

ASX Announcement

9 August 2016



Highlights Commentary Half Year Results Ending 30 June 2016

Reckon is pleased to announce revenue growth for the half year ended 30 June 2016 of 6%, and that it is on track for EBITDA guidance provided earlier in the year, whilst it continues to invest in new markets with high growth potential. The focus across all businesses remains on volume growth and entrenching the group as a true subscription business with strong online capability and international reach.

Practice Management Group

Revenue grew by 4% in the Practice Management Group. Software revenue grew by 9%, however this was partially offset by 5% lower content revenue in the half year. This division added the highest number of large new clients for a number of years, which further entrenches the business as the product of choice amongst the major accounting firms and adds to the very impressive customer list. This will result in a progressive increase in revenue in the 2nd half as these clients are installed. Content revenue was weak in Q1, however recovered substantially in Q2, resulting in a very strong overall Practice Management group result in Q2. The USA legal market has also continued to perform strongly in the half year, and the pipeline is very encouraging.

Document Management Group

The acquisition of Smart Vault in January 2016, continued growth in the United Kingdom and a ramp up in the penetration of the Australian and New Zealand markets, have all contributed to a 45% increase in revenue for this division in the half year. Good progress has been made in merging the Virtual Cabinet and Smart Vault technologies onto one cloud platform, positioning this business well to take advantage of substantial global markets over the coming years. Currently over 560,000 businesses are connected to our customers via our products.

Business Group

Revenue reduced by 2% as the last of the major impacts of moving the business to a subscription model was substantially completed in Q1. The revenue reduction in Q1 was 6%, whereas Q2 showed growth of 1%. Cloud product revenue continued to grow strongly at 17% and now represents 30% of this division's revenue. ReckonOne payroll was launched in May, and this has resulted in a significant increase in net new customers added. ReckonOne was also launched in the UK in May. The unique modular design of this product will provide our competitive advantage as we make inroads in this global market. Overall cloud users now sit at 36k.



The group remains on track for EBITDA guidance of \$34m to \$36m, having achieved \$18.5m in the first half. Existing business EBITDA growth was 5%, however \$2.6m was spent on sales and marketing initiatives for new markets in the half year, which is expected to provide the revenue growth impetus for future years.

The development spend for the half year was \$11.8m, which means that the group is on track for the lower end of guidance of \$23m to \$25m. More than 50% of the development spend was on the “new market” products referred to above.

Net profit attributable to members reduced from \$8.8m to \$6.2m in the half year. This disguises the fact that the existing businesses achieved solid growth of 8%. The investment in new market initiatives flagged to the market earlier this year have adversely impacted results, however to a lesser extent than originally anticipated.

The Board has declared an interim dividend of 2 cents (2015: 4.25 cents), and this dividend will again be unfranked.

Reckon Group CEO, Clive Rabie said:

“A significant investment has been made over the past few years to convert the Business Group into a subscription business with a specific focus on cloud offerings. We are now starting to see the benefits of this with 80% of available revenue being subscription, and strong traction coming through on the Reckon One product in recent months, as we not only target our traditional Australian and New Zealand markets, but have also launched in the UK.

The acquisition of Smart Vault this year has catapulted us into the USA document management market, to compliment an already strong presence in the UK and a growing Australian and New Zealand base. Smart Vault has the added advantage of already being a cloud product which will enable us to target strong future growth in a lucrative and as yet largely untapped global market.

We are confident that the business is well positioned to take advantage of substantial market opportunities in many parts of our business, and we remain committed to ensuring that we invest appropriately in key areas to ensure that these aspirations are met.”

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