29 August 2016

Market Announcements Office
ASX Limited

MYOB 1H16 Results Webcast and Transcript

To watch a replay of MYOB's first half results presentation to the half year ended 30 June 2016 please click through to the investor centre here: http://investors.myob.com.au/Investors/

A written transcript of the presentation follows.

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Event Transcript

Company: MYOB Group Limited
Title: First Half Results Presentation ended 30 June 2016

Start of Transcript

Operator: Ladies and gentlemen thank you for standing by and welcome to the MYOB first half results presentation to the six months ended 30 June 2016. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask a question you will need to press star one on your telephone.

I must advise you that this conference is being recorded today, Thursday, 25 August, 2016. Playback facilities will be available via the MYOB investor relations website, and the transcripts of this presentation will be posted on the ASX platform in the next 24 hours.

I would now like to hand the conference over to your first speaker today, Chief Executive of MYOB, Mr Tim Reed. Thank you, please go ahead.

Tim Reed: Good morning everyone and thank you for joining us today for our results announcement. It's Tim here. I'm joined by Richard and over the next half hour or so we'll take you through the presentation which highlights both the financial and operating highlights for our business for the first six months of this year. There are many highlights that we'll be drawing your attention to because it has been a really strong period for us.

At the end there'll be plenty of time for questions, so I'd encourage you to note them down as you go and we'll try and get through all of those questions. For those of you who haven't got a copy of the presentation that we'll be referring to, it can be downloaded from either the ASX website or from our website.

Perhaps I'll start on **slide 6** which really talks to the highlights of our business starting with the strong financial performance, which we're delighted to share with you and I'll go into some detail in just a couple of minutes. Really underpinned by the successful uptake of our connected practice strategy, and I'll spend five minutes going into what is that strategy and what is it that we're delivering, and how are we investing to enable it.

You'll see in the operating statistics that we've had strong continued growth in terms of both our paying SME users and also our cloud users. In this half for the first time these were complimented by the fact that practice ledger was launched, and so you'll start to see some of those practice ledgers coming through not just SME ledgers.

We'll talk about the investment we're making, what that's delivering, and how we see that going forward, and touch briefly on an acquisition that we've made post the close of this period of Greentree, which is an ERP provider based in New Zealand and something that we're thrilled to have as part of the MYOB family.

So just digging in to each of those points in a little more detail, starting on **slide 7**, which is the financial and operating highlights for our business. It is the last period, of course, that we'll be reporting against our prospectus, and it was almost 18 months ago that we put those forecasts out there. So I'm delighted that you see across the top that we've been able to beat those forecast financials in every metric.

Highlighted by AUD178 million in revenue which is up 11% year-on-year and up 4% above our expected forecast. Our pro forma EBITDA up 14% and again up on our expected forecast and our pro forma NPATA at AUD46 million, up 16% year-on-year. So a really strong set of numbers there.

Our cash conversion is sitting at 76% which is a very healthy rate given the healthy EBITDA margins that we have; 570,000 paying SME subscribers and 200,000 online subscribers in total, 195,000 of those being SMEs and the first 5000 from our practice ledgers.

You can see down the slide that, based on the strong financials, the Board is pleased to announce a AUD0.055 per share dividend, that our pro forma NPATA EPS was AUD0.078 and it's that number off which we have guided and make our dividend, which comes right in the middle of the range as to where we set expectations in the prospectus.

Really importantly our recurring revenues continues to grow faster than our total revenues and that is the really high quality revenues which underpins our future business model, and you can see that it grew 13% and is now making up 96% of our total revenue.

So as the transformation of our business continues, moving from a provider in the past of desktop accounting to where we are today, which is predominantly a provider of online accounting systems, the revenue model moves and the there's a contraction in our license revenues but an expansion in the recurring revenue in those high quality subscriptions. You can see that coming through with that 13% revenue growth there.

All of that led to a statutory EBITDA of AUD79 million and NPAT of AUD26 million for the first half.

Slide 8 allows me to start talking about the strategy that we are pursuing to underpin both the growth that we've seen in this period but also our growth going forward, and it comes down to our perspective of the transformation that our industry is going through. We call that the Connected Practice.

In the past we have assisted business owners, bookkeepers and accountants with three separate business processes; those of:

- transaction processing, which is really capturing all of the events that occur within the business,
- compliance, which is at the end of the period ensuring all of that record keeping is accurate, and then reporting as required to regulatory bodies, in particular the IRC and the ATO, and
- advisory, once those numbers have been cleaned and affirmed and we have confidence in their accuracy, we can then go back and provide insight and advice to the individual small business.

In the past that has happened in theory and there's been very clear hand-offs from where the business would do transaction processing, sometimes past the end of the period they will get a set of their draft accounts to their accountant who will go through, do that clean up and do the compliance work. At some point further down the track go back and have a look for insights that they might provide back to the business owner.

Frequently that insight would be coming some 16 months after the end of the period. That is fundamentally changing and we're now operating in a world where transactions can be captured in real time and all three of these processes are happening concurrently. So throughout the operating period the transaction processes happen, much of the compliance work happen on an ongoing basis throughout the period rather than after the end of the period, and then from there the advisory work is also able to take place in the relevant time period, enabling the accountant and the bookkeeper to become much closer to the business owner, have a much greater impact on their business.

We call it the Connected Practice and it is fundamentally transforming the role of the small business adviser, enabling them to fulfil the promise of really being a partner in business with a small business owner, and enabling them to have a much more positive impact on the small business. That's why we've got that figure at the centre of the diagram here which really represents the small business adviser, being able to be in the centre of this process, and being able to deliver much higher values services to the SME at an affordable rate.

Slide 9 highlights some of the external information which really highlights this transformation is underway. CEDA did a report in June last year which estimated in the future that 90% of that transaction processing work will be automated.

There's an industry report called *The Good, the Bad and the Ugly* that Business Fitness put out, and between their 2009 and 2016 reports we saw compliance work in accounting practices contract as a share of revenue by 15% and advisory grow 43%, albeit that growth being off a much smaller base than the contraction in the compliance.

But this transformation, when you look at what some technology can do, when you look at what it is actually doing, and have a look at the change in the nature of the work, is well underway.

We've included two quotes there from two of our clients which I'd just like to pause on and read out to you because I do believe they're insightful. You can see the quote from Shane there from AMD in the top right-hand corner. AMD is a leading accounting practice in the south-west of Western Australia, down in Bunbury. "Once our clients are in the cloud the access to information for the accountant is phenomenal. It's allowed us to focus more on business advisory work and MYOB add-ons." AMD are a real thought-leader in their category and have been early adopters of our online solutions, and you can see the impact that Shane describes there that it's having on their accounting practice.

Similarly, Dale, who's a partner at Grant Thornton in Adelaide, and his quote reads: "Technology and innovation in the compliance space allows us additional time to focus on advisory services that our clients consider to be of most value as we help them on their growth journey."

That's really the transformation that we're talking about here, where the accountant is able to become far more at the centre of their client's universe, far more a business partner. What enabled that? The MYOB Platform enabled that, which is our realisation of the Connected Practice strategy.

Just moving on to **slide 10** and how that then starts to drive the economics on our business. We're about seven years into the journey of online accounting and we believe in Australia and New Zealand that somewhere approaching 20% of small businesses are using an online accounting tool. So still very much in the early phases.

Our belief is the MYOB Connected Practice is one of the things that will drive that penetration higher. In fact, when we look in accounting practices and look at the online practice ledgers that they have, then we think that the penetration today is somewhere around 3% of total practice ledgers. As the Connected Practice strategy starts to drive through those accounting practices, then we think they will be even more likely to refer more of their clients to move online.

That's what gives us confidence that the penetration in small business accounting from desktop to online will continue to grow. Indeed, we believe it will hit or exceed the 70% which is currently the level across the combined desktop and online penetration level. We're confident that as the total market expands with the percentage of online accounting continuing to grow that we're well placed to capture that expanding market, because of our strong presence in accounting practices and our strong presence in small business accounting.

You can see that coming through in the numbers on **slide 11**. 8% growth in our SME paying users from 527,000 to 570,000 in the last 12 months. We've hit a 37% growth in our SME online ledgers up to 195,000 and taking those online ledgers to being 34% of our total pay, up from 31% at the December results. All of those continuing to show that underlying growth driven by the transformation in our category, which we believe will continue to drive growth going forward.

Just drilling in on those online numbers a little bit on **slide 12**, you can see that we've hit 200,000 online subscriptions in total, with the majority of the growth coming from the SME ledgers that we see in taking online for a number of years now, but for the first time complemented by the fact that we've released an online MYOB practice ledger, which is an online ledger for generally non-trading entities.

So it allows the accountant who might be doing some client's work for trusts, for family companies, for other types of entities to expand what they're doing online from just their client's management accounts to all sets of accounts that they do across their business. We released practice ledger in the second quarter, so it was really only in the market for a couple of months in the first half of the year. You can see the 5000 ledgers that we achieved there. Again, we think that that market is just in the very, very early stages. Perhaps 2% or 3%, having moved online, but we expect over the future period that that will grow and indeed growth more rapidly going forward. Just to circle the point there, 83% of new clients to MYOB in the second quarter of 2016, so that's the April/May/June window, 83% were online subscriptions, which is up from 70% in the corresponding period in 2015.

So what we're seeing is a higher and higher proportion of new businesses that are coming to MYOB are immediately taking our online accounting solutions. Just a third quote there from one of our partners, Craig Stanmore, who runs a practice that is now spread across the East Coast of Australia, Melbourne, Sydney and Brisbane, and you can see the phenomenal results that their business is achieving by moving online with MYOB: “Moving our clients’ data to MYOB online ledgers as part of our integrated client accounting solution, contributed to a 48% uptick in average hourly rates and a 27% increase in revenue per team member.” That is the real opportunity here that as CEDA report says, we drive more and more efficiency through the transaction processing and through the compliance work so that accounting practices can increase their productivity and then reinvest that in some of the advisory work that has the quote as Dale from Grant Thornton said is the path that their clients really value.

All underpinned by the MYOB Platform, which is our realisation of our Connected Practice strategy. Moving on to **slide 13**, we have seen really healthy trends continuing across our small business installed base. They're not just new clients coming in, where I said 83% are choosing our online products, but also across the installed base. Let me just talk to that for a few minutes.

Firstly, in those new clients coming in, we continued to track the number of new product registrations, the new clients coming to MYOB relative to the overall economy. As a percentage of new businesses registering for GST in the six months, it continues to hit north of 50%, which is a really healthy level and really displays the strong market position that we have in Australia.

In terms of the movement of our installed base of desktop users -- and we've always represented these using the green/orange/yellow. Green being our online, orange being our subscribing desktop clients and the yellow being our actively using but non-paying clients.

What you can see at the top of the bars on the right of slide 13 is the conversion rate of those yellow clients to moving down into one of the lower bars has increased over the last few years from sitting below 5% up to over 6.5%. Now, obviously that yellow is contracting, but over time what we're actually seeing is an accelerating rate of conversion. We believe that is because this movement that we've talked about in accountants encouraging their clients to move online realising that Connected Practice vision is gaining pace.

Therefore, they're playing a more proactive role in going back and talking to their existing clients about moving online. We do expect this trend to continue and in particular I call out next year the fact that a large proportion of those orange users are using MYOB BankLink and we're just in the process of rolling out MYOB Connected Ledger, which is the online upgrade for MYOB BankLink clients.

It has been important as we've developed the Connected Ledger, to maintain the DNA of BankLink, to really hold onto that efficiencies that it delivers, and driving it even higher for the clients that want their accountants to do the books for them.

Slide 14 then starts to talk about the SME and the value that they receive and that we can see that they are taking use of as they do move online. Down the right-hand side there, you can see some of the core benefits that exist in online accounting that don’t exist in desktop accounting. Firstly, the use of BankFeeds to auto populate the accounting software, so the small business owner doesn’t have to sit there and type every transaction in. As I’ve shared with you in the past, we know that on average that takes small business owners 10 hours per month. You can see at the top there the rapid growth that we've had in the use of that capability.

Similarly with Smart Bills, this is where a small business owner receives an invoice from a supplier, which traditionally they've had to sit down and type that into their creditors ledger, so they understand their financial position and how much money is owed. With smart bills, they simply have to email the PDF to us or take a photo of it and send that in and our technology extracts the pertinent information and creates the draft transaction for them in MYOB AccountRight or MYOB Essentials.

You can see the rapid growth in the usage of that capability as well as our mobile payments functionality. This is where a mobile business person would be using our mobile app to raise an invoice and then right then and there take either a secure EFTPOS or credit card payment from their customer. All three of those continuing to grow, showing the clients are getting better and better value from our online products.

What does that mean for us? Well, ultimately, it means that those clients become stickier and we increase the lifetime value of clients, which again flows back into increasing the TAM or total addressable market that we're chasing.

Moving on to **slide 15**, this which talks about investment. I can always start or end the MYOB story with investment because the truth is it is a virtuous cycle that we're investing to drive great solutions for our clients. Our clients are receiving more value and that increases lifetime value of their business to ours. It really is that cycle that just continues. Through the first half, you can see that we invested just over AUD28 million in R&D. It was just sitting at the upper end of the range of 13% to 16% that we had flagged as the target range, which I believe we've messaged quite well.

We believe it would be sitting there at this point in time and believe that it will continue there for the next several years. Down the right-hand side there, you can just see the innovation that we've been delivering to market with MYOB portal we talked about last year. In the first six months, we launched the MYOB Dashboard, which is the tool for our partners, our bookkeepers, certified consultants and accountants to see all of their MYOB ledgers and in one place be able to keep the track on them. We're continuing to invest in the Dashboard and we've got some really exciting upgrades for that that will be coming through the second half. It is truly a tool that can transform the role that accountants and bookkeepers play in the lives of their small business clients. MYOB online practice ledger, which I mentioned, had 5000 of those becoming active in the first half.

We are continuing to work with accountants and continuing to see them benefit from those -- the way that Craig Stanmore described his practice benefiting through the first half. MYOB Connected Ledger, I referenced that earlier. We have put Connected Ledger out to the market, with a very soft launch for clients to enable new small businesses coming into their practice and we've started to see uptake there. Through the second half will be the first stage of us starting to work with existing BankLink clients to look at that migration, such that we're really prepared going into 2017 to enable those BankLink clients to really make the most of Connected Ledger.

We have started our investment in MYOB Tax. We've released the first couple of forms of our online tax solution and we've also started in the investment in other areas of the online Practice Suite and they will be a continued investment through the second half of this year and beyond as we really start to bring all of our productivity tools into the MYOB Platform, enabling the Connected Practice.

Slide 16, 17 and 18 then talk about a couple of specific accomplishments that have been achieved and that we're looking to achieve over the next period that I thought were worth highlighting. At MYOB, we have over the last five years, materially transformed who we are as a business.

In the first half of the year you can see there are on **slide 17** new technology hub in Richmond, just beyond the MCG out from the Melbourne CBD. It really is a world class facility to enable innovation amongst our team. We've seen that since the team moved in there a few months ago.

Richmond will be the centre of our investor day in November, so I just ask you all to keep your eyes open for that because we're going to make that a really exciting day where we can share with you a lot of that transformation that's happened internally.

We've mentioned in the past couple of investor updates that we've been investing in our digital marketing capabilities. As you can see on **slide 16**, through the period that has resulted in the full implementation of the Adobe Audience Experience Manager, which will lead to further improvement in our digital marketing capability, going forward. Perhaps the most visible thing that you will see from October onwards is the real refresh of the visual identity that we have across our business.

We feel now is the right time to really trigger a moment for people to stop and have a look at MYOB and see the transformation that has taken place inside our business and make sure that that is recognised on the outside. You can see that now in the bright, the crisp and the youthful logo that we've put there on the right hand side of slide 16. As I said, you'll start to see that in market from October forward.

Then, finally, on **slide 18**, the recent acquisition of Greentree. Our Enterprise Solutions have been a very successful part of our business over the last five years, particularly with the launch of MYOB Advanced, where we've extended our presence from on-premise solutions to also online ERP.

MYOB Advanced really takes us up into what we call the tier 2 enterprises, which are those that would just be below global enterprises and those that might be interested in high end SAP and Oracle type solutions. Greentree have been in that tier 2 space for several decades. They have a very strong partner channel that we were very interested in working with, and also strong domain knowledge in that space. So the acquisition of Greentree really complements MYOB Advanced in that space and enables us to have a saleable and material presence in that T2 space. So we welcome the Greentree team to MYOB and are very excited about ongoing growth in that segment, going forward.

As I said, there are a lot of highlights through the third period. Richard, I told you I'd be 20 minutes and I've been 30, but I trust that you'll be able to get through the financials fairly rapidly.

Richard Moore: Will do, Tim. Thanks for that, and thank you all for giving us the opportunity to take you through our great financial story for the first half of 2016.

As Tim said at the start, it's particularly pleasing to see the year-on-year performance of the business right across each of our key P&L metrics. On **slide 20** you can see revenue up 11% to $178 million, EBITDA - which is our operating profit measure - up 14% to $82 million, and NPATA - our preferred after tax profit measure, which we use as the basis for our dividend payment - up 16% to $46 million.

We continue to report our financial results on a pro forma basis. As a reminder, we do that because it removes one-offs, particularly those associated with the IPO in 2015, restates the 2015 capital structure to the post IPO structures as if it were in place on 1 January and truly allows a like-for-like comparison in terms of our year-on-year performance. We'll continue to report pro forma through to the end of 2016 because of the impact it has predominantly on the prior year results.

The other very pleasing outcome is our results versus the final prospectus forecast period. You can see there 4% up on revenue, 1% on EBITDA and 2% up on NPATA. So on or ahead of all of our prospectus targets in the final target period up to the end of June 2016.

You can see the two measures on the left hand side there below the P&L, two of the key financial metrics that we monitor as a business, one being the recurring revenue percentage, which is up to just under 96% for the first half of 2016. This is a great reflection of the quality of earnings of our business and repeatability of those earnings. We're very pleased at 96% and continuing to increase. You can see that that's up 1.6 percentage points on the first half of last year, and EBITDA margin at 46%, up 1.4 percentage points, so just continuing to see that improvement in EBITDA margin over the periods.

On the right hand side of slide 20 you can see the pro forma revenue split by each of our segments. Strong performance in all. You can see both in the chart and in the table underneath, particularly strong performance in SME and Enterprise and Practice Solutions continuing to deliver revenue growth in line with historical actuals, resulting in 11% overall revenue growth.

I will draw your attention to the little figure on the top - you can see we've got some revenue in our Group, which we've not had in the past. That is grant income that we receive in New Zealand for some of the product development that we undertake in our Auckland office.

The other thing I'd just like to call your attention to, just at the bottom line in the table, where we strip out the revenue impact from the Ace and IMS acquisitions that we made in the middle of last year in the SME segment. And you can see that excluding acquisitions revenue growth rates are absolutely in line with what we've historically seen, which is what we have guided the market to over the last two halves.

So just to dig into that result in a little bit more detail, if I draw your attention to **slide 21**, where we look at SME Solutions, very much the engine room of MYOB, delivering 63% of our total Group revenue and, as Tim said earlier, continuing to see strong growth in our online users to 195,000.

The left hand side of slide 21 shows the revenue growth rates. We're really happy to see that recurring revenue continue to grow in line with historical trends, in the 13% to 14% range that we've seen over the last few years. We're also continuing to see perpetual licence revenue come off, which is exactly what we would expect and actually want to see as we shift away from selling those perpetual licences of desktop software. So that's down at almost 50% in the year. Overall growth of 14%, and if we take out Ace and IMS it's sitting at 10%.

The key number to take away with that recurring revenue growth, and you can see on the right hand side of slide 21 what has help drive that. So 13% recurring revenue growth is a function of 2 things - 8% growth in paying users and 7% growth in our average revenue per paying user, or ARPU, resulting in that recurring revenue becoming 98% of total within SME, which is a really strong outcome for the business. I've just noted at the bottom there the $4.3 million revenue contribution from Ace and IMS in the first half of 2016.

Slide 22 shows the Practice Solutions, which delivers about a quarter of our revenue. On one side this part of our business continues to be very steady and deliver the growth rate that we've seen over the last few years. On the other it's the most exciting part of MYOB at the moment with the Connected Practice story being really positively received and a very successful roll-out of the initial modules of the MYOB Platform that will support that strategy.

You can see on the revenue growth of 3.3% with 98% of our total revenue in this business is recurring, in line with SME, so very, very strong performance. New licence revenue continues to come off ever so slightly on a year-on-year basis, which is a reflection of the fact that this is a very fully penetrated software market.

As I said, the Connected Practice strategy has been really positively received. You've seen the 5000 online practice ledgers that we achieved in the first half. Tim talked about the adoption of the dashboard, and we've just put some more stats in there on the MYOB portal. We had 16,000 SMEs using the portal at the end of December, so we've more than doubled that in the first half of 2016, so it continues to be a real driver in terms of bringing the accountants online.

Then our third segment, Enterprise Solutions, on **slide 23**, 12% of Group revenue. We've talked about the acquisition of Greentree that occurred after the end of June results period. This is the area that I'm probably most pleased with in terms of the financial results. You can see outperforming historical trends on both recurring and new licence revenue. Recurring revenue up 11% over the last three years, that's been mid-single digit growth historically.

Two key drivers for that. One is we're continuing to see the uptake of our new online ERP system, MYOB Advanced, to exceed expectations. It made up a third of all of our new ERP sales in the first half of 2016, and that new software volume coming through as subscriptions is helping drive that recurring revenue higher than it has over the last few years. On the other side the PayGlobal acquisition that we made a couple of years ago is continuing to perform very strongly. We've seen really strong conversion rates and service revenues out of that business which helps contribute to that recurring revenue in the double digit region.

We're also seeing a positive trend in new licences in Enterprise which we weren't expecting as we expected the transition from our EXO on-premise desktop solution to Advanced. What we're actually seeing is that even though Advanced continues to exceed expectations, EXO is holding up really well and there is still demand for the product. That's why we're seeing our new licence revenue coming in higher than we were anticipating, and coming in in terms of positive growth, which we've not seen for a couple of years. So, overall, 10% growth overall in Enterprise. I'm really excited about the impact that the Greentree acquisition will have in that segment as well.

Slide 24 looks at the investments that we're making in the business. Tim spoke to these earlier. On the left hand side our total cost base up 8% year-on-year and 6% on the prospectus forecast as we continue to invest both in our digital sales and marketing capability and in our products.

It's also worth noting that the ongoing expenses from the two acquisitions that we made last year are in the cost base for the first half of '16 and, obviously, they wouldn't have been in the prospectus forecast, so they drive some of that variance.

You'll also see a little asterisk there next to our sales and marketing spend in the chart. In the chart the $6 million is really our advertising spend. In total, when you take all of our sales teams and all of our marketing teams and the other investments that we make in that area, we spent $35 million in the first half, roughly 20% of our revenue and up 12% year-on-year, so a key part of our investment focus in the business is in sales and marketing.

On the right hand side of slide 24 we've got our R&D. Tim mentioned earlier we spent $28 million in the first half on product development. That's up from $21.5 million last year and 15.7 percent of revenue. We'd had 15% in the second half last year, and we will continue to be at the top end of that 13% to 16% range, certainly through the rest of this year and into next.

In terms of the OpEx/CapEx split, it's roughly 50/50 for the first half. That's reflective of the fact that much of our increased spend is on the MYOB Platform, and we are just bringing those first modules of the platform to market at the moment. So our policy, as you know, is to capitalise expenditure on products that aren't yet generating revenue and then to start amortising that expense when the revenue starts coming through. So the increased investment has been in those products, and we'll certainly start amortising that once they start generating revenue. We do expect that 50/50 mix between OpEx and CapEx to continue through the second half of 2016.

Then the final slide from a finance standpoint is **slide 25**, which is our pro forma cash flows. Really strong cash flow conversion continues within the business. Our working capital needs are very low - you can see there the change in the working capital less than $500,000. Then the CapEx is as we've discussed: $20 million in total, about two-thirds of that being R&D. We also spent about $4 million in the tech hub that we opened in Richmond as one-off CapEx in the first half, and the balance being ongoing property, plant and equipment investment.

So 76% cash conversion continues to set the business up very well to invest in growth, whether that be through the things we've mentioned, being technology, R&D, sales and marketing. It also allows us to make the great acquisitions, so, for example, we acquired the Greentree business out of our ongoing cash balance.

Then just in closing, there are a few slides in the appendix that are there for your reference. We have the key operating metrics that we listed in the prospectus on **slide 30**, you can see we're on or ahead of the vast majority of those. There's a detailed P&L and balance sheet on **slide 31 and 32**. The one thing I would draw your attention to there on the balance sheet is our net debt to EBITDA measure for the end of June 2016. It's 2.3 times, which is down from 2.6 times in December and 3 times at this time last year. So, as we continue to grow EBITDA and build cash on the balance sheet, that measure continues to fall.

I've added a new slide in on **slide 33**, which shows the forecast amortisation of acquired intangibles. This is a question we've had from many analysts and investors over the last 12 months, in terms of how those intangibles will amortise over the next few years, so hopefully this will give everyone enough information to work that through their models. Then finally, on **slide 34**, there's a reconciliation of our pro forma statutory results that we lodged at the ASX this morning. As I said earlier, the majority of these pro forma results related to 2015. There are just $3 million of adjustments to our EBITDA number in the first half of 2016, the majority of these being integration costs from the Ace and IMS acquisitions in the middle of last year, and you'll see that at an NPAT level there's less than $200,000 of pro forma adjustments, so pretty much as reported on the ASX this morning.

So that's the financial summary. As I said at the start, really pleased with how the business is trending, especially the double-digit results in terms of revenue, EBITDA and NPATA, it sets us up really well for the second half to continue to invest for our clients.

Tim Reed: Thanks Richard and I'll just round out by turning your attention to **slide 27**, which is our outlook going forward. We expect that revenue growth will continue in line with historical trends, and expect that our EBITDA margin will remain within the range of 45% to 50% where they've been sitting for the past couple of periods. We are going to continue to invest, investment is what drives this engine.

So it's that investment that we're able to deliver, enabling the Connected Practice through the MYOB Platforms, that drives all of those positive metrics that we've discussed in our business. It will be between the 13% to 16% range, but again, as it was in the first half, likely to be at the upper end of that range. Our investment priority is in the Connected Practice and so, as Richard said, that split between the OpEx and CapEx is likely to remain where it has been in the first half. We do continue to watch out for, well-placed acquisitions that bring scale and strength to our business. That's been a core part of our success over the past few years and we believe that it will be going forward as well.

Just down the right hand side there you can see some key dates, and I would specifically call out 25 November and ask that you pencil that in or, in fact, block it out in your calendar. We'd be delighted to have you join us and see who we are and get to talk and meet with a broader set of the team from MYOB.

With that, operator, I might hand back to you to invite questions from the participants.

Operator: Thank you very much. Ladies and gentlemen, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you do wish to cancel your request, please press the pound or hash key. Your first question today comes from the line of Mark Bryan from Wilsons, please ask your question.

Mark Bryan: (Wilson HTM, Analyst) Good morning Tim, morning Richard, a couple of questions, if I may. Obviously the cloud subscription growth is coming through very strongly. Any comments then you can make around the mix coming through between Essentials and AccountRight? I'm particularly interested to understand if you're sort of getting traction continuing in Essentials. Then secondly, perhaps one for Richard, just around the acquisition revenue contribution. Obviously you've given us the number from Ace and IMS, can I just ask to what extent there was a positive EBITDA contribution from those two businesses in the half just gone? Thank you.

Tim Reed: Great Mark, thanks for the question. So I'll tackle that first one. So, look, yes we're thrilled with the continued uptake of our online accounting solutions, particularly amongst SMEs and particularly amongst - you know, the fact that both new SMEs are choosing online and we're converting our install base at an increasing rate. The trends aren't particularly different than what we've talked about in the past. The majority of new clients coming to MYOB are choosing Essentials, and we have seen that continue to build. But it's not a radical sort of change from where it's been in the past. Then the majority of the conversion of our existing clients to the cloud are from AccountRight desktop to AccountRight Live. That means that AccountRight is still making up a larger proportion of our online adds than Essentials. But, as the number of new businesses continues to be the main driver there, we are seeing a shift where increasingly they are choosing Essentials.

Mark Bryan: (Wilson HTM, Analyst) Thank you.

Richard Moore: Mark, just to answer your second question, yes, the acquisitions that we made in the middle of last year have had a positive EBITDA contribution in the first half. As you know, with each of these acquisitions we work through a process to ensure that we're getting the best return from the investment that we made, in terms of rolling through some of the back-office cost into our MYOB team and the like. So the margin that they deliver in the first six to 12 months isn't ultimately as high as it will be in the longer term. So positive contribution but not materially so into the results in the first half.

Mark Bryan: (Wilson HTM, Analyst) Thank you, and those costs, therefore, obviously they've been taken above the line obviously, those restructuring costs?

Richard Moore: So most of the restructuring costs are in that $3 million pro forma adjustment that we spoke about. But there are ongoing costs within the organisation in the first six months, that obviously get reflected in our pro forma EBITDA.

Mark Bryan: (Wilson HTM, Analyst) Yes, understood, thanks Richard.

Operator: Your next question comes from the line of Jules Cooper from Ord Minnett, please your question.

Jules Cooper: (Ord Minnett, Analyst) Morning guys. I've got three questions but the first one is, just to clarify, your guidance you've referred to revenue growth being in line with historical trends. Just listening to Richard, when we looked at - he talked about the SME Solutions division, excluding Ace and IMS, being that sub-10%. Can I just confirm that is what you would consider is the historical trend? I'm just trying to get a read on what that actually is, firstly. Maybe if we can answer that question and then I can just get to the other two.

Richard Moore: Yes, will do Jules. So referring more to the recurring revenue growth within SME when we talk about historical trends, so it's that 13% or 14% that we've seen and continue to see. To a degree the drop in the perpetual licence revenue is a bit lumpy. So the reason that the overall growth rate, excluding acquisitions, is just under 10% is because we got such a decrease in the perpetual licence revenue in the period. As I say, that's a good thing, we're not in any way concerned about it. But the key focus for us is that recurring revenue growth and seeing that at close to 13%, it gives us great confidence that we're in line with (a) expectations, and (b) historical trends.

Jules Cooper: (Ord Minnett, Analyst) Right, fantastic. So it's good and pleasingly to see that you've called out the expected benefit from Connected Practice, and you're sort of saying that's going to drive online category penetration in time. Should we then read into that that, over the next couple of years, it is probable that the revenue growth will trend higher than historical rates as that strategy plays out to your expectations today?

Tim Reed: Yes, so let me try and tackle that one, Jules, and you can let me know whether I answer the question for you specifically. So as we see the Connected Practice really start to drive through and change the behaviour of accountants and then the way that they engage, and choose to engage, with their clients, we think there'll be a few impacts. One, from new business starts, we don't think it will accelerate or grow the total market in terms of number of small businesses. Given that we're now in that 83% range that are choosing online, we do think that that will go higher and continue to move higher, but there's not that much left in that. Once it hits 100%, it's at 100%. So there's some growth that will continue there and that will lead to some acceleration. A lot of it, however, will be the movement from existing clients and existing ledgers and moving them online. I think in your note you called that out as sort of the next phase of the evolution of this marketplace, which I think sums it up quite well.

In that phase, what we do think will happen are a few things. One we'll see more of those Practice Ledgers moving online. We think that will be the first move as the accounting practices themselves say, actually we should start doing this because that will improve our confidence, improve our ability to then really engage with our clients and get more of them doing this. The second we think will be next year, as we really start to see the movement from BankLink to Connected Ledger. That will happen - it may well happen 12 months from now at the start of the financial year, because we often see that's when accountants change behaviour, but that will really drive the orange into green. Neither of those things will specifically change the revenue profile of the business because they're already subscription products but they will change the behaviour of the accountants. Then what we think will happen is, as we highlighted, in the increased penetration of - you know a lot are going to orange on slide 14, so the increased rate. We think that we'll continue to see businesses who are operating using our desktop products, moving online.

It's a really difficult one for me to say we think that that rate is going to accelerate forever, because it won't because the yellow is a finite box. We're really pleased with the fact it has accelerated but I wouldn't want to guide you specifically to say that we think that it's going to continue to accelerate forever, because they are businesses that are quite entrenched in the way in which they're working, it's working for them today. We do think that accountants will be more proactive, moving more of them online, but it's very difficult to give specific guidance around what that percentage might be.

Jules Cooper: (Ord Minnett, Analyst) Tim, one of the areas, I guess, that you - or one of the potential drivers that you didn't address there, and just to clarify, I guess once you get this eco-system working with accountants around the Connected Practice, do you not think that it is reasonable that MYOB's share of new business could actually increase as you engage, or better engage, the accountants?

Tim Reed: Look, I think there's a very strong hypothesis why that would be the case. Which is that an accountant who today might be working with multiple vendors for their small business clients, once they have all of their practice tools on one platform, the efficiency for them then having their small business clients on that same platform, will absolutely be greater than what it is today where they're using desktop tools in their practice and their clients could be on one of several online small business platforms. So I think there's a very strong hypothesis. We're designing the MYOB Platform to ensure that is the case, to really drive the optimal workflow around where the small business and the practice are both on the platform. So that's our underpinning hypothesis. That as we get more and further into the delivery of the Connected Practice, that the benefit to the accountant of having their SMEs on our tools will simply grow and grow, and that that will drive their behaviour.

Jules Cooper: (Ord Minnett, Analyst) That presumably, given it is new business, would present an upward bias to revenue growth relative to historic rates.

Tim Reed: Yes, so I'll allow you to do your job, Jules, and to extrapolate that forward. But I think you understand sort of what our strategy is and how we think that it will drive growth for our business quite well.

Jules Cooper: Excellent. Thank you very much.

Tim Reed: No problem.

Operator: Your next question come from the line of Sameer Chopra from Merrill Lynch, please ask your question.

Sameer Chopra: (Merrill Lynch, Analyst) Good morning. I had two questions. A really good top line result. One is on ARPU. The ARPU growth is really strong. I'm wondering if you could give us some colour around how much of that is price coming through – I realise that price changes are quite late in year versus mix shift - give us some colour around the ARPU.

Tim Reed: Yes, absolutely.

Sameer Chopra: (Merrill Lynch, Analyst) The second one is just around Connected Ledger. I think we were expecting that maybe the accelerator would be pressed in the second half of '16. But it looks like it's more a – financial year '17 thesis; maybe you could give us some colour around what you're thinking around the timing about Connected.

Tim Reed: Yes, sure, absolutely. Why don't you take the ARPU one first Richard, and then I'll take the timing on Connected Ledger.

Richard Moore: Hi Sameer. So, yes, we grew ARPU in the SME business by 7%, price would make up somewhere between 5% to 6% of that. So it's a predominately in this period price driven ARPU with a little bit of mix which is what we tend to see, plus or minus 1 or 2% of mix depending on the product uptake at the particular point in time. We continuing to see strong uptake from the top end in the AccountRight products, so we are seeing a higher mix of Premier within AccountRight, that we've seen for some time, which is helping drag some of that mix. But, yes, it's predominantly price.

Tim Reed: And just on the Connected Ledger mix. I think I've been clear in the way that I think through this and certainly nothing has changed. I believe that we set the expectation that the Connected Ledger would be launched to market at the start of the second half. We launched it a month or six weeks earlier than that. But we really only put it out there for new clients, which was always our anticipation so that a practice who have got a new client coming in, we'd start with them on Connected Ledger.

Through this half we had always expressed that it would be in market and that we would be starting migration and we will be doing that. But our experience is that when we put new tools out for accountants it generally takes six to 12 months where they move to them with a limited part of their practice or a limited portion of their client base. Then after time, as they feel confident, we start to see the momentum grow.

Particularly with Connected Ledger from the BankLink migration, there is a whole road map of capability that we'll be delivering over the next 12 months to continue to build up the features and functionality in Connected Ledger. And we'd always expected that, so I think I've always said that that would be a version one release would happen now with 12 months of investment behind that. Then it will then be a period of several years over which clients migrate.

So the release is in the market early, and I think I flagged that quite clearly six months ago as to what our expectations were. The great news is that we have surpassed those. But to me the impact was always likely to be from a client number starting the process, really in 2017, and then building momentum over the several year periods of that movement from the orange to the green.

Sameer Chopra: (Merrill Lynch, Analyst) Yes. If I can just ask one on what impact are you seeing from SuperStream right now? Have you seen increased inquiry levels in the last couple of weeks? How is that is effecting your business right now?

Tim Reed: Yes, absolutely. So we are fully SuperStream compliant in our payroll solutions and in fact we have integrated a super-clearing house into our payroll, so that it makes it very efficient for businesses to be SuperStream compliant. The impact on our business is that it has absolutely seen increased usage and in fact we are continuing to see that grow, particularly as we get to this next payment period in October, we continue to see accelerated take up.

From a financial and operating matrix perspective what we would expect is that that would make clients who are using that feature along with the other connected features, like Smart Bills, Bankfeeds, Mobile Payments et cetera, even stickier because they've got more investment in using those tools and they're getting more value from their subscription.

Where it could also impact us financially is that it could be something that would encourage some of those yellow clients to move online because to use our SuperStream compliance solution you must be a subscribing client. I think most of the clients who are compliant driven are probably already in that subscribing group anyway. So I'm not expecting that it will be a massive driver of the yellow to green trend. But it is a significant contributor to overall value that our clients receive from using our products and therefore, improves the stickiness and lifetime value of those subscriptions.

Sameer Chopra: (Merrill Lynch, Analyst) Great. Thanks.

Tim Reed: You're welcome.

Operator: Your next question comes from Michael Higgins from Macquarie, please ask your question.

Michael Higgins: (Macquarie, Analyst) Hi gentleman. I dialled in a little bit late and I might have missed – this might have already been answered but I had a couple of quick question. If you could just touch on the underlying churn in the business and just how that attrition is among the SME client base? My second question was just if you could comment on the competitive environment please?

Tim Reed: Richard, do you want to take the churn rate.

Richard Moore: Michael, the churn rate at a blended standpoint in the SME business is 20%. So we've seen our retention rate be maintained at 80%. We look at our churn rates from a product standpoint within each of the effective cohorts. What we're seeing across each of the products is improvements within each cohort, as time passes. What's bring that back to make the total look flat is the fact with our online solutions we do offer free periods at the start. What that does drive is some early life churn as people come in and try the model.

The early life churn of the new online solutions is bringing the overall churn rate back up to about 20%. So what we are seeing, is once those clients are on-board and using the online features we are continuing to see improvements across each of those cohorts over time. So over time we certainly do expect that user retention rate to improve above 80% but we are certainly reporting 80% at the moment.

Tim Reed: Which is just as we bring more clients into those early cohorts the mix shift changes there.

In terms of competitive environment, Michael, I don't know that there is anything particularly that I call out from this six-month period compared to the past. We obviously operate in a competitive environment and it's a very attractive market that we're a part of, so there are multiple people who are perusing that. I think in the period we have done a better job at really articulating our vision for the industry through the Connected practice and really started to see that our partners are understanding our vision of where their business can be and what their business is likely to look like and how we will enable that as a partner.

So I think from that perspective, it's been a very good period for us, because that does really differentiate us from some our competitors who do fundamentally believe that technology will replace the role of advisors, we don't, we think it will complement the role of advisors. We actually think that those advisors will become more important in the lives of their clients, not less; or who are really perusing what we think of as a one-legged strategy, i.e. they're going out for a precedence in SME but not looking at the practice.

But it's a competitive environment, it remains a competitive environment. We watch, look, and listen to our competitors closely, and I'm sure they observe us.

Michael Higgins: (Macquarie, Analyst) Okay, thanks guys.

Tim Reed: We've reached the top of the hour; we might have time for one more question.

Operator: Your next question comes from Roger Samuel from CLSA, please ask your question.

Roger Samuel: (CLSA, Analyst) Hi guys. I've just got a couple of questions. Firstly, just on the ARPU for small business division, you mentioned on a call earlier that the majority of new customers are choosing the Essentials products which have lower prices than AccountRight. I'm just wondering what's the outlook for ARPU going forward given the mix shift to lower ARPU products? Secondly, just on the margin for SME, it came down a bit in this half, I'm just wondering what is the driver of that? Is it the increase in sales and marketing or is it something else?

Tim Reed: I'll take the first one, Roger. Let me try and be clear here. The mix shift for brand you clients coming to MYOB changed but the overall shift in our balance between AccountRight and Essentials did not, because we also increased the rate at which we're moving existing clients from AccountRight desktop to AccountRight Live. So I wouldn't want you to infer that I was flagging anything that that sort of mix change will impact ARPU going forward. It's just that there's two different trends. At the end of it they are just working differently in the different segments.

Richard do you want to talk about the margin.

Richard Moore: Yes; so the margin in SME solutions dropped from 69% to 68% so almost a rounding difference you would say there. Slightly more investment within that segment in terms of sales and marketing as you suggested, Roger, so that's exactly it. But at 68% still a very healthy contribution margin for SME.

Roger Samuel: (CLSA, Analyst) Alright. Thank you.

Tim Reed: No problem. I'll just wrap up by thanking you all for attending today, hopefully we've been able to provide you with some greater insight into our business.

We are really, really thrilled with this six-month period. I think for us the transformation of our business that has happened over many number of years, it was a real highlight for us to be able to share that with you as public market investors when we IPO'd in May last year. The next real accomplishment for us was to make sure we were able to deliver on the expectations that we set in that point in time, and in fact, I believe over deliver on many of them when I look at the momentum we've got in the business and the investment that we've been able to fund in the future of the business. To really ensure that not only was it great period through this respective period but that we are t'd up for ongoing success from here.

As a management team, we very much appreciate the support that you've given us over the time that we've been a public company. We are very focussed on delivering awesome outcomes for our client and really making sure that we have a strategy that differentiates us in the market and that that follow through in operating strength and ultimately in financial strength. And it is our confidence in that, and again, it's allowed us to increase the dividend through this period and enable us to reiterate the outlook going forward.

So once again, thanks for your help and we look forward to further conversations with many of you over the preceding couple of weeks. Thanks everyone.

End of Transcript