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MARKET ANNOUNCEMENT

Date:	16 August 2023
To:	Australian Securities Exchange
Subject:	**FY23 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 2023 held on 16th August 2023.

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This announcement was authorised to be given to the ASX by the Group CEO.

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

MARKET ANNOUNCEMENT

FY23 Results - CEO and CFO conference call script

Stuart Irving, Chief Executive Officer and President

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

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

We have released a presentation pack that we will talk to. I'll take you through the highlights and then Nick will 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 USD unless we state otherwise.

Slide 2 - FY23 Results

Let's make a start on page 2 where you can see some of the pertinent numbers.

For FY23 Management EPS was up 89%. That includes an extra four months benefit from our Corporate Trust acquisition (CCT).

Management revenue increased by 27% to over $3.3bn.

With higher yields we achieved a new level of Margin Income for the group at $792m.

EBIT ex MI is recovering too, with 2H up 70% on the first half.

ROIC was up by over 1,000 basis points to 22.7% and free cash flow was over $500m. With these earnings, our balance sheet continues to strengthen. Debt leverage now stands at less than one times, which we are comfortable with as we pursue attractive acquisitions.

We are also pleased to share these strong earnings with shareholders. We've declared a final dividend of 40 cents per share, which is also a new record for Computershare as well as announcing a 750 million Australian dollars share buyback program to be completed over the next twelve months. The buyback will be funded by a combination of cash and debt. We have had a history of doing buybacks, but this is our largest to date.

Slide 3 - Computershare's integrated business model

Moving to Slide 3. We have shown this slide before but there is an important point I'd like you to take away. That's really about our unique model that is designed to deliver high returns through the cycle.

What is the financial strategy that drives our results and delivers these returns?

Our financial strategy starts with consistently growing core revenues at GDP+. These revenues were up 14% in the year.

These high quality, recurring revenues account for over half of the group's total. That's why we have been building our scale and exposure to underlying growth trends, such as equity-based remuneration, rising governance trends, and the growth in demand for Corporate Trust services. There are long growth runways here.

We then have the more cyclical trading and event-based revenues. Corporate actions, employee share trading, proxy campaigns for example. They are market-facing so can be impacted by wider economic conditions, but they do enhance our margins. They were down this year due to the impact of rapidly rising rates and weaker market conditions, primarily in the first half. Positively, a number of these transactions and events are now recovering.

And finally, we purposefully seek to collect client cash balances. Without the underlying business lines we would have very little Margin Income. Balances are an embedded feature of our model and an important part of our pricing strategy.

Our goal is to deliver 15%+ pa post tax ROIC on average through the cycle.

Slide 4 - FY23 overview

Let's move to Slide 4 for the summary of the year. With a lot of moving parts let me try to be a succinct as possible:

In FY23, higher interest rates drove record levels of Margin Income. However, the velocity and the frequency of the rate rises throughout the year also impacted on market facing revenues and costs, especially in the first half, but we were pleased to see a stronger second half EBIT ex MI performance come through. It was up 70% versus the first half. It is pleasing to see in the second half, margin income and EBIT ex MI both grew.

That's about as succinct as I can get for a year at CPU but let's unpack it a little more.

So, lets start off with Margin Income.

Our job is to manage the Margin Income, that balances generate, conservatively to deliver good, consistent returns for shareholders. We earned a total net yield of 2.3% for the year, which was over four times the yield in FY22. The hedged balances generated a net yield of 2.7%.

In the year, most importantly, we successfully renegotiated recapture rates with many of our key banking partners which was part of why we were able to upgrade guidance last November at the AGM.

Also, we have a policy to conservatively lock in, or hedge as we call it, up to 50% of the total exposed balances. We have hedged around $9bn of balances so far.

These hedges give us fixed yields and certainty of income for the life of the contract. We are reducing the amount of the exposed balances at risk to changes in short term rates. Page 10 in the deck shows our plan in more detail. In summary, we are working through a program to secure around $1.5bn of Margin Income, the large majority of which will be received over the next five years. We have locked in $1.2bn so far and expect to put the rest of the hedges in place this financial year. It will be a rolling program with the goal of improving the ongoing consistency of our earnings and, of course, protect us should rates begin to fall.

We also know that the rate environment has had an impact on market-facing revenues with less IPO's, M&A and bond issuance, that does also have a knock on impact on balances, however we are seeing early signs of stability and indeed improvement.

You will see in the deck, we had average balances of $34bn last year but we closed the year with an exit rate of closer to $30bn. What really happened that caused this decline in Q4?

The changes were due to three main factors, one: the sale of the Bankruptcy and Claims business, two: reduction of SPAC balances and three; some cyclicality in CCT.

To be clear we haven't lost balances to anybody else. There are no structural or significant competitive intensity issues here. Legacy balances were reasonably stable excluding SPACS that we did not earn much on anyway. In CCT, Bond issuance, which generates the new balances to replace run off, has been well down in the market.

Our FY24 guidance to balances is always based on the current balances at the time we give the guidance. That's why the FY24 forecast has come down in line with FY23 actual.

Encouragingly, balances have been stable over the past few months and over time we expect issuance levels to grow and balances to recover. It's just part of this cycle. Nick will also talk to balances a little later.

Of course, our main focus was on our core business lines driving core fee revenues. Core fee revenue grew across all our major business lines. In Issuer Services, Governance Services continued to grow. Registry grew modestly due to a lack of IPOs, which caused a follow-on shortfall in registry work for newly listed companies.

Transaction revenues in Employee Share Plans recovered in 2H after the abnormal period in the first half, and we continue the roll out of the Equate+ product where data shows we are able to gain market share where the system is deployed.

US Mortgage Services returned to profit in the second half as we reduced the cost base and benefited from lower amort, and we also had a full year's contribution from CCT, our US Corporate Trust business, which we are integrating to plan and delivering the expected synergies.

We are also simplifying Computershare so that we can intensify our focus on growing our core businesses and deploy our capital in high quality businesses with higher returns and more recurring revenue. As I said, we sold the Bankruptcy and Class Actions business in May this year and are working on options available to us in our mortgage businesses.

So, all up Computershare navigated these volatile market conditions well, effectively doubling Management EBIT.

These results reflect Computershare's ongoing commitment to build and invest in strong businesses with high quality recurring fee revenues with the optionality to higher interest rates and improved market conditions.

Before I hand over to Nick, just some commentary on costs.

Importantly to note, all the costs of operating the business are recognised in EBIT ex MI.

We manage costs carefully at Computershare. We have always done that. As they say in Scotland, a penny saved is a penny earned. That's our mantra.

That cost discipline drives operating leverage and is part of today's results.

BAU Operating costs also rose last year, up over 5%. There are early but encouraging signs that inflationary pressures are now moderating, and we are evaluating further efficiency opportunities across the group. We are anticipating BAU Opex costs to be up around 3% in FY24.

With very low maintenance capex requirements, and the emphasis on capital light sub-servicing in US Mortgage Services where we don't have to buy the same volume of MSR's to maintain the book, our free cash flows are typically very strong and should improve further now that most of the CCT stand up costs will be behind us.

We will continue to maintain a conservative balance sheet with acquisition firepower, and deploy these cash flows to strengthen our businesses, make attractive acquisitions in our core, drive technology innovation and importantly reward shareholders.

Slide 7 - Outlook

Let me move to outlook. We show the detail on page 7.

I'll talk to guidance for FY24.

This year Management EPS is expected to increase by around 7.5% in FY24.

Now lets unpack that a little.

We expect EBIT ex MI to grow around 10%, with strongest contributions from Issuer Services, Employee Share Plans and Mortgage Services.

Margin Income is expected to be higher in FY24 at around $840m, as higher net yields offset cyclically lower balances. Our interest expense is also set to increase by about $30m, reflecting higher borrowing costs and BAU costs up by 3%

We had strong momentum in the second half and the team are energised about the year ahead and the task at hand.

Of course this is opening guidance, with a full 12 months to go before you see the score card.

Guidance this year is more sensitive in client balances simply because headline rates are higher and therefore changes are more meaningful, but we have locked in a good portion of the Margin Income to de-risk future earnings and we will continue to optimise our balances as much as possible to enhance returns

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

Nick Oldfield, Chief Financial Officer

Thank you, Stuart.

I'll start with our financial results on slide 5.

Total Revenue for the group increased 27% over the pcp, excluding MI it was up 4%.

Encouragingly, recurring revenues improved to 84%, helped by CCT.

MI increased 323%, reflecting the rises we have seen in global interest rates.

Total operating expenses were up 10%.

This includes a full year of CCT.

Adjusting for this annualisation effect, underlying BAU opex was up 5.6%, net of the benefits of our cost out programs.

You can see this more clearly in our opex bridge on slide 16, where we also show the benefits of our ongoing cost out programs.

These were $37.9m in FY23 with more expected in FY24. Details of future cost-out benefits are included on slide 48.

Otherwise, cost inflation has started to moderate in the second half, and we anticipate overall opex inflation closer to 3% in FY24.

EBIT doubled to just over $1bn and the EBIT margin improved over 1,000 bps to 31.8%, both largely attributable to the higher MI.

Excluding MI, EBIT was down 25%. 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 MI revenue line despite the integrated nature of our model.

As you heard earlier, EBIT ex MI recovered in 2H FY23 - up 70% v 1H.

We expect this to continue further into FY24 to be up around 10%.

Note that we do expect a similar 1H 2H split for EBIT ex MI in FY24, with EBIT more evenly split. This difference is largely the MI contribution.

Interest expense doubled to $138.7m, with the average cost of debt in 2H 6.94%.

Notwithstanding our lower overall net debt, interest expense will be higher still in FY24 given a full year of higher rates.

All our debt is at floating rates to act as a natural hedge to MI in the event rates fall.

As you'd expect, income tax expense was also higher, doubling to $249.4m whilst the ETR increased to 27.4%. This was largely due to Canadian cash repatriation driving withholding tax.

Management NPAT was up 89% to $662.4m and similarly,

Management EPS was up 89% to 109.7cps.

Statutory results are on slides 49 and 50.

Statutory NPAT was up 95% to $444.7m, with the difference largely attributable to the amortization of non-MSR acquired intangible assets of $70.7m, acquisition related expenses of $85.6m, $29.3m associated with our cost out programs and $22.5m related to the impairment of UK Mortgage Services and Voucher Services businesses.

I'd now like to move on and talk about Margin Income, starting on Slide 8.

Starting with the FY23 result, we delivered $775m in MI at actual rates.

At FY22 FX rates – or constant currency – the result was $792m, an overall yield of 2.28% and in line with disclosures in May, albeit the mix is somewhat different.

I'll now turn to our guidance for FY24. We're now expecting $840m in MI for the year. And to be clear, this aligns entirely with the outlook we provided in May. There we said we expected $860m in MI for the year. The difference between the two is again simply FX.

Now I am sure a number of you are thinking – shouldn't MI for FY24 be higher? After all, global interest rates have risen since May.

And the answer to that is – well, yes, rates are higher than back in May, but the rate rise has been offset by lower-than-expected balances.

We now expect average balances of $29.8bn for FY24. This compares to the expectation of $31.7bn that we had in May. And to the actual average balances of $34bn that we had during FY23.

So why have our expectations changed so much?

The chart on the bottom right of this slide attempts to explain this.

Perhaps the first point to make is that our average balances of $34bn are themselves a reflection of a mixed year.

In the first half, average balances were actually around $37bn due to high activity levels in corporate actions and Corporate Trust. In contrast, average balances for the 2H were a fair bit lower at around $31bn.

Let me bridge this in parts:

Firstly, between 1H and average for the year, we were down $3bn – this was largely made up of $1.5bn in Corporate Trust balances across both the US and Canada as a result of lower issuance, $0.5bn in issuer services due to lower corporate actions and $1.0bn in run-off of SPAC balances.

And then from the average for the year of $34bn to our disclosure in May. At this point we anticipated average balances for FY24 of around $31.7bn.

This reflected the sale of KCC which was around $1bn, a further $1bn drop off in CCT issuance and a little bit more of a slowdown in Corporate Actions.

And this was really where we were at the end of March, which formed the basis of our disclosure at the Macquarie conference.

However, as we entered the fourth quarter, we saw some further deterioration.

Firstly, CCT issuance slowed again in April, whilst the residual SPAC balances also moved away. Note these SPAC funds did not historically generate any MI for us.

Now the positive news is that since April, balances have been broadly stable. We closed the year with exit balances of $29.8bn and this forms the basis of our FY24 guidance.

This is consistent with our balances in May and June whilst July was marginally higher giving us confidence in the guidance provided.

So, to be clear.

Our guidance for FY24 is based on actuals at the end of FY23. We simply project forward from the exit rate. We're assuming balances to be broadly flat through the year, so we expect exit balances at the end of FY24 to be at similar levels as those today.

This approach to MI guidance is our standard methodology and so in part also explains why things have changed since our last disclosure.

However, as Stuart indicated earlier, guidance this year is far more sensitive to rates and changes in balances. We set this out in a bit more detail on slide 9.

As you can see, a $1bn movement in balances could have a $50m impact on PBT. That's simply taking our average cash rate for the year and applying it to $1bn of exposed balances. Quite a contrast to a few years ago when a $1bn movement in balances might have only had a $250,000 impact!

And in terms of rates sensitivity – a 25 bps movement will have an impact to earnings of around $22m.

On this slide we also set out our rates assumptions for the year. These are all sourced from Bloomberg as of 10 August.

What is encouraging is that we now expect an improved recapture rate across the board - in the high 90's as a % of cash rates, reflecting bank appetite for deposits in the current environment.

I will complete the MI story with slide 10 and talk about our hedging strategy.

The total hedge book at the start of FY24 is $8.9bn. This portfolio will deliver $250m of MI in FY24 as part of a total MI value of $1.2bn over the life of the hedges. Most of the $1.2bn will be received over the next five years.

Now $8.9bn represents around 36% of our exposed portfolio and our intent is to try and take this to around 50% to really protect and stabilise MI earnings over the medium term. We want consistency versus the sugar hit and subsequent decline.

We take a laddered approach to hedging such that we look to trade through the interest rate cycle and so we expect to add around $300m of hedged balances per quarter over the course of FY24, with each investment adding around $75m in total MI lifetime value.

Rolling this forward then, by this time next year we'd expect our portfolio to represent around 50% of our exposed portfolio, with a total MI value of $1.5bn. With the majority of this $1.5bn flowing through to revenue over the next five years.

I'd like to finish with some comments on our balance sheet and cash flow on slide 17.

In the period, we generated $623.6m of net operating cash flow, representing an EBITDA to cash conversion rate of around 51% at actual rates for the full year, 56% in the second half. Free cash flow was $511.1m. This is after the integration and transition expenses incurred for CCT of around $80m.

Net spend on MSRs was $70.6m. This compares to amortisation expense of just over $100m which is helping us reduce the level of invested capital in the business to around $685m, down around $110m on the half.

Net debt excluding non-recourse SLS advance debt is just over $1.0bn at year end, some $230m lower than at December, obviously driven by the strong earnings result. It underpins our improved leverage ratio of 0.85 times and is facilitating the AUD $750m buyback we have announced today.

With our positive earnings outlook and strong cash generation, we anticipate being able to fund the buyback whilst also being in a position to invest in accretive M&A, should we choose to do so.

I'll now hand back to Stuart.

Stuart Irving, Chief Executive Officer and President

Thank you Nick.

Page 18 shows the high level FY24 Priorities.

We are very close to completing the systems integration out of Wells Fargo and CCT. A huge technology and business change undertaking, one that has gone pretty well to date and should be completed on time. As someone who grew up doing system migrations at CPU I am particularly proud of the team's performance to date on this task.

As we mentioned before we are focused on US Mortgage Services. Pleasing to see it return to profit, more work to be done there, but we should have more news on strategy there by AGM time.

We continue to assess new M&A opportunities to strengthen the core business lines and the recurring revenues.

It is pleasing to see the value of our Equatex acquisition coming through in very strong second half results and we will continue to deploy this technology in other markets. Again, another large tech project that we are reaping the benefits from.

So as you can see, Computershare is performing strongly, and the model is working well. We are pleased to deliver record results with more to come. Margin Income gains are very welcome of course, and we will use that cash flow wisely. But we will also be 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.