1H23 results presentation

Michael Kelly (Founder & CEO) and Ian Lynagh (CFO)
24 February 2023

FINEOS

1H23 – Strong growth in Subscription Revenue

Strong growth in Subscription Revenue and Gross Profit Margin

Subscription Revenue
€29.9m

Up 18.4% on 1H22

ARR
€59.4m
at 31 December '22

Up 14.7% on 31 December 2021

Total Revenue
€61.5m

Down 6.0% on 1H22

Gross Profit
€41.2m
GP margin 66.9%

GP margin up from 65.0% in 1H22
GP € down 3.2% on 1H22

EBITDA Loss
€2.6m
EBITDA margin (4.2%)

EBITDA down 139.4%
EBITDA Profit margin 1H22 9.9%

Cash Position
€24.0m
at 31 December '22

No debt

Operational platform to drive long-term growth

Large Client switching from Custom Services model to Product Feature Investment

Services reduction will be compensated over time by investment in product feature build and future Subscriptions

60+

CARRIERS

Large cross-sell opportunity for the FINEOS Platform

North America revenue 78.3% of total revenue, up from 45.0% in FY19

North America represents over 30% of the global L,A&H market

Completed 11 major system and platform upgrades in 1H23

FINEOS currently active in 22 cloud customer projects

1,063 Total Headcount[1] as of 31 December '22

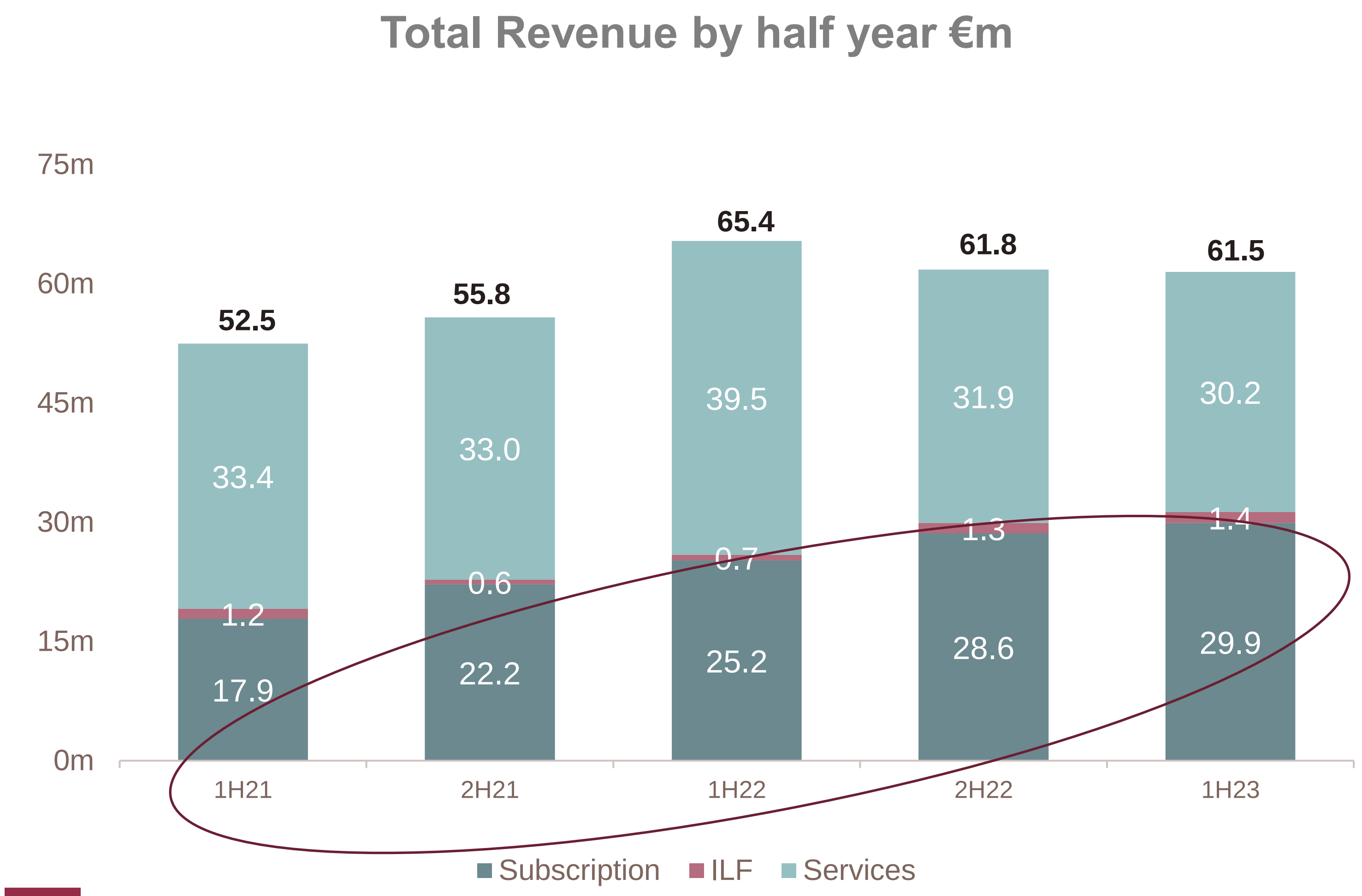
Headcount expected to reduce slightly in FY23

Large North American Employee Benefit market of US$200 Billion[2] in Annual Premiums

A payment of 1% per annum for the Core System equates to US$2 Billion Subscription Fee TAM

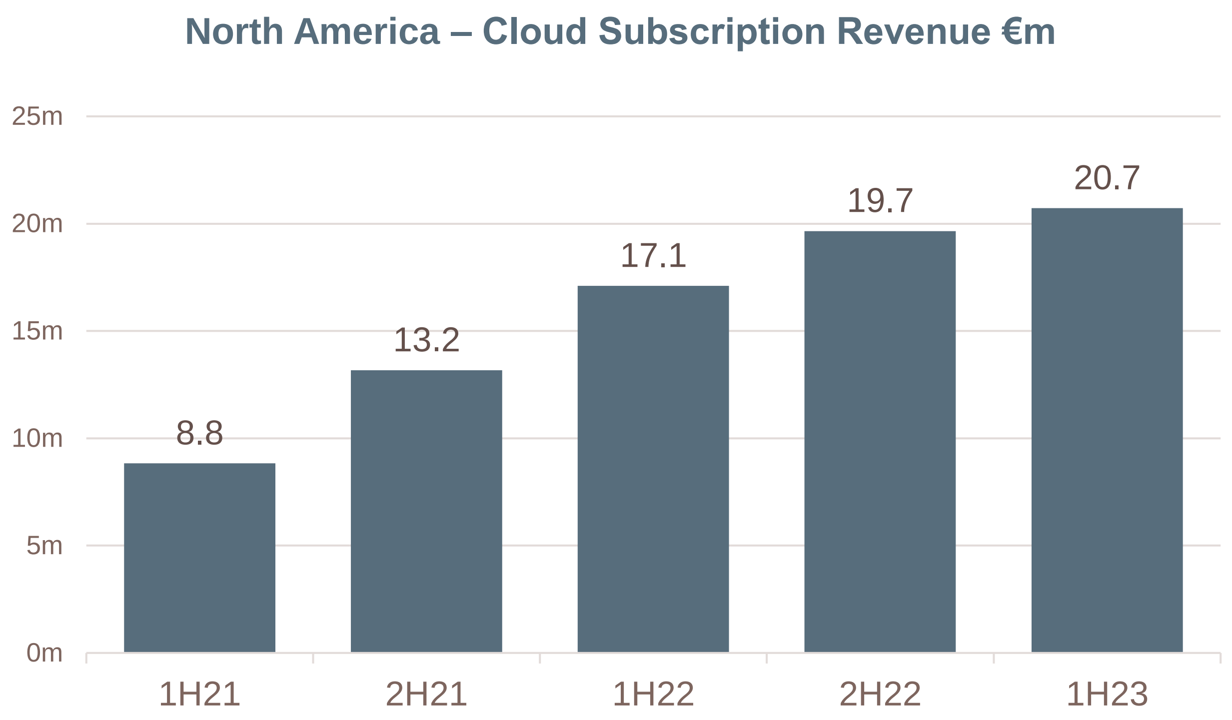
1. Headcount includes full time employees and all contractors
2. Sources are AM Best & Frazer Group 'Group Universe Report' 2020

Growth in Subscription Revenue



- Total Subscription revenue of €29.9m grew by 18.4%
- ARR of €59.4m up 14.7% on 31 December 2021
- Subscription revenue growth driven by up-sell expansion of footprint within existing customers (including upgrades to Cloud), and a new client Subscription

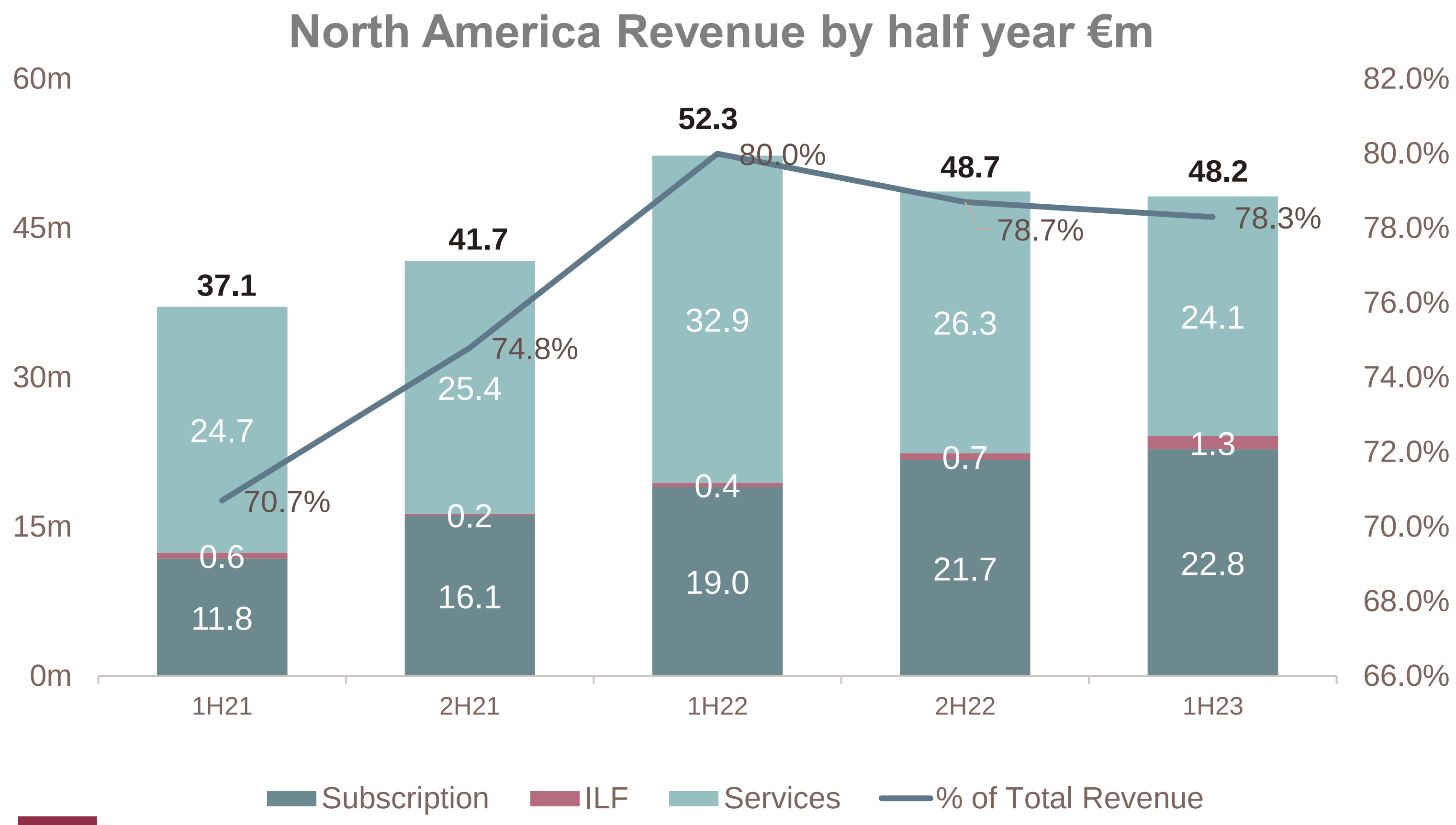
North America – adoption of FINEOS Cloud Platform continuing to drive strong Subscription growth



- North America Cloud Subscription revenue up 21.3% to €20.7m
- >10 times since the FINEOS IPO on the ASX in August 2019

North America

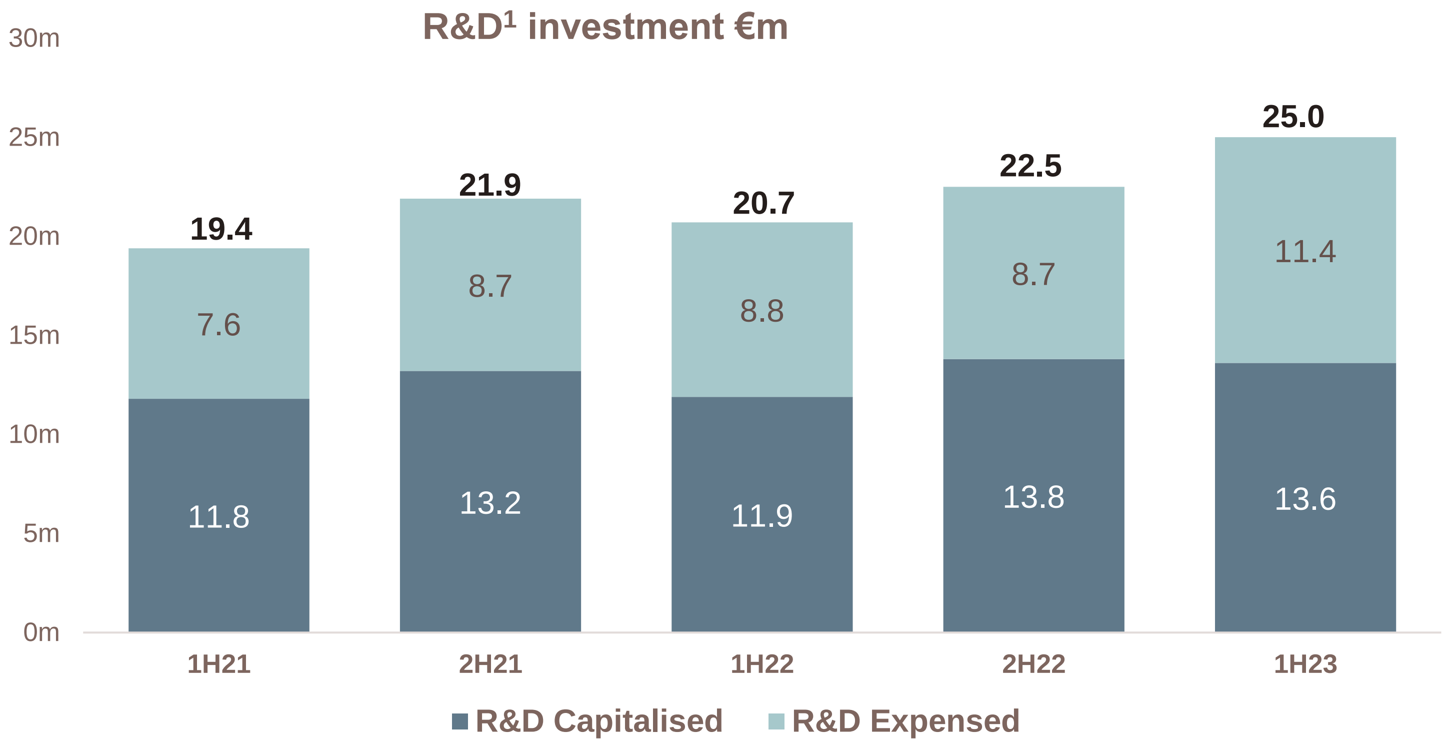
Primary R&D investment focus on North America continues to deliver significantly highest proportion of SaaS revenue by region at 78.3% of all revenue



- North American SaaS revenues continue to be underpinned by adoption of the FINEOS Platform for Employee Benefits, plus migration to Cloud
- Services revenue reduced primarily driven by one large customer moving into a strategic partnership on product feature investment

R&D investment supports growth

FINEOS continues to dedicate significant resources and financial investment in research and development

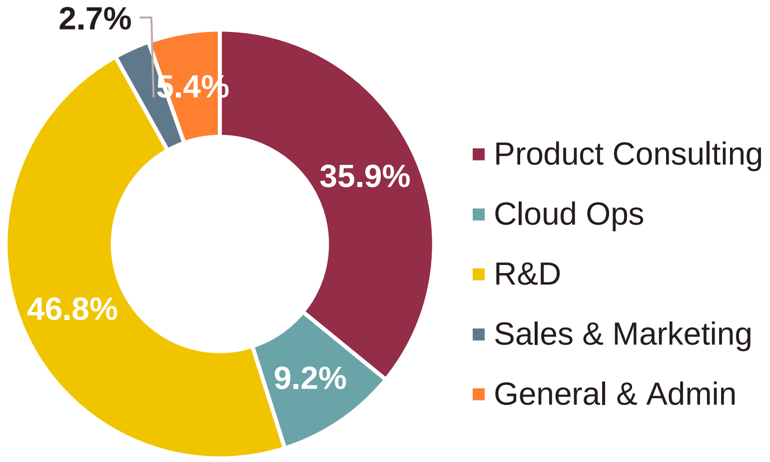


Investment being made in R&D to continue to drive revenue growth

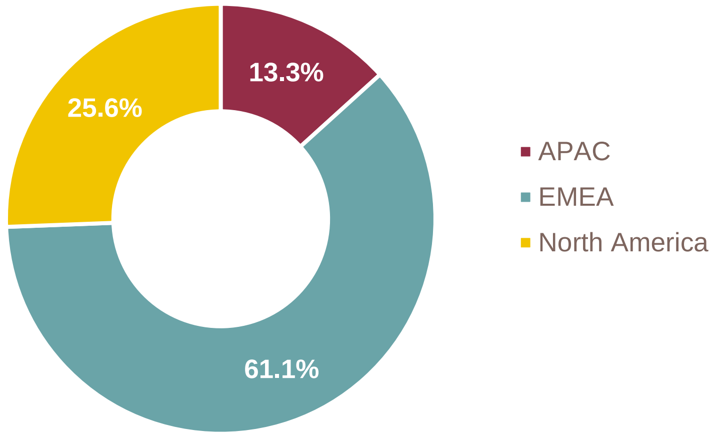
- 40.7% of revenue invested in R&D in 1H23 versus 31.7% in 1H22

Our people – a key asset of the business

Employees by function



Employees by region



- Average Product Consulting utilisation for the period was 86% (1H22 90%)
- Retention rate of over 90%
- Scaling of FINEOS India now underway across our Cloud Operations, Product Consulting and R&D functions. 11.6% of resources are based in India (1H22: 11.0%)
- "Remote-first hybrid" continues to be our approach for existing and new people as this is overwhelmingly the preferred working option by our employees
- 18.9% are contract resources

86%
Utilisation

>90%
employee retention rate

1,063
People

1H23 – Shift to Subscription revenue and investment for long term growth

Subscription revenue continues to increase

Income Statement	1H23	1H22	% Change
	€m	€m	
Subscriptions	29.9	25.2	18.4%
Services	30.2	39.5	(23.7%)
Initial licence fees	1.4	0.7	121.8%
Total revenue	**61.5**	**65.4**	**(6.0%)**
Cost of sales	(20.3)	(22.9)	(11.1%)
Gross profit	**41.2**	**42.5**	**(3.2%)**
Gross profit margin	66.9%	65.0%	
Total operating expenses	(43.8)	(36.0)	21.4%
EBITDA	**(2.6)**	**6.5**	**(139.4%)**
EBITDA margin	(4.2%)	9.9%	
Depreciation	(1.1)	(1.2)	(8.6%)
Amortisation	(11.5)	(9.9)	15.7%
EBIT	**(15.2)**	**(4.6)**	**228.8%**
Net interest expense	(0.3)	(0.6)	(43.7%)
Loss before tax	**(15.5)**	**(5.2)**	**196.1%**
Income tax credit	0.9	0.6	51.7%
Loss after tax	**(14.6)**	**(4.6)**	**214.8%**
(Loss)/profit after tax but before amortisation	**(3.1)**	**5.3**	**(158.4%)**

- **Total Revenue €61.5m (1H22: €65.4m)**
  - **Subscription revenue** grew by 18.4%
  - **Services revenue** down 23.7% on 1H22, in line with our current strategy to focus on higher margin Subscription revenue. A major client who achieved a significant milestone implementation is to invest in a strategic partnership with FINEOS to build product features rather than custom software. This has led to a reduction in services revenues that will likely continue.
  - **Initial Licence Fees** (€1.4m) increased 121.8% vs 1H22 due to extra user licences for on-premise deployments.
- **Gross profit of €41.2m (1H22: €42.5m)**
  - **Cost of sales decreased** by €2.6m (11.1%) on 1H22 due to a reduction in contractor costs of €3.6m (reduced contractor headcount) offset by an increase in AWS cost of €1.6m due to increased customer activity
- **EBITDA loss of €2.6m (1H22: profit of €6.5m)**
  - **EBITDA loss** due to reduction in revenue and continued investment in R&D and the Cloud Platform

Increasing investment to drive future growth

Operating expenses	1H23 €m	1H22 €m	% Change
Research & development	(13.0)	(9.5)	36.3%
Sales & marketing	(4.1)	(3.1)	31.4%
Product consulting	(9.8)	(8.5)	15.3%
Cloud operations/support	(8.4)	(7.2)	16.5%
General & administration	(9.1)	(8.3)	9.1%
Other income	0.6	0.6	(3.8%)
Total operating expenses	**(43.8)**	**(36.0)**	**21.4%**
% of total revenue	71.1%	55.1%	

- **R&D costs** are up €3.5m (36.3%) on 1H22 linked mainly to staff and software costs
- **Sales & marketing costs** increased €1.0m (31.4%) on 1H22 mainly due to period-on-period salary increases and higher exchange rate for US cost base
- **Product consulting costs** increased €1.3m (15.3%) on 1H22, driven by higher exchange rate for US based costs and lower cost of sales allocation (lower utilisation).
- **Cloud operations/support costs** increased €1.2m (16.5%) on 1H22, primarily due to additional headcount and investment in automation
  - The increase in cloud costs is due to the growth in our cloud footprint from a low base and as our cloud proposition effectively replaces the customer's internal support desk for FINEOS product operations
  - The investment in cloud automation is to control the scale of further cost growth in relation to growth of more customers moving to or implementing to cloud
- **G&A costs** increased €0.8m (9.1%) on 1H22. Increases across IT maintenance (€0.8m), share option cost (€0.5m) and salaries (€0.1m). Reductions in FX gain (€0.4m) and earnout interest (€0.2m).

Balance sheet supports organic growth opportunities

Statement of Financial Position	31 Dec 22 €m	30 June 22 €m	% Change
Cash at bank	24.0	44.3	(45.9%)
Trade receivables	9.1	25.7	(64.7%)
Deferred tax asset	6.5	5.9	11.3%
Other current assets	6.6	5.8	15.3%
Total current assets	**46.2**	**81.7**	**(43.4%)**
Right of use assets	4.4	5.1	(14.7%)
Development expenditure	78.8	75.0	5.2%
Goodwill	32.8	33.6	(2.6%)
Other non-current assets	25.7	28.0	(8.2%)
Total non-current assets	**141.7**	**141.7**	**-**
Total assets	**187.9**	**223.4**	**(15.9%)**
Trade payables and accruals	10.1	11.8	(15.3%)
Deferred revenue	10.5	25.8	(59.1%)
Contingent consideration	1.7	2.4	(26.8%)
Other current liabilities	2.1	2.5	(17.5%)
Total current liabilities	**24.4**	**42.5**	**(42.7%)**
Deferred R&D tax credit	4.0	4.4	(9.1%)
Lease liabilities	4.3	4.6	(5.7%)
Contingent consideration	1.0	2.6	(63.2%)
Total non-current liabilities	**9.3**	**11.6**	**(19.9%)**
Total liabilities	**33.7**	**54.1**	**(37.8%)**
Net assets	**154.2**	**169.3**	**(8.9%)**

- **Cash at bank** movement reflects investment in the period.
- **Trade receivables** fell 64.7% on 30 June 22 due to the issue of significant annual license fee invoices June 2022.
- **Deferred tax asset** increased €0.6m predominantly due to the increased provision for offset of tax losses against future taxable profits.
- **Right of use building** decreased by €0.4m due to asset depreciation (€0.5m) being greater than additions (new leases added €0.1m)
- **Right of use software** decreased by €0.3m due to asset amortisation
- **Development expenditure** increase explained by R&D capitalised spend (€13.6m) being ahead of amortisation (€9.7m) in period
- **Goodwill** decreased by negative FX movement of €0.8m on retranslation to closing rates
- **Deferred revenue** decrease of €15.3m (59.1%) due to the timing of issue of subscription invoices (predominantly January)
- **Contingent consideration** (€2.7m split between current €1.7m and non-current €1.0m) reflects the earnout on Spraoi deal. The net decrease of €2.3m in 1H23 is due to a payment out of €2.4m offset by an adjustment for discount unwind (€0.1m)

Cashflow reflects short-term impact from investment and shift to Subscription revenues

Statement of Cash Flows	1H23	1H22	% Change
	€m	€m	
Net cash flows (used in)/generated from operating activities	(3.3)	1.0	(438.7%)
Net cash used in investing activities	(16.2)	(12.2)	32.8%
Net cash generated from financing activities	0.1	45.3	(99.8%)
Net movement in cash and cash equivalents	**(19.4)**	**34.1**	**(157.2%)**
Effect of movement in exchange rates	(0.9)	0.5	(266.9%)
Cash & cash equivalents at the beginning of the period	44.3	14.0	216.5%
Cash & cash equivalents at the end of the period	**24.0**	**48.6**	**(50.6%)**

- **Net cash used in operating activities** of €3.3m in 1H23 primarily due to the decrease in revenues and increased cost base as a percent of revenues
- **Net cash used in investment activities** of €16.2m in 1H23 represents spend on intangible assets (R&D €13.6m), contract cost (€0.1m) and tangible fixed assets (€0.1m) as well as a payout of consideration on Spraoi deal (€2.4m)
- **Net cash generated from financing activities** of €0.1m in 1H23 reflects the issue of CDIs on exercise of options

Outlook

Priorities for 2H23

1. Close our pipeline of sales deals to new and existing clients.
2. Continue to scale existing clients on the FINEOS Platform to eliminate legacy core systems and enable business transformation.
3. Invest in R&D where we see the near-term new business opportunities for the FINEOS Platform.
4. Promote FINEOS as the only quote-to-claim purpose-built and proven Platform for Employee Benefits to drive more sales opportunities.
5. Strengthen our ties and business with SI partners so FINEOS can continue to focus growing and maximising our market leadership and more profitable Subscriptions revenue.
6. Increase our efficiency and reduce unit costs by executing our SaaS to deliver more automation and by growing our teams in lower cost regions.
7. Maintain our strong FINEOS culture and highly engaged workforce.

Future Growth Strategy and Outlook

1. Our very strong sales pipeline has moved out due to decisions taking longer – this combined with the drop-off in Services from a major client who are moving more strategically to investing in product means FY23 revised revenue guidance of the range €124m - €128m.
2. The business has a large cross-sell opportunity to continue to sell more FINEOS Platform products to existing clients.
3. Our ongoing growth in Subscriptions plus reasonable conversion of our sales pipeline positions us for entering into Free Cash Flow from 2H24 and beyond.
4. The FINEOS Platform is already the leading pureplay core platform for employee benefits in North America. Our New York Life case study has put us in the unique position of having a strong and 'proven' client reference for the future – no other vendor has come near to this achievement.
5. Employee Benefits premium in North America is over US$200 Billion. We calculate TAM as 1% of this number at $2 Billion. With many carriers still relying on their legacy core systems, we believe FINEOS has a strong medium to large long term growth opportunity.

Thank you. Q&A

Appendices

Case Study

Ground-breaking joint study proving that the purpose-built FINEOS platform successfully met the business challenges of one of the largest North American group insurer

"New York Life Group Benefit Solutions has achieved an industry-first technology position with the first complete FINEOS AdminSuite implementation on the FINEOS Platform powered by AWS. FINEOS AdminSuite combined with other complementary cloud technology investments enables Group Benefit Solutions to provide best-in-class benefits administration for our employer clients and their employees today while keeping pace with future market demands."

– Matt Marze, Vice President – Technology, New York Life Group Benefit Solutions

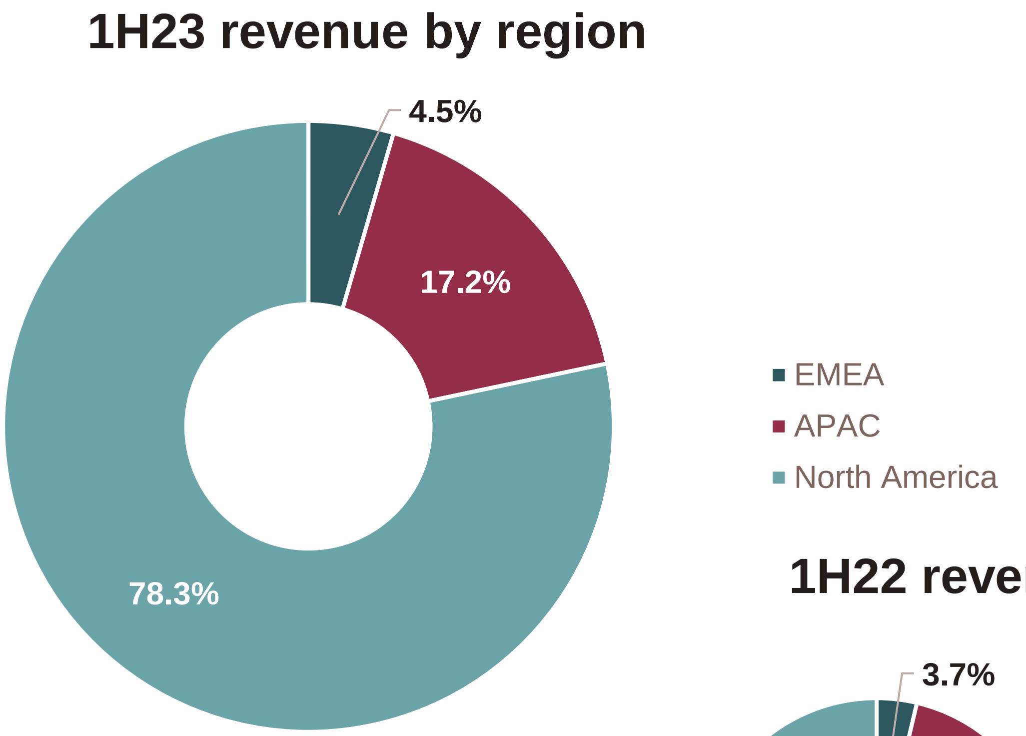
9
million
customers

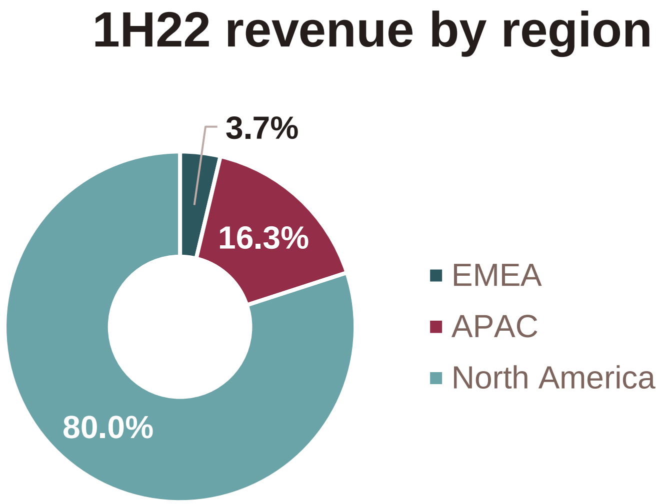
$4bn
managed
on one platform

6
replaced
legacy systems

https://www.fineos.com/new-york-life-group-benefit-solutions-case-study/

Geographic mix of revenues





- Europe region up 12.7% on 1H22 as new projects with existing and new customers commenced
- North American revenue is 78.3% of total revenue which is down 7.9% on 1H22 due to resource need reductions for two marquee customers as they progress into self-sufficiency mode
- APAC revenue down 0.6% on 1H22 as demand remains largely consistent

Detailed Statement of Financial Position

Statement of Financial Position	1H23	FY22	% Change
	€m	€m	
Cash at bank	24.0	44.3	(45.9%)
Trade receivables	9.1	25.7	(64.7%)
Unbilled receivables	0.7	0.6	22.7%
R&D tax credit	1.1	1.0	9.6%
Prepayments and other receivables	4.8	4.2	15.5%
Deferred tax asset	6.5	5.9	11.3%
Total current assets	**46.2**	**81.7**	**(43.4%)**
Fixed assets	1.2	1.6	(25.8%)
Right of use assets	4.4	5.1	(14.7%)
Development expenditure	78.8	75.0	5.2%
Contract costs (commissions)	1.0	1.2	(13.9%)
Goodwill	32.8	33.6	(2.6%)
Technology and customer relationships	23.5	25.2	(6.9%)
Total non-current assets	**141.7**	**141.7**	**-**
Total assets	**187.9**	**223.4**	**(15.9%)**
Trade payables	1.6	1.7	(9.5%)
Deferred revenue	10.5	25.8	(59.1%)
Deferred R&D tax credit	1.0	1.1	(10.7%)
Lease liabilities	1.1	1.4	(22.9%)
Contingent consideration	1.7	2.4	(26.8%)
Accruals	8.5	10.1	(16.3%)
Total current liabilities	**24.4**	**42.5**	**(42.7%)**
Deferred R&D tax credit	4.0	4.4	(9.1%)
Lease liabilities	4.3	4.6	(5.7%)
Contingent consideration	1.0	2.6	(63.2%)
Total non-current liabilities	**9.3**	**11.6**	**(19.9%)**
Total liabilities	**33.7**	**54.1**	**(37.8%)**
Net assets	**154.2**	**169.3**	**(8.9%)**

Disclaimer

This presentation has been prepared by FINEOS Corporation Holdings PLC (**Company** or **FINEOS**). By accessing or attending this presentation, you acknowledge that you have read and understood the following statements. NO OFFER OF SECURITIES Nothing in this presentation should be construed as either an offer or a solicitation of an offer to buy or sell securities in the Company in any jurisdiction or be treated or relied upon as a recommendation or advice by the Company. NOT FINANCIAL PRODUCT ADVICE Nothing in this presentation constitutes legal, financial, tax or other advice or any recommendation by the Company. The information in this presentation does not take into account the particular investment objectives, financial situation, taxation position or needs of any person. You should not rely on the presentation and in all cases, you should conduct your own investigations and analysis of the financial condition, assets and liabilities, financial position and performance, profits and losses, prospects and business affairs of the Company, and the contents of this presentation and seek legal, financial, tax and other professional advice. FORWARD-LOOKING STATEMENTS This presentation may contain certain forward-looking statements, forecasts, estimates, projections, beliefs and opinions (**Forward Statements**). Forward-looking statements can be identified by the use of 'forward-looking' terminology, including, without limitation, the terms 'believes', 'estimates', 'anticipates', 'expects', ‘projects’, 'predicts', 'intends', 'plans', 'propose', 'goals', 'targets', 'aims', 'outlook', 'guidance', 'forecasts', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology. Forward Statements involve elements of subjective judgment and analysis, and are subject to known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future, assumptions which may or may not prove correct, and may be beyond the Company’s ability to control or predict. No representation or guarantee is made by the Company or any other person that any of these Forward Statements or forecasts will be achieved or proved to be correct. Readers are cautioned not to place undue reliance on Forward Statements and the Company assumes no obligation to update such statements (except as required by applicable regulations or by law). PAST PERFORMANCE Past performance information given in this presentation is given for illustrative purposes only and should not be relied upon (and is not) and indication of future performance. FINANCIAL INFORMATION All financial values contained in this presentation are in Euros (€) unless otherwise stated. This presentation contains a number of non-IFRS financial measures. The Company believes this information provides useful information for investors and form key performance indicators for the Company. Financial information in this presentation including totals and percentages may be subject to rounding. THIRD PARTY INFORMATION AND MARKET DATA This presentation contains information that has been derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, reliability, adequacy or completeness of the information. This presentation should not be relied upon as a recommendation or forecast by the Company. NO LIABILITY OR RESPONISBILITY The information in this presentation is provided in summary form and is therefore not necessarily complete. To the maximum extent permitted by law, the Company and each of its subsidiaries, affiliates, directors, employees, officers, partners, agents and advisers and any other person involved in the preparation of this presentation disclaim all liability and responsibility (including without limitation, any liability arising from fault or negligence) for any direct or indirect loss or damage which may arise or be suffered through use or reliance on anything contained in, or omitted from, this presentation. The Company accepts no responsibility or obligation to inform you of any matter arising or coming to its notice, after the date of this presentation, which may affect any matter referred to in this presentation. This presentation should be read in conjunction with the Company's other periodic and continuous disclosure announcements lodged with ASX.