19 February 2019
ASX / Media Release

Mainstream Group Holdings Limited interim results for the half year ended 31 December 2018

Mainstream Group Holdings Limited group (ASX: MAI) today announced its results for the six months ended 31 December 2018 (HY19).

Highlights

- Revenue of $24.9 million (up 32% from HY18)
- EBITDA of $3.6 million (up 20% from HY18)
- NPAT of $0.2 million (down 76% from HY18)
- $8.3 billion in fund flows in challenging market conditions. Funds under administration now $147 billion (up 10% from HY18 and 6% from FY18)
- Interim dividend of 0.75 cents per share (100% franked at a corporate tax rate of 27.5%)
- On track to deliver revenue of $50 million to $55 million and EBITDA of $7.5 million to $9.0 million for FY19

Results summary

	Six months to 31 Dec 2018	Six months to 31 Dec 2017	Change
Revenue	**$24.9m**	$19.0m	+32%
Operating EBITDA*	**$6.0m**	$4.9m	+22%
Operating EBITDA Margin (%)	**23.5%**	25.8%	-9%
EBITDA	**$3.6m**	$3.0m	+20%
EBITDA Margin (%)	**14.4%**	15.9%	-9%
Total Dividend per Share	**0.75cps**	0.5cps	+50%
EPS - basic	**$0.0019**	$0.0092	-79%

The below table reconciles Mainstream's net profit after income tax of $0.2m to its EBITDA of $3.6m for the six months ended 31 December 2018 compared to the prior corresponding period.

	Six months to 31 Dec 2018 $ (000's)	Six months to 31 Dec 2017 $ (000's)
Profit after income tax expense	**229**	954
Add:		
Income Tax Expense	58	201
Amortisation and depreciation expense	1,847	669
Interest expense	230	647
Share-based payments expense	1,227	532
EBITDA	**3,591**	3,003
Acquisition costs	**34**	207
Transition costs^	**112**	270
Private Equity growth costs**	**554**	-

Normalised EBITDA	**4,291**	3,480
Full period effect of Acquisitions	**-**	282
Proforma EBITDA^^	**4,291**	3,762

**Operating EBITDA is not an IFRS standard and is used to highlight Operating Margin before Corporate Costs.*
^ Includes transition and global operating model costs.
*** Includes funding of a start-up Private Equity fund administration business to gain foothold in in US markets.*
^^ Proforma EBITDA is not an IFRS standard and is used to highlight notional EBITDA with expected full period effect of Acquisitions and organic growth initiatives.

Strong increases in revenue and EBITDA were driven by organic growth as well as the full period impact of the Trinity Fund Administration and IRESS' superannuation administration businesses acquired in late 2017. The Group spent $4.1 million on technology during the period, including $3.4 million on IT expenditure, $0.4 million on IT capitalisation and $0.3 million on automation and client reporting projects. This reflects Mainstream's ongoing investment in automation, regulatory compliance and client experience. The Group also invested in a secondary site for Sydney for business continuity and growth purposes.

Net profit after tax was impacted in the reporting period due to an acceleration of amortisation and increased share based payment expenses to incentivise organic growth.

Funds under administration rose 6% in challenging market conditions during the half year to $147 billion, up from $138 billion as at 30 June 2018. Inflows of $8.3 billion in the reporting period were driven by key clients' investment performance and new inflows as well as the onboarding of new private equity funds as part of the Group's geographic expansion in the USA.

Over the same period, the number of funds administered grew from 815 to 921 and the number of clients increased from 343 to 368.

Commenting on the results, Mainstream Chief Executive Officer Martin Smith said "Our results for the half year reflect continued execution of our growth strategy alongside ongoing investment in our technology and key client relationships. We expect to see further benefits from our scale and improved operational processes in the second half of the year.

"While a key superannuation client merged with another fund during the period, any lost revenue is expected to be more than offset by transition and exit fees in the short term and growth in our US private equity fund administration and Australian custody businesses over the longer term. We have accelerated the amortisation of intangible assets relating to our superannuation administration business."

Dividend

The Board has declared an interim fully franked dividend of 0.75 cents per share for shareholders on record at 28 February 2019. The dividend will be 100% franked at a corporate tax rate of 27.5% and will be paid on 18 April 2019. Mainstream's Dividend Reinvestment Plan will be available with a 5% discount for participating eligible shareholders.

Capital raise update

In September and October 2018 Mainstream raised $10.3 million via a placement to professional and sophisticated investors and a Share Purchase Plan. The proceeds are now funding the following initiatives:

- **Custody** regulatory capital – Mainstream has topped up its regulatory capital to $10m in order to upgrade its 'incidental' custody service in order to offer fund managers a competitive alternative to traditional custodians in Australia's $3.6 trillion custody market. On the back of a strong pipeline of new and existing clients Mainstream's assets under custody increased by 24% in the six month period to 31 December 2018 to $4.6 billion across 66 clients.

- **US expansion** – Mainstream has expanded its US operations by hiring additional business development employees and opening a processing centre in Indiana. The enlarged team is focused on administering funds in the US's $4.7 trillion private equity, venture capital and real estate fund market, complementing Mainstream's existing US hedge fund administration business acquired in 2016. Under the leadership of Jay Maher, CEO, Private Equity, Venture Capital and Real Estate, the team onboarded 40 new funds in the six months to 31 December 2018, growing Mainstream's funds under administration in the sector to $3.9 billion with a strong pipeline into calendar year 2019.

- **Mainstream Digital** – Mainstream is four months into a two year development of a proprietary wealth management platform, 'Mainstream Digital', including in-house development of online transacting with web-based security authentication, account maintenance and investor on-boarding. Mainstream has secured a foundation client for its Separately Managed Account (SMA) and launched an online application that enables managed fund investors to complete their initial application online.

- **Working capital** – The Capital Raise strengthened Mainstream's balance sheet and contributed to a reduction in the Company's ANZ debt facility to $7 million as at 1 February 2019, down from $11 million 12 months ago.

Outlook and guidance

Mainstream confirms it is on track to deliver its previously advised revenue guidance of approximately $50 million to $55 million and EBITDA guidance of approximately $7.5 million to $9 million for FY19. Mr Smith advised that this guidance is sensitive to further investments in operating capability and is supported by continued client growth.

"We are pleased with the progress of our business and have good earnings momentum as we consolidate our strong position in our core business of fund administration as well as expand into higher margin businesses such as custody and digital platforms. In addition we continue to assess a pipeline of strategic acquisition and 'lift and shift' opportunities in our key markets. In January we completed the transition of a $5 billion fund manager to our fund administration services and we believe Mainstream is well placed to capture further opportunities within the markets we operate in." said Mr Smith.

For more information

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About Mainstream

Mainstream Group Holdings Limited (ASX: MAI) provides fund and superannuation administration services underpinned by investment in people, processes and technology.

As at December 2018 the Group provides administration services to 921 funds and more than 104,000 investors with assets under administration in excess of AUD $147 billion.

Mainstream employs 256 people, with operations in Australia, Singapore, Hong Kong, the United States, the Isle of Man, Malta, Ireland and the Cayman Islands.

For more information, please visit: www.mainstreamgroup.com.