

ASX Announcement

14 February 2023



Summary of financial results for the year ended 31 December 2022

Financial highlights (continuing operations)¹:

- Normalised revenues **of \$51.2m, up 2%** on the previous corresponding period (PcP)
- Normalised EBITDA increased **5% on the PcP from \$17.6m to \$18.5m**
- Normalised **NPAT of \$5.0m, down 1% on PcP**
- Normalised annual recurring revenues (ARR) **of \$46.7m, a 5% increase on the PcP**
- ARR comprised **91% of total normalised revenues**, up from 89% in PcP
- Strong operating cash flow from continuing operations **of \$19.9m** (before development spend)
- **81% reduction in net debt to \$2.8m from \$14.7m** in 2021, despite **product development spend of \$15.3m in continuing operations**
- Strong revenues from continuing operations, with ongoing investment in cloud-based products to underpin further growth

Operational highlights:

- Sale of the Practice Management Accountant Group to The Access Group for a cash consideration of \$100m, a 4.6x multiple of FY21 Revenue and a 8.4x multiple of FY21 EBITDA; effective from 1 August 2022
- Special dividend of \$0.57 paid to shareholders
- Additional resources deployed towards growth of continuing divisions, comprising Accounting and Payroll division for small businesses, and Practice Management division for Legal firms
- Ongoing growth in cloud-based users, with more than 400,000 employees now paid through Reckon software across the group's global payroll customer base
- Launch of integrated payments solution with Novatti (ASX:NOV) creating future revenue opportunities
- Practice Management division has established a strong footprint in the lucrative US market, with five of the world's top legal firms now deploying Reckon NQZW (nQZebraworks) software
- Successful launch of new cloud modules BillingQ and DataQ with first clients onboarded

Reckon Limited ("Reckon" or the "Company") (ASX: RKN) is pleased to report a strong financial and operational performance for the 12-month period ended 31 December 2022 (FY2022).

Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) from continuing operations was \$18m, a 5% uplift on a normalised basis on the PcP. The rise in EBITDA follows increases in the previous years, demonstrating the group's consistent growth trajectory with revenue expansion supported by targeted R&D investment. Net Profit After Tax (NPAT) was down 1% due to increased depreciation and amortisation related to the additional investment in R&D and in FY2021 the tax expense was reduced due to the utilisation of tax losses not previously brought to account.

The key operational highlight for 2022 was the sale of the Accountants Group division to the Access Group for \$100m of cash (*refer ASX announcement: 1 August 2022*). The all-cash nature of the transaction was a testament the attractiveness of the business with the proceeds funding the payment of a partially franked special dividend of \$0.57, taking total dividends paid during the period to \$0.60.

Concurrently, the groups remaining two divisions – Small Business (accounting and payroll solutions for SMEs) and Legal (practice management and workflow for law firms) – delivered sound annual growth rates.

Along with strong momentum in ARR and total revenues, both divisions also benefited from Reckon's continuing focus on R&D investment which has resulted in ongoing upgrades and added functionality to meet expanding demand from users in cloud-based products.

Further investments during 2022 were made to upgrade the product suite across cloud and mobile, with improved core functionality and increased compatibility with client systems.

Cash from the sale of the Practice Management division as well as the strong financial and operational performance contributed to a material reduction in net debt, with another \$11.9m of debt repaid, reducing outstanding net debt to just \$2.8m, down from \$14.7m in FY2021 and \$30.7m in FY2020.

Management commentary:

Reckon Group CEO, Mr Sam Allert said: *"This full-year result caps off a particularly strong 12-month period where Reckon cemented its position as a leading, innovative technology company that has the capability to deliver outstanding returns for shareholders, fund its growth through ongoing R&D spend and strengthen its balance sheet with a material reduction in net debt."*

"The sale of the Accountants Group was of course a key achievement for Reckon and our efforts are now firmly focused on aggressively scaling up the operations of the Business Group Accounting and Payroll division and Practice Management legal services division, both of which traded well in 2022 and have excellent future prospects. With more than 400,000 Australian

workers now paid through Reckon software and a major market opportunity for its practice management software in the US legal sector, the Company has laid its foundation for long-term growth with a subscription-based revenue model. Reckon is well-positioned to hit its next round of growth targets, underpinned by effective R&D investment and prudent capital management."

Segment performance (continuing operations):

Business Group

- FY22 revenues of \$40.8m (up 2.5% on PcP),
- Comprising 92% subscription revenue, with over 400,000 employees across Australia now paid via Reckon software
- EBITDA increased to \$21m, a 3.2% increase over PcP
- Cloud subscription revenue up by 7% on PcP to \$23m, representing 56% of the division's revenue
- Expanded capacity across cloud and mobile payroll solutions, with ongoing user growth supported by the integration with the Novatti platform, facilitating faster payments with cheaper transaction costs

Practice Management – Legal Group

- FY22 subscription revenues of \$9.2m, up 5.5% from PcP
- Investment across cloud-based software services, including Outlook integration to core platform and the launch of new BillingQ and DataQ cloud modules
- Major market opportunity to transition client legal firms to cloud-based practice management software from traditional desktop platform
- Now serving five of the world's largest US-based law firms, with total addressable market opportunity estimated at more than US\$2bn

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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:

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 and workflow solutions to legal firms and corporations for document scanning and routing, print management and cost recovery solutions under the nQZebraworks 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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¹NON-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.

APPENDIX ONE

Additional Information

	FY22 \$ M	FY21 \$ M	GROWTH %
 Revenue			
Revenue from continuing operations at constant currency (Non-IFRs)	51.2	50.0	2%
Discontinued operations	13.5	22.6	
Currency impact - continuing operations	-	(0.5)	
Reported revenue	64.7	72.1	
 EBITDA			
EBITDA from continuing operations at constant currency (Non-IFRs)	18.5	17.6	5%
Discontinued operations	74.8	12.2	
Transaction costs, acquisition related non-cash treasury share expenses, Care loan and currency impact (Continuing operations)	(0.5)	(0.3)	
Reported EBITDA	92.8	29.5	
 NPAT			
NPAT from continuing operations at constant currency (Non-IFRs)	5.0	5.1	-1%
Transaction costs, acquisition related non-cash treasury shares expenses, Cares loan and currency impact (Continuing operations)	(0.5)	(0.2)	
Discontinued operations	53.2	3.6	
Utilisation of prior period losses not previously brought to account	-	1.3	
Non-controlling interest	(0.9)	(0.6)	
Reported NPAT	56.8	9.2	