Stuart Irving, Chief Executive Officer and President

Good morning everyone and welcome to Computershare’s 2018 Full Year Results conference call. We appreciate you joining us today.

With me is Mark Davis, our Chief Financial Officer and Michael Brown from our Investor Relations team.

On this call I will take you through a summary of the results and provide an update on how we are executing on our growth, profitability and capital management strategies. These are the key to our performance.

As usual, there is a new presentation pack full to the brim of data on Computershare and our global business. This was released to the ASX this morning and in the investor relations section of our website, Computershare.com.

I will save you the pain of a page turn and will focus my remarks on pages 2, 3 and 4 of the deck. Mark will then take you through the slides on our financial results. Then, after some concluding remarks, we will open up for questions.

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

There are three key points I want to emphasise today.

One - Our business is performing well, these are record earnings but not peak earnings.
Two - We, again, did what we said we would do.

And

Three - We continue to lay the foundations for sustained growth at Computershare.

So let’s expand on these points.

**Slide 2: Executive summary**

We are pleased with how the group is performing. You can see the highlights on Slide 2. Management revenue is up over 6%. Management EBITDA is up over 12%. And Management EPS is up over 14%. Solid numbers.

This the largest profit recorded at Computershare, and the fastest rate of earnings growth since FY09, and for those of you who remember these days, that was the peak year of corporate actions when many banks did rights issues to rebuild their balance sheets.

We upgraded our FY18 guidance twice in the year landing on “12.5% with a positive bias” and it’s pleasing to deliver Management EPS ahead of the base number.
We did what we said we would do. That’s important. We have a plan and we are tracking well to it.

Now let me take you to Slide 3 to give you more visibility of our growth, profitability and capital management strategies.

**Slide 3: Good progress on executing strategic priorities**

Those of you that were at our Investor Day in April will remember, we set out to design our future back in 2015/6. We purposely planned our growth, profitability and capital management strategies back then to deliver enhanced and sustained returns for shareholders.

In FY17 we started to make some progress and returned to positive earnings growth. In FY18 we have continued to execute on these strategies and our profit trajectory has improved.

So, onto these growth engines.

In US mortgage services we are well into our five year plan and making good progress. Returns are tracking to targets. We are building out our revenue model across the mortgage value chain, capturing more margin, and we are driving scale in servicing volumes.

In the US, Unpaid Principal Balances increased by over 35% to $81 billion. Capital light subservicing Unpaid Principal Balance increased by 200% and pleasingly our high margin ancillary fees, not related to the underlying servicing, increased by 14.5% and now contributes 28% of the revenue mix.

Moving to employee share plans, the Equatex acquisition is a highlight of the year. It will enhance our scale, capabilities and earnings in Share Plans, our other strategic growth engine. The transaction is expected to close this calendar year and we are ready to implement our detailed integration plan to deliver the $30 million per annum in synergy benefits over the first three years.

Another one of our structural growth engines, class actions, also performed well in the period. Now moving to our profitability strategies. They are the ones driving margin expansion as operating leverage is coming through.

Group EBITDA margins increased to 27.1%, that’s an increase of 150 basis points.

You will see that our register maintenance and corporate actions margins again improved, up 180 basis points to 33.5%. It was especially rewarding to see register maintenance return to organic revenue growth in the second half, with margins continuing to expand and, whilst helped by margin income, renewals and new business wins were an important factor globally.

Margin income clearly assisted the overall performance, up 29%. There is a chart on page 7 that shows we made almost $100 million of margin income in second half 18. This demonstrates our significant leverage to rising interest rates. Something we have been talking about for a while.

We also maintain platforms and infrastructure that enable clients to execute large transactions and achieve governance outcomes. That’s by design. We saw improvements in some of our events based businesses, particularly in the first half of the year, that also helped our results. We concurrently completed several major transactions. Again that platform, infrastructure and knowledge is part of the optionality inherent in CPU that converted to profitability in the period.
Now, moving onto cost management. We are executing well on our projects. This discipline also supports our margin expansion. In April we announced Stage 3 of our cost management program, an additional $40-$55 million of gross savings.

Across all three stages we expect to be able to take out between $125 - $155 million of gross costs.

In FY18 we achieved a further $25.7 million of gross benefits compared to FY17. This is another example of doing what we said we would do and we are tracking well to plan.

Our capital management strategies are also enhancing our earnings.

We generated free cash flow of $380 million in the year and with this made strategic investments, bought back shares, paid higher dividends and reduced our net debt.

Today we declared a 21 Aussie cents per share fully franked final dividend. It’s a sign of confidence in our outlook. We also formalised our dividend policy as part of our focus on capital management and enhancing returns to shareholders.

We manage our capital as carefully our operations and it was pleasing to see our post tax ROIC increase from 15.5% to 18.2%.

Let’s now move to talk about laying the foundations for sustained growth. Our strategy to deliver multi-year earnings growth is firmly on track.

We will continue to build our self-funded growth engines.

Our US mortgage services business clearly has scope for growth and whilst we are considered and risk averse, we can carefully grow this business for years to come.

Our share plans business enjoys structural growth and latent earnings power. Equatex multiplies that.

Our plans to reinvigorate our registry business to organic growth are gathering pace. It is a business that continues to perform well and remains an “unsung hero” in the group.

Our cost out programmes are ongoing, and we will see the contribution from all three stages in FY19.

Margin income should continue to rise next year. As you've seen we are well positioned to capture the benefits of rising rates.

Our conservative balance sheet positions us well to complement our organic growth trajectory as suitable inorganic opportunities arise.

**Slide 4 – FY19 outlook**

Let’s turn to our guidance statement on page 4; in FY19 we expect to deliver around 10% growth in Management EPS on a constant currency basis.

We expect stronger contributions in particular from mortgage services, share plans, cost out programmes and margin income. The outlook for corporate actions fee income and event based activities at this stage though looks slightly more subdued than in FY18.
As usual for transparency, we lay out our other assumptions on this page.

I’ll now hand over to Mark to discuss the more detailed financials.

Mark Davis, Chief Financial Officer

**Slide 11 - FY18 Management Results summary**

Thank you Stuart, and good morning all.

I will begin on slide 11 and I am pleased to take you through the details of our record earnings.

Let’s start with group revenue. You will see it increased by 6.3% on last year to almost two and quarter billion USD.

Mortgage services grew strongly and margin income was up 29% and we also saw an improvement in our event based businesses, particularly in the first half.

Management EBITDA for the period was over $600 million increasing by 12.7%. Margins continue to improve, up 150bps driven by a range of factors which I will address later in the presentation.

Amortisation increased to $35.1 million. This reflects the investments we have been making in US mortgage servicing rights which we amortise through the management P&L.

Interest expense was impacted by rising interest rates and increased to $61 million, notwithstanding the decrease in the Group’s net debt.

As we anticipated at the half, our effective tax rate was 28.3% down a little on last year reflecting, in particular, the benefit from the reduction in the US federal tax rate. In FY19, we expect our effective tax rate to be broadly similar again.

As we have highlighted, Management NPAT was up 13.6% and Management EPS was up a solid 14.1% benefiting from the share buy-back - this is the fastest rate of earnings growth that we have delivered since FY09.

**Slide 12 - FY18 Management NPAT Analysis**

Moving to the NPAT analysis on page 12.

We show the bridge from FY17 NPAT at FY17 FX rates to the FY18 actual NPAT number.

The growth in profitability, as you can see here, is primarily driven by a $29.6 million increase in EBITDA (excluding margin income) combined with $39.3 million of additional margin income.

FX translation, which you can see on the right hand side of the chart, has had a lesser impact on these results than in some of our recent periods. You can see that the actual NPAT is a little higher than the constant currency number. Of course, it is the constant currency number that we focus on to show underlying performance.
Slide 13 - Management revenue by business stream

Slide 13 breaks down our Management revenue by business stream. Total Management revenue increased by an impressive $134 million with contributions from our growth engines, cyclical improvements and increases in event based activity, particularly in the first half.

Business services is now our largest business stream by some distance and accounts for almost 40% of total revenues. Within this, mortgage services revenues increased by 9.9% to $546 million. US mortgage services revenues broke through $300 million, up 19%, and UK mortgage services revenue were pleasingly stable at $240 million. This is a good result given the amortising profile of the book.

Corporate actions revenues rebounded nicely from the multi-year lows we saw in FY17. In the first half we successfully delivered on some large transactions in the US, including MetLife’s Brighthouse spin off.

In employee share plans, transactional revenues increased by 4.7% although fee revenues and margin income were slightly lower. This is a solid result given the Brexit vote inflated pcp and we had lower implementation fees during the period.

Slide 14 - Management revenue bridge

Turning now to slide 14, which highlights the Management revenue bridge and shows some of the key components of our revenue growth. Class actions in business services contributed an additional $28 million. We executed some large class actions including VW Canada.

Stakeholder relationship management, another of our event based businesses was strong. You will recall that we completed a major proxy campaign for a large US fund in the first half. On the far right hand side you can see the impact of the weaker USD against most of our other operating currencies.

Actual revenues were slightly over $2.3 billion USD.

Slide 15 - EBITDA and margins by business stream

On to slide 15, EBITDA and margins by business stream.

Here you will see that Management EBITDA increased by almost $69 million, a rise of 12.7%. Our mix of business helped this growth with higher margin corporate actions and margin income making greater contributions. We also continued to improve the margins from our mortgage servicing division in business services.

Register maintenance and corporate actions, our most profitable business stream, also delivered improved margins, increasing to 33.5%. Our cost out programmes assisted across the group.

Management EBITDA excluding margin income also increased to $434 million, up 7.3%. It is good to see this margin expanded as well, up to 20.9%. This continues our multi-year track record, which you can see in the appendices on slide 26.
Slide 16 - EBITDA and margin income by business stream

Turning now to slide 16. Margin income is our highest margin contributor and it increased by $39.3 million to $175.5 million.

We made $79.6 million in the first half and continued the improvement in the second half, coming in at $99.9 million at actual FX rates. We have now seen a sharp improvement from the cyclical lows in 1H17, with the half year profit up $33.3 million since that time, again at actual FX rates.

As you can see on slide 7, while balances can fluctuate in any one period, we have seen a further increase in the exposed balances, now up to $11.4 billion.

Margin income improved in business services and register maintenance and corporate actions, where balances are predominantly held in the US and Canada. Margin income in employee share plans fell slightly on the back of lower achieved deposit returns in the UK.

Slide 17 - Operating costs analysis

I will now talk to slide 17 and our operating costs analysis. The first point here is that our cost to income ratio continues to fall to 72.9%. The rate in the second half, reduced further to 71.8%.

Our cost of sales increased at a lesser rate than our overall revenue growth rate given the improved revenue mix with greater contributions from corporate actions and margin income. An important number on this page is the fixed personnel costs up 2.3%. This shows our disciplined cost controls and the benefit of our cost management programs. This number is effectively BAU headcount, with fixed headcount accounting for 55% of our cost structure.

Slide 18 - Cash flow summary

Moving to our cash flow summary on slide 18.

Let me start here with the first line – net operating receipts and payments. These increased by 12.3% to $596 million. These cash flows self-fund our growth engines, enable share buy-backs, increased dividend and reductions in net debt and leverage.

We also increased our tax payments in the year to $87 million. The increased tax paid relates to a range of factors including increased tax resulting from higher royalty payments to Australia from overseas subsidiaries.

We spent $89 million on new MSRs in total. We classify in two ways. $34 million was spent on maintenance purchases and we use amortisation as a proxy for this. And we spent $55 million on investments in additional MSRs to grow the book.

SLS advance funding came down as we flagged at the half. We also completed some excess strip sales in the second half which reduced the capital employed in our US mortgage services business to $403 million, a reduction of $20.5 million from the number at 31 December.

As we have previously disclosed, we do have a commitment to acquire some advances as part of an MSR transaction we completed in FY17 which will see that number temporarily trend up in 1H fiscal 19.
Finally on slide 19, let me call out some important numbers on this page. Having funded our growth engines and strategic investments, the share buy-back, dividend increases and debt reduction our leverage ratio still continued to fall, down to 1.33x. Our balance sheet continues to organically improve.

We have extended the duration of our debt facilities as detailed on slide 48 and the average debt maturity was extended to 2.8 years at the balance date. In July, we repaid the $235 million of US Private Placement debt by accessing longer term debt to extend our duration further to 3 years.

We have debt headroom to complete the Equatex acquisition. Post completion we expect the leverage ratio to rise to around 2.0 times which is still well within our neutral target range of 1.75 – 2.25x net debt to EBITDA.

As Stuart mentioned, we have formalised our dividend policy which is to payout 40-60% of US Management NPAT subject to our cash requirement and leverage ratio and to continue to maximise franking available to shareholders.

Finally I would like to highlight the improvement in our return ratios. Our post tax ROIC increased to 18.2%, reflecting our improved profitability and careful capital management. This is a number that has strong management focus and it is pleasing to see this move higher in FY18.

I will now hand back to Stuart for closing remarks.

Stuart Irving, Chief Executive Officer and President

Now, let’s finish on Page 20 of the deck. Our purposefully designed growth, profitability and capital management strategies are delivering solid results. And it was pleasing to see the optionality, inherent in Computershare, begin to convert into profitability.

Our strong free cash flow self-funds growth engines, technology initiatives, strategic investments, debt reduction and enhanced shareholder returns.

Importantly we have a positive outlook; as we see it at this early stage of the year, FY19 Management EPS is set to increase by around 10% on FY18 in constant currency terms. Our multi-year sustained earnings growth remains track.

Now I would like to end by saying a few thank yous.

We absolutely respect the primacy of shareholders and we appreciate all the interest and support you have given us as we build the new simpler, transparent and more profitable Computershare. Thank you and we look forward to seeing many of you on the road over the next few days.

And finally thank you to all our staff around the world, whose hard work and dedication to delivering great outcomes to our clients is at the core of these results.

Now, on to questions.