



ASX Announcement

14 August 2018

Stronger second half underpins GBST full year results

GBST Holdings Ltd (ASX: GBT), a global provider of technology to the financial services industry through its GBST Composer, GBST Syn~ and GBST Shares platforms, today announced an Operating EBITDA before strategic R&D of \$20.2 million for FY18, underpinned by a stronger revenue performance in the second half.

Key Financial Measures	2HFY18 \$m	1HFY18 \$m	2HFY17 \$m	1HFY17 \$m	FY18 \$m	FY17 \$m
Total revenue and other income	45.6	42.7	42.6	45.4	88.3	88.0
Operating EBITDA before strategic R&D	10.5	9.7	8.9	12.9	20.2	21.8
Less Strategic R&D expenditure	(2.9)	(4.8)	(4.7)	(4.9)	(7.7)	(9.6)
- Gross Strategic R&D expenditure	(9.9)	(4.8)	(4.7)	(4.9)	(14.7)	(9.6)
- Strategic R&D capitalised	7.0	-	-	-	7.0	-
Operating EBITDA	7.7	4.9	4.2	8.0	12.5	12.2
Restructure and other non-operating expenses	(0.1)	(0.3)	(0.2)	-	(0.4)	(0.2)
EBITDA	7.6	4.6	4.0	8.0	12.2	12.0
Profit before income tax	5.8	1.9	0.5	4.6	7.7	5.0
Income tax (expense)\credit	(2.1)	0.6	2.1	(0.2)	(1.5)	2.0
Profit after income tax	3.7	2.5	2.6	4.4	6.2	7.0
Adjusted NPAT (\$m)	4.6	3.6	4.3	6.2	8.2	10.5
Basic EPS (cents)	5.5	3.7	3.8	6.5	9.2	10.3
Adjusted EPS (cents)	6.7	5.3	6.3	9.2	12.0	15.5
Dividends per share (cents)	2.5	2.5	2.5	3.7	5.0	6.2
Cash inflow from operations (\$m)	5.8	5.4	3.3	7.6	11.2	10.9
Cash at bank (\$m)	11.4	15.0	11.7	12.1	11.4	11.7

*To be read in conjunction with the GBST financial report for the period ending 30 June 2018. Please note that due to rounding to the nearest \$million, numbers presented in the table above may not add up precisely to the totals provided.

KEY POINTS FOR FY18 RESULTS

- **Net profit after tax down 10.5% to \$6.2m**

Full year Revenue up marginally, with second half revenue pleasingly up 6.5% from H1FY18

Full year Operating EBITDA before strategic R&D down 7.2% to \$20.2m, with second half of \$10.5m up 9.4% from H1FY18 on the back of higher revenue and cost reductions

Full year Strategic R&D expense of \$7.7m down 19.8% (FY17 \$9.6m), after capitalisation of \$7m in costs in accordance with accounting standards

Net finance income of \$120k, compared to finance cost of \$611k in the prior year

Non-cash investment amortisation costs 45.6% lower at \$1.9m

Income tax expense of \$1.5m for the year primarily reflects derecognition of \$1.5m of Deferred Tax Assets on carry forward tax losses due to the uncertainty of the time period for recoupment of these losses. The prior year recorded an income tax benefit of \$2m

- **Strong operating cash flow generation with 92% conversion of EBITDA to operating cash flow (up from 91% in FY17)**

- **Strong balance sheet with cash on hand of \$11.4m and debt free**

- **Three-year Strategic R&D Program progressing to plan**

Strategic R&D investment strengthens GBST's solutions, with Catalyst now live in the market

Total Strategic R&D investment in FY18 of \$14.7m was on budget, on time and is meeting technical feasibility and progress milestones

Total Strategic R&D investment in FY19 is expected to be approximately \$22m across the portfolio

Costs being expensed or capitalised in accordance with accounting standards (\$7m capitalised in FY18)

- **Final FY18 dividend of 2.5 cents per share fully franked, taking the full year amount to 5 cents per share fully franked, Franking credit balance on hand of \$12.9m**

- **Growth prospects improving, including:**

UK Wealth Management business on a positive growth path

Australian Capital Markets commences new projects and strong pipeline developing

Development and distribution agreements with SBI in Japan and major North American Fintech

- **New AASB15 Revenue standard will impact the company on adoption**

\$1.23m of Licence revenue on smaller non-regulatory dependent software products from FY19 and future years, is expected to be recognised through opening retained earnings on adoption at 1 July 2018, together with a small adjustment related to commission costs

There is not expected to be any significant impact on the recognition of future core product revenues and there will be no impact on cashflows

Commenting on the FY18 result, the Managing Director and CEO Mr Rob DeDominicis said that he was pleased with the momentum across the key financial measures for the second half and GBST had made significant progress on its R&D program with the first key client going live on Catalyst on 27 June 2018.

“While full year earnings were down slightly on FY17, the second half of FY18 was a stronger six months for GBST. During FY18, we reset several aspects of the business including an upgrading of skills and experience in the executive team, organisation and operating model restructuring and improvements to business systems and processes. We also focused on reducing operating costs where possible and all of these things together have put GBST in a much better place to take advantage of future growth opportunities.”

“Catalyst, our new digital and web integration solution has been very well received in the marketplace and is driving significant interest with the E-VOLVE program continuing to meet expectations, the Company’s investment in the Strategic R&D program is yielding positive outcomes,” Mr DeDominicis said.

“Components of our R&D program have been sufficiently progressed to require recognition as an asset on our balance sheet, having met the accounting criteria for capitalisation.

“Our strategic R&D program is on track, meeting technical feasibility milestones, with Catalyst going live and expenditure of \$14.7 million for the year being on expectation.

“We are expecting R&D expenditure on Catalyst to reduce in FY19 while expenditure on E-VOLVE will increase. We expect total expenditure on Strategic R&D for FY19 will be around \$22 million.

“During the year, the Aegon/Cofunds migration created the largest investment platform in the UK and Australian markets. We are proud to be a key technology partner supporting such a significant undertaking by one of our clients.

“We also strengthened our relationship with SBI in Japan and this will help our existing Asia Pacific clients to consolidate their Japanese processing onto their regional platform, providing cost savings and reduced operating risk.

“We are very focused on delivering customer satisfaction and we have just entered a partnership with Investec Click & Invest to provide it with our Composer back office platform to assist them with Personal Pension administration technology.

“FY18 was a record year for client delivery at GBST and we have a strong platform for winning new contracts in FY19 and meeting the needs of our customers. FY18 also included a significant increase in legislative change work that we had to undertake to update our software for changes such as the European Markets in Financial Instruments Directive (MIFIDII) and significantly higher levels of process and reporting changes driven by the ATO and ASIC.”

GBST’s cash generation continues to be positive with operating cash inflows of \$5.8m for the second half, up 9% on the previous 6 months. GBST’s conversion of EBITDA to operating cash during FY2018 was 92% (FY2017: 91%).

DIVISIONAL BREAKDOWN

United Kingdom - Wealth Management

United Kingdom – Wealth Management	2HFY18 \$m	1HFY18 \$m	2HFY17 \$m	1HFY17 \$m	FY18 \$m	FY17 \$m
Revenue	20.9	19.0	16.6	16.0	39.9	32.6
Operating EBITDA before strategic R&D	5.2	4.5	1.4	2.7	9.7	4.1

Key points

- Strong revenue and earnings growth for the division in FY18
- Headwinds from cost of significant legislative changes like MIFIDII in FY18
- UK Wealth Management directly reaping rewards from the investment in Catalyst

UK Wealth Management full year FY18 revenue was up 23% from FY17 while full year operating EBITDA before strategic R&D was up 136% from FY17 reflecting increasing licence revenue in the UK and significant service revenue during the year driven by large projects undertaken in FY18. The FY18 results also included a significant increase in the cost of legislative change work associated with legislative changes like MIFIDII.

Revenue for the second half was \$20.9m, up 10% from the preceding 6 months. Operating EBITDA before strategic R&D of \$5.2m was up 15% from the preceding 6 months.

During the year, the Aegon/Cofunds migration made it the largest investment platform in the UK and Australian markets. GBST now supports 1.8 million accounts which represents approximately £120bn of assets under management.

In May, GBST helped to launch Vitality Invest in under 12 months of development, delivering both an innovative front and back-office solution integrated into Vitality's existing systems utilising Catalyst.

During the year GBST commenced work with Investec Wealth & Asset Management, one of the top 3 UK Wealth Managers by assets under management to help power their new retirement proposition for their direct-to-consumer brand 'Click & Invest'. As part of this project, GBST is delivering its Composer back-office solution along with several calculation and digital support capabilities to help fast-track the web build for Investec.

GBST also won a new client project with Retirement Advantage (a subsidiary of Canada Life) to launch a new retirement proposition extending their retirement account service accommodating several specific features and access to their fund range. The launch is scheduled for November 2018.

GBST also extended the contractual relationship with Just Retirement for a further 5 years in the second half of FY18. This included a wider scope of services such as GBST providing a managed service offering and business support consultancy services.

Australia – Wealth Management

Australia – Wealth Management	2HFY18 \$m	1HFY18 \$m	2HFY17 \$m	1HFY17 \$m	FY18 \$m	FY17 \$m
Revenue	8.4	7.0	7.5	9.0	15.5	16.5
Operating EBITDA before strategic R&D	3.1	2.5	3.7	4.8	5.6	8.5

Key points

- Revenue and earnings declined in FY18 after the loss of a large client at the beginning of FY17
- Significantly higher levels of process and reporting changes driven by the ATO and ASIC increased costs in FY18 - in the first half in particular
- FY18 was a challenging year for the Australian Wealth Management division, but revenues and earnings have started to lift in the second half of FY18

The Australian Wealth Management division recorded a 7% drop in full year revenue and a 34% drop in full year Operating EBITDA before strategic R&D driven by the loss of a Wealth Management client from the beginning of FY17 and increased investment in mandatory regulatory legislation capability during FY18.

The division recorded a 20% increase in revenue during the second half to \$8.4m. Correspondingly, operating EBITDA before strategic R&D increased 23% in the second half with profit growing faster than revenue due to reductions in investment in legislative changes in the second half of FY18.

The new GBST Tax Analyser product was developed for the Australian Superannuation and Funds Management market to provide a flexible taxation solution for pre and post trade investment taxation calculations and reporting, including the ability to cater for trust level tax optimisation. It will now cater for the recent pension legislative changes dealing with the 'transfer cap rules'.

The Qantas Superannuation Fund went live recently as the first user of our digital platform for custodians, their clients and tax advisers to be able to collate and validate data from multiple sources for calculating and producing the investment tax results needed by superannuation funds to include in their tax returns. These returns can now be submitted directly to the ATO, leveraging GBST's existing framework developed for our Superstream Gateway.

Two new Tax Analyser clients were won during the year that will start to contribute positively towards recurring licence revenue in FY19.

Australia – Capital Markets

Australia – Capital Markets	2HFY18	1HFY18	2HFY17	1HFY17	FY18	FY17
	\$m	\$m	\$m	\$m	\$m	\$m
Revenue	10.7	10.6	11.1	13.8	21.2	24.9
Operating EBITDA before strategic R&D	2.2	1.8	2.8	4.7	4.0	7.5

Key points

- Revenue and earnings declined in FY18 after the loss of a large Capital Markets client group at the beginning of FY17
- Operating costs were higher in FY18 - in particular due to higher support costs for a large Syn~ client implementation during the first half
- FY18 was a challenging year for the Australian Capital Markets division, but earnings have started to lift in the second half of FY18 as operating costs have reduced back to more normal levels

As reported last year, the loss of a large Capital Markets client resulted in a 15% fall in full year revenue and a 47% fall in full year Operating EBITDA before Strategic R&D for Australian Capital Markets in FY18.

The division recorded a small increase in revenue during the second half to \$10.7m and Operating EBITDA before strategic R&D increased 28% in the second half to \$2.2m as a result of client support cost reductions. The FY18 first half costs had included supporting the rollout of Syn~ to a major new client while the second half of FY18 resulted in this support cost returning to normal levels.

This same newly implemented Syn~ client recorded the single largest day's trading volume of any broker in ASX history during market volatility events early in calendar year 2018, demonstrating the robustness and scalability of GBST's Capital Markets Syn~ platform.

More recently, over one weekend, one of GBST's other large Capital Markets clients successfully completed the single largest HIN (holder identification number) transfer in ASX history, demonstrating GBST's reputation of delivering for its clients.

GBST still maintains the dominant market share of CHESS connectivity at approximately 60% of equity transactions.

The Australian Capital Markets business continues to attract new customers and has a strong pipeline of similar client prospects ahead.

The company remains confident about growth prospects in capital markets in Australia and will continue to concentrate on expanding Business Process Outsourcing opportunities and strategic R&D mobilisation.

Rest of the World – Capital Markets

Rest of the World – Capital Markets	2HFY18 \$m	1HFY18 \$m	2HFY17 \$m	1HFY17 \$m	FY18 \$m	FY17 \$m
Revenue	5.4	6.1	7.2	6.4	11.5	13.6
Operating EBITDA before strategic R&D	-	0.9	0.9	0.7	0.9	1.6

Key points

- Revenue declined in FY18 due to reduced service revenue from less project work in Asia Pacific and the USA
- Licence revenue increased 26% year on year
- New distribution agreements signed during FY18 open potential new markets for the division

Rest of the World – Capital Markets recorded a 16% drop in full year revenue and 45% drop in full year Operating EBITDA before strategic R&D in FY18. While Licence revenue was up 26% year on year in the division, service revenue was down 49% driven by reduced project work in Asia Pacific and the USA.

The division recorded revenue of \$5.4m for the second half, down \$0.7m from the preceding 6 months, largely due to the H1FY18 including a once-off licence payment.

Accordingly, the division's operating EBITDA before strategic R&D decreased to breakeven for the half. Highlights during the year included the execution of a distribution licence with Japanese financial technology company SBI BITS.

SBI BITS will use GBST's Syn~ technology as the back-bone for its back-office processing solution both in Japan and across Asia-Pacific. It has established a significant development capability to work with GBST in extending the platform capabilities across the Japanese requirements for regulatory reporting, retail and institutional clearing and settlement and local market connectivity.

SBI, which has a market cap of around USD \$4.48 billion, will provide Syn~ access to a significant number of participants in the Japanese market, including its own SBI Securities division, the largest online broker in Japan.

During the year, GBST also implemented a new Syn~ Custody back-office platform for China Merchants Bank (CMB) which has been configured especially for CMB operations and is highly automated, receiving SWIFT messages and other instruction files from CMB clients. This builds on the success of the Syn~ deployment with a European Investment Bank in Australia.

GBST also signed a distribution agreement with FIS, a major North American financial technology company to white-label and distribute Syn~ as a component of their key product suites.

New Accounting Standard for Revenue

As detailed in GBST's Financial Report, the new revenue accounting standard (AASB 15) must be implemented in FY19 with transitional provisions applying to incomplete contracts spanning 30 June 2018. From an assessment of all contracts, GBST has determined an increase in opening

retained earnings of \$1.57m pre-tax will be required on 1 July 2018. This comprises the up-front recognition of \$1.23m relating to Licence revenues for smaller non-regulatory dependent software products that would otherwise have been recognised in FY19 and beyond, and the capitalisation of \$0.34m of prepaid commission costs under the new standard's requirements for the treatment of incremental pre-sales costs. It is not possible to accurately determine the net impact of the standard on FY19 or future earnings as these adjustments will be offset by revenues recognised earlier on unknown new contracts written in the future. Importantly, the new standard is not expected to have any significant impact on revenue recognition for contracts relating to our largest core platform products, including Composer, Syn~ and Shares, and will not impact cash flows.

Balance sheet and cash flow

The Group has reported a strong closing cash position with \$11.4m cash on hand at 30 June 2018, down slightly from \$11.7m at 30 June 2017 but after having paid for the uplift in spending on the Strategic R&D program during the year (to \$14.7m) and dividends paid to shareholders during the year (\$3.4m).

Cash inflow from operations was \$11.2m for the year, up \$0.3m from \$10.9m in FY17. Cash inflow from operations represents a 92% conversion of EBITDA to cash (FY17: 91%).

The net assets of the Group increased by \$3.8m during the year to \$68.7m. GBST has no debt.

Final dividend

The Board has declared a final dividend of 2.5 cents per share fully franked. This is equivalent to the 2.5 cents per share fully franked interim dividend which was declared in February 2018.

- Ends -

Investor Call

The results will be presented by GBST CEO & Managing Director, Robert DeDominicis, and Chief Financial Officer, Gareth Turner, on an investor and analyst briefing call at 10:00am AEST on 14 August 2018. The conference call number for Australian investors is 1800 804 595 (international +61 3 8687 0650). Please complete the registration process with the call operator.

About GBST

GBST is a specialist financial technology company which provides administration and transaction processing software for retail wealth management organisations and global and regional investment banks. Founded in 1983, the company operates in Australia, Asia, Europe and North America. GBST is listed on the Australian Securities Exchange under ASX ticker code GBT.

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