



Reckon Limited - AGM

25 May 2022

Chairman's Speech

As many of you will be aware, the 12-month period ended 31 December 2021 was a challenging time for many Australian small businesses and larger enterprises due to the uncertainty created by the ongoing pandemic. Despite this challenging backdrop, Reckon delivered another strong operational and financial performance.

The solid financial results the Company delivered for FY2021 were buoyed by events subsequent to the end of the year, including our recently announced agreement with the Access Group for the sale of the Accountants Practice Management Group for \$100 million, and prior to this, the sale of ReckonDocs for \$13 million that will take the potential total sale value of this group to \$113m in cash.

For the 2021 year, based on normalised growth rates, Reckon increased Net Profit After Tax (NPAT) almost 8% year-on-year to \$7.9m. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) was \$29.5m, a 1.4% increase on CY2020, and revenue grew 1.6% to \$71.3m. Given the challenging macro environment, this is a solid result.

Our strong ongoing financial growth was underpinned by the Board's continued focus on cost and strategy management to ensure capital and resources were deployed as efficiently and effectively as possible.

Pleasingly, subscription based revenue across the group rose 2.9% on the previous corresponding period to \$65.3m. This attributed to 92% of the Company's total revenue during CY2021 and greatly assisted Reckon's cash generation. Total operating cash flow for the period was very strong at \$30.9m, before development spend.

This strong operating cash flow and proceeds from the sale of the ReckonDocs business facilitated a 52% reduction in net debt from \$30.7m to \$14.7m and it also enabled Reckon to continue investing in its suite of cloud-based products that facilitate for future growth in our customer base and ensure we maintain high retention rates.

Development spend totaled \$20m, highlighting the Company's ongoing focus and transition from a primarily desktop-based business, to a cloud-focused company. We anticipate that the investment in product development and launch of new cloud-based offerings will enhance our total service package, grow our user base whilst at the same time delivering higher customer retention, and assist in creating larger markets to sell new products for added revenue.

Given the Company's ongoing profitability and strong balance sheet, Reckon continued to reward shareholders with stable and dependable income streams. During the period, Reckon paid a fully franked dividend of \$0.05 per share, representing an 8% return before tax based on the share price at the record date.

From a segment perspective, each operating division performed well. The Company's Business group increased revenue by 4% to 39.9m, highlighting another consecutive year of growth. Revenue from cloud products was \$21.4m of this and subscription revenue now accounts for 97% of the Business group's available revenue profile. Our cloud user base continued to grow, increasing by 12% year-on-year to 114,000 users. The Company successfully launched three new products for the division, so we anticipate that this trend will continue.

The Accountants Practice Management Group's revenue remained stable on the previous corresponding period, with EBITDA increasing by 3% to \$11.9m. A total of 22 new firms were added as customers in CY2021, with our existing offering remaining entrenched across major accounting practices. Pleasingly, the Company also successfully completed the sale of the ReckonDocs business during the year, which provided an additional \$13m in cash.

Our Legal group witnessed a slight decrease in revenue on the PCP to \$9.6m. Despite this, the division had a strong second half and signed a number of new clients for its cloud products that are currently in the beta phase. With new cloud-products set to launch shortly, we anticipate strong future revenue generation. Our investment in this division's development and sales capability is ongoing and remains a key focus for the future.

As a Board, we remain vigilant and very active in challenging management's strategies to determine the best outcomes for shareholders and also manage risks. I would like to take this opportunity to

thank our Group CEO, Sam Allert and his team for implementing a multi-year growth strategy which has shaped the Company's resilience, agility and expertise to reliably deliver shareholder value and profitability under some challenging conditions.

Despite growing economic uncertainty and lingering concerns around COVID-19, barring any unforeseen circumstances, we are very confident in our position and ability to leverage our business divisions and deliver continued returns to shareholders. We have an excellent team in place, a strong client base and a suite of advanced cloud products that leave us very well positioned for 2022 and beyond.

Importantly, I would also like to address the recent and exciting development that was announced last week. As per our market release on ASX, Reckon has entered into an agreement to sell its Accountants Practice Management Group to the Access Group for \$100 million in cash, payable upon settlement. While the transaction remains conditional and subject to approval from the ACCC and FIRB, this is a transformational agreement for Reckon.

We believe that the agreement delivers a number of benefits to shareholders. This will include Reckon emerging with a strong balance sheet, allowing it to return a large portion of the proceeds to shareholders by way of a partially franked special dividend.

Following completion of the proposed transaction, Reckon will be focused on two distinct divisions with exposure to high-growth markets globally. It is very important to note that our existing and remaining operations delivered nearly \$50m in revenue and \$17m in EBITDA during FY2021, providing a solid foundation for near term growth.

We will continue working with the Access Group collaboratively on a separation plan for the division to ensure a 'business as usual' transition for clients and employees. We also look forward to providing ongoing updates as the transaction becomes unconditional and the Company confirms its intentions relating to the proceeds.

Thank you and I will now turn back to other matters of the meeting.