**Computershare Limited**
ABN 71 005 485 825
Yarra Falls, 452 Johnston Street Abbotsford
Victoria 3067 Australia
PO Box 103 Abbotsford
Victoria 3067 Australia
Telephone 61 3 9415 5000
Facsimile 61 3 9473 2500
www.computershare.com

# MARKET ANNOUNCEMENT

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| **Date:** | 12 August 2020 |
| **To:** | Australian Securities Exchange |
| **Subject:** | **FY20 Results – CEO and CFO Conference call script** |

Attached is a script of the presentations delivered by the CEO and CFO at Computershare's results conference call for the full year ended 30th June 2020 held on 12th August 2020.

**For further information contact:**
Michael Brown
Investor Relations
Ph +61 (0) 400 24 8080
michael.brown@computershare.com.au

This announcement was authorised to be given to the ASX by the Company Secretary

For more information, visit www.computershare.com

MARKET ANNOUNCEMENT

# Computershare FY2020 Results

## CEO and CFO conference call script

### Stuart Irving, Chief Executive Officer and President

Good morning everyone and welcome to Computershare's 2020 full-year results conference call.

I am joined today by Nick Oldfield, our Chief Financial Officer, and Michael Brown, from our Investor Relations team.

On this call I will take you through the key aspects of our results and importantly how we see the year ahead.

We released a presentation pack to ASX and it's on our website. There's a lot of information in the deck for you as we provide comparable segment reporting this year, so on this call I'll focus my remarks on the first seven pages and you can work through the other pages at your leisure.

Nick will then take you through the slides on our financial results. Then, after some concluding remarks, we will open up the call for your questions. As a reminder, we will be talking throughout in US dollars and in constant currency (CC) terms unless we state otherwise.

**Slide 2 – Revised guidance delivered**

Let's make a start and turn to page 2.

The three key points I would like to highlight today are;

First: We delivered on the guidance we revised in the first week of April. Management EPS is down by just under 20%.

Although, activity levels across the group were subdued in the fourth quarter, the business performed in line with the revised expectations and we did see continuing improvement post the March / April macro volatility months. Our cyclical and events-based businesses clearly contributed less this year. Margin income fell by 18.3%. Ironically, this was a little better than we expected as we held on to a good sized balance for a while in the fourth quarter. Corporate actions revenues were down by 13.8%, despite the increased number of capital raisings we saw in the Australian market. There are encouraging signs of recovery here but the year overall was weak. We have talked about the optionality inherent across Computershare, and this year it didn't convert to full profitability. That's reflected in these results.

Second, through this period of volatility, our operating businesses are demonstrating resilience. We have been talking about this in our investor townhalls and I am pleased to be able to say it is continuing. Headline revenue for the group was down just 1.9% in FY20 – excluding margin income – revenue was absolutely consistent at $2.11bn. Last year you'll remember we also had Karvy revenues and $40.9m more fixed fee in UK Mortgage Services and only eight months of Equatex. So our revenue was consistent, which is a good performance.

The third key point I would make goes to people and culture at Computershare and some of the things we have achieved over the past few months.

We have continued to deliver high levels of service to our customers, most often remotely. We have maintained our sharp focus on execution and getting the job done.

Projects need to carry on, I have expectations they will be completed as do our clients and we have done so. We are also continuing to execute on our own long-term growth strategies. At Computershare, our plan is to build stronger businesses with scale and more exposure to positive structural growth trends. This focus on long term planning, disciplined execution, investing for growth and driving efficiencies is absolutely unchanged. It's serving us well. All of this comes down to people. We are well organised, and our people are highly skilled, competent, loyal and reliable. That's coming through strongly in client feedback as well as the results. We have been there when our clients needed us, and it bodes well for the future.

Doing the right thing by our stakeholders is critical at Computershare and I like to think we achieved that.

First, we looked after our employees. This was our number one priority. It was a frightening time for many. We looked after them by preserving jobs and not slashing headcount or demanding large scale furlough or government grants. We provided flexibility, so our staff could become home carers and educators. At difficult times like these as a corporate we have a social obligation to our employees and the wider community. This may have a modest impacted on short-term earnings but I guarantee we will get a better return over time for having done the right thing.

And secondly, we have looked after our shareholders. Dividend cuts may be fashionable this season. But we will maintain the final dividend even though earnings are down. Why? Because we can. And we think it's the right thing to do. The payout ratio for the year is 55% and at the end of the year our balance sheet leverage ratio is still below the middle of the range at 2x. We can afford it. It doesn't jeopardise our investment plans. We can self-fund our growth strategies and respect our shareholders at the same time.

**Slide 3 – FY20 Management EPS**

Slide 3 is a new slide for us.

It's an EPS bridge that shows how we tracked through the first and second halves of FY20, along with the financial impacts of the market volatility. It explains the shift in April, from our initial guidance of down 5%, to finishing the year down 20%.

I wanted to include this slide as an explanation. In February, when we affirmed the original guidance for the full year, the question we were asked was, how? Especially as US rate cuts fell a little faster than anticipated.

Let me explain the bridge. In February, we expected earnings in the second half of the year to be around 38 cents per share to make the full year 66.7 cents. That would have been down 5% versus the pcp.

We expected seasonality to contribute around 4 cents per share in 2H and we expected further contributions from cost saves and a number of large projects in the US we had line of sight on. Some of these jobs were delayed or cancelled. Meetings were pushed into FY21 and volume was down. We will recapture some of this revenue next year.

What we also knew at the time was that we were running 8% up, ahead of our internal budget assumptions for Jan and Feb. Up to the end of February, we were going well and we had a buffer up our sleeve to help with these earlier than anticipated rate cuts.

Since late February, the world has changed. Earnings have been impacted. On this chart we break down these costs into two parts: operating factors and one-off management decisions we decided to make. The former impacted EPS by 10% and the one-off management decisions cost another 5%. Even though they are one-off costs, we have included them in Management EPS to be conservative.

If we add together the original guidance with these two factors, you can reconcile the overall 20% decline.

I'll go through these factors. In the operating impacts, the additional declines in margin income as rates continued to fall cost us a little over 3 cents of EPS. That was less than we expected due to higher than anticipated balances in Q4 and a disparity between base rates and LIBOR.

Let's unpack the operating impacts further. The 4 cents on this bridge includes a range of business impacts. These are reduced corporate actions, deferred meetings and events and shareholder and employee deferrals on transactional activity. It also includes the effect of foreclosure freezes and forbearances in US Mortgage Services.

The one-off management actions we took in April to June were part of our strategy to look after our stakeholders, as I mentioned earlier. To enhance our liquidity and available cash reserves we decided to move some cash out of Canada and make it available to the wider group. This cost us an extra 1.1 cents of EPS in withholding tax. But this liquidity helps us with the dividend.

Whilst we encouraged employees to take annual leave in the fourth quarter, we took the view that we would not force leave – so it could be used as an additional safety net for employees should there be second waves of COVID infection. This accrual cost us 1.5 cent of EPS. But again, it allowed us to keep people employed. And the final 0.69 cents of EPS was the cost of provisioning for hardship payments to support our most vulnerable staff across the globe in the coming months. We did the right thing and looked after our people. Please don't take this as any change in our corporate ambition or motivation, but there is more to life than chasing short term EPS. As I said, I guarantee you we will get multiple returns on these investments in our employees.

**Slide 4 – Pandemic response**

Moving to page 4, this provides more detail about how the pandemic is affecting our businesses, and the responses we are taking to mitigate those effects.

As we said in May, we work well remotely – 92% of our workforce are now working from home. We get the job done from living rooms, kitchen benchtops and spare bedrooms.

We moved quickly to ensure our balance sheet stayed strong. We refinanced and extended the corporate debt that was due to mature in 2021.

We accelerated our pursuit of strategic and accretive acquisitions. We are determined to come out of this period stronger. We bought Corporate Creations and worked on the Verbatim acquisition in the half to expand our Issuer Services offering.

And we managed our US Mortgage business very carefully during volatile times. While there were payment holidays, foreclosure freezes and movements in MSR valuations, we stayed true to our strategy. We are an asset servicer, not an asset trader. In the second half of the year, we continued to invest carefully in MSRs that now generate higher returns. We continued to expand our capital-light subservicing business – that's our next major leg of growth and, as we said we would, we completed strip sales to recycle capital during this challenging period too.

Don't be fooled, these challenges weren't easy. There were tough decisions and some dark days along the way. But we never lost sight of the customer. We were innovative with technology solutions, and we did go the extra mile, many times.

**Slide 5 - FY20 key priorities – execution scorecard**

Now moving on to slide 5, which shows our execution scorecard. We've shown this page before – it's like our end-of-year school report. One year I described our result as a "seven and a half out of ten" performance. That raised some eyebrows. We beat guidance that year.  Even though our earnings are lower now, I actually think in some ways this result is a nine out of ten performance. You can be the judge.

Operationally this year, we successfully migrated the last remaining loans onto our UK servicing platform. That project was completed in May and we are now decommissioning the environment. That chapter is finished now.

In the US we carefully grew UPB, up 16% and delivered some margin expansion. Lower rates caused MSR prices to fall. The third-party market value of our MSRs is around $100m below our book value. It's not a loss we will crystallise, but we put a cross there.

Ancillary revenues are an important part of our model in this business. They were impacted by Government restrictions on foreclosure. Despite this they held up quite well. Compared to $81m of revenues in 1H, 2H ancillary revenues were $71m. Foreclosure related fees account for around one-third of this total. We assume foreclosure restrictions start to ease in September but there is a risk the current moratorium is extended.

To mitigate the future potential effect of accelerated run-off, from July 1st we are adopting a shorter, more conservative asset life assumption of eight years for our owned MSRs, and we will increase our amortisation charge going forward. Is eight years the right assumption? We have done some very detailed analysis and we feel it is appropriately conservative.

We migrated more employee share plans clients to our market-leading EquatePlus platform and we delivered the anticipated synergy benefits. The clients that have been upgraded have a 96% satisfaction level. That's strong.

We continued to deliver organic growth in Issuer Services. Now when we said "measurable", here, this year it was minor. US Register Maintenance revenues were impacted by margin income and also shareholder-paid fees, but on an ex margin income basis, EBIT improved as did margin. And we are making progress on our new revenue pools. This includes four months of Corporate Creations.

We made further strides in moving to global business lines and a global service model, and I am encouraged by the way this is increasing our focus on growth and customer experience.

And finally, our cost-out programs are on track and we have upgraded our total savings targets. We are revaluating opportunities for further savings following recent workplace changes, but we haven't finished the analysis yet, so I won't put a number out there today. It's work in progress.

So overall, we got the job done in trying times and I'm proud of that.

**Slide 6 – FY21 Outlook**

Given the last three months and all the uncertainty in the world, how do we see FY21?

First up, we are giving guidance for the year.

Although forecasting full-year earnings is substantially more difficult, we do have a better line of sight on our business than you do and we are happy to share our expectations and provide this transparency and if this changes over the coming months we will continue our transparent approach.

We expect Management EPS to be down by around 11%, to approximately 50 cents per share.

For FY21 in constant currency we expect EBIT excluding margin income to be up around 10%. That shows we expect our operating businesses to continue to grow.

You will also see we expect a bit more second-half seasonality. That is not us kicking it down the road but the natural curve of the green recovery shoots we see today.

We know what our headwinds are:

Margin Income, Transactional Activity and unknown rate of recovery, increased amort in Mortgage Services.

But we also have some tailwinds with increased contributions from Issuer Services, ongoing cost out programs, non-performing loan growth and integration benefits in Equatex and bankruptcy growth. That is why the underlying business on an ex margin income basis is expected to increase.

**Slide 7 – FY21 Management EPS bridge**

Moving on to slide 7. As I said earlier, we thought this bridge would be useful for investors. Its shows the moving parts behind our guidance.

We start with what we delivered in FY20, then added back the one-offs. As you can see, margin income has the biggest impact as the annualised impact of the rate cuts reduce our margin income. Whilst we can look forward at the yield curves to predict rates in the coming 12 months, the key factor will be average daily balances that has been more volatile and harder to predict. It will depend on M&A activity and at this early part of the year we think average daily balances will be somewhere between $14 and 15bn.

You can see here the impact of the increased Amortisation rate. We analyse the average life value of the MSRs in our portfolio. Older loans are being refinanced at an accelerated rate, but newer MSR have a far longer average life value. We also expect that we will see an increase in non-performing portfolios which further extends life. However we have reduced our straight line method from nine years to eight years from the 1st July 2020 and will continue to test that on a regular basis. 2 cents is attributable to this policy change. 1 cent to enlarged portfolio.

In the UK, you can see the impact of the UKAR fixed Fee roll-off, which is expected to be offset by our planned cost reductions in that business.

Finally we do anticipate underlying operational growth as we have outlined. Let me give you some more clarity on this. The 6 cents of EPS on this bridge includes 3 cents of revenue led growth initiatives, 2 cents from cost saves and 1 cent per share from recent acquisitions

Diving deeper that is:

- Full-year contribution from Corporate Creations acquisition
- Growth in Bankruptcy
- Delivery of Equatex related synergies and slight recovery in transaction volumes
- Special servicing and fulfilment led growth in US CLS
- Other cost savings initiatives across the group, including ongoing UK CLS restructure
- Predicted fee revenue growth of around $35m or $85m when you excluding UKAR Fixed Fee reduction

We will also likely expect a greater first half second half split weighted to the second half.

We hope this was helpful context on how at this early stage we see this financial year. We have committed to keeping you informed and will continue to do so.

I will now pass you to Nick who will walk you through the finance data in more detail.

## Nick Oldfield, Chief Financial Officer

Thank you, Stuart.

**Slide 8 – FY20 Management Results summary**

I will take you through our financial results, starting on slide 8.

Firstly, Group Revenue fell 1.9% over the prior corresponding period.

Adjusting for margin income, M&A and the UKAR fixed fee, organic revenue growth was 0.8%. There's more detail on revenue on Slides 22 & 23 – increased contributions from our growth engines - US Mortgage Services and Employee Share Plans – are behind this rise.

EBITDA fell 3.7% to $650m. The IFRS16 benefit was $48.4m.

We think EBIT is a better measure of comparative performance post IFRS16.

And EBIT was down $90m – 15.2% to $500.2m.

This decline is largely made up of $45m in margin income and $36m in UK Mortgage Services, due to the delayed platform migration. We will get a full run-rate benefit of these savings from September this year. The residual $9m is really the net effect of the market volatility over the past four months.

Amortisation expense increased $23.6m to $70.9m. $64.5m of this related to the expanded US Mortgage Servicing Rights portfolio.

Interest expense was flat. The IFRS16 impact of $7m was largely offset by lower expense due to lower rates in the second half.

Finally, our income tax expense was lower, at $128.8m v. $138.8m. Our ETR for the year was around 300 bps higher at 29.6%, towards the bottom of our expected range.

This reflects the impact of US BEAT and lower UK PBT that we discussed at half-year as well as the additional Canadian withholding tax that Stuart talked about earlier. The repatriation of Canadian funds incurs withholding tax at 5% however we determined that it was better to have this liquidity available for the Group.

As a result, Management NPAT was down 20% to $305m and Management EPS was down, 19.8% to 56.3cps.

Statutory results are on slides 20 and 21. NPAT was $232.7m, with the difference attributable to the amortisation of non-MSR intangible assets of $42.6m, acquisition related expenses of $6m and $22.7m associated with our restructuring programs.

Statutory EPS was 42.97 cps, down 43.9% over the pcp, largely due to the gain on the sale of Karvy in FY19.

**Slide 9 – Margin Income**

Slide 9 shows margin income compared to the last 10 half years.

The margin income result was better than we had anticipated at $199.4m at actual rates.

Unexpectedly, balances were higher than plan – the average for Q4 was some $19.1bn. Ironically, this was mostly due to a COVID benefit – we held on to one large balance far longer than we anticipated as brokers were not able to get paperwork back from their clients promptly due to everyone working from home.

Margin income also benefitted from a spike in US LIBOR rates in April and early May.

In FY21, we expect margin income of around $100m in line with the current yield curve.

The transaction I mentioned previously has now largely unwound and as a result, we expect balances over FY21 to average in the $14-15bn range.

There's more detail about balances on slide 68.

**Slide 14 – Operating cost analysis**

**Slide 15 – Cost out programs**

Next, I'd like to talk about slides 14 and 15.

On slide 14 we detail operating expense which on a normalised basis are 0.4% higher than in FY19.

And on slide 15, we show the impact of our cost out programs. The net benefit realisation in FY20 is $50.2m.

Let me start by trying to bridge the $50m of savings with the 0.4% higher overall expense.

Firstly, the net impact of M&A was $23m. A full year of Equatex, LenderLive and several months of Corporate Creations, offset by the sale of Karvy.

Second, wage inflation added around 1% to the wage bill and – as Stuart called out earlier – we had the impact of a higher holiday accrual expense and employee hardship bonuses. All up, these items totaled around $20m.

Third, opex increased by around $15m to deliver incremental volumes and support future development in our US mortgage services, bankruptcy and share plans businesses.

And finally, we had some higher professional expenses and accounting adjustments, the majority of which won't repeat in FY21. These were around $22m.

On slide 15, we have increased our expected benefit realisation for Stage 3 cost savings by around $16m. The total gross multi-year benefit from these programs is now estimated to be $235m. This reflects synergies from moving from a regional to global business model.

**Slide 16 – Cash flow and balance sheet**

I'll finish with some comments on our balance sheet and cash flow on slide 16.

In the year, we generated $594.4m of net operating cash flow, this represents an EBITDA cash conversion rate of 91%.

Free cash flow was $506m. We managed cash tightly in the second half to preserve liquidity.

Capex was down for the year at $24m following the data center investments in FY19 however we do expect this being a bit higher in FY21, due to some print equipment refreshes and office reconfigurations.

Net cash flow was $58.9m, after spending $326.5m on both dividends and acquisitions.

The MSR investment is split between $64.5m maintenance to offset amortisation and an additional $120.5m to grow the book.

As previously flagged, 2H net MSR spend was far lower at $40m, post an excess strip sale generating proceeds of $42.5m. We expect this trend of lower net spend to continue into FY21, with the total outlay for the year coming in below our amortisation expense.

Net debt is broadly flat relative to 12 months ago. This in part reflects the unwinding of in the money derivatives which generated around $125m in proceeds - $102m of this is in the financing cashflows and 23m is included within operating cashflow. The unwind impacts our swap reporting on slide 71 although the P&L will continue to benefit for a number of years to come.

The outcome of all this is that our Net Debt to EBITDA ratio increased to 1.93x. Adjusting for IFRS16, it was 2.08x.

As Stuart said earlier, we successfully refinanced our syndicated facilities maturing in FY21, extending them out to FY24 and we added a new $75m mortgage servicing advance facility to cover government agency loans.

The average maturity of our drawn debt at year-end was 3.8 years.

Looking ahead, we do expect the net debt to EBITDA ratio to increase over 1H FY21 reflecting lower rolling EBITDA in 2020. The improved second-half outlook should see it return to our target range by the end of FY21.

I'll now hand back to Stuart.

### Stuart Irving, Chief Executive Officer and President

Thanks Nick.

**Slide 17 – Medium-term operating guidance**

As many of you know we have been continuing to focus on executing well, maintaining cost disciplines and investing strong free cash flow in growth investments, acquisitions and returns for shareholders.

We also don't manage the business for any single results period but lay down long term plans. Whilst this past six months have challenged us all we do see our earnings trajectory improving over the medium term. This slide talks about how we see some of these key drivers on an ex margin income basis at a group level but also in the individual business lines over a medium-term perspective. It's about what we are building.

**Slide 18 – Conclusions**

And finally, onto conclusions.

It was an uncertain time, but the underlying business has been pretty resilient. These are high quality, core businesses with scale and strong recurring revenues in the group. At Computershare we are going to continue focusing on the things we can control. That is executing well, maintaining cost disciplines and investing strong free cash flow in growth investments, acquisitions and returns for shareholders.

Now, let's move to questions.