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Start of Transcript

Tim Reed: Good morning, everyone. I'm delighted that you're able to join us today. Richard Moore, our CFO, is here with me as well to share with you our full year 2015 financial highlights. To say that we're delighted to be here is probably an understatement. The results speak for themselves. We've been able to either meet, or, in most cases, beat every expectation that we've set as we've re-entered the public market last year and with our IPO in May.

We'll talk through the financial highlights, we'll then focus mainly on the operations of the business that have driven those results and then dive into some of the segment results for you. At the end we intend to leave plenty of time for questions, so please jot them down as we go.

But let me just start with the highlights there on **slide 6**, for those of you who have downloaded the presentation, which steps through the strong financial performance of our business in 2015. You can see the $328 million of revenue, up 10% year-on-year, with recurring revenues up 11%. The pro forma EBITDA of $153 million and 19% year-on-year growth from 2014 and the pro forma NPATA of $86 million being up 22% on the prior year.

It's on the back of those strong financial results that the Board is proud to be able to declare a $0.05 per share dividend, which follows on from the NPATA EPS of $0.147 for the full year. We set expectations in our prospectus that we would start paying dividends from 1 July forward and that dividend therefore falls right in the middle of the range that we set in the 60% to 80% payout of NPATA.

A couple of the other financial metrics there, you can see our cash conversion coming in at a very strong 87%, up on what we forecast in the prospectus. The 545,000 paying SME subscribers that we had at the end of the year, up 8% year-on-year, right where we expected it to be and our ARPU of $379, up 5%, slightly ahead of expectations. So again, just recapping, I think these numbers really capture the very strong financial performance that we had through the year, but also the high quality of earnings that we were able to produce.

Slide 7 then starts to talk about the operations for the year and to say that 2015 was a transformational year for our business probably understates some of the huge steps forward that we took, but hopefully I'll be able to highlight those as we go through this presentation. Starting with SME growth and that really is the growth driver in our business, there is a transformation that's taking place across small businesses, moving from desktop solutions to cloud solutions. We've spoken about that and you can see it coming through in our results. We'll dig into some of the numbers as we go through, but we have 170,000 online subscribers at the end of 2015, up 46% on 2014.

2015 was also the year that we started to move accounting practises online with their practice solutions. The launch of MYOB Portal is the fastest product that has been taken on by accountants in our memory here at MYOB; over 1000 practices took Portal in 2015; it was launched at the end of April, which is a staggering number in a very short period of time and they interacted with over 16,000 of their small business clients, really streamlining the way in which they collaborate.

A real highlight for us in 2015 was the investment that we made. In the second half, 15% of our revenue was invested in R&D, right in the range of the 13% to 16% of expectation that we set. We are very, very targeted in the way in which we use this. We have discipline in the ways in which we invest and we're proud that we're able to invest and deliver such strong results on the back of that investment. As we get into the presentation today, I'll highlight that.

It's not just investment in products, however, we also invested in our digital marketing capability and I'll discuss that more as we go forward, and also really took a leadership position in payroll in New Zealand with the acquisitions of Ace and IMS during the year.

But as I reflect on 2015 and think about where we stand entering 2016, I think perhaps the thing that differentiates us most is our vision for the future. So I will spend five minutes as we get into the presentation sharing with you the way that we've been talking about the bold vision we have for the future to our clients, speaking with confidence and hearing their confidence come back to us, which I think differentiates us from many others in our category.

So, just moving on to **slide 9** there, we are a growth business. As a leadership team, we manage and drive, invest, think, and run the business, as a growth business. You can see the formula there. We are doing everything that we can to continue to drive the number of online subscribers that we have. They are coming both through new customers as well as our existing install base, upgrading and moving online. It's really that which becomes the first focus of our R&D investment; making sure that we're capturing new businesses as they're formed and also making sure that our online solutions are increasingly attractive to our large desktop using base.

As we get clients online, point 3 speaks to the fact that we want to continue to improve their experience, continue to ensure that their productivity is growing, and as a part of that, we see value in terms of increased retention, but also our ability to cross sell and up sell and to re-examine prices such that ARPU continues to rise.

I spoke earlier about our vision and what 2015 really delivered on was the first component of bringing our practice solutions and SME solutions together into a single online platform. We think that that is revolutionary and that it will really drive the level of collaboration between a small business and their accountant. We've spoken in the past of the importance of accountants in our category, but we think in the future they will become more important. We are building a platform that enables that and differentiates us from others on that basis.

We're also continuing to invest in connected services. MYOB PayDirect moves from just mobile to online in the next couple of weeks. But not just that, we're making sure that this platform that we're building leverages and harnesses the investment that others are making as well. At the end of 2015, we had over 3200 developer partners who were connecting to our solutions through our API. That is a staggering number and when you think about it, what it probably means is that there's something in the order of 10 times the number of software engineers building add-on solutions around our platform, enhancing, extending our platform, compared to the number that we employ through that 15% of revenue that’s being channelled back into R&D.

The only reason that I'm able to sit here today and speak with such confidence, not just looking backwards, but also looking forwards, is because of the amazing team of people that we have at MYOB and 2015 was a real highlight for us there as well. We were recognised with numerous industry awards as being an employer of choice, a cool tech company to work at, et cetera. It is that team of people that gives me confidence to be able to speak and look forward and we'll talk about guidance towards the end of this presentation.

The final element of that strategy here for growth is really about being very disciplined and very targeted, but making value-adding acquisitions. We did a couple of those last year and we have an active pipeline where we continue to look at inorganic growth to complement the strong organic growth that we have in our underlying business.

So just moving on to **slide 10,** let me show you the numbers that back up everything that I just said. You can see here the growth in our paying users being driven by the growth in our online users. On the right hand side, for the first time there, we've not just shown the unit split, but also the revenue split and you can see that the products that we first moved online have been weighted towards our higher end products and therefore the revenue is now sitting at 44% and continuing to grow, 8% total unit growth in terms of paying users, 46% in terms of online subscribers.

Slide 11 shows the first source of that. In fact, the largest source of growth for us in terms of new clients who are coming into that green bucket is from newly registered clients with MYOB. You can see the chart on the right there that just tracks over the last three years from where we've gone from a quarter of new clients to MYOB immediately coming in as an online subscriber, to today where we've passed three quarters. In fact, you can see the last three months leading up to December 2015, we're at 78% there, with momentum continuing to build.

Slide 12 then talks to the other source of that growth, which is the growth that comes from people who are already in the category, predominantly those that are using desktop solutions. I think the two charts at the top just show the ongoing evolution of our business. You can see there, the total number of users at 1.2 million, approximately 50% of small businesses across Australia and New Zealand, giving us more than 50% market share. While that is holding steady and moving roughly in line with the total number of SMEs, you can see under that surface the nature of our business being transformed, where those green users continue to grow, pushing up the orange and indeed eating into the orange.

The second source of that growth, a little bit smaller than the first, is the movement of our existing users online and you can see through 2015 we invested heavily here and it's depicted by that picture in the bottom right, really streamlining the process of making that migration. So it's so simple, a client simply has to choose to migrate or their accountant can do it for them. They drag and drop their ledger and they receive an email back from us, generally within minutes, saying that the migration is complete. We streamline that process because we simply want to remove every single barrier that any small business may feel exists in relation to moving online, hoping and wanting them to get the benefit that our online solutions bring in terms of productivity.

I spoke about R&D investment and **slide 13** is a very important one and I'm going to try and pull together three points that I'm not sure I've articulated clearly in the past, but I'll do my best to articulate clearly today. Our growth comes from the fact that we continue to invest in our product. Our products get better and better, they are more compelling, more compelling than others in the market and more compelling than the status quo to our clients. That really comes through the investment and you can see the purple bars here that talk about the dollars invested in R&D.

The blue line looks at that as a percentage of revenue and you can see there that we've been in that 13% to 16% range where we targeted and where we set expectations as we began speaking with you about a year ago now. You can see there for the second half of 2015 that that was sitting right at 15%. I sometimes have conversations that people say, well if you're investing more, your margin must be coming down; we're nervous that this is going to put pressure on your margin. If we just look to that table at the top there, from 2012 to 2015, we have increased our revenue by 8% annually, it's an 8% compound annual growth rate and that means the lift in R&D from $31 million to $46.5 million has been able to be sustained while we have increased our EBITDA margin by four percentage points.

So just to be clear, this is the economics of a growth business. As we grow the top line, we can deliver improved results, we can deliver very strong cash flow to shareholders while also making sure that we have the capacity to invest in the future. I am amazed at the number of times that I get asked “either/or” questions on this point. This is not a story about either/or. This is a story of strong investment to deliver outstanding solutions to our clients while also making sure that we deliver outstanding financial returns.

You can see down the right hand side there we were named Australia's most innovative large company last year by BRW. It was a real feather in our cap, a real moment of achievement for the MYOB team, but one that I believe was well earned by all members of our organisation.

Moving on to **slide 14**, the opportunity for growth doesn't stop here. In fact, the opportunity for growth is tremendous. You can see on the left hand side here where we believe the penetration of online accounting sits for small and medium businesses, relative to desktop. Its’s not saying where desktop is, is necessarily a cap on growth, but certainly we believe that online solutions are dramatically better for both small businesses and their accountants and desktop. So we use that as a reference point, but certainly don’t think about that as an upper limit in our planning.

On the right hand side, increasingly we're going to start talking about practice ledger as well. I said 2015 was a transformational year in part because we started the journey of moving our practice solutions online. In 2016 we're going to take bigger steps again and in 2016 we'll be launching an online version of our practice ledger. We estimate at the moment that about 2% of practice ledgers that exist are online and almost every entity has a practice ledger. So with that in mind, the growth in this area is going to be tremendous and you'll see that start to come through our results over the next 12 months.

But the investment story is not just in product. The investment story is also in people and in capability and as we have transformed our business to being a full online business, a truly digital business, part of what we've invested in is our online sales and marketing capabilities. You can see **slide 15** talks to this. What this really means is we're becoming increasingly sophisticated in the way in which we're able to engage with clients before they enter a purchase cycle through online means, bringing them into our website, really developing a relationship with them and then able to convert them at a higher and higher rate.

Slide 16 just talks then to the returns that we get on our R&D investment from our existing clients. So once they've moved online, it doesn't just stop there. You can see that what we've been able to do is increase their retention rate, which means that we're able to extend the expected lifetime value, but also that we've been able to manage increases in ARPU. Part of that is absolutely through cross sale of things like Pay Direct Mobile, but part of it is also just the fact that they're getting increased value out of our core products.

A big part of that is also our service team and this is a real differentiator for us. While early adopters generally don't need the same level of service, as you move into early majority and certainly as you get to the middle of an adoption curve, helping clients change, being there and being available makes a massive difference and we've seen this come through in our internal customer satisfaction results. The fact that we have a local phone-based team who are there to help, who will pick up the phone and give a client a call or are available throughout the day for them to call in makes a massive difference as small business owners are taking this step forward and really starting to embrace new technology.

As I mentioned earlier, perhaps the biggest difference for us, more than anything, is our vision of the future. We have a very bright vision of the future. When we reflect on the way in which we've served clients over the last 25 years we've really supported three separate business processes. These are:

- Transaction processing, which is capturing all the activity that occurs in a business and bringing it into the general ledger;
- Compliance, which tends to happen at the end of the period where the accountant goes through and validates and verifies all of the balances and information and then submits the requirements that the regulator has put on that business; and finally
- Advisory. This is ongoing business process improvement within the small business, helping small businesses get better insight out of the information that's available.

Each of these are fundamentally changing. Transaction processing is being automated and we are doing that through tools like MYOB Smart Bills, through our bank feeds and by the way we processed over a quarter of a billion bank feeds last year and we were proud to announce two weeks ago that we are so confident of the accuracy of those that we are the only vendor in the market who is now offering a money back guarantee based on the quality of the bank feeds that they provide.

Ultimately we see our job here as eliminating data entry, so that the business person can go about running their business, and we capture that information automatically and simply present them with a draft trial balance. Compliance is changing as well because access to the information is constantly available because we capture source documents and attach them to the transaction, because we're transforming the way in which advisors can then communicate with their clients to get additional information as needed through tools like the MYOB Portal and finally, because we're really working to streamline and re-imagine the work processes within our compliance tools based on the fact that that information is always available and is constantly reconciled.

What that means is time taken on compliance is coming down and that is freeing advisors up to do more advisory work, to be able to work with the business in terms of setting budgets, doing forecasts and really helping them understand and optimise their business outcomes. I was thrilled again that two weeks ago we were able to share with our clients the new budgeting and forecasting tools that we built through the second half of last year, that are a just a natural extension of MYOB Essentials and the new MYOB platform going forward.

So each of these three are being transformed but the bigger change that we see is that they are merging into one continuous business process and it's really based on that bold vision that we've made a couple of big bets. The first is that to support that vision there will be a single technology platform that advisors will use. We are the natural partner, having 60% to 65% market share in the transaction processing and the compliance fields and we are taking our clients on that journey.

That's why that number of 1000 accounting practices coming on this journey with us by using the MYOB Portal is such a critical one.

The second is that we believe that those advisors are going to play an even more important role in the lives of their clients tomorrow and therefore we're building some very specific tools for them. I've spoken to you in the past about some of the things that we'll be releasing in 2016, in particular taking BankLink, as it exists on the desktop today, and re-imagining it as part of the MYOB online platform. Those tools, if you like the DNA of BankLink, that we've been able to capture is really what makes us so excited about this platform going forward and that is what is striking a cord with our clients.

Slide 18 just drives home the point that I made upfront, we can only do this outstanding work on behalf of our clients because of the phenomenal team that we have here at MYOB. We invest heavily in this team and they give back their heart and soul to our organisation and to our clients and you can see that reflected on slide 18. We have a strong leadership team, I'm very proud of this team. It has taken us many years to put together and we've worked together for a number of years, simply an outstanding group of people who are able to lead and drive this organisation forward.

Finally, **slide 20** just looks at those investments that we've made in terms of inorganic growth or acquisitions and you can see them really fitting three paths.

- One, being those that overlap with the core of our business
- Two, being connected solutions that extend our platform; and

- Three, being add-ons that enhance our client numbers in one particular area.

Of late we've probably focused more on two and three than on one because we do have a very strong footprint across those three business processes but we continually look across all three of these.

That sums it up, that's our story for growth. As I said upfront this is a fantastic set of results, a very strong financial result but driven by a strong underlying growth strategy and with that said I might hand over to Richard to talk through some of the specifics.

CFO Richard Moore: Thanks very much, Tim and thanks for the opportunity to spend some time with you this morning to run through our great financial story. So on **slide 22** where we have the summary you can see as Tim said we met or exceeded our IPO forecasts on all of our key financial metrics. Revenue 1% ahead of forecast, EBITDA, which is our operating profit, up 2% and NPATA, or after tax profit, which is the basis for our dividend payment also up 1%. You will also see throughout this document that we do focus on our pro forma financial results. The reason we do that is to make it very clear to compare a like-for-like, year-on-year growth story and it ties back to the figures that we put in the prospectus.

The pro forma adjustments effectively take the current capital structure post-IPO and apply that to both periods and also remove a lot of those one-off costs that impact in the year that you IPO. So it should allow, and does allow, for a very clean year-on-year comparison and is completely consistent with what we reflected in the prospectus.

So with that in mind you can see year-on-year revenue growing 10% to $328 million, EBITDA or operating profit, up 19% and profit after tax up 22%. So, very, very strong growth rates, right across the board.

You can see underneath the two financial metrics that are driven by these great results. Recurring revenue, which is the revenue from our ongoing subscriptions and maintenance contracts, is now over 95% of our total revenue. It shows the quality of our earnings and the fact that through most of our segments the shift to subscription is well advanced, and the EBITDA margin of 46.6%, up 3.7 percentage points. That's a great result for our business and we're bang in that 45% to 50% EBITDA margin range that we've spoken about previously.

On the right hand side, you can see the revenue contribution from each of the segments. SME in particular growing very strongly between 2014 and 2015 but we are seeing growth right across the board and in the bottom right hand side there you can see the specific growth rates, SME at almost 14%, Practice at 3%, Enterprise at 4%, equating to that total revenue growth rate of 10% across the business.

I'll now dig into those a bit more specifically. So **slide 23**, we look at our SME segment. It delivered 63% of our total group revenue and you can see on the left hand side how that comes about. Our recurring revenue from subscriptions and maintenance contracts is up 14%, offsetting the continued reduction in perpetual licence revenue down 30% in the year. This is exactly what we would expect and exactly what we would hope to see as we really complete the shift from selling upfront perpetual licences to selling online subscriptions. That works out to a total growth rate of 14% in the year.

We did make two acquisitions though in the year. The first was in May, the second was in September. Taking those out we've got an underlying revenue growth rate of 12%, so still very strong. What's driving that 12% growth rate? Well, it's really the growth in recurring revenue which is 97% of our total revenue in SME. That 12% growth in the underlying revenue driven by the growth in paying users, as Tim said earlier, up 8% to 545,000 within SME, together with the average revenue per paying user up 5% to $379 and continued strong retention rates in the SME portfolio of around 80%. So very much the engine room of the business, and we are really pleased with the growth rates at almost 14%. We are also very pleased with the recurring revenue percentage and the strength of the underlying earnings.

Slide 24 then takes us on to Practice Solutions, which delivers a quarter of our group revenue. Practice Solutions continues to be a very strong and stable segment within our business and incredibly important because of the links with accountants and the fact that they are such a strong referral base for our SME solutions. If we look at the specific revenue drivers you can see recurring revenue, also 97% of our total, growing at about 3% per year, broadly in line with history. New licence revenue is contracting and that's really because this practice solutions area is quite heavily penetrated in terms of software overall.

If you're an accounting practice you will run a practice solution from one of a small number of vendors, so the opportunity for us here comes with the shift online and you can see there on the right hand side, Tim mentioned it earlier, we're really excited about the launch of MYOB Portal in April, more than 1000 practices now using it for more than 16,000 of their SME clients and that's just the first step. We are launching the online practice ledger this year and we will continue that journey towards the connected practice and you will see that when we talk about investment it is a core part of our investment in the single platform.

Our third segment, being Enterprise Solutions, provides 13% of group revenue. It's a really exciting segment for us with the launch of MYOB Advanced and the acquisition of PayGlobal in the last two years. There are really great opportunities for growth here. This segment in particular had a year of transition in 2015 as we move from selling MYOB Exo, an upfront desktop licence, to selling MYOB Advanced which is an online subscription. So that does somewhat mute the growth rate of 4% versus an historical run rate of 9% but was actually 5% higher than we anticipated during the prospectus process and, really, that's driven by two things:

- One, the PayGlobal acquisition continues to outperform our expectations and,
- Two, MYOB Advanced has really been really exciting for us in terms of the number of new clients that have come on board. Remember this is software for reasonably large enterprises and to have almost 100 using the software by the end of the year is certainly ahead of the expectations that we set at the start of 2015. So, all three segments really delivering from a revenue standpoint and well set into 2016.

In terms of our investment story, that's on **slide 26**, again Tim talked about the fact that we do invest continually for growth and we can see that both in our operating expenses on the left hand side and our research and development costs on the right. Our opex is up 2% year-on-year and 1% higher than we envisaged through the prospectus process. That increased investment has been in a couple of areas. One, Tim spoke about earlier we are investing more in digital sales and marketing resources than we ever have and we're also investing more in above the line marketing. So in the second half of 2015 we went to the market with an outdoor and radio campaign in order to continue to drive revenue, a very successful campaign and that was responsible for that incremental $1 million in marketing spend.

The other thing we have done is that we bought two additional companies during the year. The ongoing opex from those is captured within this spend. So we are continuing to invest for growth. That's also reflected on the right hand side in our R&D costs.

We flagged at the first half results that we were investing at a higher rate here in the second half than we had seen in the first. You can see that reflected in the results. Total spend in the year $46.6 million of R&D, up 4% on the prior year and up 8% on the expectation in the IPO forecast. That's 14.2% of revenue but more importantly it's 15% for the second half. We certainly expect to see that run rate of investment continue in the top half of the 13% to 16% range that we previously suggested.

You can see that, the mix between opex and capex was more skewed towards capex in the second half than it's been in the past. That's because of the investment in the single platform. These are solutions that are not yet in the market. They're not generating revenue. Our accounting policy is pretty straightforward. If there's revenue being generated from an existing product and we spend any R&D, we expense that to match the revenue. If it's on a product that's not yet generating revenue, we capitalise it and the expense will come through whenever the revenue eventually comes in.

So, a really strong story of investment. As I said, we do expect to stay both in the top end of the 13% to 16% of revenue range through 2016. We also expect that opex/capex split to be roughly 50/50 through the next 12 months.

The final slide I have in terms of our financial results is a really strong one which is our cash flow and the cash flow conversion.

87% cash conversion is one of the strongest figures in our P&L. It's in line with 2014 and up on the prospectus forecast. It certainly sets us up well to continue to invest into 2016. What's changed since the forecast? Well, higher capex - we've reflected already the fact that we've continued to invest more in product than we have in the past. Also, a positive change in net working capital which we discussed in the first half results coming from the fact that many of our clients still choose to pay annually up-front even though they are on a monthly subscription. So, we tend to see many who have historically paid up-front for a maintenance contract continuing that trend even though they could move to monthly. So we get that cash up-front and it gives us a positive impact on net working capital.

I will, just before I finish take you to a couple of slides in the appendix which you can read at your leisure. We have the key operating metrics from the IPO on **slide 32**. You can see we've achieved the vast majority of those. We have a detailed income statement on **slide 33** and a balance sheet on 34. I will note one thing on the balance sheet which is continued improvement in our net debt to EBITDA ratio, under 2.6x at the end of December, down from around 3x at the end of June, driven by growth in EBITDA and growth in cash. That's a metric that we're very comfortable with.

Finally, on slides 35 and 36 we reconcile the pro forma results we've been speaking about this morning back to our statutory results that are in our annual report. The vast majority of those reconciling items happened in the first half, linked to the IPO. In the second half it's very small and certainly going forward we don't expect to see material variances between the pro forma and statutory results.

So in summary a great year for us as our first year as a listed entity; very proud of the financial outcome and feel very well set in starting 2016 on a sound footing.

Tim Reed: Thank you Richard. That takes us to **slide 29** in which we run through the outlook for 2016. Obviously in our prospectus we put very detailed figures out that go through to 30 June 2016. I'm very happy to reaffirm our prospectus guidance on revenue, on EBITDA and on NPATA. I'd really like to make that clear. We see the business having great momentum and therefore we're confident in our ability to confirm those numbers.

We are as I said up front investing. We are investing to grow. We're going to continue to invest. I would like to therefore restate that 13% to 16% range of revenues in terms of our investment in R&D. We are very specific, very targeted and we get very high returns from the investment that we make here. We expect to remain in that range through 2016 and beyond. As Richard pointed out at the end of this last year, the second half of last year, we were at the 15% point. We do believe in 2016 that we will remain in the upper half of that range.

We expect our revenue growth in full year 2016 to be in line with historical trends. As we've stated in the past we expect our EBITDA to be in the 45% to 50% range. Now you can all see where our EBITDA was this year. You can have a look at the first half of next year and see where our EBITDA margin is there from our prospectus guidance. We are absolutely continuing to drive the business forward, continuing to invest for growth, continuing to expect growth. Therefore, we are very confident the business will remain within this range.

Finally, in relation to the dividend, again you've seen a glimpse today of how the Board have viewed the dividend. We do believe that it is important that as the business generates cash that that gets shared with the shareholders. We intend to continue, and I can also reconfirm the previous guidance around dividends of the 60% to 80% NPATA you can see that in this period that translated to a $5.0c per share dividend. With the high quality of earnings that we have we believe that we are able to confirm that guidance going forward as well.

So with that said I might open the line up for questions if anyone has any.

Nick Dalton: (JP Morgan, Analyst) Hi guys. Your ARPU was quite a bit stronger than prospectus forecast. I was wondering if you could just walk through some of the drivers behind this. Was it up-sells or was it due to price increases?

Tim Reed: Yes, absolutely. Look, the main thing that has driven ARPU above where we were expecting as well has really been the mix of products that we have. So, both the mix between Essentials and AccountRight, but, also the mix within, because on both those products we sell them predominantly at two levels. So for Essentials we sell it with one only one user on payroll and with multi users on payroll. With AccountRight we have our Plus version and our Premier version. So, there was some mix towards those products over BankLink, but the main difference was more clients taking the higher end within each of those product lines.

Nick Dalton: (JP Morgan, Analyst) Perfect. So did you pass through any price rises over the past 12 months?

Tim Reed: We did. We review price on an ongoing basis. We don't have a uniform policy. With AccountRight we generally review it on 1 April. So that's what we did last year. We'll be having a look at it again this year, of where we think the opportunity their fits. With Essentials we didn't put through a price increase per sé. But we separated - Essentials used to only be sold at one level. We separated it out to create the two different tiers for those that have one user on payroll and those with more. So that led to an effective ARPU increase across at least part of the base throughout the year.

Richard Moore: Nick, just one thing I would add to that is when we did the IPO we already knew exactly what the price increases were. So there's no incremental pricing in 2015 on top of what was in the IPO. The difference between the IPO results and this is the mix that Tim was talking about at the start.

Nick Dalton: (JP Morgan, Analyst) Okay. Just finally, with R&D increasing in 2016 I was wondering if you could just walk through the allocation of your R&D spend across your current pipeline of projects.

Tim Reed: I can, but let me restate some of the stuff that I said during the presentation. Our vision of the future is that there will be a single MYOB platform that SMEs and accountants will log into: That it will intelligently know who they are and therefore what information they have access to and what tools they need to get their work done. So the majority of the investment is going into that platform. As we build things on that platform they are leveraged by both small businesses and accountants.

The split between saying we've done something specifically for practice or specifically for SMEs which in the past we were able to do because they were actually different products and different code bases that shared data and information but they were stand-alone separate entitles, goes away because much of the capability that we build into that platform - for example if we build a new reporting engine - it's leveraged across both what we present to SMEs and what we present to accountants.

So we're not really able to have that same separation between the way in which we categorise our revenue for our investment spend as we have been able to in the past. Does that make sense Nick as I just set that framework?

Nick Dalton: (JP Morgan, Analyst) Yes, that makes perfect sense. Maybe - could you explain a little bit. What is your spend on your Enterprise software relative - I mean if you could break it down that way?

Richard Moore: We don't break out the spend on a division by division business. Obviously over the last three years we have invested materially in bringing MYOB Advanced to the market. That product is predominantly now in the market and running so we'll actually see a stabilisation of investment in Enterprise. But we wouldn't split the overall 15% of revenue in the second half for example on a product by product basis.

Nick Dalton: (JP Morgan, Analyst) Okay. Thanks guys. That's all from me.

Richard Moore: You're welcome.

Peter Stamoulis: (Evans and Partners, Analyst) Hi, good morning gents. Thanks for your time. Firstly, just on R&D capitalisation and acquisitions, if you back out the differences relative to prospectus it would appear that underlying results are a little bit weaker. I think we saw a $2.5 million benefit in expensed R&D along with the acquisition contributions. Can you just talk to this?

Richard Moore: So Peter I would say first of all we spent $2.5 million more in operating expense in the year than we expected to in the prospectus. So I don't think that it's fair to say that investment wasn't made. We disclosed the $2.9 million of revenue from the two acquisitions in SME. In the first year of any acquisition we do have the costs to integrate those businesses. So, the overall contributions from those at an EBITDA level was certainly less than that. So we're quite confident that on an underlying basis and on a like for like basis we certainly achieved all of the IPO financial targets.

Peter Stamoulis: (Evans and Partners, Analyst) Okay, thank you. Just on ARPUs across both the SME segments and practice - just in SME just thinking how sustainable ARPU growth is given the skew towards an incremental take-up in Essentials. Going forward obviously practice ledgers and what the pricing strategy may be there. Then perhaps just in practice how does your ARPU growth outlook look given potential tapering with the introduction of practice ledgers and also competitive landscape?

Tim Reed: Let me try and run through each of those. If I forget one Richard maybe you can track them for me. So, in terms of the trends that we see that drove the ARPU difference in 2015 they didn't taper towards the end of the year. They were solid throughout. The mix differences that we spoke about earlier weren't sort of a peak at some point throughout the year, but they were actually sustained through the end of the year.

In terms of practice ledgers, the way that our practice solutions work today, we effectively sell seat licences to accountants, to different modules. So, Practice Ledger will be a part of one of the existing modules that is sold, it's a module called Client Accounting. Therefore, as we make that available, it will be available for our existing subscribers to upgrade their desktop ledgers to the online Practice Ledger, and, for any accounting practice that doesn't use our existing Client Accounting module, they will obviously be able to purchase that, such that then they can access the new online Practice Ledger.

What that will do to ARPUs, we've been quite specific here in calling out SME ARPU. So, as practice ledgers come online, we will have our online ledger numbers growing, but it won't actually impact the SME ARPU, which is what we've reported through this document. We will separate out our online ledgers that are SME, versus those that are online practice ledgers. Not everyone in the market does that and we've been quite critical of those that don't because we think it actually distorts and doesn't allow people to get a like-for-like comparison across how different vendors are faring. So we will separate that out, as those start to come online, such that you'll be able to see quite distinctly the two sources of growth.

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

Richard Moore: The only other thing, Peter, I would add to that is, as Tim said earlier, we do invest heavily in the products and we will continue to invest heavily in the products, to deliver a better solution for our clients. So, for us, ARPU isn't putting prices up, it's about delivering a better value for money solution every year. Certainly, if you look at some of the things we brought to market in SME this year - such as Smart Bills and Pay Super – these are delivering significant efficiency and time saving for SMEs, and certainly a great deal more than, on average, a 5% price increase is costing.

Tim Reed: Sorry, Peter, so your final question was an outlook for Practice Solutions. I think I would just say to you, in line with what we've said for the business overall, that historical trends are the best thing to look at in terms of a specific outlook. But that doesn't apply just to SME there, but I was also thinking that you would apply that sort of guidance to Practice Solutions.

Peter Stamoulis: (Evans and Partners, Analyst) Okay, and just one last quick one. Just on BankLink, with transitioning that one to online. When that happens in 2H16, I think you talked to, can we expect a one-off transition from all desktop BankLink customers to online or does that migration take time to play out? Then I suppose the ARPU implications, is that captured within the SME segment?

Tim Reed: Yes, so it will happen over time. So, the practices that use BankLink will, at some point, choose to move from the desktop to online. They will not have to move every single ledger on line at the same point in time. So, different practices will choose to make that move at different points in time. Some may choose to move 100% of their BankLink clients all at once, some might choose to migrate over extended periods. So we're allowing our clients to have the freedom to choose, in terms of their path for migration there. I expect, therefore, it will take a number of years for those clients to fully migrate over. In terms of ARPU implication, we haven't shared with our clients yet - we haven't shared with anyone - our exact pricing strategy there. But as we do, we'll make sure that we keep you abreast.

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

Gareth James: (Morningstar, Analyst) Hi guys. Could you just clarify how many active non-paying users you have currently, and what you're seeing in terms of trends. Are you losing those customers to competitors?

Tim Reed: Yes, absolutely. So, probably the best slide to turn to is **slide 12,** Gareth. The top of that yellow bar, we're not able to count precisely the number of active non-paying users we have. But, as we've indicated in the past, we do have a “pinging” mechanism in the software which pings home at least every 270 days. So, we use that as, what I'd call, a pretty accurate - plus or minus a few percentage points - guide.

Then, the top of that yellow bar sits, as it has in the past, at 1.2 million businesses. So then you can see from there the 545,000 paying and therefore the 655,000 that would be non-paying active users of our software. In terms of are we losing them to others, there are two dynamics that happen here. Number one, there's a natural life and death cycle for small businesses. Somewhere in the order of 11%, 12% of businesses shut down every year, and somewhere in the order of 12% of businesses are created every year. So, while the top of the bar remains the same, there is movement in and out of that category. What you can see here is, as that is taking place, we remain in a position where about 50% of businesses across Australia and New Zealand use our accounting solutions. That's been the case for a number of years, and that remains the case today.

Then you've got to get down to the dynamics of specific businesses. As we have a look at this, in each of these categories, our churn rate, there is nothing that says it is anything other than the natural flow of business entities coming and going from the market. Given it's half the market, it's a big enough sample size that, if there was something that was different that was happening, then we would see it in these numbers.

Gareth James: (Morningstar, Analyst) Okay, thanks. Then, just on **slide 10** where you show the additional 40,000 SME customers. Can you just clarify how many of those additions are completely new to MYOB?

Tim Reed: Yes, so, if on that slide we go back to December '14 and then compare it to December '15, the answer is that on the 505,000 there is a certain amount of churn, and on **slide 16** you can see that our retention rate's about 80%. So, if you take 20% down and then you go up from there, that takes you down to about 404,000, which means there's about 141,000 net adds coming in. More than half of those are completely new users to MYOB, in the range of 60%. It varies a little bit, month to month. But of that gross adds - it's in the order of about 60% are brand new to MYOB.

Gareth James: (Morningstar, Analyst) Okay, thanks. Just a final one, just on acquisitions. Can you provide any more colour on areas that you're looking at, size and potential funding?

Richard Moore: Yes, can do. So, obviously the things that we're looking at from an investment standpoint, it's what Tim spoke about on **slide 20**, so, complementary products, the partnerships to bring solutions to market early or connected services, and, accretive businesses with complementary client bases. So, those are the three criteria we base it on. Really, if you look at historically, we've bought things that have been less than $10 million and we've bought things that have been hundreds of millions of dollars. The smaller ones we tend to fund from ongoing cash. When our cash conversion is over 80%, we are generating significant cash on an ongoing basis and, as an example, we purchased both IMS and Ace Payroll from free cash this year. We also have a $50 million revolving facility, that we can use if required, and we have a very, very supportive syndicate of banks. So if we had a large $100 million plus acquisition, we would certainly be well placed to fund that.

Mark Bryan: (Bank of America, Analyst) Thanks, morning Tim, morning Richard. Good set of numbers, well done.

Tim Reed: Thank you.

Mark Bryan: (Bank of America, Analyst) Just a couple of questions, if I may. Just, firstly, around the marketing spend of the business. Obviously the statutory costs are up a fair bit, which demonstrates your point you're making around investing in the business. But, that doesn’t necessarily tell us the whole story of marketing. I'm just wondering if you can give us an indication on how marketing spend is trending and, actually more importantly, what you're thinking for 2016.

The second question is just around market share. I'm interested in that comment, Tim, you just made around 60% of the gross adds being brand new to MYOB. Whenever we look at net adds versus your other competitor, your key competitor, it probably doesn't tell the full story because you probably have a higher attrition rate given your longer history. How is that 60% of brand new customers to MYOB been trending the last few years, has that been moving up? Thank you.

Tim Reed: Yes, why don't you take the first part Richard and then I'll take the new customer adds.

Richard Moore: Yes, thanks Tim. So, Mark, we did on slide 26 actually show the total sales and marketing spend in the business, just in the bullet down on the bottom left hand side. So, we spent $62 million in sales and marketing, up 7% year-on-year. We spoke previously that we are investing probably specifically in two additional channels at the moment. Historically we've done a lot, in terms of ramping up our sales force on the ground, the team that go to accounting practices to drive referrals and to drive that side of the business.

Where we're focussing now, given that that team is very stable and in place, is in the investment in digital sales and marketing. So, that was up 30% in 2015, we're continuing to invest ahead of the curve in that space, so I would expect to see that continue.

The other thing that we're doing is spending more money on advertising. As you can see on slide 26, we spent $1 million more in 2015 than we did in 2014. We would also expect to see that to accelerate in 2016 as well. So, those are the two key focus areas for us. We would certainly expect to continue to drive the growth in our sales and marketing expense at a higher rate than our broader investment across the board.

Tim Reed: Mark, just as we've said in the past, we continue to invest there because we can see the results coming through in terms of more client acquisition and just the ROI and effectiveness of that.

To the second part of your question, which was around that 60%, that has been relatively steady over time. So I think we spoke about that in the roadshow events at the IPO, and at the half year results. But the number one source of new customers, or net adds, to us are brand new customers to MYOB. It is pretty healthy though, the other side of it, the 40%. I think, as we've gone out and benchmarked that against businesses like ours around the world, it probably means that we're doing a better job relatively, of converting our installed base online.

I do think the unique product strategy that we've put in place, of really designing MYOB Essentials to capture those new businesses that are being started but building AccountRight Live to make it a very smooth and seamless transition from the desktop to the cloud, is the explanation as to why we've been relatively more successful in that second category.

Sabhari Bala IDC: (Analyst) Yes, hi gentlemen, thanks for this update. So my question again is around the marketing spend. We have been seeing quite a lot of push from MYOB into the space and there has also been quite a bit of competition that has grown in the small and medium business space, both from traditional players as well as some of the newbies. So, I was wondering if you would be able to paint some colour around your go to market strategy, in terms of how you plan to compete with some of the new players, as well as the traditional biggies in the space.

Tim Reed: Sure, absolutely. So, I think that goes back to what Richard was saying before. We have continued to invest in sales and marketing, particularly for the SME sector. There are a couple of key areas that we've been building. A few years ago we really starting building the field team who go and visit accountants and bookkeepers. Who really nurture and develop the relationships with them and who invest time with them so that they feel supported in talking to their clients about moving them online. That's really paid dividends in 2015; in fact, that would be - if I was to list half a dozen things I was delighted in, the performance of that team and the strength coming through in that channel would absolutely be one of them.

The other thing, and if you reflect on our business over the last say three or four years, there's been a massive transformation from where the percentage of new customers, the channels through which we were acquiring them was predominantly retail, to now being predominantly online, often in both cases with the referral of an accountant or bookkeeper. That's why we've been investing in our digital marketing capability, because it is really - that is the channel which has replaced the in-store retailers.

That means having an absolutely seamless, easy and high-performing website in terms of being able to capture, being able to cookie, being able to nurture leads, being able to do lifecycle marketing et cetera to get them to become customers. But also extending out beyond our own website to the way in which we engage on social media, to the way in which we do both organic and paid search, to the way in which we're influencing online communities out there, because increasingly that is where people go to get referrals from other business owners as opposed to just in-person word of mouth. It's really been those two areas that we've been continuing to build our capability, continuing to invest and we continue to see strong returns from both of them.

Nick Cameron: (Watermarks Funds, Analyst) Hi, guys; good results. Can you hear me there?

Tim Reed: We can, thanks, Nick.

Nick Cameron: (Watermarks Funds, Analyst) Great, thanks for the question. I'll keep it really quick. I just wanted to - there was a comment just that you made on slide 11 just talking about how the in-store demand for the perpetual licences was higher than IPO. I remember you talked about it at the last briefing, but just in that three months to December 2015, have you largely worked through that inventory that's perhaps joined the channel? I just want to get a bit of a feel for how that's going to trend next year.

Richard Moore: Yes, Nick, we have largely, to answer the question. We still expect to see some perpetual sales in 2016, and that's because there is still latent demand for a small number of customers who do want to buy the software, but they're no longer buying boxes, they're buying point-of-sale activation cards that provide that. So we will continue to see some but we certainly expect that chart on 11 to continue to grow up and to the right.

Tim Reed: Just again, Nick, I know we've spoken about this but the impact of those activation at point of sale is that effectively we recognise the revenue as the customer is activating rather than selling into the retail channel, which means we don't have that build-up of inventory anymore.

Nick Cameron: (Watermarks Funds, Analyst) Sure. No worries, guys, thanks very much.

Richard Moore: Thanks Nick.

Tim Reed: All right. Well, thank you everyone for your time today. We very much appreciate that you've all got many things at this time of year and that you chose to spend this hour with us. As I said, I'm absolutely delighted. We are in a very unique business; I think it's an outstanding business. When you stand back and have a look at the long-term trends that run through our business and the results that we've been able to drive then I hope you agree. Thanks everyone and have a great day.

End of Transcript