Mainstream Group Holdings Limited (ASX: MAI)

Results for the full year ended 30 June 2019

Released on 20 August 2019

MAINSTREAM

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BUSINESS HIGHLIGHTS

Local expertise, global reach

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

Operating model delivers geographic, product and client diversity relative to peers.

Our history

Funds administration company founded in 2006

ASX listed in 2015 to support Asia-Pacific growth

Offices in Australia, Singapore, Hong Kong, United States, Cayman Islands, Ireland, Malta and Isle of Man

Over 1,012 funds
A$173bn in FuA

Our fund services

- Full service fund administration
- Custody
- Unit registry / transfer agency
- Middle office
- Corporate services

Our clients

- Investment managers of listed and unlisted funds
- Superannuation, pension and endowment funds
- Family offices
- Dealer groups and adviser practices

FY19 highlights

Revenue
$50.0m
▲ 21% on FY18

EBITDA^
$7.4m
▲ 17% on FY18

Funds under administration
$173bn
▲ 24% on FY18

Funds administered
1,012
▲ 24% on FY18

Final dividend
0.50cps
50% franked

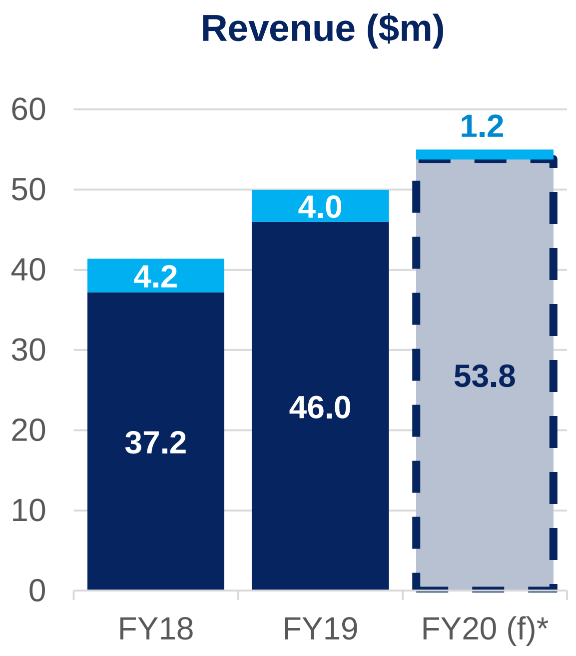
EXECUTIVE SUMMARY

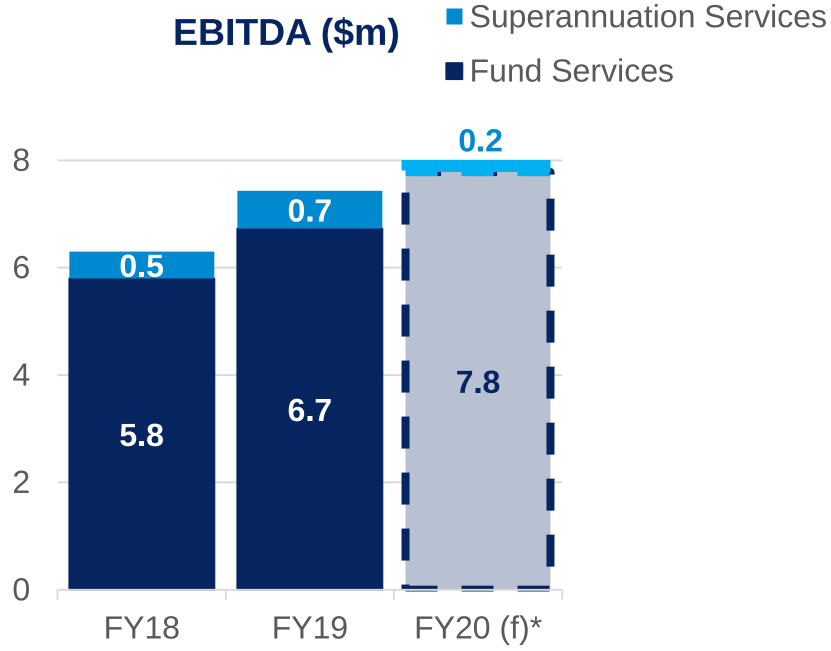
- Organic growth remains the driver behind revenue and earnings growth
- Proven resilience in uncertain market conditions
- Diversified by markets and asset classes
- Investing in new growth opportunities and digital capability
- Focused on financial results and growth and global service delivery for our clients

^ See Appendix 4 for definitions of non-IFRS measures.

Strategic Review – Superannuation Services

- Core business growth impacted by underperformance in Superannuation Services due to regulatory changes:
  - APRA regulation driving wave of fund mergers within our traditional client base of smaller super funds
  - ATO responsible for administration of low balance accounts from July 2019
- Following loss of a key client via fund merger we announced a Strategic Review of Superannuation Services
- Superannuation Services expected to contribute approximately 2% of Group revenue in FY20





* Indicative forecast only. See Appendix 4 for explanation of forward looking statements

OUTCOMES

Following a Strategic Review, we have elected to:

- Integrate our superannuation operations into Fund Services by moving processing from Melbourne to Sydney
- Move away from administering industry and corporate super funds to focus on our public offer super fund "CUBS" (as promoter / administrator)
  - Complementary to Mainstream Separately Managed Account fund
- $2.8m goodwill impairment and $0.3m restructure costs

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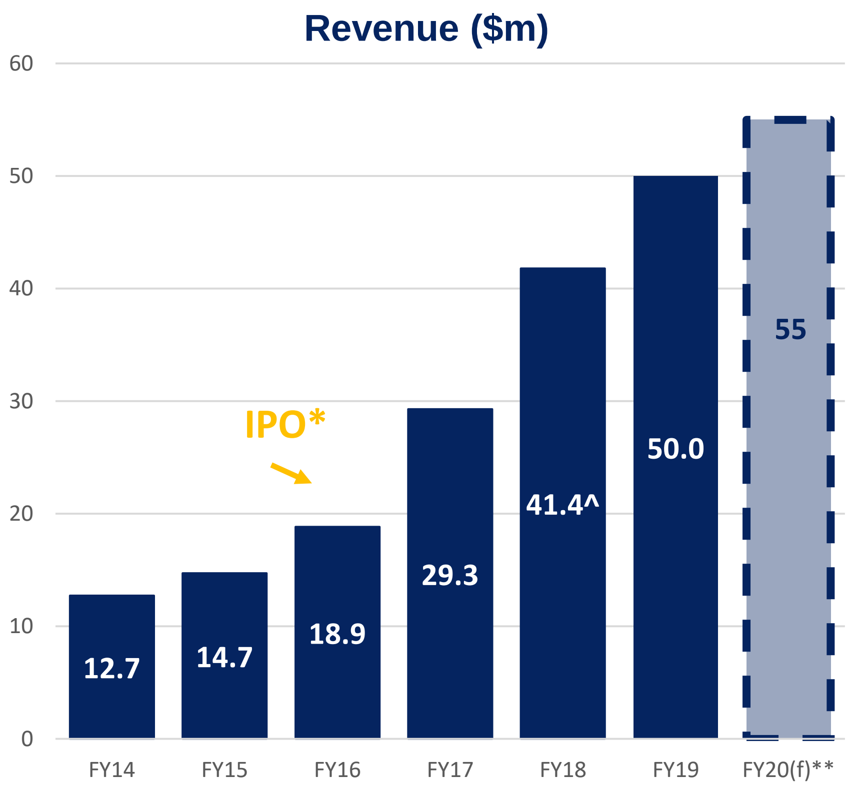
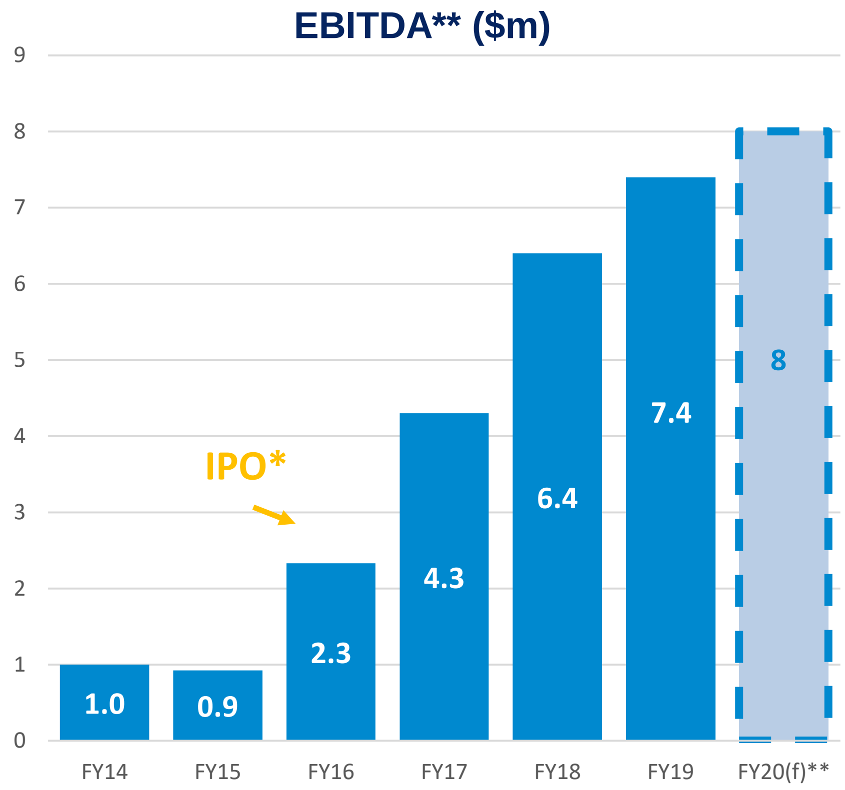
FINANCIAL PERFORMANCE

MAINSTREAM

Strong financial track record





* Initial Public Offering: 1 October 2015.
^ Restated down by $0.4 million from prior year due to overstatement of revenue and expense between two subsidiaries.
** See Appendix 4 for definitions of non-IFRS measures and forward looking statements.

Financial highlights

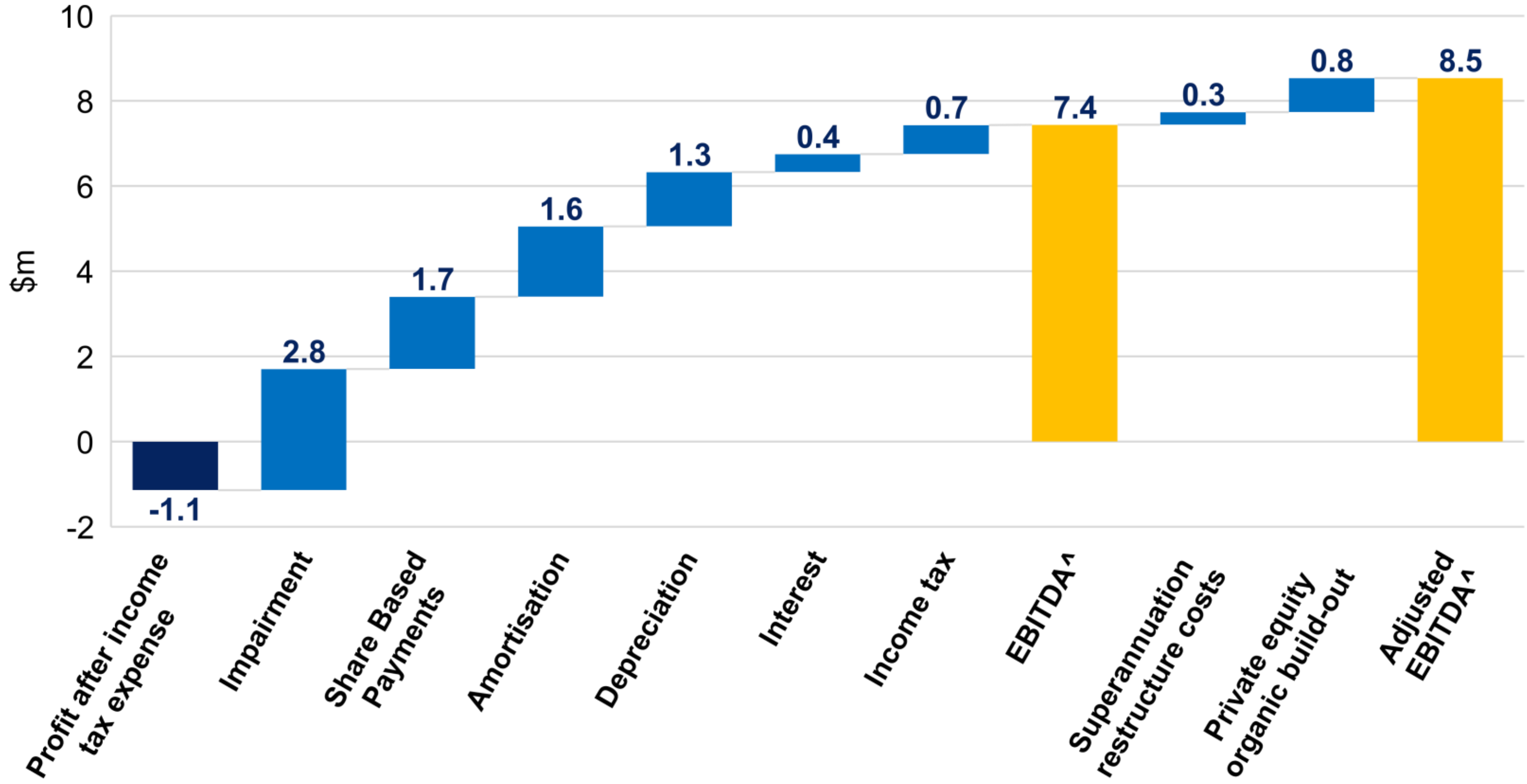
YEAR ENDED 30 JUNE	2019	2018	Change (%)
Revenue	$50.0m	$41.4m^	21% ↑
Operating EBITDA*	$11.7m	$10.5m	11% ↑
Operating EBITDA margin (%)	23.0%	25.5%	10% ↓
EBITDA*	$7.4m	$6.4m	17% ↑
EBITDA margin (%)	14.9%	15.4%	3% ↓
NPAT	($1.1m)	$1.7m	nm
Dividend per share (DPS)	1.25cps	1.50cps	17% ↓

^ Restated down by $0.4 million from prior year due to overstatement of revenue and expense between two subsidiaries.
* See Appendix 4 for definitions of non-IFRS measures.

STRONG ORGANIC GROWTH PROFILE

- $8.7m revenue increase driven by organic growth from both existing clients and new client wins
- Investment in a number of initiatives increased our operating costs, including:
  - $0.8m building out US operations to diversify our service offering into private equity
  - $0.5m investment in key employees to strengthen our succession planning and client relationships in Asia-Pacific

NPAT to EBITDA breakdown



^ See Appendix 4 for definitions of non-IFRS measures.

NPAT TO EBITDA PROFILE

- Strong underlying EBITDA result impacted by:
  - Non-cash impairment of goodwill to address challenges in superannuation business
  - Higher Share Based Payments awarded in HY19 including vesting of FY18 performance bonuses and FY19 sign-on bonus
- Adjusted EBITDA shows:
  - Investment made in building out the Group's private equity business during the year, and
  - Restructure costs incurred in Superannuation Services

Balance sheet

$m	FY19	FY18
Current assets	22.1	13.0
Non-current assets	27.6	30.9
Total assets	**49.7**	**43.9**
Current liabilities	7.7	9.4
Non-current liabilities	6.9	9.1
Total liabilities	**14.6**	**18.5**
Net assets	35.1	25.4
Equity	**35.1**	**25.4**

HIGHLIGHTS

- Balance sheet strengthened by Capital Raise
  - Now holding $10m additional regulatory capital to support Custody business
  - ANZ 3 year debt facility reduced from $9m to $7m
- Strong cash generation in underlying business
- Intangible assets comprise client contracts and goodwill from business acquisitions
- Regulatory capital required in five markets we operate in and this requirement will increase as we grow

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OPERATIONAL UPDATE

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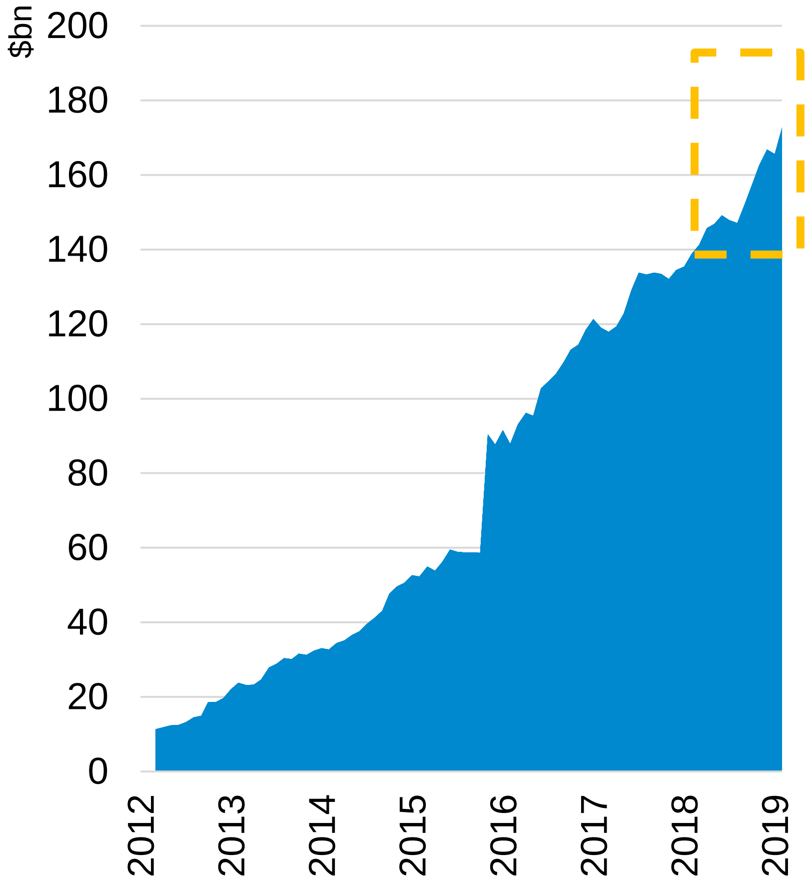
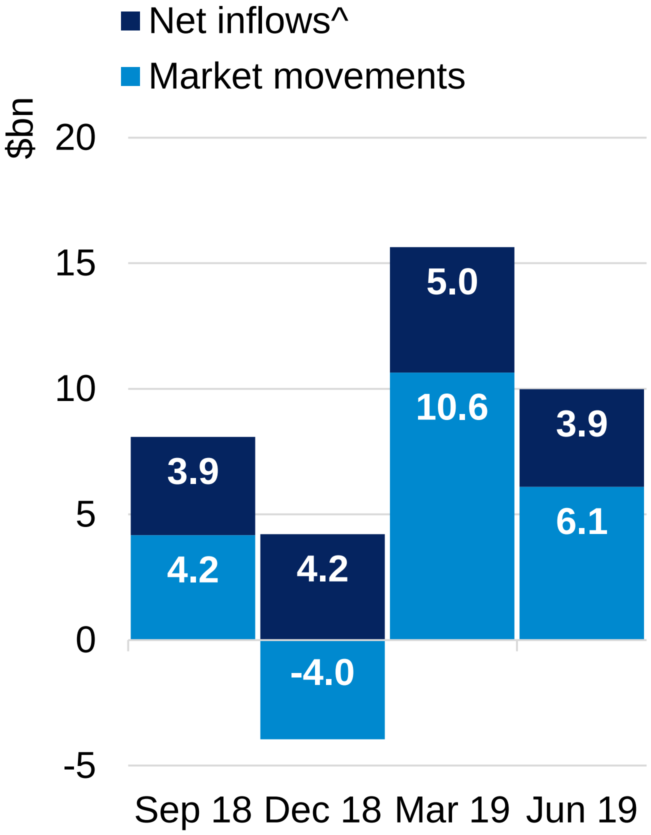
Funds and clients at record levels

Funds under Administration (FuA)



FY19 FuA growth by quarter



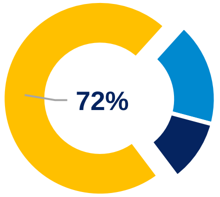
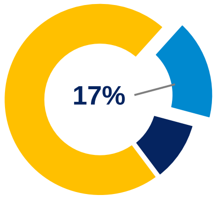
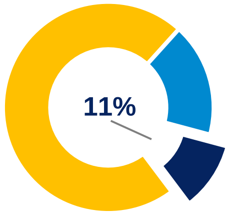
^ Net inflows refers to applications and new clients less redemptions, cash distributions and lost clients.

FINANCIAL RESULTS BACKED BY STRONG ORGANIC GROWTH

As at 30 June 2019:

- FuA: $173 billion (up 24% YoY)
- $34 billion FuA growth included net inflows^ of $17 billion
- # funds administered: 1,012 (up 24% YoY), driven by private equity and custody fund wins
- # clients: 356 (up 13% YoY) with small fund exits and mergers more than offset by new clients
- Servicing diverse geographies and asset classes provides some protection during periods of market volatility

Regional snapshot

Region	Operations	Services	# funds^	Highlights	Revenue
ASIA-PACIFIC	3 markets: • **Australia** (since 2006) • **Hong Kong** (2014) • **Singapore** (2012)	✓ Managed funds ✓ Hedge funds ✓ Private equity ✓ Listed funds	**654 funds**	› FY19 revenue: $36 million (up 15% YoY) › Increased cross-sell opportunities through custody service expansion › Bolstered leadership team: Nick Happell promoted to regional CEO and Andy Harrison appointed as Australia CEO › Invested in digital service delivery for clients and Chatswood business continuity site › Underperformance in Superannuation business due to structural changes in superannuation industry	**FY19 contribution** 
AMERICAS	2 markets: • **Cayman Islands** (2017) • **USA** (2016)	✓ Hedge funds ✓ Private equity	**228 funds**	› FY19 revenue: $9 million (up 59% YoY) › Growth driven by build-out of private equity fund services with key hires in Indiana operations centre as well as East and West Coast sales teams › Growth in onshore Cayman services through cross-selling	
EUROPE	3 markets: • **Ireland** (2017) • **Isle of Man** (2016) • **Malta** (2016)	✓ Hedge funds	**130 funds**	› FY revenue: $5 million (up 16% YoY) › Ireland migrating to Mainstream preferred hedge fund technology, PFS-Paxus › Limited exposure to Brexit › Isle of Man and Malta supporting Group operations as follow-the-sun processing centres	

Investing for growth

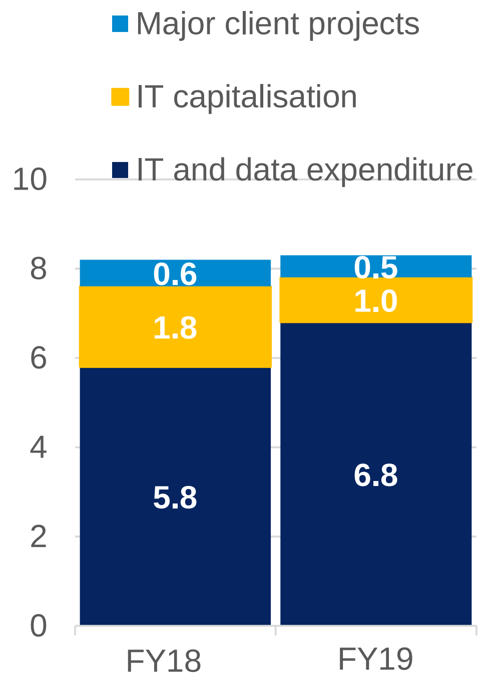
- $10.3m raised via private placement (Sep 2018) and Share Purchase Plan (Oct 2018)
- Laying foundations for future growth

STRATEGIC INITIATIVE	UPDATE
Custody regulatory capital	› Now meets regulatory capital requirement for standalone custody service in Australian market › $3.6 trillion market opportunity to provide cost effective alternative to global bank custodians › $5.0 billion in assets under custody, an increase of 34%, or 48 funds, in FY19 › High margin business with strong pipeline of new and existing clients
Mainstream Digital	› Seven months into two year development of proprietary web services › Launched Separately Managed Account fund › 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; business development resources on West Coast to gain footholds in key markets › Signed 76 new funds in FY19 with FuA up 400% to $4.5 billion

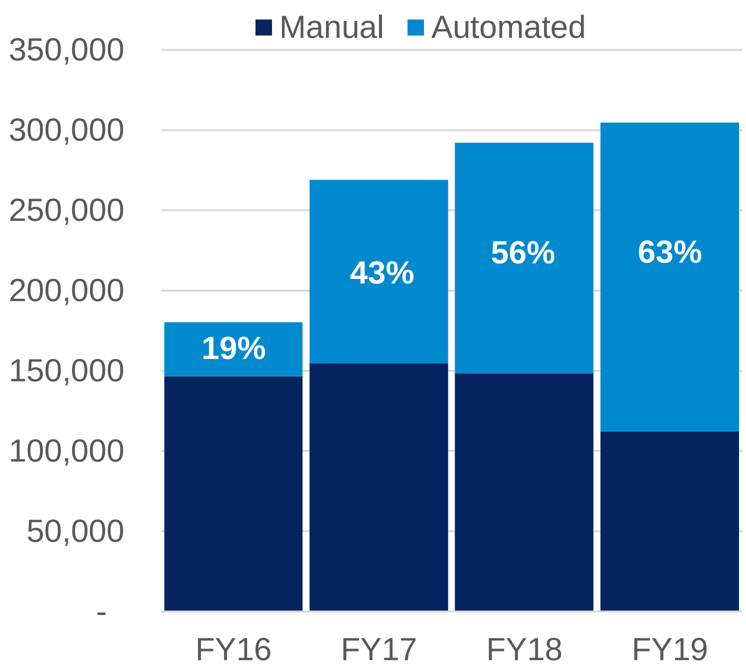
Investment in technology, data and automation

- Technology and data strategy:
  - Use best-of-breed industry software for efficient core systems and data
  - Investment in proprietary client and investor interfaces for enhanced service offerings

Strategic IT and data spend ($m)



Case study: Asia-Pacific Unit Registry transactions processed



EFFICIENCY AND COMPLIANCE

- Strategic IT and data spend was in line with last year due to continued investment in:
  - Key client projects for future products
  - Technology upgrades including upgrades to HiTrust and Composer software, workflow enhancements, SLA reporting, automated client reporting and development of online investor application and portal
- Within Unit Registry:
  - YoY increase in transaction volumes (↑4%)
  - Proportion of automated transaction volumes ↑34% due to increased adoption of Calastone

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OUTLOOK

Business outlook

Well positioned for continued growth

- Good momentum and clear growth agenda
- Business model based on high levels of recurring revenue:
  - Full service administrator with deep client relationships
  - Majority of fund clients use 2+ Mainstream services with further cross-selling opportunities available
  - All material contracts have long term agreements in place as at 30 June 2019
  - Diversified client base across markets and financial products
- Attractive industry fundamentals
  - Well positioned to benefit from continued trend towards fund administration outsourcing and complex compliance with regulation
- Strong sales pipeline from deep client relationships and growing brand awareness

Financial outlook

Group earnings

- Full year guidance of approximately $55m revenue and $8m EBITDA^
- Outlook is sensitive to key client losses / gains, material market movements and interest rates

Capital expenditure

- Continued capex investment in FY20 due to ongoing investment in our digital technology initiatives for clients and their investors

Dividend outlook

- Continue to reward shareholders with dividends
- Anticipate partial franking levels as international profit continues to grow
  - FY19: 66% of EBITDA sourced internationally

Balance sheet

- Ongoing strong cash generation
- Further $1m debt repayment due Jan 2020

^ Before application of AASB 16 Leases. See Appendix 4 for definitions of non-IFRS measures.

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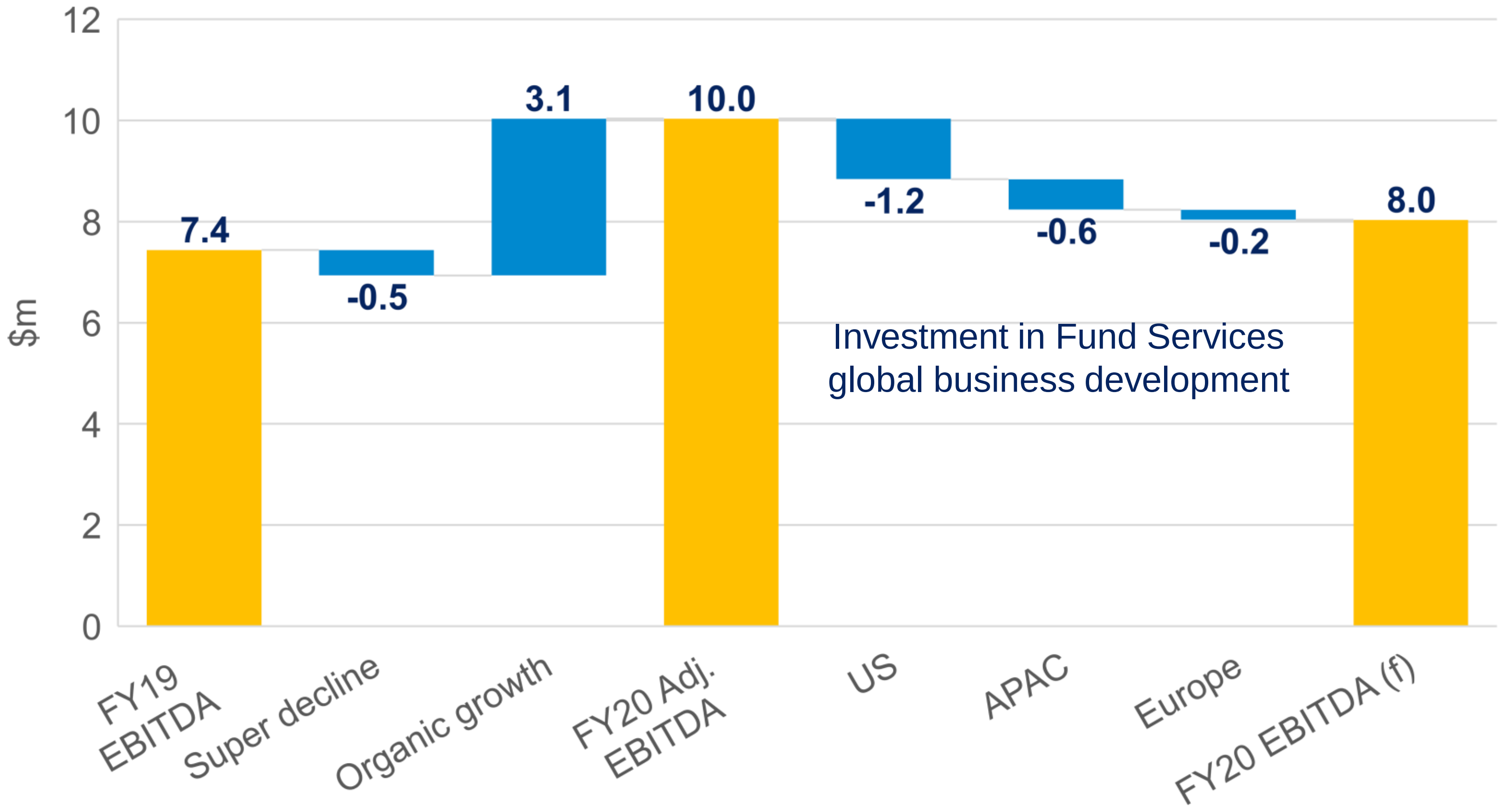
EBITDA guidance breakdown^



Outlook

- Proven ability to deliver organic growth
- Planned $2m investment in global business development and branding to further expand Fund Services

^ Indicative forecast only. Before application of AASB 16 Leases. See Appendix 4 for explanation of forward looking statements and definitions of non-IFRS measures.

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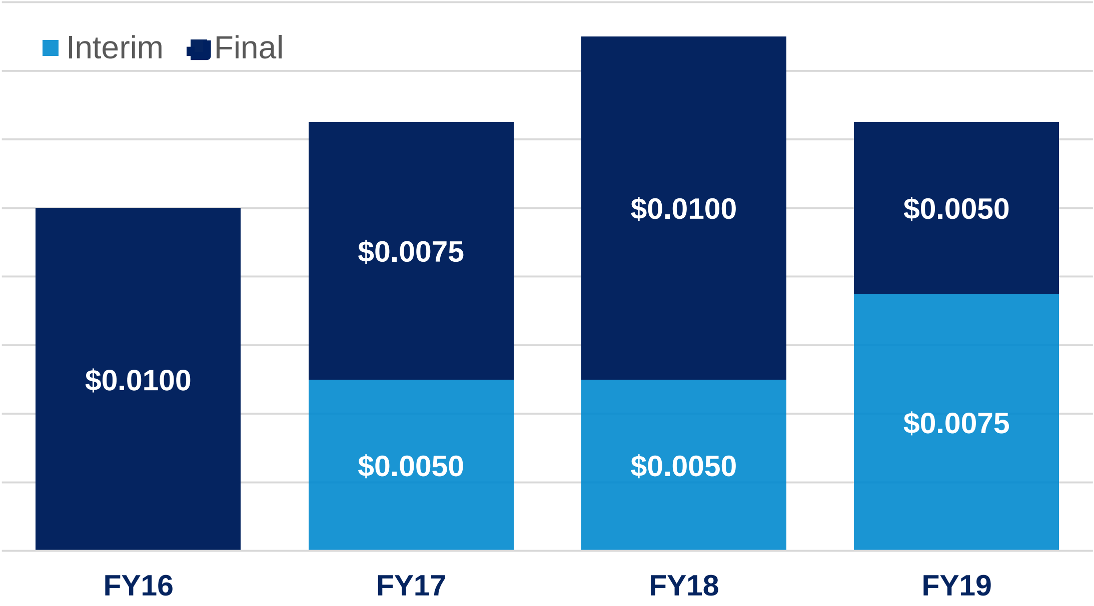
APPENDIX

MAINSTREAM

Appendix 1: 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
PLATFORMS	Managed account service, SMA fund, Cayman umbrella fund, UCITS umbrella fund, public offer super fund	› Fund administration & accounting › Investor / member services	› Market data & pricing › Trade matching › Client reporting

Appendix 2: Dividends



	FY16	FY17	FY18	FY19
Dividend per Share (cents per share)	1.00	1.25	1.50	1.25
Franking level^	100%	100%	100%	Partial*

^ 30% corporate tax rate for imputation purposes applies to all historical dividends apart from FY18 Final Dividend and FY19 Interim Dividend which were 27.5%.
* FY19 interim dividend 100% franked. FY19 final dividend 50% franked.

INVESTING FOR GROWTH

- Maintaining a growth focus while rewarding shareholders with franked dividends
- Move to partial franking driven by FY19 international revenue growth

Appendix 3: Share Based Payments

$ 000’s	Performance hurdle	FY19	FY18
Employee Share Offer	N/A*	229	153
Short Term Incentive plan	KPI achievement	1,204**	826
Long Term Incentive plan^	KPI achievement / EPS hurdles	264	331
Total Share Based Payment expenses		**1,697**	**1,310**

* Eligible Employees were granted $2,000 worth of shares for nil consideration in order to encourage share ownership and participate in the Company’s FY18 performance.
** Includes $0.2m FY18 performance bonus vesting $0.4m FY19 sign-on bonus.
^ 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.

INCENTIVISING FOR GROWTH

- Payments issued in consideration of achieving organic growth targets (rather than funding further acquisitions)
- FY19 STI payments included FY18 performance bonuses as per vesting conditions and FY19 sign-on bonus

Appendix 4: Defined terms

IMPORTANT NOTICE: Mainstream uses a number of non-IFRS financial measures in this presentation to evaluate the performance and profitability of the overall business. Although Mainstream believes these measures provide useful information about the Group's financial performance, they should be considered as supplemental to the information presented in accordance with Australian Accounting Standards and not as a replacement for them. The principle non-IFRS financial measures that are referred to in this presentation are:

1. **EBITDA** is calculated as earnings before interest financing expense, tax, depreciation, amortisation and share based payments and is used to highlight Operating Margin before Corporate Costs.
2. **Operating EBITDA** is used to highlight the operating performance of the Group.
3. **Adjusted EBITDA** reflects EBITDA adjusted to exclude start-up costs and restructure costs absorbed in the Profit and Loss by the Group.

Forward looking statements: This Presentation contains certain "forward looking statements". Forward looking statements can generally be identified by the use of forward looking words such as, "expect", "anticipate", "likely", "intend", "should", "could", "may", "predict", "plan", "propose", "will", "believe", "forecast", "estimate", "target" "outlook", "guidance" and other similar expressions within the meaning of securities laws of applicable jurisdictions and include, but are not limited to, indications of, or guidance or outlook on, future earnings or financial position or performance of Mainstream. The forward looking statements contained in this Presentation are not guarantees or predictions of future performance and involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of Mainstream, and may involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct.

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