Link Group 1H FY22 Financial Results
24 February 2022 Webcast Transcript

Vivek Bhatia: Thank you. Good morning, everyone. Firstly, I would like to acknowledge the Gadigal people of the Eora Nation, traditional custodians of the land on which we're present today, and pay my respects to the Elders, past, present and emerging. I extend our respects to all Aboriginal and Torres Strait Islander people on this update today.

My name is Vivek Bhatia and I'm joined today by Andrew MacLachlan, our Chief Financial Officer. Firstly, a warm welcome from me and the entire team at Link Group. On behalf of the Executive Leadership team, Andrew and I would like to thank you for your time today, as we present our half year results for FY22.

The Executive Leadership team represent a broad range of skillsets, balanced with strong economic experience and deep internal knowledge. A 50/50 gender mix also benefits us greatly as we continuously strive towards fostering a diverse and inclusive culture and environment at Link Group.

I would like to take a moment to acknowledge and thank Chris Addenbrooke, who after 34 years with the organisation has decided to retire as CEO of our Fund Solutions business. Chris has been a dedicated and tireless contributor to our leadership team and on behalf of the entire organisation, we wish Chris very well in his retirement and thank him for his contribution to Link Group.

I'm also pleased to welcome Karl Midl to the Executive Leadership team as the new CEO of Fund Solutions. Karl has been with the organisation for more than 25 years and many of you would be familiar with him when he presented at our investor day late last year. Karl is a highly capable and experienced leader who is already a great addition to the Executive Leadership team.

Today I will start by providing you with an overview of our operation and financial results for the first half of FY22. Andrew will then walk you through the detail of our financial update and I will return to summarise and open for Q&A.

As many of you know, Link Group's digitally enabled platforms connect millions of people globally with their assets, safely, securely and responsibly. We partner with a diverse set of global clients across a wide range of asset classes to provide robust, efficient and scalable services, profitable solutions and modern technology platforms that deliver world-class outcomes and experiences.

It is no secret that since I have come on board, it has been a time of consolidation and resetting for the organisation, with a clear, strategic focus to simplify, deliver and grow. As you can see from the slides, we are making good progress towards these efforts. In terms of simplification, we are making continued improvements to our processes, streamlining and transforming the services we offer by increasingly digitising our business and services. We continue to leverage our global hub strategy which is yielding benefits in the form of increased efficiency in automation, as well as providing access to talent for specialised skills. In fact, our hub in India has just hit a milestone with our one-thousandth person now in the hub.

We have delivered $63 million worth of gross annual cost savings through our Global Transformation Program and are very much on track towards our goal of a gross annualised benefit of $75 million by the end of FY22. RSS continues to support several superannuation fund modules in Australia, with around 340,000 new members expected to be onboarded in the fourth quarter of this financial year.

Our Smart Pension partnership in the UK continues to grow, with 900,000 members on the platform, a solid increase since our previous updates to the markets last year. We have completed the

Casa4Funds acquisition which is providing us with the scale required in our Funds Solutions business in Europe. We have continued to see very strong levels of client retention across all the business units, with growth in the uptake of new solutions and an increased cross sell of clients across the businesses. Finally, we have entered into exclusive negotiations with LC Financial Holding in respect of our BCM business, and I will provide more colour on this transaction later in the presentation.

Link Group continues to deliver in a challenging environment, with the first half operating EBIT ahead of our guidance. While Andrew will provide a more fulsome summary of our financials, I wanted to call out a few specific items. Whilst Group revenue for the first half was slightly down, we are seeing some encouraging signs, especially for Fund Solutions, RSS and Corporate Markets. Our business continues to deliver healthy cash conversion ratios, with net operating cashflow conversion for the first half at 106%.

Consistent with the plans [unclear] Dye & Durham Scheme Implementation deed, the Link Group has also approved a fully franked interim FY22 dividend of $0.03 per share. In addition, our balance sheet remains strong, with leverage ratio at 2.6 times and we expect this ratio to remain in that preferred range of two to three times.

Over the last six months, we have deployed our balance sheet capacity by returning capital to shareholders and bringing CapEx back to the 4% to 6% of Group revenue in line with our guidance. The reinvestment in both technology and our people will further help to drive revenue and EBIT growth in FY23 and beyond. Our financial performance is complemented by the progress we continue to make in building a more sustainable future, by effectively managing the environmental, the social and the governance aspects that are important to us and our stakeholders.

Highlighting just a couple of items from the slides, we continue to take steps towards the achievement of our short, medium and longer-term climate targets, including a net zero carbon emission target by FY2030. We are making good progress against our LinkTogether For Good community engagement strategy, especially following our Giving Back month which was held globally during the month of December.

We are proud of the diversity of our people and the richness that it brings in perspective and experience for the business and with a 40/40/20 gender equity balance now achieved at most levels across the organisation. Our people define what Link Group is. The progress we have made reflects our commitment to continually expand our capabilities and make Link Group a place where we can all thrive and achieve together, in order to best deliver on our strategic goals for our clients and our shareholders.

For those of you who are less familiar with Link Group, this slide will give you a more in-depth look of our business units and our investment in PEXA. One of the key differentiators of Link Group is that we have a global and diverse client base across multiple asset classes. We now connect more than 90 million people across the world with their financial assets, a number that has increased from 70 million since our full year results update in August last year. As you can see, our two largest business divisions, Corporate Markets and RSS collectively comprise 88% of our trading EBITDA, noting that India has performed particularly well for Corporate Markets during this period.

We have also consistently delivered high levels of recurring revenue of 85%, which was slightly up from 84% compared to the same time last year. The high levels of recurring revenue, solid performance from Corporate Markets and RSS as well as the geographic and sector diversification of our overall client base continues to provide us a degree of resilience and a solid foundation from which we can deliver consistent growth.

Taking a look now at some statistics that speak to the scale and scope of our operations and market presence, and the strength of our technology [taskforce]. We now service about 38% of all superannuation accounts in Australia, an increase since our update last year, provide share registry services for over a third of the ASX 300 and the FTSE 250 [sic – see Slide 9 FTSE 350] and hold the majority share of amounts raised in Australian IPOs in the first half of this financial year.

Our technology is robust, scalable, and importantly, secure. With over 1000 technologists and an investment of over $250 million annually in building and maintaining technology ecosystems, we are able to offer a level of scalability and industrial robustness that is market leading, underpinned by the security of our ISO 27001 certification. Our technology platforms simplify the connectivity between the financial market participants and enhances the engagement experience of our clients and their customers.

I'll now hand over to Andrew to take us through the financial summary.

Andrew MacLachlan: Thanks Vivek and good morning everyone. I'm going to provide some more detail on the financials first at a Group level and then at a business unit level before handing back to Vivek to provide an update on PEXA and the transactions which are currently underway. I'd also direct people to the appendices at the back of the presentation which provide more detailed reconciliations of our operating to statutory results.

As Vivek mentioned earlier, our first half performance for FY22 was ahead of our guidance provided in August last year. Our operating EBIT performance for the first half was $70.2 million, whilst down on the same period last year, was up by $7.9 million or almost 13% on the second half of FY21.

Overall, Group revenue was $593.6 million which was only marginally down on the PCP. However again, it was pleasing to see the revenue performance improve on the second half of FY21 by 5.4%. Recurring revenue remains a feature of the business, representing 85% of total revenue for the half.

Operating costs grew by 3% as the benefits of our global transformation program, now in its final year, were offset by normalisation of staff costs following the COVID-19 related temporary salary reductions and suspension of indexation increases in FY21.

At the operating NPATA line we've reported earnings with $55.9 million which includes a PEXA contribution of $19.5 million. This was a very strong contribution from this investment which Vivek will cover in more detail shortly. Our statutory NPAT loss of $81.7 million included a non-cash impairment charge of $81.6 million largely related to the BCM business. Vivek will also provide an update on the sales process for this business later in the presentation.

This next slide should be familiar to you all and lays out the key drivers for the change in revenue by business unit. In RSS we saw strong underlying member growth leading to positive growth in recurring revenue once the impact of PYS is removed. As a reminder, FY22 is the last year we expect to see elevated losses of members due to PYS.

The merger out of MTAA in April '21 also negatively impacted recurring revenue for the half which more than offset the benefit from a full half of Hostplus call centre revenue. Pleasingly though, RSS recurring revenue for the half remained in line with the second half of '21 on a recurring revenue basis.

Corporate markets was also resilient with a flat revenue performance for the half compared to the PCP. We saw growth of $2.1 million in recurring revenue, reflecting a strong performance by our Indian business, Link Intime, which now represents 7.5% of overall corporate markets revenue.

Non-recurring revenue fell by $1.5 million, reflecting lower levels of corporate actions and margin income compared to the previous period. Our funds solution business had a good start to the year with revenues of $6.3 million or 7.2% up, driven by the acquisition of Luxembourg based Casa4Funds in August '21.

This added $4 million for the five months and coupled with growth in FUM, due to largely positive equity markets, drove the performance. The BCM business had a challenging start to the year with NPL portfolio runoff more than offsetting growth in new origination business in Ireland and the Netherlands.

Turning now to operating costs and global transformation. In the last six months, we've delivered a further $11 million of in period cost savings from our global transformation program. As at the end of December '21, the annualised benefits from this program amounted to $63 million and we have clear line of sight to get to our target of $75 million by June '22.

Our Mumbai hub now houses over 1000 Link Group staff and we've made good progress on premises and [unclear] rationalisation during the period. As an example, we relocated our Sydney operational hub, previously based in Rhodes, to Parramatta in the last six months and made further progress on rationalising our global footprint as we move to a flexible working future.

As the bridge at the top of the slide illustrates, we've also seen a normalisation of our staff costs in the period, with the previous period benefiting from temporary salary reductions. As previously discussed, we provided staff who took these temporary salary reductions last year with a special equity grant of equivalent value which vested over a one to two year period.

In addition, we reintroduced salary indexation in the last six months. Combined, this normalisation of staff costs, amounting to almost $20 million in cost increases compared to the previous period. Other costs movement in this period include the costs associated with the Casa4Funds acquisition, the Hostplus call centre, and higher insurance and IT costs which were partly offset by higher annual leave usage and costs removed with the sale of our South African business. Staff costs have now normalised and it should be business as usual for the second half.

As Vivek highlighted earlier, operating cash performance in the first half was again robust, with net operating cash conversion of 106%. Whilst down on the previous period, which was a record conversion percentage due largely to reinstated staff bonus payments and higher receivables and prepayments, we delivered a pleasing working capital result highlighted by our debtor collections performance.

Debtor days reduced from 24 days a year ago to 22 days at December '21. Set out on the right of the slide, we've provided a bridge to help explain the free cashflow's performance for the first half. Cash significant items of $20.5 million relates to costs settled in respect to the various M&A transactions during the last quarter of FY21.

This included the PEP Carlyle bid and the PEXA IPO. Cash tax of $27.9 million includes $21 million paid in respect of the PEXA capital return foreshadowed previously. Finally, as Vivek mentioned earlier, our strong balance sheet has allowed CapEx to return to normal levels this period compared to the previous period which was COVID-19 impacted.

Net debt at 31 December was $656 million with our leverage ratio of 2.6 times within our guidance range of two to three times. As we highlight on this slide, our net debt is up by around $200 million, reflecting the on-market share buy back and acquisition and investment spend. Our interest cover remains very comfortable at 13.8 times.

Looking now at each of our four business units in turn. Starting with the largest business, retirement and super solutions or RSS. RSS reported revenue of $252 million which was down 2.2% on the prior period largely due to prior year kind exits, i.e. MTAA and lower non-recurring revenue, reflecting a more normal level of fee for service related regulatory change activity.

Recurring revenue was down just $3.1 million or 1% on the previous period. However, once adjusted for the one off impact of PYS/ERS, it was up by $2.4 million. This underlying reflects continued growth in member numbers as shown in the graph at the bottom left of the slide.

Notwithstanding the impact of PYS and ERS regulatory change programs, actual member numbers in Australia have now increased to 8.5 million as at 31 December '21. Growth in the period was again above 5%, reflecting the strength of the RSS client base in winning new members. This growth is set to be further augmented in the next six months with a number of fund mergers due to be completed by 30 June '22 as Vivek highlighted earlier.

In the UK, RSS reported revenue of $3.1 million, up from $2.4 million in the previous period. RSS now administers more than 900,000 members through the Smart Master Trust and continues to see a strong pipeline of opportunities in that market which is transitioning from DB to DC.

Operating EBIT for RSS was $46.2 million, a reduction of $4.9 million on the PCP, reflecting growth in staff costs referred to previously, coupled with higher FTEs resulting from the Hostplus call centre win in February and increased investment in capability and frontline service. We expect RSS FY22 operating EBIT margin to be higher than FY21.

Turning now to corporate markets. This business which is our most diverse in terms of geographical presence, had a solid performance with flat revenue compared to the PCP. But excluding the impact of the sale of South Africa in November '21, overall revenue on a like for like basis would be $3.9 million higher than the PCP.

Overall recurring revenue was up $2.1 million on the previous period. This growth was strongest in India, where reported revenue growth was $3.7 million. Elsewhere, we also saw good growth in Australian recurring revenue, from new registry wins such as Endeavour Group, coupled with growth in employee share plans.

In the UK, we saw revenue grow modestly as dividends to more normal levels following suspensions due to COVID-19 in the previous period. Non recurring revenue and margin income were both lower compared to the PCP, reflecting lower corporate actions activity levels across our client base and continued record low interest rates, coupled with lower float balances, which negatively impacted margin income results.

Operating EBIT for corporate markets improved by $2.6 million or 9% to $32.2 million, reflecting good operational leverage in India, coupled with lower operating costs as we leveraged our Indian hub to simplify and streamline operations.

I'll finish with fund solutions and banking and credit management. In fund solutions, we reported revenue of $93.6 million for the first half which was up 7% on the PCP. This was a pleasing performance reflecting the consolidation of Casa4Funds revenue from August onwards, coupled with growth in FUM, which helped offset the negative impact of some prior year client exits due to industry consolidation and insourcing.

AuA in Europe increased by 10% to £123 billion, reflecting the continued recovery in equity markets over the last 12 months, coupled with new fund launches. Operating EBIT for fund solutions improved by $2 million to $10.4 million, reflecting the growth in FuM and cost benefits from the further expansion of operations in the Mumbai hub.

Banking and credit management had a difficult start to the year, although we were pleased to report some good new client wins during the half. The business continues to be impacted by the run off of NPLs, especially in Ireland. Outside of Ireland however, in the UK, Italy, and Netherlands, we did see revenue growth. Largely driven by growth in origination revenue.

Operating EBIT for BCM declined by $4.49 million to a loss of $8.1 million for the half. This reflects the decline in revenue which could only be partly offset by cost reductions given the high fixed cost base of this business. I'll now hand back to Vivek to provide a transaction update.

Vivek Bhatia: Thank you, Andrew. Firstly, I would like to address BCM. As we advised in February, we have entered into exclusive talks with LC Financial Holdings in respect to the sales of the BCM business. Teams on both sides have made significant progress over the last few weeks, with the focus now on the finer details of the transaction. We will continue to keep the market informed of any material developments around this transaction which I hope will be done imminently.

Regarding the transaction to acquire Link Group, as announced in December 2021, we signed a scheme limitations deed with Dye & Durham. Once the transaction is complete, Link Group shareholders will receive $5.50 per share in cash under the scheme plus a $0.03 per share interim dividend which was declared today and will be paid in April.

As part of the deed, if Link Group reaches an agreement to diverse the BCM business prior to the completion of the Dye & Durham transaction, shareholders will be entitled to receive any net consideration received from the sale of BCM prior to or up to 12 months after the implementation of the scheme, subject to regulatory approvals.

By way of update, we have now made all major regulatory submissions with the relevant authorities in Australia, the UK, Europe, and Indian for the D&D scheme. Preparations for the scheme booklet continues to progress very well, with lodgement to ASIC expected in the coming weeks. In addition, our management team is closely working with Dye & Durham on the integration planning process. Overall, I am very pleased to advise that there is no change to the timeline we disclosed in the [third] and we remain on track to complete the transaction in June/July of 2022.

Turning briefly now to PEXA, which is a homegrown success story. As you know, Link Group owns a 42.8% equity interest in the ASX-listed PEXA Group and has two board seats. As you will have heard from PEXA management yesterday, PEXA continues to perform well ahead of expectations, with the number of transactions up 37% year on year and the first half FY22 revenue up 46% to $145 million. More than $2 trillion in property value has now been processed on the PEXA exchange platform since its launch, an impressive increase from the $1.5 trillion since August last year.

Looking at the outlook for the rest of the financial year, while this half year has been one of consolidation and resetting, we are pleased that the business is now in a position to take full advantage of any underlying tailwinds that are present in the segments we operate in. As outlined by Andrew, we are seeing incredible signs of underlying revenue growth in RSS and corporate markets. Fund solutions expanded scale with the recent capital funds acquisition should also support our medium-term growth agenda.

As outlined at our investor day back in November 2021, we remain convinced that our people capabilities, deep experience and proprietary technology platforms, combined with attractive macro fundamentals, will continue to drive our medium-term growth agenda. As such, we affirm our prior revenue growth guidance of low single digit growth for FY22 and as mentioned at our AGM, the current year-to-date trading has been strong and ahead of expectations. We now expect FY22 operating EBIT to be at least 5% higher than FY21.

Our focus for the remainder of FY22 is to continue to implement our simplify, deliver and grow strategy and on completing both the BCM and the Dye & Durham transactions that are currently underway. As we enter the second half of FY22, we remain excited about medium-term growth potential of this business. Our year-to-date performance, coupled with the strong foundations that we have now firmly entrenched in the organisation, sets us up strongly to achieve our strategic ambitions and growth targets.

We are pleased with the continued progress we have made against our key milestones and market expectations for FY22. As we continue to focus on the execution of our strategy to take us forward and deliver sustainable medium-term growth, I would like to thank my entire leadership team and every single one of our 7000 employees for their ongoing dedication and focus. On that note, I would like to thank you for your attendance today and open up for questions. Thank you.

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