

ASX Announcement

12 August 2014



Highlights Commentary Half Year Results Ending 30 June 2014

Reckon is pleased to announce details of the company's results for the half year ending 30 June 2014. Revenue growth for the half year was 3% and EBITDA from trading was up 11%, with contributions from all divisions.

	6 months to June 2014	6 months to June 2013	% Growth
Revenue	\$51.1 million	\$49.5 million	3%
EBITDA excluding profit on sale of investment**	\$19.3 million	\$17.4 million	11%
EBITDA	\$19.3 million	\$18.7 million*	3%
NPAT excluding profit on sale of investment**	\$9.5 million	\$8.9 million	7%
NPAT	\$9.5 million	\$10.2 million*	-7%
EPS excluding profit on sale of investment**	7.3 cents	6.8 cents	7%
EPS	7.3 cents	7.9 Cents*	-7%

* 2013 statutory results included the profit on sale on the investment in Connect2Field Holdings Pty Ltd of \$1,340 thousand.

**Non-IFRS

This represents a strong result with revenue impacted by a concerted drive towards converting as much revenue as possible to a subscription model, thereby building a more sustainable business for the future at the expense of short-term revenue growth. While revenue overall grew at what appears to be a modest 3%, subscription revenue grew 12% in the half year.

Profit was also impacted by a considerable investment in online capability both in the development of the products and building infrastructure and sales capability to support this new business opportunity.



Reckon already has the advantage of a substantial recurring revenue base and not being exposed to the risk of a single product strategy. In addition to this, the expansion of the product range into online offerings is expected to provide future incremental revenue opportunities.

Business Group

The Business Group subscription revenue has grown by 12%, with the Reckon Accounts Hosted product again being the stellar performer. We expect that the recently launched next generation Hosted product, will provide further opportunities in a market space for businesses requiring online capability but with substantially richer functionality than traditional low end cloud products.

New desktop sales of the higher end products have reduced as clients opt for our Hosted product, however volume growth is still being generated in the smaller desktop products. The retail channel continues to decline.

Reckon's cloud product targeted at the smaller business market, Reckon One, was launched earlier this year. The product is gaining traction albeit that it is still early days as we continue to build market awareness of the product and enhance functionality.

The relationship with Intuit Inc ended in February 2014, with the result that this division enjoyed a royalty saving of \$2.5m for the period, some of which has been re-invested into online capability, however most of the royalty saving has dropped through to the bottom line.

Accountants Group

The Accountants Group subscription revenue has grown by 9%, reflecting an aggressive move away from the previous upfront sales model in previous periods. As expected the upfront component of revenue has fallen significantly in the half year, and in dollar terms this offsets the subscription growth referred to above. There are already signs of an expansion of the addressable market of customers that were previously averse to large upfront commitments.

The ReckonDocs content business has again performed strongly with revenue growth of 6% and has benefitted from its inclusion in the Accountants Group this year.

International Group

In the International Group, subscription revenue growth has also been very strong at 18%, reflecting the continuing impressive growth trends in the Virtual Cabinet business and benefitting from exchange gains. In July 2014 we increased our ownership of the Virtual Cabinet business by a further 20% to a shareholding of 70% for \$2.4m.

Offsetting the strength of Virtual Cabinet was weakness in the nQueue business as a number of large orders were delayed.

As with the other divisions, the focus here is also on the move to a subscription model and hence upfront revenue has fallen by 14%, but despite this overall revenue growth has still been maintained.



Reckon Group CEO, Clive Rabie said: “A strong subscription business with a diverse product range providing accounting software for business and business software for accountants continues to be our focus.

I feel that a lot has been achieved this half year by being able to report revenue growth despite moving the business from an upfront sales model to a subscription model. At the same time we have grown EBITDA by 11%, whilst also investing in our online and direct sales capabilities.

We have further commenced initial investment for our online presence in the UK market.”

The Board has declared an interim dividend of 4.25 cents (2013: 4 cents), and this dividend will again be franked to 90%.

On 22 July 2014 shareholders approved the selective buyback of the shareholding of Intuit Inc. of 14,828,304 shares at \$1.85 per share. The shares were acquired at a substantial discount to the share price at the time. This transaction not only removes an overhang on the Reckon share price but is also EPS accretive. The funds have been remitted to Intuit and the shares have been cancelled.

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