

Mainstream Group Holdings Limited (ASX: MAI)

Results for the half year ended
31 December 2019

Released on 18 February 2020 by order of the Board



MAINSTREAM

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BUSINESS HIGHLIGHTS

Foundations of our success

ABOUT



- › **Founded in 2006**
- › **Global fund services for 348 clients and 1,011 funds**
- › **\$187 billion in funds under administration**
- › **278 employees in eight countries**
- › **ASX: MAI (since 1 October 2015)**
- › **Product, client and geographic diversity relative to peers**

SERVICES



- › **Delivering fund administration, custody, middle office and corporate services**
 - › **66% of clients use 2+ services**
- › **Focus on fund managers with listed, unlisted and alternative funds**

STRATEGY



- › **Specialists in fund services**
- › **Growth in core markets**
- › **Multiple service delivery to clients**

Mainstream Group Holdings Limited (ASX: MAI)

Significant growth opportunities in our core markets

- › We have achieved substantial growth but the opportunity remains immense

Size and three year CAGR of Mainstream's Funds under Administration¹:



Australia:
20% CAGR



Hong Kong:
38% CAGR



Singapore:
21% CAGR



USA:
18% CAGR

- › As we expand the opportunity grows

Size of investment fund assets in Mainstream's core markets²:



Australia



Hong Kong



Singapore

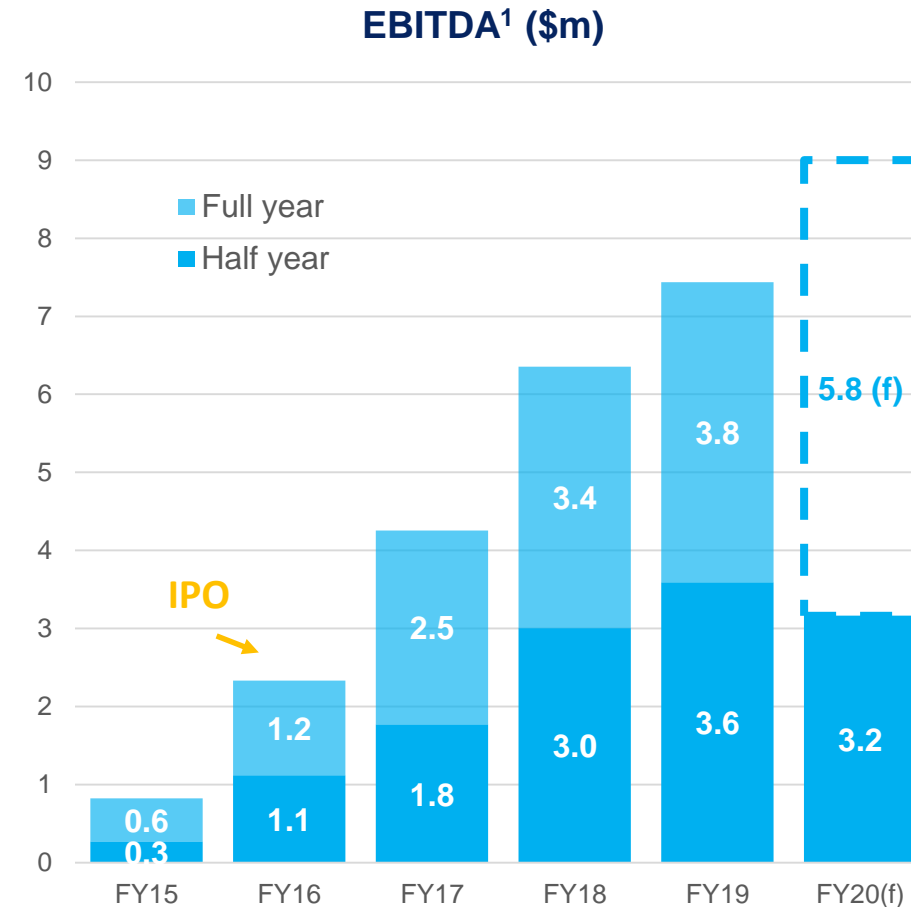
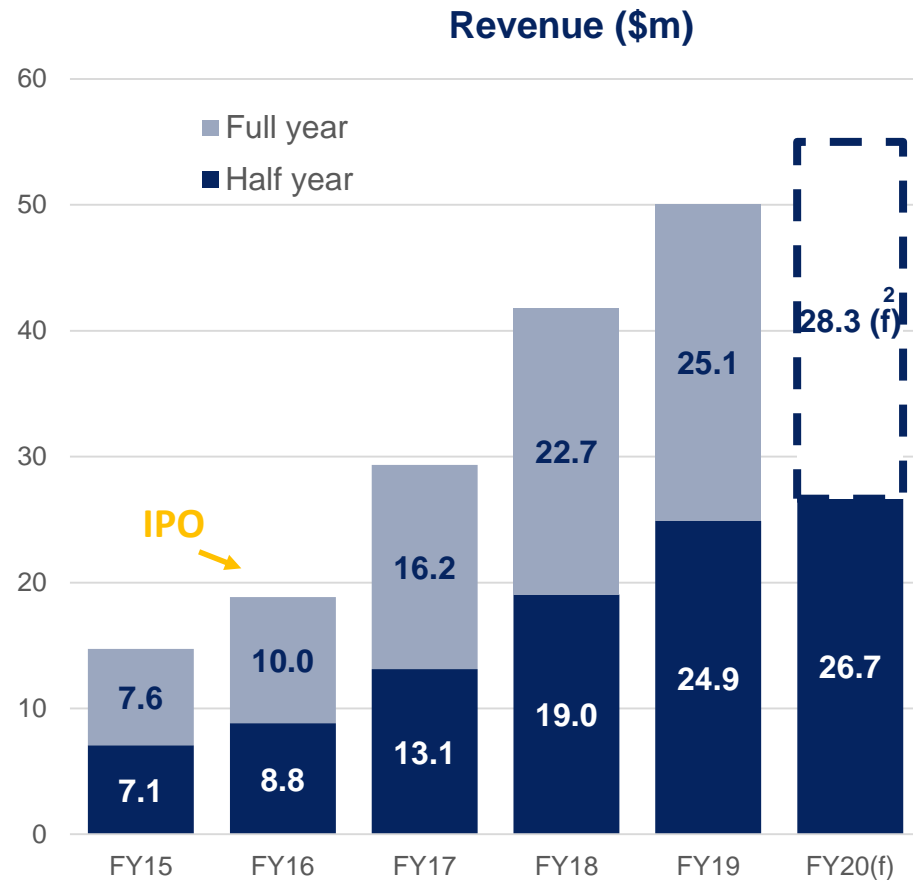


USA

1. Compound Annual Growth Rates as at 31 December 2019. Clients with a service contract in more than one jurisdiction are counted in each relevant market.

2. Figures in AUD as at 30 September 2019. Source: Investment Company Institute, Q3 2019 report Table 11. Worldwide Mutual Fund Market, Worldwide Public tables, Hong Kong Securities and Futures Commission Activities Survey for non-REIT assets managed in Hong Kong, excl. business sub-contracted or delegated to other offices or overseas and Monetary Authority of Singapore's Asset Management Survey.

Supported by a strong financial track record



1. Full year EBITDA guidance for the year ended 30 June 2020 of \$9m includes a \$2.5 million adjustment for AASB 16 Leases. Prior years have not been restated to reflect the impact of AASB 16 Leases. See Appendix 3 for definitions of non-IFRS measures and forward looking statements.

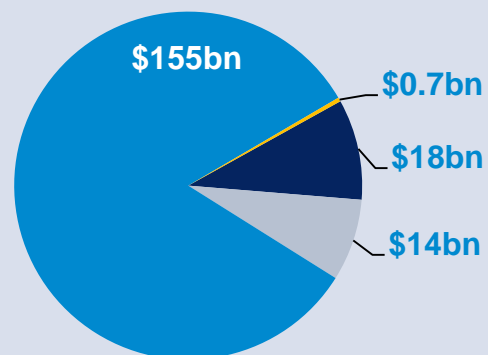
2. Full year revenue guidance for the year ended 30 June 2020 is \$55m.

Diversified and high quality client base

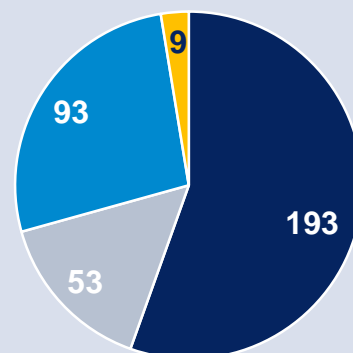
KEY POINTS

- › Mainstream has outsourcing arrangements with leading fund managers
- › High quality service enables us to maintain a 'sticky' client base
 - › All material clients have long term agreements in place
 - › High levels of recurrent revenue
 - › Longstanding organic growth
 - › We grow as our clients grow
 - › Brand well recognised in Australia, with strong client referrals
 - › Continued investment offshore key to building strong pipeline

Clients by funds under administration¹



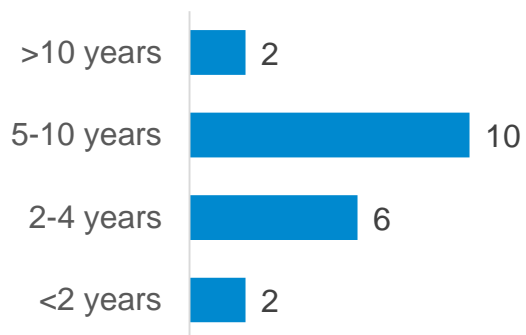
Clients by type¹



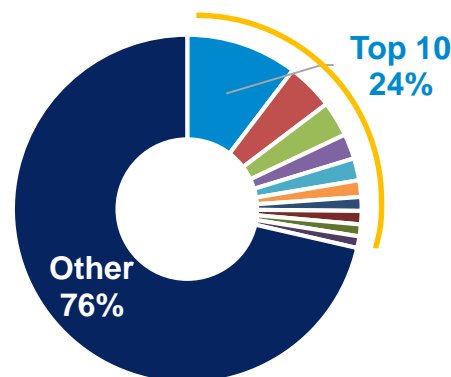
■ Alternative fund managers ■ Private equity fund managers ■ Traditional fund managers ■ Superannuation funds

Longstanding client relationships¹

Top 20 clients by revenue



Revenue by client²



Mainstream Group Holdings Limited (ASX: MAI)

1. As at 31 December 2019. 2. As at 30 June 2019.



HY20 highlights

Revenue

\$26.7m

▲ 7% on HY19

EBITDA*

\$3.2m

▼ 12% on HY19

Funds under administration

\$187bn

▲ 27% on HY19

Funds administered

1,011

▲ 10% on HY19

KEY POINTS

- › Continued strong revenue growth
- › Continued growth in funds under administration
- › Strong cash generation
- › Earnings reflect investment in automation and digital services to meet client demand
 - › Two year IT development plan to Sep 2020
 - › Expect to see future benefit from FY21
- › Good progress in building our higher margin businesses (custody, private equity)
- › Strong sales pipeline in our core markets of Australia, Asia and USA

• See Appendix 3 for definitions of non-IFRS measures and information on the impact of Mainstream's adoption of AASB 16 Leases on the Group's financial information.

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FINANCIAL PERFORMANCE



Financial highlights

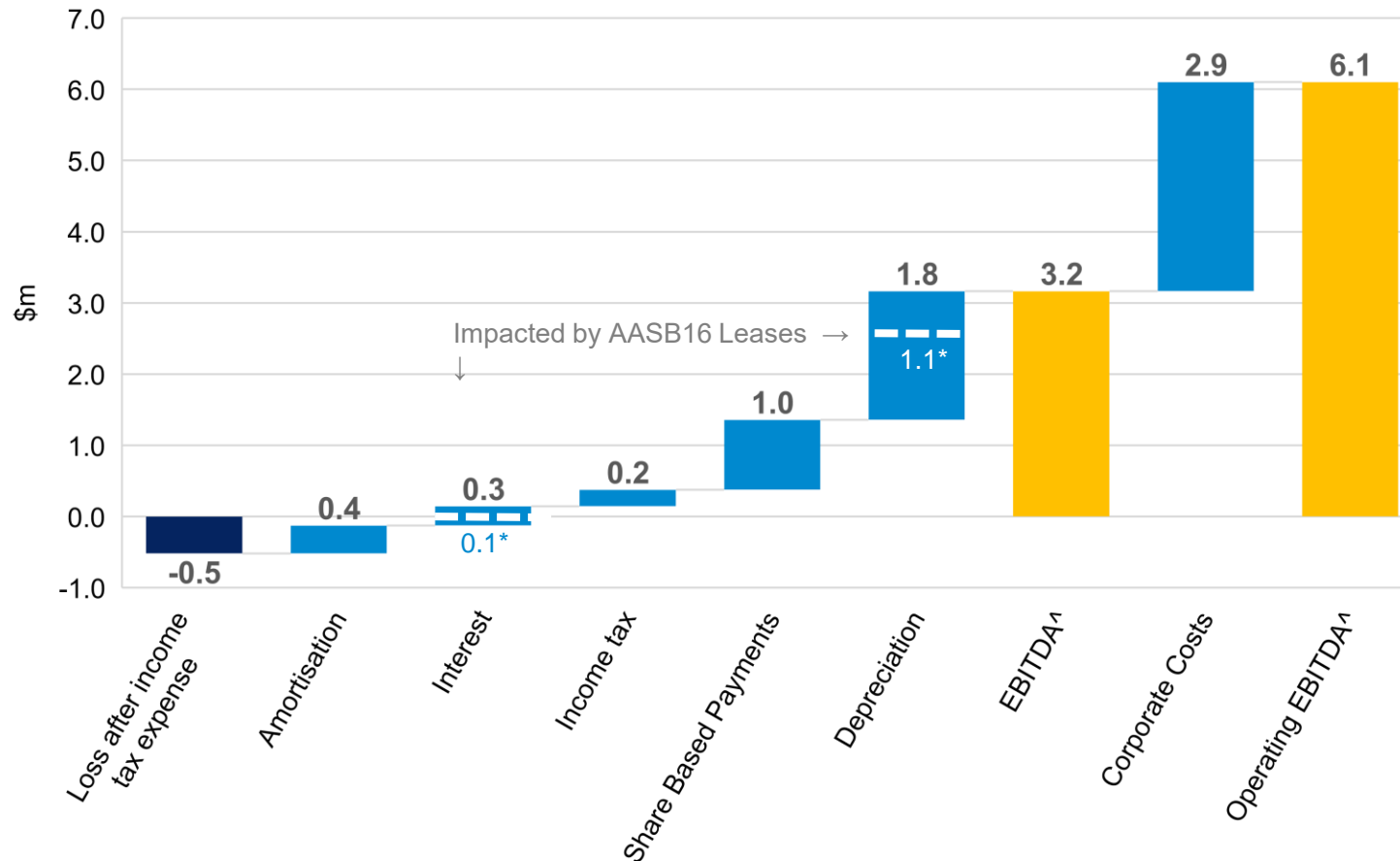
HALF-YEAR ENDED 31 DECEMBER	2019 (HY20)	2018 (HY19)
Revenue	\$26.7m	\$24.9m
Operating EBITDA*	\$6.1m	\$6.0m
Operating EBITDA margin (%)	23%	24%
EBITDA*	\$3.2m	\$3.6m
EBITDA margin (%)	12%	14%
EBITDA incl. share based payments	2,181	2,364
NPAT	(\$0.5m)	\$0.2m

* HY19 EBITDA has not been restated to reflect the impact of AASB 16 Leases. See Appendix 3 for definitions of non-IFRS measures and information on the impact of Mainstream's adoption of AASB 16 Leases on the Group's financial information.

KEY POINTS

- › Revenue increased \$1.8m YoY, driven by new client wins, existing client fund launches and custody income
 - › Fund Services (ex-Super) revenue up 19% YoY, contributing 98% of Group revenue
- › EBITDA down 12% YoY, or 8% after inclusion of share-based payments
- › Increased revenue offset by:
 - › Increased employment costs (up \$2.0m YOY), with all key executive roles in place including four additional senior hires to support US organic growth
 - › Transaction costs (↑ \$0.5m YoY)

NPAT to EBITDA breakdown



¹ See Appendix 3 for definitions of non-IFRS measures and information on the impact of Mainstream's adoption of AASB 16 Leases on the Group's financial information.

* Due to adoption of AASB 16 Leases from 1 July 2019, \$0.1m of interest and \$1.1m of depreciation has been recognised in relation to right-of use assets.

KEY POINTS

- › EBITDA impacted by:
 - › Investment in automation and digital services to enhance our offering and grow demand
 - › AASB16 Leases adoption (\$1.2 impact)
- › Share Based Payments 20% lower than HY19
- › Corporate Costs increased by \$0.5m of transaction costs relating to engagement of professional advisors to assess and respond to external parties looking to explore a range of market opportunities

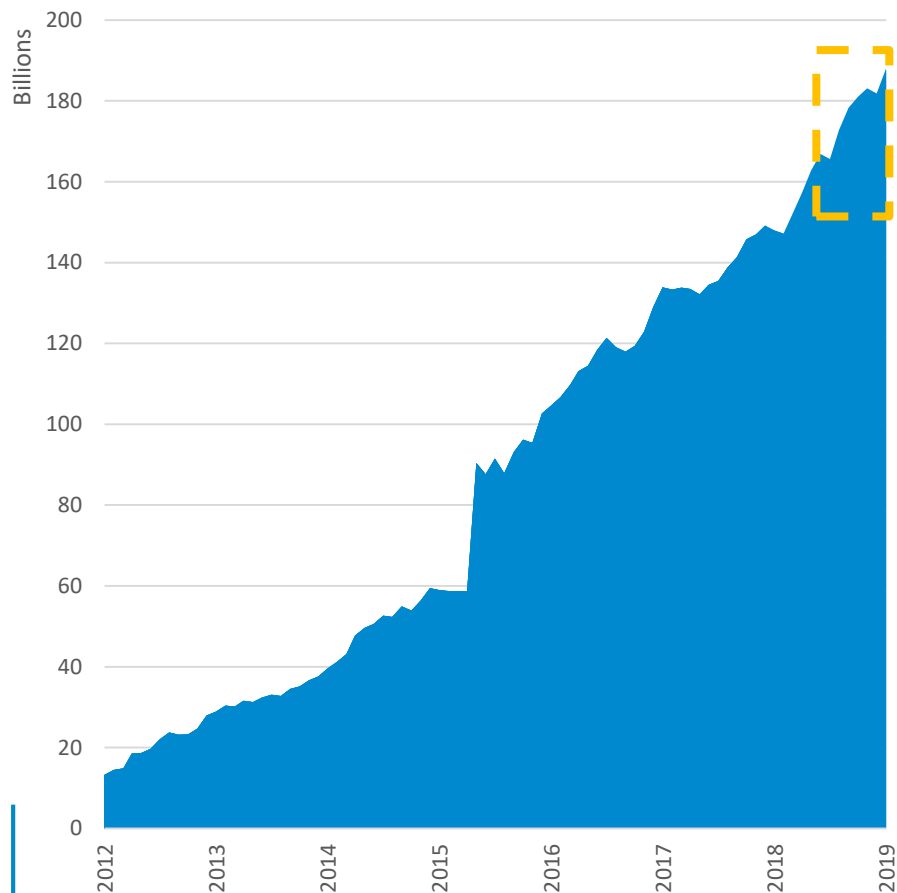
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OPERATIONAL UPDATE

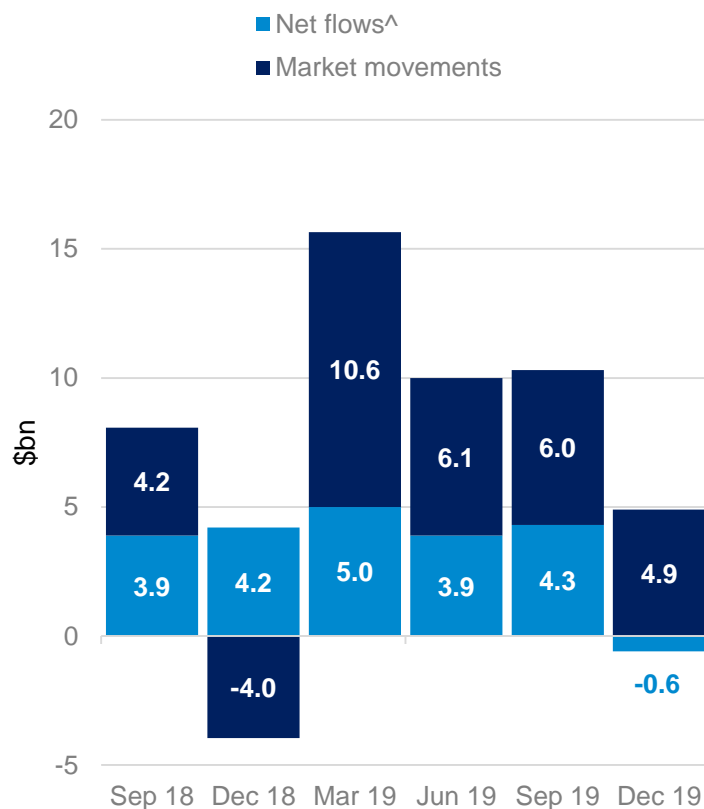


Continued growth in Funds under Administration (FuA)

Funds under Administration (FuA)



FuA growth by quarter



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

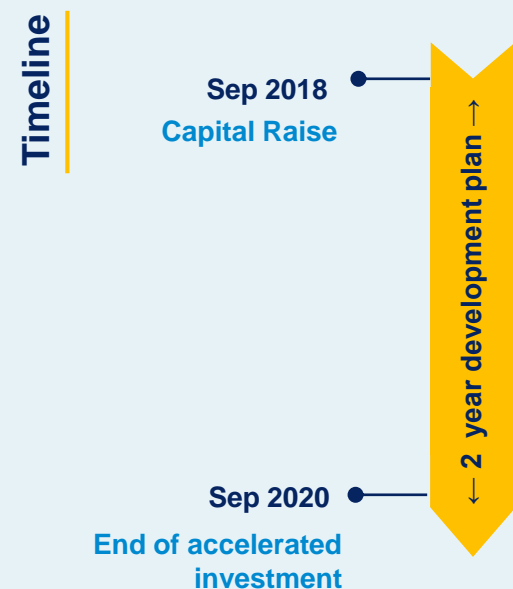
FINANCIAL RESULTS BACKED BY STRONG ORGANIC GROWTH

As at 31 December 2019:

- › FuA: \$187 billion (up 27% YoY)
 - › \$40 billion FuA annual growth included net inflows^ of \$13 billion
 - › Funds under custody now \$7 billion (up 50% YoY)
- › 1,011 funds administered (up 10% YoY), driven by private equity and custody fund wins
- › 348 clients (up 2% YoY) with small fund exits offset by new clients
- › Market and asset class diversity provides some protection during periods of market volatility

Delivering technology and data capabilities for our clients

Increasing demand for automation and digital service delivery



Project highlights

	Overview	% Complete	Key dates
Quoted funds	<ul style="list-style-type: none"> Market leading quoted funds project will allow investors to access unlisted funds on ASX via a single entity and single unit Developed for Magellan 	70%	<ul style="list-style-type: none"> First fund expected to go live end of Feb 2020 Web portal development targeting June 2020
Fund manager portal	<ul style="list-style-type: none"> Digital portal for client reporting and interaction 	80%	<ul style="list-style-type: none"> Pilot launched Dec 2019 with wider roll out expected Sep 2020
Investor self-service	<ul style="list-style-type: none"> Online self service for investors and their advisers for initial applications, ongoing transacting and maintenance 	60%	<ul style="list-style-type: none"> Online app rolled out across 2019 Transacting capability roll out from June 2020

Mainstream Group Holdings Limited (ASX: MAI)

Regional snapshot

Region	Operations	Services	Clients	Highlights	Revenue
ASIA-PACIFIC 	3 markets: <ul style="list-style-type: none"> • Australia (since 2006) • Hong Kong (2014) • Singapore (2012) 	<ul style="list-style-type: none"> ✓ Managed funds ✓ Alternative funds ✓ Private equity ✓ Listed funds 	Funds: 649	<ul style="list-style-type: none"> › HY20 revenue: \$19.2 million › Good progress on custody growth strategy with funds and cash balance already at year-end target (funds under custody up 39% for the period) › Significant IT investments to lift automation and client experience › Superannuation Services successfully integrated into Sydney operations with ongoing focus on streamlining processes › Strong pipeline from client referrals and demand for digital services, particularly through trustee relationships 	HY20 contribution 
AMERICAS 	2 markets: <ul style="list-style-type: none"> • Cayman Islands (2017) • USA (2016) 	<ul style="list-style-type: none"> ✓ Alternative funds ✓ Private equity 	Funds: 233	<ul style="list-style-type: none"> › HY20 revenue: \$5.0 million › Continued growth in private equity, with FuA up 22% and funds up 13% over the period › Four new hires to support building of our US business › Jay Maher appointed to lead both alternatives (hedge) and private equity businesses in USA following management restructure 	
EUROPE 	3 markets: <ul style="list-style-type: none"> • Ireland (2017) • Isle of Man (2016) • Malta (2016) 	<ul style="list-style-type: none"> ✓ Alternative funds 	Funds: 129	<ul style="list-style-type: none"> › HY20 revenue: \$2.4 million › Revenue impacted by rationalisation of smaller unprofitable clients and delayed fund launches expected to go live in second half › Ireland migration to Mainstream preferred alternative fund technology, PFS-Paxus 	

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OUTLOOK



Financial outlook

Group earnings guidance

- › On target to meet full year guidance of approximately \$55m revenue
- › EBITDA^ full year outlook revised from \$10.5m to \$9m (after AASB 16 Leases) to reflect impact of:
 - › Further growth investments to enhance our market position and profitability in Australia
 - › HY20 transaction costs and Super integration costs
 - › Management restructure to align US private equity and alternatives businesses
- › Outlook is sensitive to key client losses / gains, material market movements and interest rates
- › Board conducting review of some non-core businesses against growth and profitability objectives
 - › Actions to be well under way by June 2020

Capital expenditure

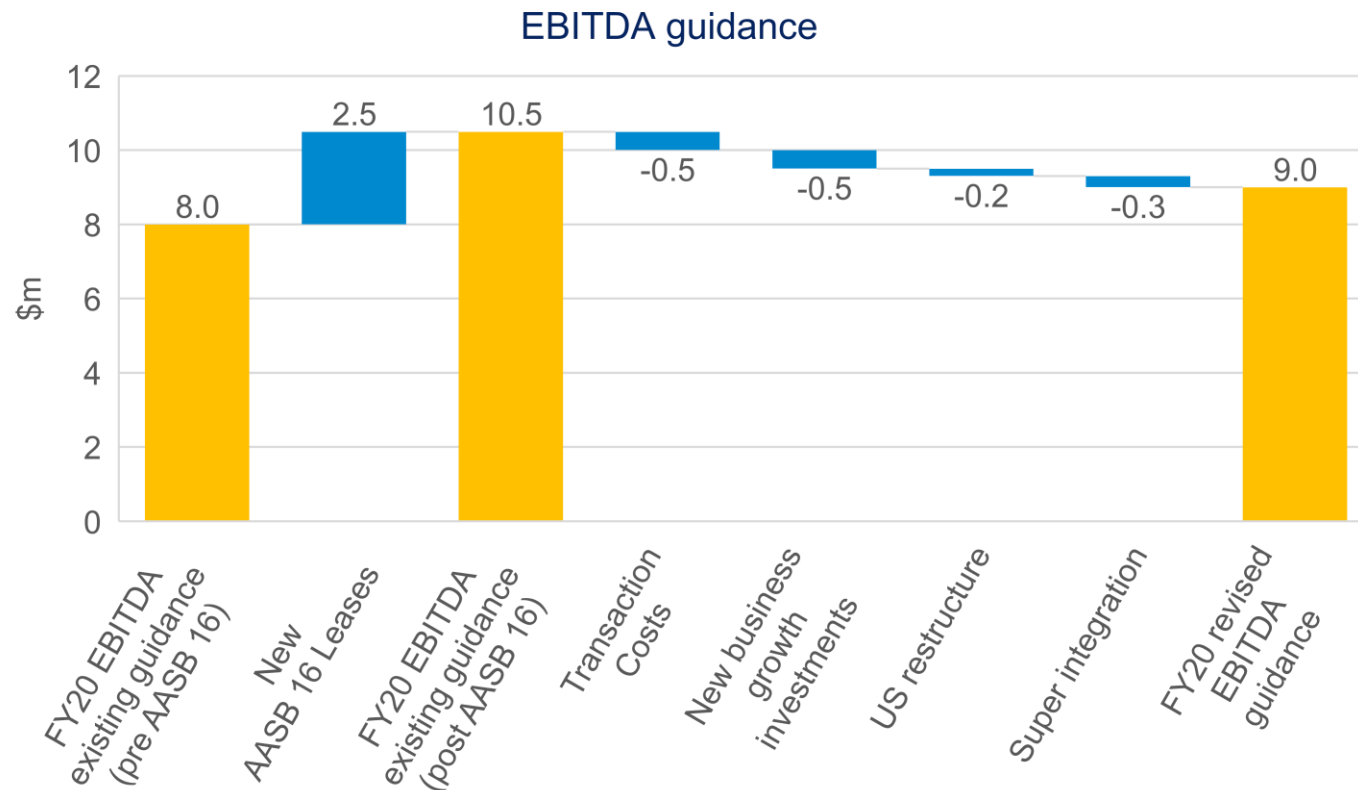
- › FY20 Capex investment in digital service delivery to tail off from Sept 2020
- › Benefits of investment expected to be felt in FY21 onwards via increased client demand

Dividend outlook

- › Dividend not declared for HY20 due to focus on growth investments
- › Strategy is to continue to reward shareholders with dividends
- › Anticipate partial franking levels as international profit continues to grow

* See Appendix 3 for definitions of non-IFRS measures.

Earnings guidance update



- › FY20 revenue on track to achieve \$55 million
- › FY20 EBITDA guidance revised from \$10.5 million to \$9 million (post AASB 16 Leases)
 - › Includes approx. \$1.8 million investment in global business development in Asia and US (Europe deferred)

^ Indicative forecast only. See Appendix for explanation of forward looking statements and definitions of non-IFRS measures.

Business outlook

Well positioned for continued growth






- › Ongoing demand for services in core markets
 - › Considerable opportunities opening up from consolidation in Australian fund admin and custody sector
- › Business model based on high levels of recurring revenue:
 - › Deep client relationships with further cross-selling opportunities available
 - › All material contracts have long term agreements in place
- › Attractive industry fundamentals
 - › Well positioned to benefit from continued trend towards outsourcing by partnering with high quality fund managers
- › Strong sales pipeline from deep client relationships and growing brand awareness

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APPENDIX



Appendix 1: Mainstream's fund services

Fund type	Products we service	Services available	
TRADITIONAL 	Managed funds, Superannuation funds	<ul style="list-style-type: none"> › Fund administration › Fund accounting › Unit registry 	<ul style="list-style-type: none"> › Custody › Performance reporting › Trade management › FATCA & CRS
ALTERNATIVE 	Alternative funds	<ul style="list-style-type: none"> › Fund administration › Transfer agency › Regulatory reporting › Registered office services 	<ul style="list-style-type: none"> › Company secretarial services › Fund formation › Middle office › FATCA & CRS
PRIVATE EQUITY 	Private equity, Venture capital, Real estate	<ul style="list-style-type: none"> › Fund launch › Portfolio company & real asset services › Investor services › Tax audit & compliance › Manager & investor web portals 	<ul style="list-style-type: none"> › Capital calls › Financial statements › Fee calculations › Waterfall modelling › Distributions › Investor reporting › Management reporting
LISTED 	ETFs, LITs, LICs mFunds	<ul style="list-style-type: none"> › Investment administration (NAVs & PCFs) › Fund accounting 	<ul style="list-style-type: none"> › Listed registry › Post-trade compliance & trade matching
PLATFORMS 	Managed account service, SMA fund, Cayman umbrella fund, UCITS umbrella fund, public offer super fund	<ul style="list-style-type: none"> › Fund administration & accounting › Investor / member services 	<ul style="list-style-type: none"> › Market data & pricing › Trade matching › Client reporting

Appendix 2: Balance sheet

\$m	HY20	FY19
Current assets	22.4	22.2
Non-current assets	33.0	27.6
Total assets	55.4	49.7
Current liabilities	10.1	7.7
Non-current liabilities	10.2	7.0
Total liabilities	20.2	14.6
Net assets	35.2	35.1
Equity	35.2	35.1

KEY POINTS

- › Mainstream maintains a net cash position in excess of regulatory capital requirements
- › Investing in growth while reducing debt:
 - › \$1m capitalised as a result of IT projects
 - › 3 year debt facility reduced from \$7m to \$6m in January 2020
- › AASB 16 Leases adoption resulted in \$5.2m increase in assets and \$5.7m increase in liabilities as at 31 December 2019

Appendix 3: 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 the operating performance of the Group
2. **Operating EBITDA** is used to highlight Operating Margin before Corporate Costs.

AASB 16: From 1 July 2019, Mainstream has adopted the modified retrospective method of AASB 16 Leases. Comparative figures have not been restated and the cumulative effect of initially applying the standard is recognised as an adjustment of the opening balance of retained earnings at the date of initial application. Refer to Note 2 of the Financial Statements for further information on these adjustments. HY19 figures have not been restated for comparative purposes.

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