



2019 REGIONAL CASE



This document was prepared by Lachlan Calder and edited by Tristan Bettsworth solely for the MYOB IT Challenge. All data in this case has been obtained from publicly available sources and MYOB. This is not intended to serve as an endorsement, a source of primary data, or an illustration of effective or ineffective management.

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Go Boldly!

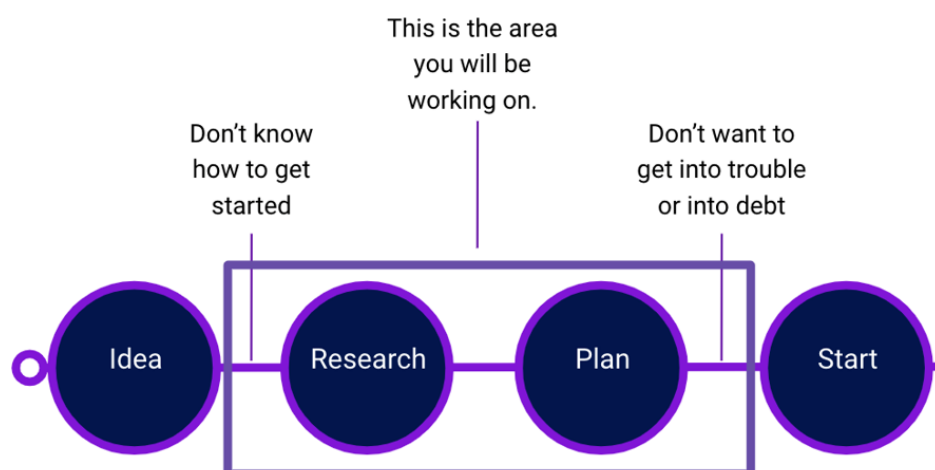
At MYOB, we create awesome software for managing your business. Driven by our business strategy which is **BOLD**. Bold because we seek to expand into new lines of the business and completely revolutionise our industry. Bold because we will begin a new era as a Fintech Company.

Our vision is to *"help businesses succeed"* by delivering intelligent, intuitive tools that help make business life easier. We know that business isn't just business – it's personal. How do we make your life easier? We make the complex simple.

MYOB offers a range of products to help new businesses start, develop and grow into successful businesses. Through our research and observation of the market, we have found a particular area where we could disrupt our industry and become the go-to business for all businesses.

Currently, customers start using MYOB software once they are established and realise that accounting is more complicated than they had anticipated.

This year, MYOB want to target a new customer segment where we will not only help established businesses, but also **sole trader/self-employed/micro businesses**. We want to help these businesses along every step of the way throughout their journey.





Your Mission!

Should you choose to accept it...

Identify a solution to help minimise common mistakes so these customers avoid getting into debt, and they can start, develop and run their dream business.

Sally told us she feared 'falling foul of the tax man' and running up large tax debts, she didn't want to make mistakes, and weren't sure of their insurance requirements.

Sally understands poor numeracy and tax literacy can lead to bad bookkeeping and negative financial consequences.

Sally is under some pressure to keep her dream business alive.

Your task is to propose a creative solution that identifies a particular need so that microbusinesses like Sally's can develop and flourish.

You can use any programming language, using any front end or back end technology. You should have a realistic and sustainable business model supporting the product. Your solution can operate in the cloud (AWS or Azure) or it could be on a mobile app. The choice is yours.

Some example concepts that could be considered towards ensuring a microbusiness is developed to its full potential:

- **Cash flow.** For an emerging start-up it's very important - am I going to get paid on time? Would I be able to pay my bills? Would I be able to pay my staff? Design a solution that could help an emerging start-up manage their cash flow. (there are potentially lots of options here; cash flow forecasting, automated scheduling payments, getting paid faster, access to finance when needed).
- **Virtual Coach.** For an emerging start-up there is often a lack of guidance/ mentorship for their idea to develop into a business. (guided workflows for business start-ups, annual automated check-in with a partner).



Deliverables

Your submission must include:

- **An IT Solution in a conceptual state outlining its purpose, features and how it can be used, with an Architectural Plan for how it will be built. A working prototype is NOT required for the regional round.**
- **The Business Case, Financial Plan, and Marketing Strategy.**

This must be presented in an approximately **5-page written report**, with appendices excluded from the page limit. The finalists selected from the written submissions will pitch their ideas in a ten minute presentation, followed by ten minutes of questions & answers.

Overall, we are looking for innovative and creative solutions that align with the aims and objectives of MYOB. The attached information in this case provides some background information about MYOB and the industry it operates in to help guide the development of your solution.

We look forward to your submissions!

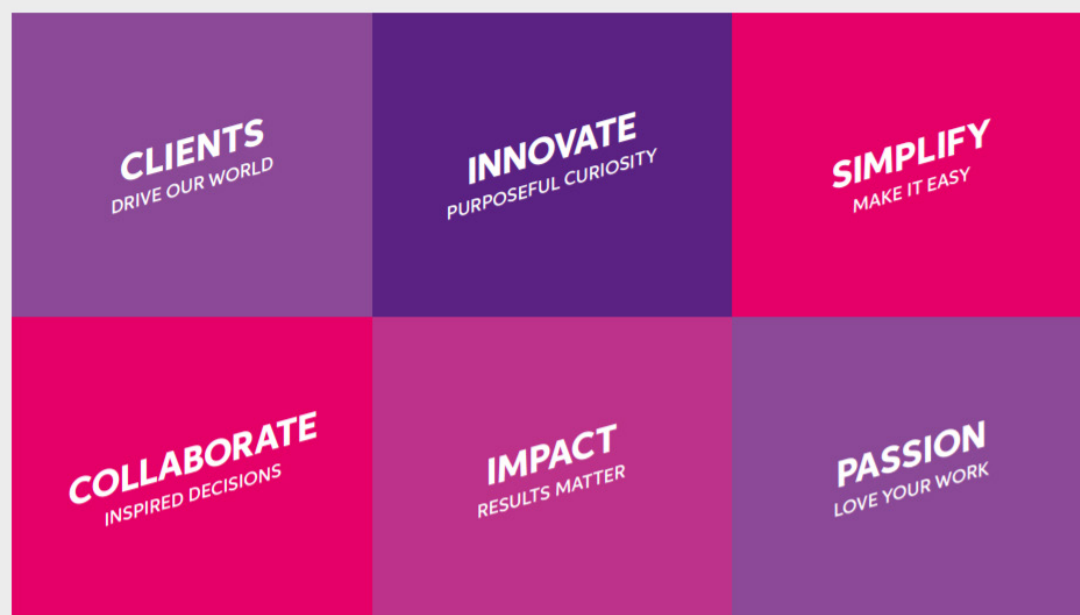
Trans-Tasman Final Round Details

If, after the Regional Round, you progress through to the Trans-Tasman Final, your goal will be to build out and provide a working solution to your concept from the regional round. This is your opportunity to take your feedback from the Regional Round and refine, enhance and re-present your solution and a working product.










The event will take place on the 13th of September in Auckland. Further details will be released after the regional rounds. All local competition winners (who are located out of Auckland) will be provided with transport, accommodation and the opportunity to win a share of the \$5,000 cash prize pool.

The MYOB IT Challenge is also an opportunity for students to stand out and impress the MYOB judges for any graduate or intern positions available.

THE MYOB WAY



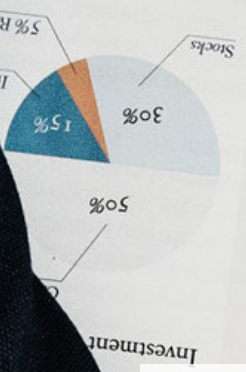
Officially certified add-on solutions

 simPRO <i>certified</i> Contact for monthly SaaS pricing ARC ARL myob	 Deputy.com <i>certified</i> from \$4/month/employee ARC ARC MK myob	 Castaway 3 way forecasting <i>certified</i> Standard version AUD\$1,400/year + GST ARC myob
 BI4Cloud Easy Business Intelligence <i>certified</i> From \$20 ARC ARC EK myob	 Cerebiz Cash <i>certified</i> From \$39.95/month ARC EA myob	 Squirrel Street <i>certified</i> myob
 Tradify <i>certified</i> Prices start from \$35 per month for a user ARC EA myob	 JAAS Advanced Manufacturing Software <i>certified</i> myob	 Magento Connect <i>certified</i> From \$350AUD ex. GST per month ADV myob

Our Business



Current financial situation



Trading Graph

...ion to focus resources on the greatest opportunities to increase sales and
...strategy's goal is to increase sales and achieve the advantage over other

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#Citydailynews

y of the n Union

Are you innovative or are you the experienced type? Or do you offer a high-cost, high-quality product? It's high-cost, high-value products? It's impossible to be both. You should consider on thinking what your customers need you to be. Your logo is the main foundation of your brand. All the promotional materials should be connected with your brand. Having a good brand strategy allows you to have a major advantage in gaining a large increase in your market competition. Your brand tells your customers what they can have or expect from the products and services you offer. The branding strategy you have should be consistent as it leads to a strong brand equity. The branding strategy you have should be consistent as it leads to a strong brand equity.

...it includes short term and long term activities of marketing that has to do with the analysis of a company's situation and contribute to its objectives. The objectives will be based on how you gain sales by acquiring and keeping customers. A marketing strategy helps convey effective messages with the right twist of marketing approaches that will maximize your income and marketing activities.

45,556	12,357	20,775	24,766	45,556
534	534	3,541	354	1,876
764	764	133	133	190
246	246	346	346	134
26,599	26,599	47,756		

1.0 Introduction to MYOB

MYOB is a leading provider of desktop and cloud business management software solutions to businesses in New Zealand and Australia. We have been in New Zealand for over 20 years and are proud to be a Trans-Tasman company only focused on the New Zealand and Australian market.

What do we do?

We offer business management solutions. More than 50 of them, to be exact. Everything to help you with accounting, payroll, payments, retail point of sale, CRM and professional tax solutions - and more.

We grow with you

Once you start using our products, you never have to stop. You'll never outgrow us: whether you're a start-up in a garage, or a manufacturing powerhouse. We have solutions for businesses of every size, shape and sector.

Clients drive our world

We're on the phones every single day to provide support, and we have more than 40,000 advisors (bookkeepers and accountants) to help you out.



1.1 Our Company

We employ around 1750 people and have four main offices in Melbourne (Headquarters), Sydney, Auckland, and Christchurch. Auckland is our second largest office. In New Zealand, we employ roughly 350 staff, with 200 based in Auckland and 150 in Christchurch. Over half of our Auckland staff are IT.

Over the past 5 years MYOB has undergone a major transformation. Our products have changed and we are focusing on accelerating our development of intelligent, intuitive cloud based software solutions. Total online subscribers reached 628,000 in 2018, placing the Company on track to achieve the target of one million online subscribers in 2020.

At MYOB we help businesses succeed and our efforts over the next few years will be focused on creating an unparalleled business management platform which will seamlessly connect businesses of all sizes, their accounting partners and networks to create an eco-system of solutions. The MYOB Platform and the connections it will create will enable MYOB to deliver even more value to our clients, and, ultimately, make every facet of business life easier.

Over the past few years we've been developing and enhancing a suite of cloud solutions. We can now help you manage your business anywhere, anytime - building smarter connections with your networks while working on and storing your business data securely in the cloud.

MYOB invests more than NZ\$40 million annually in research and development so we can find better ways to help you do business.

1.2 Our Culture

It's not just about the products though. Our vision is to help businesses succeed and our values are the foundation of the culture that enable us to achieve this. 90% of our employees recognise and understand the values that drive the business. Our core 6 values are:

1. **Clients** - Drive our world
2. **Innovate** - Purposeful curiosity
3. **Simplify** - Make it easy
4. **Collaborate** - Inspired decisions
5. **Impact** - Results matter
6. **Passion** - Love your work

We have also undergone a cultural transformation and now our Auckland office matches our values of being fun, friendly and dynamic. It used to be a "traditional office environment", however was completely cleared out and refitted to create a modern, contemporary space.

MYOB follows the Agile method of software development and, as such, the office has been designed as a collaborative environment. In particular, the design theme is "Four seasons" and features 38 TV monitors, 10 agile interface locations, and 30 meeting rooms. Software is developed in 2-week sprints, teams have daily stand-up meetings (often with colleagues in Melbourne) and product teams include people from a range of disciplines including developers, testers, project managers, UX, etc.



2.0 Our Customers

MYOB's customers across New Zealand and Australia comprise of a broad spectrum of small to large businesses and accounting practices, including:

- 1.2 million SMEs (small to medium sized businesses, 0 – 19 employees)
- Over 7,000 larger businesses and enterprises (20 – 999 employees, with some 1,000+)
- Over 40,000 accountants operating across small (single partner) and large (multiple partner) accounting practices

2.1 SMEs

Revenue from SMEs comprise of the majority of MYOB's revenues, so they are a particularly important customer segment. Due to the advantage of having lower barriers to entry, less business overheads, and relatively quick decision-making processes, SMEs can be highly efficient and very competitive. IT plays an important role in helping these businesses achieve their strategic objectives and create financial value for themselves and others. However, it is important to note that there are significant technical support and product upgrades (known as "maintenance"). Not all desktop users elect to make such maintenance payments.

- SMEs often don't have a dedicated IT team, but may have an IT Manager. They will typically oversee some minor IT infrastructure and sometimes carry another role in the business as well.
- They usually host their IT in a third-party service provider's environment in a co-located (or cohosted) environment with a shared-services business model (i.e. same IT system is used across all facets of the business).
- For SMEs, IT services are often utilised to the extent of just "running" the business, with any software being used having minimal customisation.
- SMEs are happy with less sophisticated systems, so long as it satisfies their needs and supports their business strategy and objectives.
- SMEs have lower IT budgets. This means they have tighter controls and require more justification for spending.

In particular, SMEs have begun to embrace Cloud software, as it can be lower-cost and traded as a service rather than a product. This model is appealing as it significantly reduces the financial stress of capital investment.

Further to the characteristics described, MYOB divides SMEs into three categories of software users:

	Non-accounting software users	Desktop users	Cloud users
Description	<ul style="list-style-type: none"> • No Accounting Software • Accounting done via spreadsheets (e.g. Excel®) or manual records 	<ul style="list-style-type: none"> • Accounting Software installed on and accessed via a desktop computer (e.g. personal computer or laptop) • No need for internet connection 	<ul style="list-style-type: none"> • Accounting Software accessed anywhere via one or more internet connected devices • Software and user's data resides off-premise in the cloud
Payments to Accounting Software providers	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Upfront purchase of perpetual licence and discretionary maintenance payments • For MYOB BankLink, regular payments are made by the SME's accountant to enable access 	<ul style="list-style-type: none"> • Subscription payments for ongoing use and maintenance
Considered a Paying User (i.e. regular or multiple payments)	<ul style="list-style-type: none"> • Never 	<ul style="list-style-type: none"> • Sometimes 	<ul style="list-style-type: none"> • Always

Source: MYOB Supplementary Prospectus 2015. Available from <http://investors.myob.com.au/FormBuilder/_Resource/_module/HhW--OHCfU-MPYnMov-UPA/documents/MYOB-Supplementary-and-Replacement-Prospectus.pdf>.

2.2 Accountants and Accounting Practices

Accounting practices often use multiple Practice Software solutions from different providers, with a single “main” provider. This segment has historically provided the second largest source of revenue for MYOB.

Only a small proportion of these customers are cloud users, largely due to the lack of cloud solutions currently available that provide them with the full suite of functionality which is available on desktop products. Similar to desktop users, cloud users pay fees on a regular basis (e.g. monthly) to receive software updates and are all considered to be Paying Users.

2.3 Enterprises

MYOB’s enterprise customers can be subdivided into three tiers. Tier 3 Enterprises are “medium businesses” with 20 to 199 FTEs, Tier 2 Enterprises are “large businesses” with 200 to 999 FTEs, and Tier 1 Enterprises are “government and corporate enterprises” with over 1,000 FTEs. MYOB has historically focused on Tier 3 Enterprises, but recently we commenced providing Enterprise Resource Planning (ERP) software solutions to the Enterprise Software Market for Tier 2 Enterprises through the release of MYOB Advanced Business in January 2015.

While the tiers are useful to help understand the Enterprise Software Market and the enterprises for which MYOB’s products are primarily designed, it is not uncommon for customers in one tier to use products that have been primarily designed for or targeted at another tier (or for smaller enterprises to use products more typically designed for SMEs).



3.0 Our Products

MYOB's operations can be divided among the three distinct business segments we service:

- **Clients and Partners** – provides accounting, payroll, tax and other business management solutions to SMEs and Advisers, with secure bank transaction data from banks and other financial institutions. This division accounted for 82% of revenue in FY2018.
- **Enterprise Solutions** – provides intelligent, adaptable business management software including Enterprise Resource Planning (ERP), Payroll and Human Capital Management (HCM) solutions to more than 8,000 mid-market and enterprise clients (from 50-10,000+ employees). This division accounted for 15% of revenue in FY2018.
- **Payments Solutions** – provides simple and secure payments solutions for businesses of all sizes, offering competitive transaction rates and quick settlement, working in conjunction with major banks and payment schemes.. This division accounted for 2% of revenue in FY2018. Payments Solutions continues to be an area of growth opportunity for MYOB

3.1 Clients and Partners

Our primary product offering for SMEs consists of:

MYOB Essentials - An easy-to-use online system which provides for all the accounting needs of a small business. It is especially suitable for new businesses.

MYOB AccountRight - A more powerful and customisable accounting system which, among other things, includes more advanced inventory and job management capabilities. It is also flexible to work off or online.

Both of these packages are primarily online solutions and are provided on a monthly subscription basis. Potential customers can opt to subscribe to a particular package immediately or undertake a 30-day free trial. The table below outlines the pricing scheme of these SME solutions, with the general features highlighted:

MYOB Accounting Software	Essentials ¹			AccountRight ¹		
	Accounting Starter	Accounting	Accounting + Payroll	Standard	Plus	Premier
	\$25.00 /mo+GST	\$40.00 /mo+GST	\$60.00 /mo+GST	\$55.00 /mo+GST	\$78.00 /mo+GST	\$100.00 /mo+GST
	Perfect for those just starting up	Great for small businesses and sole traders	For those taking care of business and payroll	For businesses that need to manage inventory	For businesses that need to manage inventory and payroll	For businesses that manage multiple company accounts
	Try for free	Try for free	Try for free	Try for free	Try for free	Try for free
	Buy now	Buy now	Buy now	Buy now	Buy now	Buy now

Source: MYOB Website. Available from <https://www.myob.com/nz/accounting-software/compare>

Along with the benefits and capabilities outlined above, all of their online software includes the ability to manage and invoice contacts through their mobile application – MYOB OnTheGo.

A third package that is not online-based is the MYOB AccountEdge software. This is custom-built software for Mac that has three tiers of benefits and features – Basic, Pro, and Network.

Also, MYOB's website lists recommended add-ons developed by 3rd parties that can be purchased separately from the independent developer's website. These tools add additional functionality into the business management suite. They connect to and share data with your MYOB accounting software, with a variety of add-ons providing different functionality. There are currently add-ons available that provide advisory benefits such as My Business Manager, Fathom and Panalitix. These can be viewed on <https://www.myob.com/nz/addons/>

Our primary product offering for Partners/Advisors consists of:

1. **Accountants Office** - A solution with standardised configuration, reporting and simplified workflows allowing accountants to spend more time focused on clients. Main features include
 - **Tax** - Through paperless workflows and links to up-to-date IRD data, Tax Manager allows accountants to stay on top of clients' tax obligations
 - **Client Accounting** - Connect with your business clients online over a 'Common Ledger' and produce consistent electronic workpapers without leaving your MYOB practice solution.
 - **Practice Manager** - delivers total control over jobs, time, costs and processes, ensuring maximum productivity and profitability of your practice. Time is captured effortlessly and bills are processed fast. Practice Manager includes a job tracking tool which lets you efficiently allocate jobs, manage milestones and ensure you deliver great client service every time.
 - **Document Manager** - lets you store all your client communications in one organised, searchable and secure space
 - **MYOB Portal** - an online collaboration platform that lets you securely share documents and take digital signature approvals from your clients, even when they're mobile.

2. Accountants Enterprise

A more powerful and customisable accounting system. It has expanded functionality to the above features in Accountants Office suite that can be customised to suit a practice's unique workflow and reporting needs

3. MYOB ProfitOptimiser

A powerful business advisory tool that can drive your business and advisory services. MYOB ProfitOptimiser gives you critical insights into your clients' businesses – such as tax liability, annual/projected finance data, performance measures and key business drivers.

3.2 Enterprise Solutions

Our primary product offering for Enterprises consists of:

1. MYOB EXO

MYOB Exo provides the flexibility to build an entire business management solution. It includes features such as, easy accounting functions, multiple locations / divisions / branches support, management dashboards, fully integrated Customer Relationship Management (CRM), integrated job and project costing functionality, human resource management, consolidation of financial transactions for all entries, comprehensive and customisable accounting process flows plus more.

2. MYOB Advanced

A Cloud based Enterprise Resource Planning (ERP) software designed to incorporate financial management, inventory and distribution, customer management, project accounting and payroll management functionalities to help simplify day-to-day management.

3. MYOB Greentree

An intuitive and powerful ERP with comprehensive tools that help manage multifaceted enterprises. Flexible and intelligent, MYOB Greentree provides a real time view across departments and can be customised from any of the 80 plus modules covering an expansive list of functionalities from Workflow management to Business Intelligence.

4. MYOB PayGlobal

Industry-leading end-to-end people management and payroll software. Includes integrated payroll and HR management tools to improve productivity. 5 modules (Payroll, Human Resources, Self-service, Time and Attendance and Rostering) work seamlessly together and are customizable for a business' needs.

3.3 Payments Solutions

Payments Solutions is a relatively new segment of revenue for MYOB. The acquisition of Paycorp in early 2017 saw the creation of the Payments Solutions segment, enabling seamless online invoicing and invoicing payments to be collected through MYOB's online accounting software. This area has seen strong traction in FY18, facilitating more than 30,000 invoice payments per month worth more than \$20 million in transaction value.

Our primary product offering for Payments Solutions consists of:

1. MYOB PayBy

MYOB PayBy continues to show leadership across Australia and New Zealand payments market, offering world class payment solutions that are both simple and secure. We work with financial institutions, schemes, businesses and consumer wallets. With MYOB PayBy, you'll protect payment transactions, increase operational efficiencies and boost business revenue growth. All under one roof.



If running a successful startup business is a feat, running 11 successful businesses is a modern-day miracle. But that's what Melburnian hospitality mogul Julien Moussi does best.

.....

"We chose MYOB because it is easy to use, it links up with other apps that we use, it has real time data and our accountants and staff can login anywhere in the world."

Julien Moussi, Owner

3.5 Product Innovation

MYOB has built a culture of innovation that encourages creativity in how we approach and solve development problems. Below are several examples of innovative new products launched by MYOB in recent years

MYOB Advisor

MYOB Advisor, a unique artificial intelligence (AI) enabled tool designed to revolutionise the way Accountants and Bookkeepers advise their clients, was launched in 2018. MYOB Advisor is integrated into the MYOB platform that partners currently use. The online solution uses Natural Language Generation to turn data into written sentences that explain business performance in a simple and easy to understand format. The data can be customised by Accountants and Bookkeepers for each of their clients.

For SMES

- PayDirect Online, the ability to accept online payments straight from the invoice, resulting in faster payment and improved cashflow; This market first release reinforces the company's continued advancement, evolving with the changing nature of payment trends. Online payments are fast becoming the preferred bill payment
- YourPay, a mobile solution for employees to enter timesheets and receive payslips
- PayAgent, a service for New Zealand businesses which automates paying staff and meeting reporting requirements

For Partners

In **Transaction Processing** we launched two key products -

- The MYOB Dashboard, providing a single view of all a practice's online SME clients and supporting simple on-boarding of new clients. This dashboard means that the accounting practice has the ability to offer bureau services, efficiently, across large numbers of SME clients, reducing administration times, increasing collaboration and improving accuracy of data
- Connected Ledger, an efficient online ledger with MYOBs high quality bank feeds enabling practices to grow their Transaction Processing clients.

In **Advisory**, we continued to expand our eco-system of 3rd party partners covering reporting, budgeting, forecasting and modelling.

Enterprise Solutions

- MYOB Advanced is the fastest growing cloud native ERP and Payroll solution built for the Australian and New Zealand mid-market. MYOB Advanced is growing rapidly and becoming the majority of new ERP registrations in the Enterprise segment.
- MYOB PayGlobal has been powering complex payroll for over 20 years. MYOB PayGlobal reduces manual, repetitive tasks with a trusted, compliant and automated solution. MYOB PayGlobal is trusted by large organisations across Australia and New Zealand, such as Sydney Opera House, Country Road and Healthscope.
- MYOB Greentree was acquired in August 2016. Greentree helps companies to simplify success by delivering vital information on-demand, providing an instant snapshot of what their business is doing; today, yesterday and tomorrow. The acquisition of Greentree has provided new channels to market for our market-leading online Enterprise ERP systems.

4.0 Current Strategy

Our industry is an exciting one and we have a clear and defined strategy for long term growth as we move forward into 2019 and beyond. We will continue to focus on delivering value to our clients and partners, being a responsible and active member of our community, and creating long term value for our shareholders.

The key pillars of MYOB's growth strategy are:

MYOB'S STRATEGY

GROWING ONLINE SUBSCRIBERS

- Winning advisers through the Connected Practice vision
- Increasing referrals through the MYOB Platform
- Investment in sales, marketing and brand to attract new SMEs
- Migrate non-paying desktop SMEs to the MYOB Platform

INCREASING LIFETIME VALUE

- Improved retention and Average Revenue Per User (ARPU) from increased usage of connected services
- ARPU benefit from price uplift reflecting the value of new functionality including AI and Machine Learning
- ARPU benefit from mix shift online

INCREASING TAM THROUGH PAYMENTS & SME LENDING

- Increase the number of clients using MYOB's invoice payment capabilities
- Increased per client usage of MYOB's invoice payment tools through new payment types
- Expand the MYOB PayBy client base
- Increased per client uptake of MYOB Loans

INCREASING SHARE & TAM THROUGH ENTERPRISE

- Increased market-share in Tier 3 with MYOB Advanced
- Increase ARPU by migrating existing Tier 3 desktop clients online
- Increased TAM by providing solutions for larger Tier 2 Enterprises

STRATEGIC ACQUISITION OPPORTUNITIES

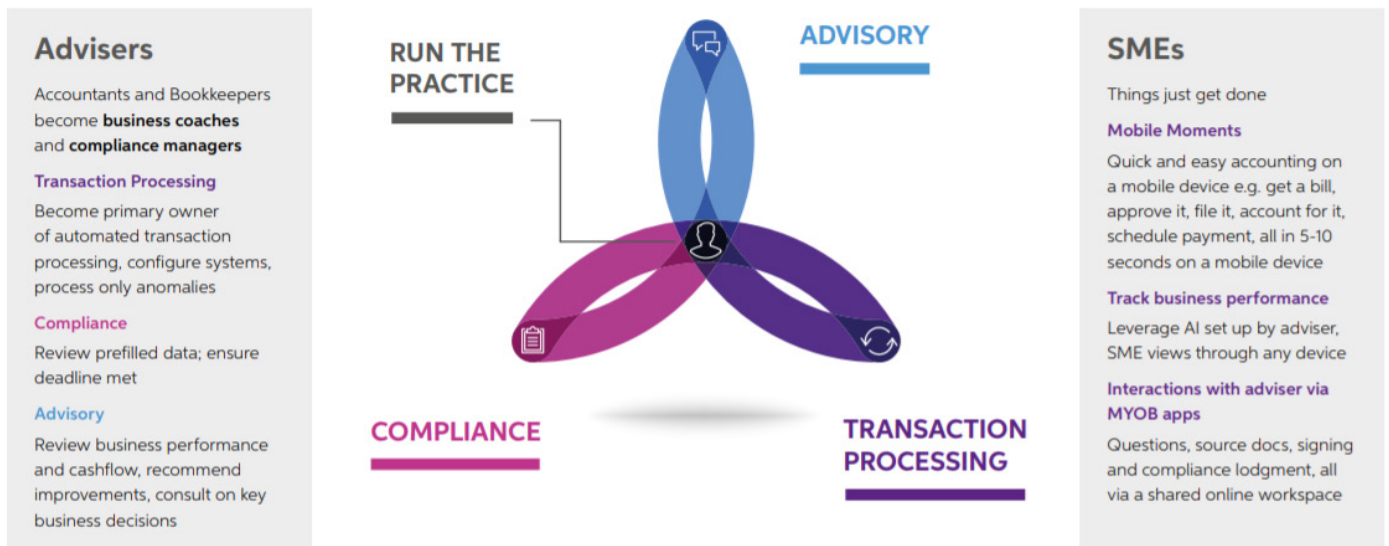
- Targeted acquisitions within our core business
- New growth opportunities which leverage our core business and increase TAM

4.1 Connected Practice Vision

MYOB has embarked upon a strategy to deliver seamless connectivity between the SME, advisers and the broader accounting ecosystem through the building of an intelligent, intuitive platform. This creates efficiencies in compliance and transaction processing, and enables growth in advisory services.

Historically these three core processes have been completed in sequence, with transactions processed by SME accounting systems, compliance work undertaken by the accountant using a bespoke accounting practice suite of tools, and advice being offered to their clients after the first two processes are complete.

The Connected Practice vision allows these three processes to run concurrently, and delivers a strong value proposition to accountants in practice, which is expected to drive adoption of online practice solutions and encourage referral of MYOB's SME solutions by accountants.

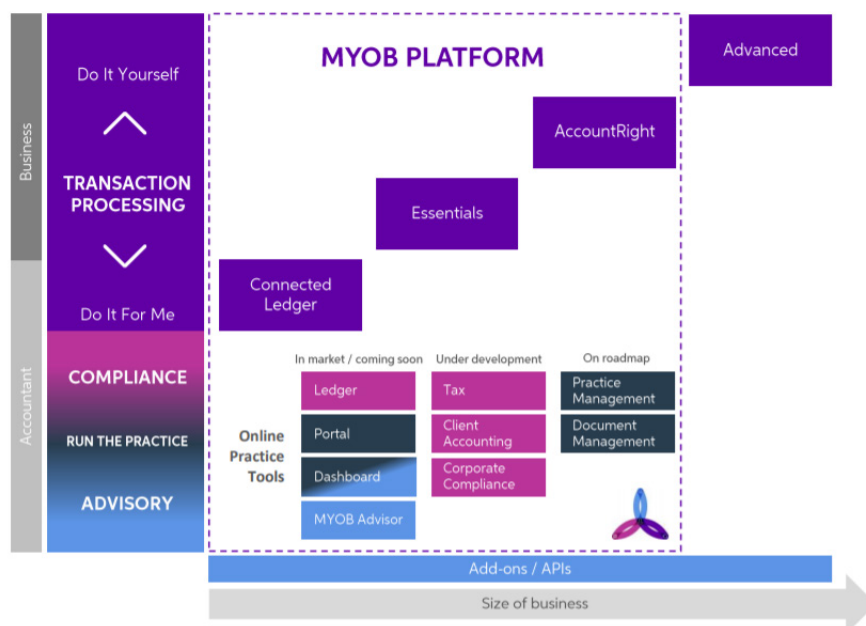


The Connected Practice will deliver seamless connectivity across the ecosystem, to enable effective, insight-led decision making by businesses and their advisers, ultimately driving increased referrals of SME solutions for MYOB.

4.2 MYOB Platform

MYOB has invested in the MYOB Platform to drive the uptake of online accounting solutions amongst SMEs and accountants, with total online subscriptions (SME and Practice) up 57 per cent year on year to 628,000 in December 2018.

MYOB continues to invest in product innovation to enable MYOB to offer a differentiated and competitive product offering. As part of their 2-year growth strategy, they plan to invest \$50 million into Research and Development. A significant portion of the R&D spend has been focused on the development of the MYOB Platform, with market delivery dates expected in 2019/2020.



Source: http://investors.myob.com.au/FormBuilder/_Resource/_module/HhW--OHCfU-MPYnMov-UPA/documents/FY2017-Results-Presentation.pdf

Industry Information






5.0 Our Industry

5.1 General Overview

There are a number of other companies that operate in the same commercial sphere as us. MYOB's success and performance is dependent on a number of competitive factors, including the success and awareness of its brand, the loyalty of its user base, its relationship with accountants, the scope of its product offering and its commitment to ongoing product innovation.

The diagram below highlights the market position of some of our key products and competitors. Note FTEs = Full time employees.

	Firm size	Markets	MYOB division	Examples of other software providers ¹
Government and corporate (Tier 1 Enterprises)	1,000+ FTEs	Enterprise Software Market	 Enterprise Solutions	Oracle SAP
Large (Tier 2 Enterprises)	200–999 FTEs			Sage Microsoft
Medium (Tier 3 Enterprises)	20–199 FTEs			NetSuite Infor Technology One
Small	5–19 FTEs	SME Software Market	 Clients and Partners	Attaché JIWA
Micro	0 ¹ –4 FTEs Sole Traders/Partnerships			Sybiz
Accountant Practices		Practice Software Market	 Clients and Partners	Reckon Xero
				Intuit
				Sage Reckon
				Xero CCH

Source: MYOB Supplementary Prospectus 2015. Available from <http://investors.myob.com.au/FormBuilder/_Resource/_module/HhW--OHCfU-MPYnMov-UPA/documents/MYOB-Supplementary-and-Replacement-Prospectus.pdf>.

5.2 The SME Market

There are approximately 2.5 million SMEs in New Zealand and Australia, with about 0.5 million located in New Zealand and 2.0 million located in Australia. We expect that the growth rate of this market will be consistent with historical experience, which is a 1.1% compound annual growth rate (CAGR). We estimate that the percentage of total SMEs that use accounting software in New Zealand and Australia is about 75% to 80% (1.8 - 2 million).

There are currently four principal providers in the SME Software Market in New Zealand. We are the market leader by number of users, with our users comprising of approximately 60% to 65% of the total number of Accounting Software users in this market (over 1.2 million).

Brand or owner	Headquarters	Company type	Key geographies	Examples of products		
				Cloud focused product	Cloud + desktop product	Desktop focused product
MYOB	Australia	Seeking an ASX listing	Australia and New Zealand	Essentials	AccountRight Live	AccountRight BankLink
Reckon	Australia	Listed on ASX	Australia and New Zealand	Reckon One	Reckon Accounts	Reckon Accounts
Xero	New Zealand	Listed on the New Zealand Exchange (NZX) and ASX	New Zealand, Australia, the UK and the US	Xero SBA	–	–
Intuit	US	Listed on the NASDAQ in the US	Numerous jurisdictions (including Australia)	QuickBooks Online	–	–

Source: MYOB Supplementary Prospectus 2015. Available from <http://investors.myob.com.au/FormBuilder/_Resource/_module/HhW--OHCfU-MPYnMov-UPA/documents/MYOB-Supplementary-and-Replacement-Prospectus.pdf>.

5.4 The Practice Market

We estimate that there are over 17,300 accounting practices in New Zealand and Australia, with approximately 4,800 firms located in New Zealand and 12,500 firms located in Australia and within these, approximately 9,700 individual accountants in New Zealand and 59,100 in Australia. Between December 2005 and December 2014, the total number of accountants in New Zealand and Australia grew at an estimated CAGR of 2.1% and 1.9% respectively.

MYOB believes that almost all accounting practices use Practice Software (although not all firms purchase all available software modules) due to the role it plays in helping service the accounting needs of the firm's clients. Accounting practices typically purchase a Practice Software product for each accountant working within that firm. Therefore, the number of accountants is a more appropriate measure of market size than the number of accounting practices.

The Practice Software Market in New Zealand and Australia currently includes five principal participants – MYOB, Reckon, CCH and Xero in New Zealand and MYOB, Sage, Reckon, CCH and Xero in Australia. In FY2014, MYOB was the market leader by revenue, estimating that its revenue comprised 60% to 65% of participant revenues in this market.

The table below summarises the nature of the key participants in the Practice market.

Brand or Owner	Headquarters	Company type	Key geographies	Examples of products	
				Cloud focused product	Desktop focused product
MYOB	Australia	Seeking an ASX listing	Australia and New Zealand	– (Currently in development)	AccountantsOffice, AccountantsEnterprise
Sage	UK	Listed on the London Stock Exchange (LSE)	The US, Europe and Australia	–	Handisoft
Reckon	Australia	Listed on ASX	Australia and New Zealand	–	APS, Elite
Xero	New Zealand	Listed on the New Zealand Exchange (NZX) and ASX	New Zealand, Australia, the UK and the US	Xero Practice Suite ¹	–
CCH	Netherlands	Subsidiary of Wolters Kluwer, which is listed on Euronext	Numerous jurisdictions (including Australia and New Zealand)	iFirm ¹	CCH Engagement ¹

Source: MYOB Supplementary Prospectus 2015. Available from <http://investors.myob.com.au/FormBuilder/_Resource/_module/HhW--OHCfU-MPYnMov-UPA/documents/MYOB-Supplementary-and-Replacement-Prospectus.pdf>.

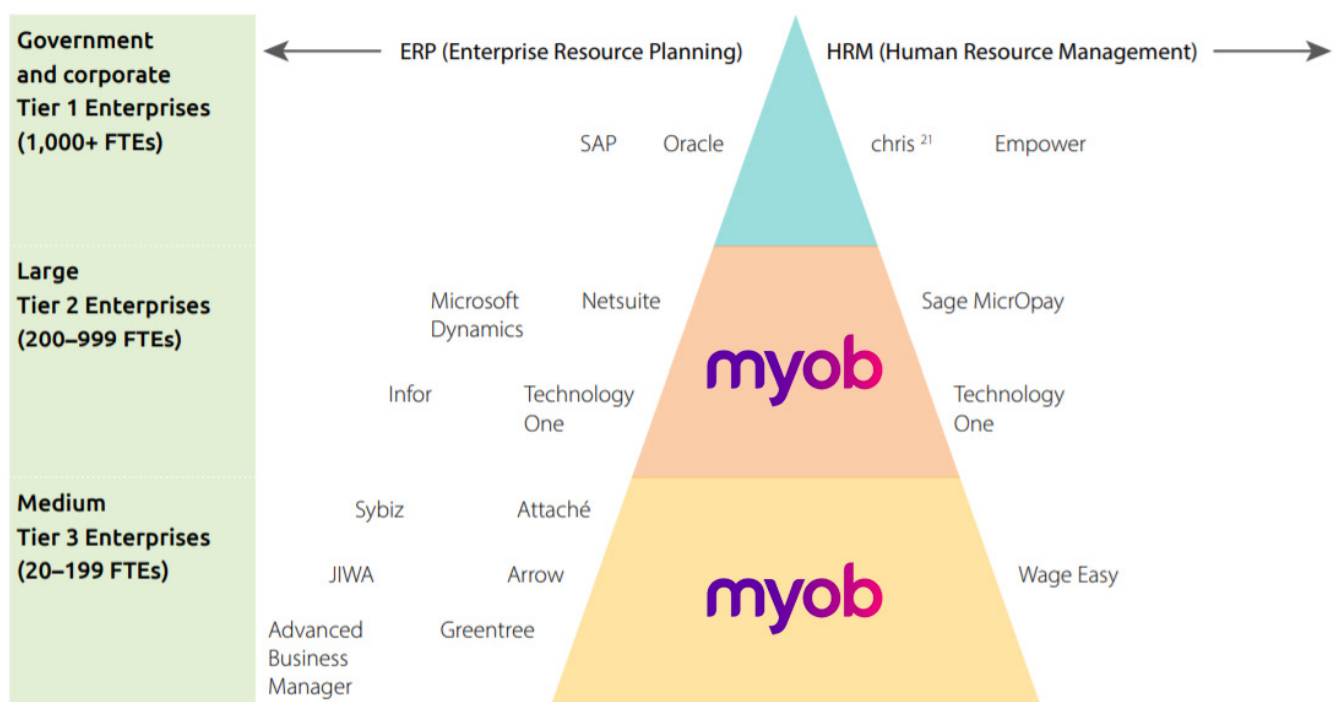
5.5 The Enterprise Market

In June 2013, there were approximately 68,200 Tier 1, 2 and 3 Enterprises in New Zealand and Australia, with approximately 13,700 located in New Zealand and 54,500 located in Australia. Between June 2010 and June 2013, the total number of Tier 1, 2 and 3 Enterprises in New Zealand and Australia increased at an estimated CAGR of 1.4% and 1.3%, respectively.

The Tier 3 Enterprise ERP Software Market, MYOB's primary focus in the Enterprise Software Market, is a fragmented market. We entered the Tier 3 Enterprise ERP Software Market in 2005 and believe we are now a market leading participant by revenue in New Zealand and Australia, estimating that our revenue in FY2014 comprised approximately 15% of participant revenues in this market. Principal competitors in the Tier 3 Enterprise ERP Software Market include Attaché, JIWA and Sybiz.

The diagram below summarises illustrates the New Zealand and Australia Enterprise Software Market.

Figure 2.14: MYOB's illustration of the Australia and New Zealand Enterprise Software Market



Source: MYOB Supplementary Prospectus 2015. Available from <http://investors.myob.com.au/FormBuilder/_Resource/_module/HhW--OHCfU-MPYnMov-UPA/documents/MYOB-Supplementary-and-Replacement-Prospectus.pdf>.

Financial Details

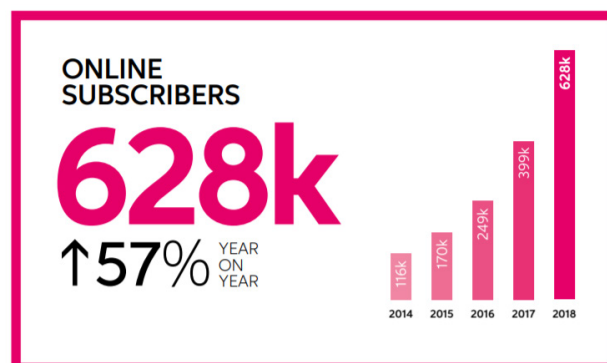
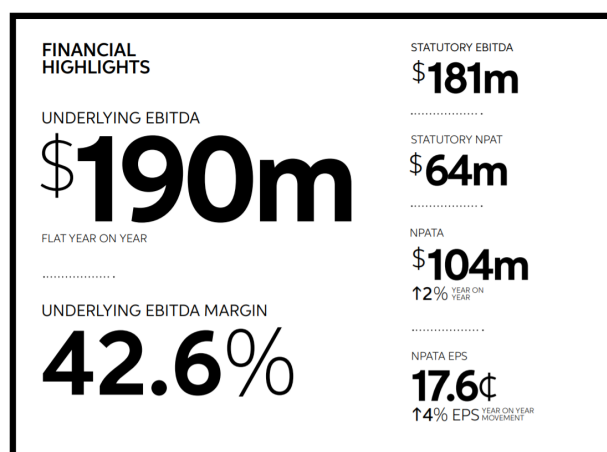
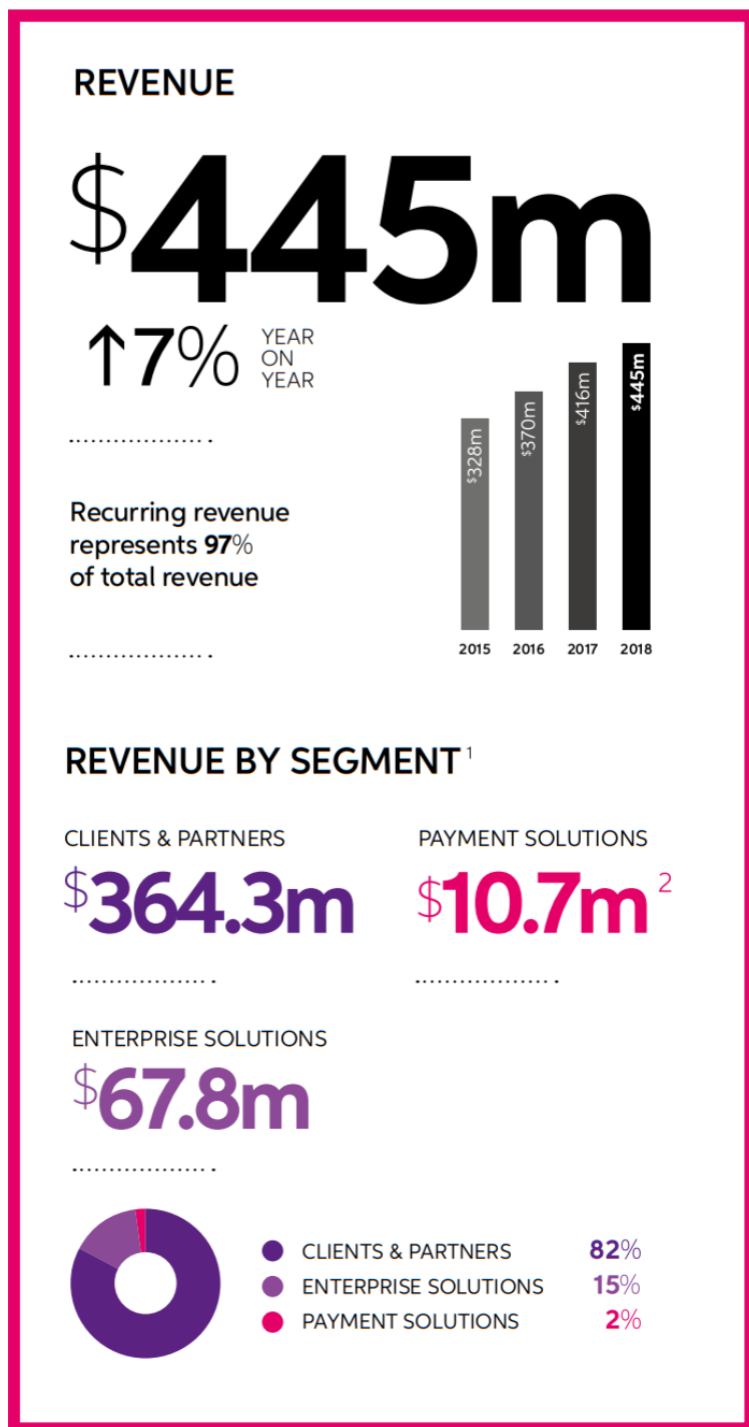


6.0 2018 Financial Year Results

Below are some extracts from our 2018 financial year results (January – December 2018). They will provide some key financial information and highlight some of the metrics we use to measure our success. This will be helpful in determining the financial viability of your solutions, as well as putting in context the returns that your solution expects to generate.

Note that all figures are in Australian dollars.

Overall Financial Performance



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 31 DECEMBER 2018

	NOTE	2018 \$'000	2017 \$'000
Revenue			
Service revenue		422,084	395,466
Revenue from sale of goods		17,726	18,819
Other income		5,427	2,198
Total revenue	1	445,237	416,483
Expenses			
Staff related expenses		(154,863)	(140,728)
General office and administration		(40,955)	(32,886)
Direct materials		(18,887)	(18,536)
Royalties		(2,954)	(3,409)
Reseller commissions		(15,999)	(13,986)
Marketing expenses		(21,936)	(17,021)
Other expenses	2	(8,647)	(7,734)
Depreciation and amortisation		(89,701)	(80,746)
Net finance costs		(15,468)	(13,602)
Total expenses		(369,410)	(328,648)
Gain on revaluation of previously held equity accounted investment ¹	12	12,009	–
Share of losses from equity accounted investments	16	(2,652)	(2,353)
Profit before income tax		85,184	85,482
Income tax expense	8	(21,399)	(24,802)
Profit after income tax		63,785	60,680
Profit after income tax attributable to owners of MYOB Group Limited		63,797	60,680
(Loss) after income tax attributable to non-controlling interests		(12)	–
Other comprehensive income			
<i>Items that may be classified to income or loss:</i>			
Foreign currency translation		2,783	(2,327)
Other comprehensive income/(loss) for the period, net of tax		2,783	(2,327)
Total comprehensive income for the period attributable to owners of MYOB Group Limited		66,580	58,353
Total comprehensive (loss) for the period attributable to non-controlling interests		(12)	–

1 Additional investment during the year resulted in the investment converting to a subsidiary (refer note 12).

	NOTE	2018 CENTS	2017 CENTS
Earnings per share attributable to ordinary equity holders of MYOB Group Limited			
Basic earnings per share	3	10.81	10.12
Diluted earnings per share	3	10.81	10.12

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2018

	NOTE	2018 \$'000	2017 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		34,914	54,779
Trade and other receivables		25,091	18,531
Inventories		–	83
Funds held on behalf of customers		17,787	12,720
Other current assets		21,157	14,248
Total current assets		98,949	100,361
Non-current assets			
Receivables		1,322	1,670
Equity accounted investments	16	4,283	7,545
Other investments	7	8,210	8,210
Property, plant and equipment	6	35,661	25,468
Intangible assets	6	1,277,054	1,256,613
Total non-current assets		1,326,530	1,299,506
Total assets		1,425,479	1,399,867
LIABILITIES			
Current liabilities			
Trade and other payables		41,047	23,958
Funds held on behalf of customers		17,787	12,720
Borrowings	10	–	502
Unearned revenue		52,722	49,982
Provisions		15,077	13,585
Total current liabilities		126,633	100,747
Non-current liabilities			
Borrowings	10	450,540	432,484
Provisions		8,187	6,030
Deferred tax liabilities	8	19,122	16,185
Total non-current liabilities		477,849	454,699
Total liabilities		604,482	555,446
Net assets		820,997	844,421
EQUITY			
Contributed equity	9	1,098,445	1,141,611
Retained earnings		(308,403)	(304,841)
Non-controlling interest		19,699	–
Reserves		11,256	7,651
Total equity		820,997	844,421

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 31 DECEMBER 2018

	NOTE	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers		487,187	455,646
Payments to suppliers and employees		(309,688)	(275,203)
Interest paid		(14,169)	(13,582)
Income tax paid	8	(4,561)	(3,807)
Interest received		545	865
Net cash flows from operating activities		159,314	163,919
Cash flows from investing activities			
Acquired software costs	6	(1,400)	(1,300)
Acquired intangible assets	6	(345)	(1,603)
Investment in equity accounted investments	16	(3,000)	(3,000)
Purchase of property, plant and equipment		(18,053)	(12,944)
Capitalised new product development	6	(52,155)	(35,288)
Purchase of business acquisition, net of cash acquired	12	(8,482)	(47,545)
Net cash flows used in investing activities		(83,435)	(101,680)
Cash flows from financing activities			
Proceeds from on-market sale of forfeited Treasury shares	9	1,660	3,456
Debt refinancing transaction costs		(1,980)	–
Proceeds from borrowing		33,000	–
Repayment of borrowings		(15,311)	–
Repayment of finance lease liabilities		(502)	(410)
Share buyback by parent entity	9	(44,826)	(3,268)
Dividends paid by parent entity	4	(68,311)	(69,303)
Net cash flows used in financing activities		(96,270)	(69,525)
Net increase/(decrease) in cash and cash equivalents		(20,391)	(7,286)
Cash and cash equivalents at beginning of period		54,779	61,434
Effect of exchange rate changes on cash and cash equivalents		526	631
Cash and cash equivalents at end of period		34,914	54,779

Segment Breakdown

PERIOD ENDED 31 DECEMBER 2018	CLIENTS & PARTNERS \$'000	ENTERPRISE SOLUTIONS \$'000	OPERATIONS & SERVICE \$'000	CORPORATE (INCL. R&D) \$'000	TOTAL \$'000
Revenue					
SME revenue	278,127	–	–	–	278,127
Practice revenue	86,175	–	–	–	86,175
Enterprise revenue	–	67,826	–	–	67,826
Payments revenue	10,682	–	–	–	10,682
NZ R&D grant revenue	–	–	–	2,427	2,427
	374,984	67,826	–	2,427	445,237

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