



ASX Announcement

16 November 2017

MYOB to acquire the assets of Reckon's Accountant Group

MYOB Group Limited (ASX: MYO) ("MYOB"), a leading provider of online business management solutions, is pleased to announce that it has entered into a purchase agreement to acquire the assets of the Accountant Group in Australia and New Zealand from Reckon Limited (ASX:RKN) ("Reckon"), for a total consideration of A\$180 million.

Highlights

- Reckon's Accountant Group provides practice software solutions to more than 3,000 accounting practices in Australia and New Zealand through three product lines; *Reckon APS*, *Reckon Elite* and *Reckon Docs*
- The acquisition strengthens MYOB's growing adviser base by deepening the relationship with these advisers, creating an opportunity to accelerate online SME growth via a larger referral network
- The acquisition enables MYOB to accelerate the development of its online practice suite to bring all MYOB advisers online faster and provide an online migration path for Reckon's Accountant Group clients
- MYOB plans to reinvest earnings generated from Reckon's Accountant Group in the first two years to fund increased investment in sales and marketing
- The acquisition is expected to be EPS accretive on an underlying basis immediately, and on a statutory basis once the integration funding is fully deployed
- Further accretion is expected as increased adviser referrals from Reckon's Accountant Group clients and development synergies from migrating clients to MYOB's online practice suite, are realised
- The transaction will be funded by a committed debt facility and is subject to regulatory approval from both the ACCC and NZCC, and other customary closing conditions

MYOB CEO Tim Reed said:

"We are pleased to announce the agreement to purchase Reckon's Accountant Group.

"The acquisition strategically aligns to our Connected Practice vision and our commitment to delivering connectivity, efficiencies and growth opportunities to advisers and SME businesses across Australia and New Zealand.

"It will deepen our relationship with more than 3,000 accounting practices – the most trusted advisers to SMEs and people who we know play an integral role in the business lives of SMEs.

"Through this acquisition we will be able to accelerate the delivery of our online practice suite to bring advisers online faster and provide an online migration path for Reckon's Accountant Group clients to the MYOB Platform.



"The acquisition is expected to be EPS accretive¹ on an underlying basis immediately; and on a statutory basis following the deployment of the integration funding within three years. We expect it will be further accretive upon the completion of the development of our online practice suite, and once SME referral rates match those of MYOB's existing practice solutions' clients."

Reckon CEO Clive Rabie said:

"We are pleased to announce this agreement with MYOB in relation to the Accountant Group. We believe that combining two businesses that are strategically and culturally aligned under the MYOB group presents a compelling opportunity for our clients and investors. The combined business provides efficiencies and resources that will enable long-term benefits for our clients and employees."

Transaction Overview

MYOB has entered into a purchase agreement to acquire the assets of the Accountant Group in Australia and New Zealand from Reckon Limited (ASX:RKN) for a purchase price of A\$180 million. Reckon's Accountant Group includes three product lines that provide accounting software solutions to more than 3,000 businesses in Australia and New Zealand.

1. *Reckon APS*, a desktop software suite of tax, financial reporting and practice management solutions for medium and large accounting firms.
2. *Reckon Elite*, a desktop solution for sole practitioners or smaller accounting firms which offers tax, financial reporting and practice management tools.
3. *Reckon Docs*, a corporate services solution that provides corporate documentation, company formation and information services aimed at accountants, financial planners, lawyers and SMSF administrators.

As part of the agreement, MYOB will acquire all clients, intellectual property, systems and processes, and all employees associated with the Accountant Group, including sales, consulting and support teams. All Accountant Group employees (approximately 120) will be offered ongoing employment with MYOB. MYOB paid 5.6x revenue for Reckon's Accountant Group which compares to MYOB's EV revenue multiple of >6.5x.

The acquisition is subject to approval from the Australian Competition and Consumer Commission (ACCC) and the New Zealand Commerce Commission (NZCC), and other customary closing conditions. The acquisition is expected to complete by the second quarter of FY2018.



Strategic Rationale and Long-Term Value Creation

Strategically aligns with MYOB's Connected Practice Vision, strengthens MYOB's adviser base and accelerates the opportunity for SME online growth.

MYOB is leading the industry through its Connected Practice vision which delivers greater connectivity and efficiency for trusted advisers. Positive feedback from advisers, partners and SMEs has driven the rapid uptake of MYOB's online platform tools and generated increases in referral rates from advisers which in turn has led to accelerated uptake of online ledgers.

MYOB holds a network of more than 40,000 advisers, comprising accountants, bookkeepers and other consultants. With approximately 50 percent of new SME subscriptions coming through the MYOB adviser channel, the acquisition of Reckon's Accountant Group expands the referral base of advisers and accelerates the SME online growth opportunity. Currently, within the MYOB Partner group, accounting practices that use the MYOB practice suite and are members of the MYOB partner program deliver 75 percent of MYOB's adviser referrals. On average, these practices recommend 9x as many SME clients as other MYOB accounting partners.

MYOB plans to use the earnings contribution from Reckon's Accountant Group in the first two years to fund increased investment in sales and marketing to further accelerate the growth in sales of online SME and practice tools.

Leveraging MYOB's expertise and proven experience in acquiring businesses

The acquisition of Reckon's Accountant Group is in line with MYOB's growth strategy of making targeted acquisitions which add value to the overall group. Over the past four and a half years, MYOB has successfully acquired and integrated six companies (BankLink, PayGlobal, ACE Payroll, IMS Payroll, Greentree and Paycorp) resulting in increased value to customers, product offering, distribution and growth in total addressable market to over A\$3 billion.

Accelerating the delivery of the MYOB Platform and creating a migration path for Reckon's Accountant Group clients

The acquisition will enable MYOB to accelerate the delivery of its online suite of practice tools (MYOB Platform) through further investment in product development. The increased investment in the platform is expected to bring forward the delivery of online practice tools. In addition, MYOB will be able to provide a migration path for Reckon's Accountant Group clients, enabling the delivery of new online tools to help their businesses grow.

Long Term Value Accretion

The acquisition is expected to be EPS accretive on an underlying basis immediately, and will be further accretive following the integration and completion of the MYOB Platform – through both development synergies and higher SME referral rates. Continuing direct costs are not expected to exceed 25% of current revenue. As noted above, MYOB plans to reinvest the first two years of earnings generated from Reckon's Accountant Group to fund increased investment in sales and marketing, with positive ROI, EBITDA and cashflow expected from year three onwards, achieving MYOB's internal rate of return over the period.



Funding

The acquisition will be funded by a committed debt facility. As part of the acquisition, an integration fund of A\$50 million will be created to facilitate the integration of the two businesses, with the majority invested in an acceleration of the development of MYOB's online practice tools and the development of online migration tools for Reckon's Accountant Group clients. Investment relating to this fund will be reported as one-off, non-recurring expenses in MYOB's financial statements and is planned to be fully utilised within two years of deal completion.

Conference call

MYOB will hold a conference call for analysts and investors at 12:30pm AEDT today. Dial-in details are provided below.

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¹ Earnings exclude any contribution from Reckon's Legal product as this product was not purchased and assumes all \$6 - \$7M of current R&D is expensed



About MYOB

MYOB Group Ltd (ASX: MYO) is a leading provider of online business management solutions. MYOB makes business life easier for approximately 1.2 million businesses across Australia and New Zealand by simplifying accounting, payroll, tax, practice management, CRM, job costing, inventory and more. MYOB operates across four strategic segments – Small to medium sized businesses (SMEs), Practices (accountants, advisers and book-keepers), Enterprise (larger businesses) and Payments. It provides ongoing support via many client service channels including a network of over 40,000 accountants, bookkeepers and other consultants. MYOB is committed to ongoing innovation and delivering efficiencies and growth opportunities for its growing client base across Australia and New Zealand. For more information, visit <http://investors.myob.com.au/Investors> or follow @MYOB on Twitter.

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 US with over 800,000 registered businesses around the world using Reckon software. Reckon's business was comprised of three core areas:

- 1) *Business Group*: which provides business accounting 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.
- 2) *Practice Management Group*: which provides accounting practice management, client accounting, tax compliance and related software under the Reckon APS brand (to larger accounting firms). Reckon Elite (to smaller accounting firms), content and company secretarial services under the ReckonDocs brand and legal cost recovery, scan and print solutions under the nQueue brand.
- 3) *The Document Management group* was de-merged and floated on the AIM exchange in the UK in August 2017.

