17 August 2020
ASX Announcement

Mainstream Group Holdings Limited final results for the year ended 30 June 2020

Mainstream Group Holdings Limited (ASX: MAI) today announced its results for the year ended 30 June 2020 (FY20).

Highlights

- Revenue of $55.4 million
- EBITDA[1] of $9.2 million
- Final dividend declared of 1.0 cent per share, 50% franked

Results summary

	FY20	FY19	Change
	$m	**$m**	
Revenue	**55.4**	**50.0**	+11%
Operating EBITDA[2]	**16.1**	**11.7**	+38%
Operating EBITDA Margin (%)	**29.0%**	**23.0%**	
EBITDA	**9.2**	**7.4**	+24%
EBITDA Margin (%)	**16.6%**	**14.9%**	
Total Dividends per Share	**1.00cps**	**1.25cps**	-20%

The following table reconciles Mainstream's net profit after income tax of $0.5 million to its EBITDA of $9.2 million for the twelve months ended 30 June 2020 compared to the prior corresponding period. It shows EBITDA increased by $1.8 million, or 30%, after inclusion of share-based payments.

	FY20 $ (000's)	FY19 $ (000's)
Profit after income tax expense	**546**	**-1,140**
Add:		
Income tax expense	1035	686
Amortisation expense	1,537	1,647
Depreciation expense	3,858	1,281
Interest expense	502	418
Share-based payments expense	1,734	1,697
Goodwill impairment	0	2,847
EBITDA	**9,212**	**7,436**
EBITDA including share-based payments	**7,478**	**5,739**

[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. FY20 EBITDA was impacted by $2.4m from the adoption of AASB 16 Leases from 1 July 2019. FY19 EBITDA has not been restated to reflect AASB16 Leases.
[2] Operating EBITDA is not an IFRS standard and is used to highlight Operating Margin before Corporate Costs.

Funds under Administration highlights

Funds under Administration (FuA) rose 14% during the full year to $196 billion (FY19: $173 billion). All of FY20 FuA growth was from organic sources. The $24 billion increase in FuA was attributable to both net inflows[3] (71%) and market movements (29%).

The number of funds administered grew to 1,078 (FY19: 1,012) as Mainstream continued to build its new business pipeline. Global client numbers were flat at 350 (FY19: 356), with small fund exits and mergers offset by new clients.

Clients were diversified across alternative assets (54% of clients), traditional asset classes (27%), private equity fund managers (17%) and superannuation funds (2%), providing protection against volatile market conditions in the second half.

Business update

In line with earnings guidance, FY20 revenue reached $55.4 million, (FY19: $50.0m). All revenue growth was organic, driven by ongoing demand for services in our core markets of Australia, Asia and the US.

$50.2 million (91%) of revenue was fee income from contracted clients, $2.3 million (4%) from interest income on custodial accounts and deposits and $2.9 million (5%) from other operating income.

Asia-Pacific ("APAC"), which includes Australia, Singapore and Hong Kong, contributed 72% of the Group's revenue during FY20 (FY19: 72%). The Australian business benefited from disruption in the custody sector and outsourcing of wealth back offices by the banks post the Royal Commission. The Australian custody business grew its funds under custody by 96% to $9.7 billion during the year. Hong Kong and Singapore also performed strongly in challenging market conditions. Their FuA was up 56%, from $11.5 billion to $26.0 billion, with a net increase of 31 funds. This growth reflected Mainstream's established brand and market presence in Asia following seven years of local operations.

The Americas (USA and Cayman Islands) accounted for 19% (FY19: 17%) of revenue, driven by the US private equity business which now administers A$10.8 billion in assets, up 96% on the prior year, with a net increase of 48 funds. Europe (Ireland, the Isle of Man and Malta) contributed 9% of revenue (FY19: 11%).

Mainstream's core Fund Services business, which includes fund administration and custody, accounted for 98% of the Group's revenue in FY20 (FY19: 92%). Mainstream Superannuation Services contributed 2% of Mainstream's FY20 revenue (FY19: 8%). This was in line with expectations due to ongoing consolidation within the superannuation industry and resulted in Superannuation Services' operations integrating into the Fund Services business in Sydney.

In line with strategy, Mainstream made a number of investments in future growth this financial year. Investment in our people, processes and technology contributed to a net profit after tax of $0.5 million for the period (FY19: net loss of $1.1 million).

Global headcount grew to 272 people as at 30 June 2020 (FY19: 259). The majority of hires were made in the first half of the year to support growth in our core markets although we have continued to onboard employees during the COVID pandemic.

Mainstream continues to focus on client demand for digital service delivery, automation and alleviation of margin pressures through straight-through processing. Consequently, $10.3 million was spent on data, technology and automation during the period (FY19: $8.3 million).

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

$2.1 million of IT costs were capitalised via investments in market leading digital and automation projects including:

- Market first operations to support listed and unlisted funds within a single fund (Quoted Fund)
- A proprietary web portal for fund managers
- A proprietary investor portal and online application for initial investments
- A proprietary custody client portal that directly integrates with sub-custodians for trade capture and online reporting
- Automated corporate actions software and workflow
- Unit registry reporting platform upgrades
- Automated general ledger reporting

These investments, part of a two year IT development strategy following the 2018 capital raise, significantly differentiate Mainstream's service offering in Australia and are expected to meaningfully contribute to revenue and profitability from FY21.

COVID-19 response

The final months of this financial year were impacted by health and economic consequences of the COVID-19 pandemic.

In response to the uncertain and dynamic business conditions, the Board moved swiftly to ensure the safety, protection and wellbeing of our clients, our people and our shareholders. This included a focus on immediate client needs, capacity upgrades to support remote work, extension of our debt facility maturity, discretionary cost control and targeted growth investments in line with client demand (specifically, Quoted Funds, custody, online web services and PE services).

Despite the ongoing crisis, Mainstream saw continued demand for outsourced fund services which are essential for running an investment manager's back office.

Mainstream continues to operate with disciplined cost management and targeted allocation of capital in order to remain agile and respond to opportunities and changes in our operating environment.

Dividend

Mainstream is a growth company that aims to pay dividends to shareholders.

As a result of Mainstream's strong cash generation in the second half of the year, the Board will pay down the Company's debt by $1 million in September 2020 and also pay a dividend to shareholders.

A final dividend for the year ended 30 June 2020 of 1.0 cent per share has been declared, 50% franked at a corporate tax rate for imputation purposes of 30%, payable on 14 October 2020 (FY19: final dividend of 0.50 cents per share, 50% franked).

The partial franking reflects the growing contribution of Mainstream's offshore operations, with 47% of annual revenue and 40% EBITDA derived from offshore businesses during the period.

The Board did not declare an interim dividend for the half year ended 31 December 2019 due to the focus on investing in the future growth of the business (FY19: interim dividend of 0.75 cents, 100% franked).

Outlook

Despite the challenging global environment, Mainstream continues to see new business demand, particularly in Australia, US and Asia, as a result of business development activities. In FY20, 90% of $55 million total revenue was recurring via long term contracts and the Company enters FY21 with annual contracted revenue of $62 million.

In the Board's opinion, the Company has a clear path forward to weather current conditions and remains cautiously confident in its FY21 business growth plans and capital expenditure on key client projects.

Consequently, the Company has issued FY21 market guidance of:
- Revenue of approximately $65 million, and
  EBITDA[4] of approximately $11.5 million

Factors that could influence the Company's short term outlook include material exchange rate, interest rate or market movements and key client losses or closures, particularly in the current fluid market environment as COVID-19 continues to spread.

Commenting on the results, Mainstream Chief Executive Officer Martin Smith said "While COVID-19 brings uncertainty, we are reassured by the ongoing demand for our services and strong pipeline. We remain committed to our strategic priority of growing organically in our core markets while managing the risks of the current macro-economic environment."

"The market disruption caused by COVID-19 has highlighted the resilience of our clients and quality of our people. Our immediate priority remains to support our employees and clients at this difficult time."

Authorisation

This ASX Announcement has been authorised by the Company's Board of Directors.

For more information

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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 2020 the Group provides administration services to 1,078 funds and more than 93,000 investors with funds under administration in excess of AUD $196 billion.

Mainstream employs 272 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.

[4] After application of AASB 16 Leases. Assumes USD/AUD 0.72.