Mainstream Group Holdings Limited (ASX: MAI)

Results for the half year ended 31 December 2018

Released on 19 February 2019

MAINSTREAM

HY19 highlights

Revenue	EBITDA	NPAT
$24.9m	**$3.6m**	**$0.2m**
▲32% on HY18	▲20% on HY18	▼76% on HY18

Funds under administration	Funds administered	Interim dividend
$147bn	**921**	**0.75cps***
▲10% on HY18	▲19% on HY18	▲50% on HY18

- Organic growth is the focus of continued revenue and earnings growth
- Adoption of accelerated amortisation and higher Share Based Payments impacted NPAT
- Investing in new growth opportunities and digital capability to support our clients
- Focused on delivering shareholder returns, financial results and growth

*Fully franked at a corporate tax rate of 27.5%.

Financial highlights

Underlying results reflect momentum in our business

	HY19 statutory	HY18^	Growth (%)
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%
PBT	$0.3m	$1.2m	↓ 75%
Dividend per share (DPS)	0.75cps	0.5cps	↑ 50%
Earnings per share (EPS) –basic	$0.0019	$0.0092	↓ 79%

* Operating EBITDA is a non-IFRS financial measure used to highlight the operating performance of the Group. EBITDA is calculated as earnings before interest financing expense, tax, depreciation, amortisation and share based payments.
** EBITDA is not an IFRS standard and is used to highlight Operating Margin before Corporate Costs.
^ HY18 statutory earnings included 3 months from Trinity and 2 months from IRESS acquisitions.

Reciliation of Financial Statements to adjusted returns

› Table shows EBITDA adjusted for one-off costs to support organic growth

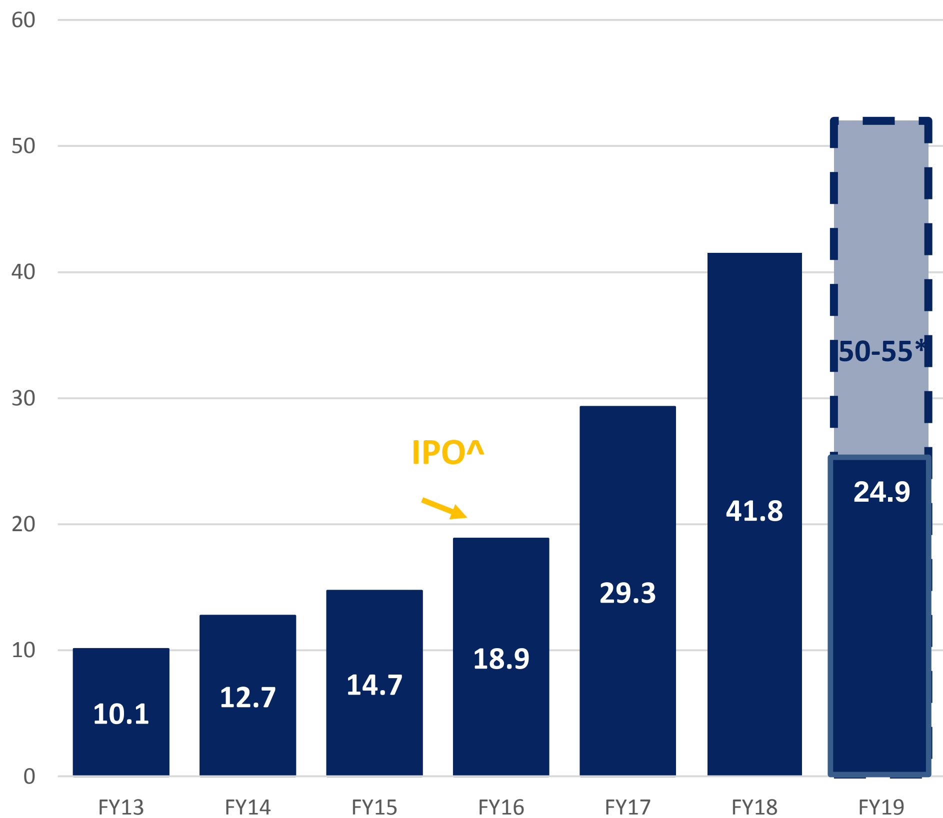
$ 000's	HY19	HY18
Profit after income tax expense	229	954
Add:		
Income Tax Expense	58	201
Depreciation expense	593	345
Amortisation	1,254	324
Interest expense	230	647
Share-based payments expense	1,227	532
EBITDA	**3,591**	**3,003**
Acquisition costs	34	207
Transition costs*	112	270
Private Equity growth costs^	554	-
Normalised EBITDA	**4,291**	**3,480**
Full period effect of Acquisitions	-	282
Proforma EBITDA**	**4,291**	**3,762**

* 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.

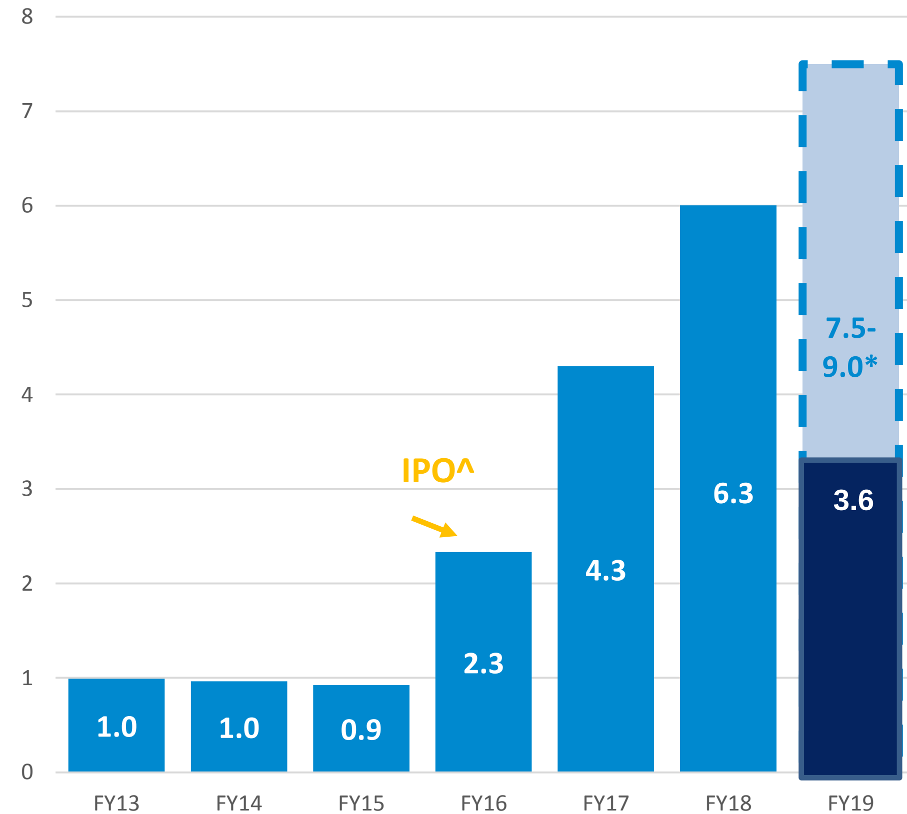
Strong financial track record

› **High organic growth underpinned by inflows into wealth management industry**

Revenue ($m)



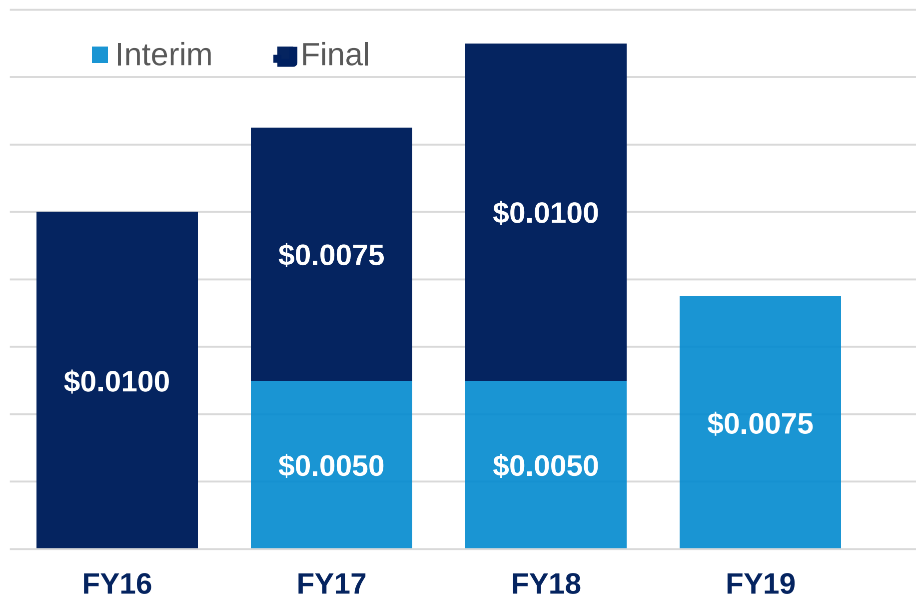
EBITDA ($m)



^ Initial Public Offering: 1 October 2015.
* FY19 forecast to 30 June 2019.

Dividends

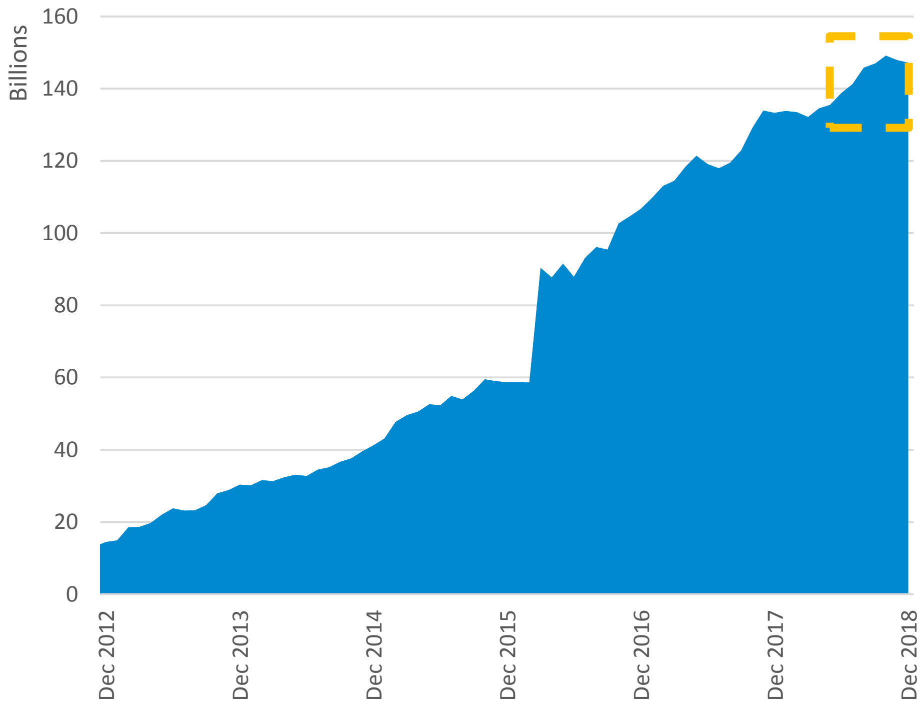
› **Growth focused company that rewards shareholders with fully franked dividends**

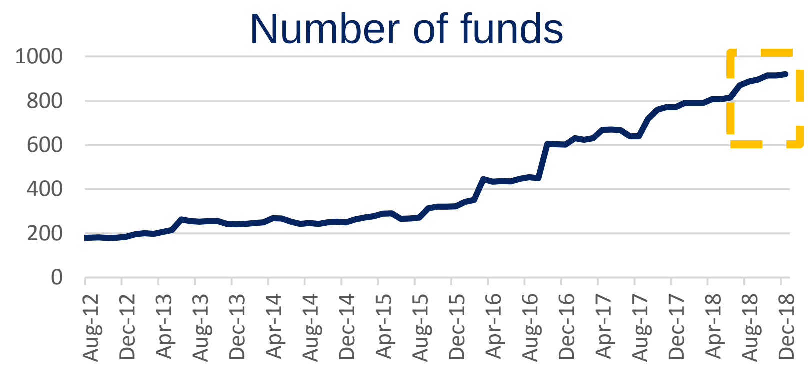


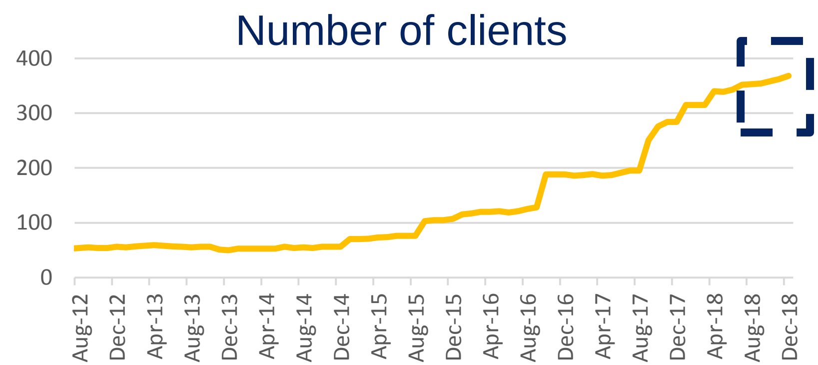
Dividend per Share (cents per share)	1.0	1.3	1.5	0.75
Franking level	100%	100%	100%	100%

Funds under administration (FUA) continues to grow

- **$8.3 billion inflows in HY19**
  - Record number of clients and funds administered in all regions
  - General market declines offset by growth in hedge and private equity (PE) businesses
  - 106 new funds driven by onboarding of 40 new PE funds and 29 new custody funds







Global operating model

- Expanding footprint in US to provide private equity clients with competitive alternative administration solution
- Investment in second Sydney site (Chatswood) for business continuity and expansion

A$147 billion

funds under administration (FUA)

921 funds

funds

104,000

investors

256

employees

Mainstream offices

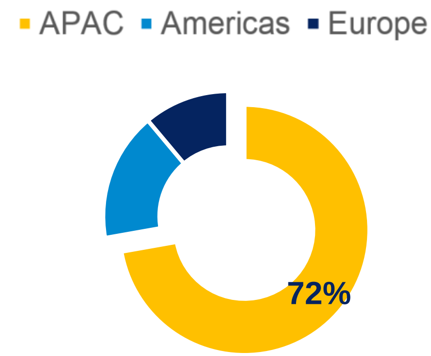
MAINSTREAM

Regional highlights

Region | **Update** | **% of Group revenue**

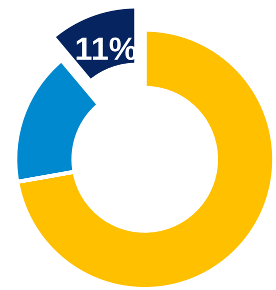
APAC

- HY19 revenue was $18m (HY18: $15m)
- 50 new funds onboarded in HY19 including Australian manager with $1 billion funds under management
- Record number of new clients and funds
- Strong demand for custody services expected to offset loss of key super admin client
- Andy Harrison hired to run Australian Fund Services business
- Seed investor sourced for Separately Managed Account solution
- Investment in digital platform and Chatswood business continuity site

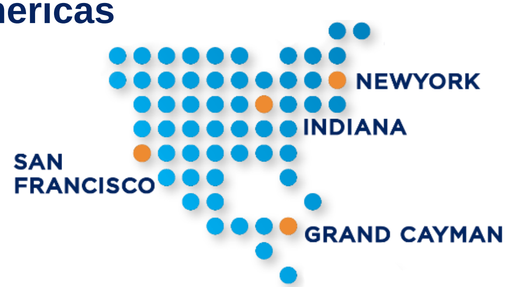


Europe

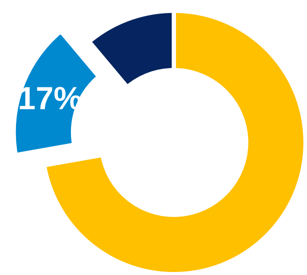
- HY19 revenue was $3.2m (HY18: $1.9m)
- 14 new funds onboarded in HY19
- Result improved by full period recognition of Dublin/Cayman business acquired October 2018
- Focus on Ireland migrating to PFS-Paxus technology platform
- Limited exposure to Brexit
- ‘Watching brief’ on possible Luxembourg market entry



Americas



- HY19 revenue was $4.2m (HY18: $2.3m)
- 66 new funds onboarded in HY19, primarily in private equity
- Significant build-out of Private Equity team with operations based in Indiana and sales teams on the East and West coasts
- Good take-up of anti-money laundering outsourcing solution for Cayman funds



Capital Raise update

- $10.3m raised via private placement (Sep 2018) and Share Purchase Plan (Oct 2018)
- Laying foundations for future growth

STRATEGIC INITIATIVE	UPDATE
Custody regulatory capital	› From October 2018 onwards Mainstream has been able to meet regulatory capital requirement for standalone service › $4.6 billion in assets under custody, an increase of 24%, or 29 funds, in HY19 › High margin business with strong pipeline of new and existing clients in Australia's $3.6 trillion custody market
Mainstream Digital	› Four months into two year development of proprietary wealth management platform › Foundation client secured for Separately Managed Account and Responsible Entity appointed › Launched application for investors to complete their initial managed fund application online › In-house development for online transacting in progress
US expansion	› Recruited experienced management team with combined experience of 80+ years in PE fund operations › Opened offices in NYC and Indiana; resources in California and Texas to gain footholds in key markets › Signed 40 new funds in FY19 with FuA up 266% in HY19 to $2.8 billion
Working capital	› Strengthened balance sheet › ANZ debt facility reduced to $7 million (as at 1 Feb 2019)

Industry trends

Mainstream is well placed to benefit from trend towards further outsourcing

	Regulation	Outsourcing	Technology	Innovation
Market drivers	• Continually evolving and increasingly complex • Significant administration burden	• Pressure from investors to remain cost competitive	• Increased focus on data security • Control over proprietary software	• Clients require access to broad array of specialist cross-border services • Continued investment required to keep pace
Mainstream's competitive advantage	• Implementation cost shared across all clients	• Competitive advantage through Mainstream's unique 'lift and shift' approach • Clients benefit from scale and market based pricing	• Operating scale allows costs to be dispersed across clients	• Opportunity for higher margin services • Agility to meet market demands

Closing remarks and outlook

Resilience in challenging market conditions

- $8.3 billion net inflows during volatile global markets
- Administration services diversified across regions and investment products (long only, hedge, private equity)

Acceleration of strategic priorities through successful Capital Raise

- High margin custody and private equity services leading source of new clients in HY19
- Investing in high organic growth opportunities

Positive outlook for FY19 and beyond

- Transition of $5 billion FUM manager completed Jan 2019
- Continuing to evaluate accretive strategic acquisition / 'lift and shift' opportunities

We reiterate FY19 guidance of $50m to $55m revenue and $7.5m to $9.0m EBITDA

- Guidance is sensitive to investments in operating capability and is supported by continued client growth

Appendices

Appendix 1: Mainstream's business units

MAINSTREAM GROUP HOLDINGS

Business units	Fund Services		
Markets	**Asia Pacific**	**Europe**	**Americas**
	› Australia › Hong Kong › Singapore	› Ireland › Isle of Man › Malta	› USA › Cayman Islands

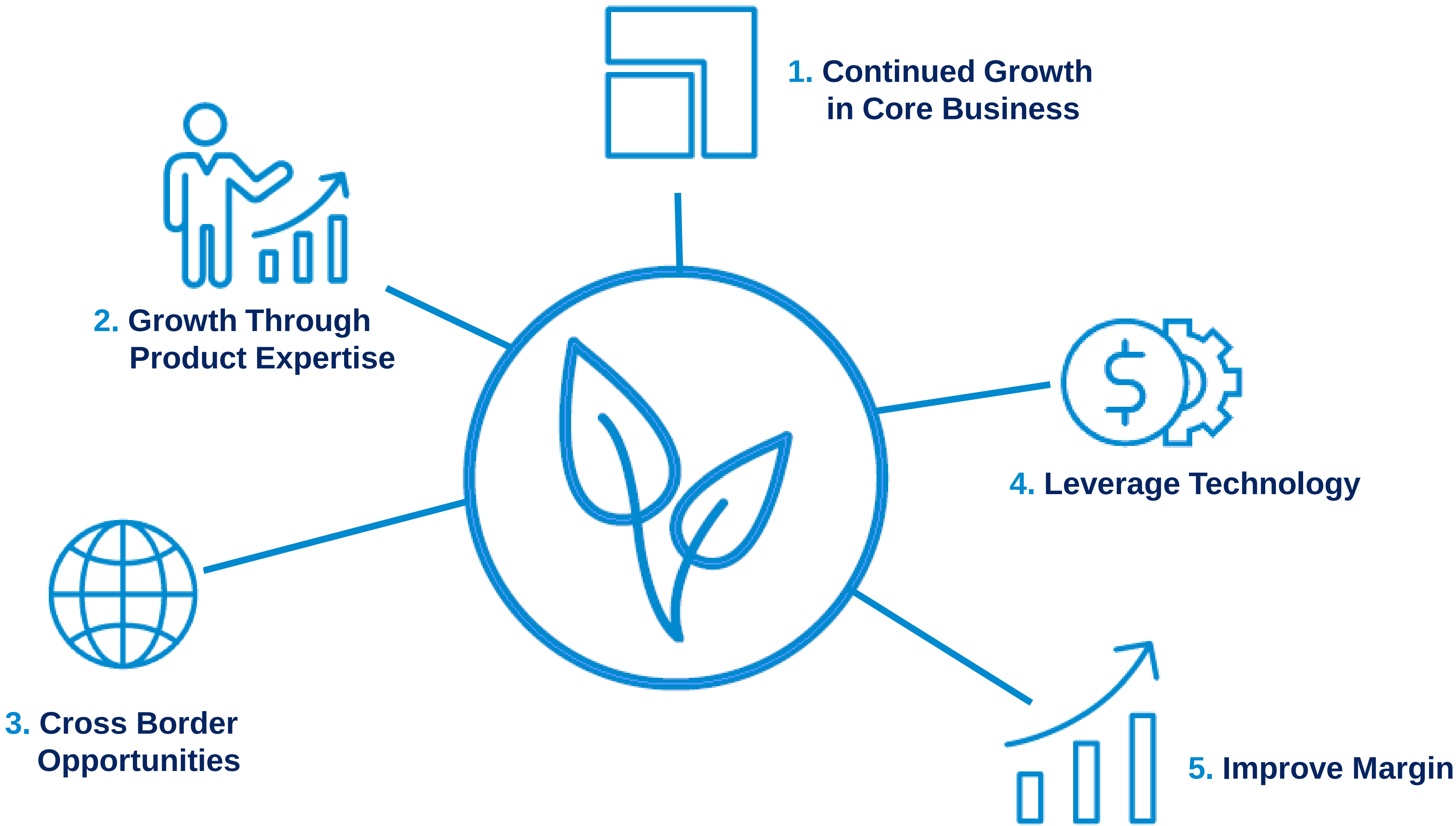
Key services: Full service fund administration, unit registry, middle office, corporate services, member administration

Investment strategies: Listed and unlisted investment funds including managed funds, hedge funds, managed accounts, private equity, superannuation funds

Appendix 2: Mainstream's services

Fund type	Products we service	Services available	
TRADITIONAL	**Managed funds, Superannuation funds**	› Fund administration › Fund accounting › Unit registry	› Custody › Performance reporting › Trade management › FATCA & CRS
HEDGE	**Hedge funds**	› Fund administration › Transfer agency › Regulatory reporting › Registered office services	› Company secretarial services › Fund formation › Middle office › FATCS & CRS
PRIVATE EQUITY	**Private equity, Venture capital, Real estate**	› Fund launch › Portfolio company & real asset services › Investor services › Tax audit & compliance › Manager & investor web portals	› Capital calls › Financial statements › Fee calculations › Waterfall modelling › Distributions › Investor reporting › Management reporting
LISTED	**ETFs, LITs, LICs mFunds**	› Investment administration (NAVs & PCFs) › Fund accounting	› Listed registry › Post-trade compliance & trade matching
PLATFORM	**Managed accounts, SMA, Cayman investment fund platform, Super trustee platform**	› Fund administration & accounting › Investor / member services	› Market data & pricing › Trade matching › Client reporting

Appendix 3: Growth strategy



Appendix 4: Balance sheet

Highlights

- Balance sheet strengthened by Capital Raise
- ANZ debt facility reduced by $2m to $7m (post reporting period)

$m	HY19	FY18
Current assets	21.8	13.0
Non-current assets	30.5	30.9
Total assets	**52.3**	**43.9**
Current liabilities	7.6	9.4
Non-current liabilities	7.9	9.1
Total liabilities	**15.5**	**18.5**
Net assets	36.8	25.4
Equity	**36.8**	**25.4**

Appendix 5: Share Based Payments

Highlights

- Issued in consideration of achieving organic growth targets rather than funding further acquisitions

$ 000's	Performance hurdle	HY19	HY18
Employee Share Offer	N/A*	104	91
Long Term Incentive plan^	KPI achievement / EPS hurdles	169	195
Short Term Incentive plan	KPI achievement	954	246
Total Share Based Payment expenses		**1,227**	**532**

* Eligible Employees are granted $2,000 worth of shares for nil consideration in order to encourage share ownership and participate in the Company's success.
^ Includes payments under the legacy Director Share Offer (DSO) and Senior Management Share Offer (SMSO). For FY19 onward this has been renamed the Long Term Incentive plan.

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