



# ASX Announcement

*Results For Announcement to Market  
Financial Year Ending 31 December 2017*

**13 February 2018**

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Reckon is pleased to announce its results for the year ended 31 December 2017.

Underlying revenue and EBITDA growth of 1% has been achieved in the year, with underlying expenditure on development costs reduced by 19%, thereby substantially improving cash flow.

The guidance provided for the continuing operations for 2017 was achieved.

**Over that last few years the group has been focused on:**

- **unlocking shareholder value, and**
- **re-investment for future growth, and**
- **improving quality of revenue.**

**Unlocking shareholder value**

- The Document Management Division was de-merged and listed on the AIM exchange in August 2017, and is now valued at \$31million.
- In November 2017 we reached agreement to sell the Accountants Practice Management Group to MYOB for \$180 million, subject to ACCC and NZCC approval. The transaction is anticipated to complete in the second quarter of 2018.
- Both transactions create substantial shareholder value.

**Re-investment for future growth**

- Re-investment has been targeted at developing cloud technology and
- Expanding addressable markets.

This has resulted in cloud revenue growth in our Business Group of 18% in. Cloud revenue now represents 36% of Business Group revenue.

It has also enabled the Legal Practice Management Group to generate more than 50% of new revenue from its newly developed scan product.

We are also investigating products to add to our suite to improve growth and the increase the subscription component of revenue in the business.

### Improving quality of revenue

- The strength of the business has been substantially improved over the last few years by the growth in cloud products, and with the subscription component of revenue in 2017 now at 75% of total revenue, growing at 6% over the prior year.

### **Group CEO, Clive Rabie said:**

“The sale of the Accountant Practice Management Group and the de-merger of the Document Management Division have resulted in a substantial uplift in shareholder value and has supported our long held view that the sum of the parts was always worth more than the whole.”

### **The continuing operations (after completion of the sale of the Accountants Group will comprise):**

- **Business Group**
- **Legal Practice Management Group**

### Business Group

We have positioned Reckon One to cater for micro businesses with an easy to use product at a very competitive price point. Our Reckon Accounts Hosted product continues to grow strongly as we transition desktop customers to the cloud.

- In 2017 both revenue and EBITDA grew by 1%.
- Growth in cloud revenue and subscription continue to be strong and this positions this division well for the future.
- Legacy desktop revenue has continued to decline, however this is more than offset by cloud growth, resulting in overall unit growth for the 2017 of 2%.
- ARPU will however continue to be impacted as we exit the legacy products, however we expect to continue to offset this with cloud product volume growth.
- Opportunities to expand offerings to our substantial customer base, and hence wallet share are being assessed.
- The first of these was Reckon Loans, which is now starting to show promise.

### Legal Practice Management Group

In the Legal Practice Management Group, underlying revenue decreased by 4% as the quantum of new business signed in the second half of 2017 was down on a very strong 2016.

- The recently developed scan product has generated more than 50% of new revenue in 2017, and is expected to drive future growth in this Division within our already impressive legal customer base.
- The scan product also opens potential opportunities in markets outside of legal.

- This division will also be targeted to lifting its subscription proportion of revenue from its current level of 69% to above 80%, albeit that this may impact profit performance in the short term, but will substantially improve long-term value.

The continuing operations profits were adversely impacted by higher \$2m of additional depreciation and amortisation costs in 2017, reflecting the higher investment in product development over the last few years. The expenditure on development costs for the continuing operations has now normalised and in 2018 is expected to be \$8m to \$9m.

### **Outlook**

Revenue for the continuing operations in 2018 is expected to be similar to 2017, in the range of \$48m to \$49m as we transition to cloud/subscription, albeit that net volume growth is expected to continue. The group will be right sized to reflect an appropriate structure for the continuing business in 2018, and hence we also expect EBITDA for the continuing operations to be similar to 2017, in the range of \$15m to \$16m.

#### **Group CEO, Clive Rabie said:**

‘In our view, the continuing businesses have the potential to also generate value enhancement for shareholders, and so we are fully focussed on ensuring that we target cloud and ancillary product growth in the Business Group, and scan and new market growth in the Legal Practice Management Group. In all cases growth in subscription revenue as a proportion of overall revenue will result, and strengthen the quality of our overall revenue.’

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