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Lodgement of Open Briefing®

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You have upgraded your full year guidance for EBITDA to around $77 million, but your revenue guidance for the year remains unchanged at $204 to $206 million. What have been the drivers in this changed performance?

CEO Craig Winkler
EBITDA for the full year will be around $77 million, which represents a margin of nearly 37 percent. The underlying EBITDA, which is calculated after removing the investments in China and Accountants Resourcing, is around 3 percentage points higher, giving an underlying EBITDA margin of about 40 percent.

The main driver of the better than anticipated performance was the Australian business, particularly the Australian Business Division and with this business, 90 percent of marginal revenue generally drops straight through to EBITDA. Given our strong performance, Group revenue would have been expected to be higher than guidance as well, however, the strength of the Australian dollar has dampened our reported offshore revenue.

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You have indicated that the Australian business continued to perform better than expectations in the second half. What are the drivers of this outperformance? Is this level of growth sustainable?

CEO Craig Winkler
The growth of the business is certainly sustainable. The drivers are our continued success in areas such as selling our cover plans and upgrades to our installed base. The renewal rate on cover is now over 70 percent and there are further growth opportunities. Also, we've been more disciplined in measuring return on investment and eliminating activities with poor returns in our marketing campaigns.

We've also increased the rate at which our Accountants Division is winning new clients. We're working on improving our discipline in monitoring service levels and productivity in the contact centres and also having high quality product releases, which of course reduces the cost of technical support overall.

During the second half of 2006 and the first half of 2007 we fine-tuned the organisation and lowered our overall cost base, which contributed to the 20 percent EBITDA growth with the full impact not felt until the second half of 2007. The profit benefits reflect the inherent scalability of our business model which sees marginal revenue become marginal profit, so out-performance drops straight through to the bottom line.

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At the half year results you talked about Accountants Resourcing in Australia and New Zealand and a launch into the UK in the second half. How is the new business performing in Australia and New Zealand and how did the launch go in the UK?

CEO Craig Winkler
While the Accountants Resourcing business in Australia and New Zealand is still in a development phase, the signs are very encouraging. We've seen more accounting practices signing up and, more importantly, we're seeing a steady increase in the number of jobs coming through from those practices that have been using the service for some months. For example, nearly 800 jobs were completed in Australia and New Zealand through to the end of November.

We had a soft launch in the UK in the second half and we've been running a number of trial sites to prove the concept. We're gearing up for a full rollout post the February and March tax lodgement season in the UK.

We're very pleased with our progress and we're continuing to invest in the business, with an expected EBITDA loss of around $1.5m for 2007. We've got traction in Australia and New Zealand and some good early indicators in the UK. The team in Kuala Lumpur is delivering high quality work and we are continuing to build scale.

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In today's update you have flagged some changes to the approach to the business in China. What lessons have you learnt from your experience in China so far? Is there still the same opportunity in China as you thought when you entered the market? What gives you confidence that it will be successful? When will this investment achieve profitability?

CEO Craig Winkler
As we expected, doing business in China is quite different from Australia and our other markets. Over the past 12 to 18 months we've improved our understanding of the market overall. We've learnt about the differences in sales channels, product distribution through relationships with partners, managing employees and we've improved our visibility in the market.

We've strengthened our initial belief that the opportunity is significant in mainland China. In order to leverage our success in Hong Kong, we've extended our existing Chinese and Hong Kong businesses into a Greater China organisation. This will give our China operations better access to the skills and experience gained in building and driving a successful business in Hong Kong.

We've also rationalised our footprint to sharpen our focus on key regions. We're concentrating on five major areas: Beijing, Guangzhou, Shanghai, Chengdu and Hong Kong which are a large part of China's population and GDP.

We're now expecting to reach profitability a little later than we'd previously envisaged. Overall, when we look at the size of the market and our investment compared with the size of our business, we believe that the investment returns are still available in that region, albeit over an extended timeframe, and that the investment is appropriate and manageable for us.

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There has been a lot of talk about Software as a Service (SaaS). What are you doing in this field and when can we expect some product offerings?

CEO Craig Winkler
The software as a service concept, originally called ASP, and more recently SaaS, has been with us for some time. The question for us as market leader is one of timing. We've leveraged the internet for some time with online tools for customer support and providing a range of internet delivered services. However, in terms of a wholesale change from desktop to online, there is no real incentive to be too early to market, nor do we want to be late and risk an opportunity for a competitor to take a share.

We are monitoring our clients and the market in general to make sure we understand our clients' needs and expectations. Our experience with an earlier investment in a totally online system at the enterprise level, the NetSuite product, was that the uptake was slower than we had anticipated.

The market is definitely moving to more use of online capabilities and we're moving with it. We want to be ready to capture all of that market as it evolves and as there will probably be a ten year transition time to a wholesale move to online applications, it's important for us to continue to invest in desktop and server-based applications whilst taking advantage of new technologies.

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Product Development spend at the half year was below expected levels. Has this continued in the second half? What is the run rate into 2008 and do you expect 2008 total Product Development spend to remain flat with 2007 levels?

CEO Craig Winkler
The second half spend should be similar to the first half. Therefore, the 2007 spend will be lower than our guidance at the half year. We've continued to make progress with additional development capacity, primarily quality assurance and testing work, which we've moved to lower cost locations, such as Kuala Lumpur. Also because of the tight labour markets our recruitment is behind plan, and while that's not delaying our deliveries or product release schedule, it has meant lower spending in the second half.

Because we are behind in the second half spend, we expect an up-tick in our run rate as we go into the first half of 2008 and we go back to a full head count. We expect a rise for 2008 of slightly more than our forecast wage inflation next year of around 5 to 7 percent.

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At the half year you noted that there had been investment in some areas of the business, in particular the UK and Asian Business Divisions. What benefits have been derived from the investment in these regions?

CEO Craig Winkler
In local currency terms, the UK Business Division has performed very well with revenue up 57 percent on 2006, and excluding the Dosh acquisition, we're up 27 percent. However, the strong Australian dollar has reduced the impact of those revenue gains on translation.

The strong first half performance in the Business Division in Asia has continued into the second half. We have a market leading and profitable position in Hong Kong, market leadership in Singapore, and a rapidly growing business in Malaysia. The investment in marketing and brand building has had a positive impact on our revenue performance in Asia, with the underlying customer registrations showing strong growth.

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How is the customer management platform project going? What additional benefits are flowing through from the investment in the new customer management platform?

CEO Craig Winkler
This week saw a significant milestone with the successful implementation of the system into the Australian Business Division: the largest single step in the programme. We expect the project will be complete by the end of 2008 with implementations in the Accountants Division in Australia and the rest of our operations in Asia and Europe to come.

With the major installation now in place, we're expecting to see benefits build through the course of next year. We've already captured around $1.5 million in annual IT cost savings from the rationalisation of our systems and those IT savings will be fully captured during 2008 as remaining legacy platforms are retired.

The Australian Business Division will contribute a large part of the expected benefits of the project, both from a revenue capture and also cost saving perspective. For example, we've discovered there's about $1 million in terms of revenue potential that could be captured in our sales quoting process which previously wasn't visible to us. On the cost side, we've significantly reduced our finance transaction processing costs because the system will allow us to eliminate cheque processing. There are lots of examples of savings that will be significant over time and we remain very confident that the project's return on investment will be high.

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You have not been active in acquiring business in 2007. Is that an indication of a lack of opportunity? How healthy is your acquisition pipeline?

CEO Craig Winkler
It's not an indication of lack of opportunity. While it's not highly visible, we've been doing a lot of work on acquisitions. The pipeline is quite healthy both in terms of regions and scope and size for our business. During the course of 2007 we walked away from potential acquisitions that did not meet our strategic fit or price criteria. We have to maintain our acquisition discipline particularly in a market where prices have been at historic highs.

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You have flagged a large capital return in the order of $60-80 million, to be announced with the results in early 2008. How have you approached the assessment of the appropriate capital structure? Will the capital return affect your ability to make acquisitions?

CEO Craig Winkler
We first reviewed our capital in late 2005, after which we announced a buy-back and special dividend. We updated our analysis in late 2006 and again this quarter. We take a fairly standard approach - in conjunction with our bankers and advisers we reviewed the level of debt the business could support and the level of cash that we're generating. Over the past two years both have grown significantly, as has the predictability of our cash flow.

We then looked at our capital demands and given our strong cash generation all organic spending is easily funded from our operating cash. Consequently, over the past few years our under-geared position has increased which has an impact on earning per share, cost of capital and ultimately the return to our shareholders. At the same time, our growing franking capacity is of value for our shareholders.

Whilst we continue to monitor and maintain an active pipeline of acquisitions, we're in a comfortable position to return a meaningful level of capital to shareholders while maintaining a level of funding capacity adequate to meet future acquisitions as they arise.

The current review won't be completed until February. We'll announce further details in terms of quantum and timing at that time.

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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