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MYOB Limited
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MYOB Limited has today issued its half year results for the 6 months ending 30 June 2007. First half 2007 revenue growth was 14.7 percent to $104.4 million with an underlying EBITDA margin of 39.7 percent. This is higher than the guidance provided in June. What drove that change?

CEO Craig Winkler
A number of things have contributed to the strong first half. The Australian Business Division in particular had a very vigorous last two weeks of June, in terms of both our new unit sales and also upgrades. That contributed to 15 percent revenue growth in the Australian Business Division, and overall group revenue growth of 14.7 percent.

Whilst the increased revenue in June in the Australian Business Division is likely to be a pull forward of second half revenue, there is no major change expected to the guidance for the full year. So, in terms of the full year, our guidance remains for 12 to 13 percent revenue growth.

In terms of EBITDA guidance, the increased revenue has dropped through to the bottom line, putting us slightly ahead of the guidance we issued back in June.

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Your statements in the release express confidence in achieving the full year guidance of growth in revenue of 12 to 13 percent and an underlying EBITDA margin of greater than 38 percent. What gives you this confidence and is there any upside to this outlook?

CEO Craig Winkler
Moving into the second half, a high proportion of the revenue is maintenance revenue from existing customers and so there is much less reliance on revenue from items like upgrades and new licence sales. This means there is less volatility and higher predictability of the second half revenue. The very strong cover sales in the Business Division in the first half flow through to the second half maintenance revenue. Both the New Zealand and Australian Accountants Divisions enter the half with strong sales orders, so that also adds to our confidence for the second half.

In terms of upside to the outlook, the predictable nature of the revenue means that there are limits to the upside. However, any upside generally translates to a magnified impact on the bottom line; much as we experienced in the first half.

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You launched MYOB Accountants Resourcing in May 2006. When is this service likely to break even or turn profitable?

CEO Craig Winkler
Accountants Resourcing is fully operational now, with around 39 staff in Malaysia delivering jobs back to our accountant clients. We are seeing an increase in the client base in both Australia and New Zealand and we are moving to launch Accountants Resourcing in the UK in the second half of this year. Our expectations are that the Accountants Resourcing business will break even in late 2008 or early 2009. The key to this is building high levels of confidence in the service amongst our clients and continuing to penetrate our client base with the service. To date the quality of work coming out of the team in Malaysia has been excellent, and a number of clients are now scheduling us into their client work flow.

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This is your second full year of operations in China. How is your business in China tracking?

CEO Craig Winkler
We are continuing to make good progress with China. At this point we are particularly focused on building distribution channels, that’s quite a methodical process, and we are making headway with that.

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What’s the first half/second half 2007 revenue mix? Are you still expecting the business to be slightly less profitable in the second half 2007?

CEO Craig Winkler
Revenue in the prior year, 2006, was fairly evenly split between the first and second half. The performance of the Australian Business Division in late June this year has led to some pull through of revenue, as I mentioned earlier, which suggests that the revenue split between the halves this year may have about a one to 2 percent variation. That is, the first half revenue will represent about 51 percent of the total revenue for the year.

Expenses are fairly evenly split between the halves. This is a small change from previous years when the Australian marketing spend in the first half tended to mean that the total group expenses were higher in the first half relative to the second. We have improved the efficiency of our marketing spend in Australia and we’ve spread it across two releases, one in the first and one in the second half of the year.

The result is that with expenses relatively equal half on half and the revenue a little lower in the second half as I’ve mentioned before, EBITDA (total group EBITDA, including the loss in China) in the second half will be a little lower than the first half, with a change not unlike 2006.

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In your announcement today, you have mentioned the company’s investments in the UK and Asia. Will the marketing expenditure in the UK continue in the second half of 2007? What about in South-East Asia? When do you expect to start seeing returns from this investment?

CEO Craig Winkler
With the UK, the increased expenditure is related in particular to brand and distribution building; so that’s building on our Dosh acquisition and also on the PC World distribution initiative. We’re seeing good returns from this already, with revenue gains in the first half of 55 percent. There is still more to be done, so that will continue for another six to 12 months, providing we can continue to see the results coming through.

If we look at South-East Asia, we are continuing to build our brand position and distribution reach. So we are making a significant investment as we seek to become the number one player in Malaysia and enhance our position in Singapore. As we flagged last year, our investments and subsequent discussions with UBS in Malaysia showed that we could make good headway in the Malaysian market on a stand alone basis and we’ve been investing to achieve this. Once again, we saw good signs of future returns from those investments in the first half. Revenue in the Asian Business Division was up 47 percent to A$2.8 million and we expect this growth to continue in the second half.

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Product development spend is at lower levels than the same period last year. Are you reducing expenses in this area? Are you still forecasting a spend of $36 million for the full year as you forecast at the beginning of this year, and if so what does that indicate for the run rate into 2008?

CEO Craig Winkler
Our development spend is likely to be around $34 to $35 million for the full year which is down a little from the expected $36 million. That's as a result of the continued focus on development efficiency.

The second half product development spend of around $18 to $19 million will include some one-off contractor costs to further rationalise our product and technology set. We remain on course to contain our development spend to around wage inflation levels over the next few years.

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Did the Australian Accountants Enterprise (AE) tax issue last year have an impact on the Accountants Division margins and what is the outlook for the division?

CEO Craig Winkler
As you will see from the investor pack, the margins in the Australian Accountants Division were impacted by last year's AE Tax issue and also the investment in Accountants Resourcing that we've touched on. There's no overall material impact on the group, however, we needed of course to restore confidence in our client base and we have invested in our contact centre and our client management during the first half. We are therefore expecting the margins to turnaround over the next year to return to the healthier levels that we have seen previously.

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Your cost of sales rose by 36 percent to $6.9 million (excluding China and Accountants Resourcing). Why has the cost of sales grown so significantly? What is behind this?

CEO Craig Winkler
A good question and that's a wonderful problem for us in the sense that our cost of sales growth is in part a reflection on our healthy revenue growth, particularly in the Enterprise Division, where the use of partners attracts a commission cost to MYOB, which appears in the cost of goods sold line. This reflects a significant growth in Exonet, where reseller margins are higher than cost of goods sold in the Accountants or Business Divisions in general. Also, the recent acquisition of Comacc and Dosh have contributed to the growth in cost of goods sold, representing around 14 percent of that change.

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How healthy is your acquisition pipeline? Are you seeking to make further acquisitions in 2007?

CEO Craig Winkler
We continue to look for opportunities in all the regions in which we operate; it is just part of how we run the business. We have a number of active files open at any time, and right now is no exception. However, we do have to maintain our disciplined approach to assessing all of those opportunities. Asset prices have

been very strong up until recently, although I think recent market pressure may open up buying opportunities.

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How is the implementation of the customer management platform going? When will the benefits of the investment in the new customer management platform start to flow?

CEO Craig Winkler
The new system went live in New Zealand in March and we've already locked in some significant IT savings as a result of retiring old systems. Given that the largest part of our business is in Australia, we expect the next step up in benefits to flow from that phase of the implementation, which is happening in December this year for the Business Division and early 2008 for the Accountants Division.

Following these releases, we will roll into Asia and the UK. So our project spend reduces significantly in 2008, and as a result, so does our overall capital expenditure for the group.

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Thank you Craig.

For more information about MYOB, visit www.myob.com/au/investors or call CFO Simon Martin (+61 3) 9222 9748 or (+61 4) 01 466 641

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