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

Date:	10 August 2022
To:	Australian Securities Exchange
Subject:	**FY22 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 30 June 2022 held on 10th August 2022.

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 Group CEO.

For more information, visit www.computershare.com

MARKET ANNOUNCEMENT

FY22 Results – CEO and CFO conference call script

Stuart Irving – Chief Executive Officer and President

Good morning everyone, and welcome to Computershare's FY22 results conference call.

I have Nick Oldfield, our CFO, and Michael Brown, from our Investor Relations team, with me. I am pleased to say it's the first time we have all been in the same room for our results call for a couple of years so let's take that as a small sign that the world is returning to normal.

On this call I will take you through the key highlights of our results and the outlook for FY23.

As usual we have released a presentation pack to ASX, and it's on our website. There is a lot of information in the deck, so I'll focus my remarks on the opening pages.

Nick will then take you through the financial results.

Following the presentation, we will open up for Q&A. As a reminder we will be talking in US dollars and constant currency (CC) unless we state otherwise.

Slide 2 - FY22 Results

Let's start with the highlights on page 2.

We are pleased to report overall Management EPS slightly ahead of guidance.

Management EPS increased by over 10%. Guidance was for around 57 cents per share and we came in just over 58 cents per share.

But clearly it was a challenging market environment in the second half of the year, especially in the last quarter.

As interest rates increased rapidly, our transaction and event-based revenues were impacted by lower volumes and activity levels, mortgage rates shot up reducing origination and corporate action volumes began to tail off. So the drag on EBIT ex MI was in essence somewhat tied to the increasing rate environment. As a result, EBIT ex MI came in below our guidance for the second half but MI was a beat and more than offset.

Margin Income is a natural hedge in our business, and we did begin to benefit from higher than anticipated rate rises in some of the key markets in the last quarter, so simply put, the mix altered.

Management revenues increased by over 12% with eight months contribution from the Corporate Trust Acquisition in the US which we completed last November. Growth in client fee income offset weaker transaction revenues along with strong cost controls, so we were able to manage the impact of inflation as we began to benefit from rising interest rates. MI in 2H was $125m compared to $62m in 1H. There is clearly more to come. We have laid out our assumptions on future rate rises as part of guidance.

Issuer Services and Employee Share Plans continue to win market share. Transaction-based revenues in Corporate Actions and Employee Share Plan trading were impacted by market volatility in the second half as I mentioned, and the expected recoveries in Bankruptcy and Class Actions have yet to come through.

Mortgage Services in the US delivered a disappointing result, although the outlook is more positive.

The well-timed CCT acquisition continues to exceed expectations. We are making good progress integrating the business and delivering the expected synergy benefits. The business delivered $90m of EBITDA for the year with $80m of that in the second half.

Computershare's free cash flow and balance sheet are standouts in this result. We generated over $320m of free cash flow with over 60% cash conversion. Debt leverage has improved to 1.64X, below the bottom of our target range. However, that is not a bad place to be in a rising rate environment. The deleveraging has come through sooner than expected following the CCT acquisition. This balance sheet flexibility will enable us to continue to strengthen and scale our global growth businesses, fund the integration plan for CCT and reward shareholders.

We have a confident outlook. Management EPS is expected to increase by 55% in FY23.

Inflationary pressures are impacting our operating businesses, and costs are expected to rise in FY23, we are not immune these pressures. However margin income, our natural inflation offset, is estimated to be $520m this year, driving strong earnings growth.

We will continue to invest in our businesses and simplify our structure to improve the quality of our earnings and deliver long-term returns for shareholders.

Slide 3 – FY22 Summary

Slide 3 summarises the performance across our major business lines.

The main point I'll call out is that we have a business model that allows us to build scale and grow in large global markets. Overall, we can more than offset inflation with cost controls and rising margin income.

In Issuer Services, we increased revenues in Register Maintenance, our largest business. We continue to win market share and outperform. Over the last four years we have won over 1,400 net new client wins. In FY22 we increased the number of wins compared to the year before. The ongoing investments in front office, client experience and product innovation are strengthening the business and improving the value proposition.

Governance Services delivered another good result. Revenues increased by 30%. Remember this business does not have margin income. I used to call that out as a positive! There's a tremendous amount of growth opportunity here and all the structural trends, like rising compliance and regulation and business complexity, are positive.

Corporate Actions had a weak second half though. Volatile equity markets led to lower transaction volumes in the second half. You can see the overall drop in completed M&A and capital raising numbers. Hong Kong IPOs, which were a prominent feature of the PCP, were substantially down. We do expect some further weakness in corporate actions in FY23.

Employee Share Plans continues to win market share and increase client-paid fee revenues. Fee revenue was up over 5%. The Equate+ platform is driving this growth. The upgrade is complete in Europe and in Australia 85% of clients are now on the new platform. We are now preparing for the North American rollout. Although equity markets have been weak, transaction revenues were stable for the year overall. We did see a reduction in the second half as equity markets lowered in key markets.

The volume of units under administration increased by 5% year on year. You'll remember me saying this is latent earnings power in this business and should lead to transaction revenues over the coming years.

In Business Services, the expected recovery in bankruptcy and class actions has so far failed to come through. Revenues were down in both businesses. Case volumes are low. Regardless of this, we need to improve the profitability of these businesses and we have more to do.

Canadian Corporate Trust's headline results were modestly impacted by the sale of our Private Capital Solutions, a small retail focused business that added unnecessary complexity to Canadian Corporate Trust. Excluding this it delivered another consistent result.

Mortgage Services in the US delivered a disappointing result, although the outlook is more positive.

Revenues were down 5% due to the impact of the prior period refinance volume and a continued shift towards capital light sub-servicing, which comes at a lower revenue level per loan. In the second half, new origination volumes were weaker than expected due to rising mortgage rates. EBITDA was down $9m to $100m and we reported an EBIT loss of $14m.

On the positive side we are making progress on our strategy to shift the portfolio to a more capital light model. Invested capital fell and we recycled over $170m of MSR capital. This contributed to the growth in our sub-servicing portfolio, where we added over $22bn in new sub-servicing throughout the year. We have a pathway back to profitability and expect better results this year.

Speaking of profitability, we returned UK Mortgage Services to profit. While we know the book is in run off and revenues are down, we are actively managing the cost base. The sale process is continuing.

I'll highlight CCT, our recent acquisition in the US. I'm delighted to say the business is performing well and exceeding expectations. It delivered $336m of revenue and $90m of EBITDA for the year. Remember we only completed in November, so that's effectively $260m of revenue and $80m of EBITDA in the second half.

This business had over $18bn of balances and an additional $47bn of money market funds on average in the second half so it clearly increases our leverage to interest rates. But what I find most encouraging is, just as we did in Canada, we are slowly beginning to improve client paid fees, recurring revenue and management EBIT ex MI which was $29m in the 2nd half. That's a good start. Integration is also underway and we are slightly ahead on delivering synergies at this stage, but it is early days.

Slide 6 - Outlook

Turning to Outlook on page 6, as the great singer Dinah Washington said, "What a difference a day makes". She might have been singing about interest rates too.

In FY23 we expect Management EPS to be up around 55%. That's opening guidance of around 90 cents per share EPS.

Margin income is the big driver. We are guiding to around $520 million of MI this year. This includes the benefit of recent rate rises, the effect of our hedging strategies where we are looking to deliver a smoother earnings profile over time and also the assumed future rate hikes. Undoubtedly, we will be wrong, but we are trying to be helpful and transparent to investors. A simple way to look at this is to think about Computershare in 2019, so pre-Covid interest rates and where yields were similar. We delivered close to $250m of margin income in the legacy CPU business. Now rates are back to similar levels and with the CCT acquisition we have doubled our balances, hence the figure of around $520m.

We base our guidance on average cash balances for the year of approximately $38bn. Exposed, unhedged balances are expected to average $16.4bn and we assume US cash rates to rise to 3.5% by the end of the calendar year; It is all laid out on slide 10 of the deck and of course, we're happy to take questions on this.

The other side of higher interest rates is of course higher inflation. We are not immune to the inflationary pressures you're seeing and while we will maintain our disciplined focus on cost control, we do expect cost growth of around 5% on a proforma basis in FY23. As you work through the numbers, you'll see we expect EBIT ex MI to be down around 5% next year.

However, with such a strong financial position, we will take advantage of the opportunity to invest in our businesses and simplify our structure to improve the quality of our earnings and deliver long-term returns for shareholders.

I'll now hand over to Nick to take you through the financials in more detail.

Nick Oldfield – Chief Financial Officer

Thank you, Stuart.

Slide 11 – FY22 Management results summary

Let me start with our financial results which this year are on slide 11.

Revenue for the Group increased 12.2% over the pcp whilst Revenue ex Margin Income was up 9.2%.

Adjusting for the CCT acquisition, operating revenues fell 3.5%. Our event-based businesses – Corporate Actions, Stakeholder Relationship Management and Bankruptcy were the biggest drivers here, whilst Mortgage Servicing revenues also dropped due to book run-off in the UK and an increased shift to sub-servicing in the US.

Encouragingly, recurring revenues improved to 82% and we do expect growth in client fees across Registry, Governance Services, Employee Share Plans and CCT in FY23.

Margin income increased 74.3%, reflecting the rise in global interest rates. Excluding CCT, MI was 22% higher.

There's more detail on revenue on Slide 33.

EBIT grew 19.0% to $530.9m, which is largely attributable to the $79.5m MI improvement.

Excluding MI, EBIT was marginally better at $344.4m. Adjusting for the CCT acquisition, however, EBIT excluding MI was down 7.5%. As I said earlier, this is largely down to reduced volumes in our event-based businesses, particularly in Q4.

The EBIT ex MI margin was down 110bps to 14.2%. This reflects both the impact of the lower margin CCT business on the Group and the reduction in those higher margin event based revenues.

Notwithstanding the dilutive impact of CCT margins here, do note that this business was break even on an ex-MI basis pre-acquisition, so we are very pleased with the improvement in performance so far.

Interest expense was $4.8m higher and we have now swapped all our debt to floating rates. This acts as a natural hedge to our margin income and so will benefit in the event rates fall in the future, but leads to higher expense in FY23.

Our income tax expense was higher as you would expect, at $120.7m. The effective tax rate (ETR), however, was lower at 25.6%. This was largely due to a reduction in BEAT expense in the US, as MSR values improved and an updated transfer pricing agreement in Canada. This agreement has had the impact of reducing our Australian royalty revenues and in turn our ability to frank our dividends. We do expect a slightly higher ETR in FY23 in the 26-28% range, reflecting higher US margin income contributions.

Including CCT, Management NPAT was up 23.5% to $350.3m. Excluding CCT, it was up 2.1% to $289.7m.

Finally, and as you've already heard, Management EPS was up, 10.6% to 58.03cps.

Statutory results are on slides 52 and 53. Statutory NPAT was $227.8m, with the difference attributable to the amortisation of non-MSR acquired intangible assets of $63.4m, acquisition related expenses of $45.1m and $13.7m associated with our cost-out programs. Of the acquisition related expense, $56m came from the CCT acquisition and ongoing Equatex integration. This was partially offset by gains on the disposal of our stake in Milestone and our small Private Capital Solutions business in Canada.

I'll now jump back to slide eight and talk about margin income.

Slide 8 – Margin Income

Margin income was somewhat ahead of our expectations, doubling over the second half, with a full half of CCT contribution and more and higher rate rises than we had anticipated. 2H22 was $125.0m at actual rates.

Slide 9 – Client balances and yields

On slide 9, we show our balances for the year.

In our legacy business, balances were just over $21bn. The average yield improved to 73 bps in the 2H, reflecting the general improvement in rates.

At CCT, reported average balances are skewed by the fact we only had two months of balance for the first half. In the 2H, average balances of around $18bn were slightly down on the 1H, largely due to a slowing of bond issuance as rates started to rise. As with the legacy business, yields have also improved from 23 bps to 53 bps in the 2H.

Slide 10 – FY23 Margin Income Outlook

On slide 10, we provide more colour on our outlook for FY23. As Stuart has said, we expect to deliver $520m of margin income in the next year.

So how do we get to $520m?

Firstly, we're not economists. We set out the average cash rates by quarter that underpin our forecast here. These are sourced directly from Bloomberg.

And second, we have set out our balance assumptions and how the book breaks down by category.

Let me just make some points on balances:

Exposed non-hedged balances are expected to be down around $3.3bn compared to 2H22 averages. This reflects our assumption that corporate actions volumes will be lower in FY23 given general market conditions, combined with an increased shift to hedging;

CCT balances are expected to be broadly consistent with 2H FY22 average albeit there is some movement from exposed to non-exposed as we learn more about the underlying portfolio;

Hedged balances are up $1.2bn and we are continuing to add cover as rates rise. In 2H22, average hedged balances were $4.0bn and our outlook assumes they rise to $5.2bn. In actual fact, they are currently at $5.8bn following some activity in July and we continue to add protection – we do not believe this will materially affect our MI guidance at this point.

Third, let's talk about yields. You can see from the table at the top of slide 10 that we expect our exposed yield to improve from 75 bps in FY22 to 211 bps in FY23.

Now, this overall return is still a little below the expected average cash rate for the year. This is for a couple of reasons. There is still a large proportion of CCT balances earning below market rates from Wells Fargo as part of the transaction agreement. This will change at the end of the TSA period in October 2023. We also have other balances earning sub-market levels due to UK retail bank ring-fencing whilst EURO market rates remain close to zero. Otherwise, we continue to play catch up on overnight rate recovery as rates rise, albeit we do expect to achieve around 90% of overnight cash rates over time, just not in FY23.

Looking further ahead to FY24, we anticipate further improvement in our exposed yields as the catch-up in rates continues, whilst we will continue to add hedge cover to protect the medium term.

There's more detail about balances on slides 56 - 59.

Slide 22 – FY22 Operating expense analysis

Next, I'd like to talk about our operating costs on slide 22.

Here, we show the bridge in operating costs between FY21 and FY22. Importantly, we've highlighted our cost-out programs which yielded $42.5m of gross benefit in FY22. These more than offset the impact of $35.9m cost inflation in the year.

Of the cost-out programs, the restructure of our UK mortgage servicing business delivered $26m of benefit, Equatex synergies totalled $7.3m and ongoing Stage 3 benefits, which were largely related to property rationalisations, delivered the remainder.

Overall, our adjusted operating cost base was $1.885bn, an increase of 11.3%. The legacy business was broadly flat and so the higher cost base really just reflects the CCT acquisition.

Like most organisations, we continue to face inflationary pressures across our business lines and we anticipate overall costs to increase around 5% on a proforma basis in FY23. This assumes CCT was owned for the full 12 months of FY22. Our exposure to higher interest rates, track record of delivering cost out and ability to reflect current market conditions in event-based pricing does give us comfort we can effectively manage the effects of market inflation. We also have some contracts where we have the ability to adjust for CPI.

Total operating expense is detailed on slide 54 so you can see the usual breakdown there.

Slide 23 – Cost out programs FY22

On slide 23, you'll see the impact of our cost-out initiatives and they have now extended this out to FY26. Between now and then, we anticipate delivering $56m more savings, which will cost us around $100m to implement. These are largely coming from the Equatex integration whilst the UK mortgage servicing restructure is expected to deliver incremental benefits of $6.5m. Our stage 3 program, which includes our Global Operational Transformation program, adds a further $5m of savings.

We continue to evaluate opportunities for a Stage 4 cost-out program, and have started a new employee driven cost-out initiative in US Mortgage Servicing. We are excited to see how that turns out.

I'll finish with some comments on our balance sheet and cash flow on slide 24.

Slide 24 – Cash flow and leverage

In the period, we generated $438.4m of net operating cash flow, representing an EBITDA to cash conversion rate of around 61% at actual rates.

Free cash flow was $322.6m, a 24% improvement over the pcp.

Capex increased to $42.8m, largely as a result of the CCT acquisition.

Net spend on MSRs was $73.0m. We recycled $178m of mortgage servicing capital over the year, with our net investment in MSRs being 65% of amortisation. We expect net MSR investment going forward to be 50-60% of amortisation, with amortisation itself roughly flat in FY23.

Net cash outflow was $621.4m, after spending a net $737.7m on acquisitions and $206.3m on dividends.

Net debt is $1.18bn at year-end. Our balance sheet has repaired faster than we expected as earnings have grown and CCT integration related expense has been lower than anticipated.

As mentioned earlier, Net Debt to EBITDA improved to 1.64x and we expect this to improve further over the course of the year.

And finally, as a result of the $800m public market bond issuance we did in the 1H, the weighted average maturity of our drawn debt has increased to 4.4 years.

I'll now hand back to Stuart.

Stuart Irving – Chief Executive Officer and President

Slide 25 – Conclusions

Thank you, Nick.

So to wrap up, we've had a solid year, with earnings slightly ahead of guidance.

Earnings are accelerating too. We delivered 15% growth in Management EPS in the second half of FY22 versus the pcp. And we are guiding to a further 55% growth in FY23.

This performance is an outcome of our long-term strategies to strengthen and scale our global growth businesses and increase our optionality. It's paying off and there's more to come.

As I said at the beginning, we have a business model that delivers high quality recurring revenues, has the ability to offset inflation with margin income, requires little capital to grow and generates significant free cash flow to self-fund investments and enhance returns for shareholders.

So the question on the table is, what are we going to do with all that cash?

We will continue to invest in our businesses and assess complementary acquisition opportunities while maintaining a conservative capital structure, and also reward our shareholders.

Thank you to all my colleagues at Computershare for delivering these results and to our shareholders for your loyalty and support.

Thank you. Operator, can we please open the line for questions.