

Investing for future growth

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Looking to the future

We have decided not to progress with the acquisition of Reckon's Accountant Group assets

- The regulatory process has taken considerably longer than the parties anticipated and could continue for some time. The sale and purchase agreement had a six month duration
- While the rationale for the acquisition remained unchanged, the further potential delays in the ACCC and NZCC process has created uncertainty in the business to be acquired with the potential to impact on its trading, and the parties could not agree to mutually acceptable terms to extend the contract

We are looking to the future and committed to investing for growth. We therefore plan to proceed with the previously announced acceleration in product, marketing and sales activity.

- Recent investment in online adviser tools have been well received and are driving SME referrals
- Competitors do not currently provide a full suite of online solutions for advisers
- All investments are NPV positive on a standalone basis
- The short-term cash impact is negative; the medium-term free cash flow is positive

Proactive capital management, including accelerating the share buy-back will continue

- To date we have purchased ~\$30 million of the previously flagged \$100 million share buy-back
- We will accelerate the pace of the buy-back, subject to share price levels

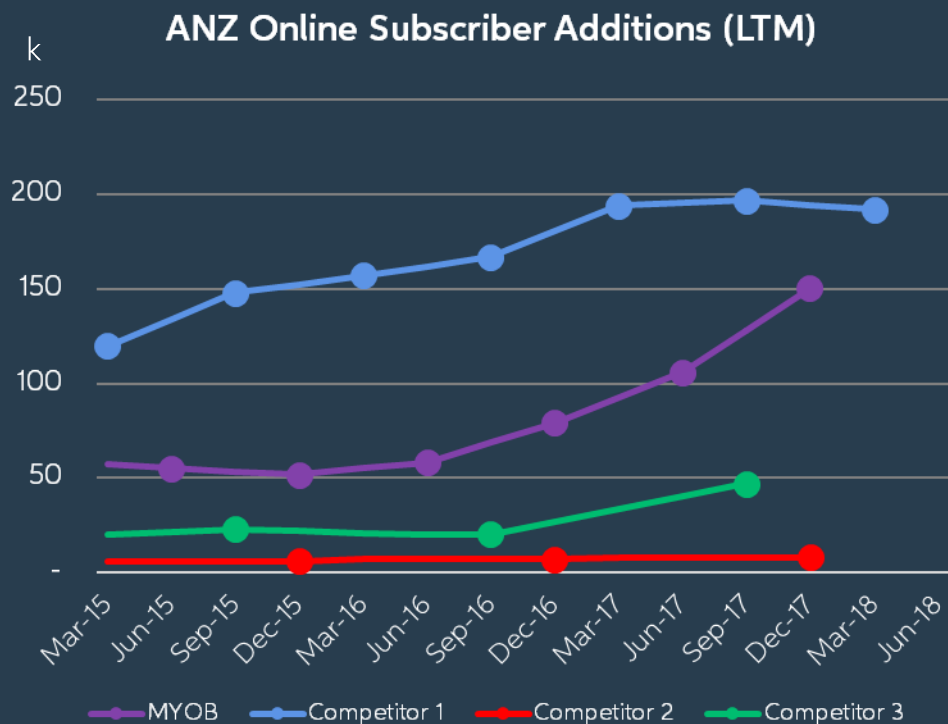
WHY INVEST NOW?

The business case to invest today is compelling

1. Over the past 3 years we've invested and achieved strong outcomes
2. This has delivered material increases in the drivers of SME lifetime value
3. Advisers remain central to our strategy; we'll grow this base organically
4. The time is right to invest

We have set a target to reach **1 million online subscribers** by 2020 .
Investing now will lead to more advisers, more online subscribers and higher returns.

1. Over the past 3 years we've invested and achieved strong outcomes

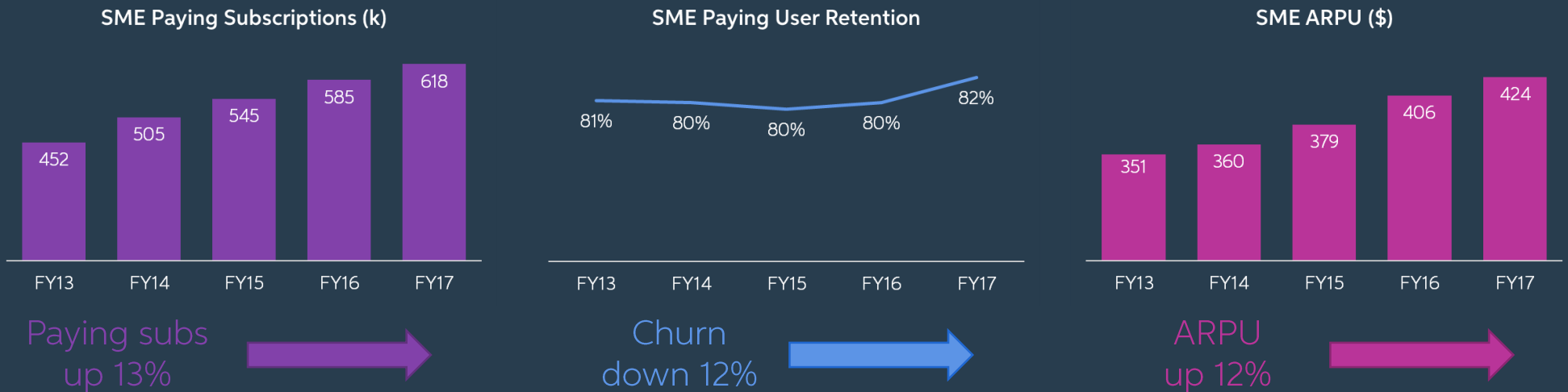


We have invested >\$400m over the past 3 years into sales, marketing and R&D to drive subscriber growth, ARPU and retention

The results are clear:

- Trebled the rate of online subscriber additions
- Significant improvement in online market share
- After investment, generated FCF of \$400m, of which \$190m has been returned to shareholders

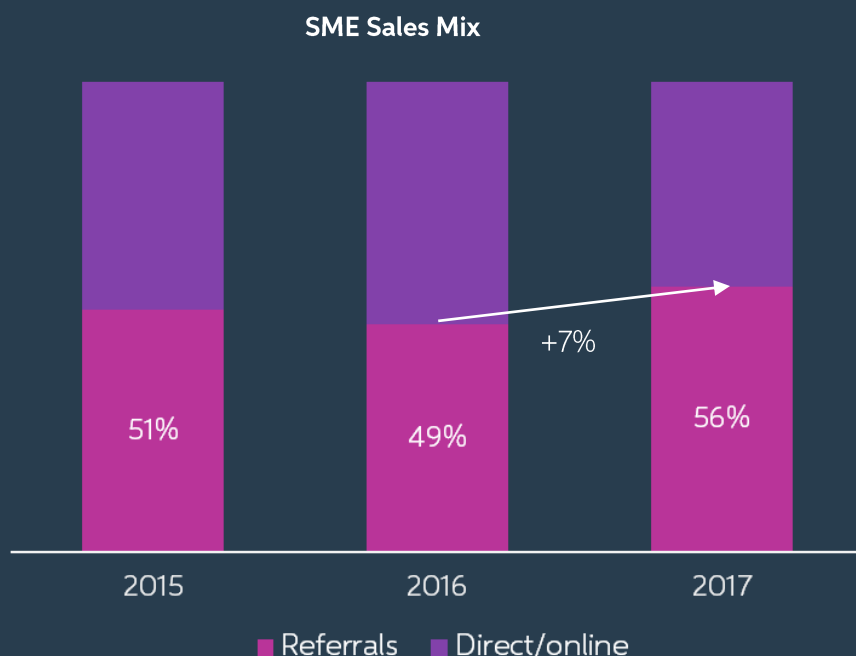
2. This has delivered material increases in the drivers of SME lifetime value



Combined these have increased the lifetime value of SME base by almost 40% since 2015

3. Advisers remain central to our strategy

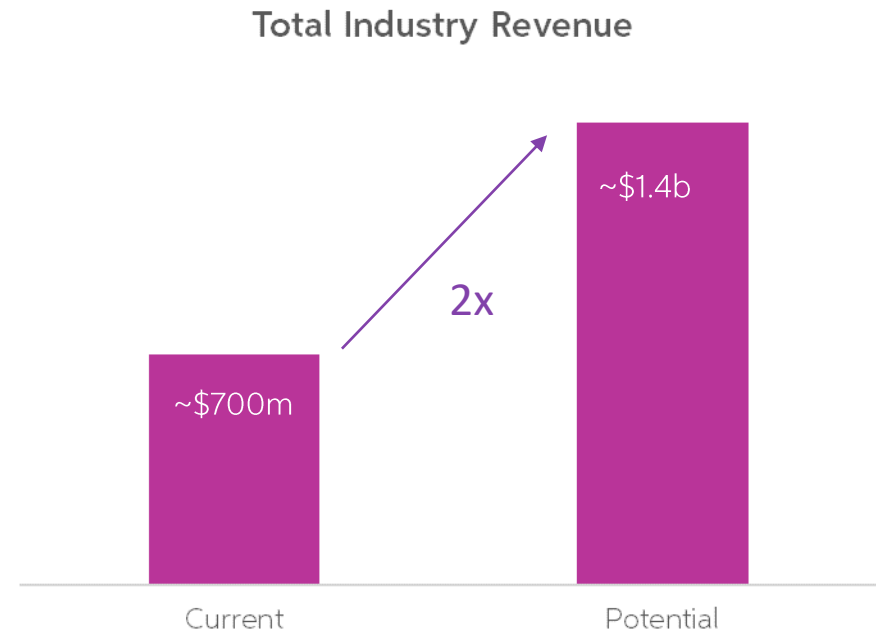
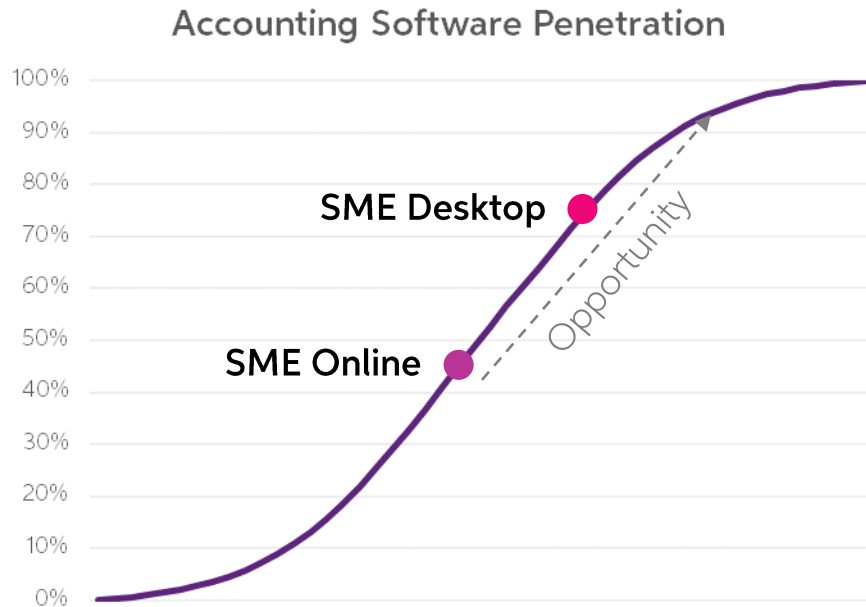
We continue to focus on lifting our presence in the adviser space, but plan to pursue this through organic growth



- Recent releases of online platform modules for advisers (ledger, portal, dashboard, GST, FBT, MyAdvisor) have been well received by MYOB's accountant and bookkeeper clients
- >50% of new SME software purchases come from accountant and other adviser referrals; a further ~25% influenced by advisers

4. The time is right to invest

Over the past 8 years the penetration of online accounting has moved from <5% to >40%; in the next 8 it is likely to move to >80%, doubling category revenue



With a further \$700m of industry revenue available, we believe now is the right time to invest

ACCELERATED INVESTMENT

Investment plan

1. \$50m **MYOB Platform** acceleration

- Accelerate development of the **online platform** to win new accounting practices, leading to a corresponding increase in SME referrals
- Competitors do not currently provide a full suite of online solutions for advisers
- The investment is **NPV positive** on the basis of accelerated retirement of legacy solutions

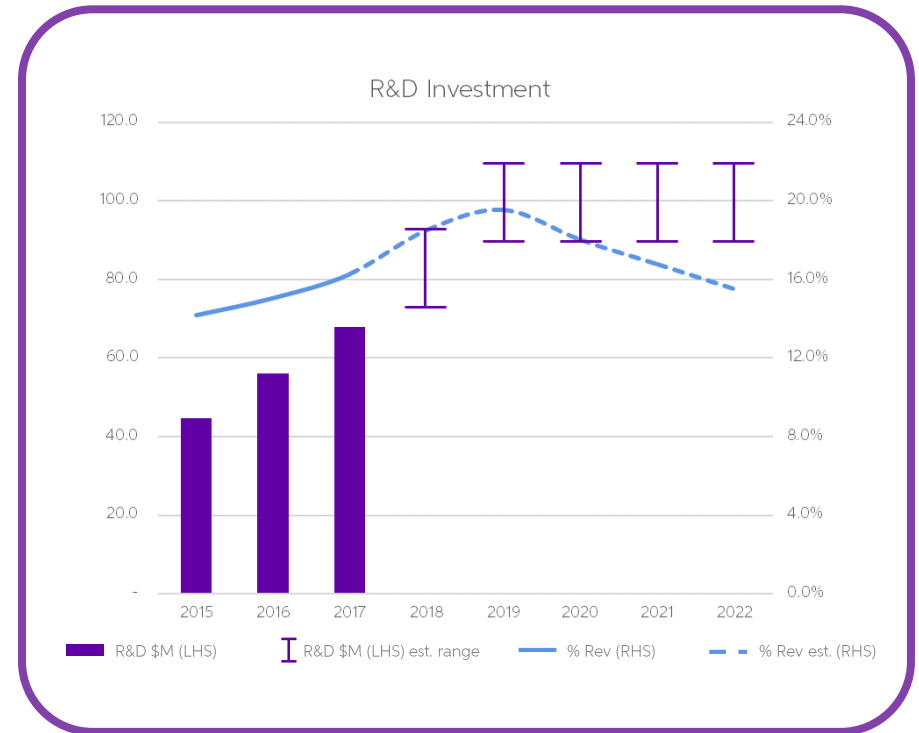
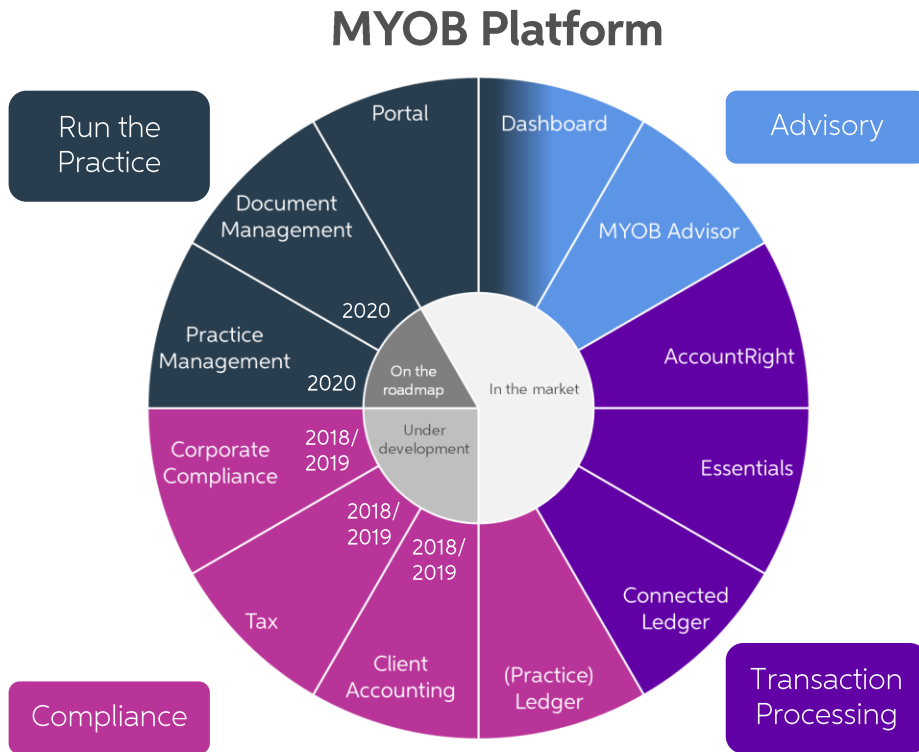
2. \$30m **Sales & Marketing** investment

- Increase our **adviser sales team** to ensure we increase the number of referrals from our adviser base. This investment is NPV positive and will be cashflow positive in 2020 on the basis we can maintain current levels of team productivity
- Increase **marketing spend** over the next 2 years to ensure direct SME purchases remain strong and our long-term CAC months is < 12

In addition to the above investment plans, we will accelerate the rate of our share buy-back, with >20 million shares available to be bought back between now and the end of August as part of the previously announced share buy-back program

1. R&D Investment

Bring forward up to \$50M investment in R&D in 2018-2020 to accelerate delivery of MYOB Platform



R&D investment remains <20% of revenue throughout the medium term; drops below 16% by 2022 with retirement of legacy solutions (no change to total planned spend in the long term)

2. Sales & Marketing Investment

\$30m investment in Sales & Marketing to increase market share, drive online subscriptions over 1 million, ultimately increasing the lifetime value of our subscriber base

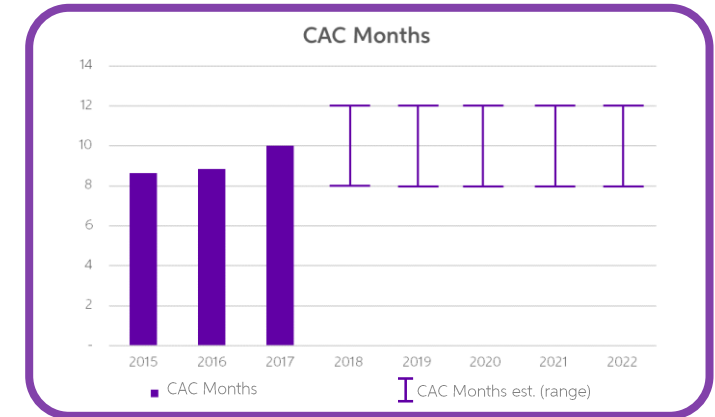
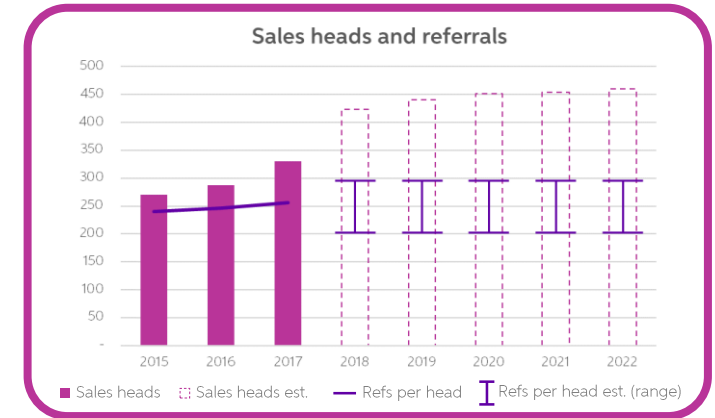
Sales

- 100 additional people in Adviser Sales to increase coverage and the number of engaged conversations
- Maintain referrals per sales person
- 2018-19 investment is NPV positive and net cashflow positive in 2020

Marketing

- A increase in marketing spend over the next 2 years to ensure direct SME purchases remain strong
- At all points CAC months is expected to be < 12. Given current retention rates, this is materially NPV positive

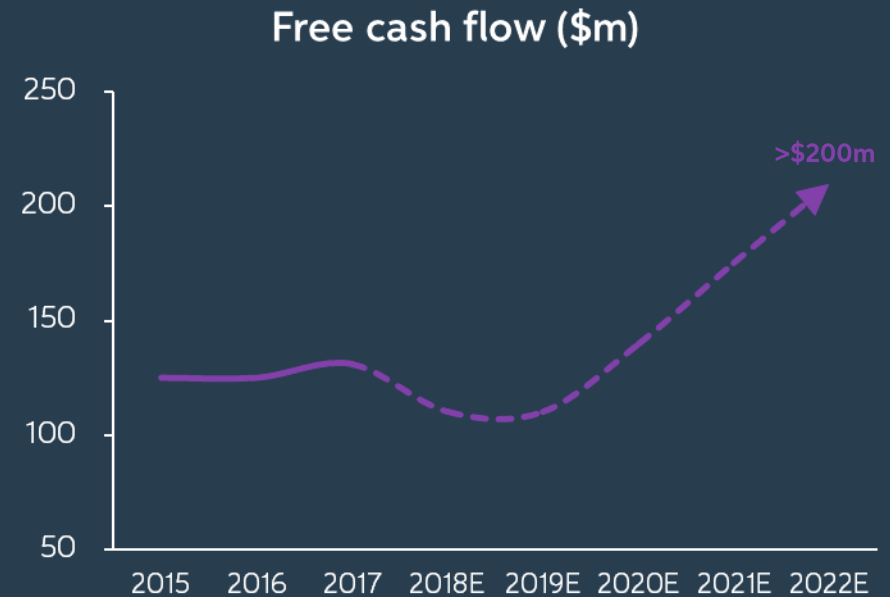
Subscription business: [səb 'skɪrɪpj(ə)n / 'bɪznəs]
a business where the investment in sales and marketing this year drives revenue next year and beyond



Total Sales & Marketing spend to increase as a percentage of revenue in 2018-2020, but is expected to return to historical levels of ~20% by 2022

Medium term targets

- Online subscribers: 1 million by 2020
- Total revenue growth: Double digit
- Organic revenue growth: High single-digit
- Underlying EBITDA margins: >45% from 2022
- R&D investment: <16% from 2022
- Free cash flow: >\$200m from 2022



Guidance update

Measure	Past 2016 - 2017	Current Year 2018	Investment period 2019 - 2020	Target 2022
Organic revenue growth	----- High single-digit % -----			
Research & development ¹	15.1% - 16.3%	<20%	<20%	<16%
Underlying EBITDA margin ²	45.6% - 46.3%	42% - 44%	>40%	>45%
Free cash flow ³	\$125m - \$130m	>\$100m	>\$100m	>\$200m

Note 1: Total R&D (opex + capex) as a percentage of revenue

Note 2: Underlying EBITDA as a percentage of revenue

Note 3: Statutory EBITDA less net working capital and capex

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