21 February 2024

FINEOS reports subscription revenue growth and strong half of cost savings with improved operating margins

FINEOS Corporation Holdings PLC (ASX:FCL), a leading provider of core systems for life, accident and health insurance (LA&H) carriers globally, is pleased to announce its audited financial results for the transitional six month period ended 31 December 2023 (FY23X).

From 1 January 2024 the company will operate its financial year on a calendar year basis.

FY23X Key Highlights versus prior corresponding period (1H23)

- Total Revenue was €61.1m, down 0.6% from €61.5m

- Subscription revenue was €33.0m, up 10.5% from €29.9m

- Services revenue was €28.1m, down 6.9% from €30.2m

- ARR was €65.3m at 31 Dec 23, up 9.9% from €59.4m at 31 Dec 22

- Gross Profit was €43.7m, up 6.3% from €41.2m

- Gross profit margin was 71.5%, up from 66.9%

- EBITDA was €4.9m, up from a loss of €2.6m

- EBITDA margin was 8.1%, up from a negative 4.2%

- Statutory Net loss after tax was (€6.9m), down from a net loss after tax of (€14.6m)

- Well-funded balance sheet with cash balance of €28.1m at 31 Dec 23 reflecting funds from capital raise in Aug 23 and no debt

- Product consulting average utilisation was 87%, up from 86%

- Employee retention rate remained greater than 90%, in line with prior periods

FY23X Key Operational Milestones

- Continued migration of clients to the FINEOS Platform;

    - Project work for Guardian contract for full AdminSuite progressing to plan

    - New York Life to expand use of AdminSuite to include voluntary benefits

    - Record implementation time of 5 months achieved at Securian Canada for the FINEOS Platform for Claims

    - APAC clients reaping the rewards of successful migrations to the Cloud

- Cost reduction strategies are being successfully implemented, and improvements have been achieved resulting in higher GP margin (FY23X: 71.5% v 1H23: 66.9%) and EBITDA margin (FY23X: 8.1% v 1H23: (4.2%))

- R&D investment spend reaching a level with more focus now being put on digital and data enhancements - spend is beginning to reduce as a percentage of revenue

Results commentary:

Commenting on the results, Chief Executive Officer Michael Kelly said: "The six months to 31 December has seen us achieve several excellent milestones for our clients, supporting FINEOS' strong reputation in the market for delivery and superior product. Within the business, our clear focus on driving efficiencies has resulted in improved operating margins across gross profit and EBITDA.

Notwithstanding these highlights from the period, we are experiencing longer sales cycles in our pipeline and as a result a number of anticipated project start dates have been pushed out by at least six months, impacting the timing of revenue growth. In addition to this we have unfortunately experienced some further churn with Limelight Health clients, however significant investment has been made to rearchitect and rewrite this product as a SaaS solution, using the latest cloud native technologies, to enable it to scale as a component within the FINEOS. This has been an extra R&D investment during 2023 but it is now complete and is due for release in March of this year. We expect this new version of New Business & Underwriting to fuel further growth in the second half of 2024 and beyond.

Total revenue was essentially flat on prior corresponding period (pcp) however, subscription revenue grew 10.5% to €33.0 million, driven by expansion within our existing client base. Pleasingly, our recurring revenue now represents 54% of total revenue and we expect that metric to continue to increase as we drive growth in our product license subscriptions line.

The cash balance at 31 December 2021 was €28.1 million, following the capital raise in August. This provides us with ample working capital and flexibility as we pursue our path to cashflow positivity.

Our growth strategy continues to be driven by four pillars, as outlined below, and we continued to have progress on each during the period. Firstly, through expanding our subscriptions with existing clients, next by winning our second client in the newly entered Direct-to-Employer absence management market and lastly, as evidenced by our charter client for AdminSuite, NYL-GBS, recently committing to expanding their use of the AdminSuite for voluntary benefits, putting the FINEOS Platform into a very strong and unique leadership position in the market;

1. To grow and upsell with existing clients
2. To win new clients
3. Expand sales and enter new markets
4. Make FINEOS the L,A&H industry leading platform for Group, Voluntary and Absence Management

Headcount fell remained essentially flat; 1,059 at 31 December 2023 versus 1,063 at 31 December 2022. Attrition levels remained low, with the employee retention rate over the period greater than 90%. Product Consulting average utilisation was 87% up from 86% in 1H23, in line with expectations.

Total operating expenses decreased 11.3% to €38.8 million, with reductions across each individual operating expense line. These impressive savings were primarily achieved despite maintaining headcount, by driving automation efficiencies and by reallocating roles to lower cost regions.

On a statutory basis, the Group reported a net loss after tax of (€6.9) million, a 52.7% improvement on the loss reported in 1H23, driven by increased operating leverage.

FY24 Key Priorities

As we look to FY24 we have some very specific goals that are being prioritised in the business;

- Delivering on the Guardian AdminSuite implementation, which is an important proof point for FINEOS to the market
- Drive customer success to scale and move FINEOS clients away from legacy core systems
- Increase new business sales as well as cross sales to our existing clients
- Complete the Direct-to-Employer product and get existing clients live to enable full go-to-market approach
- Launch rewritten SaaS version of New Business and Underwriting product
- Continue to drive our clear strategies for operational efficiencies and to deliver further cost reductions
- Execute our mission to be the global market leader in group, voluntary and absence management employee benefits

Outlook & Guidance for FY24

- FY24 (1 Jan – 31 Dec) revenue to be in the range €130-135m

- Double digit growth in the low to mid-teens (versus CY23) is expected for subscription revenue

- Services revenue is expected to remain flat (versus CY23)

- Guidance reflects both the continued lengthening in sales cycles and Limelight health client churn

- On track for successful delivery of key projects to replace legacy systems with several large carriers to maximise product subscriptions

- Continue strategy of cost savings through operational efficiencies. FY24 total costs expected to decrease (versus CY23)

- Continue to expect positive free cash flow in the six months to 30 June 2024 and for the following 12 months in aggregate, and continuing to be self-funding thereafter

- Whilst pipeline has moved out it remains strong.

Results call details:

Investors and analysts are invited to join a conference call hosted by Michael Kelly, CEO and Ian Lynagh, CFO on Wednesday 21 February at 6:00pm AEDT / 7.00am Irish time.

Participants must register for the conference call at the link below and will receive their dial in number upon registration to: https://s1.c-conf.com/diamondpass/10037100-0c3sox.html

This notice has been authorised for provision to the ASX by the Company's Board of Directors.

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About FINEOS:

FINEOS (ASX:FCL) is a leading provider of core systems for life, accident and health insurance carriers globally with 7 of the 10 largest employee benefits insurers in the U.S. as well as a 70% market share of group insurance in Australia. With employees and offices throughout the world, FINEOS continues to work with innovative, progressive insurers in North America, EMEA, and Asia Pacific.

For more information, visit www.FINEOS.com