



Reckon™

CHAIRMAN'S SPEECH

RECKON LIMITED AGM

10:00am - 25 May 2016

Level 12, 65 Berry Street, North Sydney

1. The founder of Reckon and my fellow director, Greg Wilkinson, recently said to me that the beginning of this century will be known as the time of market disruption. Several industries have been shaken up: retail, taxis, accommodation, mobile handsets, photography, etc...
2. The same can be said of the software industry. Together with the speed of communication and the price of data storage, the cloud presents a wide range of solutions for personal and business needs of any size delivered in a new way that dramatically changed the business model.
3. This meant a re-think of the way we do business, for us and our competitors. This meant we had to reconsider:
 - a. Product development, to build platforms and products that are contemporary, scalable and future proof, as far as possible;
 - b. Marketing, to understand and exploit social media as an increasingly dominant means of communicating with customers;
 - c. Resources, to employ or train staff and structure teams appropriately;
 - d. Territories, to be positioned to be able to exploit the ubiquity of cloud based products across the globe.

4. It's not as if any of this is completely new and we have been preparing for these changes for several years. All of this preparation ties in with our recently articulated 3 pillars of strategy:
 - a. Preserving and building on existing profitable businesses
 - b. Investing in technology;
 - c. Expanding products and territory.
5. This was seen in:
 - a. our move away from Intuit,
 - b. undertaking a massive re-branding exercise,
 - c. shifting our revenue model to subscription,
 - d. re-engineering our product development,
 - e. improving our business infrastructure, and
 - f. expanding territories.
6. It merits special mention that subscription revenue now represents 80% of available revenue.
7. We achieved all of this while remaining profitable and paying dividends, something which some of our competitors have not achieved.
8. These successes underpinned the strategic process we underwent with Macquarie bank late last year where we refined our strategy and explored alternative outcomes.
9. That process threw up several options about how we proceed into the future and there was a lot of speculation about what our intentions were and leading to share price volatility. We can't control that, but as we said on our roadshows in February, our current focus is on executing standalone growth.
10. Where do we see that growth coming from?

11. New customer growth is coming from the cloud and it cannot be ignored. We have to invest to benefit from that opportunity. That said, we do have continued growth in our traditional businesses.
12. Reckon One is unquestionably the product for the future. You all know that we have taken time and money to get to this point and there might still be more to spend to refine what we have done so far.
13. The point is that we now have a product with excellent functionality, including a recently released Payroll model. We have an extremely competitive price point with a unique modular pay-as-you-need sales model.
14. We have also quietly been localising Reckon One for release in the UK leading to a soft launch this month. Our existing market presence in the UK via Virtual Cabinet together with an existing business infrastructure means we have an extremely efficient platform to enter that market.
15. What also came out of our strategic review last year was an adjustment to our reporting segments to properly reflect the operations of the business. In particular to give recognition to the opportunity that the Document Management market represents.
16. The recent acquisition of SmartVault, (Daniel Rabie, our Chief Operating Officer, will speak in a little more detail about this later in the meeting) was based on careful strategic thought about the opportunities that the Document Management market presents, particularly in the cloud.
17. We have a successful track record of acquisitions in this space with Virtual Cabinet's performance exceeding our expectations. This is a higher end enterprise level document management system that will continue to drive revenue growth in its market. Incidentally it is presently undergoing massive product development changes, but we saw SmartVault as an excellent addition to our suite as it meets the demand from the lower end of the market.

18. Not only that, but SmartVault is built on a cloud ready platform and we are in the process of exploiting that platform to improve the already excellent Virtual Cabinet and accelerate its move to the cloud.

19. The existing customer market of SmartVault in the USA also presents an opportunity for our Reckon One cloud accounting product in markets outside of Australia and New Zealand. Part of our strategy to expand our territorial markets.

20. Now it is appropriate for me to ask Daniel Rabie, our Chief Operating Officer to talk about SmartVault and Reckon One.

Before doing so, I will ask Clive Rabie, our Group CEO to set the context for these innovations.

Mr Clive Rabie:

“While I am cognisant of investors’ expectations to benefit from short term returns as a company, and while we also driven by short term performance to the extent that we do keep an eye on month to month performance; we still need to balance this by building a long term sustainable business.

We must take advantage of new customer demand for products in the cloud and we will invest in technology and marketing in Reckon One and document management to achieve the key pillars of our strategy.”

21. [Daniel Rabie Slides]

22. Thank you Daniel.

23. In summary, in order to stamp our authority in the disrupted world we will invest in ongoing development and cloudification of our range. We

will invest in new markets and in appropriate acquisitions in territories which are becoming important to the long term success of Reckon.

24.The results being:

- a. We are winning online or cloud business in our Business Division in existing and new territories;
- b. We are ready to meet demand for online technology in our Document Management business in existing and new territories; and
- c. Subscription pricing bringing significant new customers to our Practice Management business.

25.None of what we have done so far was achieved overnight, nor will our future plans deliver overnight returns. The introduction and implementation of our strategy over the next year or two will initially impact upon our profitability and cash flow. But not to do so will lead to an adverse impact on your company.

26.With the senior management we have in place and the dedicated teams around the world, the medium to long term outlook for Reckon is a very exciting one.

27.I now return to the items in the Notice of Meeting.