

## FY21 Results: CEO and CFO conference call script

### Stuart Irving, Chief Executive Officer and President

Good morning everyone and welcome to Computershare's FY21 results conference call.

I am joined today by Nick Oldfield, our Chief Financial Officer, and Michael Brown, from our Investor Relations team.

On this call, I will take you through the key aspects of our results and the outlook for the new financial year.

We released a presentation pack to ASX, and it's on our website. There's a lot of information in the deck for you. As usual on these calls, I'll focus my remarks on the opening pages 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 questions. As a reminder, we will be talking in US dollars and constant currency (CC) unless we state otherwise.

### **Slide 2 - FY21 Results**

Let's start on page 2.

There are three points I would like to call out;

First, I am pleased to say we delivered a strong operating performance in the second half of the year. Earnings were 39% higher in the second half compared to the first half. We made just over 30 cents per share of EPS in 2H.

We said in February that we expected the 1H results would mark the bottom of the earnings cycle for Computershare, and that earnings growth was underway. That is coming through.

2H was effectively the equal best operating result, excluding Margin Income, in Computershare's history.

Second, our main operating businesses are performing well. We are making good progress executing on our growth plans, and we are also benefitting from high market activity levels.

Without a doubt, the year had plenty of operational challenges. Margin Income is frustrating with record low-interest rates, and the government restrictions in US Mortgage Services went on for longer than we expected. However, the strong growth in Issuer Services, and Employee Share Plans enabled us to deliver on the upgraded guidance that we provided in February.

Adjusting for an increase in the annual leave provision as many employees were restricted to home, EBIT, excluding Margin Income, would also have been in line with guidance.

Finally: As I have talked about before, strategically, a better “quality” Computershare is emerging.

We clearly made a big step forward this year with our announcement in March. We are acquiring the assets of Wells Fargo Corporate Trust Services, a leading US provider of trust and agency services to government and corporate clients. Due to complete later in the year, the acquisition accelerates our scale to a top 4 position in the attractive US corporate trust market. It also provides Computershare with greater exposure to interest rates and positive long term growth trends in trust and securitisation products.

We are delighted with the acquisition. We have secured regulatory approval from the OCC since we last spoke, and we are heavily focused on the plan to first separate the business from Wells, and then integrate into Computershare.

On this note, I would like to thank our existing and new shareholders for supporting our capital raise to partially fund the acquisition. We had very high levels of participation in the offer, which is a great endorsement of our strategy. I am grateful for your support.

### **Slide 3 - FY21 Management EPS**

Page 3 shows a more detailed analysis of the results, the earnings waterfall.

We bridge from the FY20 Management EPS of 56 cents per share through to the result of 52 cents per share for this year, and then show guidance on the far-right hand side for comparison.

I'll walk you through the bridge.

Margin Income, on the left, was the single largest factor in the period. The drop in MI from \$200 million last year to \$104 million this year cost us over 13 cents per share. 8.4 cents of this drop was in 1H. It's the lowest level of MI for a long time for us.

We averaged \$20 billion of balances in 2H, which was high, partly driven by strong corporate actions activity. But the average yield on the exposed balances was 0.7%. This was less than half the rate we earned in FY20.

Grouping three of the next columns together, Mortgage Services cost us 10 cents of EPS.

As we've talked about before, we took the decision to be more conservative and change the amortisation period from 9 years down to 8 for the performing MSR's we own in the US, to reflect the elevated level of run off in the market. That cost us 1.6 cents. It impacted earnings but, it is non cash.

Second, the extension of the foreclosure moratorium in the US won't surprise anyone either. It was part of the government's response to the pandemic and it went on for around 10 months longer than initially anticipated. While the CARES Act moratorium was finally lifted at the end of July, it was in place for the full second half of the year. It cost us around 1.9 cents per share.

The third part of the cost is in UK Mortgage Services. FY20 was the last year we received a sizeable fixed fee contribution under the UKAR contract with only 4m coming through in FY21 a 45m drop over FY20.

This reduced EPS by 7 cents in FY21. We clearly knew this was coming and we have been proactive in taking out more costs from this business to adjust.

You'll see on page 21 of the deck we have upgraded our cost out target in UK Mortgage Services from a total of \$65 million to \$75 million. We delivered \$8.4 million of these extra savings this year compared to our original plans. We are making good progress right-sizing this business and we expect to return to a modest profit in FY22.

Moving to the green bars, the good news stories, all the cost-out programs across Computershare really helped our results. Across stages 1, 2 and 3, the Equatex synergies and the expanded cost out opportunity in UK Mortgage Services, cost reductions added 9.4 cents of earnings.

We expect our cost-out programs to deliver a further \$73 million of gross savings over the next two years. And we continue to look for more cost-out opportunities – it's in our DNA.

We will use these savings to help mitigate wage inflation pressures. Across the group, but particularly in the US, wage inflation should run at around 3% next year. I can see the pressures across the economy. While we manage our costs very carefully at Computershare, that's around \$38 million of additional headwind on a pre-tax basis next year that we have to offset to deliver growth.

Moving to the next green column in the bridge, we did deliver profitable operational growth in FY21. We delivered over 9 cents per share of operational earnings growth, excluding Margin Income. The split was broadly 3 cents in the first half and 6 cents in the second.

As I mentioned earlier, EBIT ex MI was up 12.6% for the year. And adjusting for the increased annual leave provision, as we didn't force people to take time off during the pandemic, it would have been 14% growth. I'd like to think we have at least retained our special culture at Computershare despite all the challenges of remote working and lockdowns.

So, at the earnings level, we came in at down 7.3% for the year. That was 70 basis points ahead of the upgraded guidance we gave in February at down 8%, and we made just over thirty cents per share in 2H.

Let's talk more about how the businesses performed, starting on page 5.

## Slide 5 - 2H21 Summary

Let's start with Issuer Services, which is the largest business in the group and contributes 43% of total revenues.

The business is performing well. Revenue was up 9% this year. Again, we saw the operational gearing come through with EBIT ex MI up 26.3% and margins expanded by 240 basis points to 24.4%. We are pleased with these results.

Revenue grew across all business lines. Registry revenue was up 3.2% excluding Margin Income, which is a good pick up from 0.6% growth in the first half. The number of shareholder accounts we manage around the world increased slightly year on year. We also increased client wins by a net 277, which is up 82 wins on FY20. This market share growth is a good validation of our offer.

Issuer paid fees grew by over 4%. These are the recurring revenues and now account for 69% of total revenues in this business. Holder paid fees are more transactional and we saw some recovery in 2H here which was pleasing. They account for 28% of revenue. Margin Income effectively halved in this business.

Corporate Actions was strong in FY21. We saw increased transactional volumes and high market activity levels across all our major regions, excluding Margin Income, revenues in Corporate Actions increased by 35%. The M&A and Hong Kong IPO boom has been a positive for us, but FY21 was also a story of capital raises, particularly in the UK. I'd remind you our key metric is the number of completed deals, rather than announced ones. Announced transactions are a good lead indicator but we earn revenue when the deal has been completed.

Stakeholder relationship management, another of our event-based businesses, did well. Revenues ex MI increased by 45%, with a very strong first half as we completed a number of Mutual Fund Proxy campaigns. As I have said before though, these projects are lumpy and not recurring. We don't expect the same level of contribution from Corporate Actions due to less capital raise transactions or from SRM in FY22.

Our new Governance businesses, as we now call them, are building scale. We are successfully leveraging our core registry skills in the new complementary adjacencies, Registered Agent and Entity Management.

Our key metric of 'Units (entities registered in a state) Under Management' has grown 12% during the year, through underlying resilience of the book and new client wins. These are high quality businesses with room for sustained growth in large, addressable markets. They also provide recurring subscription style revenues and don't have any Margin Income exposure.

I am pleased with our progress in Governance Services, and our ability to provide an expanded suite of services in a combined offer is a clear competitive strength too.

Employee Share Plans also delivered a robust result. It more than doubled earnings, excluding Margin Income, in the second half compared to pcp.

Recurring fee revenues increased by 4% excluding Margin Income. EBIT ex MI was up 68% and we delivered 790 basis points of margin expansion on the same basis.

What's driving this growth?

We are implementing our market leading platform EquatePlus across Europe and Australia, with over three million participants now live. This is helping us to win market share. New client wins were up 7%.

Transactional revenues also recovered as equity markets rallied. You will remember the fees were down 7.4% at the halfway stage and have finished the year up 16%. They are now above pre-pandemic levels. That's been a big recovery driver.

The structural rise of equity based remuneration is also clear to see here. Units under administration are up 13%. More companies are issuing equity deeper into their organisations to attract, retain and reward employees.

Now moving to Business Services, it delivered a disappointing result, so these are clearly not peak earnings for the group. Revenue was down by 15% and EBIT ex MI fell by 34%. There are three parts to this.

First, Canadian Corporate Trust performed consistently, which is a decent result given the high pcp.

Bankruptcy reported strong revenue growth, up 37% although it was first half driven, and Class Actions declined by 31%.

There are a couple of points to make here. First, the economic stimulus packages have effectively delayed the bankruptcies we expected to see when the year began. You can see the public filings. There is very little activity. We expect volumes to recover over time but the outlook for FY22 is subdued.

Same with Class Actions. There has been very little activity through the courts. While the structural growth trends are intact, and around 6% volume growth p.a. in cases, again the outlook for FY22 is subdued.

Let's move to Mortgage Services.

It's been a "doozy" of a year. There have been a lot of challenges to manage.

With the pandemic related restrictions in the US extending through FY21 and a prolonged period of record low rates driving elevated levels of run off the results aren't all bad. EBIT ex MI margin including the increased amortisation, stayed positive.

Total UPB is down 6% to \$112 billion. Within this, the value of the loans we sub serviced increased by 16%. The mix is improving. Performing sub-servicing UPB grew by 28%. We now sub-service over 290,000 loans.

Capital light revenues increased by 17% in the year, partly as we were able to sell MSR on a 'retained basis' – converting owned MSR into sub-servicing business. This helped drive the mix in the portfolio I've just talked about.

We also expanded our recapture capability. This is our defence to losing loan servicing from refi. We have retained the servicing on \$215 million of loans that would have been serviced somewhere else.

Having said all of that, we had \$730 million of capital employed in this business at the end of June. This reflected a delayed MSR transaction, which completed in the first week of July and a temporary peak in advancing on behalf of a sub-servicing client. Adjusting for this, invested capital would have been flat over the year.

We're now very focused on the pathway to better. What is this? We can reduce the capital employed through ongoing MSR sales, recycling capital and creating new, capital-light sub-servicing business. We have a strong pipeline of new fulfilment business we are in the process of implementing.

Whilst the moratorium on foreclosures has come to an end there are still a range of relief measures put in place by the CFPB which will remain through to the end of the calendar year. Once these finish, we expect to be able to add high margin non-performing servicing work, together with its associated ancillary fees to help improve the bottom line. That will start to come through in the second half. But we clearly have a lot of work to do here.

Putting it all together, our largest businesses performed very well. The more cyclical events business were a mixed bag, ups and downs. Margin Income was frustrating. US Mortgage Services needs to improve, and we have added a whole new long-term growth engine in US Corporate Trust.

## **Slide 6 - FY22 Outlook**

Let's move to page 6 and talk about our outlook for FY22.

For FY22, our initial guidance is to deliver around 2% growth in Management EPS.

There are several moving parts in this so I'll step you through it.

The guidance includes CPU "legacy", that's CPU before the acquisition and without the rights issue. Also let me highlight an important number here that may be missed in all the excitement of improved Margin Income outlook. For the legacy business we do expect Management EBIT ex MI to improve by over 3% on the pcp.

Second, we show the contribution from CCT for the 8 months we expect to own it for this year and finally the dilutive impact of the rights issue.

## Slide 7 - FY22 Management EPS guidance bridge

There is a bridge on page 7 to help you. Starting from the left, we have FY21 Management EPS translated at FY20 FX rates of 52.03. The FX adjusted equivalent of what we are reporting today is 52.46. This is in constant currency.

With wage inflation that I have called out, cost-out programs and some underlying business growth, the guidance for the legacy business would have been 54.7 cents per share. This would be a rise of 4.2% compared to the adjusted pcp. That's underlying organic growth.

Moving along the chart. The Corporate Trust acquisition is expected to close in October / November, and we expect CCT to add over 4 cents of earnings in FY22.

We then have to adjust for the rights issue. We assume the rights issue took place in full on 1 July. Pre the rights issue, the weighted number of shares on issue in FY21 was 540 million. In FY22 it is 604 million. Using the higher share count dilutes EPS by 5.6 cents.

Taking all of this into account, we expect around 53.4 cents of EPS in FY22, which is around 2% growth on last year.

The other guidance assumption to call out is on Margin Income. Again, I'll do a "sum of the parts" breakdown here.

We expect for CPU on a stand-alone basis, MI to be the same in FY22 as it was last year at \$107 million. This is better than the initial guidance we gave at \$80 million for FY22 and Nick will talk you through how we achieved the uplift. We assume balances of \$17 billion. As usual we base our yield assumptions on the three month swap curves as they are today. We don't speculate on rates.

You'll remember CCT has balances too, \$60 billion of them. Around \$9 billion is directly exposed to interest rates, with the majority of the others in money market funds where fees are fixed and we don't classify them as Margin Income.

We expect CCT to contribute additional Margin Income of \$38 million. This gives us \$145 million of MI in total. Balances for the group should average between \$55 – 60 billion. Our view is the Margin Income will be split broadly \$60 million in 1H and \$85 million in 2H. This reflects our assumption around timing of the closing of the CCT acquisition.

Now over to Nick.

**Nick Oldfield, Chief Financial Officer**

Thank you, Stuart.

**Let me start with our financial results, this year which are on slide 19.**



Group Revenue ex MI was up 3.6%. Adjusting for M&A and the UKAR fixed fee, organic operating revenue growth was 4.6%. Increased contributions from Issuer Services and Employee Share Plans are the key drivers here.

Reflecting the fall in interest rates, total revenue for the group fell 0.8% over the prior corresponding period.

There's more detail on revenue on Slides 27-29 including Revenue excluding Margin Income across each business stream.

EBIT fell 11.5% to \$440.7 million.

In large part, this decline is attributable to the \$95.1 million reduction in Margin Income, whilst amortisation expense increased by \$35.8 million. This reflects both the change in amortisation period announced last year and an unwinding of a couple of excess strip trades mid-year. We assume an 8-year amortisation period for performing loans going forward and therefore expect amortisation expense at a similar level in FY22.

As Stuart has already said, excluding Margin Income, EBIT increased 12.6% to \$336.4 million. Adjusting for the increase in our annual leave provision, EBIT excluding Margin Income was up 14%.

The EBIT ex MI margin was up 130bps to 15.6%, again largely due to the improved contributions of Issuer Services and Employee Share plans.

As anticipated, interest expense was lower reflecting the lower rate environment.

Our income tax expense was lower, too, at \$105.4 million. ETR for the year was 27.2%, slightly better than we anticipated. This was largely due to a change in tax rates in the UK and the related revaluation of the net deferred tax asset position. We also expect a slightly lower ETR range in FY22 of 26-28%, reflecting a slight change in profit mix and a lower expected US BEAT expense.

Management NPAT was down 7.4% to \$281.4m and, as you've already heard, Management EPS was down, 7.3% to 52.03cps.

Statutory results are on slides 25 and 26. Statutory NPAT was \$189 million, with the difference attributable to the amortisation of non-MSR acquired intangible assets of \$42.7 million, acquisition related expenses of \$24.5 million, which was largely attributable to the ongoing Equatex integration and \$27.5 million associated with our cost out programs, the main contributor being the UK Mortgage Services restructuring.



**I'll now jump back to slide 8 and talk about Margin Income.**

The Margin Income result was broadly in line with expectations, with 2H21 at \$51.5 million at actual rates.

Notwithstanding this result, average balances were actually around \$2.5 billion better than the first half and greater than we expected, meaning our overall yield on client balances declined further from the first half, to around 51 bps. This increase is largely due to a growth in SPAC funds as we have penetrated that market in the second half of the year – to date, however, these balances have not attracted any Margin Income due to the fee arrangements in place for these transactions.

Adjusting for these SPAC funds, exit balances are in line with our FY22 expectation of around \$17 billion.

Looking to FY22, however, we are actually upgrading our Margin Income expectations to be around \$107 million, \$145 million including the contribution from CCT. A reminder - this is in constant currency.

So, what's behind this improved Margin Income outlook in the core Computershare business?

Well firstly, we've been able to secure an extension of our Deposit Protection Service contract in the UK through to 2026. This means we can re-invest funds that had previously been expected to revert to short-dated rates in FY22, and we can add further duration to term funds that were previously anticipated to end in FY23.

Importantly, this new contract provides more flexibility in terms of duration and liquidity requirements whilst UK medium term rates have also improved significantly since we did our half year outlook. Together, the DPS represents around two thirds of the Margin Income uplift in FY22.

The remainder of the uplift is driven from an improvement in the USD rate outlook, where medium term swap rates have picked up since the half. We have been able to take advantage of this and add duration to the book to secure a higher return.

Together, this drives a higher yield expectation in FY22 on the legacy book of around 63 bps on balances of \$17 billion.

Looking at the CCT book, we expect that to come on board in October/November and deliver around \$38 million in Margin Income in the year, at a yield of around 29 bps. We're not assuming any upside in FY22 from extended duration, recapture, or yield enhancement strategies at this point.

There's more detail about balances on slides 71 - 75.

**Next, I'd like to talk about slide 20.**

Here, we show the bridge in operating costs between FY20 and FY21. Importantly, we've drawn out the reduction in underlying operating expense so you can see how the cost-out programs are having an impact.

These programs realized \$82.6 million of benefit in FY21.

\$32.4 million of this comes from the finalisation of the asset migration program in UK Mortgage Services. All the IT cost associated with the transition has come out and that's what this saving represents.

The remaining \$50.2 million comes from our other cost-out programs, the largest being the restructuring of our UK Mortgage Services business. Overall, our adjusted operating cost base was \$1.181 billion, a reduction of 6.5%.

So where did these savings go?

Well, first of all – there's \$8 million of M&A related additional opex. A little bit of Corporate Creations and a full year of Verbatim.

Then there's the investment in growth. We've added capacity to meet the demand in Corporate Actions, and in building out our Corporate Secretarial capability. This added \$33.3 million of cost.

And finally, there's some one-off costs of \$9.6 million - a regulatory levy and a particular bad debt. They won't repeat in FY22.

You will also note that Cost of Sales increased, from \$371.8 million to \$410.4 million. This is driven by the sales mix and underpins that higher revenue excluding Margin Income we discussed earlier.

Total operating expense is detailed on slide 35 so you can see the usual breakdown there.

**On slide 21, we show the impact of all our cost out initiatives.**

And you'll see, we are increasing our cost out savings target by \$30 million, relative to our prior estimate.

This reflects:

- (i) a \$10 million increase in the synergies we anticipate generating from taking the EquatePlus platform around the world;
- (ii) an increase in our expected benefit realisation for the UK Mortgage Services cost out program of around \$10 million, taking the overall

saving here to \$75 million, excluding the IT costs associated with the platform migration; and

- (iii) an increase in our Stage 3 cost out target of \$10 million, representing additional savings from the transformation of our finance and people functions together with some reductions in office space.

At the same time, we have increased the expected cost to achieve by \$15 million. The total gross multi-year benefit target – for which we extend the delivery period out to FY24 - from these programs is now estimated to be \$276 million.

**I'll finish with some comments on our balance sheet and cash flow on slide 22.**

In the period, we generated \$375.3 million of net operating cash flow, representing an EBITDA to cash conversion rate of around 60% at actual rates.

Free cash flow was \$260 million.

Capex was down for the year at \$16.3 million due to lower IT related spend.

Net cash flow was \$40.8 million, after spending \$21.8m on acquisitions, \$172.8m on dividends and around \$123.6 million on MSR's.

A capital recycling transaction was slightly delayed, completing in the first week of July. Adjusting for this, net investment in MSR was around \$100 million and therefore largely maintenance, in line with the amortisation expense for the year. We do expect net MSR investment to be a fair bit lower in FY22.

Net debt has reduced materially over the last 12 months. This reflects the receipts of the rights issue ahead of completion of the CCT acquisition later this calendar year.

As a result, our Net Debt to EBITDA ratio fell to 1.07x.

Looking ahead, the net debt to EBITDA ratio will peak post the completion of the CCT acquisition before starting to organically repair. We anticipate it being around the top of our target range at the end of FY22.

I'll now hand back to Stuart.

**Stuart Irving, Chief Executive Officer and President**

Thank you, Nick

And finally, onto conclusions.

FY21 was undoubtedly one of the toughest years of my and many other peoples' careers. Managing global businesses remotely, the numerous false starts to the

pandemic recovery, having record low interest rates cloud our performance, not to mention making a leapfrog acquisition with all of the due diligence you'd expect of us, as well as completing a major and complex capital raise was tough.

But everyone did their job and our teams continued to deliver exceptional client outcomes. I want to express my thanks to all my colleagues for the outstanding contribution and dedication, not to mention their resilience.

Looking forward, we enter FY22 with renewed vigour and confidence. We'll keep our heads down and keep true to the strategy to build stronger, more efficient businesses with more leverage to structural growth trends. We will focus on executing well, maintaining cost disciplines, and investing strong free cash flow in growth and new technology, and balance this with a conservative capital structure and returns for shareholders.

We expect to return to positive earnings growth in FY22. We have high quality businesses with scale and strong recurring revenues in the group. Event activity will fluctuate and interest rates will be what they are, but we have significantly increased our optionality for when rates do start to rise.

Thank you for your time and I'll now hand back to the operator to open the lines for questions.