

# 2020

RESULTS FOR THE  
FULL YEAR ENDED  
30 JUNE 2020

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MAINSTREAM GROUP  
HOLDINGS LIMITED  
(ASX: MAI)

RELEASED  
17 AUGUST 2020





## Business Highlights

- Foundations of our success
- FY20 highlights
- Transformational growth
- Growth opportunities

# Foundations of our success

## About

- › ASX: MAI, founded 2006, IPO 2015
- › Global fund services for 350 clients and 1,078 funds with \$196 billion in funds under administration
- › 272 employees in eight countries
- › Product, client and geographic diversity relative to peers

## Services

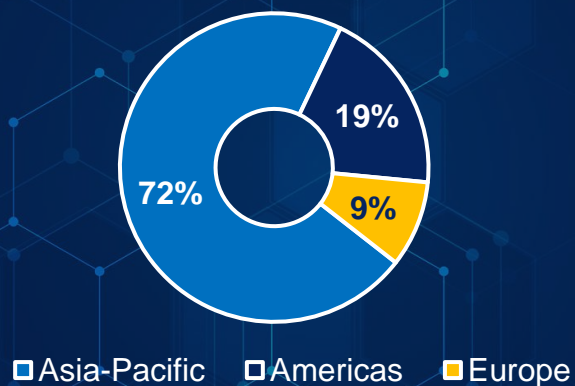
- › Long term contracts to deliver fund services, custody, middle office and corporate services
- › 64% of clients use 2+ services
- › Focus on fund managers with listed, unlisted and alternative funds

## Strategy

- › Specialise in fund services
- › Organic growth in core markets
- › Deliver back and middle office solutions to clients
- › Serve clients across multiple jurisdictions
- › Build partnerships and alliances with providers across the value chain

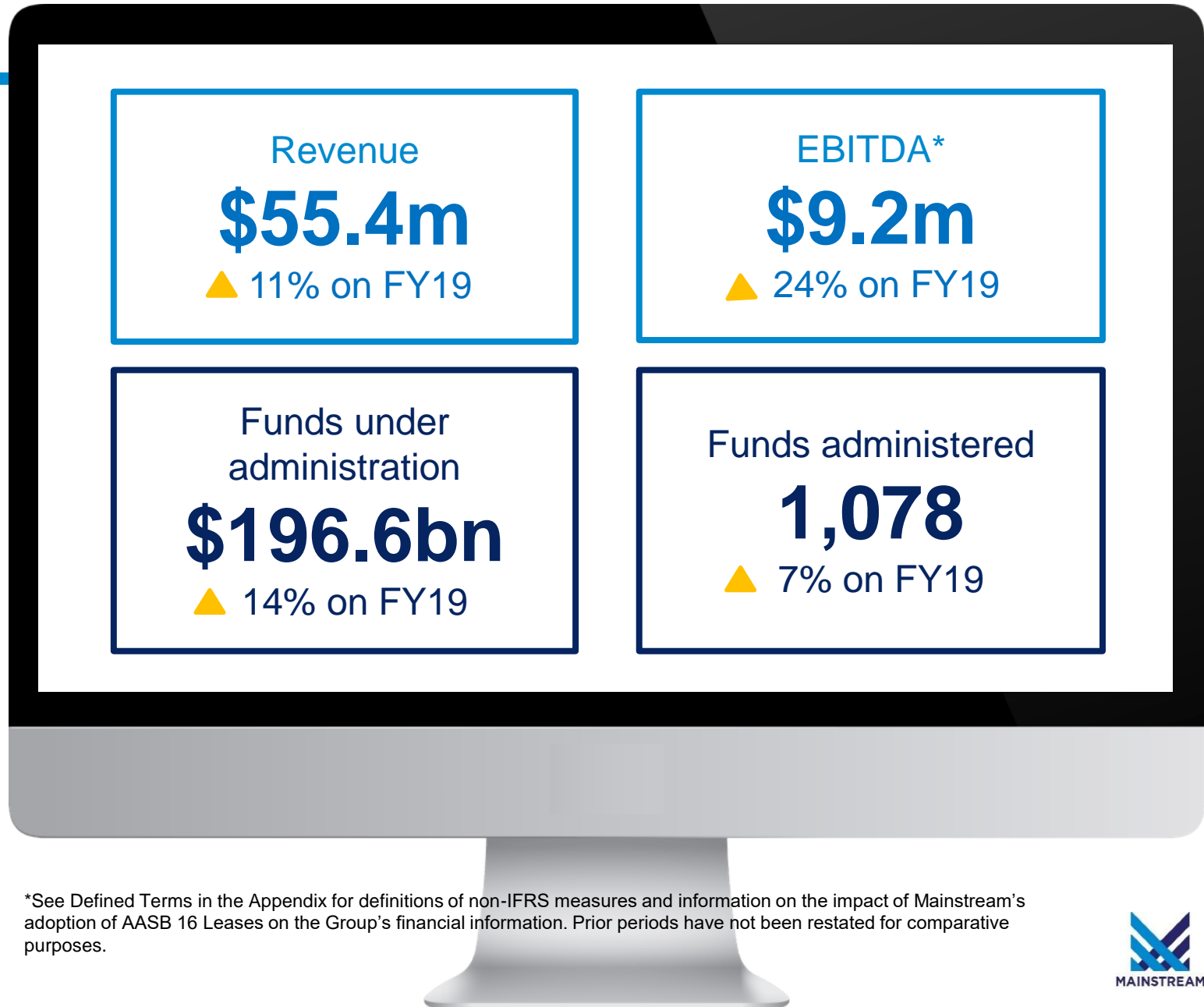
Local presence,  
global reach

FY20 revenue by region



# FY20 highlights

- › Resilient revenue and funds under administration continued to grow in challenging conditions
- › Signing of Pental secures 3rd 'crown jewel' client, backed by significant new client wins in US and Hong Kong
- › Continued new business opportunities created by structural shifts, industry consolidation and regulatory changes
- › Good progress in building our higher margin businesses (custody, private equity)
  - › US business now profitable











\*See Defined Terms in the Appendix 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. Prior periods have not been restated for comparative purposes.

## Key Points

- › Mainstream has delivered on its strategy
- › Global platform built in first 3 years post IPO
- › 100% organic growth in last two years
- › \$10m capital raise in early FY19 seeded growth in custody, private equity and digital services
- › Growth from these investments expected to deliver improved margins

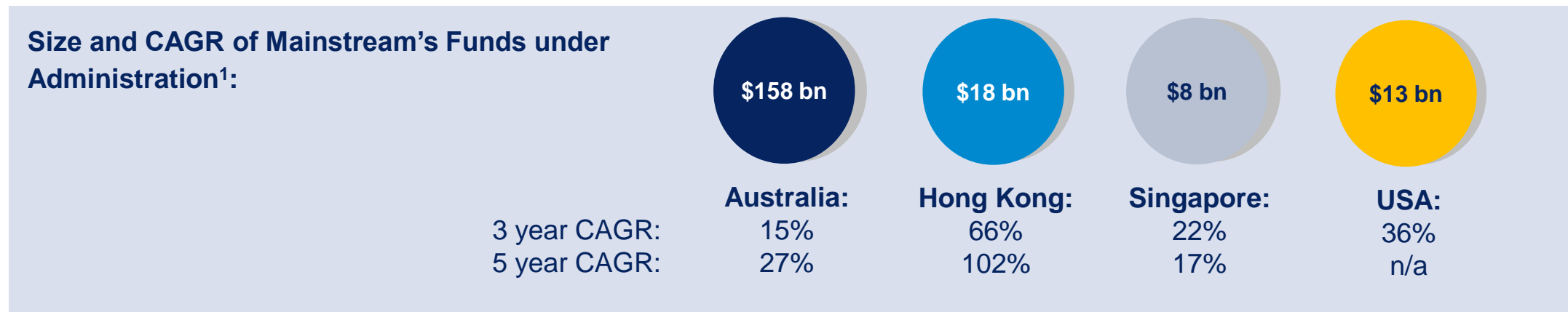
## Transformational growth over five years

	@ IPO		@ FY18		@ FY20
 <b>Revenue</b>	\$14.7m		\$41.8m		\$55.4m
 <b>Countries</b>	4		8		8
 <b>Employees</b>	100		245		272
 <b>Funds under Administration</b>	\$52bn		\$138bn		\$196bn
 <b>Funds administered</b>	265		815		1,078
 <b>Clients</b>	76		343		350
 <b>Acquisitions</b>	3		9		9

Initial Public Offering: 1 October 2015. Revenue @IPO refers to year ended 30 June 2015.

# Significant growth opportunities in our core markets

## > We have achieved substantial growth and the opportunities remain immense



## > We expand as the opportunities grow



1. Compound Annual Growth Rates and Funds under Administration as at 30 June 2020. Clients with a service contract in more than one jurisdiction are counted in each relevant market.

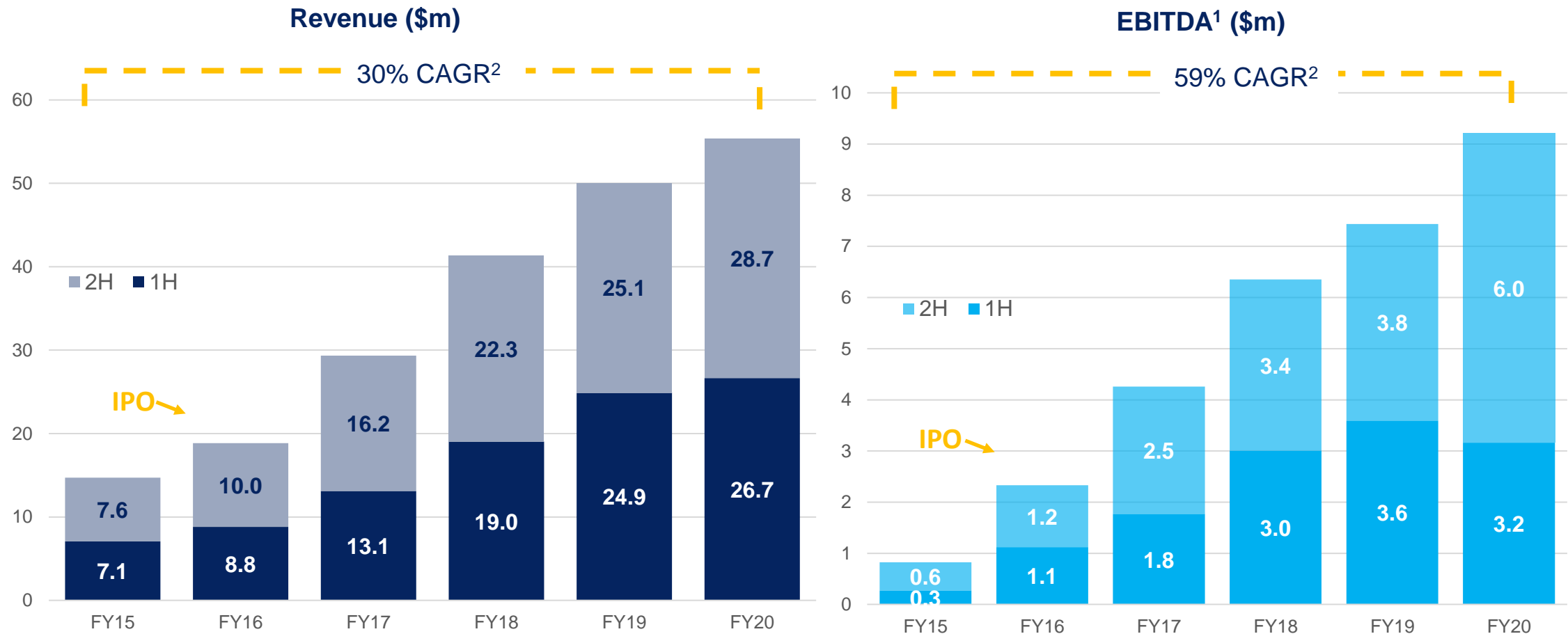
2. Figures in AUD as at 30 September 2019. Source: Investment Company Institute, Q3 2019 report Table 11. Worldwide Mutual Fund Market, Worldwide Public tables, Hong Kong Securities and Futures Commission Activities Survey for non-REIT assets managed in Hong Kong, excl. business sub-contracted or delegated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



## Financial Performance

- Financial track record
- Financial highlights
- NPAT to EBITDA breakdown
- Balance sheet
- Dividend

# Supported by a strong financial track record



<sup>1</sup> See Defined Terms in the Appendix 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.

<sup>2</sup> Compound annual growth rate (CAGR): FY15 v FY20



# Financial highlights

## Strong organic growth profile

- › \$5.4m revenue increase driven by organic growth from both existing clients and new client wins
- › Contracted revenue at 1 July 2019 was \$47m
- › Higher cash balances and increased transaction fees largely offset lower basis point fees (linked to FuA) and custody income (linked to official cash rates)
- › Investment in a number of initiatives increased our operating costs, including:
  - › \$0.8m building out US operations to support private equity offering
  - › \$0.5m investment in succession planning and client relationship development in Asia-Pacific
- › Year of consolidation and driving organic growth pipeline

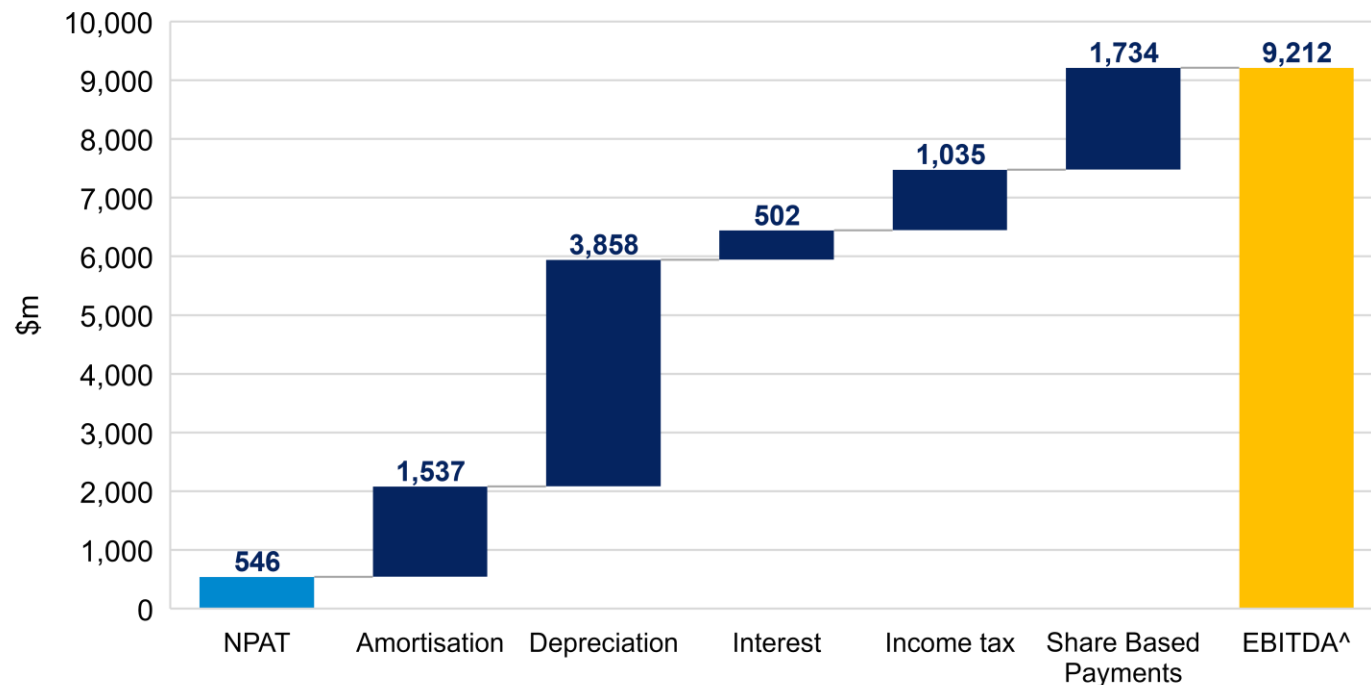
YEAR ENDED 30 JUNE	2020	2019	Change (%)
Revenue	\$55.4m	\$50.0m	▲ 11%
Operating EBITDA*	\$16.1m	\$11.7m	▲ 38%
Operating EBITDA margin (%)	29.0%	23.0%	
EBITDA*	\$9.2m	\$7.4m	▲ 24%
EBITDA margin (%)	16.6%	14.9%	
NPAT	\$0.5m	(\$1.1m)	nm
Dividend per share (DPS)	1.00cps	1.25cps	▼ 20%

\*See Defined Terms in the Appendix 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. Prior periods have not been restated for comparative purposes.

# NPAT to EBITDA breakdown

- › NPAT has improved \$1.7m from FY19:
- › Share based payments instead of cash bonuses will continue to be used in high growth phase to achieve \$25m EBITDA goal (\$90-\$100m revenue)
- › AASB16 Leases adoption had \$2.2 million impact on depreciation
- › Temporary salary reductions and stimulus offset by one-off transaction and acquisition costs
- › Free cash circa \$6.1m (EBITDA less AASB16 lease and income tax)

FY20 NPAT to EBITDA bridge



^ See Defined Terms in the Appendix for definitions of non-IFRS measures.

# Balance sheet

## Highlights

- › Debt facility reduced from \$7m to \$6m
  - › Maturity extended from Jan 2021 to Jan 2022
  - › Serviceability comfortably within existing covenants
  - › Intention to reduce debt by further \$1m in 1H FY21
- › Strong cash generation in underlying business (\$6.1m)
  - › Cashflow from operating activities was \$10.0m
  - › Cash at bank was \$14.7m at 30 June 2020
- › \$8.1m regulatory capital required against 6 licences in five markets and this requirement is expected to remain flat for FY21

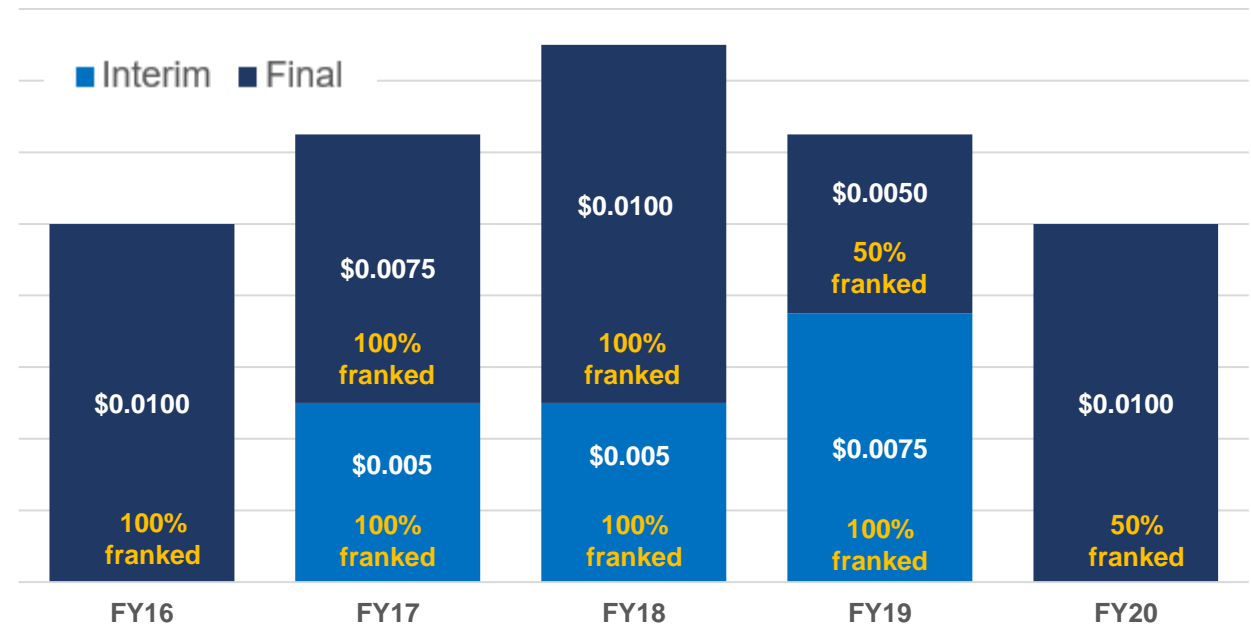
\$m	FY20	FY19
Cash at bank	14.7	11.7
<b>Current assets</b>	<b>25.7</b>	<b>22.2</b>
<b>Non-current assets</b>	<b>34.2</b>	<b>28.5</b>
<b>Total assets</b>	<b>59.9</b>	<b>50.7</b>
<b>Current liabilities</b>	<b>11.2</b>	<b>7.7</b>
Net debt	6.0	7.0
<b>Non-current liabilities</b>	<b>11.7</b>	<b>7.9</b>
<b>Total liabilities</b>	<b>22.9</b>	<b>15.6</b>
<b>Net assets</b>	<b>37.0</b>	<b>35.1</b>
<b>Equity</b>	<b>37.0</b>	<b>35.1</b>

# Dividend

## Organic growth company that aims to pay dividends to shareholders

- › Strong cash generation in 2H FY20 will be used to reduce debt by \$1 million plus pay a dividend to shareholders
- › FY20 total dividend of \$0.01 per share
  - › Final dividend: \$0.01 per share, 50% franked at corporate tax rate of 30% for imputation purposes, payable 14 October 2020
  - › No interim dividend due to focus on growth investments in 1H FY20
- › Move to partial franking reflects growing contribution from international operations
  - › FY20: 47% of revenue and 40% of EBITDA sourced internationally

## Dividend payment history



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



## Operational update

- Organic growth
- Client base
- Investment in technology, data and automation

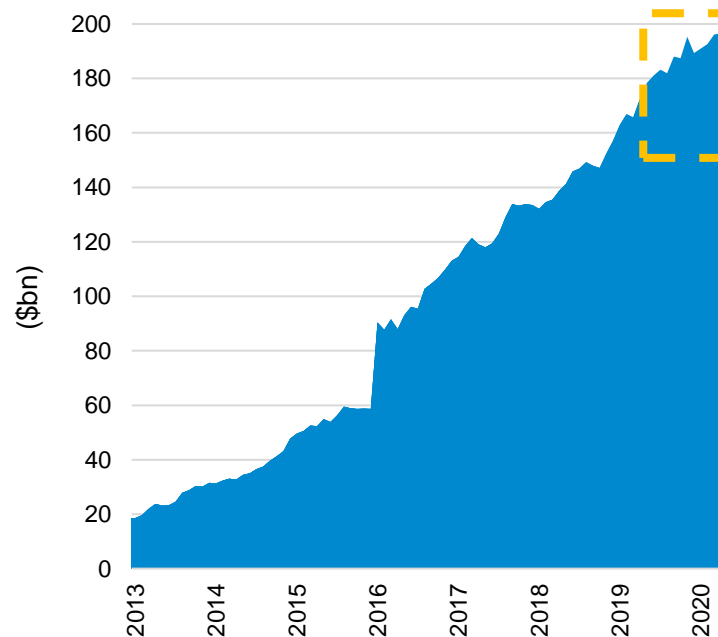
# Organic growth

## Financial results backed by strong organic growth

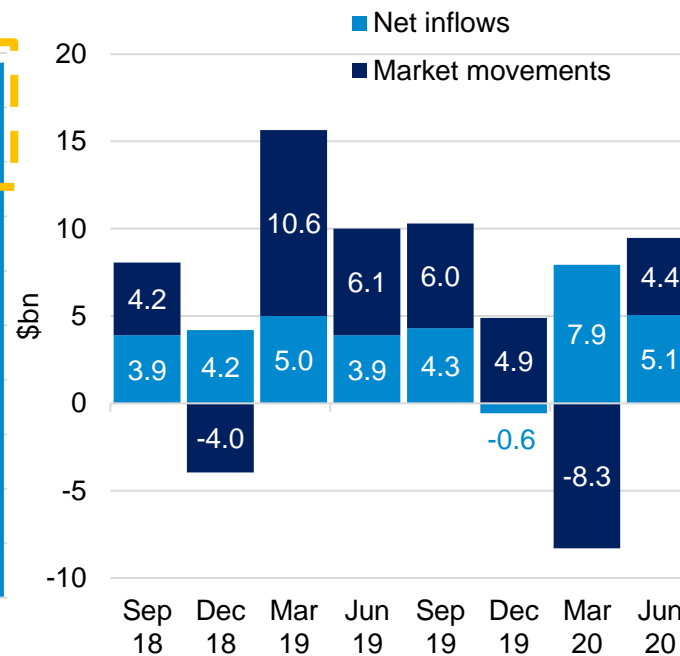
As at 30 June 2020:

- › FuA grew to \$196.6 billion (+14% YoY) in volatile market conditions from COVID-19
- › \$23.8 billion FuA growth included net inflows<sup>^</sup> of \$16.8 billion
- › 1,078 funds administered (+7% YoY), driven by private equity and custody fund wins
- › 350 clients (-2% YoY), with small fund closures offset by new clients
- › Servicing diverse geographies and asset classes provides resilience through market cycles

### Funds under Administration (FuA)



### FuA quarterly net change



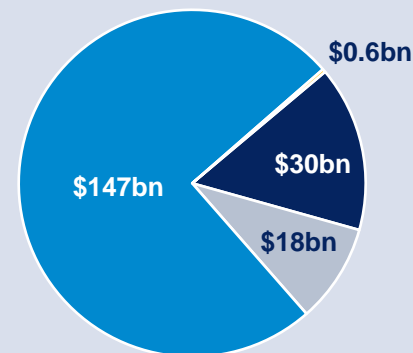
<sup>^</sup> Net inflows refers to applications and new clients less redemptions, cash distributions and lost clients.

# Diversified and high quality client base

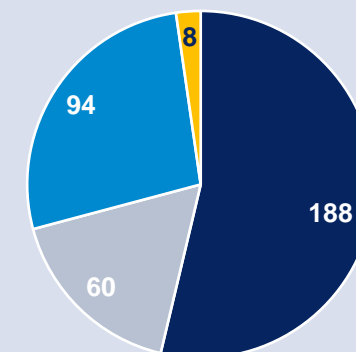
## Key Points

- › Mainstream has outsourcing arrangements with leading global fund managers
- › Clients are diversified across traditional and alternative asset classes
- › Majority of revenue is sourced from long term contracts for essential services
- › 13 of top 20 clients have contracted Mainstream as their administrator for 5+ years
  - › Notable new clients in FY21: Pental and Redpoint
- › We grow as our clients grow

Clients by funds under administration<sup>1</sup>

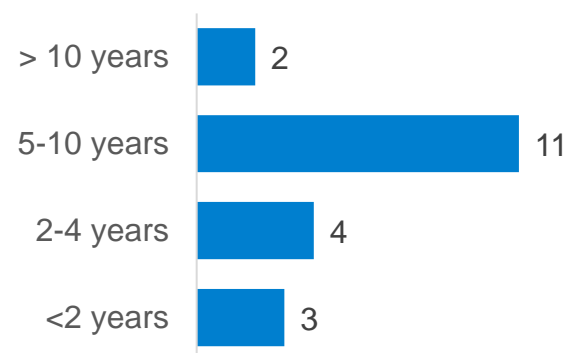


Clients by type<sup>1</sup>



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

Top 20 clients by relationship length<sup>1</sup>



Selection of our high quality clients<sup>2</sup>



1. As at 30 June 2020.

2. Pental is currently in the process of transitioning unit registry services to Mainstream.

# Investment in technology, data and automation

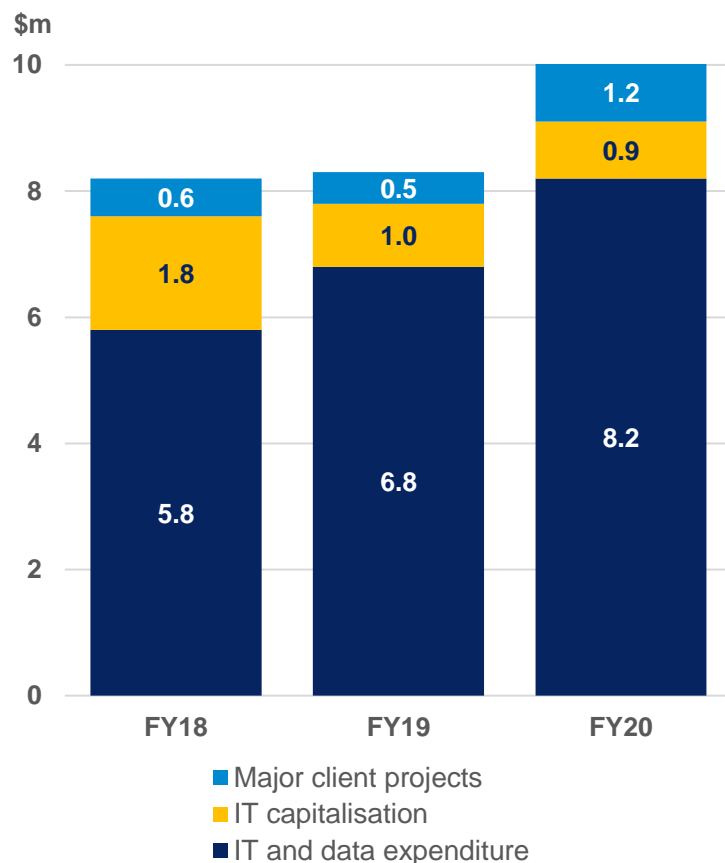
## Efficiency and compliance

- › Strategic IT and data spend was up 24% due to continued investment in:
  - › Key client projects for future additional revenue
  - › Upgrades and proprietary builds included Quoted Fund functionality, custody client portal, automated corporate actions software, unit registry reporting platform, online investor application and portal, deployment of PFS-Paxus in Dublin
- › Continued delivery of automation and efficiency for clients:
  - › YoY increase in Unit Registry transaction volumes (↑12%)
  - › More work to be done on rolling out automation to clients with emerging volume

## 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)



Project highlights

Project	% Complete	Key dates
Quoted funds	90%	<ul style="list-style-type: none"> <li>› First fund live in June 2020</li> <li>› 6 new funds planning to launch and 42 new enquiries</li> </ul>
Fund manager portal	80%	<ul style="list-style-type: none"> <li>› Pilot launched Dec 2019 with wider roll out expected Sep 2020</li> </ul>
Investor self-service	60%	<ul style="list-style-type: none"> <li>› Online app rolled out across 2019</li> <li>› Transacting capability roll out from June 2020</li> </ul>





## Outlook

- Business outlook
- Financial outlook

# Business outlook

## Key messages

1. Solid growth track record
2. Securing strategic client contracts
3. High recurring revenue
4. Margin improvement
5. Pay dividends / reduce debt

Favourable industry trends despite uncertain market conditions:



Convergence of  
listed and unlisted  
funds



Investor demand  
for digital services



Need for efficient  
and secure data  
exchange and  
processing



Increasingly  
complex operating  
and regulatory  
environment



Continued trend  
towards  
outsourcing



Market  
consolidation

# Financial outlook

## Group earnings

- › Full year guidance of approximately \$65m revenue and \$11.5m EBITDA<sup>^</sup>
  - › Outlook sensitive to client closures, market movements, exchange rates, interest rates and duration/severity of COVID-19
  - › Approx 50% of EBITDA earned in USD

## Capital expenditure

- › Client projects to be self funded
- › Workflow integration (AWD to HiTrust)
- › Permanent remote work infrastructure
- › Renewal of IT hardware
- › Increased investment in fraud and cyber controls

## Dividend outlook

- › Continue to reward shareholders with dividends in periods of strong financial results
- › Anticipate partial franking as international profit continues to grow

## Balance sheet






- › Ongoing strong cash generation
- › Debt level reduced from \$11m (FY18) to \$6m (FY20), with additional early \$1m repayment in 1H FY21

<sup>^</sup> After application of AASB 16 Leases. Assumes AUD/USD 0.72. See Defined Terms in the Appendix for definitions of non-IFRS measures.

## Appendix

- Mainstream's services
- Local processing centres
- COVID-19 update
- Regional snapshot
- Investing for growth
- Adjusted cash NPAT
- Share based payments
- Defined terms

# Mainstream's services

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

# Local processing centres combine to create global reach

	Strategic focus	Current drivers
<b>AUSTRALIA</b>	<ul style="list-style-type: none"> <li>› Strong domestic presence in fund administration</li> <li>› Boutique alternative to global bank custodians</li> <li>› Superannuation focus on public offer fund</li> </ul>	<ul style="list-style-type: none"> <li>› Competitive position through point of difference in service offerings (eg Quoted Funds)</li> <li>› Competitors distracted with operational and ownership changes</li> <li>› Hold strategy for Super business with focus on serving current clients and integration with fund services business</li> </ul>
<b>CAYMAN ISLANDS</b>	<ul style="list-style-type: none"> <li>› Onshore services for Cayman funds across global markets</li> </ul>	<ul style="list-style-type: none"> <li>› Increasing new business opportunities from increasing regulation (eg Private Funds Law)</li> </ul>
<b>HONG KONG</b>	<ul style="list-style-type: none"> <li>› Focus on alternative funds in North Asia markets (China, Korea, Japan)</li> <li>› Middle office centre of excellence</li> </ul>	<ul style="list-style-type: none"> <li>› Likely acceleration of opportunities in newer markets as they recover</li> </ul>
<b>IRELAND</b>	<ul style="list-style-type: none"> <li>› Strategically important as gateway to European alternative fund market</li> <li>› Implementation of succession plan with additional business development resources</li> </ul>	<ul style="list-style-type: none"> <li>› Increased fund consolidation / rationalisation</li> <li>› Increased new business opportunities driven by growing regulation and operational complexity</li> </ul>
<b>ISLE OF MAN</b>	<ul style="list-style-type: none"> <li>› Supporting Dublin processing, follow-the-sun processing centre for Australia operations and centre of excellence for private equity in Europe as well as servicing existing clients</li> </ul>	<ul style="list-style-type: none"> <li>› Mature market, so focus is on operational excellence</li> <li>› Referral work from London business development resource</li> </ul>
<b>MALTA</b>	<ul style="list-style-type: none"> <li>› Follow-the-sun processing centre for Australian operations as well as servicing existing clients</li> </ul>	<ul style="list-style-type: none"> <li>› Mature market, so focus is on operational excellence</li> <li>› Potential processing centre for Luxembourg</li> <li>› Referral work from London business development resource</li> </ul>
<b>SINGAPORE</b>	<ul style="list-style-type: none"> <li>› Focus on alternative funds in Singapore and Australia</li> <li>› Private equity centre of excellence for Asia-Pacific</li> </ul>	<ul style="list-style-type: none"> <li>› Strong domestic opportunities as well as referral pipeline from Australia for alternative and private equity funds</li> </ul>
<b>USA</b>	<ul style="list-style-type: none"> <li>› Focus on private equity and alternative funds</li> <li>› Key growth market</li> </ul>	<ul style="list-style-type: none"> <li>› Likely to benefit from increasing trend towards outsourcing in private equity funds</li> <li>› Enormous opportunity for mid market player backed by listed co.</li> </ul>

# COVID-19 update

## Maintaining service delivery

- › Adapted to changed operating environment for client and investor service continuity
- › Early activation of our business continuity plans (by February in Asia and mid-March globally) with minimal interruptions
- › Supporting our clients in rapidly changing work and market conditions
- › Higher transaction volumes leading to increased revenue


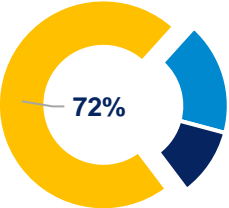

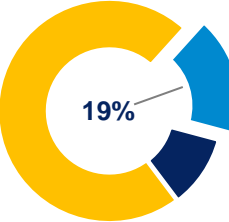

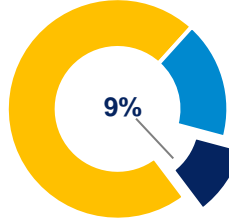
## Cost control and risk management

- › Close monitoring of regulatory requirements and operational compliance
- › Increased focus on data security, cyber threats and fraud
- › Cost control initiatives included temporary remuneration reductions, review of projects in line with client demand and access to employer stimulus packages in USA, Hong Kong and Singapore

## Keeping our people safe

- › We are managing well through the crisis
- › Health and safety is top priority
- › Globally, majority of employees are working remotely
- › Our people adapted well to changing work conditions while managing high volumes of transactions and enquiries

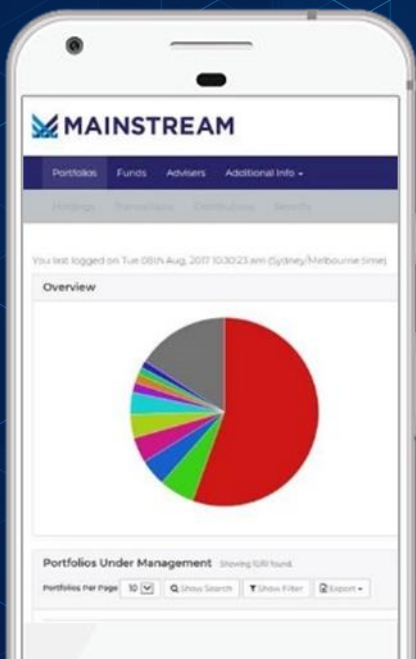
# Regional snapshot

Region	Operations	Services	#Funds	Highlights	Revenue
<b>ASIA-PACIFIC</b> 	3 markets: <ul style="list-style-type: none"> <li>• <b>Australia</b> (since 2006)</li> <li>• <b>Hong Kong</b> (2014)</li> <li>• <b>Singapore</b> (2012)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Managed funds</li> <li>✓ Alternative funds</li> <li>✓ Private equity</li> <li>✓ Listed funds</li> </ul>	<b>707 funds</b>	<ul style="list-style-type: none"> <li>› FY20 revenue: \$39.6 million (+10% YoY)</li> <li>› Higher cash balances and increased transaction fees from volatile trading conditions offset lower basis point fees (linked to FuA) and custody income (linked to official cash rates)</li> <li>› Good progress in building out custody as further avenue for growth</li> <li>› Superannuation business restructured in response to structural changes in superannuation market</li> <li>› Strong pipeline from client referrals and trustee relationships</li> </ul>	<b>FY20 contribution</b> 
<b>AMERICAS</b> 	2 markets: <ul style="list-style-type: none"> <li>• <b>Cayman Islands</b> (2017)</li> <li>• <b>USA</b> (2016)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Alternative funds</li> <li>✓ Private equity</li> </ul>	<b>239 funds</b>	<ul style="list-style-type: none"> <li>› FY20 revenue: \$10.8 million (+23% YoY)</li> <li>› Growth continues to be driven by private equity services build-out</li> <li>› Jay Maher appointed to lead US alternatives (hedge) and private equity businesses</li> <li>› Growth in onshore Cayman services through cross-selling</li> </ul>	
<b>EUROPE</b> 	3 markets: <ul style="list-style-type: none"> <li>• <b>Ireland</b> (2017)</li> <li>• <b>Isle of Man</b> (2016)</li> <li>• <b>Malta</b> (2016)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Alternative funds</li> <li>✓ Private equity</li> </ul>	<b>132 funds</b>	<ul style="list-style-type: none"> <li>› FY20 revenue: \$5.0 million (-6% YoY)</li> <li>› Growth impacted by fund closures and delayed fund launches</li> <li>› Ireland migration to preferred fund technology, PFS-Paxus</li> <li>› In line with succession planning, Barbara Purcell (Dublin) and Angela Nightingale (Cayman) promoted to succeed John McCann at end of three year term in Sep 2020</li> </ul>	



# Investing for growth recap

- › \$10.3m raised via private placement and Share Purchase Plan in Sep - Oct 2018
- › Capital raise laid foundations for current growth drivers



## Strategic initiative

## Update

### Custody regulatory capital



- › Now meets regulatory capital requirement for standalone custody service in Australian market
- › \$4.0 trillion market opportunity to provide cost effective alternative to global bank custodians
- › \$9.8 billion in assets under custody, an increase of 96%, or 84 funds, in FY20
- › High margin business with strong pipeline of new and existing clients

### Mainstream Digital



- › Three months left in two year development plan driven by client demand:
  - › Market first operations to support listed and unlisted funds within a single fund (Quoted Fund)
  - › Proprietary web portal for fund manager clients
  - › Proprietary investor portal and online application for initial investments
  - › Proprietary custody client portal that directly integrates with sub-custodians for SWIFT messaging, trade capture and online reporting
  - › Automated corporate actions software and workflow
  - › Upgrades to unit registry reporting platform
  - › Automated general ledger reporting

### US expansion

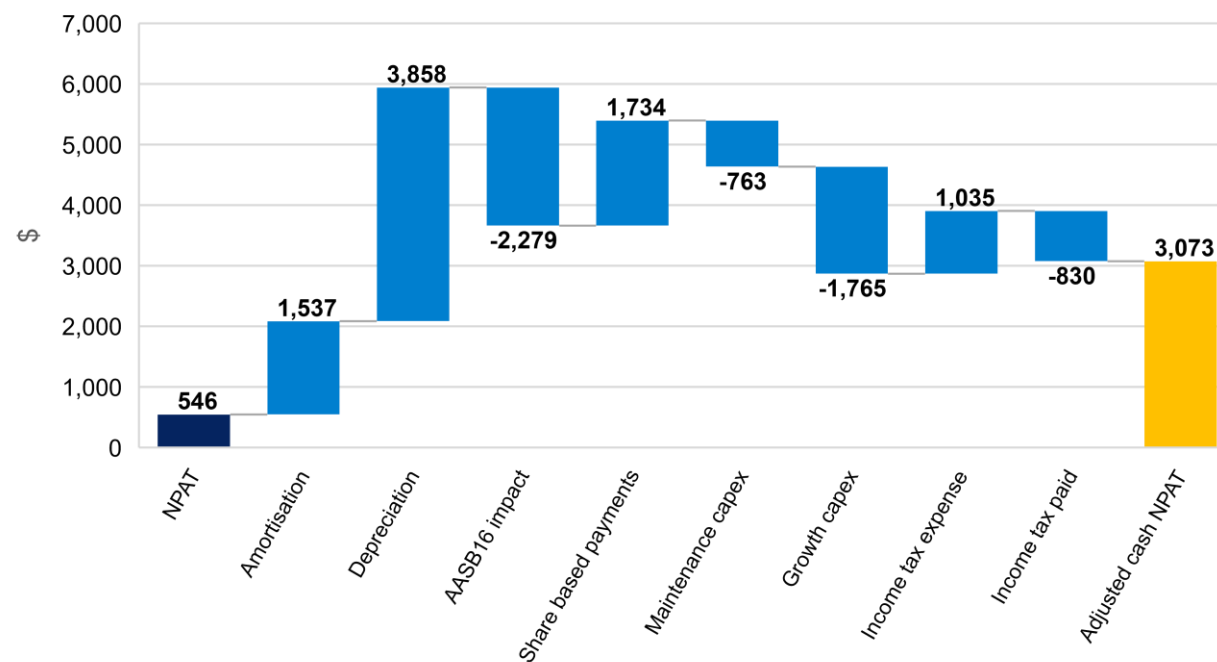


- › Recruited management team experienced in PE fund operations including 4 senior hires in FY20
- › 48 net increase in PE funds administered in FY20
- › FuA up 96% on prior year, to \$10.8 billion

# NPAT adjusted for growth investments

- › Statutory NPAT impacted by a number of non cash items and prior investments:
  - › Amortisation from useful life acquisitions (4-15 years)
  - › Depreciation of prior years capex (3-5 years)
  - › Share based payments used in high growth phase to incentivise staff and increase retention versus cash bonuses
  - › Maintenance capex in FY 20 was only \$763k
  - › Growth capex is expected to deliver long term annuity revenue streams and significant growth opportunities

## FY20 NPAT to Adjusted Cash NPAT



^ Assumes 30% tax rate. See Defined Terms in the Appendix for definitions of non-IFRS measures.

# Share Based Payments

## Incentivising for growth

- › Payments issued in consideration of achieving high growth targets (rather than funding further acquisitions)
- › SBP target rate of 2% to 3% of issued capital
- › FY20 STI payments included part FY19 performance bonuses due to vesting conditions

\$ 000's	Performance hurdle	FY20	FY19
Employee Share Offer	N/A*	91	229
Short Term Incentive plan	KPI achievement	252	1,204
Long Term Incentive plan^	KPI achievement	251	264
	US PE Incentives	1,140	
<b>Total Share Based Payment expenses</b>		<b>1,734</b>	<b>1,697</b>

\* Eligible Employees were granted \$1,000 worth of shares for nil consideration in order to encourage share ownership and participate in the Company's FY19 performance.

^ Included payments under the legacy Senior Management Share Offer (SMSO).

# 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 excluding group costs.
3. **Adjusted Cash NPAT** reflects Net Profit After Tax adjusted to exclude non cash items and include current year capital expenditure.

**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.

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