20 August 2019
ASX Announcement

Mainstream Group Holdings Limited final results for the year ended 30 June 2019

Mainstream Group Holdings Limited (ASX: MAI) today announced its results for the year ended 30 June 2019 (FY19).

Highlights

- Revenue of $50.0 million (up 21% from FY18), all derived from organic growth
- EBITDA[1] of $7.4 million (up 17%)
- Final dividend declared of 0.5 cents per share, 50% franked
- Strong outlook to deliver revenue and EBITDA growth for FY20

Funds under Administration highlights

Funds under Administration (FuA) rose 24% during the full year to $173 billion (FY18: $138 billion). All of FY19 FuA growth was from organic sources (FY18: 86% organic; 14% acquisitions). The $34 billion increase in FuA was attributable to market movements (50%) and net inflows[2] (50%). The number of funds administered grew to 1,012 (FY18: 815) in variable market conditions. Global client numbers rose to 356 (FY18: 315), with small fund exits and mergers more than offset by new clients.

Results summary

	FY19	**FY18**	Change
	$m	**$m**	
Revenue	**50.0**	**41.4**[3]	+21%
Operating EBITDA[4]	**11.7**	**10.5**	+11%
Operating EBITDA Margin (%)	**23.0%**	**25.5%**	-10%
EBITDA	**7.4**	**6.4**	+17%
EBITDA Margin (%)	**14.9%**	**15.4%**	-3%
Total Dividends per Share	**1.25cps**	**1.5cps**	-17%

[1] 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, impairment and share based payments.

[2] Net inflows refers to applications and new clients less redemptions, cash distributions and lost clients.

[3] Restated down by $0.4m from prior year due to overstatement of revenue and expense between two subsidiaries.

[4] Operating EBITDA is not an IFRS standard and is used to highlight Operating Margin before Corporate Costs.

The following table reconciles Mainstream's net loss after income tax of $1.1 million to its EBITDA of $7.4 million for the twelve months ended 30 June 2019 compared to the prior corresponding period.

	FY19 $ (000's)	FY18 $ (000's)
Profit after income tax expense	**-1,140**	**1,739**
Add:		
Income tax expense	686	898
Amortisation expense	1,647	647
Depreciation expense	1,281	826
Interest expense	418	935
Share-based payments expense	1,697	1,309
Goodwill impairment	2,847	-
EBITDA	**7,436**	**6,354**

Business update

28% of annual revenue was generated outside of Mainstream's traditional Asia-Pacific market (FY18: 24%), reflecting the successful implementation of the Group's global operating model and diversified service offering across different markets and asset classes. Further, 66% of the Group's EBITDA was derived from our offshore businesses.

The $10.3 million Capital Raise during FY19 is being used to fund custody regulatory capital, expansion of US sales operations and upgrades to Mainstream's digital presence.

As a highlight, Mainstream's private equity administration business grew by AUD $4.5 billion and 76 funds during FY19 and funds under custody reached $5 billion with 48 funds added since launching as a full service custodian in October 2019.

Mainstream invested $8.3 million on technology, data and automation in FY19 (FY18: $8.2 million). Additions included IT expenditure on new product for a key client, and technology upgrades to improve processing efficiency and comply with legislative changes. Examples include upgrades to HiTrust and Composer software, workflow enhancements, SLA reporting, automated client reporting, investor portal development and development of an online application for new investor onboarding.

During the period Mainstream launched a Separately Managed Account (SMA) fund to supplement our existing managed account service and move into product infrastructure.

Strategic Review update

Mainstream has three core service offerings, in fund administration, custody and superannuation administration.

Mainstream Fund Services, which includes fund administration and custody, contributed 92% of the Group's FY19 revenue and the Board maintains a strong outlook for this business.

Mainstream Superannuation Services contributed the balance (8%) of Mainstream's FY19 revenue. It underperformed during the period due to client losses through fund mergers and regulatory changes. It is expected to contribute less than 2% of revenue in FY20.

Given ongoing consolidation and disruption in the superannuation industry, the Board has conducted a strategic review of Superannuation Services and has elected to integrate its operations into Fund Services and change its strategy from focusing on industry fund member administration to growing Mainstream's public offer superannuation fund as a complementary service to Mainstream's SMA fund. As a result Mainstream's Melbourne office is closing and its superannuation operations are in the process of being relocated to Sydney with $0.3 million of associated restructure costs in FY19.

Mainstream has recognised a non cash impairment of $2.8 million reflecting the reduction in value of the Superannuation business. The impact of this one off non-cash impairment is reflected in the financial statements.

Dividend

The Directors declared total dividends of 1.25 cents for the year ended 30 June 2019:

- A final dividend per share of 0.50 cents, 50% franked at a corporate tax rate for imputation purposes of 30%, payable on 20 September 2019 (FY18: 1.0 cent per share, 100% franked at a corporate tax rate for imputation purposes of 27.5%).
- An interim dividend per share of 0.75 cents, 100% franked at a corporate tax rate for imputation purposes of 27.5%, was paid on 18 April 2019 (FY18: 0.50 cents per share, 100% franked at a corporate tax rate for imputation purposes of 30%).

The move to partial franking reflects the growing contribution of Mainstream's offshore operations.

Outlook

The Company has issued FY20 market guidance of:

- Revenue of approximately $55 million, and
- EBITDA of approximately $8 million (before application of AASB 16 Leases).

The Group also expects to continue with capital expenditure on key client projects for future products and technology upgrades to improve processing efficiency and comply with legislative changes. This guidance is sensitive to key client wins or losses and material market or interest rate movements.

Commenting on the results, Mainstream Chief Executive Officer Martin Smith said "We are pleased by the growth of our core fund services business during the year, especially in our private equity and custody operations. The non-cash impairment in our accounts reflects the actions we have taken to address challenges in our superannuation business and shouldn't overshadow a strong underlying performance and strong growth outlook. We are well positioned for further organic growth and will continue to invest in global business development, key client projects, technology upgrades and compliance." said Mr Smith.

For more information

Alicia Gill
Head of Marketing and Company Secretary
Mainstream Group Holdings Limited
agill@mainstreamgroup.com
T +61 2 8259 8859

About Mainstream Group Holdings

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

As at June 2019 the Group provides administration services to 1,012 funds and more than 101,000 investors with funds under administration of AUD $173 billion.

Mainstream employs 259 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.