

27 August 2021
ASX Announcement

Mainstream Group Holdings Limited final results for the year ended 30 June 2021

Mainstream Group Holdings Limited (ASX: MAI) today announced its results for the year ended 30 June 2021 (FY21).

Highlights

- › Revenue of \$65.6 million
- › EBITDA¹ of \$3.2 million and Underlying EBITDA² of \$12.3 million

Results summary

	FY21	FY20	Change
	\$m	\$m	
Revenue	65.6	55.4	+18%
Operating EBITDA ³	20.4	16.1	+27%
Operating EBITDA Margin (%)	31.1%	29.0%	
EBITDA	3.2	9.2	-66%
EBITDA Margin (%)	4.9%	16.6%	

The following table reconciles Mainstream's net loss after income tax of \$11.3 million to its EBITDA of \$3.2 million for the twelve months ended 30 June 2021 compared to the prior corresponding period.

	FY21	FY20
	\$ (000's)	\$ (000's)
Profit after income tax expense	(11,256)	546
Add:		
Income tax expense	291	1,035
Amortisation expense	1,533	1,537
Depreciation expense	4,283	3,858
Interest expense	469	502
Share-based payments expense	7,923	1,734
EBITDA	3,243	9,212
EBITDA including share-based payments	(4,680)	7,478
US settlement	5,514	-
Transaction costs	6,664	777
Training/COVID support	(3,092)	-
Underlying EBITDA	12,329	9,989

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.

² Underlying EBITDA reflects EBITDA adjusted to exclude one-off costs.

³ Operating EBITDA is not an IFRS standard and is used to highlight Operating Margin before Corporate Costs and one-off items.

Financial performance

FY21 revenue was in line with earnings guidance, reaching \$65.6 million, (FY20: \$55.4m). All revenue growth was organic, driven by ongoing demand for services in our core markets of Australia, Asia and the US.

FY21 Underlying EBITDA was also in line with expectations, reflecting the strength of the underlying business.

EBITDA was impacted by a number of one-off costs. Mainstream incurred significant costs during the period in relation to preparing the proposed scheme of arrangement with Apex Fund Holdings Australia Pty Limited and earlier proposed schemes of arrangement with Vistra and SS&C. Transaction costs of \$6.7 million included a \$1.7 million break fee paid to Vistra, accrual of a \$3.7 million break free payable to SS&C, legal expenses, due diligence, negotiations and provision of information for the scheme of arrangement including preparation of the Scheme Booklet.

Share-based payments increased by \$6.2 million to \$7.9 million (FY20: \$1.7 million) for the period. This was primarily due to the year-on-year increase in the 30 June closing share price (FY21: \$2.74; FY20: \$0.57) used to accrue the Company's sales incentive program for the US PE business.

The Company benefited from the receipt of a \$2.5 million training and wage subsidy invested in our people's customer service and leadership skills and \$0.4 million in offshore COVID support.

Funds under Administration highlights

Funds under Administration (FuA) rose 46% during the full year to \$287 billion (FY20: \$196 billion). All of FY21 FuA growth was from organic sources, including the onboarding of a fund manager with \$31 billion now administered by Mainstream. The \$91 billion increase in FuA was attributable to both net inflows⁴ (78%) and market movements (22%).

The number of funds administered grew to 1,416 (FY20: 1,078) as Mainstream continued to build its new business pipeline. Global client numbers grew to 380 (FY20: 350), with new clients offsetting smaller fund exits.

Clients were diversified across alternative assets (52% of clients), traditional asset classes (26%), private equity fund managers (19%) and superannuation funds (2%), providing protection against market movements.

Business performance

Of the \$65.6 million revenue generated in FY21, \$60.2 million (92%) of revenue was fee income from contracted clients, \$1.6 million (2%) from interest income on custodial accounts and deposits and \$3.8 million (6%) from other operating income.

Asia-Pacific ("APAC"), which includes Australia, Singapore and Hong Kong, contributed 73% of the Group's revenue during FY21 (FY20: 72%). The Australian custody business grew its funds under custody by 88% in FY21 to \$18.5 billion, up 47 funds to 252 funds, but revenue was impacted by zero interest rates in the latter part of the year.

The Americas (USA and Cayman Islands) accounted for 20% (FY20: 19%) of revenue, driven by the US private equity business which now administers A\$25.8 billion in assets, up 138% on the prior year, with a

⁴ Net inflows refers to applications and new clients less redemptions, cash distributions and lost clients.

net increase of 200 funds to a total of 358 funds. Europe (Ireland, the Isle of Man and Malta) contributed 7% of revenue (FY20: 9%).

In line with strategy, Mainstream made a number of investments in future growth this financial year. Investment in our people, processes and technology, as well as one-off transaction and settlement costs, contributed to a net loss after tax of \$11.3 million for the period (FY20: net profit of \$0.5 million).

Mainstream continued to onboard new employees to support our business growth during the period. Global headcount grew to 349 people as at 30 June 2021 (FY20: 272).

Mainstream continues to focus on client demand for digital service delivery, automation and alleviation of margin pressures through straight-through processing. Consequently, \$12.4 million was spent on data, technology and automation during the period (FY20: \$10.3 million).

\$1.9 million of IT costs were capitalised via investments in market leading digital and automation projects during the period. Key client projects included:

- › Market first operations to support listed and unlisted funds within a single fund (Quoted Fund) which contributed to a 68% increase in the number of investors serviced by Mainstream during the first six months of the reporting period, to 157,066 investors.
- › Investor online transacting and account updates allowing investors to manage their own account, removing unnecessary paperwork and manual processes.
- › Process transformation for a major client including deployment of automated workflow for email and paper transactions, automation of daily processes (such as distributions and unit price uploads), online transacting, automation of reporting, Calastone and banking automation, leading to average daily automation levels of 88%.

Dividend

The Board has not declared a final dividend for the year ended 30 June 2021 due to the high number of one-off costs incurred during the period (FY20: final dividend of 1.0 cent per share, 50% franked).

Corporate activity

On 4 August 2021 the Federal Court of Australia (“Court”) made orders for Mainstream to convene a meeting of its shareholders (“Scheme Meeting”) to consider a proposed scheme of arrangement under Part 5.1 of the Corporations Act 2001 (Cth) (“Scheme”). The Court also approved the distribution of an explanatory statement providing information about the Scheme and notice of Scheme Meeting to shareholders. The Scheme Booklet was despatched to shareholders on 17 August 2021 and the Scheme Meeting is currently scheduled for 6 October 2021.

Mainstream’s Directors continue to unanimously recommend that Mainstream shareholders vote in favour of the Apex scheme of arrangement.

Outlook

Mainstream continues to see new business demand, particularly in Australia, US and Asia, as a result of business development activities.

The Company expects to continue to benefit from the trend to outsourcing driven by growing regulation and operational complexity.

Commenting on the results, Mainstream Chief Executive Officer Martin Smith said “Mainstream remains well positioned to deliver strong results in the medium term. This is due to our deep expertise in our core markets, our asset class and geographic diversity and our greater than 90% recurring revenue via long term contracts.”

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 fund administration services underpinned by investment in people, processes and technology.

As at June 2021 the Group provides administration services to 1,416 funds and more than 184,000 investors with funds under administration in excess of AUD \$287 billion.

Mainstream employs 349 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: <https://www.mainstreamgroup.com>.