

Reckon continues cloud growth

Maintains 2.5 cent fully franked dividend

Reckon Limited (“Reckon” or the “Company”) (ASX: RKN) is pleased to report that it maintained top line performance and has improved EBITDA and operating cash flow while progressing its transition to an entirely cloud based product offering. The cash generating Business Group continues to underpin the investment in its cloud-based products across both the Reckon One and the Legal Group’s BillingQ, DataQ and PayQ product lines.

Financial highlights:

- Group revenue of \$28.4m, up 1% on the previous corresponding period (PcP)
- Recurring revenue up 2% on the PcP to \$26.3m
- EBITDA up 6% to \$11.7m, compared to PcP
- NPAT of \$3.1m, down on PcP but flat when normalised for a prior year tax adjustment of \$0.7m
- Group operating cash flow after capitalised development costs of \$4.3m, up 14% on PcP
- Balance sheet strengthened with the repayment of \$3.8m of debt in the half year. Net cash of \$0.9m at 30 June 2024
- Fully franked dividend of \$0.025 per share

Operational highlights:

- Business Group performance strengthened with an 8% uplift in cloud revenues with a 4% increase in cloud user numbers to 109 thousand
- Legal Group subscription revenue growth of 5% to \$5.5m
- 2,600 users on the Legal Group’s cloud products, BillingQ and DataQ, with positive market feedback
- \$7.0m invested in cloud-based product development to capitalise on growth opportunities in both business units

Management commentary:

Reckon Group CEO, Mr Sam Allert said: *“The half year saw Reckon make steady progress on our plan to continue generating stable cash flows from our well-established Business Group, providing us the flexibility to invest in high growth opportunities such as nQ Zebraworks, our US and UK focused Legal Group, and the continued investment in our Reckon One cloud-based products.*

“The performance from the Business Group was encouraging, particularly against the background of a challenging operating environment for small businesses in Australia and the increasingly competitive market for small business accounting and payroll solutions. We increased net cloud user numbers by 4 thousand during H1 24. Reckon’s ability to improve cloud revenue reinforces the value that the Company’s accounting and payroll solutions deliver for our customers and all SMEs

“Our Legal Group, trading as nQ Zebraworks, presents considerable upside opportunity for Reckon given the size of the addressable market in the US and UK and the quality of our customers. The growth to 2,600 users of BillingQ and DataQ on the Zebraworks cloud platform is indicative of the increasing traction and positive market feedback of the products in the market.

“Churn in the Business Group’s non cloud-based products is a reality for all old tech in our markets and its decline is factored into our overall strategy to transition Reckon to an entirely cloud based product offering on Reckon proprietary codebase.

"We have continued our track record of rewarding shareholders with healthy dividends, and we maintain our intention is to pay one dividend annually at a healthy yield based on the current share price."

Financial commentary and operations overview:

Group revenue was \$28.4m, up 1% 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.

Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) during H1 was \$11.7m, up 6% on the PcP. Group Net Profit After Tax (NPAT) was flat at \$3.1m, normalised for prior period tax adjustment of \$0.7m.

Group operating cashflow improved to \$4.3m (PcP: \$3.8m), after accounting for \$7.0m of development spend, which has allowed Reckon to end the half with a net cash position of \$0.9m (net debt of \$2.8m at FY23).

The Company declared a 2.5 cent fully franked dividend for the half, payable on 2 September 2024 with a record date of 16 August 2024 and ex-date of 15 August 2024. For the foreseeable future, the Board anticipates paying one dividend annually following the half year.

Momentum in the Business Group was highlighted by another strong half of cloud-based subscription revenue growth, which rose by 8% to \$13.0m.

Reckon's suite of cloud-based SME products are now used by over 109 thousand users. In total, subscription revenues from desktop and cloud-based products contribute 93% of total revenues for the division at \$20.8m for the half.

The EBITDA margin for the Business Group was 55% for the half and 33% after adjustment for development costs. Development costs remained stable at \$4.8m (\$4.9m PcP).

Subscription revenue growth for the Legal Group was encouraging at 5%. The growth was supported by subscriptions to the Zebraworks cloud platform and its Billing Q and DataQ products and favourable exchange rates. nQ Zebraworks continues to pursue topline growth for its document and billing workflow software in the lucrative US legal market, which comprises 500 of the world's largest firms and 46,000 mid-size firms.

nQ Zebraworks 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.

nQ Zebraworks' strategy is being spearheaded by a highly regarded on-ground management team with a successful track record of developing and distributing document and billing workflow management software in the US market.

Segment performance:

Business Group

- Cloud revenue up by a further 8% on PCP, representing 58% of the divisions HY revenue
- H1 revenues of \$22.4m (\$22.5m PcP),
- Comprising 93% subscription revenue
- EBITDA of \$12.3m, consistent with the PcP

Legal Group

- H1 subscription revenues of \$5.5m, up 5% from PcP (2% in constant currency)
- Annual recurring revenue of \$0.3m on the Zebraworks' platform together with encouraging market feedback giving the strongest indicators yet of the opportunity for cloud automation products with law firms still largely using desktop software
- Increase in EBITDA to \$0.7m (\$0.2m PcP)

- Supported by the Company, the Legal Group continued its investment in Zebraworks platform and its BillingQ and DataQ products with capitalised development costs of \$2.2m for the HY (\$2.4m PcP)
- nQ Zebraworks serves 12 of the top 20 law firms globally and 40% of the AmLaw 200 in the USA.

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About Reckon:

Reckon is an Australian listed software company (ASX:RKN) that provides world class software for Start Ups, sole traders, SMEs, accountants, bookkeepers, and lawyers. 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 medium sized businesses and personal wealth management software branded as Reckon One, Reckon Mobile and Reckon Accounts Hosted, Reckon Accounts Business and Reckon Accounts Personal.

The Business Group operates in Australia and New Zealand.

2. The Legal Group operates under the nQ Zebraworks brand. nQ Zebraworks is a document and billing workflow company that leverages the power of its Zebraworks cloud-based integration platform to deliver digitalisation, billing and collections automation, cost recovery and analytics solutions for law firms and government and corporate legal departments.

nQ Zebraworks products are its server-based scan, print, document workflow, and cost recovery systems together with its cloud based "Queues" technology billings workflow solution, BillingQ and business intelligence tool, DataQ.

nQ Zebraworks is based in the USA with additional operations in the United Kingdom and re-sellers in other parts of the world.

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