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:	12 February 2020
To:	Australian Securities Exchange
Subject:	**1H20 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 2019 held on 12th February 2020.

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 Company Secretary

Computershare (ASX:CPU) is a global market leader in transfer agency and share registration, employee equity plans, proxy solicitation and stakeholder communications. We also specialise in corporate trust, mortgage, bankruptcy, class action, utility and tax voucher administration, and a range of other diversified financial and governance services.

Founded in 1978, Computershare is renowned for its expertise in high integrity data management, high volume transaction processing and reconciliations, payments and stakeholder engagement. Many of the world's leading organisations use us to streamline and maximise the value of relationships with their investors, employees, creditors and customers.

Computershare is represented in all major financial markets and has over 12,000 employees worldwide.

For more information, visit www.computershare.com

MARKET ANNOUNCEMENT

Computershare 1HFY20 Results

CEO and CFO conference call script

Stuart Irving, Chief Executive Officer and President

Good morning everyone and welcome to Computershare's 2020 half-year results conference call. Thank you for joining us today.

Nick Oldfield, our new Chief Financial Officer, is with me, along with Michael Brown, from our Investor Relations team.

On this call, I will take you through the key aspects of our results and provide an update on how we see the rest of the year, given we are affirming guidance today.

As usual, there is a new presentation pack released to the ASX. We've also added this presentation to the investor relations section of our website, Computershare.com.

In these results, we have started the new business stream reporting. Group totals are unaffected. The new business stream reporting aligns our financials with our global business structure as we have talked about. It's the way we manage the business. To help you with your analysis, we have included updated versions of the previous financial slides. This is arguably the longest results deck Computershare has ever released. Good luck to you all.

With that in mind, we won't bother you with a page turn. I will focus my remarks on pages two and three of the presentation.

Nick will then take you through the slides on our financial results. Then, after some concluding remarks, we will open up the call for your questions.

Also, as a reminder, we will be talking throughout in US dollars and in constant currency (CC) terms unless we state otherwise.

Slide 2 – 1H20 Executive Summary

Okay, let's start.

There are two key elements I want to focus on today.

One – Unwrapping the half

Two – Bridging the full-year guidance

As you can see on page 2, the result for the first half of FY20 was resilient at an operating level although earnings were down.

At a headline level, Management revenue was up 1.2% and Management EBITDA was up 2.2% - reflecting consistent operating performance.

Lower interest rates and balances and a higher tax rate impacted earnings. Management EPS was down 16.7% in the first half.

We knew going into the half that UKAR delayed cost savings would impact our UK Profits and we anticipated US interest rate cuts. What we did not anticipate was US rate cuts occurring early in the year and the implications of the new US Base Erosion and Anti Abuse Tax. We had guided to 27% tax rate for the full year in August and we got that wrong. It goes towards explaining the divergence between EBITDA and EPS.

So, how do I look at the numbers?

Well to me, it's the Management numbers that exclude the impact of margin income revenues, excludes the IFRS16 noise and strips out Karvy – that's the true like for like operating performance of the business as it is today. It also reflects what we can control – our focus is on controlling the controllables.

On that clean basis, Management revenue is up by 4.6%, EBITDA is almost exactly flat at $197.7m, the EBITDA margin fell slightly to 19.3% down 90 basis points

Slide 3 – FY20 Unwrapped

I'll now move to page 3 to unwrap the positive and negative factors that are driving our performance.

It is a result of two parts.

Our strategies continue to focus on strengthening our businesses' competitive positions, building scale in our growth engines and driving efficiency gains across the Group to deliver margin expansion, free cash flow and improved returns.

Our largest growth engine Issuer Services has a positive growth outlook.

US Register Maintenance outperformed industry trends in the half, delivering another period of operating revenue growth and margin expansion. We have invested in upgrading our capabilities and front office initiatives and continue to focus on product and service improvements. Encouragingly, the recent new headline client wins in this business recognise the strength of our value proposition.

The recent Corporate Creations acquisition accelerates our Issuer Services strategy in the US. We know Corporate Creations well, having worked closely with them for the last three years. The acquisition extends our scale and capability in the complementary, large and growing Registered Agent market. Every entity that wants to do business in a US state needs to be properly registered and the filings need to be accurately maintained. This generates high levels of recurring revenue.

We are also excited about this strategic move because it enables us to package Registered Agent services to our wider range of existing Registry clients both in the US and internationally.

We did flag that we expected Corporate Actions revenues to be weak, and they were. They fell by 17%. These higher margin event-based transactions were by lower activity levels across most markets. Perhaps macro uncertainty affected corporate confidence? Similarly, Stakeholder Relationship Management revenues fell by 49%.

Employee Share Plans, another one of our growth engines, performed strongly. It's a good news story. Revenues and EBITDA increased by 24%. Excluding margin income, EBITDA was up by a more impressive 39%. We enjoyed strong organic growth and a full six months contribution from Equatex compared to seven weeks benefit in the pcp.

Equatex continues to outperform, and over 250 clients have now been upgraded to the market-leading EquatePlus platform with the staged rollout to follow across Asia, North America and Australia.

US Mortgage Services, our third growth engine also clearly performed well. We delivered record revenues, up 43% and took advantage of buoyant market conditions to make disciplined investments to build scale and higher returns.

I will call out the capital employed in the business. We spent $139m on net MSR purchases in the half to increase UPB by almost 10% to almost $112bn. Total capital employed temporarily increased in $647m. Low interest rates caused significant market activity and with that originations, and we took advantage of the market conditions to acquire MSR product. Whilst the capital is above our long term average spend of between $60m - $80m in the second half we expect to close a number of strip sales which will release capital. Going forward, we do expect the next stage of growth to be less capital intensive.

Finally, I'll mention UK Mortgage Services. As we announced at Investor Day, profits were impacted by the fall in the fixed revenue fee and the delayed migration of the remaining UKAR loans to our platform. I can confirm the migration of these assets will be completed by May.

Even with this reduced result in the UK, EBITDA for the combined Mortgage Services business increased to $76m, a rise of 27.5% and importantly margins increased by 210 basis points to 22.7%.

Putting that all together then, I would say at the operating level the revenue and profit growth in our key businesses have indeed offset the reduced contributions from our higher-margin, event-based businesses. The "high quality industrial with recurring revenues" businesses performed well, but in this half, the optionality that we talk about did not convert.

Outside of the operating level, we did have some challenges. I'll start with tax. As I said before, it goes towards explaining the divergence between EBITDA and EPS.

In the guidance assumptions we released in August, we said that we expected the tax rate for the full year to increase to around 27%. The rate in 1H was much higher than we expected at 31.6%.

Now this is a complex issue, but we got the tax assumption wrong, and frustratingly; it has had a negative impact on EPS for the half.

This was the first time the 1H results were also subject to US BEAT. Nick will go into this in more detail later. We have done a lot of work on this and we now expect the tax rate for the full year to be between 29-31%.

We, like almost everyone else, have also adopted IFRS16, the new accounting standard for leases. IFRS16 added $24m to EBITDA in the half, and increased depreciation and interest by the same amount. It's a net wash but it does inflate our Management EBITDA results. Not significant at EPS though. You can find more details of its impact in the appendix.

I'd like to also call out here some other highlights of the result. Recurring revenues increased by 2.6% and now account for 78.3% of the total. That's the high-quality core industrial Computershare that we often talk about.

With our cost out programs on track and making a good contribution, headline EBITDA margins increased to the top end of the consistent ten-year range at 29.7%, and well above the 27.3% average for this long period, of course helped by IFRS16.

Computershare's capital position also remains an ongoing positive. We are able to self-fund our growth and capital management strategies and retain a strong balance sheet. Free cash flow increased by over 69% to $207m in 1H. Including the cost for Corporate Creations, the acquisition we announced last week, the group's net debt to EBITDA leverage ratio is within the target range (1.75x – 2.25x).

In the share buyback program, we have acquired over 2m shares at an average price of $15.85 AUD per share.

Now many of you will have heard me say before, at Computershare, we focus on laying down and executing long term growth plans and I can see that our growth engines are performing to plan.

Now, importantly, let's move on to unpacking guidance.

I know what you are thinking, why are we keeping earnings guidance unchanged?

How can we deliver -5% Management EPS for the full year when we are down 17% in the first half?

Let me explain. Yes, guidance is unchanged at this point. We continue to expect Management EPS for the full year to be down around 5%.

To help you understand this, we spell out the anticipated tailwinds and headwinds in 2H that support our position. You can see these factors on the bottom half of page 3. This is a new page in the deck for us, given it's the right question you're asking.

In 2H, we expect to deliver positive Management EPS growth on the pcp. That's implied in the numbers. However it is not a huge step to get there. We need to deliver EPS growth on pcp of around 1-2 cents.

This growth should continue to come from our high-quality businesses.

We expect a growing organic contribution from US Issuer Services with a small accretive contribution from Corporate Creations in Q4.

We expect continued momentum in Employee Share Plans. Clearly positive equity markets are supporting high transaction revenues, but the recurring issuer paid fees are growing nicely too.

In US Mortgage Services we should get a revenue and profit contribution from the UPB we added during the first half, as well as additional growth. As I said, we do expect to release some capital through strip sales. When we do this, we are selling a part of the future revenue stream so, while I expect consistent growth in this business, don't bake in 1H's record growth into the second half. We are disciplined here and we will continue to build this business carefully to plan.

And my nemesis, the tax rate, is expected to be lower than in 1H, although again it is higher than we initially forecast for the year.

The net result is that we expect these tailwinds to offset the headwinds and deliver positive earnings growth in 2H.

But, at Computershare, we are always balanced and realistic and there are headwinds, no doubt.

Margin income will be lower than in 1H. There's the full half impact of the cuts in Q1 and we expect rates to trend lower in 2H as well.

We are also not expecting any recovery in Corporate Actions.

We have not at this stage included any additional negative impact from the Coronavirus but we continue to watch developments very closely. That's an external X factor for all of us.

We do though, have a good line of sight on a better 2H in Stakeholder Relationship Management given the project work we can see in the pipeline. The 2H result should be better there.

So overall, the momentum in Issuer Services, Employee Share Plans and US Mortgage Services should exceed the impact of lower interest rates and continued weak event-based activity.

Beyond the results for any one half year though, we remain committed to executing our long-term growth strategies. We are building the "quality industrial" businesses with growing recurring revenues and delivering efficiency gains across Computershare. Sometimes the optionality converts, although today it hasn't. And we do look forward to delivering improved results and earnings growth for the second half of the year.

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

Nick Oldfield, Chief Financial Officer

Thank you, Stuart.

Slide 11 – 1H20 Management results summary

I will begin on slide 11 and take you through our financial results.

Starting with group revenue. You can see revenue increased by 1.2% on the prior corresponding period.

EBITDA is up 2.2% to $338.7m; however, as you've heard, IFRS16 has created a bit of noise here and there's more detail around this on slide 26.

As a result, EBIT – which is down 8.3% to $267.1m - is a better measure of comparative operating performance.

Essentially, this reduction is made up of $8.1m in margin income and approximately $17.5m in UK Mortgage Services, being the first-half impact of the delayed platform migration.

Amortization expense increased $11.6m to $32.8m with $29.7m of this total attributable to the increased investments in US Mortgage Servicing Rights.

Interest expense was $3.8m higher at $36.3m - $3.6m of this increase related to IFRS16.

Finally, our income tax expense was higher, at $73m v. $65.8m whilst our effective tax rate for the half was also up on the prior year at 31.6%.

Two things have happened here:

First, we made lower profits in the UK – a relatively lower tax jurisdiction for us - due to the reduced UKAR fixed fee and delayed migration; and

Second, MSR valuations have fallen - these temporary differences have the effect of increasing our US tax expense as a result of the new US Base Erosion and Anti Abuse Tax.

As a result, Management EPS was down, 16.7% to 29.12cps.

Slide 12 – Management revenue bridge

Let's move on to page 12 – this is our revenue bridge.

I will just highlight two key points:

One, Mortgage Services growth is shown after $20m in UKAR fixed fee drop off, so a net increase of $60m; and

Two, Business Services revenues fell $15m. Net of the Karvy disposal they increased $1.9m.

Slide 13 – Margin income

Slide 13 shows margin income compared to the last 10 half years.

The story here is a little nuanced. Margin income is 7% lower; balances are actually 20% lower - meaning our average yield is better than in 1H19.

The story changes a little relative to 2H19. Margin income is again lower, but balances are 4% higher. This lower average yield reflects the rate cuts in the 1H.

There's more detail around our balances on slide 56.

Slide 14 – EBITDA and margins by business stream

The next slide shows EBITDA margins by business stream.

Headline EBITDA is up 2.2% but this includes an IFRS16 benefit of $23.9m.

Two points to highlight:

First, the IFRS16 benefit is shown within the Corporate and Technology line in the table – this represents the rental expense paid by our businesses to Corporate. This charge is then offset in depreciation and interest.

Second, adjusting for Karvy, Business Services EBITDA fell 1.7% over the pcp.

Slide 15 – EBITDA and margin income by business stream

Slide 15 breaks out EBITDA from margin income by business stream.

Here I would point out that the margin income decline wasn't uniform, growing in both Mortgage Services and Business Services by $6.5m and $2.3m respectively due to higher exposed balances in these businesses.

Excluding margin income and normalizing for Karvy and IFRS16, EBITDA is flat at $197.7m v. $197.6m in the prior period. This resilient performance highlights the strength of Computershare.

Slide 16 – Operating cost analysis

On slide 16, we detail operating expense which on a normalised basis is 2.5% higher than the prior period.

I would make two comments here:

One, the majority of the personnel cost increase related to acquisitions, however there was a little bit of underlying wage inflation.

And two, direct cost increase of around $9m included a number of one-off items that we would not expect to repeat.

Slide 17 – Structural cost out programs

Slide 17 completes the picture on cost.

We now show $30m in Equatex synergies and $50m from the UK Mortgage Services cost out program on this slide. We expect to deliver $21.7m of this, together with another $24.8m as part of our stage 1-3 cost out programs in FY20.

Please note:

The mortgage servicing savings do not consider the IT costs of the platform migration;

And these total gross savings are not distributed evenly over the financial year.

Slide 18 – Cash flow summary at actual FX rates

I'll highlight some timing factors on our cash flow on slide 18.

Net receipts and payments increased by $44.1m, reflecting UKAR fixed fee collections and some seasonality in our Continental European AGM business.

Similarly, our income tax payments fell largely due to a prepayment made in 1H FY19.

Our SLS advance funding requirements were somewhat higher than in FY19. This is in part new boardings and part seasonality. We expect this to reduce in the 2H.

The MSR investment is split out between maintenance and growth - $29.7m on maintenance to offset amortization and an additional $109.6m to grow the book.

Again, we do not anticipate this level of investment continuing as we complete excess strip sales in the 2H and our capital lite strategy takes shape in FY21.

Slide 19 – Balance sheet

I'll close with some comments on the balance sheet on slide 19.

Net debt is some $98.7m higher than at the end of June. This is after funding $139.3m in MSR purchases, a share buyback of AU$32.9m and an increased dividend of AU$124.9m.

As a result of this, our Net Debt to EBITDA ratio increased to 1.97x. Adjusting for IFRS16, the net debt to EBITDA ratio was 2.04x.

I'll now hand back to Stuart for closing remarks.

Stuart Irving, Chief Executive Officer and President

Now, let's finish on slide 20 of the deck.

Slide 20 – Conclusions

As I said at the start, this is a resilient result of two parts. While our quality industrial businesses performed to plan, clearly not everything went well.

I can tell you we have all worked very hard for a number of years now to build reliable, consistent growth at Computershare. We focus on controlling the controllables.

We expect to see the return to some 1H/2H seasonality. We have not seen that for a few reporting periods.

We do expect positive earnings growth to resume in the second half. We need to deliver eps growth of around 1-2 cents on the pcp. We can see that in Issuer Services, Employee Share Plans and US Mortgage Services. The high-quality industrial businesses with recurring revenues are performing. The long-term growth plans we are laying down to build scale and operating leverage in our key businesses are delivering positive results. We expect that to drive earnings growth in the second half and beyond. That's why we are leaving earnings guidance unchanged at this point.

This long deck and our "call it exactly as we see it" pragmatic approach, shows our performance in every way, shape and form. That honesty and credibility are key to us, and I hope you find all this disclosure useful.

We appreciate your interest and support. We are looking forward to seeing many of you on the road where we can talk about the major business lines in more detail and our plans for the future.

Thanks for listening. Now, on to questions.