

21 August 2024

FINEOS reports strong pipeline momentum with new wins coupled 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 financial results for the half year ended 30 June 2024 (1H24).

Since 1 January 2024 the company moved to operating its financial year on a calendar year basis.

1H24 Key Highlights versus prior corresponding period (6 months ended 30 June 2023 “2H23”)

- Total Revenue was €64.4m, up 1.5%
- Subscription revenue was €34.5m, up 6.1% and represented 53.5% of total revenue
- Services revenue was €29.6m, down 3.3%
- ARR of €68.7m at 30 Jun 24, up 5.2% from €65.3m at 31 Dec 23
- Gross Profit was €47.4m, up 6.5%
- Gross profit margin was 73.6%, up from 70.1%
- EBITDA was €7.3m, up 60.2%
- EBITDA margin was 11.3%, up from 7.2%
- Statutory Net loss after tax was (€5.3m), down from a net loss after tax of (€6.8m)
- Well-funded balance sheet with cash balance of €34.2m at 30 June 24 and free cash flow of €5.1m generated for the period, up from €1.9m
- Product consulting average utilisation was 87%, up from 86%

1H24 Key Operational Highlights

- Strengthened pipeline in North America as a result of multiple wins across new name and existing client up-sells, with Voya Financial in the U.S. signed as the latest new name customer to select the FINEOS Platform for Integrated Disability and Absence (IDAM) claims
- Largest ANZ client commenced migration to cloud platform, with an additional client in Canada also confirmed for cloud upgrade
- Two direct to employer absence management clients set to go live in 2H24 with the pipeline for this product expanding
- Success in growing partnerships with North America system integrators including with PwC, EY and Deloitte
- Key FINEOS AdminSuite projects with Guardian and New York Life all on track for go lives in 2H24
- New SaaS version of the New Business & Underwriting (NBU) product launched as a result of additional R&D investment made in 2022 and 2023.

Results commentary:

Commenting on the results, Chief Executive Officer Michael Kelly said: "The six months to 30 June has seen us continue our transformational journey at FINEOS, with our focus on supporting our clients with their migration from multiple legacy core systems to the FINEOS Platform. We are having great success executing our strategy to increase our market leadership as the core platform of choice for employee benefits carriers in North America, as seen through multiple up-sells to existing clients, a new name win, as well as new name preferred vendor positions. We are also on track with important 'market defining' go lives this year as we work closely with our clients to ensure success.

Through the half we remained sharply focused on moving costs out of the business through operational efficiencies and pleasingly we have seen continued improvements in our operating margins as a result, in particular our earnings before interest tax, depreciation and amortisation which was up 60.2% on this time last year, with a margin of 11.3%.

We have seen positive momentum on upgrades to the cloud, with our largest client in ANZ, ACC, commencing an upgrade of their New Zealand accident compensation scheme to the FINEOS Platform. In the U.S. we signed Voya Financial for Integrated Disability and Absence Management (IDAM) claims and are delighted to have this leading insurance carrier selecting our FINEOS Platform to support their Employee Benefits.

Despite positive achievements and additions to our ARR, some higher than usual churn across non-core legacy and Limelight Health clients has offset our growth rate. Nevertheless, our underlying business performance in our core market of North American Employee Benefits, both life carriers and employers, has been very strong and we continue to dislodge competitors as we win new business in that market.

During the half we successfully launched our NBU SaaS product at our FINEOS Customer Connect event held in New York City on June 4th, with a showcase to our North American clients of our complete Quote-to-Claim product suite, on the FINEOS Platform. Significant investment was made over the last two years to rearchitect and rewrite our FINEOS NBU product, as a SaaS solution, to enable it to scale as a component on our FINEOS Platform. We are seeing positive momentum in the pipeline for this product and expect to convert this into more subscription revenue in the near term."

Financial Commentary:

Total revenue was up 1.5% on the pcp with subscription revenue growing 6.1% to €34.5 million, driven primarily by expansion within our existing client base. Services revenue was down slightly at 3.3% versus pcp, reflecting our increased positive engagement with SI partners.

The cash balance as of 30 June 2024 was €34.2 million, with free cash flow of €5.1m for the 6-month period. This is in line with our expectations to achieve ongoing cashflow positivity and a return to profitability.

Headcount increased slightly to 1,053 from 1,042 at 30 June 2023. However we continue to focus on the geographic dispersion of roles to lower cost regions. Attrition levels remained very low, with the employee retention rate over the period well over 90%. Product Consulting average utilisation was 87% up from 86% in the pcp, in line with expectations.

Operating expenses decreased across all lines except for product consulting which rose 13.0%, making total operating expenses broadly flat versus the pcp. Savings continue to be sought across all areas 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 (€5.3) million, a 22.3% improvement on the loss reported in the pcp.

2H24 Key Priorities

As we look to the second half of the year our goals that are being prioritised in the business are as follows;

- Delivering the FINEOS AdminSuite implementation for Guardian and scaling through 2025 and beyond – important proof point for FINEOS to the market
- Complete the Direct-to-Employer FINEOS Absence product and get existing clients live to enable full go-to-market approach
- Further traction in the ANZ region on cloud upgrades and cross sales
- Increase new business sales as well as cross sales to all our existing clients
- Continue to drive our strategies for operational efficiencies to deliver further cost reductions
- Execute our mission to be the global market leader in group, voluntary and absence management.

Outlook & Guidance for FY24

- FY24 (1 Jan – 31 Dec) total revenue guidance reaffirmed; expected to be between €130-135m, albeit to the lower end of the range and composition of revenue slightly changed to:
 - o High single digit % growth for subscription revenue versus CY23 (*down from double digit growth*)
 - o Low single digit % growth for services revenue versus CY23 (*up from previously flat*)
- Guidance reflects both the recent new name win with Voya Financial and existing client up-sells, despite an increased level of churn from non-core legacy and Limelight Health clients in the second half
- On track for successful delivery of key projects to replace legacy systems in several large carriers to maximise product subscriptions
- Continue strategy of cost savings through operational efficiencies. FY24 total costs expected to decrease (versus CY23)
- FINEOS has seasonal volatility in its cash flows however is planning to generate free cash flow in total for FY25 and being self-funding thereafter
- While the pace of pipeline conversion continues to be challenging, the pipeline remains strong with a number of opportunities developing.

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 August at 5:00pm AEDT / 8.00am IST.

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/10037737-hf7yt2.html>

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

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