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MYOB Limited has been expanding its product range in its established markets and expanding its business geographically. Can you outline your vision for MYOB, and the key drivers of your corporate strategy?

CEO Craig Winkler
We operate a scale business, so we leverage costs over a very broad customer base. Strategically we operate in broad market segments and large niches within our overall small to medium enterprise (SME) target space. As a scale business we've grown offshore to ensure that we continue to leverage our intellectual property and business model effectively.

We target the zero to 200 employee space. Within that range we target verticals and niches with specific product and service offerings. In that context, leveraging the small business and accountant relationship is of course also important for us. Accountants work with our business customers just as we do, so it's very much a triangular relationship.

MYOB's primary commitment is to make doing business easier for our clients, empowering them to operate their businesses effectively and achieve their goals by removing some of the drudgery of running a business. Philosophically we operate as a service business. So whilst we do write software and provide product, the product is only a part of the overall service offering.

We're expanding by carefully choosing new geographic markets and by growing the range of services we deliver. Ultimately we build long term relationships through the range of services that we deliver, and these relationships provide recurring revenue streams.

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MYOB has flagged a medium to longer term expectation of double digit revenue growth with improving margins. How do you see the contribution to growth and margins, from the established core businesses, compared with the growth initiatives?

CEO Craig Winkler
We actively pursue growth across the entire business and all parts of our business are growing in response. The Asian markets are clearly growing at the fastest pace, albeit from a smaller base, but our more developed markets continue to grow at a good clip. The Australian Business Division, our largest single business, still grew 10 percent in customers and revenue in 2005 over 2004. We're seeing continued growth in our home markets and strong development in newer markets, giving us great confidence in medium term revenue growth.

Today, we look for organic growth opportunities, within our core activity of improving business life for our clients that go beyond packaged software. For instance, we can reduce operating costs for an accounting practice via document management systems that we're incorporating into our suite of products. In addition to organic growth, there's also acquisition growth. We have a history of adding appropriate acquisitions along the way to augment our organic growth and broaden our offering.

We're constantly working on business efficiency and there are still some synergy savings to come through from the Solution 6 merger. Our new customer management platform will have a positive margin impact from next year and our product development spend, as a percentage of sales, will come down in 2007. In all parts of the business we're looking for growth, efficiency and margin improvements.

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You've flagged 13 percent growth in revenue for the full year and underlying EBITDA margin of 37 percent. Do you have any further comment on guidance?

CEO Craig Winkler
The 2006 guidance announced last December still holds. Each geographic region is progressing well against plan. Our half on half results will be driven by new product releases and you should note that we have two budgeted product releases in the second half. An SME feature release is scheduled for the second half in Australia, and there is also a new product release in the UK in July. This will result in some half on half revenue seasonality in our results for 2006 with a skew to the second half.

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MYOB is a market leader in business management and accounting software for SMEs in Australia and New Zealand. What is driving the growth in these markets, where you are already established with a leading market share?

CEO Craig Winkler
There's still good underlying growth in our home markets. Retail sales figures for SME business systems are growing at a good double digit rate. This helps us to continue to build the business where we're getting the larger share of that growth.

There's net year on year growth in the number of SME businesses in every market that we operate in. Interestingly, sometimes in the past new SME business formation has actually accelerated in downturns. There's been net new business creation throughout the cycle, but in downturns sometimes you get an interesting blip upwards as people come out of corporate employment and start their own business.

In addition to that, there's continuing penetration of each market. Looking at our home markets with leading market share, we're getting further penetration through products like our M-Powered Services and building transactional revenue on top of the other revenues we're receiving. For instance, we also have healthy training revenue streams and we're increasing our overall recurring revenue within this growth market across our regions.

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Revenue from the Business Division is forecast to grow at double digit rates this year, whilst the Accountants Division is forecast to grow at 4 to 5 percent. How do the business models differ between the Business Division and Accountants Division, and what are the relevant profit margins?

CEO Craig Winkler
Overall there's a very similar EBITDA margin in both divisions, but the structure differs in the selling model that's used. In the Accountants Division it's about relationship management and we have in-house client management teams, whereas the Business Division is an intermediated sale and we work through resellers and partners. The Accountants Division has a higher sales spend and a smaller marketing spend. The Business Division has a lower direct sales spend, but the broad based marketing spend is higher. Right now product development spending is somewhat higher for the Accountants Division as we complete a technology upgrade, but that will start to ease off in 2007.

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Can you explain how the recent product expansion into Enterprise Solutions in Australia and New Zealand fits with your strategic vision and revenue growth objectives?

CEO Craig Winkler
Enterprise Solutions cater to the higher end of our SME clients, here we're talking 20 to 200 employee businesses. We've had clients for many years that have

operated in the 20 to 200 employee space, but really our primary focus has been on businesses with 0 to 20 employees. Enterprise Solutions represents an opportunity for increased visibility in that 20 to 200 employee space, catering more completely for MYOB clients as they grow. Essentially we'll establish a natural progression that allows a business to stay with MYOB as it grows, better leveraging our strong market position with the smaller end of the market. Larger businesses already know MYOB and now we have a concentrated focus on this section of the market. We have a specific team and specific products and services to address their needs in a much more complete way than we had before.

It's a fragmented market segment we're talking about. The larger corporate market is dominated by SAP and Oracle and the smaller SMEs are very well served by strong MYOB offerings. For us there's an opportunity to grow our share in the 20 to 200 employee space, to serve more customers and increase our revenue correspondingly. It's a significant market, with about 90,000 businesses in the category in Australia and New Zealand. They have a higher average spend on business systems, typically greater than $1,500 per annum versus an average of less than $100 per annum by smaller SMEs. It's clearly a very attractive market segment, in the order of $150 million per annum in recurring revenue and we expect to be able to build a strong position.

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To what extent have recent strategic and geographic expansion initiatives been dictated by planning for a time when the Australia and New Zealand markets become saturated or begin to slow down?

CEO Craig Winkler
It is certainly a factor. Whilst it's still growing well, when you have a small home base like Australia and New Zealand, there are only so many customers you can access. Our global competitors leverage larger home bases, typically the US or Europe.

It's important to realise that we have actually been going down this path for some time. For example, we've been in the Asia region for ten years now, making sensible investments. Originally working through partnerships and distribution arrangements and gradually acquiring appropriate components and developing our own teams. Today, from a standing start some years back, we're the number one brand in Singapore, number one in Hong Kong, number two in Malaysia, and we're building our position in China now. So it's not exactly a new thing, it's been an important part of our growth strategy for some time.

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You've recently entered the China market with the establishment of MYOB Zhi Guan and the Chengdu Jin Qi Consultancy Company joint venture. How do you manage the risk of entering new markets such as China, and how does your strategy replicate the existing business model that has worked well in your established markets?

CEO Craig Winkler
We've operated our business in Hong Kong for six years, and we're now the brand leader in that market. We've learned a lot of important lessons working there, learnings that are now part of our development process in China. Indeed, our Hong Kong team, which is already experienced in delivering multi-lingual software and services, has been instrumental in readying us for entry into China. Over the past two years we've been carefully researching the China market, ensuring that we understand the market dynamics, competition, growth profile of the market, IP issues around piracy and IP protection, channels to market as they evolve technology adoption in the small business space, different market entry approaches. Our conclusions lead us to make our market entry via a joint venture, primarily to build distribution capacity quickly. The JV provides us with the groundwork for distribution much faster than we could alone, and to that we add significant expertise in brand building and client service, expertise that is not as well developed in China to date.

Our business model in China is to target small businesses with accounting and business software, a model that we know extremely well. It aligns with what we've done in other regions including our home markets. Of course the Chinese market has its differences, as with all our markets, but in terms of the core business model it's a great replica.

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What are the attractions of the China market, and what do you see as the current, realistic addressable market?

CEO Craig Winkler
Clearly strong growth in the market in general is an attraction. From our perspective, it's conservatively a minimum of 1 million genuinely addressable businesses today with appropriate technology in place. It's already about the same size as the total Australian market and there is absolutely no question that it will grow.

That's a great opportunity for us in terms of scale and growth, but also competitively because there are really no other international brands in our space there today. We have an opportunity to build a strong brand in a way that that none of the local competitors are doing. Existing local players are just trying to sell software licences, our view is more long term. We'll grow relationships with clients and establish a service model that will continue to evolve once the initial rush of technology adoption is behind us.

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You aim for a leading market share in your markets. To what extent will this objective be achievable in China?

CEO Craig Winkler
It is possible, it is achievable, that's our goal and that's what we aim for. The market is real, it's there, and it's open. Our experience in other Asian markets has been that we can move in, build a good strong position, a powerfully branded

position and then withstand whatever competitive threats appear. We're certainly aiming to ensure that we're a strong leading player in the China market.

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You've said that you're prepared for a negative EBITDA contribution for "a few years". How long do you expect the brand building and infrastructure establishment phase to take, and when do you expect China to make a positive contribution to EBITDA?

CEO Craig Winkler
Our business plan has a relatively modest, total investment of $15 million over three years. That includes areas like brand building and development of distribution channels. EBITDA break even is expected in 2009 on revenue of around $10 million. We don't have our head in the clouds, we're not expecting this to be a $1 billion business next year. We anticipate that it'll be profitable in 2009 at the EBITDA level and will grow from there.

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Turning to the European businesses. You have restructured and introduced some new business initiatives by moving into Retail POS software and training services in those markets. Can you explain the opportunity you see in the European markets for MYOB?

CEO Craig Winkler
The European markets are quite mature in a competitive sense, but there are still opportunities. The UK has the highest average prices in our group and no apparent downward price pressures. Looking at the Accounting Practice market, it's quite fragmented and really about targeting different market segments. There's opportunity for growth, particularly amongst smaller firms, expanding our strong position with the six plus partnerships. We're growing well in the SME market, and one of the other international players is making moves to scale back its presence in the region, which will provide a further opportunity for which we're ready. In the case of retail point of sale in the small business space, it's a particularly poorly served segment and even though it's only a few weeks since MYOB launched in this market we're already getting terrific feedback.

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MYOB had a cash balance of $44 million at 31 December 2005. Do you view the balance sheet as under-utilised? What capacity does MYOB have to leverage its balance sheet?

CEO Craig Winkler
We're comfortable with a sensible cash balance that's available for acquisitions and other initiatives. Having said that, as a cash generating business we don't want excessive cash sitting in the business that's not being utilised in the medium term. That's reflected in the capital management initiatives announced earlier this year, specifically the improved dividend yield through the special dividend, as well as the buy-back. Additionally we have significant agreed debt capacity that we could utilise for the right kinds of acquisitions – where debt represents an appropriate funding instrument.

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Do you have a targeted return on equity capital for shareholders?

CEO Craig Winkler
We don't release this information externally, however our internal hurdles for return on capital on projects we consider are well above the cost of capital calculated by the market. Our longer term view of the business often means that some of the investment is taken up front, impacting near term returns on capital. So, the acquisition of Solution 6 for instance added a significant amount to our balance sheet, such that the calculated return on equity on our reported results dropped from 2003 to 2004.

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Will acquisitions continue to play a part in your growth strategy? If so, what are your acquisition criteria?

CEO Craig Winkler
Yes, we'll continue to look for sensible acquisitions that strengthen our market position, open up a new market and/or add a revenue stream to an existing market. In addition to those things, acquisitions have to match our strict financial return criteria, which include an assessment of the impact on EPS and return on capital.

An example of this is the recent corporate activity in Malaysia. You will have seen that Sage (UK based) announced a takeover offer for UBS, a company of which MYOB owns 16 percent. Since our initial purchase in 2005, we had looked at acquiring the whole company but just couldn't make the numbers stack up versus the organic growth scenario in that market. Financial discipline in acquisitions is very important.

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You've announced a number of capital management initiatives including raising the annual dividend to 2.75 from 2.25 cents per share, a special dividend of 1.25 cents declared for the last financial year, and a 5 percent share buyback. What is your dividend policy and what progress have you made on the buy-back?

CEO Craig Winkler
The board targets a 50 percent payout ratio with underlying growth in dividends year on year as its guideline. Generally speaking that's been the result since 1999 when you consider our underlying profit growth. The board looks through the cycle, so for example in a given year the payout ratio may look high on a non-normalised basis, but if you look through that then you'll see pretty much it's been around a 50 percent payout ratio on underlying business growth through the cycle for many years.

The buy-back is going well with about 34 percent of the total bought back at an average price lower than the average trading price since the scheme began.

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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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