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CRITERION
with TIM BOREHAM

Reckon (RKN) 90c MYOB (MYO) $1.11

WHEN conversation turns to compliance software for accountants and small businesses, *Criterion* usually feigns a bad case of gastric reflux and leaves the room.

While the topic may leave *Criterion* cold, the two companies vying for sectoral supremacy have been running hot. MYOB shares yesterday soared 9c, or 8.8 per cent, while Reckon stock has crept up from the 75c level since mid-February, a 20 per cent gain.

There's no definitive explanation for yesterday's MYOB hike, which was on low volumes. A likely factor was Schroders' disclosure that it had recently upped its stake from 5.6 per cent to 7.3 per cent.

More broadly, both stocks have much in their favour given the relentless growth of compliance requirements (and thus accountants).

Reckon (which trades as Quicken) and MYOB have been tussling for the hearts and spreadsheets of small business ever since the GST's introduction in 2000.

According to the Australian Bureau of Official Sounding Numbers, 1.1 million small businesses (those employing fewer than 20 people) generate 30 per cent of economic activity.

Governments of all persuasions have flagged their gratitude by constantly changing reporting requirements and "simplifying" tax rules by adding thousands of pages.

Both companies have also expanded into practice management systems for accounting firms. MYOB in April 2004 paid $435 million for Solution 6, while Reckon shelled out $10 million for Advanced Professional Solutions (APS) in December 2003.

This month, Reckon also paid $2.3 million for the tax return software house Elite Tax Technology, which had an existing relationship with APS.

The companies' recently released numbers (for calendar 2005) give the first clear indication as to how they've gone in wooing accountants.

Well, sort of. MYOB claims to have signed up 88 of the top 100 Australian accounting firms, while Reckon's APS claims 50 of the top 100 firms.

Thus, the duo claims a combined uptake of 138 per cent of the market, which injects some arithmetic intrigue into the numbers game.

MYOB reported revenue of $168.2 million, up 39 per cent and "operating EBITDA" of $61 million. So far, so good. But its accounting division went backwards: down 1.8 per cent to $76.8 million.

The smaller Reckon reported a "normalised" net profit of $7 million on revenues of $36 million, up 15 per cent.

APS recorded 26 per cent revenue growth. So while Reckon still draws 65 per cent of revenues from Quicken, APS offers the best short-term growth — at least for the time being.

"The annual market rate of growth in accounting software is typically in the mid to high single digits and there is no reason to expect that this will be any different in 2006," Linwar Securities says in a report.

"However, accounting revenues will slow because there are only so many big accountants to sign up."

A characteristic of both companies' revenues is that they're very reliable: most customers are locked in to long-term contracts.

In December, MYOB spent $2 million on a joint venture company in China to tap into the emerging small business market. This year MYOB expects a $4 million loss as it chases the Chinese dragon.

MYOB's certainly not afraid of Asia: in August it invested in the Malaysian/Singapore supplier UBS Corp, ahead of Malaysia introducing the GST in 2007.

On Linwar's forecasts, MYOB is trading on a multiple of 25 times expected 2006 earnings and 19.7 times in 2007. This compares with Reckon's current-year PE of 13.9, falling to 12.1 next year.

On a global comparison, Reckon's US parent, Intuit, trades on a PE of around 23.

Linwar values Reckon at $1.10 a share. "Some argue that MYOB should trade at a premium because of its greater size and because it owns its software but we disagree," the firm says.

"The smaller size of Reckon means it potentially has greater growth and this is evident in 2006 with earnings per share growth of 30 per cent versus relatively flat EPS growth for MYOB."

Broker Merrill Lynch agrees that Reckon shares look cheap, but values the stock at a less generous 98c.

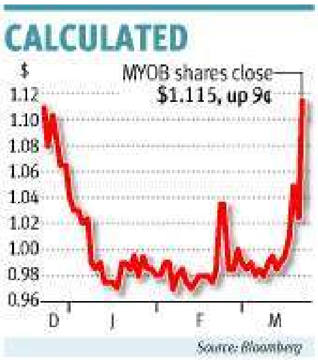
The companies are entering the key May/June selling period, which will separate the boys from the genuine bean-counters.

Reckon reports that Quicken retail sales have risen 28 per cent for the first six weeks of the year.

As yesterday's share spike attests, the closely held MYOB has its fans as well. Macquarie Equities suggests the stock will generate a 14 per cent shareholder return this year, while Aspect Huntley says MYOB has "reasonable growth prospects".

Criterion's view? Both shares look to be safe prospects in an otherwise toppish market. But we must opt for Reckon over MYOB, although MYOB has more offshore potential.

We rate Reckon a **BUY** and MYOB a **HOLD**. That's what we reckon, anyway.



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