H1 FY2018 results - conference call transcript

Good morning everyone, welcome and thank you for joining us for OneVue's half yearly results. I have with me here today OneVue's Chief Financial Officer Ash Fenton. I will open with comments on OneVue's strategy to put these six months results into a strategic framework. I will then hand over to Ash who will go through the financials in more detail, then I will come back to present the outlook.

As you may be aware this presentation is also available on the ASX website. When the formal part of the presentation completes Ash and I will return to answer any questions you may have.

But before we proceed with the formal presentation I'd like to make three important points.

1. The first half results are strong and confirm our momentum with both margin and profit improvement across all key business lines
2. In the last six months we have sharpened our focus – we are increasingly concentrating on services where we can compete effectively and divesting ourselves of anything non-core to this main game. This process of honing our attention began with the sale of the RE and will continue over the next few months. The sale of the RE remains on track and we expect to distribute some of the sale proceeds to our shareholders by way of a fully franked dividend – Ash will speak to you more about this later on.
3. Thirdly we will continue to grow and enhance our capabilities in the core business lines. An example of this is the acquisition of KPMG super services. Not only is this an excellent strategic fit but it catapults OneVue to #4 in the superannuation administration market. Given the strengthening position of both the Fund Services and Platform Services businesses we expect a strong second half of the year.

Now Let me turn to page 4 where I will recap OneVue's Investment highlights – we will talk about growth frequently today, organic growth, structural growth and growth through disruption but I would also like to call out an important attribute of OneVue's business model – our market resilient revenue model. 48% of OneVue's revenues are now independent of market movements. This is a great buffer in times of uncertainty and market volatility. 90% of our revenues are recurring and OneVue's top 10 clients represent only 43% of total revenues.

This lack of client concentration risk is unusual for a business of our size.

These results are more than a 6-month financial scorecard – they unveil our absolute commitment to narrowing our focus and building profitable and growing businesses in our core markets. We are redeploying our capital out of non-core services and will be reallocating that capital to accelerating growth in our key business lines. The execution of this strategy began with the sale of the RE business quickly followed by transitioning high touch clients out of OneVue's Investment Management operation. Both activities were undertaken in this half. Today's announcement in relation to the acquisition of KPMG's super member administration business is firmly in line with this redeployment of capital leap frogging OneVue to #4 in the sector will be further refinements aimed at step changing our growth and continuing to build profitable scale.

Turning to page 5 we see the first half results summarised – revenue grew by 27%, EBITDA improved by 283% and EBITDA margins tripled from 5% to 15%. Importantly the Earnings Per Share rose sharply by 2.04 cents to 2.19 cents per share and operating cash flow increased by $1.4 million to $3.3 million. These results show that our profitability continues to grow, our cash flow is strong and we have clear earnings momentum.

As we move to page 6 I would like to talk about the KPMG superannuation member administration acquisition and why we have pursued this business for some time. KPMG Superannuation Services is the fourth largest external fund administrator in Australia, with almost $2 billion in funds under management, servicing over 40,000 members across financial institutions and superannuation funds, including KPMG Australia's partners and staff.

KPMG Superannuation Services' experienced team of 47 specialists have diverse streams of expertise spanning defined benefit plans, defined contribution, hybrids, multi-employer and single-employer funds. It extends OneVue's existing superannuation offering to include high quality investment accounting and technical services and it increases our superannuation member administration footprint – In other words it deepens our capability, broadens our offering and expands our client base. KPMG Superannuation Services staff have been offered roles to continue their careers in superannuation at OneVue

Like OneVue KPMG Superannuation Services is a good financial performer with high recurring revenues.

All this positions us well to grab a greater share of the superannuation administration market. In return OneVue brings deep digital capabilities and large scale technologies to help drive additional operational efficiencies across the combined business. We will continue to grow the business from here in what is a large total accessible market – and of course as you would expect we have been financially disciplined and this transaction will be earnings accretive immediately excluding acquisition costs.

On page 7 we have included more details around the financial and transaction structure – I don't intend to dwell on all the points here but in summary KPMG's business has a revenue run rate of approximately $8m per annum and will contribute to the increasing OneVue Superannuation administration EBITDA margin. The up-front non-conditional component of the transaction is $6.5 million with further payments dependent on performance hurdles being met. All of which will be funded out of cash reserves. Excluding acquisition costs, the transaction is immediately accretive.

I will now move to page 8. Let me make an important point here. We are a growing and successful platform services business. Whilst we also lead the market in other areas the platform business enjoys strong sectoral tailwinds. As you would be aware legislated superannuation growth underpins the growth of the financial services sector. In addition, since 2013 the independent platforms are increasingly taking market share away from the large incumbents. These are powerful growth drivers. Our own Platform FUA has grown at a Compound Annual Growth Rate of 29% since June 2014 and we are nearing $5b in assets under administration. We are one of a handful of successful disruptors achieving mainstream credibility. Moving now to page 9.

Further validation of this came last week when the Investment Trends Awards for 2017 were announced. For those of you not aware these awards are considered as the industry benchmark for platforms – We were delighted with the results. OneVue won most new developments for the second year in a row demonstrating our ability to continually improve the Platform and innovate. We also won the award for best product offering and over the last few years we have steadily improved our overall market position from 12th to 7th in the market in 2016 to 3rd place this year in the highly contested full function platform category. These are great results and this is a credit to the team who have worked hard to achieve this industry recognition. This however leaves no doubt that we are a top tier player in the high profile Platform market.

As you can see on the next slide, just as the Platform business continues to make great progress so does our Fund Services business – Revenues from this business are derived from, amongst other things the number of items processed. This transactional revenue model provides revenue stability to OneVue in volatile markets. This makes OneVue more resilient than many other financial services companies. Fund Services delivered a 48% compound annual growth rate since we IPOd in July 2014. . Additionally, in the past 2 and a half years we have grown the EBITDA margin from-7% to exiting with half with an 18.5% EBITDA margin.

The next two slides reinforce that OneVue has progressed from a Platform only basis points business to a revenue diverse financial services Group with high quality recurring revenues.

I would like to now handover to Ash who will go through the financials in more detail.

Thanks Connie and good morning

Our half year results show the profit momentum in the business and the benefits coming from our growth strategies. Importantly, profitability, cash flow and EBITDA margins have all increased significantly.

I will run through the financial and operational highlights, cover the makeup of our revenue and EBITDA growth as well as detail the cash flow and Balance sheet.

Starting with the Financial Summary – page 14

Some highlights:

- Revenues of $23.5m – a strong result with $5m of growth, an increase of 27%. This growth was a blend of organic growth (up 17%) and acquisition related growth. All businesses contributed and I will take you through the makeup shortly

- The underlying EBITDA of $3.6m, was up $2.7m an impressive 283% improvement
- Scale, efficiencies and ongoing cost disciplines drove a 10 percentage points increase in our EBITDA margin to 15.4%, with all businesses lifting margins
- Our underlying EBIT continues to improve, with a profit achieved of $1.3m, a $2.2m improvement from the loss of last year
- This move to profitability has triggered the recognition of a $6.2m tax credit reflecting $25m of tax losses not previously recognised on the Balance sheet
- The bottom line profit after tax was up - by $5.4m to $5.8m
- And our NPATA - adding back acquired amortisation of $1.3m was $7.1m up $5.8m

These results reflect the sum of the contributions from our businesses, all executing on their growth strategies. Some of their operational highlights in the period are set out on the *next slide*.

Page 15 Operational highlights

Running through the main points:

In Fund services

- Our managed funds administration business successfully completed the first fund manager transition of NAB clients during the period. Twenty-five UBS Asset Management Funds were transitioned in November 2017. And we are on track with the ongoing transitions
- Funds under administration (FUA) in this business increased by $35.8b for the period closing at $472b, with our volumes - items processed increasing by 72% . Five new fund managers and 117 funds were added during the period, taking the total number of funds now administered to 727 funds. This growth further enhances our market leading position
- Super member admin FUA reached $2.1 billion, an increase of $402 million (up 23%) mainly due to existing client growth

In Platform Services

- Retail Superannuation FUA reached a record $4.7 billion. Gross inflows were up 61% to $1billion and we transitioned $300 million of new services.
- We also renewed with our largest client for 5 years and signed two new white labels

In Super Trustee Services

- Funds Under Trusteeship closed at $10.3b, up $1.5b with growth driven by clients and market growth

I'll now turn to revenue growth – and all businesses contributed to the result which you can see clearly on the *next slide*

Page16 Revenue growth from all businesses

The growth in revenues of 27% or $5m came from:

- Fund services – with growth of $2.9m – a growth rate of 46% in managed fund administration - driven by new clients and a growth rate of 17% in super member admin - with client growth and Diversa acquisition revenues
- Platform services – growth of $0.7m – with a growth rate of 8% - strong FUA growth was offset by lower rebalancing volumes and product mix
- Super trustee services – growth of $1.4m – largely reflecting the extra quarter of contribution from the Diversa business following its acquisition in October 2016

The total Diversa business acquired last October continues to make a solid contribution with $6.1m of revenues for the period.

Turning now to EBITDA and again all businesses contributed to the 283% increase in EBITDA to $3.6m – you can see this on the *next slide*

Page 17 EBITDA and margin expansion

Our EBITDA growth of $2.7m reflects the benefits of revenue growth, with scale, operating leverage and cost discipline adding to the margin uplift.

- Fund services growth of $1.4m – up 179%
- Platform services growth of $0.7m – up 49%
- Trustee also contributing $0.7m – up 92%, with an extra quarter from Diversa.

A standout feature of the results as I mentioned earlier has been our margin improvements- with the Group margin uplift to over 15% driven by:

- Fund Services – with an uplift of 10 percentage points taking their margin to 18.6%
- Platform Services – an uplift of 6.6 percentage points to 24.2% reflecting operating leverage in the business
- And Trustee contributing a 4 percentage points uplift with synergies to 40%

Our cash flow performance was also healthy with a 74% increase in operating cash flow- the key components are summarised on the *next slide*

Page18 EBITDA drives positive cash flow

Clearly our EBITDA performance and the positive benefits of working capital management have driven this result.

Operating cash flow after acquisition and restructure costs was $2.4m, up 114%.

This continued cash generation supports the Balance sheet and contributes to a net cash position which you can see on the *next slide*

Page 19 Strong capital position

At 31 December our gross cash balances stood at $23.2m, and we had $7.7m of borrowings from the Diversa business (having repaid $1.3m in the half) - giving a net cash position of $15.5m.

As flagged at our full year results we paid out $1.9m for a final earn out from Diversa's prior Transact acquisition.

The Balance sheet position is strong and supports our growth plans. As mentioned earlier The KPMG super admin acquisition which is likely to complete in early April will be comfortably funded from our finance resources. The sale of the RE business to EQT for $3.5m is on track to complete by the end of March. Following this a recommendation on the quantum and timing of a special dividend will be made.

I would like to close by highlighting; the progress we have made in growing the business and consistently delivering on our growth strategy, through market cycles and the systematic buildup of our profitability and cash generation which can be seen on the *next slide*
Page 20 OneVue growth record

Revenues have grown by a CAGR of 36% since IPO, EBITDA margins have built up to over 15%. And cash flow has increased positively.

The half on preceding half growth was modest at the revenue line and stable at the EBITDA line, due to less once off project and transaction revenues in Platform Services in this half (a timing issue) and less ancillary services in Trustee Services.

I will now handover to Connie to close on the outlook.

Thanks Ash

The market has changed in the last six months and I think that the OneVue business model has come into its own. In these uncertain times and volatile markets having a strong and experienced management team, a robust and diverse revenue model, a good balance sheet, available cash, and improving profitability sets us up well for further growth regardless of market movements.

I would like to conclude by reiterating that first and foremost our attention is on retaining and continuing to service our existing clients. In businesses like managed fund administration our existing clients are our greatest source of new clients. Secondly any business needs to step back and determine where its resources are best deployed. This results in a sharper focus on those businesses where we believe we have a strategic advantage and can scale the growth. It also drives the divestment of non-core services that distract from the main game. Over the next 6 months this redeployment of capital will see us exit the RE business now scheduled to complete 31 March, and complete our exit from the external investment management business. We will commence the integration of the KPMG superannuation administration business and continue applying our increased focus on the core activities.

In the second half we will continue to deliver organic growth in our core markets and you will also begin to see the benefits of the redeployment of the capital program coming through.

We thank you for signing in today and your interest in OneVue.

Investors

Connie Mckeage	Ashley Fenton
Managing Director	Chief Financial Officer and Company Secretary
+61 403 609 965	+61 2 8823 2550

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.

OneVue Holdings Limited | ABN 15 108 221 870 | Level 5, 10 Spring Street, Sydney NSW 2000

P: 1300 219 787 | **F:** +61 2 8022 7448 | **E:** enquiries@onevue.com.au

For further information, visit www.onevue.com.au