H1 FY 2020 results - conference call transcript

Presenters: Connie Mckeage (Managing Director)
Ashley Fenton (Chief Financial Officer)

Welcome everyone and thank you so much for joining us here today at the 2020 half yearly results presentation.

We really can't start anywhere else but with an update on the Sargon Receivable. Although the OneVue business fundamentals and prospects have actually strengthened over the half year ending December 2019, including operating cash flow and margin improvement, there is no doubt that over the last 12 months the ongoing attention in relation to the Sargon matter has negatively impacted OneVue's market value.

It is worth noting that since we first announced the transaction in December 2018 there has been no material change to our growth prospects or the implementation of our strategy. To the contrary, the options to deliver accelerated growth in the business has only increased and our strategy has gained momentum.

However, given the high level of interest and significance to OneVue and its shareholders of the Sargon Receivable let me share with you the background, the process, the participants and the current status.

In 2017 the Board and Management of OneVue made a decision to simplify the business and focus our attention on the fast growing Fund Services and Platform Services businesses. We progressively exited all third party regulatory services including the RE business which we sold to Equity Trustees and on the 28th June 2019 we sold the last third party regulatory business, Diversa Trustees and CCSL to Sargon.

The amount due by Sargon to OneVue for the purchase was $43 million which comprised of $12 million cash which was received on completion and a deferred consideration of $31 million.

This deferred consideration was due to be paid by Sargon on or before 30th November 2019.

The consideration was also secured under a general security deed, provided by a subsidiary of Sargon, SC Australian Holdings 1 Pty Limited (SCAH1) and registered on the Personal Property Securities Register.

In November 2019, OneVue was notified that despite Sargon's efforts to raise capital in Australia to extinguish the debt owed to OneVue, Sargon had been unable to secure the funds required and they were now concentrating their efforts offshore where over $100m in funding had previously been secured.

On 22nd November 2019, after undertaking further extensive due diligence, OneVue agreed to extend the timeframe on which the deferred consideration was due from 30th November 2019 to 29th May 2020. The $31m outstanding became interest bearing. The first monthly interest payment was due on 31st December 2019 and was received by OneVue on that date.

On 29th January 2020, Sean Fraser and Jason Preston of McGrathNicol were appointed Receivers and Managers of Sargon Capital, by a secured creditor, Taiping Trustees Limited. Sargon Capital is the ultimate holding company of the Sargon Group.

Shortly following this on 3rd February 2020, the Directors of SCAH1 appointed Stewart McCallum and Adam Nikitins of EY as Voluntary Administrators.

The Voluntary Administrators must act independently to try and work out the best way to preserve value in the Companies and repay creditors including OneVue.

In a move to preserve the OneVue secured assets, on 4th February 2020 the day after the Voluntary Administrators were appointed, OneVue appointed Christopher Hill and Daniel Walley of PwC as Receivers of SCAH1, as OneVue was its only secured creditor.

The OneVue appointed Receivers took control of the secured assets of SCAH1 and now have management control over the assets rather than the Voluntary Administrators, giving OneVue additional control over the recovery process.

On 19th February the PwC Receivers completed the sale of OneVue's interest in Sequoia raising $4.3m net. The other secured asset is the Madison Financial Group.

The PwC Receivers are currently taking steps to sell the shares in the Madison Financial Group and in this regard, we confirm that we continue to support the group as it trades on a business as usual basis.

Bob Neill from Seaview Consulting has been appointed to run the sales process and we will complete the sale of the Madison business as quickly as possible to minimise the disruption to the business and its advisers.

In addition, we would like to clarify the position in relation to the Diversa and CCSL businesses sold. We are unable to take ownership back of those businesses as the sale was completed. However, we understand that we are the only material creditor of the business and the Voluntary Administrators are well advanced in securing a sale for the shares in Diversa and CCSL.

I would like to confirm that prior to the sale and prior to the extension of the deferred consideration date being extended, OneVue and its advisers undertook financial due diligence.

However, since the Receivers and Voluntary Administrators have been appointed we have not had access to Sargon's latest financials and until we understand the Sargon Group's current financial position including all outstanding liabilities and secured positions, we have made a provision to write down the value of the receivable by $26 million to $3.9 million.

The provision has been determined after taking into account the following factors:

- The potential secured interest position of Sargon
- The dependency on asset sale realisations (net of costs) from SCAH1 and Sargon's operating businesses
- The difficulty in determining the likely values to be achieved from asset realisations in a distressed sale situation
- The risk of diminishment in the value of the Sargon group operating entities with significant client loss risk and staff attrition risk
- The unclear financial asset and liability position of Sargon and subsidiaries, especially with respect to the amount owed under the Taiping security pending detailed reports from the Sargon Receiver and Voluntary Administrator and
- The costs of recovery including advisers

Once we gain access to the most current financial information including the secured positions should they not be consistent with the data provided to OneVue and its advisers during the due diligence process we will enforce the full extent of our legal rights.

We will however keep you updated on a regular basis as we seek to maximise the financial outcome from the recovery process.

The key points however are:

- As part of taking control of OneVue's secured assets the Receivers, Daniel Walley and Christopher Hill seized control of the Sequoia shares and subsequently sold the shares for $4.3m net. Those funds have been deposited into the OneVue bank account.
- The Madison Financial Group over which OneVue also has a secured interest is in the process of being sold by the Receivers. There has been a very high level of genuine interest to date in the sales process.
- The Voluntary Administrators over various Sargon subsidiaries, excluding the Madison Financial Group are finalising the sale of the underlying assets in these Sargon subsidiaries on an urgent basis including the shares in Diversa and CCSL. We are awaiting the outcome from this sale process.

Most importantly despite the high profile Sargon distraction it has not affected OneVue's ability to service our clients on a day to day basis. In fact, our clients have been extremely supportive during this period. Nor has it impacted our ability to fund our future growth plans including an agreement to proceed under a newly signed term sheet with a client who will become Managed Fund Admin's single largest customer.

Given the Sargon matter has overshadowed many of the positives in the business over the last 15 months we believe the buy-back represents a good use of OneVue's capital.

Now let me turn my attention to the half yearly results.

Page 5 H1 FY20 results

Whilst revenues over the half are slightly down this was largely as a result of the impact of the reduction in interest rates and the higher than average once-off project revenues in the prior corresponding period. Pleasing however was the EBITDA result which was up 6% and our EBITDA margin increased from 9 to 10%. So that you can compare "apples with apples" as most of our Platform peers have stated their headline EBITDA including the AASB16 - our reported EBITDA is $3.4 million and our EBITDA result is up 48%.

As you can also see, the NPATA result which generally presents a view of underlying cash profitability was up 59% whilst operating cash flow more than doubled from $1.1m to $2.4m million over the period.

The improving fundamentals are now generating a clear pathway to enhanced profitability.

Page 6 OneVue's Businesses

Let me turn my attention to the underlying businesses of Fund Services and Platform Services. Fund Services represents over 63% of OneVue's Group revenues and comprises both the managed fund administration and the superannuation administration businesses. The Fund Services Managed Fund business services over 58 fund managers and is highly automated with over 90% of all items processed automated.

The Fund Services Superannuation Administration business is now the 3rd largest outsourced superannuation administrator in Australia, servicing over 36 super funds with an increasing number of investor monies being processed straight through without manual intervention.

Turning now to Platform Services. It represents 37% of OneVue's total revenues and has just broken though $6b in FUA and continues to rank in the top tier of Platforms in Australia. Its focus is on producing higher levels of automation, especially in the fast growing sector of managed accounts.

Each business has its own growth trajectory however our real strategic advantage is the Investment Gateway which is a unified digital messaging gateway enabling frictionless access to multiple assets within a tightly integrated community.

The high levels of automation and integration between the OneVue businesses and between the OneVue businesses and the broader digital community is delivering margin expansion at a time when most businesses are experiencing margin compression and most importantly, we are delivering real benefits to our clients.

Page 7 Automation and integration ~ the Investment gateway

I won't dwell on the case study on this page however it is a small example of the value being created for clients due to the tight integration in this case between Platform Services and Managed Fund administration. The investment we have made enables cut-of times for managed funds as late as 2pm instead of the industry standard of 9am and settlement times are greatly reduced along with many other benefits.

Page 8 Operational highlights

Now to the operational highlights.

Firstly, Fund Services Managed Fund administration. We continue to say this is a uniquely positioned business equal to any managed fund administration business in the world with one of the highest quality client bases in Australia providing technology with a service to over 58 fund managers.

The number of items processed in the year were up by 34% and as I stated previously we continued to invest in integration and automation with the automated number of items processed reaching a record 92%.

We added 5 new fund managers and 430 funds during the year, increasing the number of funds by 45%. The managed fund administration business now administers over 1,384 funds. We are also continuing to transition a contracted organic client pipeline representing over $3,000,000 per annum of additional revenue and have this week agreed to proceed with a client that will become that business' single largest customer.

Now turning to the Fund Services Superannuation Member Administration business where the underlying member numbers increased by 8.4% (excluding the PYS member impact) and the funds under administration was up 21%.

We took the decision to slow the superannuation system migration over the period so that we could put in place an automated solution to meet the ongoing requirements of the new PYS and PMIF regulations. We are now full steam ahead and certain of completing a full transition of all clients across to IRESS's Acurity system in this calendar year. Once the migration is complete we will see a significant reduction in the total amount being capitalised. We are well enough progressed however, to now start pro-actively seeking new business.

Finally, Platform Services. Platform Services FUA reached a record funds under administration of $6.0b however the revenues were affected by the reduction in interest rates over the period.

Page 9 Managed Fund admin scale

The investment in automation and the benefits of scale can be further seen on this page where the steady and increasing growth trend of the managed fund administration business is evident.

Page 10 Platform Services scale

In Platform Services, the increasing momentum and scale along with consistently positive net inflows can be seen on this next page.

Page 11 Recurring revenues

Moving to the next page, over the period an already high level of quality recurring revenues increased further to over 96% of total revenues in this first half.

The OneVue Group of businesses all have continuing growth momentum, a clear pathway to enhanced profitability, increasing margins, high levels of recurring revenues and a strategic advantage created by the investment made over the last two years in automation and integration via the Investment Gateway.

Now over to you Ash.

Thanks Connie and good morning.

I don't usually start with something about accounting standards but in this case it is material to understand that OneVue adopted AASB16 during this half and operating leases were capitalised onto the balance sheet and are now recognised as "Right-of-Use" assets and lease liabilities. AASB16 has increased the reported EBITDA by $1.0m for this half. The AASB16 reported numbers are shown in the first column on the left. The results shown pre AASB16 to the right are the focus of the presentation as they are directly comparable with the prior corresponding periods reported results.

And also to note that the Trustee business results in the PcP are shown as a Discontinued operation.

Starting with the Financial Summary – page 13

I won't run through all the numbers here, but some key points to note:

Revenues from continuing operations were down $1m or 4% to $24.3m. Solid new client growth was offset by the impact of lower Platform cash balances and interest rates and lower non-recurring project and transition fees. Non-recurring revenues in total were down from $2.4m to $1m. I will take you through the revenues and results by business shortly.

EBITDA was up 6% to $2.4m and EBITDA margin was up 10.6% or 100bps to 10%, with both businesses lifting their margins.

Depreciation and amortisation was down slightly and included $0.8m of non-cash based customer intangible amortisation.

Interest revenue related to the interest received on the Sargon Receivable.

Non recurring costs reflect acquisition, integration and restructure costs, with the majority relating to the restructure following the sale of the Trustee business.

The tax benefit of $0.8m reflects the recognition of tax losses not previously recognised on the Balance Sheet.

The net profit from discontinued operation in PcP of $0.3m relates to the Trustee business.

Clearly the result has been significantly impacted by the Sargon Receivable expense and Connie has already covered that.

Adjusted NPATA from Continuing Operations of $1.0m, was up 59% on PcP. We believe this is a useful indicator of performance and cash generation and adjusts for the significant items, initial recognition of tax losses and for the non-cash acquired customer intangibles and share based expenses.

Page 14 Fund Services

I'll now turn to the segment results, starting with our Fund Services business which represents 63% of total revenues.

Total revenues of $15.9m were down 3.8% on PcP. As you can see on the revenue bridge graph, we had reasonable new client revenue growth but it has been negated by higher one off project and transition fees in the PcP and also by the flow through of a pricing reset in the PcP.

Recurring revenues, which exclude the one off project and transition fees were up 3.5% and represented as a percentage of revenue 94.9% - up 7.7%.

In Managed Fund admin revenues from client growth were up $0.5m, with revenues from new client transitions offset by lower project revenues of $0.7m compared to the PcP. Revenues excluding project fees were up by 8%.

Revenues for Super Member admin also showed some growth from new clients ($0.3m), but against this there were lower project and transition revenues ($0.3m), the pricing reset in the PcP for the major contract renewal also impacted by $0.3m and the impact of PYS resulted in $0.1m in lower revenues.

Expenses were managed closely and EBITDA of $3.3m was up 6.7%, with automation and scale driving the 200 bps increase in EBITDA margin from 18.7% to 20.7%.

Page 15 Platform Services

Turning now to Platform Services.

Total revenues of $9.2m were down 2.5% on PcP. As you can see on the revenue bridge graph, new client and FUA growth of $1.1m was negated by the impact of lower cash levels held on Platform and related interest rates (75 bps lower over the year), as well as by higher one off project fees of $0.3m in the PcP.

Recurring revenues, which exclude the high margin one off project fees were up slightly and represented as a percentage of revenue 98.2% - up 3%.

Operating expenses were 2.7% lower reflecting lower direct cost of sales and project activities.

EBITDA was in line with PcP, whilst EBITDA margin was up slightly by 20 bps to 15.5%.

Finally, on Segment results Corporate costs of $2.3m were in line with PcP.

Moving now to cash

Page 16- Operating Cash flow

Underlying operating cash flow, before non-recurring costs of $2.4m, was up strongly by $1.3m or 118%. This represented an improvement in the EBITDA to cash conversion rate. Working capital in the PcP was impacted by the transition of the KPMG Super business.

Interest received was from the Sargon Receivable, whilst the interest paid in the PcP related to the Trustee business loans.

Our total capitisation cash outlay of $3.6m was up $1m, mainly due to payments for prior period client establishment costs of $0.7m and increased project development investment to enhance functionality of product offerings, increased automation initiatives and software integration. Key categories included; software development of $1.1m, client establishment costs of $1.6m and software integration and automation of $0.9m (including the Super Acurity migration).

Page 17- Balance Sheet

Our Balance Sheet position with cash on hand, and debt facilities supports the growth and operating requirements of the business. Cash will be further boosted by the $4.3m net proceeds from the recent recovery from the Sargon security and by an increase of $4m in debt capacity in January 2020.

As reported earlier AASB16 brings right of use assets and lease liabilities onto the Balance Sheet.

Contingent consideration represents the final earn out payment to KPMG for the acquisition of their superannuation administration business, as well as the NMPE earn out. A payment of contingent consideration of $1.5m was made in January 2020.

We are well positioned for ongoing disciplined capital management, ensuring we support further growth opportunities whilst also now being able to undertake the share buyback programme of up to 10% of share capital over the 12 months to 18 February 2021.

I will now handback to Connie.

Thanks Ash.

Page 19 Summary

I have to admit this has the most challenging period we have experienced to date however it is during these times that our values and our ability to stay true to our core beliefs is tested. We have consistently stated the importance of the 20-mile march philosophy to OneVue and its people, the need to keep moving forward, to do 20 miles a day regardless of the circumstances in which we find ourselves.

So despite fifteen months of dealing with Sargon matters, and despite the circumstances we now need to manage through we have continued to deliver against our strategy, we have increased our margins and our operating cash flow, the EBITDA has increased by 6% and the sectors in which we operate continue to have strong tailwinds.

There is a clear pathway to enhanced profitability and the ongoing investment we have made in automation and integration via the Investment Gateway is bearing fruit.

Sargon will play out over the next few weeks and months and we will keep the market updated as soon as we become aware of any new information. In the meantime, we have written down the Sargon Receivable by $26 million to $3.9 million so that from here we can deal with the financial upside rather than responding to ongoing conjecture of what the downside could be.

Have no doubt that the Board and Management will continue to take all steps and actions necessary to recover the full value of the consideration receivable under its legal rights and with the guarantees and securities available.

Given the OneVue share price and lower than peer group PE multiple, the Board views the buy-back programme as an effective use of OneVue's capital.

Page 18 Looking forward

Looking forward, Fund Services Managed Fund Administration will continue to transition the outstanding clients currently representing over $3m in recurring revenues per annum.

In addition, this week, after an extensive tender process OneVue has been selected and agreed a term sheet for what will become OneVue's single largest managed fund client.

The pipeline of potential new clients is also at an unprecedented level as the market increasingly looks to outsource to administration specialists.

Our focus for Superannuation Administration is on completing the transition to IRESS's Acurity so that the benefits of automation and integration between Superannuation Administration via the Investment Gateway and Platform Services can be capitalised and the synergies from operating on a single system can be realised.

We have also just won a new Platform Services client, and we will continue to invest in managed account automation.

Page 19 Three Pillars to enhanced profitability

In summary the three pillars for the future are automation and integration via the Investment Gateway, Innovation and Scale. Over the past two years we have made a significant investment in automation and integration that is now starting to bear fruit by delivering both margin expansion and client benefits.

The next phase includes integration with open banking, the automation of corporate actions and closer integration with IRESS's X-Plan.

Our focus over the next 6-12 months is also on uplifting the digital experience for clients, partners and advisers. We are investing in the customer experience including trialing AI across our customer service centres.

Due to the high quality global nature of many of our clients, we have already heavily invested in scalable technology and security.

The migration of superannuation clients onto one system will drive further efficiency together with scale and growth benefits.

We are well positioned for the future.

Finally, although unconventional I would like to take the time to thank the many individuals, peers, competitors, strangers in the industry who have reached out to ask if we are ok. Both the business as well as Ash and I are fine but the gesture of so many across the industry who have recognised the pressure of dealing with consistent Sargon matters for over 15 months is greatly appreciated. And for all the criticism that the financial services industry endures we have over the last 15 months seen the worst of it, but importantly we have also seen the best of it. So thank you.

Now we would like to invite any questions you might have.

End of Transcript

This announcement was authorised for release to the market by the Board of OneVue.

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About OneVue Holdings Limited (ASX: OVH)

OneVue is an ASX listed fintech company that partners to disrupt across the superannuation value chain. The business operates through two core divisions: Fund Services and Platform Services.

OneVue is number 1 in Fund Services managed fund 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.

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