



ASX Announcement

31 May 2018

MYOB moves ahead without Reckon acquisition; Invests for future growth

On track to hit 1 million online subscribers by 2020

MYOB Group Limited (ASX:MYO) (**MYOB**) advises that it will no longer pursue the acquisition of Reckon's Accountant Group assets. Instead, MYOB will proceed with its planned investment strategy to drive future growth.

The regulatory process has taken considerably longer than the parties anticipated and could continue for some time. The sale and purchase agreement had a six month duration within which the conditions precedent to completion had to be satisfied (including the regulatory conditions) failing which either Reckon or MYOB could terminate the contract.

While the rationale for the acquisition remained unchanged, the further potential delays in the ACCC and NZCC process has created uncertainty in the business to be acquired with the potential to impact on its trading, and the parties could not agree to mutually acceptable terms to extend the contract.

With accountants responding positively to the online practice tools MYOB has already brought to market, and competitors clarifying through the ACCC process that they are not currently able to provide a full suite of online practice tools to their clients, the company feels well placed to accelerate investment to further strengthen its market position.

Investing for Future Growth

Given the upward trajectory of MYOB's online ledger growth, which has trebled from 2015 to 2017 and is growing faster than competitors, the company has decided to accelerate organic investment in order to capture further share in a rapidly growing market. The company is targeting over 1 million online subscribers by 2020.

An important factor in achieving the 2020 goal is increasing MYOB's client base of accountants and the referrals of SME clients that they generate. MYOB is confident that it can achieve this outcome organically; and that accelerating the development of the MYOB Platform, together with additional sales and marketing investment, further increases this confidence. The size of these investments is in line with those announced as part of the proposed Reckon acquisition in November 2017.

MYOB remains committed to the share buy-back program announced in August 2017.

MYOB CEO Tim Reed said:

"Whilst the acquisition will not complete as planned, we are excited about the opportunity to accelerate the organic growth in our business.

With a proven track record of investing for growth, and a market ripe for expansion, we are confident that this is the right time to invest and set our business up for future success, whilst continuing to deliver value to our shareholders and our customers.

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With the Reckon deal no longer proceeding, we plan to accelerate the pace of our share buyback program, and thereby maximise the return to our shareholders.

We are confident that throughout this period of investment our business will remain highly profitable, with underlying EBITDA margins expected to be above 40 per cent.

Our financial goals, beyond reaching 1 million online subscribers by 2020, are to deliver underlying EBITDA margins of >45 per cent and generate \$200 million of free cash flow by 2022.”

2018 – 2020 Investment Plan

- **\$50 million MYOB Platform acceleration:** Accelerate \$50 million of R&D spend over the next 2 years to bring forward the delivery of MYOB’s online platform. This investment will bring new online Adviser and SME solutions to the market more quickly, allowing MYOB to retire legacy solutions. Given this is a bring-forward of already planned investment, there will be no change to the overall spend for the MYOB Platform in the long term. This acceleration will increase R&D as a percentage of revenue above current levels, however MYOB expects it to stay below 20 per cent from 2018 - 2020 and to drop back below 16 per cent of revenue by 2022.
- **\$30 million Sales & Marketing investment:** Increase the size of MYOB’s Adviser sales team to maximise the potential of the accelerated platform delivery, and to deliver the expected increased rate of referrals from the adviser base of accountants and bookkeepers. MYOB will invest further marketing spend over the next 2 years to support direct SME sales (i.e. those not referred by advisers). These investments are expected to be NPV positive and cashflow positive in 2020 on the basis of consistent team productivity.

Strategic Rationale for Investment

- **Building online solutions for advisers will drive organic growth:** MYOB is committed to delivering online solutions to its base of accountants and bookkeepers in line with its Connected Practice vision. As existing providers are currently unable to provide a full suite of online solutions for all their clients, MYOB believes this is a significant opportunity to grow adviser market share organically.
- **Accelerating investment in adviser tools will drive referrals of SME accounting software:** Currently more than 50 per cent of sales of MYOB’s SME accounting software come from adviser referrals. By investing in online practice tools and growing the base of advisers, MYOB is confident this will lead to an increase in SME referrals.
- **MYOB has a strong track record of investing for growth:** Over the past 3 years MYOB has invested more than \$400 million into research & development, sales and marketing. This investment has already delivered strong returns, trebling the rate of online subscriber additions between 2015 and 2017, while growing ARPU and increasing client retention. Over the same period MYOB has also generated free cash flow of more than \$400 million, of which >\$190 million has been returned to shareholders.
- **It is the right time to invest:** Over the past 8 years the penetration of online accounting has moved from less than 5 per cent to more than 40 per cent; in the next 8 it is likely to move above 80 per cent, potentially doubling category revenue. MYOB’s goal is to achieve 1 million online subscribers by 2020.

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Medium-Term Targets

- Online subscribers: 1 million by 2020
- Organic revenue growth: high single-digit
- Total revenue growth: double digit
- Underlying EBITDA margins: >45% from 2022
- R&D investment: <16% from 2022
- Free cash flow: >\$200 million from 2022

2018 Guidance

MYOB is updating its 2018 guidance based on the above investment

- Organic revenue growth is still expected to be 8% – 10% percent range
- Underlying EBITDA margins are expected to be in the 42% - 44% range
- R&D investment to be <20% of revenue

As in prior years, revenue growth and EBITDA margins are expected to be higher in 2H than 1H.

Further information and web conference details

The MYOB ASX release should be read in conjunction with the corresponding analyst and investor presentation lodged this morning and available on the MYOB Investor website:

<http://investors.myob.com.au/Investors/>.

CEO Tim Reed and CFO Richard Moore will host a conference call for analysts and investors today at 10:30am AEST today. To register for the MYOB webcast, please click here <http://webcast.openbriefing.com/4498/>.

Conference call details (Thursday May 31, 2018, 10:30 AM (AEST))

Conference Pin #	9690875	New Zealand	0800 452 782
Australia Toll Free	1800 123 296	United Kingdom	0808 234 0757
Australia Toll	612 8038 5221	USA	1855 293 1544
Hong Kong	800 908 865	Canada	1855 5616 766
Singapore	800 616 2288		

Investor and Analyst Enquiries

Christina Nallaiah
Head of Investor Relations
T: +61 2 9089 9122 | M: +61 468 362 553
christina.nallaiah@myob.com

Media queries

Lia Pacquola
Head of PR and Corporate Communications
M: + 61 418 116 790
Lia.pacquola@myob.com



About MYOB

MYOB Group Ltd (ASX: MYO) is a leading provider of online business management solutions. It makes business life easier for approximately 1.2 million businesses and accountants across Australia and New Zealand by simplifying accounting, payroll, tax, practice management, CRM, job costing, inventory and more. MYOB operates across three core segments – Clients and Partners (business solutions to SMEs and Advisers); Enterprise Solutions (larger businesses) and Payment Solutions. It provides ongoing support through client service channels including a network of over 40,000 accountants, bookkeepers and other consultants. It is committed to ongoing innovation, particularly through its Connected Practice Strategy and through the development of the MYOB Platform. For more information, visit <http://investors.myob.com.au/Investors> or follow @MYOB on Twitter.

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