FY 2019 Results conference call transcript

CONNIE MCKEAGE – MANAGING DIRECTOR

Good morning ladies and gentlemen and welcome to OneVue's end of year results presentation. I'm Connie Mckeage the Group Managing Director of OneVue and also with me here today is our CFO Ash Fenton.

Before we immerse ourselves into the body of the presentation I would like to highlight a few points about the year that was.

SLIDE 4

If we quickly turn to Page 4 it clearly demonstrates 2019 was marked by the completion of the simplification of the OneVue business freeing management to focus on the high growth core sectors of Fund Services and Platform Services with Fund Services now, for the first time, representing 64% of OneVue's total revenues, recurring revenues that are unaffected by market volatility.

Also, as we move into this next phase our key focus is on delivering high growth with margin uplift. We intend to achieve this by this concentrating on four key initiatives:

a. Firstly, driving automation and integration
b. Secondly continuing to innovate
c. Thirdly increasing scale and finally
d. Building OneVue's profile at both a retail and wholesale level.

Having said that we believe there are significant growth opportunities right across the business however the greatest potential for margin uplift would be achieved by accelerating the rate at which we transition clients already won in Fund Services Managed Fund Administration. Especially as we have moved to an operating model which is over 90% automated for all new clients.

SLIDE 5

Let's now start by turning to Page 5. Although 2019 was a year that delivered revenue growth of over 35% and EBITDA growth of nearly 60% the most significant change will be to the net cash position (a 200% increase to $40m) when the $31m outstanding is paid from the sale of Diversa Trustee which is due by the end of November 2019. A substantial capital gain of $8.6m has already be realized.

Remember when we acquired Diversa it comprised both a superannuation member administration as well as the third party Trustee and the capital gain realised relates solely to the sale of the Trustee business as Diversa super now forms an integral part of our existing superannuation administration business.

SLIDE 6

Now turning to page 6. I won't dwell on this page but it is important to note that although Fund Services managed fund administration is #1 in the market its market share continues to grow. Fund Services superannuation member administration has now also firmly entrenched itself into third position in the outsourced superannuation administration market. Also, this year Platform Services delivered record gross and net inflows whilst remaining in the top tier of Platforms as ranked by Investment Trends.

SLIDE 7

On Page 7 the strong growth of the Fund Services vertical has continued driven by the move to outsource administrative functions to specialist providers. Fund Services delivered revenue growth of 38% and an EBITDA improvement of 27.8%. Both Fund Services operating businesses can be characterized by high quality long term contracts with a number of contracted clients still to transition. The acquisition of the KPMG superannuation administration business added both depth and breadth to our superannuation capability and has positioned us well to continue to further increase market share.

Before we move off Fund Services I just want to spend a couple of minutes on managed fund administration. Interestingly this business is gaining overseas attention due to it being such a high quality operation. Global players are acutely aware of how fortunate we are to have the who's who of investment management as clients and how challenging it is to win and retain this caliber of client. This business is unequalled in Australia and will in time look to compete effectively on the world stage. It does not receive as much recognition as Platform Services as it does not have as many peers drawing market attention to the sector. It is therefore not as well understood.

SLIDE 8

It you look to page 8 you will see that the combination of proprietary technology along with high quality service specializing in retail funds makes OneVue's offering unique in the Australian market.

SLIDE 9

Slide 9 demonstrates the quality of this business. It services 53 fund managers, administers 1393 separate funds, processes over 500,000 items, executes over 600,000 trades per annum and manages over $516b in assets – all on proprietary technology. It is the preferred partner to 4 leading custodians, 3 of them Global and a Trustee. Importantly the ongoing investment in the proprietary technology which helps us retain and grow our market leadership position is primarily funded by our clients and partners.

SLIDE 10

On page 10 you will notice that in Superannuation Member Administration we have achieved our objective of being in the top 3 outsourced superannuation providers in the market 12 months ahead of schedule. The KPMG acquisition has really helped catapult us into that position not only bringing additional Funds Under Administration but importantly bringing an enhanced capability which has served us well in increasing our market share. We have over $5b in FUA and member numbers now exceed 157,000.

SLIDE 11

Let's now turn our attention to Page 11 where the Platform Services results are found. Gross inflows in Platform this year totaled $1.8B with net inflows topping $1.0B - a record for the Platform business.

Again, you can read the detailed numbers at your leisure but the key point here is that record FUA growth delivered increased scale and EBITDA profitability.

SLIDE 12

Page 12 depicts that our focus is now on delivering further scale to deliver a material uplift in margin. In Platform there are significant opportunities for accelerated growth. Platform will also benefit from the additional white labels fully transitioned in June which added $0.5b in FUA.

SLIDE 13

Finally, on page 13 Platform Services is a beneficiary from the well-publicised shift to independent platforms and the record inflows are confirmation that the move to specialist providers is in fact well underway.

Before I hand over to Ash I want to highlight that all businesses are profitable and have positively contributed to the Group result. We are fortunate to have 93% of revenues recurring supported by a high quality client base with longer term contracts.

Ash will now take you through the numbers in more detail then I will conclude the formal part of this presentation and open it up to questions.

ASH FENTON- CHIEF FINANCIAL OFFICER

Thanks Connie and good morning.

Before I run through the numbers it's worth noting that in FY19 and FY18 we divested a number of businesses as part of the strategic realignment of the business. The results of the recently divested Trustee Business and the earlier RE, SMSF Admin and Investment Management businesses and are now all shown as Discontinued Operations, separate from the reported results of the Continuing operations, which will naturally be the focus of today's presentation.

These results are also characterised by the significant profit on the business divestment and some one-off non-cash items, primarily relating to acquisition accounting and intangibles which require explanation to properly understand how the underlying business is performing.

Today I will run through the make-up of our revenue, costs and EBITDA in detail and outline our cash and Balance sheet positions.

SLIDE 15 -FY 2019 FINANCIAL SUMMARY

As usual I'll start with a financial summary of the results.

Some key points to note:

These results show strong revenue and EBITDA growth and EBITDA margin improvement.

Looking at the top line. A strong revenue performance, with revenues from continuing operations up 35% - to $49.6m. This growth came from a mix of organic growth (up 19%) and growth from acquisitions. More on that shortly.

EBITDA was up strongly by 59% to $4.5m.

Margin also improved by 135 basis points to 9%.

Depreciation and amortisation increased from $2.9m to $4.6m, mainly due to increased amortisation associated with the April 2018 KPMG and NMPE acquisitions ($1.1m) and also from client establishment costs ($0.6m).

Non-recurring items of $8.7m require some explanation and I'll cover that shortly.

Our move into profitability in FY18 triggered the recognition of tax losses not previously recognised on the Balance sheet and a $8.9m tax benefit in the P&L. In the current period a further tax benefit of $0.7m is recognised in the results.

The net profit from discontinued operations of $9.4m includes the net capital gain on sale of $8.6m– as well as the trading results of the discontinued businesses.

Net profit after tax for the period was $1.4m

And Adjusted NPATA was up by 34% to $1.5m. This represents the underlying cash profit performance from the continuing operations and adjusts; for non-recurring items, the benefit of initial recognition of tax losses and the non-cash acquired customer intangibles amortisation expense of $2m.

SLIDE 16- HIGH ORGANIC REVENUE GROWTH SUPPORTED BY ACQUISITIONS

I'll now turn to the revenue growth from continuing operations, which was up 35%.

As you can see the $12.9m growth in revenues from $36.7m to $49.6m came from a mix of strong organic growth - $6.5m, supported by acquisition growth of $6.3m from KPMG Super and NMPE.

Fund Services revenue performance was strong - revenues up 37.9% to $32.4m. Managed Fund admin revenues were up 22% on the back of new client transitions and increased items processed. Super member admin revenues of $16.2m were up 58.5% with $7.7m of revenues from the KPMG Super acquisition.

Platform also grew strongly, with revenues up 28.8%. Organic revenue growth of 23.6%, was driven by strong net inflows, a positive market and product mix. The NMPE acquisition contributed $0.8m of incremental revenue.

SLIDE 17- OPERATING EXPENSES

Moving to Operating expenses from Continuing operations.

At face value our cost increases look high, but costs from the newly acquired businesses distort this view and need to be separated to show the underlying organic cost increases, which are less than the corresponding revenue increases.

You can see the main components of the organic and acquisition expense increases on the slide, split between the businesses.

Fund Services organic expenses increased by 15.1%, slightly higher than expected due to the timing of large scale transitions as reported at the half year. Incremental revenue growth was 15.7%. Expenses related to the KPMG Super acquisition included higher rent costs and additional managerial headcount to support integration and new business activities.

Organic expenses in Platform Services increased by 21.9% whilst related revenue growth was 23.6%. The NMPE acquisition costs were up relative to revenue growth as the Secrets of the Money Masters series which went to air on Channel 9 on June 28th was deferred until after the completion of the findings from the Royal Commission.

SLIDE 18- EBITDA GROWTH WITH ORGANIC MARGIN GROWTH

Turning now to our strong EBITDA result, with growth of 59%. Pleasingly the margin was up, by 135 basis points to 9%. The bridge here shows the breakup of the EBITDA growth, with the organic growth from both businesses separate from the contribution from acquisitions.

Fund Services organic EBITDA margin (excluding acquisitions) of 21.5% was up slightly by 33 basis points, as we continue to build scale. However, the KPMG acquisition margin of 14.2% was dilutive, impacted by the revised pricing on the largest customer contract 3-year renewal, as well as higher rent costs and costs of integration and new business. The overall Fund services margin of 19.8% was as a result down slightly from 21.3% to 19.8%.

The organic margin in Platform Services was up by 114 basis points to 16.7%, benefiting from scale. The NMPE acquisition contributed a small loss of $300k with timing of revenue the main factor. The overall Platform margin of 14.2% was down 47 basis points.

SLIDE 19 REVENUE & EBITDA CONTINUING AND DISCONTINUED OPERATIONS

I won't run through this next slide but this reconciles the total revenue and EBITDA for the Group showing the split by Continuing and discontinued operations.

SLIDE 20 DISCONTINUED OPERATIONS AND NON-RECURRING ITEMS

Moving now to the next slide which I won't dwell on. But note that the discontinued operations are detailed here to show the trading results by the business areas. Also the net capital profit on the sale transactions rolls up into the overall net profit from discontinued operations that we report in the statutory numbers.

Non-recurring items relate to three main areas:

1) Acquisition accounting for the contingent consideration on the KPMG Super transaction of $4.3m
2) Some write downs on capitalised intangibles -$1m of project development costs which follow divestments – and $1.4m of client establishment costs recognising custodial client changes
3) Acquisition integration and restructure costs of $2.0m which mainly relate to KPMG Super integration

SLIDE 21-CASH REDEPLOYED TO FUND ACQUISITIONS

Moving now to cash.

The graph highlights the key movements in cash over the financial year.

A couple of points to make:

Our total group operating cash flow before non-recurring costs of $4.2m was down, mainly due to working capital required in the first half for the KPMG Super acquisition. The second half cash flow of $3.1m shows the more normal cash conversion rate.

The capitalisation cash outlay of $5.0m was a bit higher than usual. About a $1m more in Fund Services Client establishment costs, as we transitioned some new large funds and Software development requirements for AMIT of about $0.4m.

We received $12m of cash from the sale of the Trustee business and $5.4m of cash was divested with this business along with the related borrowings (which had been reduced by repayments during the year).

Following the signing of a new 3-year contract with the KPMG Super businesses largest customer we paid $10.3m of contingent consideration.

SLIDE 22- BALANCE SHEET TO FUND CAPITAL MANAGEMENT AND GROWTH

Turning to our Balance sheet. The position has strengthened following the Sale of the Trustee business and Net tangible assets are now positive – 11.78 cents per share compared with a negative position previously. And post receipt of the deferred consideration of $31m due by 30 November from the sale, total Proforma net cash will be circa $40m.

As noted previously following final settlement the Board intend to declare a fully franked special dividend of 2.19 cents per share (about $5.9m) to utilise all the available franking credits.

We will be well positioned for ongoing disciplined capital management, ensuring we support further growth opportunities whilst also considering a share buyback capability of up to 10% of share capital to provide flexibility.

Finally, with the simplification complete I look forward to a much cleaner set of numbers going forward with two clear business growth verticals to focus on.

I will now handover to Connie to talk more about the strategy and outlook.

CONNIE MCKEAGE – MANAGING DIRECTOR

Thanks Ash.

We are looking forward to 2020 as the business is well positioned to capitalise on the structural and regulatory shifts taking place in the market. Simplifying the business has freed us to focus our attention on growing the core businesses and to continue to deliver further scale and operating leverage.

SLIDE 24- STRATEGY AND OUTLOOK – MARGIN UPLIFT

Delivering high growth and a margin uplift will require us to execute well on the following initiatives:

1. Automation and Integration - In 2019 we fully automated and integrated the buying and selling of custodially held managed funds. The next phase is leveraging the new payments platform and the ASX block chain to further automate transactions on Platform reducing both execution risk and cost. Further integration and straight through processing between Platform Services and Fund Services Managed Funds and Super Member Administration will also be completed.
2. Innovation – As well as making execution more efficient we are driving forward on what is becoming increasingly important, the customer interface and experience. We will roll out our digital capabilities, such as the new online application process across the Group and leverage the good work we have done in developing educational and client engagement initiatives through No More Practice (NMP)
3. Increasing Scale Our client base includes Custodians, Trustees and global and local investment managers with high infrastructure requirements and robust security protocols. As a result, we have already made significant investments in infrastructure and security. In 2020 we will concentrate our efforts on delivering greater scale and margin expansion across the Group either organically or via a material transaction funded by the increased cash balance, now moving to the next page, building an awareness of the OneVue brand.

SLIDE 25- STRATEGY AND OUTLOOK – INCREASED BRAND AWARENESS

4. Although there are strong tailwinds for specialist platforms and OneVue has a significant pipeline of new business opportunities the advice market is quickly fragmenting as advisers move away from institutional ownership. In the shorter term there is also a record number of advisers exiting the market. Countering this however is the market share gain by the specialist providers such as OneVue and banks and institutions finally opening up their approved product lists to consider "other platforms". In this new environment we think it is important to have brand awareness at both a retail and wholesale level. It is for this reason we acquired NMP and its marketing capability. A higher profile will give greater confidence to all our clients in both Fund

Services and Platform Services when the OneVue offering is being recommended. Phase 1 the Secrets of the Money Masters, www.secretsofthemoneymasters.com, a client funded campaign launched in May and resulted in strong mainstream and social media performance.

Due to its success Channel Nine has also recently confirmed a full series re-run on 9Gem from 14 September with a second series due in 2020.

Remarkably complementing mainstream channels, mobile now represents over 60% of the digital viewership.

SLIDE 26- SUMMARY

As we move to the final page, in summary this year we completed the simplification of the business and freed management to focus on growing Fund Services and Platform Services. In a rapidly changing and highly challenging environment we delivered a strong financial result with Group Revenue up 35.3% and EBITDA up 59.1%.

Importantly upon receipt of the $31m final proceeds from the sale of Diversa Trustees our net cash position will exceed $40m and we will look at smart capital management including:

- Paying a 2.19 cents per share special fully franked dividend
- Actively pursuing other opportunities - both organic and acquisitive
- Considering a buy-back

There are also clear growth runways and momentum is accelerating. Both business lines have strong tailwinds and we've identified the greatest margin improvement opportunity is to transition clients already won, especially in Fund Services. There is also a strong pipeline of potential new clients and we need to ensure we win our market share. Finally, we need to execute well on the 4 pillars of our strategy

- Automation and integration
- Innovation
- Scale and
- Building brand awareness

Ash and I would like to thank you for taking the time to attend our briefing. We understand it is very hectic for you at this time of year, and we will now open it up to questions.

Q&A

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About OneVue Holdings Limited (ASX: OVH)

OneVue is an ASX listed High growth technology business *with* service leveraged to the superannuation sector. The business operates through two core divisions: Fund Services, and Platform Services.

OneVue is number 1 in Fund Services Managed Fund Administration and number 3 in Superannuation Member Administration. Platform Services was recognised in Investment Trends' December 2017 Platform Competitive Analysis and Benchmarking Report as ranking third in full function platforms, the winner of 'Most New Developments' Award for the second year running and winner of 'Product Offering' Award. In 2017 and 2018, OneVue was awarded 'Best Innovator' in the Self-Managed Super Fund Provider Awards.

For further information, visit onevue.com.au

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