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Market Announcements Office  
ASX Limited

### **MYOB 2015 HALF YEAR WEBCAST TRANSCRIPT**

Attached is the MYOB 2015 half year webcast presentation transcript for the six months ended 30 June 2015.

The original webcast presentation can be viewed on the MYOB investor relations website here:

<http://investors.myob.com.au>

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### **Supporting Resources**

For more information on MYOB, please visit:

Investor Centre: <http://investors.myob.com.au>

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**Company:** MYOB Group Limited  
**Title:** 2015 Half Year Results  
**Date:** 27 August 2015

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### Start of Transcript

Operator: Ladies and gentlemen, welcome to the MYOB's maiden 2015 Half Year Results presentation. I must advise you that today's call is being recorded. There will be a presentation by CEO Tim Reed and CFO Richard Moore, followed by a question and answer session. I will now hand you over to your speaker today, CEO Tim Reed. Please go ahead.

Time Reed: Thank you Mary and good morning, good afternoon, or good evening everyone wherever you happen to be around the world. It's an absolute delight to be able to present these results to you and Richard and I will do that over the next half hour or so, leaving plenty of time for any questions that you might have to end.

I'll just draw your attention to slide 6 to kick things off, which really brings out the highlights of our first half results for 2015. You can see there the green ticks across these boxes indicating the areas where we have met or exceeded expectations that we set for this period in our prospectus. Leading off with our revenue growth 8% year-on-year up to \$161 million for the six months, our EBITDA up 14% year-on-year at \$72 million for the six months and our NPATA at \$40 million for the six months, also up 14%. Really strong financial growth across all key metrics.

Moving down the slide, our cash flow conversion is at 91%. That is up 1% year-on-year, but quite materially up on what we forecast in our prospectus. As we get into the cash flows Richard will explain that to you. It's really a sign of customers making a longer-term commitment to our cloud subscriptions. We do have 528,000 paying clients, or at least did have as at 30 June, up 10% year-on-year. Our ARPU for the first six months was at \$371 per client in our SME division, up 5% year-on-year, again showing very healthy growth and exceeding that that we had in our prospectus. So across the board we are absolutely thrilled with the results of the business. What we'd like to do now is to provide a bit more context as to what's been driving these strong results.

Moving on to slide 7, I just draw your attention to the quote in the top right corner, "it was so simple that within three hours I had taken care of a whole year of accounting". Kyle's one of our clients based in Dunedin in New Zealand. He uses MYOB Essentials, and found himself in a situation that many small business owners do, where they get behind in their bookwork and behind in their accounting. He had a period of catch up that he needed to undertake and was absolutely delighted with the experience that he got using MYOB Essentials and how easy it was for him to catch up on the tasks that he had fallen behind in. The story of Kyle is one that is replicated across New Zealand and across Australia. That's really the story that we want to talk about today. The key points are there on slide 7.

This is a story of growth; paying user growth and cloud user growth. We remain a growth business and are very excited about the growth prospects for our business. The penetration of cloud accounting in our region

of the world sits somewhere between 10% and 15%. We believe that it is going to grow materially over the years ahead and it is really delivering that sort of outcome for our clients that we delivered for Kyle that makes us confident that we will capture a significant share of that growth going forwards.

This is a story about investment and innovation. Our ongoing investment to our marketing initiatives, to our client initiatives and importantly to our product initiatives. It is a highly attractive segment and we are investing to win. We'll talk to you about a lot of the innovation that we have delivered in the last six months and that we see going forward.

It is a story about the importance of an ecosystem. We don't view ourselves as a provider of products. We view ourselves as a provider of a platform that enables an ecosystem to work more efficiently. At the heart of that ecosystem is a small business and their accountant. The most trusted relationship that small businesses is with that of their accountant. Our vision is to make sure that we bring those two close together, enabling them to work more tightly, more intimately, than ever before, and to leverage a broader ecosystem of partners around that platform. We'll talk about that and the progress that we've made there as well. This is a story of results. We have very compelling financial results. I just gave you the highlights a few minutes ago, but Richard will talk in more detail about the different segment levels and the growth and results that we are seeing in each of those segments.

Finally, it is a story about the future. I'm very pleased to say that we are confident in our future and therefore are able to reaffirm the prospectus forecast that we published a few months ago that go through to June 30 2016.

With that introduction, I'd like to now move into the highlights of the business for the last six months. I draw your attention to slide 9. Again, let me start with the quote in the top right-hand corner: "the relationship with the accountant is made easier by being online. He just logs in and does my year end accountants. I don't have to send him any files. It's really very simple and easy". David Richardson runs an events management company. He's been a client of MYOB for six years, so before we released our cloud based solutions. He's moved from our desktop to our cloud based solutions. You can see the value that he's deriving from there and the way in which that ecosystem is working. This slide details the value that cloud accounting brings to both the small business and to their accountant. On the left-hand side, you can see there that bank feed saves an enormous amount of time, on average 10 hours per month for a small business owner, by removing data entry and automating bank reconciliations.

Closely followed by smart bills, which means for any small business running accrual based accounting they no longer have to enter the information when they receive and invoice from one of their suppliers. They simply take a photo of it or forward the PDF to us, and we take care of that work for them. This is a standout driver of productivity for a small business owner. It helps keep their books up to date so they have a better sense of their financial position. It is a real differentiator between MYOB and our competitors. Thirdly, PaySuper; PaySuper was the first gold certified super compliant solution that government - the ATO - has awarded. SuperStream will be compulsory for all Australian businesses by 1 July next year. PaySuper is SuperStream compliant, and it reduces the amount of time that a small business owner has to spend doing their super dramatically. I was struck by the first client I spoke to who used our PaySuper solution when we

released it a few months ago. She said to me Tim last quarter it took me five hours to do super, and this quarter it took me five minutes. Really driving productivity for the small business owner through our innovative cloud solutions.

Of course online products also have some of the basics that we often overlook: the fact that there is no need to install an update because we do that automatically; the fact that it can be accessed anywhere, anytime by different people within the business. Finally down the bottom there the value of integrated payments. MYOB PayDirect allows a mobile business to issue an invoice and collect payment whether it be through direct debit or through EFTPOS right then and there. During the six months we upgraded PayDirect so that it now has tap and go capabilities. So you no longer need to use the chip reader. The client can simply tap on the PayDirect device and the payment will be processed automatically, driving and improving the cash flow of Australian small businesses.

If we move over to the right-hand side, cloud accounting is equally if not more compelling for the accountant. The online access saves them time, and you can see the quote there by David being the small business owner, how it saves him time; it also saves his accountant time, because his accountant doesn't have to chase and follow up and get access to a set of accounts which are already out of date. The bank feeds mean that his accountant can rely on the accuracy of the information that he is processing, because they can log right in and check that the reconciliations are complete. During the six months we released an online portal, and I'll talk more about that when we get into our ongoing investment, but it is revolutionising the way in which accountants collaborate with their clients.

Smart Bills, while being great for the client because it means that they don't have to do the data entry, is also great for the accountant because it means there's a full set of source documents as a part of the account. They simply click on a transaction and from there can access the source document directly. Finally, because we're building this as a platform, not a set of separate products, but a single platform that allows seamless movement for the accountant across the different components of the MYOB platform, it dramatically streamlines their workflow, driving their productivity. In fact, we've seen accountants who have their clients using the MYOB Cloud Solution and then using our MYOB Practice Solutions gained benefits of up to 40% or 50% in the reduction of time that it takes them to do their annual compliance work.

Overall, cloud accounting is saving time and money while increasing the insight and accuracy that business owners have over their financial affairs. But we're not stopping there. We continue to extend this through the investment we're making but also our right network of add-on solution providers.

With that I might move to slide 10, which really focuses in on our investment and the innovation that that's driving. You can see through the period that we've spent about 13.4% of revenue on our research and development. That compares to our forecast of 13.7% and is well within the range of 13% to 16% that we see going forward. The reason that it was slightly down is not because we invested less, but because our revenue was higher. We do continue to view 13% to 16% as the right long-term range for our investment. We are driving to lift it higher in that range in the second half of this year, but do believe that for the full year we will be in that 13% to 16%. You can see, moving over to the right, the number of active API partners that

we have. These are people who are developing solutions against our API, a number of whom will be third party add-ons. You can see the growth there from a year ago of 1500 up to 2400 today.

I have to say I was extremely proud when last week BRW announced that we are the most innovative large company in Australia. It's been a process for us to really lift the rate of innovation inside our organisation. It's a journey that we started on five or six years ago. But to receive an accolade as high and as important as this one has really been something that has surpassed our expectations and frankly has been well-earned by our team. It's really been the continuous way that they work with clients and the continuous way that we engage in driving innovation that really makes a difference in the businesses and lives of our clients that has led to this recognition. Across the bottom of that slide you can see a number of the innovations that we've brought to market. I've spoken about Smart Bills, a real differentiator between us and competitors in the market. I've spoken about PaySuper, a real driver of productivity, but also of remaining compliant within our client base.

MYOB Advanced - which we'll talk about a little later on when we focus on the enterprise division - but MYOB Advanced is an ERP system for mid-sized businesses, maybe 30-40-50 employees on the smaller end, up to perhaps 500 on the larger end. We launched MYOB Advanced in January this year, and we are absolutely delighted with the take up. It made us 18% of new client registrations in our enterprise solutions division through the period, and we're absolutely ecstatic that that has all been organic growth. So what we've seen is our on premise solutions continue as they were, with growth in that division coming from the addition of MYOB Advanced.

Finally, MYOB Portal which was the first release in our reimagining and rebuilding our practice solutions as a part of our online platform. The MYOB Portal drives productivity between accountants and their clients by meaning that they can exchange information, exchange documents, and exchange or apply signatures to those documents, really cutting down the time that it takes for the iterations of communication between an accountant and their client, just making it easier so that they can get on with business.

Looking forward, we're investing heavily in the next generation of MYOB BankLink, such that that will be an online solution and part of our overall online platform, and also continuing to deliver the next steps in the journey for MYOB Accountant's Office and Accountant's Enterprise to be reimagined as cloud based solutions. In particular, in the next six months we're looking forward to the release of a new practice ledger. So lots of investment and lots of innovation.

We are committed to investing and committed to innovating because it is through that that we are driving our growth, and through that that we are continuing to strengthen our market position. You can see that growth coming through on slide 11. We added 26,000 cloud subscriptions in the first six months of this year, the most that we have ever done in a January to June period. That brings our total to 142,000 cloud subscribers as at 30 June, but in a separate press release this morning we did announce that since that period we've gone past 150,000 cloud subscribers. So the growth certainly isn't stopping here; in fact it is driving ahead at a rapid pace.

On the right-hand side you can see the percentage of new product registrations that have come through as online subscriptions as opposed to perpetual licenses. You will see that this plateaued a little during the six

month period. We hit our goals in terms of cloud subscribers. What we did see was a bit of a resurgence in the registrations of perpetual licences. We think that has a lot to do with the behaviour of some of the retailers, particularly in relation to trying to move the perpetual licences through their inventory levels. It's great news for us because a third of those clients which take out a perpetual licence almost immediately take out a subscription on the back of that. So ultimately it does drive growth in our cloud subscribers, it just doesn't do it at the very first financial transaction that we have with them.

When we get to the segment results, Richard will talk to the perpetual licence revenue within our SME division. It was marginally ahead of what we had forecast but probably not as significantly as what this might show. The reason for that is we recognise revenue when we sell units to the retailer, but we recognise registrations when people purchase those and register them. So there's no doubt that there has been a movement of inventory through the channel. We think that's a very healthy thing and something that ultimately continues to underpin our long-term growth. Just wrapping up this section on growth, I draw your attention to slide 12. What you see there is just a time series of growth in our paying users, taking it to 528,000 by 30 June, up 10% year-on-year, being driven by the growth in our online subscribers that have gone from 86,000 to 142,000 over the last 12 months, growing at a 65% growth rate.

You can therefore see that we're now at 27% of our paying users who are using one of our cloud products. If we look into that orange bar, a large portion of those clients are MYOB BankLink clients, and as I spoke earlier, we are increasing our investment to move BankLink to the cloud which will enable us to increase the rate of growth that this green is growing and really taking over the orange. There is no doubt that it is the green that is driving our business growth and it is the green that we are focused on, really driving the innovation in our cloud-based solutions which is underpinning our overall company growth. With that said, I might hand over to Richard to talk through some of the financial details.

Richard Moore: Thanks Tim. Like Tim I'm delighted to be here to talk through the excellent financial performance of our business in the first half. I'll direct you to slide 14 in the presentation which summarises our financial performance. As Tim said we did achieve our prospectus forecast and exceeded on all of the key metrics. Revenue up 2%, EBITDA - which is our operating profit - up 1%, and NPATA - which is our profit after tax and is the basis for which dividends will be paid going forwards - up 1% on the prospectus forecast.

All of the numbers in the next six slides are pro forma rather than statutory. It's important that we explain why we are showing these pro forma numbers. Bottom line is what it allows is very simple like-for-like comparison on a year-on-year basis. It's completely consistent with how we disclosed our financial results and forecast in the prospectus.

It effectively removes one-off IPO related expense, it restates the results into our current capital structure, so our current debt levels and current overall basis of capital and it also adds back the pre-acquisition revenues and costs from acquisitions we've made during the period.

So what that actually means for example is on the revenue line we show an 8% like-for-like growth on the first half last year. Our statutory result is actually up 14%. The 8% is more realistic because it assumes that all of the PayGlobal revenues that we acquired in August last year were in place from 1 January. So as you

think through the results pro forma means like-for-like and absolutely consistent with the IPO prospectus formatting.

Going on down the line in terms of our year-on-year performance, as I said revenue up 8%, operating profit up 14% and NPATA up 14%, so very, very pleased with those outcomes. What's driving that? You can see underneath continued improvement in our recurring revenue to 94% of total revenue, up 2 percentage points year-on-year and an EBITDA margin of just under 45%, again up 2 percentage points on 2014.

On the top right hand side of slide 14 you can see our annualised growth rates in terms of our revenues. You can see overall broadly in line with what we've achieved over the last two years at an 8% growth level compared to the first half of 2014. You can see within the segments there are some different growth levels. We'll get into that as we get through the segment performance in the next few slides. I'm really pleased when I look at the bottom right hand side of slide 14 to see each of the segments performing ahead of the expectation that we set at the IPO in terms of revenue growth. So as I said at the start really, really happy with the first half results for the business.

If I move to slide 15 we get into our SME Solutions business. This is 61% of our overall revenue. You can see on the left hand side accelerating in terms of the revenue growth rate, 12% compared to last year as opposed to a long-term 9% growth rate. What's driving that you can see is the growth in recurring revenue, historically at 14%, this year at 15% so broadly in line. But that's now a larger proportion of our overall revenue hence it has a bigger impact to the overall revenue growth.

We're continuing to see perpetual licences come down at about 24% to 25% per annum but at \$4 million of almost \$100 million they are really no longer material to the business.

You can also see in the chart underneath the impact of the Ace Payroll acquisition that came through on May 31 - one month's revenue just under \$300,000 so not a material impact to the result.

So obviously the key number to look at here is the growth in recurring revenue growing from \$82 million to \$94 million on a like-for-like basis. That's up 15% which is a great outcome for the business. What's driving that? You can see there in the table on the top right two main things. Tim talked about the number of paying users growing 10% to 528,000 at the end of June, plus we have a 5% growth in SME ARPU year-on-year. It's actually a couple of percentage points higher than we forecast in the prospectus as well. The paying user base is driven by two things, obviously the very strong growth in our cloud users and also the very stable and high retention rates that we continue to see from our paying user base.

Tim has reflected the fact these are the four metrics that we've talked about being the most important for SME; the percentage of cloud registrations as a percentage of total - at 68% - a little behind what we expected in the prospectus forecasts but the underlying growth in cloud subscriptions absolutely where we expected it to be and just an unexpected bonus of more perpetual licences coming through the retail channel. That's changed that metric a little bit.

Slide 16 shows the performance of our practice solutions business. This is 26% of our revenue growing at very similar rates as it has historically in the 3% to 4% range with recurring revenue now 98% of the overall revenue for this business. Tim talked earlier - really exciting changes happening in practice solutions as we



start the journey of bringing these solutions online. The online portal has had some of the best feedback we've ever had from a new product launch going forward. We did overachieve on our prospectus forecast in practice solutions by around 1%.

The next slide, slide 17, is enterprise solutions - 13% of our revenue. This is the one where we do see quite a change in the trajectory, albeit a very short term change in our trajectory. Total revenue growth flat year-on-year from a historical growth rate of roughly 10%. When we dig in behind you can see movements in both new licence and recurring revenue. The movement in the new licence revenue is, as we transition from selling new software licences of MYOB EXO to selling new online subscriptions of MYOB Advanced, we will expect to see our new licence revenue to continue to decrease over the next few periods as you've seen happened in SME two or three years previously. But it's absolutely what we want because what it's delivering are longer-term subscriptions with a significantly higher lifetime value per customer.

On the other side what you would expect then to see if we're selling more MYOB Advanced as a subscription we would expect to see an acceleration of the recurring revenue. What we're actually seeing is it's reasonably stable year-on-year as well. The driver of that is the PayGlobal acquisition that we made in August 2014. Obviously these numbers are pro forma so include the full 12 months revenue from that in the 2014 year and six months in the first half of [2014]. What we found when we acquired the PayGlobal business is that there were a few product lines in that business that were operating at very, very low EBITDA margins and certainly lower than we would run going forward. So we actually closed a couple of product lines, throttled back on those and made significant investments on the highly profitable parts of the PayGlobal business.

What that has meant is that the underlying business is still growing at that double-digit rate we would have expected but there is a short-term hit which will flow through the rest of 2015 in terms of those business units in PayGlobal that we are no longer investing in going forward. As I said MYOB Advanced launched in the half - incredibly successful launch - making up 18% of our new clients, certainly more than we were anticipating and very well received.

So slide 18 moves us on to our investments in operating expenses and R&D. The left hand side shows our overall expense base. You can see there that this is very much a story of investing to grow. Overall expenses up 4% year-on-year and up 2% on the prospectus forecast - very heavily driven by the growth in our staff costs - the large purple section of the bar chart is our staff cost - up 6% year-on-year and up over \$2 million even on the IPO forecast.

Our year-on-year growth is investment in two things, (1) sales and marketing and (2) in product. The growth versus the IPO forecast is also driven really by three core items. One is in the enterprise solutions business given the success of the product launch and the demand for our products we have invested in sales and service heads which is reflected in the fact that the enterprise revenues did come in over \$1 million ahead of expectation in the IPO forecast. We've also increased our investment in digital marketing capabilities which we're very excited about - the opportunities that will help deliver in the second half. Also the New Zealand dollar was particularly strong in the first half. Given that almost a third of our staff are based in our New Zealand offices that does impact our reported cost base.



I just put a little bullet in at the bottom to show our total sales and marketing spend. The line in our P&L for marketing at \$4 million is purely our advertising spend. In total when you add up all of the team members that work on sales and marketing activities and all of the other spend, we spent more than \$31 million in the first half, up from \$29 million in the first half the year before.

On the right hand side of slide 18 you can see our R&D spend. Again as Tim said we've spent 13.4% of revenue, at the lower end of our 13% to 16% range, but we've pretty much spent exactly what we thought we would in the prospectus. The opportunity is certainly there for us to continue to invest in the second half. We would expect to see us increasing that range in our second half and full year reporting.

We expensed more than two thirds of our R&D through the P&L, the balance being capitalised as you can see. That ratio is going to continue to grow from a CapEx standpoint as we invest in new products that aren't in the market yet and aren't yet generating revenue.

The final slide from the financial standpoint is slide 19. It's probably our strongest result from a financial perspective. Really strong cash flow and strong cash flow conversion. So over 90% of our EBITDA converted to cash after CapEx which is broadly in line with the first half of last year but almost a full 10 percentage points ahead of what we were anticipating in the prospectus forecast. What's driven that? You can see on the third line down there it's been quite a materially more positive net working capital outcome than we envisaged through the IPO. That is driven by two things. One is we found on our acquisition of PayGlobal that the billing cycle there meant that there was a large unearned revenue balance that's generated because we do a lot of billing in the first quarter. But a large chunk of that \$5.9 million is an interesting behaviour that we're seeing from our SME clients.

When we move them from an upfront annual maintenance contract onto a monthly evergreen subscription we find a lot of them still want to pay that monthly subscription upfront in advance. They don't get a discount for doing that. They just have always paid that way. They like to make the payment once in the year and forget about it. That's a great outcome for us because we get exactly the revenue we expect but we also get cash in our bank account that we can utilise and continue to invest.

So those two items have given us a positive change in net working capital. You can see there the CapEx broadly in line with what we were anticipating driving that great cash conversion of just over 90%.

That's all I have but what I will do is just draw your attention to a few slides in the appendix that you can go and have a look at, at your leisure. We have on slide 28 our key operating metrics. So these were all the metrics that we disclosed in the IPO prospectus. We have comparative actuals versus those forecasts.

Slide 29 is a detailed pro forma income statement right from revenue down to NPATA.

Slide 30 is our detailed balance sheet at the end of June. I will call one number off the balance sheet which is important, which is our net debt to EBITDA on 30 June - was at 2.98x. We talked in the prospectus of starting at roughly a 3x net debt to EBITDA ratio. We do envisage that will continue to fall through the second half as we both grow our EBITDA and reduce our net debt by building cash on the balance sheet.

The final two slides, slides 31 and 32, show a detailed reconciliation from our statutory EBITDA and NPAT in our financial statements that we lodged with the ASX this morning back to the pro forma figures that are in this presentation. There is a detailed reconciliation and then quite a fulsome explanation of each of the eight lines on the following slide; so hopefully enough information there for you to work through what those adjustments are.

But I'll just close and say as we opened up with really strong financial outcomes both from a P&L and cash standpoint and very well set to invest in the second half and continue to drive our very successful business.

Tim Reed: Thank you Richard. So just moving on to the outlook from here, I've just got a couple of slides on our strategy going forward. What you will note is it is very much of a continuation of the strategy that we've been successfully deploying to drive the results that we've just highlighted for you. Let me draw your attention to the quotes again on slide 21 – “when I see patients I don't want to be distracted by other things. MYOB allows me to focus on my patients and the rest of my business”. Michael is a Naturopath and a herbalist. Michael's business is based in Hobart. He uses MYOB Essentials to really enable him to streamline the bookkeeping and the back office administration of his business so that he is freed up to spend more time with his clients.

Again it's stories like Michael's where we are making a difference in the business lives of small and medium businesses across Australia and New Zealand. Their continued support of our business is driving the fantastic financial results that we're sharing with you today.

So how do we keep this going forward? Well, the first thing is that we are in a market that we believe will see significant growth going forward. As I mentioned up front somewhere in the order of 10% to 15% of businesses in this region of the world have made the move to online accounting. We think that is going to continue to grow. That really means that there are compelling underlying fundamentals in the category that we play in. We're going to fight very, very hard to make sure that we drive our share of that market.

We're creating great client experiences. We're investing in R&D and marketing. We're investing in customer care programs that drive our retention. We're investing in the conversion programs that we have that enable our desktop users to take advantage of the great cloud solutions that we're building and to move online. It is that experience - and we talk at MYOB a lot about the holistic experience that we are creating for our clients because it's those great client stories and that great client experience that really underpins the metrics that we've been sharing with you today.

We're continuing to invest and build our product portfolio to provide a great cloud platform for all small and medium businesses. As I look out over the next six months we're excited about the launch of a new online practice ledger. We've had practice ledgers as a part of our AccountantsOffice and AccountantsEnterprise solutions for decades. What we haven't had is an online practice ledger. We will bring an online practice ledger to market in the next six months. I mentioned earlier that we're investing in the next generation of BankLink, an online solution that enables accountants to do the books on behalf of their clients. Many small businesses just don't want to do accounting. For decades BankLink has been a stand-out by far and away the best way for them to do the accounting on behalf of their clients.

We're going to deliver the next generation of BankLink as a purely online solution. We're investing heavily to do that in 2016. We're continuing to invest in MYOB Essentials and MYOB AccountRight, our flagship cloud based programs. You've seen and heard the quotes that I've been reading to you today from clients that use both Essentials and AccountRight and can hopefully understand the value that those solutions provide.

Finally Richard spoke about MYOB Advanced and the great reception it has had in the market going from nothing to 18% of our enterprise new registrations in its first six months. We're continuing to invest in the next module of MYOB Advanced being AdvancedPeople. What that will do is complement the ERP system with an HRM system. We're continuing to invest in that and we fully expect that we'll have at the very least some beta clients that will be using AdvancedPeople in the back half of this year.

We are committed to offering a broad range of innovative connected services to this platform. I'll talk to that in just a moment. But we're also committed to our add-on partners, to really building that ecosystem around our platform so that the innovation just doesn't happen within our four walls. But we open up; we encourage and expand the innovation across all of our developer partners.

Finally there you can see targeting strategic acquisitions to support our core business. Our acquisition strategy is made up of three components; strategic acquisitions that fill perhaps a hole or a gap in our product portfolio; acquisitions that bring scale much like PayGlobal did last year or Ace Payroll in the first part of this year; and finally acquisitions that help accelerate our organic development path. So acquisitions that enable us to innovate more quickly. We've spoken this morning about the phenomenal success that MYOB Portal has had since it was released just a couple of months ago. MYOB Portal was built off an acquisition we made last year of a company called Dovetail. We thought they were doing some great things. We purchased them such that we really use their technology as a prototype and have rebuilt it as MYOB Portal and this period are seeing the benefits of that.

Slide 22 just shows the sources of growth for us in that key metric of our cloud users. You can see that we've had 11% growth in our paying users per year over the 2.5 years on the left there really driven by the growth in our cloud users. If we look on the right at what is driving our cloud users, three different buckets. The first are our paying users, so our paying desktop users, moving online. As I mentioned earlier in the presentation the investment that we're making in the next generation of BankLink is really to continue to drive that and to lift the pace at which we're able to move those orange customers to green.

While there isn't a change in ARPU or revenue from a customer moving from the orange to green, what we have observed is that they become stickier and therefore the lifetime value of those customers goes up as we move them from being a paying desktop user to being a cloud user.

The second source of growth there for us is converting our active desktop users into online paying users. These are clients that have bought a perpetual licence at some point in the past, are actively and happily using our product but where there's no ongoing recurring revenue from them.

We continue to drive programs to make it easier for those customers to make the migration online and in June this year we realised a significant simplification of that migration process, such that they effectively log into their desktop product, tell us they want to go online and we do everything from there. Finally, the number

one source of growth for us are new clients. Attracting newly formed SMEs or those that have been around for a couple of years' time but haven't yet enjoyed the benefits of using an accounting system. That is how we get the majority of our growth coming into our cloud users. It is very important for our future that we remain attractive to newly formed small businesses and I'm delighted with the progress that we're seeing there and the contribution that that is making to our overall growth outcomes.

Just digging in on slide 23 a little bit more to our connected services. So these are things that we do around our platform that help drive new sources of revenue to us. We're continuing to invest in streamlining the invoicing, the payment and debtor management processes within a business. We know that cash flow management is the number one financial challenge for small businesses and the best way to improve cash flow is to invoice quickly, offer very simple integrated payment solutions and then make sure that you're following up on your debtors. There's a lot of innovation that we've brought out in the past six months in relation to this and will in the next six months as we continue to enable online invoices as opposed to PDFs, such that the business owner can now see when a client opens an invoice, sees when they go back and have a second or a third look and integrating a very simple payment mechanism right into that online invoice.

Moving over to the right, data as an asset. We believe that we're building a significant asset in the data that we are able to see and access. We announced in the first half of this year a relationship with OnDeck where we are a 30% equity holder in OnDeck Australia. OnDeck is a leading provider of online small business loans, really simplifying the process for a small business to be able to take out a loan. We're going to work with them such that we can simplify that even more, such that an MYOB client will be able to very, very easily go through a loan application process with OnDeck. Finally down the bottom there, we have a large number of other ideas. But we're really focusing our priorities on those ones that I've mentioned in the last six months and will be continuing to focus there in the next six months as we do go to market with OnDeck and make the first loans in Australia. Then Richard, perhaps just a final wrap up with the financial outlook.

Richard Moore: Yes, absolutely Tim. So we are reaffirming our full year 2015 and 12 months to June 2016 pro forma prospectus forecast, as you can see in the table in the middle of slide 24. We are absolutely on track to pay a dividend in respect of the last six months of the 2015 financial year and an interim dividend for the first six months to June 2016. Those are both in line to the target dividend payout ratio we reference in the prospectus which is 60% to 80% of NPATA. As we've said in the past, we have significant carry forward tax losses. Therefore, it's unlikely that any dividends in the next 12 months will be franked. We're expecting franking to commence with the dividend for the year ending 31 December 2017.

Tim Reed: With that operator I might hand back to you and open up for any questions that anyone might have.

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. Your first question comes from the line of Justin Diddams from Citi. Please ask your question.

Justin Diddams: (Citigroup, Analyst) Thanks very much. Tim, Richard, well done. A good set of numbers. A couple of questions from me. Just in terms of the cloud growth, I wanted to get a sense of what portion was

Essentials versus AccountRight Live in that growth number? I guess a follow-on from that is the 8000 adds you've delivered in July, is July a particularly strong month or could we - can we annualise that number? I just wanted to get a sense of how we should think about that step up in the run rate. Then maybe a final one for Richard on Ace Payroll. Are you happy for us to extrapolate the one month contribution to a six month contribution? Is there any sort of phasing from first half to second half we need to think about in terms of the contribution from Ace? Thanks guys.

Tim Reed: No problem. Thanks for the questions Justin. I'll take the first two and then hand over to Richard. So in terms of the first question around our cloud growth and the split between Essentials and AccountRight. As we know, we don't go through and release specific numbers by product line. But the trajectory that we've seen or the results we've seen in the first half are very similar to those that we've discussed in the past, in that the split of our cloud users is more weighted towards AccountRight than it is to Essentials. But for new customers coming to MYOB it's more heavily weighted towards Essentials than it is to AccountRight. But we've really seen no particular change in the trajectory of those two.

You will note that the ARPU was a little higher than expected and there might be an assumption therefore that it moved more towards AccountRight than Essentials than what was expected. That's not the case. What we did see is within AccountRight, Premier, which is at the higher end, was slightly higher than what we had forecast and within Essentials, the Essentials with Payroll, which is at the higher end of Essentials, was a bit more than the lower end of Essentials than what we'd forecast. But the actual split between AccountRight and Essentials continues as it has historically and continues to be a very healthy one for us.

In relation to the momentum in July, end of financial year does bring a bit of an acceleration for us. It is a time period where I think lots of small businesses think about change and think about the year ahead and therefore we do see a spike in activity at that time of year. Therefore, I would encourage you not to extrapolate the 8000 growth and multiply that out. But as Richard and I have both said, we're really reaffirming our prospectus guidance and so I'd draw your attention more to those numbers than to an extrapolation of July. Richard, Ace Payroll?

Richard Moore: Yes. So you'll see actually if you read in the stat accounts Justin we did put through a measure of if we bought the business on 1 January what we would expect the revenue to be for the year. We've said about \$3 million, which does equate to a run rate of roughly \$250,000 a month which is what we saw in June. It's a New Zealand business so it doesn't have the seasonality in June that you would have expected to have seen had it been an Australian one. So yes, it is fair to say \$250,000 times 12, \$3 million a year is roughly what we would expect to see from that business.

Justin Diddams: (Citigroup, Analyst) Richard, an EBITDA - positive EBITDA contribution from that business as well in the second half?

Richard Moore: Positive EBITDA contribution, yes.

Justin Diddams: (Citigroup, Analyst) Okay. Thanks guys.

Tim Reed: No problem.

Operator: Your next question comes from the line of Mark Bryan from Bank of America Merrill Lynch. Please ask your question.

Mark Bryan: (Bank of America Merrill Lynch, Analyst) Thank you. Good morning Tim. Morning Richard. Again, a great set of numbers. Well done. Just a couple if I may. Just firstly on that retail number, I'm just interested in that. Do you think the government incentive on tax breaks helped drive that number a little bit towards the end of the half? Can you just remind me Richard, when do you take those to the books? Do you take it when you actually provide it to the retailer or when the retailer actually sells to the customer?

Richard Moore: So I'll answer the second part of that and let Tim answer the first. Yes, we - it's actually noted in the document. We recognise that revenue when we sell it into the retail channel. So the reason that why we didn't see the uptick in the first half this year in terms of perpetual licence revenues, was we actually recognised it in 2014 when we sold those units to the retailers.

Tim Reed: That is changing Mark as we're moving from boxed software to point of sale activation cards. So that is changing and we're in a transition. But Richard's right. Most of the - particularly the promotions that the retailers ran to lead to, I think, a spike in activity was around their boxed software which is on their books. Therefore, you can understand that they want to get their inventory terms up. In relation to the second part of your question which I've now forgotten...

Richard Moore: The government incentive.

Tim Reed: Oh, the government incentive. Look, it's an interesting one. It's very difficult for us to know. A number of those retailers were people who were coming out and strongly saying that they did see an uptick in business activity. So it could be that small businesses were going in, buying new computer hardware and with that deciding that it might be a good time to purchase a new version of our software. It's not the best economic way to do that. They would be - if they were an existing user of our software, they would be better to come and take out a subscription than they would be to purchase another perpetual licence. But that could have happened - or it could be new businesses starting out who decided to jump in. But all of our research says most new businesses starting out now are highly driven towards taking a cloud subscription. It de-risks the upfront purchase and early on in their business life helps free up cash flow for other things. So it could have been a small factor but I don't think it would have been a big one.

Mark Bryan: (Bank of America Merrill Lynch, Analyst) Thank you, great. Obviously a nice lift in ARPU as the previous question focused on. Any colour you can say between the mix impact that you've alluded to and underlying unit inflation?

Tim Reed: Sorry, underlying unit?

Mark Bryan: (Bank of America Merrill Lynch, Analyst) So pricing. So you've got two drivers here. We've got a mix shift going on with - and price as well.

Tim Reed: Yes. So look, we - there was no difference in price from the time that we put the prospectus out until now. We review our prices on an annual basis and there - that - it didn't happen in that period. So price is as we expected it to be. The lift in ARPU is really as I described early. It's a mix shift, not between our



major product lines but within the product lines because in each of the product lines you can enter at a certain level or move up to a higher level. What we saw is the mix between the product lines where we expected them to be but more clients choosing the higher end of those product lines.

Mark Bryan: (Bank of America Merrill Lynch, Analyst) That's excellent, thank you.

Tim Reed: A pleasure.

Operator: Your next question comes from the line of Jodie Bannan from Macquarie. Please ask your question.

Jodie Bannan: (Macquarie Bank, Analyst) Tim, Richard, congratulations on the result. Just a question. I was interested in your comments around the non-paying desktop users moving to the cloud and the simplification process you put in during the half. Have you seen any improvements there in that conversion in the last six months?

Tim Reed: Yes. So thanks for the question Jodie and a great one. We released that on 16 June. So we really have only seen the very start of that process. But what we've done is make it really, really simple for a business to move or for an accountant to move. We also made it a much simpler process for anyone who wants to move from a competitor product to be able to move to one of our online solutions. We have been delighted in the uptake, both from our installed based and from our competitors installed base in making use of those services. It is a free migration that we now offer and we pretty much do all of the work for the client.

I do think that that's really increasing confidence in the accounting community - in accounting practices - to be able to recommend the move to the cloud because, while we had largely automated it, there were always little idiosyncrasies that might exist in an individual client's file that would mean the automation would work for 99% but for - 99% of the conversion of a file would work but that last 1% might mean that, say 20% to 25% of clients had trouble moving. For an accountant, that would really lower their confidence. So what we did was we wanted to offer 100% certainty that conversions would work and would work cleanly. So the idea of this service is to give accountants that confidence so that they are then more confident going out and recommending their clients move. It's too early to say and extrapolate out what that might mean to that yellow box on slide 22 moving into the green, but I do think that some of the great results that we've seen in July in that rapid uptake are in part due to the fact that we have really simplified that conversion process.

Jodie Bannan: (Macquarie Bank, Analyst) Great. Thank you.

Tim Reed: You're welcome.

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

Mike Younger: (Goldman Sachs, Analyst) Thank you. Just wondering Tim and Richard if you're able to give us a feel of the magnitude of uplift in subscribers when you talk about that cloud user growth and those buckets of the paying desktop guys going online, converting the active guys and then new clients? You mentioned new client was the number one source, are you able to frame some numbers around what the actual uplift in cloud subs was between those categories?



Tim Reed: Thanks for the question Mike. Again, let me draw you back to slide 22. So as I did mention, the number one source is coming from new users coming into MYOB. For us, that's probably the most important growth because the others are limited whereas that is growth that will come forever and comes from a source that's constantly being renewed. We don't release specific numbers across those three different buckets. But what I would draw your attention to is the fact that that third one is the biggest and, to us, the most important. So we're delighted in that. What we do see is a continued flow of one and two. Within the first bucket there, the orange one, we're actually getting to the point where a large percentage of our "do it yourself" desktop paying users - so that would be MYOB AccountRight still on the desktop and paying a subscription - we're getting to the point where a large proportion of those have moved into the green.

The majority of that orange is therefore MYOB BankLink and we haven't released the online version of BankLink yet. So I think what you'll see is that this will vary over time, dependent on our product deliveries and when we release those different products to market. What I would say is I'd continue to draw your attention to the most meaningful chart which is back on slide 12 which just really shows the continued growth in total cloud users and the continued growth in paying users. As we've discussed in the past, I think it's most important to look at the growth in paying users because our product strategy will, at different times, drive a higher growth of that orange to green versus other periods. While that's great for us - the long-term lifetime value of a client - it actually doesn't make much difference in the period to revenue or ARPU.

Mike Younger: (Goldman Sachs, Analyst) My final question was just with regards to ARPU - this is very nit-picky - but the \$371, I find hard to get that number out of the average paying user base that you've had for the year and the recurring revenue that you've disclosed. I'm just wondering if there's anything there that makes it a bit different to whether it's time weighted and it was just the timing of when customers came on or not.

Richard Moore: Yes, it's not. It is literally just the average of the recurring revenue in SME divided by the opening and closing average of the number of paying users. So the maths should be pretty straightforward. I'll go back and check that it is but it was when I - when we did it a couple of weeks ago.

Tim Reed: Probably the only thing I'd add there Mike and this won't make a material difference to the numbers but we did when we made the Ace Payroll announcement said that what we really believed the impact of that would be would be on ARPU in those clients because many of the Ace Payroll clients are existing MYOB Accounting clients. So rather than see that come through as the primary impact on the number of clients, we did believe that the primary impact would be on ARPU. But again, it's such a small part of revenue in the period that it's going to be almost a rounding error in those ARPU calcs.

Mike Younger: (Goldman Sachs, Analyst) Thanks very much.

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

Peter Stamoulis: (Evans and Partners, Analyst) Hi. Good morning gents. I was just interested in the contribution to paying customers from the Ace Payroll and, I suppose, the strategic rationale around that acquisition. Was it driven around the unique product offering or customer base there? Secondly, just on

ARPU growth, obviously a pretty solid result there. What can we expect in terms of pricing across the new BankLink cloud product when that comes to market? Lastly, just on Practice Solutions, obviously again strong ARPU growth. Does this step up on the new rollout of those cloud modules for those Practice Solutions? Thank you very much.

Tim Reed: No problem. Great questions Peter. Let me just go through them in sequence. So in relation to the first question around Ace Payroll, we don't disclose specific customer numbers by any product line and don't intend to. So we're not going to for Ace Payroll. But to the answer that I just referred to Mike's question, our underlying assumption here is that a majority of Ace Payroll customers are going to already be MYOB customers. So rather than double count them and then merge our CRMs and find that we've got to remove them, we've really modelled this in - such that the biggest impact that you will see there is on ARPU. We believe that that's on very good grounds because Ace Payroll have had a very stable client base for about 20 years using their small business payroll solutions. Many of those clients would have at that point in time used an MYOB accounting solution.

Why did we make the acquisition? The strategic rationale was really around the fact that we wanted to deepen our client relationship with those clients. We think going forward as they move to a cloud-based product it's more likely that they will move to an integrated accounting and payroll solution and so we really wanted to secure and depend our relationship with them in advance of that. At the time that we made that acquisition, we did also announce that we were accelerating our investment in a new online payroll solution for clients in New Zealand. That will be built off the back of the payroll solution that is inside Essentials Accounting today.

But we're really upping our investment there, such that we're able to offer a great like-for-like feature, if you like, comparable solution to both, where our existing MYOB payroll desktop product is and where the Ace Payroll desktop product is. Obviously with a larger client base it just makes the economics of that R&D investment even more compelling. So that's the Ace Payroll. Now I've forgotten the other questions that you asked.

Peter Stamoulis: (Evans and Partners, Analyst) It was just with respect to ARPU growth of 5%. I suppose what can we expect on the new BankLink cloud product going forward?

Tim Reed: Yes. So I referred to the investment that we're making in BankLink to reimagine it as an online product that still serves that core that BankLink has always served of what we call the "do it for me" market - small businesses that don't want to be involved in their accounting at all - and enabling a very productive solution so that accountants can do the accounts for a number of businesses at once who would be their clients and don't want to do their accounting. We haven't made any announcements and indeed haven't come to final decisions on what pricing will be there. But as with all of our other products, as we move from desktop to cloud we - what we want to do is really motivate and encourage clients to move as quickly as possible and we don't like pricing to be a barrier to that movement.

So we're not modelling that that will necessarily lead to an increase in ARPU - although it is an obvious time to look at the structure of pricing and there is some complexity in the structure of BankLink's current pricing today. But I don't think we'll - well, we're not looking at going into that as a pricing increase exercise.

Peter Stamoulis: (Evans and Partners, Analyst) Okay. Just on the last question around Practice Solutions talking to ARPU growth going forward. I think you talked circa 5% in your prospectus forecasts. Then perhaps also just put some colour around the customer retention there and, I suppose, is there any shift to competitor offerings across that product? That'd be great. Thanks.

Tim Reed: Yes, absolutely. So Practice Solutions is obviously a very important part of our business, both because of the impact in our P&L but also the strategic relationship of holding that core technology relationship with accountants in practice. In terms of growth going forward, again I draw your attention to the prospectus and to the forecast that we put there. We're reaffirming those forecasts that we have already provided. To provide a bit more operating colour underneath that though, which is I think where your question was really going, we are absolutely stoked. There are a few things in this six months that have really blown us away in our business. One of them has been the uptake of the MYOB Portal by our existing clients. We do not charge extra for that.

So that is not a growth driver in terms of ARPU. What we did was roll it out to our existing clients so that they could very simply and very easily start the journey of taking their Practice Solutions online with us. Every accountant that does that is then sending effectively login details to their clients so that their clients can then collaborate with them online. We think in particular once their clients - and their clients are loving the experience - the mobile-first experience.

So if your accountant was using our portal Peter and they had finished your yearend tax returns, you'd actually receive an email with a hyperlink. You click on that hyperlink on your phone and be able to go through and review your tax return, click sign and then approve and, by having that double recognition process, you would have signed your tax returns and returned them back to your accountant. What we're hearing is accountants are really highly valuing that because it's changing the perception of them in their clients' eyes and also driving their productivity.

So we're going to continue to roll out module by module and, as I said earlier, the next one will be our practice ledger that we'll bring to market in the next six months of this year. We aren't looking those as specific events where we reprice and lift ARPU. But they are a part of the overall value proposition that we put to market and again we do go back and have a look at the pricing of our Practice Solutions on an annual basis and we'll continue to do that. So there is an ongoing process where we re-examine price and we deliver more innovation to market but it's not necessarily tied one for one to the specific event.

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

Tim Reed: You're welcome.

Operator: Your next question comes from the line of Gareth James from Morningstar. Please ask your question.

Gareth James: (Morningstar, Analyst) Thanks. Hi guys. I'm just wanting to check, in the prospectus you stated that you have or that you had 760,000 non-paying SMEs as at December 2014. Are you able to state how many those are currently? Second question is your growth is obviously tracking behind Xero. Any

thoughts on how you can close that gap? Then third question, with regards to the OnDeck loans agreements, could you comment on earnings potential from that agreement please?

Tim Reed: Yes, absolutely. So let me go through these three. If I draw your attention first Gareth to slide 22 there, you can see that we haven't put a figure at the top of those yellow boxes. Really what we wanted to do is to drive attention towards the number of paying users. So roughly speaking, our active user base moves in line with the number of SMEs and we've seen that relationship continue through this six month period. But what we've seen is obviously a higher and higher proportion of it become paying and a higher and higher proportion of that become cloud based users. So we think across the Australian and New Zealand economy, our presence has been stable in terms of the percentage of small businesses out there using our accounting solutions. But what we've seen in big growth in the proportion of those that are paying and even bigger growth that are cloud based users.

To do a comparison between us and Xero, you need to make sure that you're doing apples for apples. So we are just stating here our numbers for our "do it yourself" online accounting solutions because they're the only ones that we've put to market. Xero also include in their numbers their Cashbook or "do it for me" product which would be the equivalent of our BankLink and their practice ledgers and that would be again the equivalent of the ledgers that we offer in Accountants Enterprise and Accountants Office. As we've stated in the past, I think Xero have made public comments that in the range of 40% of their clients are on one of either practice ledger or their Cashbook. If you back those out and do a comparison there, recognising the vast majority of our clients are in Australia, then I think you'll find though in the categories where we are online and are competing that we're competing very well with Xero.

Obviously for us a big push is to bring those other solutions to market. So I've talked about our practice ledger and talked about BankLink. What we do believe is once we do bring products to market, then generally take six or 12 months for us to get the uptake of those products really moving through the market. So if you were looking at forecasts there going forward I'd encourage you to think about that, that once those things do come to market that somewhere in a six to 12 month timeframe, that you will start to see those results flowing through. We'll obviously be very clear about that in any announcements that we make going forward. So that was the second question.

The third question that you had was around OnDeck. So OnDeck, we are anticipating will be in the market by the end of this year. So we'll just be starting to offer and write loans through the period. Because we have a minority position in OnDeck and because there is a much larger shareholder which is OnDeck in the US, we do not equity account for OnDeck. So we simply look at it as an investment on our balance sheet. So you won't see significant earnings coming through from that because we're not equity accounting into our P&L. That said, I believe that it is an incredibly exciting category and I do believe that our equity stake in OnDeck will build significant value over time. But as with all new endeavours, I'm always very cautious to overestimate - sorry, not to underestimate the amount of work that it takes to really build a new start-up into a business of substance.

Gareth James: (Morningstar, Analyst) Okay. Thanks guys.

Tim Reed: You're welcome. I don't believe there are any questions outstanding at this point in time and we have run over. If anyone does have a final question I'd probably say speak now or get in contact with Sara.

Operator: Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced.

Tim Reed: Mary, it doesn't seem like there are any other questions. So I might take this opportunity to wrap things up. Hopefully what we've conveyed here is how delighted we are with the performance of our business over the past six months. The business that we are building is a growth business. It is a business in which we are investing in and a business in which we're driving continued innovation. Our clients are benefiting from that innovation and you can see that coming through in the economics and the returns that we're driving.

We're thrilled to be able to sit here and confidently say that we are reaffirming our prospectus forecasts. We are continuing to see progress as we move into the second half of the year and very much look forward to giving you an update in six months' time where we have the next set of financials that we can share with you. Thank you everyone and again, thanks for your time and your support of our business.

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

**End of Transcript**