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MARKET ANNOUNCEMENT

Date:	15 February 2023
To:	Australian Securities Exchange
Subject:	**1H23 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 half year ended 31st December 2022 held on 15th February 2023.

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

For more information, visit www.computershare.com/corporate

MARKET ANNOUNCEMENT

Computershare

1H FY23 Results - CEO and CFO conference call script

Stuart Irving - Chief Executive Officer and President

Good morning, everyone and welcome to Computershare's first half FY23 results conference call.

I have Nick Oldfield, our CFO, and Michael Brown from our Investor Relations team with me.

On this call I will take you through the highlights of the results and the outlook for the second half of the year.

As usual we have released a presentation pack to ASX, and it's on our website. I'll focus my remarks on the key highlights in the opening pages.

Nick will then take you through the financials in more detail.

Following the presentation, we'll open the line for Q&A. And finally, just to remind you, we will be talking in constant currency (CC) and US dollars unless we state otherwise.

Slide 2 - 1H23 Results

Let me start with some highlights and assure you I did not get ChatGPT to write this – too many input variables this half.

Management EPS was up 95%, Management EBIT more than doubled and margins expanded to 29%.

We have a "natural hedge' in Computershare's business model which is very evident today. This model is driving record results in a volatile macro environment.

As interest rates lifted across all our major markets, Margin Income (MI) increased almost five-fold, offsetting inflationary effects on costs and the impacts the uneven market backdrop has had on transaction and event-based revenues.

The first half was an abnormal period. The combination of the rapid frequency of rate rises and the corresponding impact that had on customer confidence, led to unusual financial results for Computershare.

This backdrop and volatility caused what I would term as temporary reductions in event and transaction activities. Our IPOs were down over 70%, Share Plan trading was initially impacted, and Bond/Debt Issuance slowed.

However, we are now returning to a more regular operating rhythm as we enter the second half.

Management revenue was up 34% and on slide 3 you will see further detail.

Slide 3 - Computershare's integrated business model

Over the years, we have purposefully built an integrated businesses model with a portfolio of recurring core fee revenues, cyclical event and transaction revenues, and large client cash balances which generate Margin Income.

All three streams are inherent parts of the model. Margin Income is a central part of the underlying operating businesses. It is not just something that sits on the side and is factored in on pricing, contract wins and renewals.

Core fees are highly resilient, recurring in nature, typically contracted and long in duration. They account for over half of group revenue. They increased by 23%, helped by a full six month contribution from CCT.

Transaction and event fees are more market sensitive. They account for around 25% of total revenue. Event and transaction revenues were down 14% in the half. Coupled with the impact of inflation, EBIT ex MI was down 40%. These higher margin activities were volatile as I explained before. Remember too, all group costs are allocated to EBIT ex MI.

EBIT ex MI also includes a disappointing loss in US Mortgage Services where adverse market conditions worked against us.

Can EBIT ex MI recover? Yes. In fact, it's already underway. We expect EBIT ex MI to be down around 20% for the year overall.

You can see that improved second half operating performance in the bridge slide on page 6.

In 2H we have the benefits of the usual seasonality, the emerging recovery in Employee Share Plans trading that we have seen since December as equity markets improved. We also have the swing to profit in US Mortgage Services driven by cost out, MSR sales and the return to our traditional amortisation policy as the useful life of mortgages extends.

So let me reassure you that there are no structural issues in the operating businesses, EBIT ex MI is recovering, and will recover further as markets settle - just as we have seen before.

Of course Margin Income, the third revenue stream, more than offset all of this. We delivered over $350m of Margin Income in the half. We are on track to deliver around $810m this year.

At the AGM we provided a Margin Income outlook for 2024. At the time we expected MI to be around 1 billion USD. We have now announced the sale of Bankruptcy and Class Actions which has some balances and applied the most recent interest rate curves. Accounting for these, the 2024 projection is now around $990m.

So what is the strategy with these higher earnings?

We will maintain a conservative balance sheet and deploy these cash flows to strengthen our global businesses, invest in our growth strategies, drive technology innovation and reward shareholders.

I am sure some of you may be thinking where is the buyback announcement?

I would like to see Margin Income gains banked and the full CCT integration costs behind us before we take a more active approach to capital management. I also see opportunities to drive our inorganic growth strategy with good acquisitions. We want to retain the balance sheet flexibility to move quickly as and when the right opportunities present.

And now back to the financial details.

In the first half, Return On Invested Capital was up 500 basis points to over 15%. Free cash flow was almost $130 million. The net debt to EBITDA leverage organically repaired by over 30 basis points to 1.33 times. It was over two times this time last year.

Yesterday we determined an interim dividend of 30 AUD cents per share which is a 25% increase on the prior corresponding period (pcp). The payout ratio is 45%, within our range. With our improving balance sheet, the dividend could have been higher no doubt, but we do want to be prudent and retain flexibility to scale and strengthen our businesses. The Board will review this again in August.

The final point I would make is we are committed to building a simpler, higher quality and more efficient Computershare.

Today we announced part of that simplification process. We have agreed the sale of our Bankruptcy and Class Actions businesses to GCP Capital Partners for a price of $100m of cash consideration plus a $40 - $50m earnout payable in total over the next four years based on the achievement of some agreed financial targets. The business lost money in FY22 so the consideration is reasonable and we can recycle the capital into more recurring revenue opportunities.

We will continue to review and refine the portfolio. The process to sell the UK Mortgage Services business has been interrupted by market volatility but talks are ongoing. And in US Mortgage Services, we are also considering other opportunities to improve returns.

We can also be more efficient. We also announced the first phase of our new cost out program; stage 4. Starting with US Mortgage Services we will deliver additional gross savings of $40m – $50m over the next 3-4 years. We had a $3m contribution from this new program in 1H and expect to see a further $22m of additional savings in 2H.

Page 8 – FY23 Outlook

Let me move now to outlook. We show the detail on page 8.

I'll talk to guidance for FY23.

First, we reaffirm earnings guidance for this year. In August we expected Management EPS to be up 50% this year. At the AGM we upgraded our expectations for earnings to be up around 90%. That is unchanged.

Earnings for 2H are expected to be around 65 cents per share. That would be an increase of over 85% versus the second half pcp.

We have laid out how our thinking has evolved on a couple of moving parts. The deltas compared to August last year so to speak.

On the positive side of the ledger:

1. Interest rates and our recapture rate for 2H are better than we anticipated as we successfully renegotiated higher yields with some of our deposit institutions.
2. Our new Stage 4 cost out program in US Mortgage Services is gathering pace.
3. Also in US Mortgage Services, our MSR portfolio has increased in value and the useful life has extended. The market value of the book is now in line with the IFRS book value. Therefore, we have returned to the original US AMORT policy of 9 years effective 1 Jan.

What's going the other way?

1. Client Balances are likely to be lower in 2H, mainly due to lower corporate actions volume and and timing of closing on today's disposal.
2. The EPS impact of the sale of Bankruptcy and Class Actions, which we expect to complete in May, however this should be able to be absorbed.
3. Employee share plan transaction volumes are running a little below previous expectations, however our 1H exit run rates were better but we are likely to be down overall for the year.

Overall, these swings and roundabouts net off in FY23 and overall guidance is reaffirmed.

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

Nick Oldfield, Chief Financial Officer

Thank you, Stuart.

Slide 10 - 1H23 Management results summary

I'll start with our financial results on slide 10.

Total Revenue for the group increased 33.5% over the pcp, whilst Revenue ex Margin Income was up 9.3%.

Legacy operating revenues fell 5.2%. As you've heard, this was in market driven transactional and event revenues across Corporate Actions, Bankruptcy, Employee Share Plans and US Mortgage Servicing.

Encouragingly, recurring revenues improved to 83%, helped by CCT.

Margin Income increased 467%, reflecting the rapid rise in global interest rates. Excluding CCT, Margin Income would still have been 245% higher.

Total costs were up 18.4%. Again, this includes an extra four months of CCT. Assuming we had owned CCT for the full prior corresponding period, costs on a like for like basis were up 4.9%. The majority of this uplift was effective 1 October 2022 when we implemented our annual employee merit increases and accordingly, there will be further cost increases in the 2H, reflecting a full six months of the higher employee salary base. You can see this in our 1H to 2H bridge.

EBIT doubled to $447.8m and the EBIT margin improved 970 bps to 28.6%, both largely attributable to the higher MI.

Excluding MI, EBIT was down 40%. Transactional and event revenues tend to be higher margin than our ongoing core client fees whilst EBIT ex MI also bears the full weight of the inflationary impact on our cost base. We do not attribute any costs to our Margin Income revenue line despite the integrated nature of our model.

Interest expense almost doubled to $56m. The average cost of debt in 1H was 4.35%. Costs will be higher still in the 2H as rates continue to rise. All our debt is at floating rates so as to act as a natural hedge to our Margin Income in the event rates fall.

As you'd expect, income tax expense was also higher, more than doubling to $119.3m whilst the ETR increased to 30.5%. This was largely due to higher levels of cash repatriation from Canada driving a 5% withholding tax expense. It should be a little lower in the second half reflecting less cash repatriation.

Management NPAT was up 95% to $272.2m and similarly Management EPS was up 95% to 45.1 cps.

Statutory results are on slides 49 and 50. Statutory NPAT was $177.1m, with the difference largely attributable to the amortisation of non-MSR acquired intangible assets of $35.1m, acquisition related expenses of $30m, $11.8m associated with our cost out programs and $12.3m related to the impairment of our UK Mortgage Services business.

Slide 11 - 1H23 Client cash balances

Slide 11 provides more detail on our Margin Income result which was $344m for the half, $352m in constant currency.

Balances were down $2.2bn on the prior half largely in non-exposed balances in CCT and Corporate Actions, reflecting lower market activity.

Slide 9 – Margin Income outlook

Staying with Margin Income, I'll now take you back to slide 9 and talk about the outlook for the rest of the year and into FY24.

We're expecting around $810m of Margin Income in FY23, which implies a further $458m of Margin Income in the second half. Rates have been rising through the first half and we are now factoring in just one more rate rise in the US in March. You can see the average rates used in the table on this slide.

They are sourced from Bloomberg as of Friday 10 February.

And we now expect average balances for the year to be just over $36bn, which reflects a further reduction in the 2H. This is primarily due to run-off of SPAC balances and lower levels of bond issuance in CCT.

Looking to FY24, we are projecting some $990m in MI, a yield of 291 bps on average balances of $34bn. This balance figure reflects the closing of the Bankruptcy and Class Actions sale in May.

Let me just take you through our FY24 rate assumptions:

First, exposed rates are a function of central bank cash rates and the rate at which we recapture that rate from our network of banks. We expect that recapture rate to continue to be around 90%.

Second, hedged rates are a function of the fixed rate deposits and interest rate swaps in place and their overall tenor. You can see the rates and run-off of these hedges on slide 55. To be clear we have not assumed any more hedging in these numbers.

And third, the non-exposed rate is essentially a blend of client negotiated interest sharing and giveback arrangements across our businesses.

Going back to hedging - we've currently got around $8bn in place. We expect to add more as we go forward – our aim is to stabilise earnings to the extent we can, subject to liquidity requirements. We think we have capacity to do another $2-4bn of hedging over the next 6-12 months.

There's more detail about balances on slides 52, 54 and 55.

Slide 17 - 1H23 Operating expense analysis

I'll now talk about our operating costs on slide 17.

Here, we show the bridge in operating costs between 1H22 and 1H23. Like most companies around the world, we've been impacted by inflation in all our major operating markets and so we have set out clearly what this has cost us in the half - $52.2m in the legacy business and a further $7.5m in CCT. We also show the offset from our cost-out programs which yielded $9.7m of gross benefit in 1H23.

Our new stage 4 cost out program will deliver $40-50m in savings over the next 3-4 years, of which $25m will come through this fiscal year. This is all in US Mortgage Servicing and is a key part of returning this business to profitability in the second half.

This program was also responsible for $3m of the $9.7m first half cost out benefit. Equatex and the ongoing Stage 3 program made up the rest.

Overall, our operating cost base was $1.0149bn, an increase of $157.5m, 18.4% over the pcp. Of course, this increase includes the extra four months of CCT as well. The legacy business was up 6.4% whilst inflation within CCT was a little lower at around 4.3%.

Slide 18 - Cash flow and leverage

I'll finish with some comments on our balance sheet and cash flow on slide 18.

In the period, we generated $247.5m of net operating cash flow, representing an EBITDA to cash conversion rate of around 46% at actual rates. Free cash flow was $128.3m.

Net spend on MSRs was $102m. This was higher than intended as we deferred a couple of recycling trades to the second half. For the full year, we still anticipate net MSR spend to be in the region of $65-70m which will help us bring the invested capital in that business back down to our targeted levels.

Net debt is $1.26bn at the half. This is slightly higher than at year end, reflecting the acquisition of MSR and the investment in the CCT integration and our ongoing cost out programs.

With earnings growth and deferred capital recycling trades coming through in the second half, we do expect a much lower net debt position at year end.

I'll now hand back to Stuart.

Stuart Irving - Chief Executive Officer and President

Slide 19 – Conclusions

So, as you have heard, we have confidence going into the second half. Computershare is performing strongly, and the model is working well. We are pleased to deliver record results for the half with more to come. Margin Income gains are very welcome of course, and we will use the cash flow wisely. But we also focused on building more recurring fee revenue across the group, strengthening our moats, using technology to become more efficient, adding more value to clients and simplifying the portfolio.

Thank you for dialling in and we will now open the line for questions.