hear how sales and marketing spend has impacted sub growth to date. Thanks.

Richard Moore: Hi, Tom. I'll take the first one, first two probably. Just in terms of guidance, yes we do expect ARPU to be above 3%. We haven't said it will be 3%. We've said it will be above. We've seen 5% paying user growth over the last two years so we're hoping or expecting that to be pretty close there.

Greater than 3% ARPU effectively means that we are expecting the full year outcome in terms of recurring revenue to be over 8%. We are seeing things help drive that such as the online payments revenue in SME and as I said earlier, we do expect the impact of the discounts that we used in this second half of last year to migrate the active non-paying base to minimise over time.

In terms of costs growth, Tom, I'm not sure how you get 9%. If I take $3 million off our COGS and Opex for the year I get 7% growth which is absolutely in line with the revenue growth, hence my commentary earlier. We will continue to invest in sales and marketing through the second half but certainly do expect, as we said earlier, to be in all those ranges that we referenced in terms of guidance for the full year.

Tim Reed: Just in terms of early learnings from the accelerated investment particularly in sales and marketing, Tom, on the sales front we have been bringing in firstly the capacity to bring in more people and then followed by the actual quota carrying staff members. That's all been going incredibly well and in fact probably the most pleasing thing for us there is we've had almost no turnover in terms of team in that area which makes it easier for us to grow the team because we're not having to fill the bucket at all. Those results are all coming through as expected and that's shown by the units per member of the sales team that Richard referred to earlier.

In terms of the marketing investment that we're making there, that is predominantly online or digital marketing. The pleasing thing that we've seen is that we've been able to increase our spend there without forcing up the price that we pay and that's always a bit of a risk because competitors are present and just the way digital media is priced. We've been very pleased with that, pleased with the way that that is translating to getting more customers to our website and we're still obviously early days given that spend really started in April and May in the conversion of those through to paying subscribers. Everything is very much in line with where we planned it to be and would have expected it to be.

Tom Beadle: (UBS, Analyst) Okay, great. Thanks guys.

Tim Reed: Thanks, Tom.

Operator: Your next question comes from the line of Sameer Chopra from Bank of America. Please ask your question.

Sameer Chopra: (Bank of America, Analyst) Morning, Tim. Morning, Richard. I have one or two questions. One is just looking out to 2020 and the outlook of the one million online subs, can you give us a sense of what percentage of this would be SME versus what is kind of practice?

The second one is the $4 million that was deployed in the first half in R&D, practically how is this money being spent? Is it hiring more people, you buying more external software? I just want to get a handle around how that money's deployed. Thank you.

Tim Reed: I'll take the latter of those and then hand to Richard for the first, Sameer. That is by bringing on new team members. We do from time to time use fixed term consultants and so on but that would be very small low single digit, maybe 2% or 3% of our development team at any point in time. Generally, it's because we need a very specific skill for a particular piece of work that we're undertaking at that moment. Those funds are deployed by increasing the number of crews that we have in our development nations which is the permanent capability that we're building into the business.

Sameer Chopra: (Bank of America, Analyst) Tim, can I just follow up just one point on that? Roughly speaking are we saying we're going to hire about 200 odd people into R&D and what would that take your R&D team size to in rough numbers?

Tim Reed: Yes, so let me just find the slide there, Sameer. In fact, maybe it's not in here but the slide that we had in our May deck showed how that spend was going to grow up to about $100 million which was really pulling forward what would have been 16% of revenue in 2022 into 2019. It's almost directly linked therefore to the number of team members that we'll be bringing on board. If you go back to that presentation you'll see that - you'll just see a very clear chart there on slide 12.

Sameer Chopra: (Bank of America, Analyst) Thank you.

Richard Moore: In terms of headcount, Sameer, we'll end up with just over 600 in our software development team by the time the investment is complete.

Sameer Chopra: (Bank of America, Analyst) Hi, Richard. Just on 2020, the 1 million?

Richard Moore: The current mix on that is about 70% SME 30% Practice. Practice is contributing a higher growth rate at the moment than SME. I would expect those trends to continue so by the time we get to 2020 I would expect Practice to be larger than 30% but ultimately, I think the SME number will be more than half of the total number of subscribers. It is hard to tell when you're halfway to the target exactly what the outcome will be but based on current trends that's what I would be anticipating.

Sameer Chopra: (Bank of America, Analyst) Thank you.

Operator: Your 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. Interested, Tim, in the announcement around AccountRight Classic going off support. Just also reading a quote from you in an industry paper, is it right that only 3% of paying users are sitting on that product? That sounds a little lower than I thought. Just wanted to check on that please.

Tim Reed: Yes, absolutely. Thanks for the question, Mark. Just for everyone's benefit who's on the call, AccountRight Classic is the old version of our desktop software which was replaced on the desktop with AccountRight 2011 and online when we turned on the capacity for AccountRight Live in 2012. We haven't been putting new customers to MYOB on that software for many years but we have been releasing updates for that for existing clients. Of our paying subscribers it is very low single digits that are still using the AccountRight Classic product so that number of 3% is a good one, Mark. I can confirm that.

The bigger impact is probably on our non-paying clients. For clients that have bought our software in the past and are non-paying a large proportion of those are on AccountRight Classic. If they would like to at any point have updated tax tables, if they want to make sure that the security mechanisms on their software are up to date with existing Microsoft platforms, et cetera, they will no longer be able to do that by taking an upgrade to the version 19 software. They will need to move to the online subscription to do that.

Mark Bryan: (Wilsons, Analyst) That's great.

Tim Reed: Of those 57,000 that we moved from non-paying to paying clients overwhelming north of 90% of them do that and make that shift. It's not a large change in customer behaviour but it does mean for us that we don't need to maintain the expertise and skills in-house to be able to update the version 19 software every single time Microsoft releases a patch, et cetera, on their Windows platform.

Mark Bryan: (Wilsons, Analyst) You said - sorry, Tim - the majority of the non-paying customers are on the Classic version? Did you say that?

Tim Reed: That's correct.

Mark Bryan: (Wilsons, Analyst) That's correct, okay. That's great. That's helpful. Thank you.

Tim Reed: No problem.

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

Roger Samuel: (CLSA, Analyst) Morning guys. I've got several questions. First one just back to the ARPU guidance of over 3% growth in FY18. I think I saw some price increases being put through probably in May or June this year, roughly about 10% increase. I'm just trying to reconcile that to your guidance of over 3% growth. Is that because you expect a lot of the price migration to continue in the second half of 2018?

Do you want me to continue with the second one or…

Richard Moore: Why don't I answer that one, Roger…

Roger Samuel: (CLSA, Analyst) Yes, sure.

Richard Moore: …and you can ask the next question. We do put our prices up in April. Our Essentials prices go up on all of our subscribers and for AccountRight they go up on their anniversary day. You don't see the impact of all of the price increases that you've just reflected until all of those subscribers have repriced. You don't get that automatic recurring revenue kick on the AccountRight base and given the price point and the number of subscribers, AccountRight is the majority of the recurring revenue within SME.

We also have moved some products but not all. You wouldn't have seen a price increase in BankLink. You know that BankLink makes up a reasonable proportion of our paying user base so the weighted increase in prices is mid-single digit I would say. Then the other thing that impacts price or ARPU is mix. We are pushing pretty hard now to drive growth in the Connected Ledger product. It's a lower priced product therefore will have a mix impact. When you roll all of that together we are confident that our ARPU will be more than 3% up for the year or 3% plus let's say, but at this point we don't want to be any more prescriptive.

Roger Samuel: (CLSA, Analyst) Sure. Second question is on your accounts. I think you mentioned that you acquired some companies, My Advisor and Company IQ, and also there were some disposals as well during the period like ACE Payroll and Greentree. Can you just explain what they are?

Richard Moore: I'll let Tim talk about the acquisitions and I'll quickly explain the disposals. They weren't disposals. They were just closing holding companies in New Zealand that we no longer required. When we acquire a business they come into the MYOB portfolio and we pretty much immediately move the IP into one of our operating entities and all of the operating costs across to an MYOB business so we sit with shell companies. It takes a couple of years to wind up a shell company. We took the opportunity this year to wind up quite a few in New Zealand. We were able to do them as a sort of job lot. Absolutely no impact to the business, to any of our products whatsoever.

Yes, in terms of acquisitions, Tim?

Tim Reed: Yes, in terms of the two acquisitions, Roger, the My Advisor was what we go to market as MYOB Advisor. We developed that in conjunction with another business that had expertise particularly around the AI that is used from there and once we were happy with the work that they had done, they were on risk for that, we acquired full ownership of the IP and the product which has since then been developed by our software engineers in-house.

The Company IQ acquisition was an acceleration of our corporate compliance module. That module is something that sits on that MYOB platform wheel on slide 13 and it was an underlying piece of software which had a number of the capabilities that were needed in corporate compliance. We are obviously building that into the platform now but the acquisition was just an acceleration of our efforts in that area.

Roger Samuel: (CLSA, Analyst) Alright, thanks. Just a final one from me. Just on your dividend outlook, given that you are reinvesting quite a lot this year are you still confident of paying the $0.0575 in the second half?

Richard Moore: Yes, we've committed to bank between 60% and 80% of NPATA, Roger, and you can see we're at 75% for the first half. Obviously, we're, based on the guidance, expecting NPATA to be higher in the second. I'd say you could imagine if we were in the 60% to 80% range we won't be too far away from $0.0575.

Roger Samuel: (CLSA, Analyst) Okay, great. Thank you.

Tim Reed: Great…

Operator: Your next - sorry, go ahead.

Tim Reed: Yes, I was just going to say I think there's two more questions in the line, Operator, so we'll probably take those two and then wrap up.

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

Jules Cooper: (Ord Minnett, Analyst) Morning guys. Just on the Capex spend - I don't know, Richard, whether you want to take this one - shall we expect that that spend continues at that level into the second half or are you largely complete now on the Melbourne refit?

Richard Moore: Yes, we're complete on the Melbourne refit but we're starting a Sydney one, Jules. I don't know if you've been in our Sydney office recently but there's sort of two to a desk at the moment. I would expect the run rate to be similar, maybe a little bit lower in the second half but broadly similar.

Jules Cooper: (Ord Minnett, Analyst) Okay, fantastic and maybe then just one more. With the 10,000 practices or over 10,000 I should say using the Dashboard, given the number of accountants you've been engaging with do you see that starting to flatten out now or are you actually getting accountant firms - do you find that that sort of growth rate can continue there or do you think we're reaching a bit of a peak in terms of the penetration into the existing base?

Tim Reed: It's hard for us to know exactly, Jules, but it is used by both accountants and bookkeepers. The target market's slightly bigger than just accounting practices. We're really pleased although I must say had you asked me a few years back what this number was going to be I would have said at this point it'll be less than 10,000. We're really happy that it is where it is. I do expect that it will continue to grow. Probably most pleasing to me though is now not just the volume of usage but the feedback that I'm getting in terms of how much more productive it is making those people who are using it.

Jules Cooper: (Ord Minnett, Analyst) Right and, Tim, have you ever given a bit of a rough split between what the accountants and the bookkeepers would be of that over 10,000 number? That'd be quite interesting to know the strength in your accounting base.

Tim Reed: Yes, that's a great question, Jules, and there are many stats that I know about our business and that is not one, I'm sorry. Let me see if we can pull something out and then maybe we can include it in an investor presentation or something at a conference.

Jules Cooper: (Ord Minnett, Analyst) No problems. Thanks.

Tim Reed: Right, final question?

Operator: Your last question comes from the line of Avinash Srinivasan from Macquarie. Please ask your question.

Avinash Srinivasan: (Macquarie, Analyst) Hi guys. Most of my questions have been asked but can you just remind us on the phasing of that $30 million and $50 million investment over the next few periods?

Richard Moore: Yes so, the $50 million on R&D I think the way to think about that is that we'll pretty much hit $100 million of R&D investment next year and then maintain that over the three to four years following. If you then go back and do a back calculation of what 16% of revenue would have been you'll see that it takes probably three years for that to pass through the system but most of the spend is in the second half of this year, all of next year and the first half of 2020.

In terms of the sales and marketing it's again spread over a couple of years. The difference between the two is that sales and marketing is an ongoing expense. We just expect that it will have delivered enough revenue in 2020 to pay for itself. The sales and marketing spend stays elevated but is EBITDA neutral in 2020 because of the subscription revenue that it's generated.

Avinash Srinivasan: (Macquarie, Analyst) Okay and then just on the ARPU growth, obviously you said you put some of your prices up in April. Can you just give us an idea of how the discussions are going and how are you guys tying in the price increases? Are you doing it with additional product functionality? Can you give us some insight into how those discussions are going?

Tim Reed: It's not so much discussions because with the number of clients we have out there we don't go one-on-one to 600,000 subscribers. The way in which we go through and have a look at the pricing is each year we go through and compare the competitive dynamic, we look at what value we have delivered to clients, what their usage of that value is and then make a decision item by item through the portfolio rather than going out of the uniform announcement across all clients.

What I always look for is to see that as ARPU grows so does our retention and so does our customer satisfaction. If we can get all of those three going up at once it means that everyone's a winner, that we're delivering more value to our clients who are happier with what we're doing, that they're therefore paying more but happier to do so and that returns to shareholders.

That's the approach and the formula that we take. As Richard said, it's different for Essentials and AccountRight because Essentials all gets repriced on one day but AccountRight then gets repriced throughout the year. That does mean that we look at early trends as to whether we've got that right with our AccountRight base. As Richard reported, our retention rates are up 1.7% or 1.7 percentage points year-on-year so that to me is a strong indicator that we continue to deliver on that overall equation, better outcomes for clients, better outcomes for shareholders.

Avinash Srinivasan: (Macquarie, Analyst) Alright. Thanks, guys.

Tim Reed: No problem. Thank you everyone for your time today and thanks for your ongoing support. I know Richard and I and Christina will be talking to a number of you over the coming weeks but in the meantime, we appreciate the time today and look forward to catching up shortly. Thanks everyone.

End of Transcript