



ASX Announcement

9 August 2022

Reckon delivers strong HY results underpinned by growth in continuing operations

Financial highlights (total group):

- Normalised NPAT of \$6m, up 5% on the prior corresponding period (PcP)¹
- Normalised EBITDA of \$18m, a 6% increase on PcP
- Normalised revenues of \$39m, up 2% on PcP
- Annual recurring revenues (ARR) of \$36m, marking a 5% increase on the PcP
- Fully franked interim dividend of \$0.03 per share

Financial highlights (continuing operations):

- Normalised NPAT of \$4m, up 8% on the prior corresponding period (PcP)
- Normalised EBITDA of \$11m, a 6% rise on PcP
- Normalised revenues of \$27m, up 2% on PcP
- Annual recurring revenues (ARR) of \$24m, a 6% increase on the PcP

¹ NON- IFRS: Growth has been normalised and is on a constant currency basis as set out in the Additional Information table. This applies to all results in this announcement.

Sale of Practice Management Accountant Group:

- Sale of the Practice Management Accountant Group to The Access Group for a cash consideration of \$100m, an 8.4x multiple of FY21 EBITDA for the operating division
- Additional partially franked special dividend of between \$0.54 and \$0.58 is expected to be declared from sale of the Accountants Group division, subject to finalisation of completion accounts, tax payments and other aspects of completion

Operational highlights:

- Reckon now fully focused on advancing growth across its Business and Legal Groups through ongoing investment and launch of new cloud products and other cross selling opportunities
- R&D spend of \$11m, underpinning continued growth in cloud-based products
- Agreement with ASX-listed payments company Novatti (ASX: NOV) for launch of an integrated payments solution

Reckon Limited (“Reckon” or the “Company”) (ASX: RKN) is pleased to report strong financial and operational performance for the six-month period ended 30 June 2022 (H1 CY2022).

Group Net Profit After TAX (NPAT) from continuing operations was \$4m on a constant-currency basis, a 8% uplift on the previous corresponding period (PcP). Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) from continuing operations was \$11m, a 6% uplift on the PCP.



First-half highlights included the \$100m cash sale of Accountants Group division (*refer ASX announcement: 1 August 2022*), with strong revenue and earnings growth across the Company's remaining operating divisions. Proceeds of the sale are expected to fund the payment of a partially franked special dividend of between \$0.54 and \$0.58 to shareholders as well as reduce a portion of the Company's debt.

Momentum in the first half from continuing operations was underpinned by growth in subscription revenue in the Company's remaining two divisions; Small Business (accounting and payroll solutions for SMEs) and Legal (practice management and workflow for law firms).

Group revenue from continuing operations was \$27m, up 2% on the PcP, with recurring subscription revenue accounting for 90% of total revenue.

The Business Group recorded H1 subscription revenue of \$19.9m, up 6% on PCP. The integrated payments solution with Novatti, which holds a 19.9% stake in the Company, is also expected to create additional revenue opportunities for the Business Group.

The Legal division recorded H1 subscription revenues of \$4.4m (up 5% on the PcP) and further established its footprint in the US market, where its customer base includes five of the world's largest law firms.

Management commentary:

Reckon Group CEO, Mr Sam Allert said: *"The half-year report is reflective of strong execution across the Company's product suite. Operational highlights for first half 2022 were led by the \$100m all-cash sale of the Accountants Group division, along with consistently strong results from the Group's continuous operations. With an established market footprint for our Small Business payroll solutions and Practice Management platform for legal services, Reckon has built a platform for sustainable growth underpinned by a strong balance sheet and subscription-based revenue model."*

Segment performance (continuing operations):

Business Group

- H1 revenues of \$21.9m (up 3% on PcP),
- Comprising 91% subscription revenue, with over 400,000 employees now paid via Reckon software
- EBITDA increased to \$12.3m, an 6% increase over PcP
- Cloud revenue up by 9% on PCP, representing 52% of the divisions HY revenue
- Continued growth across our cloud and mobile payroll solutions, with integration of Novatti payments solution expected to support H2 CY2022 sales growth

Practice Management – Legal Group

- H1 subscription revenues of \$4.4m, up 5% from PcP
- Continued investment in cloud-based software services and sales capability
- Opportunity to introduce cloud practice management suite for law firms still largely using desktop software
- Reckon retains 70% of division with incentives for US management to increase equity through revenue milestones
- US\$5m committed to fund growth via combination of cash and loans

APPENDIX ONE

Additional Information

	HY22	HY21	GROWTH
	\$ M	\$ M	%
✓ Revenue			
Revenue from continuing operations at constant currency (Non-IFRs)	27.0	26.5	2%
Discontinued operations	11.6	12.1	
Currency impact	-	(0.3)	
Reported revenue	<u>38.6</u>	<u>38.3</u>	
✓ EBITDA			
EBITDA from continuing operations at constant currency (Non-IFRs)	11.1	10.4	6%
Discontinued operations	6.1	6.6	
Transaction costs and acquisition related non-cash treasury share expenses (Continuing operations)	(0.4)	(0.6)	
Reported EBITDA	<u>16.8</u>	<u>16.4</u>	
✓ NPAT			
NPAT from continuing operations at constant currency (Non-IFRs)	4.1	3.8	+8%
Transaction costs and acquisition related non-cash treasury shares expenses (Continuing operations)	(0.4)	(0.6)	
Discontinued operations	1.6	2.1	
Non-controlling interest	(0.4)	(0.2)	
Reported NPAT	<u>4.9</u>	<u>5.1</u>	

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About Reckon:

Reckon is an Australian listed software company (ASX:RKN) that provides world class software for accountants, bookkeepers, lawyers, SMEs and personal users. The company has offices in Australia, New Zealand, UK and the USA.

Reckon currently operates two divisions:



Reckon™

1. Business Group: provides accounting and payroll software for small to larger sized businesses and personal wealth management software branded as Reckon One and Reckon Accounts Hosted (cloud products), Reckon Accounts Business and Reckon Accounts Personal respectively. The divisions operate predominantly in Australia and New Zealand.
2. Legal Practice Management Group: provides practice management software and workflow solutions to legal firms and corporations for document scanning and routing, print management and cost recovery solutions under the nQ Zebraworks brand. With a focus on releasing a new cloud practice management suite. It is operational predominantly in the USA and United Kingdom, with re-sellers in other parts of the world.

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