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Event Transcript

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Start of Transcript

Operator: Thank you for standing by. Welcome to Link Administration Holdings Limited first half FY23 Results. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question you will need to press the star key followed by the number 1 on your telephone keypad. I would now like to hand the conference over to Mr Vivek Bhatia, CEO and Managing Director. Please go ahead.

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 present today, and pay my respects to the Elders past, present and emerging. I extend that respect to all Aboriginal and Torres Strait Islander people on this update today.

My name is Vivek Bhatia and I am joined today by Andrew MacLachlan, our Group Chief Financial Officer. 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 of the financial year 2023.

The executive team and I have focused on serving our clients, growing our businesses and supporting out people over the last six months. Today I will start by providing you with an overview of our operational and financial results. Andrew will then walk you through the detail of our financial update, including our divisional result, and I will return to summarise, provide an outlook for the remainder of '23 and open for Q&A.

Link Group's digitally enabled platforms connect over 110 million people globally with their assets safely, securely and responsibly. Over the last six months the underlying performance of our core businesses has been strong. Our people and businesses have remained focused on delivering for our clients and on our strategic goals.

Our first half of 2023 operating EBIT was $80.2 million, up 14% year on year and above the guidance range of $75 million to $80 million that we provided at our AGM in November last year. Our operating EBIT margin was up 170 basis points half on half. We have, once again, delivered on our guidance and I am pleased with the consistency of doing as we say.

Pointing out a few key achievements, our decentralised operating model is now in place empowering our businesses with full end to end accountability for their operations. With increased flexibility and the ability to take greater control of their core space, the businesses will now continue to optimise their models over the next 12 to 18 months.

PEXA in-specie distribution was implemented on 10 January 2023, delivering an implied $0.27 per share in value creation for shareholders. Market value of the in-specie distribution to Link Group shareholders as of close of market yesterday is just shy of $850 million.

We are proud to have been part of the success of PEXA and Link Group shareholders have been provided with a direct investment in PEXA, the operator of Australia's leading digital property settlements platform, with great growth potential locally and overseas.

Our Retirement and Superannuation Solutions business now services over 11 million super and pension members across three countries. They have renewed and extended several major contracts in the last few months, including Australian Super and HESTA.

Earlier this week we also announced an in-principle agreement with Rest to extend our longstanding relationship with them by a further five years, subject to finalisation of agreed terms and conditions. We are thrilled to be selected through a rigorous 18 month selection process to partner with Rest on their exciting journey forward.

In addition, as we announced earlier in the month, RSS have also signed a 10 year agreement with HSBC in Hong Kong for the provision of digital pension administration and value added services to HSBC's ORSO clients, providing an [immediate] footprint in the Asian market for RSS.

Our Corporate Markets business has delivered revenue growth of 2.5% on constant currency basis. India has again shown significant growth delivering 35% improvement in revenues for the first half. Despite a challenging revenue environment which is based on the subdued capital markets activity in the first half of this financial year, our corporate markets business has delivered an operating EBIT, excluding margin income, of $28.1 million, which was up 14.5% year on year. Corporate Markets margin income has also benefitted from high interest rates over the course of the first half of the financial year.

As announced on Monday we are in exclusive negotiation with the Waystone Group in respect of the sale of the whole of our FS business, excluding Woodford related liabilities. This follows a period of confidential, exclusive negotiations with and due diligence by Waystone Group. In addition, Link Group and LFSL are also in advanced confidential discussions with the Financial Conduct Authority, the FCA, to settle their enforcement proceedings against LFSL.

As we have said previously, no legally binding agreement has been reached with either Waystone or the FCA and at present there can be no certainty that any of such agreements will ultimately be concluded.

RSS and BCM businesses have faced tough market conditions in Europe during the first half of the financial year. However, both those businesses have continued to deliver for their clients and have been focused on managing costs.

Last but not least, I am pleased to advise that the Link Group board has declared an interim dividend of $0.045 per share, which will be 80% franked. This is 50% higher than the $0.03 that we declared for the first half last year.

Turning to our financial performance, I wanted to call out a few specific items ahead of Andrew's more fulsome summary that he will provide shortly. Our first half FY23 revenue was flat year on year but was up circa 2% on constant currency terms. More importantly, our first half '23 Group revenue, excluding FS and BCM, was up almost 5% on PCP basis on a constant currency model. Operating NPATA, excluding PEXA, was up circa 5%, despite being impacted by high interest expense and a higher effective tax rate due to geographic mix of earnings.

The first half of FY23 we reported a statutory loss of $410 million. This was mainly driven by a non-cash impairment of circa $449 million due to Fund Solutions assets and about $15 million related to the BCM goodwill and was partially offset by a $48 million gain on the sale of our PEXA holding in November 2022. With the PEXA in-specie distribution now implemented we expect to book a further gain of approximately $322 million in the second half of FY23.

Our balance sheet remains strong with leverage ratio at 2.3 times. On a pro forma basis once adjusted for the PEXA distribution that happened last month our leverage ratio will be 2.5 times, which is smack in the middle of our guidance range of 2 times to 3 times.

In addition, we continue to make progress towards our sustainability, our environmental and our social goals as we strive to build a sustainable, diverse, caring and inclusive organisation. We remain on track to achieving our climate goals with strong progress in our Absolute Scope 2 Emissions and Emissions Intensity for full-time employees.

December 2022 was a giving back month at Link Group and we raised over $80,000 during the month through donations and volunteering by our people, an increase of about 35% from the same time last year. We are very proud of the diversity of our people and the richness that it brings to the business and we continue to deliver on our 40/40/20 goal.

As I've said many times before, one of the key differentiators of Link Group is the resilience and diversity of our business and our client base. This give us the confidence that our businesses will be able to navigate the macro operating conditions that we are facing as evidenced from consistency of our results in FY22, which has continued in the first half of '23.

Our two core businesses of RSS and Corporate Markets continue to perform well. They collectively comprise 94% of our operating EBITDA. India in particular has once again performed very well for Corporate Markets during this period, demonstrating the continued buoyancy of capital markets activity there and our strong leadership position in that market.

Leveraging our robust, scalable and, importantly, secure technology platforms, data and digital solutions, we now administer around 41% of all superannuation accounts in Australia and approximately 1.5 million member accounts in the UK. Corporate Markets also has improved its market share of FTSE350 to 33% and its market share of ASX300 to 38%. Our high levels of recurring revenue, solid performance from our core businesses 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.

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

Andrew McLachlan: Thank you, Vivek, and good morning, everyone. I am 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 our outlook. I would also direct people to the appendices at the back of this presentation, which provide more detailed reconciliations of our operating to statutory results.

As Vivek mentioned earlier, we've delivered on our guidance for the first half of financial year '23. Our operating EBIT performance for the first half of $80.2 million was up 14% on the first half of financial year '22. Overall Group revenue was $592.2 million, which was up 1.9% in constant currency terms and flat once adjusted for FX.

Group revenue saw benefits from higher member numbers in RSS, higher number of shareholders from Corporate Markets in India and higher margin income from Corporate Markets in the UK and Australia. This was offset by lower revenue in Fund Solutions, BCM and lower Capital Markets related revenue for Corporate Markets in the UK and Australia.

Operating costs were down by 2% as the benefits of our now completed Global Transformation program helped offset inflationary pressures across staff and vendor costs. We've also seen the new operating model start to deliver benefits as our businesses take greater control of their costs. At the operating NPATA level we have reported earnings of $48 million, which includes a PEXA contribution of $9.9 million.

As you're aware, the PEXA in-specie distribution was implemented in June was implemented in January '23. In the second half of FY23 there will be only nine days of contribution from PEXA to our results. The first half of financial year '23 operating NPATA, excluding PEXA's contribution, was $38.2 million, up 4.9%. Operating NPATA excluding PEXA will be the metric to focus on for the current year.

As Vivek mentioned, our statutory NPAT loss of $410.1 million included a non-cash impairment charge of $448.9 million related to the Fund Solutions asset and a non-cash impairment charge of $15.4 million related to the BCM goodwill. Our statutory loss also includes $14.4 million of related acquisition and transaction costs offset by a fair value gain of $47.9 million on the PEXA selldown executed in November last year.

As we've disclosed in our first half accounts, there will be approximately a $322 million fair value gain that will be booked in the second half of this financial year related to the PEXA in-specie distribution, which was implemented in early January '23.

Improved EBITDA performance and timing benefits have seen us deliver net operating cash flow of $150.4 million and a conversion ratio of 117%. We continue to expect a full year conversion ratio to be in the 90-100% range as some of the timing benefits from the first half reverse.

CapEx for the first half of '23 was $33.9 million, or 5.7% of Group revenue. Since FY20 Link Group has now spent over $250 million in capital expenditure as we continue to invest in our digital capabilities, innovative technology and market leading platforms.

Free cash flow of $33.7 million was an improvement from the same time last year due to lower transaction related costs and no PEXA related CGT payment in the current period. This was partially offset by higher interest costs on our corporate debt. We ended the period with net debt of $617 million and our pro forma leverage ratio adjusted for the PEXA in-specie distribution was in the middle of our preferred guidance range of two to three times. Our interest cover remains very comfortable at 9.6 times.

Looking now at each of our four businesses in turn starting with our largest business, Retirement and Superannuation Solutions, or RSS. RSS revenue for the first half of '23 increased by 6.2% to $267.9 million. RSS recurring revenue for the first half of '23 was underpinned by higher member numbers and indexation and the benefits from the UK acquisition, partly offset by the impact of unclaimed super money and previously announced client exits on account of industry consolidation.

Project activity was in line with expectations, although slightly below the first half of '22, as evidenced by the slightly lower non-recurring revenue. Strong member growth in RSS continued with ANZ member numbers up 9.6% year on year. This underlying growth largely reflects continuing growth in member numbers, as shown in the graph at the bottom left of the slide.

In the UK RSS reported revenue of $5.2 million, which was up from $3.1 million in the PCP. This includes the inclusion of HS Pensions from 1 November, which contributed $1.2 million. RSS now administers approximately 1.5 million member accounts in the UK and we continue to see a strong pipeline of opportunity within that market, which is transitioning from DB to DC.

RSS's first half operating EBIT of $55.3 million was up 20% on the prior period, driven by revenue growth and strong cost control with the benefits of our now completed transformation program. Operating EBIT margin improved by over 230 basis points to 20.7%.

Turning now to Corporate Markets, this business, which is our most diverse in terms of geographical presence, had a solid revenue performance with revenues of $200.2 million, which was flat compared to the PCP. However, on a constant currency basis revenue was up by 2.5%. Corporate Markets in India continues on its strong growth trajectory with first half '23 revenues up 35% on the first half of '22, now accounting for 10% of divisional revenue ex-margin income in the first half of '23.

Industry and employee share plans saw low single digit recurring revenue growth. [Unclear] print and mail revenue for Corporate Markets was significantly impacted as volumes normalised to pre-Covid levels, together with lower Capital Markets related activity, and to a lesser extent impacted by clients transitioning to digital services. Print and mail revenue was approximately a 450bps headwind of Corporate Markets revenue growth rate in the first half of financial year '23.

Not surprisingly considering the current macro conditions in the UK and Australia, Capital Markets related revenue, which we categories as non-recurring revenue, has been very subdued during the first half of '23. However, high central bank interest rates in both Australia and the UK have resulted in a positive as margin income has significantly improved. The earn through rates have been broadly in line with expectations, while float balances have been lower on lower Capital Markets related activity.

Despite the flat revenue performance, operating EBIT for Corporate Markets was $43.6 million, up from $25.5 million, reflecting the strong cost performance with the realisation of benefits from the Global Transformation program and the new operating model. Operating EBIT excluding margin income was $28 million. This was up 15% on the PCP.

I'll finish with Fund Solutions and Banking Credit Management. Fund Solutions generated $73.4 million of revenue in the first half of 2023. This was down 11.5% or $9.5 million on the first half 2022. Currency moves clearly had an impact on this business with revenues down 5.9% on constant currency terms. Fund Solutions first half operating EBIT of $5.9 million was down by $11.2 million compared to the first half of 2022. This was due to the flow through impact of lower revenue and inflation impacts on the cost base.

Average assets under administration were down 10% on increased market volatility and broader UK investment market dynamics. According to *Morningstar* in calendar year 2022 withdrawals from UK open-ended funds exceeded GBP23 billion, the largest outflow in a decade. Comparison 2021 saw over GBP27 billion in inflows. In addition, actively managed funds had the highest net outflows on record whilst equity funds saw almost GBP22 billion in withdrawals and non-sustainable funds saw over GBP50 billion in outflows.

For our BCM business, while the financial year started well with good origination volumes across the UK, Netherlands and Ireland, our interest rates have started to have an impact on our origination related revenue lines in the second quarter of the financial year. BCM generated $59.1 million of revenues in the first half of 2023, down 11.8% on the previous period or down 7.4% on a constant currency basis. Economic factors had a direct and immediate impact on the business. However, despite the challenging operating environment, BCM has delivered a credible result with operating EBITDA flat year on year and the first half operating EBIT of negative $7.7 million a small improvement of $0.4 million year on year despite the $7.9 million reduction in revenues. NPL run off remains a headwind and the outlook for the pipeline of new books coming to market in the next six to nine months remains challenging.

I will now hand back to Vivek to provide an update on our outlook.

Vivek Bhatia: Thank you Andrew. Looking at the outlook for FY23. We have provided more detail and metrics around out thinking on the remainder of the financial year. We are pleased to reaffirm our guidance for financial year 2023 with revenues expected to be at the lower end of our range. We are very well positioned to deliver operating EBITDA growth over the medium term underpinned by our scale, expertise of our people and modern proprietary technology platforms. Our core businesses are in very good shape with both RSS and Corporate Markets delivering on revenue growth and margin improvement for the first half of 2023 and continuing to see good prospects.

We have been diligently focused on executing on our strategy to simplify, deliver and grow over the last 18 months, taking key steps to simplify our operating model and are coming to the tail end of the simplification strategy over the next six months. We continue to deliver to guidance with consistent business and financial performance as we successfully deliver for our clients. Our focus is now on strategic growth and to reinforce and further expand our core businesses.

We are confident that our core businesses of RSS and Corporate Markets have the diversity and resilience required to navigate the current macro-operating conditions as evidenced by their strong performance over FY22 and the continuing growth that we have seen in the first half of 2023. We continue to expect FY23 operating EBIT to be up 10% to 12% on FY22 which is consistent with our prior guidance.

Before we move to Q&A I would like to thank my entire leadership team and every single one of our 7200 employees globally for their ongoing dedication and focus. I would also like to thank you for your attendance today and now open up for questions. Thank you.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask your question. Your first question comes from Ed Henning with CLSA. Please go ahead.

Ed Henning: (CLSA, Analyst) Hi. Thank you very much for taking my questions. I've got a few of them. Firstly, can we just start with the transaction. How long has due diligence been going for on Fund Solutions and were there a number of other serious parties interested as a first question?

Vivek Bhatia: Thank you for the question. As we announced late last year that we are commencing a process for the sale of our Fund Solutions business and as a result of that we had a number of parties who we were engaged with and earlier in calendar 2023 we went exclusive with Waystone Group. As a result of the last few weeks of exclusive due diligence as we called out, we are at a stage where we made the announcement of intent, but as we have said, there is still some work to be done and at this point in time that is all we can say.

Ed Henning: (CLSA, Analyst) No worries. Were there a number of other parties that expressed interest at the time when you announced the sale of the business?

Vivek Bhatia: There were.

Ed Henning: (CLSA, Analyst) Okay and then there's the next one. With the announcement the other day, can you just confirm the FCA approved the announcement or looked at it given you are in confidential discussions? Then just a second part to that, thinking about the FCA, are there any regulatory changes in the works beyond obviously your impact from Woodford that might impact the sale of the Fund Solution business in the next six to 12 months that you are aware of?

Vivek Bhatia: I am not aware of any - I will answer the second question first - I am not aware of any changes at this point in time. As to the first one, all I can say is that we have obviously worked with FCA very collaboratively through the process and I will just point you to the announcement that the FCA themselves made which is available on their website right after our announcement on Monday.

Ed Henning: (CLSA, Analyst) Okay, that's fine. Can I just finalise with one operational question? Can you just touch a little bit more on the growth outlook on RSS in the UK and Asia both in the short and the medium term if possible?

Vivek Bhatia: Yes, sure. Look, we are very excited about the opportunity to enter the Hong Kong market. As you probably know Hong Kong is going through a similar process of evolution in their pension space, probably about a decade or two in short of where Australia is today and we can bring that expertise to the local market. HSBC is a great counterparty to have a strong partnership with and again that was a very competitive process over the last 18 months or so that we emerged as a successful partner for them. We are very excited about that opportunity and as that enhances across other players in the market as well, we will continue to go down that path. We will probably wait for another few months before we come out and talk about where our growth prospects are within that particular market but we are very excited to be in that market with a strong foothold and a very credible partner to be with.

In terms of the UK we are - we clearly, as we have said before, we clearly think that that is a market that we will be an integral part of. The acquisition of HS Pensions late last year added to our repertoire and our credibility in that market and we will continue to work with a number of large clients as we are doing currently to expand our services and our contractual relationships with them.

Ed Henning: (CLSA, Analyst) Okay, thank you.

Vivek Bhatia: Thank you.

Operator: The next question comes from Nigel Pittaway with Citi. Please go ahead.

Nigel Pittaway: (Citi, Analyst) Good morning. Just first of all just coming back to this Waystone sale. I mean you say it's not contingent on the scheme of arrangement with the FCA, so is that a possible situation that you do one part of it and not the other or can you just maybe give some clarity over that?

Vivek Bhatia: Look, I think it is a tricky situation at this point in time to comment more than what we have already said Nigel as you can probably understand, you know…

Nigel Pittaway: (Citi, Analyst) [Yes, sure].

Vivek Bhatia: …we are in confidential discussions with the FCA. We have given a timeframe with Waystone until the end of March as per our announcement. I know that you have been with us for a while since we have been navigating through this, so it's another few weeks that I ask you bear with us as we go through the process and then we will probably be able to give a more fulsome disclosure as to how these interrelate.

Nigel Pittaway: (Citi, Analyst) Okay, fair enough. Thank you. Then I just wondered on the slightly similar vein just obviously with BCM, what's the current plan for that in terms of whether it stays in the Group, whether you're still looking to sell it or whatever? Can we just get some clarity on that.

Vivek Bhatia: Yes, absolutely. With BCM we continue to do strategic review on that business and also there are - post-December last year when the last transaction on the table did not proceed, we have spoken with a few interested parties who have approached us for the BCM business. It is very early days to comment on it but if there is something substantial to say, obviously we will come out and say that.

Nigel Pittaway: (Citi, Analyst) Okay and maybe just turning onto the extensions and renewals that you have managed to do with RSS. I mean again it's obviously confidential but in broad terms are there any major changes in terms of renewal pricing et cetera or can we say that it's broadly similar across those renewals? How should we think about that?

Vivek Bhatia: Yes, good question. Right, so we obviously went through, as I said, our 18 month very rigorous selection process with Rest. We are very pleased with the outcomes and obviously very delighted to be chosen as a partner for the next contract term. Broadly, we believe it is on similar terms. We don't comment as you know on individual contracts, et cetera, but we are very pleased with the outcome that we have landed on.

Nigel Pittaway: (Citi, Analyst) Okay and then maybe just my last question. Obviously, you pointed to the significant margin expansion on flat revenue in your Corporate Markets. I mean how much of that is now demonstrating variability at the cost base vis-à-vis to cuts in fixed costs. In other words, if activity were to pick up again how much does the cost base flex back up again, et cetera?

Vivek Bhatia: Yes. A good question Nigel in terms of operating leverage. I think we are - what we are trying to do there as we have said over the last 18 months or so is that we are trying to [variablise] our cost base so that we can create a lot more operating leverage in our business. We are very hopeful that as corporate activity in the capital markets starts to recur that we will be able to ride the wave on that and our cost base is being addressed. There has been, as you know, a Global Transformation program. We do use our India Hubs very effectively for the Corporate Markets business and clearly that is showing through in the numbers as well. Obviously good cost discipline helps, especially when we know that there is a bit of subdued corporate activity so obviously cost discipline has been very important as well to deliver on those numbers.

Nigel Pittaway: (Citi, Analyst) All right. Thank you very much.

Operator: Your next question comes from Kieran Chidgey with Jarden. Please go ahead.

Kieran Chidgey: (Jarden, Analyst) Morning guys. I just wanted to ask a follow up question around RSS since some of the contract renegotiations are coming through and not sort of individually on specific contracts but more broadly how you are approaching indexation on a go forward basis just given the current elevated inflation backdrop? Whether or not the historical CPI and wage inflation drivers are still sticking in those contracts or whether or not there's revised structures being embedded.

Vivek Bhatia: Yes, it's a bit horses for courses Kieran on that point. I think we have different metrics at play. Suffice to say that we are very cautious that a significant chunk of the - often inflationary pressures do get indexed in contracts and so that obviously is very important in today's inflationary times. By the same token we are also very focused on ensuring that our cost base continuously reflects the efficiencies that we have been driving through various transformation programs within the business as well. So, it is a good combination of both of those. We have seen good margin expansion half on half as you can see in the RSS numbers and again that is a bit of a strong testament to the transformation programs, [add labour] also and a good cost discipline as well.

Kieran Chidgey: (Jarden, Analyst) Okay and in aggregate given all that on a perspective basis are you confident there's enough indexation coming through the portfolio more generally to compensate for cost inflation?

Vivek Bhatia: Yes. We think that we are well placed in terms of the inflationary times. Clearly for us that means that we have to ensure that we have the best employment conditions for people to be in our organisation and we have got a great program there in terms of building one of the best bases to work for our people. We focus on that quite heavily, but at the same time we are confident that from a contractual perspective and our own cost management perspective that we are well placed in terms of managing the current macro.

Kieran Chidgey: (Jarden, Analyst) Right, thank you.

Operator: Your next question comes from Siddharth Parameswaran. Please go ahead.

Siddharth Parameswaran: (JP Morgan, Analyst) Good morning gentlemen. Just a couple of questions if I can. Just following on from the vein that Kieran had around RSS and the good revenue growth that you had in the half. Could you just help us unpack where some of that came from? I mean you flagged there was a lot of growth in member numbers in the UK but I presume that isn't the big driver. I was hoping you could just maybe help us understand what is driving this and also just the outlook given, well for this division, is this the new run rate that we should be expecting on revenue growth. Maybe if you just give some comments and colour around that please.

Andrew MacLachlan: Sid, it's Andrew here. Just a couple of points. Member growth clearly was strong. We talked about 10% member growth in Australia and New Zealand on the same period last year so that was obviously a good driver of the top line. You would have recalled that there was a number of funds that we added in the back half of last financial year. They were fund consolidations that came into Australian Super, Hostplus and Cbus. That was obviously helping in the first half. Indexation, as Kieran mentioned, was another driver of top line growth and then a small contribution from HS Pensions which only came on in the latter half. The latter part of the half I should say.

They were probably the three key things, I guess. We called out USM. That's always I guess a feature in terms of the twice annual sweep. We were very, very pleased with the growth and look, we do see ongoing growth going forward probably around the 2% to 4% underlying growth excluding the benefit of further fund consolidation activity.

Siddharth Parameswaran: (JP Morgan, Analyst) Okay, thank you for that colour. If I could ask a second question just around Corporate Markets and what seems to become a declining trend in the recurring revenue. I was just wondering if you could help us understand that. I take it the corporate action side is in the non-recurring revenue. Just on the recurring revenue, maybe just comment on contract numbers and maybe a mix on that.

Andrew MacLachlan: A big part of it Sid is what we called out in print and mail. So, print and mail I think we called out 450bps revenue headwind. That obviously is impacted by capital markets activity but also you are seeing a move towards digitisation which does have an impact in terms of print and mail revenue. Obviously it is a lower margin than some of our other revenue streams but I think you will see that continue to be a bit of an impact on recurring revenues, but that is offset by growth we are seeing. We called out India again was a real highlight for us with 35% revenue growth. We are still seeing good growth in our registry and employee share plan lines as well.

Vivek Bhatia: I think [unclear] contribution to overall revenue obviously because margin income has also expanded. The percentage contribution to recurring obviously goes down as well.

Andrew MacLachlan: Yes.

Siddharth Parameswaran: (JP Morgan, Analyst) Yes. Okay, great. Okay and just a final question from me just on leverage. You're at the midpoint of your target range in terms of debt-to-EBITDA. So I was just wondering if you could comment, with the highest interest rates, whether you're happy operating at those levels or whether you'd rather actually be at the lower end of that?

Vivek Bhatia: No, we are very happy with the two to three times target range that we have put to the market. As Andrew said, we have got good interest rate coverage and we are very comfortable with where we stand on that one. As you know, with high interest rates, we also have a bit of a natural offset with margin income so we remain comfortable.

Siddharth Parameswaran: (JP Morgan, Analyst) Okay, great. Okay, thank you.

Vivek Bhatia: Thank you.

Operator: The next question comes from James Cordukes with Credit Suisse. Please go ahead.

James Cordukes: (Credit Suisse, Analyst) Good morning, guys. Sorry to go back to the RSS revenue growth but look, just thinking about it, I mean you've got 10% member growth in ANZ, you've got benefits from CPI and I kind of add those two together, your actual revenue growth was below that. Kind of just interested in what some of the other factors are, just around you know, is there scope of services kind of coming down and are there - are you giving a bit back to customers? If member growth does continue to be pretty strong from mergers and that organic growth, are we going to see revenue growth below that headline member growth number and CPI?

Andrew MacLachlan: I guess you - James, you've probably just got to take a view on fund consolidations going forward. As I said earlier, we'd expect the underlying member growth to be 2% to 4% going forward. That's what our funds are expecting but then there will be, we think some ongoing consolidation in the market. We've obviously benefited from that this year. In previous years, we've been on the opposite side of that but we do see there's an opportunity for some more of that activity to occur going forward.

Otherwise, as we said, indexation has obviously been a driver of growth and we've got going forward, the benefits from the expansion into Asia that Vivek mentioned with the HSBC also deal that we announced. Then we've got - obviously also got the UK which is now provided $5 million of revenue in the half. Good growth on the previous year. Still small in the scheme of things but good growth opportunities going forward there as well.

Vivek Bhatia: I think just on the point that you make, James, on why is the revenue not keeping up with the member growth numbers? I think there is a mix there. There's also when consolidation happens, you generally are with the larger funds who are typically on better terms, right? So you definitely see that flight that occurs. So we will probably see from mix perspective on large and small funds where you land and also - there's also a bit of give-back in terms of where we believe that there are larger funds that we can leverage scale for.

James Cordukes: (Credit Suisse, Analyst) Yes, okay. Thank you and just thinking about the quality of advice review. I know it's early days but how are - what are the opportunities that come about from that and what part can you play from your - in that, from your discussions with super funds?

Vivek Bhatia: Yes, it's a great question. We obviously, a great proponent of advice being available to the mums and dads in super funds because it is the missing piece. We know that it actually adds value. We have been working with some of our clients on our retirement platform and we have talked about - talking about a launch of that over the next few months. As that happens, we will probably talk a bit more about that to the market but we are in the final throes of actually putting a platform together which we believe can play an instrumental role in assisting in advice being given to members and super funds.

James Cordukes: (Credit Suisse, Analyst) Okay, thank you.

Operator: The next question is a follow-up question from Ed Henning with CLSA. Please go ahead.

Ed Henning: (CLSA, Analyst) Hi, thanks for taking my question again. Can you just go back to the mergers of funds? Obviously we know some that are still happening at the moment. Can you just talk about the impact that's flowing through from this year and for next - or for next half that you know of to date?

Andrew MacLachlan: Look, we called out, Ed, if you remember, about 350,000 of new members that came on board from those three mergers that happened in the last quarter of FY22. So that was Statewide, Hostplus, Media, CBUS, [LUCRF], Aussie Super. So that's had a benefit this half, will continue to have a benefit next half compared to the PCP. There are obviously other ongoing discussions and potential mergers. We can't really comment any further on that but you know, that may be - that may provide further benefits into the future.

Vivek Bhatia: [But not in the second half].

Andrew MacLachlan: [Not in the second] half.

Ed Henning: (CLSA, Analyst) Then just one more clarification if you can on the Rest contract. Is that - is the scope changed at all? Are you doing more or less services for them?

Vivek Bhatia: We are doing - we're doing the different mix of services but most of the core services remain the same. Then on the fringe, there are some different services that are in and out.

Ed Henning: (CLSA, Analyst) Okay. All right, thank you.

Operator: Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. The next question comes from Andrew Buncombe with Macquarie. Please go ahead.

Andrew Buncombe: (Macquarie, Analyst) Hi, guys. Thanks for taking my question. Just one from me. I can see that you've called out that the global transformation program has now completed. How are you thinking about other major cost out programs going forward? Or are you waiting for some of this M&A to be completed first? Thanks.

Vivek Bhatia: Yes, good question, Andrew. From our perspective, as I've talked about, we do have Transformation programs now within each of the two core businesses. So those continue. There is ongoing cost discipline in the BCM and FS businesses that I called out and you can see that in some of the BCM numbers that has come through despite some tough conditions.

Within RSS, if I focus on that, we do have a couple of major programs that are happening. That's more to do with increased digitisation and automation. Increased use of AI and that is resulting in a more efficient and lean operation which will make us more comfortable in the cost curve and from a corporate markets perspective, it is also evident that you can see that we are actually using our India hub capabilities, both from a capacity and a talent perspective to really good use to optimise our cost base there.

Andrew Buncombe: (Macquarie, Analyst) Great, that's it from me. Thank you.

Operator: Next question comes from Peter Halstead with Little Group. Please, go ahead.

Peter Halstead: (Little Group, Analyst) Good morning, guys and thank you for the presentation. Just a very quick question. There's been a lot of distractions for management. It's been what I would describe, I guess, as a hectic time for you all. Can you just talk about the impact that it's had on your ability to focus on the businesses? Also, with the simplification of the business now and less distractions, whether there's going to be a little bit more strategic focus and how the businesses have come out of COVID into a more COVID-normal environment or a more normalised business environment? Thank you very much.

Vivek Bhatia: Thank you. Thanks Peter, for the question. So we have ensured through the M&A process that - various analysts have said this before, a very small portion of our organisation has actually been involved in the M&A processes which are, as I agree, disruptive and distractive.

Our businesses - and the way the operating model works is that the [CEOs] of those businesses are very focussed and hopefully, as you can see, very strategic in the way that we have grown despite all the noise that has happened out in the market over the last 12 to 18 months. We have demonstrated our ability to onboard multiple new funds in our RSS business. We have demonstrated our ability to enter new markets through acquisitions. We did - we entered the Hong Kong market. We have done acquisition in the UK market.

Through our process in corporate markets, we have very clearly demonstrated our ability to increase our breadth of services in India and actually put that onto a path accelerator pace. Also start to grow our market share in the UK where we had some issues about 18 months ago. So I would probably say that we have been very focused and very clear in terms of our strategic intent in our two core businesses and very focussed on ensuring that we can grow our market share and also keep on delivering on growth.

Andrew MacLachlan: Can I just add as well, Vivek? I think, Peter, delivering on global transformation, which was a three year program and was significantly disrupted by COVID, particularly in the early days, not being able to travel, needing to - I guess move a lot of our people into a work from home environment and still deliver - in fact, over deliver on what we initially promised, which was $50 million of cost outs and actually delivered $78 million, is something I think we're all pretty proud of given all of those challenges that we had to face.

Vivek Bhatia: Yes and as I said, I called out earlier in the presentation, you know, our two core businesses have delivered a 5% growth half-on-half on a constant currency basis. That is testament to tough times and yet being able to deliver on good growth.

Peter Halstead: (Little Group, Analyst) All right, thank you.

Vivek Bhatia: Thanks.

Operator: There are no further questions at this time. I'll now hand back to Mr Bhatia for closing remarks.

Vivek Bhatia: Thank you very much. I thank you for your attendance today and for all your questions. We look forward to seeing you at the next presenting. Thank you.

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