



ASX Announcement

15 August 2023

Reckon delivering to plan with strong first half performance

Continues to reward shareholders with 2.5 cent fully franked dividend

Reckon Limited (“Reckon” or the “Company”) (ASX: RKN) is pleased to report that it is delivering to plan with a solid performance from the profitable Business Group, which is underpinning the continued investment in its cloud based products and the delivery of exceptionally strong topline growth for the Legal Group.

Financial highlights:

- Group revenue of \$28.2m, up 4% on the previous corresponding period (PcP)
- Recurring revenue up 5% on the PcP to \$25.8m
- EBITDA up 3% to \$11.0m, compared to PcP
- NPAT of \$3.8m, up 16% on PcP due primarily to a lower effective tax rate as a result of the R&D spend, offsetting higher amortisation costs
- Group operating cash flow for continuing operations of \$3.8m, up 2% on PcP
- Balance sheet strengthened with net debt reduced by 90% from \$2.8m to \$0.3m
- Fully franked dividend of \$0.025 per share

Operational highlights:

- Legal Group achieved exceptionally strong subscription revenue growth up 19% to \$5.3m
- Business Group performance strengthened with a 6% uplift in cloud revenues despite a slight decline in user numbers to 109,000 following the discontinuation of the free Payroll app
- \$7.3m invested in cloud-based product development to capitalise on growth opportunities in both business units

Management commentary:

Reckon Group CEO, Mr Sam Allert said: “We are very encouraged by Reckon’s performance for the half and the results clearly reflect that we are delivering to plan which is to continue generating stable cash flows from our well-established Business Group, providing us the flexibility to invest in high growth opportunities such as our US and UK focused Legal Group.

“The performance of our Legal Group is an obvious highlight and presents considerable upside opportunity for Reckon given the size of the addressable market in the US and UK, the quality and stickiness of the customers and the traction we are achieving with our technology. This is a direct result of our commitment to leverage R&D investments into an expanded and improved product offering, and is clearly yielding results.

“The stable and predictable performance from the Business Group was again pleasing, particularly against the backdrop of the challenging operating environment for small businesses in Australia. It reinforces the value that the Company’s accounting and payroll solutions deliver for customers.

“With ongoing execution of our domestic and international growth strategy, Reckon is ideally positioned as a leading ASX tech business that is successfully balancing R&D investments with ongoing growth in revenue and profit. We have continued our track record of rewarding shareholders with healthy dividends, and for the foreseeable future, our intention is to pay one dividend annually given it reflects a healthy yield based on the current share price.”

Financial commentary and operations overview:

Group revenue from continuing operations was \$28.2m, up 4% on the previous corresponding period (PcP). The group remains committed to its core strategy of generating consistent growth in revenue and net profit supported by an ongoing priority on R&D spending.

Group Net Profit After TAX (NPAT) was \$3.8m a 16% uplift on the PcP, due primarily to a lower effective tax rate as a result of the group's R&D investments, offsetting higher amortisation costs. Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) during H1 was \$11.0m, up 3% on the PcP.

Group operating cashflow was again solid at \$3.8m (PcP: \$3.7m), after accounting for \$7.3m of development spend, which has allowed Reckon to not only reduce net debt considerably but to also reward shareholders with a 2.5 cent fully franked dividend for the half, payable to shareholders 29 September 2023 with a record date of 1 September 2023. For the foreseeable future, the Board anticipates paying one dividend annually at the half year.

The strong cash flow also allowed Reckon to strengthen its balance sheet considerably, paying down \$2.7m of debt and reducing net debt to just \$0.3m, a prudent measure in the current environment.

During the half, Reckon's two core operating divisions – the Small Business Accounting and Payroll group ("Business Group") and the Legal Practice Management and Workflow group ("Legal Group") – continued to deliver solid growth.

Momentum in the Business Group was highlighted by another strong half of cloud-based subscription revenue growth, which rose by 6% to \$12.0m.

Reckon's suite of cloud-based SME products are now used by over 109,000 customers despite the decision to discontinue the free service via its Payroll app. In total, subscription revenues from desktop and cloud-based products continue to contribute over 90% of total revenues for the division, which rose to \$22.5m for the half.

Reckon's core Business Group operations were complemented by a strong half of growth in the Legal Group, which reported a 19% increase in subscription revenues to \$5.3m.

The H1 result for the Legal Group validates the Company's strategy to pursue topline growth for its Practice Management and Workflow software in the lucrative US legal market, which comprises 500 of the world's largest firms and 46,000 mid-size firms.

The Company continues to serve five of the largest US law firms and has a unique opportunity to leverage its footprint and deliver ongoing organic revenue growth.

Reckon's Legal Group strategy is being spearheaded by a highly regarded on-ground management team with a successful track record of developing and distributing legal practice management software in the US market.

Segment performance:**Business Group**

- H1 revenues of \$22.5m (up 3% on PcP),
- Comprising 91% subscription revenue
- EBITDA of \$12.3m, consistent with the PcP
- Cloud revenue up by a further 6% on PCP, representing 53% of the divisions HY revenue



Legal Group

- H1 subscription revenues of \$5.3m, up 19% from PcP (13% in constant currency)
- Fifth consecutive half of subscription revenue growth since H1 2021
- Continued investment in cloud-based software products
- Ongoing sales & marketing initiatives in the huge US legal market, where there remains an opportunity to introduce cloud practice management products for law firms still largely using desktop software
- Reckon now serves 497 clients with 8 of the 25 largest law firms in the US and 5 of the top 7 law firms in Canada

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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, Reckon Mobile 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 for document scanning and routing, print management and cost recovery solutions under the nQZebraworks brand, with a focus on releasing new cloud practice management products. It is operational predominantly in the USA and United Kingdom, with re-sellers in other parts of the world.

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