FY 2018 Results conference call transcript

Good morning ladies and gentlemen and welcome to OneVue's third end of year results presentation. I'm Connie Mckeage the Group Managing Director of OneVue and also with me here today is our CFO Ash Fenton.

Before we immerse ourselves into the detail I would like to highlight a few points about the year that was.

2018 was a year defined by record growth, increasing EBITDA margins, earnings momentum and the year that we significantly simplified our business and concentrated our efforts on the fastest growing services that can deliver increasing scale and operating leverage.

Before we turn to page 3, I would like to make three points:

1. First we have a strategy appropriate for the times. We have spent the last three years systematically building a business that remains relevant in the midst of enormous change across the industry.

2. Secondly we are benefitting from strong tailwinds and we are well placed to benefit from sectoral growth along with structural disruption.

3. Thirdly these opportunities require consistently high quality execution. This is where we have a demonstrated track record and deliver on key initiatives such as the acquisition of the KPMG Superannuation administration business which is performing well and continuing to hit key milestones.

If we turn to page 3 we can see that OneVue is indeed benefitting from strong tailwinds. Not only do we operate in a sector that is driven by legislated superannuation growth but we are also the recipients of the well-publicised shift to independent platforms and the continuing move to outsourced specialist providers across the Fund Services business. We are also one of the potential winners out of the anticipated changes across the industry imposed by the Royal Commission.

Across the business we have a strong track record of executing against strategy, and we are focused on deploying our capital to create clear longer term growth runways.

From a day to day perspective we are fortunate to have 92% of revenues recurring supported by a high quality client base, where the top 10 clients represent less than 38% of revenues, which is uncommon for a business of our size and speaks directly to our ability to manage client risk within the business.

We are systematic reliable consistent business builders and as you can see on the right hand side of page 3 we have built revenues up from $26.6m in 2016 with a negative EBITDA of $1.2m to this year producing nearly $50m in revenue and delivering a positive EBITDA of $7.5m. This represents a compound annual growth rate of 23% over the period.

Let's now turn to page 4 where I would like to take you through the results highlights for the year. As previously mentioned consistent execution against strategy has driven record results. It has been a strong year of growth with revenues up 20%, EBITDA up 67% to $7.5m, and at a time when the industry is talking more about margin compression OneVue continues to increase its EBITDA margin, this year by 434 basis points.

This year's NPATA as shown on page 4 is $10m up $7.6m and for existing shareholders I am pleased to announce that the Earnings Per Share grew from .08 cents in 2017 to 2.7 cents in this financial year. Finally before we turn to page 5 it is worth noting that the operating cashflow was up 34% to $6.6 million and we exited the year with a net cash balance of $13.2m available to fund further growth opportunities.

I would now like to share some of the business highlights. All businesses are profitable and have positively contributed to the Group result. Most importantly there is considerable organic growth opportunities right across the Group.

Continuing on with Page 5, I would like to now turn to the performance of Fund Services. Fund Services, managed fund administration in particular has had a standout year where we have continued to transition fund managers and funds as part of a contracted revenue pipeline. In addition, we have also won new clients as the drive to outsource these services to specialist providers such as OneVue has continued. Being in the right place at the right time is the story of the Fund Services business where we have successfully turned the business around since acquisition from an EBITDA of -7% into the market leader with funds under administration recently surpassing half a trillion dollars, delivering operating leverage with EBITDA margins breaking through 20%.

The key revenue driver of this business is the volume of items processed and the number of items processed increased 64% over the year. We won the NAB book early in the year and started transitioning their fund managers in the second half of the year, we also added 11 new fund managers and increased assets under administration to $504b an increase of 15b.

The superannuation member administration business, which is a similar large scale processing business almost tripled its members in 2018, partly through organic growth but the real step change came in the last quarter of 2018 from the acquisition of the KPMG superannuation member administration business. This catapulted OneVue into becoming the 4th largest superannuation member administrator in the market. This has been an exceptional acquisition that has continued to perform well and is creating further opportunities for growth.

I don't intend to dwell on page 6 as I have covered many of the issues already however it may be worth calling out that a key driver of revenue in the superannuation member administration business is the number of members and this year the number of members being administered has nearly tripled.

Onto page 7. Now Platform generally does not require much of an introduction. Many of the issues and opportunities relating to the disruptor platform market are highly publicised so let me reinforce a couple of points that you are most likely aware of and introduce two important additional points.

Firstly the move of advisers away from the traditional platforms to what the market still refers to as disruptors is well documented, and continues to gain momentum.

Secondly Platforms such as OneVue's continue to improve at a rapid rate because we are generally unencumbered by legacy issues.

OneVue is well positioned to drive the business forward and issues we have consistently been calling out as unsustainable revenue collection are finally being addressed. As revenues from sources such as shelf space fees are at threat and affecting many revenue and margin forecasts these changes will have absolutely NO impact on OneVue's revenues or margins as we have chosen to not collect fees of this nature. Platform business will continue to target both dealer groups and the institutional market however on a relative basis as we exited 2018 it was the institutional market that had gained the greatest traction and where we have created the largest growth opportunity for example we are finalising contractual negotiations with 5 premium brand institutional clients

The benefit of the OneVue wholesale model, where OneVue is the name behind these high profile brands is that shareholders are not left to fund most development but clients of this calibre often fund or at a minimum co-fund the Platform development costs.

Before I hand over to Ash I would like to finish by saying a few words about the Trustee business. A year ago it was clear that the role of independent trustees was being questioned. Since the Royal Commission and the conflicts that have come to light when businesses are vertically integrated there has been a positive shift to the role of the independent trustee. Historically the growth in the Trustee business has been driven by our decision to specialise in the fast growing managed account sector. In addition to maintaining managed account momentum however for the first time we are seeing increased interest in engaging with an independent third party trustee to address the conflict matters.

Ash will now take you through the numbers in more detail then I will conclude the formal part of this presentation and open it up to questions.

Thanks Connie and good morning everyone.

The full year FY 2018 results which I will run through with you today show the strong profit momentum in the business and the benefits coming from the execution of our growth strategies. Importantly and pleasingly, we have delivered significant increases in profitability, with strong EBITDA and margins, backed by increased cash flow.

I will talk through the financial highlights, cover the composition of our revenues, EBITDA and margins and show the ins and outs of our acquisitions and divestments, and finally wrap up with the cash flow and balance sheet detail.

Starting with the Financial Summary – page 10

I won't run through all the numbers but some highlights to call out:

Starting with the top line. A solid revenue performance - Revenues grew by - $8.2.m – up 20% to $49.1m. This growth was a mix of organic growth (up 15%) and acquisition related growth, offset by divestments. All businesses contributed and I will take you through the makeup shortly.

Underlying EBITDA of $7.5m, was up $3m a 67% improvement.

Scale, efficiencies and ongoing cost disciplines drove a 434 basis point increase in our EBITDA margin up from 11% to 15.4%, with all businesses lifting margins.

Our depreciation and amortisation increased by $1m to $5m, reflecting mainly increased amortisation associated with acquisitions.

Non recurring costs reflect acquisition and restructure costs offset by the gains on divestments. We acquired two businesses and divested four, all in the second half.

Our move into profitability in the first half triggered the recognition of tax losses not previously recognised on the balance sheet and the full year result includes a $7.3m tax credit reflecting $20m of tax losses. We still have approximately $80m of losses not recognised which will be realised over time. And we also have a franking credit balance of $2.4m from earlier acquisitions.

The bottom line profit after tax was up by $6.9m to $7.1m.

And our NPATA - adding back acquired amortisation of $2.9m was $10m up $7.6m.

I'll now turn to revenue growth –

Page 11- Strong organic revenue growth with acquisitions delivering

And importantly all businesses contributed to the result and we had a good mix of organic and acquisition growth which you can see clearly on the slide.

The $8.2m (20%) growth in revenues from $40.9m to $49.1m came from:

- Strong organic growth of $5m (+15%). This included the standout performance of Fund Services, with Managed Fund administration new clients driving a 44% increase. Core Platform also contributed strongly driven by record inflows with 23% revenue growth
- Acquisitions delivered $5.2m of incremental revenue (with $2.1m from KPMG Superannuation Member Admin, $0.4m from No More Practice and $2.7m from Diversa (reflecting the extra quarter of contribution following its acquisition in October 2016)
- Divestments provided a reduction of $2m (made up of performance fees $0.5m, the IM business $1.1m, and the SMSF Admin/RE businesses $0.3m)

We had a pretty busy second half in implementing our strategic refocus, with these acquisitions and divestments. This does make the numbers in the second half a little harder to follow. So to provide a true up of the ins and outs the following slide shows the details and gives an adjusted Proforma of the result.

Page 12- 2018 Proforma revenue and EBITDA

I don't propose to take you through the line by line movements, there are a lot of numbers to digest.

The Profroma removes the FY 18 contributions included in the results from the divested and acquired businesses and then adds in the annualised run rates of the acquisitions to provide an adjusted Proforma for FY 2018.

This shows that the FY 2018 adjusted revenue is up 8.2% on the reported revenues and the Proforma EBITDA is up 1.5%.

Page 13- High quality recurring revenues

A feature of OneVue's revenue is the quality of recurring revenues and you can see on this next slide that this continues to be at a high level.

The % of recurring revenues has remained consistent year on year, around the 90% level and in FY 2018 the second half rate increased to 94%, with the full year at 92%.

These revenues are supported by contracts which on average have a term of around three years.

It is also worth noting that with the growth of the business the sensitivity of revenues to market volatility has reduced and now 50% of revenues are non-market based.

Turning now to EBITDA

Page 14 - EBITDA and margin growth from all businesses

And again all businesses contributed to the 67% increase in EBITDA to $7.5m. The growth in EBITDA from $4.5m to $7.5m reflects the benefits of revenue growth, with scale, operating leverage and cost discipline adding to the margin uplift.

A pleasing feature of the results as I mentioned earlier has been our margin improvements - with the Group margin uplift of 434 basis points to over 15% driven by improvements in all businesses - Fund Services up 677bps, Platform Services up 30bps, and Trustee Services up 40bps.

As noted earlier the timing of the acquisitions and divestments has had a bearing on the individual business contributions. However, whilst all have contributed as you can see, Fund Services has been the standout, with strong organic growth, supported by a two-and-a-half-month contribution from the KPMG Super Admin acquisition.

Fund Services is now the fastest growing and largest driver of margin expansion in the Group. And you can see its growth trajectory clearly on this next slide.

Page 15- Funds Services – fastest growing and largest driver of margin expansion.

This is a business that we took on as a loss making business in 2014/15 and by adding scale, and automation through technology we have quadrupled revenues, whilst lifting margins to reach 20.4% for the year, with an exit rate for H2 FY 2018 of 21.9%

The benefit of this is evident in the earnings acceleration in the second half which you can see in the next slide.

Page 16- Revenue and earnings growth accelerates in H2 FY 2018

The Group result (on the left) shows this acceleration with $25.7m of revenue in H2, up 9% on H1 and EBITDA of $3.9m also up 9% on the first half. There is minimal seasonality.

The second half results as noted earlier were impacted by the divestments and acquisitions which particularly affected the Fund Services and Platform results.

Running quickly through the businesses:

- Fund services – we have covered the growth and margin expansion already
- Platform services – revenue growth from the Core Platform (excluding the divested businesses) (as shown by the shading) was up 29% in the second half compared with the prior corresponding half and H2 was up 24% on H1 reflecting the inflows momentum

- Trustee revenues were affected in H2 by pricing adjustments on contract renewals for two large clients to reflect their expanded volumes positions. It's worth noting that our rate cards do provide a tier structure based on volumes.

Moving now to cash

Page 17- Cash flow position funds growth

Importantly our cash position and cash generation supports our growth funding requirements

Our net cash overall reduced from $17.6m to $13.6m -with funding applied to the capital redeployment of acquisitions and associated acquisition and restructure costs, as well as to capital requirements.

Pleasingly our EBITDA performance was reflected in a strong Operating cash flow, (after interest and working capital) of $6.6m up 34%.

We outlaid $2.8m in non-recurring costs and spent $7.5m on the KPMG and No More Practice acquisitions, with a further $1.9m for Diversa's prior Transact acquisition final earn out. The divestments generated $5.9m to offset this.

Our total capitisation spend of $4.8m included; Software development of $2m, Client establishment costs of $1.8m and $0.6m of automation capex, mainly Intellimatch, an automated reconciliation system, along with $0.3m of prior period payments. This level of annual capital outlay is within our normal expected range.

Page 18 - Well capitalised to support growth

Our Balance sheet position is sound and at 30 June our gross cash balances stood at $19.4m, and we had $6.2m of borrowings remaining from the Diversa business (having repaid $2.8m in the year) - giving a net cash position of $13.2m.

The acquisitions have added $13.5m to goodwill and intangibles, and the contingent consideration of $7.8m reflects the expected contingent payments in FY 19 and FY 20.

Overall the net equity position increased by $7.9m to $92.6m strengthening the Balance sheet which supports our growth plans.

I will now handover to Connie to talk more about those plans and the outlook.

Thanks Ash.

We are looking forward to 2019 as the business has never been better placed to capitalise on the structural and industry changes afoot. Simplifying the business in 2018 has enabled us to hone our attentions on growing our core businesses and continuing to deliver increasing scale and operating leverage.

At a Group level we are building to a target EBITDA margin of 20% by the end of the 2020 financial year.

Dealer groups and institutions are leveraging our outsourced capabilities to enhance the value propositions they, in turn can offer to their clients. As previously mentioned we are finalising contracts with 5 global organisations and a number of larger dealer groups.

Funds Services managed fund administration will continue executing on contracted revenue growth and we expect to transition a minimum of 300 additional funds in the second half of this financial year. Now that we are at the final stretch of meeting our end of year obligations our focus in superannuation services over the next six months is to continue a timely integration of the two businesses. We are on track to deliver on increased efficiencies and synergies. Scale and operating leverage should drive margin expansion in both Fund Services businesses.

Finally Trustee Services will continue to benefit from the growth in managed accounts and the light being shone on vertical integration and conflicts has also created an opportunity to pursue an accelerated organic growth strategy.

I would like to conclude by reiterating the three pillars of our growth.

First we have a strategy that's right for the times. We have made no secret of our desire to see increased transparency of fees across the industry as well as the elimination of unsustainable revenue models. We have spent the last 3 years systematically building a business that remains relevant in the midst of enormous change.

Secondly we are benefitting from structural change and growth. We participate in markets that are large, expanding and underpinned by massive tailwinds.

Lastly none of these matter without the ability to capitalise on these opportunities through systematic and consistent high quality execution. This is where OneVue has an enviable track record.

Against those three pillars OneVue has delivered record profitability and moves into the 2019 financial year with a sharpened focus, growing momentum, and leveraging our core capabilities to increase scale and drive further operating leverage.

Ash and I thank you for taking the time to attend our briefing. We understand it is a bit crazy for you at this time of year, and we will now open it up to questions.

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About OneVue Holdings Limited (ASX: OVH)

OneVue is an ASX listed fintech company that partners to disrupt across the superannuation value chain. The business operates through three core divisions: Fund Services, Platform Services and Trustee Services.

OneVue is number 1 in Fund Services managed fund administration and number 1 in Superannuation Trustee Services. Platform Services was recognised in Investment Trends' December 2017 Platform Competitive Analysis and Benchmarking Report as ranking third in full function platforms, the winner of 'Most New Developments' Award for the second year running and winner of 'Product Offering' Award. In 2017, OneVue was awarded 'Best Innovator' in the Self Managed Super Fund Provider Awards.

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