Reckon

ASX Announcement

16 February 2021

Financial results for the year to 31 December 2020

- Group NPAT of $9.7m – up 19.8% from $8.1m in Prior Corresponding Period (PCP)
- Group EBITDA of $32.6m – up 6.6% from $30.6m in PCP
- Group revenue of $75.6m – up 0.3% from PCP
- Third consecutive half of revenue growth for the Business Group
- Strong recurring revenues – 85% now subscription based
- Strong operating cashflow of $32.4m (before development spend)
- Investment in product development of $19.5m – majority of outlay for cloud-based solutions
- Reduced debt by $5.8m – lowering current debt position by 15% to $31.8m
- $0.02 fully franked final dividend maintains year-on-year return to shareholders of $0.05 per share, providing 6% dividend yield

Reckon Limited ("Reckon" or the "company") (ASX:RKN) today announced its financial results for the year ended 31 December 2020 (CY2020), with its continued investment in cloud-based product development and capital allocation strategy delivering strong bottom line growth.

The company reported NPAT of $9.7m for the year, increasing from $8.1m in 2019, and representing a ~20% uplift on the prior corresponding period (PCP). In addition, EBITDA continued to grow 6.6% from $30.6m to $32.6m. This was driven by ongoing cloud-based product uptake, particularly in the Business Group, as well as stringent cost management measures implemented throughout the period.

Revenue for the year increased marginally to $75.6m with subscription based revenues across the group accounting for approximately 85%, representing a 5% increase on the PCP. This highlights the company's strong recurring revenue base, led by cloud-user growth in the Business Group and together with prudent capital allocation, supported strong operating cashflow.

Investment in the development of cloud-based products increased for the third consecutive year with total development spend up by $3.2m to $19.5m in CY2020. This investment continues to underpin Reckon's product development roadmap, with the continued launch of a number of new product releases across the business, supporting customer acquisition and retention.

Continued growth in the bottom line and a disciplined capital management program also allowed Reckon to reduce its debt position by a further $5.8m, with total debt at the end of the period of $31.8m. In addition, Reckon has declared a $0.02 fully franked final dividend, taking total dividend distributions for the period to $0.05 per share, maintaining the same level of shareholder return as the PCP.

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Management commentary

CEO Mr Sam Allert said: "The strong execution of our plan during 2020, which includes a continued focus on investing in cloud-based product development to satisfy client demand, means Reckon is increasingly well placed for growth.

"Despite the uncertainty created by the pandemic, Reckon performed well across key financial metrics and in particular continued its positive cloud-based user growth trajectory within the core Business Group. We are also seeing our investment in product development and ongoing product launches presenting cross sell opportunities within our operating businesses. Amid the challenges of 2020, our team has been remarkable in supporting the delivery of these strategic objectives with unwavering focus.

"We have a clear growth plan for 2021, which includes more mobile apps for our small business client base, and cloud modules for our APS and Elite Accountant client base, whilst leveraging the power of Reckon One to enhance the back office and payroll function for Accounting firms and small businesses alike. This strategy compliments our US cloud Practice Management roadmap and provides strong synergies and cross sell opportunities across our global business. 2021 promises to be another exciting year of progression and growth for the Reckon Group, our clients, our shareholders, and our team."

ReckonDocs sale to Class Ltd

Reckon is also pleased to announce that today we executed an agreement with Class Ltd to sell the assets of our ReckonDocs business.

The purchase consideration is $13 million dollars.

Please refer to the full announcement regarding this transaction released today.

Segment performance

Business Group

- The Business Group continued to deliver year-on-year revenue growth of 7% from $36m to $39m- highlighting three consecutive halves of growth
- EBITDA growth for the segment was $20m and a 13% increase was achieved as a result
- Cloud revenue continued to grow strongly, up by 29%, and now represents 56% of this division's available revenue
- Cloud users now total 101,000, with growth of 26,000 in 2020
- Our new free Single Touch Payroll app was launched in May 2019, and now has 37,000 users, with over 80,000 pay runs processed via the app
- A paid payroll app was launched as a potential upgrade path for the free Single Touch Payroll app users in May 2020, and has accumulated 2000 users since launch.
- The cloud/mobile strategy continues into 2021 with further mobile apps planned for launch this year including invoicing, expenses, and timesheets.

- Our partnership with the Institute of Public Accountants (IPA) to drive subscriptions through our white label agreement continues to grow - we now have over 1,200 IPA member firms as cloud advisors with growing Books + client base
- We launched a second white label initiative with the QLD Government supporting indigenous businesses. The product is Deadly Digits, offering Accounting and Payroll software with training and support, designed specifically for Indigenous businesses.
- We completed our UK Open Banking certification to support our product expansion opportunities in the UK.

Practice Management – Accountants Group

- The business remains entrenched as the product of choice amongst the major accounting firms.
- Revenue in the Accountants Group was down on the previous year as new revenue growth is yet to offset client attrition that is occurring at expected levels.
- Revenue was also impacted by COVID-19, which also led to a reduced level of on-site sales and installation activity.
- Cost management strategy supported a moderate improvement in EBITDA of 2%.
- Development of our new cloud suite is progressing well, with additional Cloud Practice Management modules released during 2020.
- 2021 will see additional cloud modules released which is expected to expand the addressable market.

Practice Management – Legal Group

- The Legal Group is predominantly based in the USA and UK and consequently was impacted by COVID-19 in 2020. The business maintains a strong sales pipeline, however the ability to convert this to new revenue was hampered by delayed client decisions due to COVID-19.
- Subscription revenue from existing customers was stable.
- EBITDA was down on the prior year due to lower new revenue generated in 2020 and as a result of increased doubtful debt provisioning.
- Future potential growth in this division was significantly strengthened following the announcement in August of the intended merger with Zebraworks. This deal has now concluded and the team is focussed on delivering cloud practice management technology to the legal market.

AUTHORISED FOR RELEASE BY THE BOARD OF DIRECTORS OF RECKON LIMITED

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