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Reckon a winner since MYOB's Sol 6 bid

Small caps Martin Pretty

Accounting software group Reckon is already winning top accounting customers from Solution 6 in the nine days since MYOB announced its scrip-based takeover.

"Top 100 accounting firms have in the last week come to us and said that they had chosen us as their preferred supplier," says Reckon chief executive Greg Wilkinson.

While most widely known for selling the Quicken range of accounting software for personal and small business accounting, Reckon also competes directly with Solution 6 in the provision of practice-management software to top 100 accounting firms.

Solution 6 has a suite of products it built up through acquisition and once dominated this market space, but Reckon recently acquired APS (Advanced Professional Solutions) and now has a larger number of users at Australia's top 100 firms. Reckon paid \$10 million for APS, with the deal effective from January 1, 2004.

Three years ago Solution 6 provided its software to about 12,000 users at the top 100 firms, but today, according to Reckon's recent estimates, APS has stolen 6320 users and left 5700 to Solution 6.

The problem facing Solution 6 is the ageing nature of its practice-management software suite. The solution it is working on is to shift its customers to Viztopia — a product

developed in the UK and acquired in 2000 — but few customers were said to have made the move.

But Reckon has been successfully suggesting Solution 6 customers consider APS before shifting to Viztopia.

"Ninety per cent of top 100 firms that have gone into a tendering process have chosen APS," says Wilkinson.

APS customers include KPMG, Deloitte & Touche, BDO and William Buck.

Where Solution 6 and MYOB have maintained the practice-management edge is in the less profitable space below the top 100 firms.

Overall, Solution 6 has a dominant 35,000 users who will combine with MYOB's 7500 users. APS has 9548 users and unlisted rival HandiSoft has about 11,000.

Until APS was acquired by Reckon it was a private company which could not afford to divert resources away from the top-100 firms. With Reckon in control, it is this market that has now been attacked.

This month Reckon has launched Foundation, an integrated practice-management, tax and professional accounting solution aimed at smaller accounting firms.

"The thing for us is that it's now a duopoly," says Wilkinson of MYOB's scrip bid for Solution 6.

But regulators may look closely at this merger.

The Australian Competition and Consumer Commission's merger guidelines warn that an examination of an acquisition will be necessary if

the deal results in the combined market share of the four largest firms being 75 per cent or more of one market and the merged firm supplying at least 15 per cent of the relevant market; or if the merged firm will supply 40 per cent or more of the market.

MYOB will move to a 68 per cent share of the market for supplying practice-management software to accounting firms, combining Solution 6's 56 per cent share with MYOB's 12 per cent share.

The market capitalisation of MYOB if its takeover of Solution 6 proceeds would be roughly \$445 million. In addition, MYOB holds about \$5 million debt. Reckon has a market capitalisation of \$120 million and is debt-free.

MYOB's combination with Solution 6 should place it on a price-earnings multiple of 15.4 times forecast 2006 earnings, on JP Morgan's estimates.

Reckon should earn 9.1¢ a share for 2006, according to Linwar Securities. But if that number is normalised for tax (Reckon has tax credits from losses in previous years), earnings would drop to 6.4¢, which translates to a price-earnings multiple of 13.3.

At the enterprise level (market capitalisation and debt), Reckon is the cheaper of the three companies. MYOB is valued on a multiple of 8.1 times its reported EBITDA (it has a lot of amortisation), while Solution 6 is on 5.4 times and Reckon is on 4.7 times.

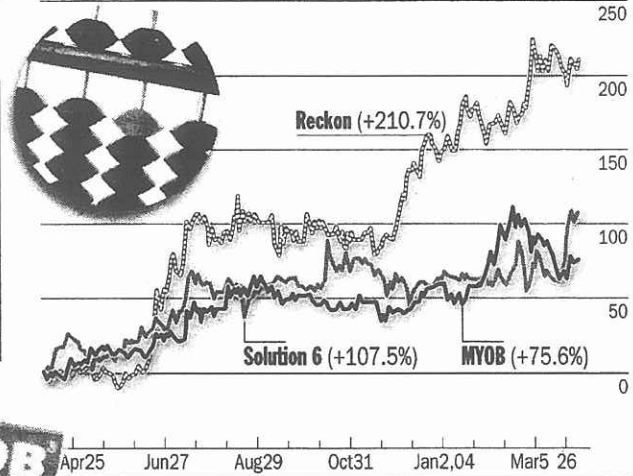
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BEAN COUNTING

Market shares of practice-management software

	Solution 6	Advanced Professional Services	MYOB
Products	Viztopia SOL6 Tax MAS Reporter Assets Investments Super Fund	Advance PM Advance PA Advance PIQ Advance Tax	MYOB Accountants Office MYOB Tax
Users in the top 100 accounting firms	5,700	6,320	387
Total users	35,000	9,548	7,500

Comparative returns Common base (7/4/03)=0



SOLUTION 6

IPS Advanced Professional Solutions

MYOB

Source: Bloomberg, www.quicken.com.au