TRANSCRIPTION

Company: **Link Administration Holdings Limited**

Date: **20 February 2024**

Time: **9:30 AEDT**

[START OF TRANSCRIPT]

Operator: Thank you for standing by and welcome to the Link Administration Holdings Limited first half FY24 results call. 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, Group CEO and Managing Director. Please go ahead.

Vivek Bhatia: Thank you and good morning, everyone. Firstly, I'd 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'm 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 for the financial year 2024.

Today, I will start by providing you with an overview of our operational and financial results and then update on the scheme with Mitsubishi UFJ Trust and Banking Corporation. Andrew will then walk you through the detail of our financial update, including our divisional results. Then I will return to summarise and open for Q&A.

The executive team and I remain focused on delivering for our clients, supporting our people, and returning value to our shareholders, in line with what we have said and committed to do in FY24. Link Group's digitally enabled platforms now connect over 112 million people globally with their assets safely, securely, and responsibly.

Looking at our financial performance, I wanted to call out a few specific items ahead of Andrew's more fulsome summary that he will provide shortly. The strength and stability of our RSS and corporate markets businesses are reflected in our financial performance, with first half revenue up 13.8% year on year on a continuing operations basis.

Our first half operating EBIT of $90.8 million was up 10.8% year on year and in line with the guidance we provided to the market at our AGM in November 2023, and it reflects the pressures of an inflationary environment.

Operating NPATA on a continuing operations basis was up 4.4% to $42.1 million, reflecting growth in operating EBIT, partially offset by higher interest costs. For the first half of FY24, we reported a statutory loss of $34 million. Andrew will provide more colour on the items that have impacted the statutory result.

Our leverage at 3.3 times was above our targeted range of between two and three times, reflecting higher one off cash costs and CapEx. During the first half, we have spent $47 million on CapEx, with continued reinvestment into maintaining and evolving our best in class solutions and technology platforms.

Consistent with Link Group's obligations under the scheme of limitation deed with Mitsubishi UFJ Trust and Banking Corporation, there was no interim dividend declared by the Board. Subject to the scheme being effective, the Link Board intends to pay a special dividend of $0.16 per share at the time of the implementation of the scheme.

Over the past year, we maintained a balanced gender representation across most management levels and the wider organisation. Including a 40/40/20 representation at the executive leadership team level. We remain committed to building a sustainable future for our people, clients, shareholders, and the community with clear, short, medium, and long-term targets. Including a target to achieve net zero emissions by FY2030.

This past year, we are also pleased to have issued Link Group's inaugural taskforce on climate related partial disclosure statements. As previously stated, the simplification journey that we committed to undertake is now complete.

The sale of our BCM business was completed in September of 2023. The sale of our FS business to Waystone Group completed in October 2023. We remain on track to complete the sale of our FS businesses, Luxembourg and Swiss entities, by the third quarter of financial year '24 subject to regulatory approval in Luxembourg.

The LFSL Woodford creditors scheme is progressing to plan. As we announced to the market on 12 February, the scheme has been approved by the UK High Court. Provided that no appeals are brought against the sanction of the scheme, the scheme is expected to be fully effective on 2 March 2024.

Now, onto SID with MUFJ which we signed on 18 December 2023. I am pleased to announce that we are tracking to plan on all milestones. We have submitted all regulatory approval submissions with the relevant authorities in Australia, the UK, Europe, and India. The preparation of the scheme booklet is progressing well and we expect to launch the relevant documents with ASIC in the coming weeks.

Our first court date is currently scheduled for 21 March 2024, post which we expect to send out the scheme booklet to the shareholders. We remain on track to complete this transaction in May or June of this year. I'll now hand over to Andrew to take us through the financial summary.

Andrew MacLachlan: Thank you, Vivek, and good morning, everyone. I'm going to provide more detail 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'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, we've once again delivered on our guidance. Our operating EBIT performance for the first half of '24 at $90.8 million was 10.8% higher than the same time last year. Overall Group revenue of $523.7 million was up 11.5% in constant currency terms.

Excluding the impacts of acquisitions, Group revenues were up 8.7% for the half. Group revenue benefited from high member numbers in RSS, higher number of shareholders from the corporate markets in India, and higher margin income from corporate markets in the UK and Australia. This was partially offset by prior client losses owing to industry consolidation in RSS and a change in the scope of services for AustralianSuper.

Operating costs were up 16.7% year on year and up 12.2% once adjusted for the acquisitions. As Vivek mentioned, inflationary pressures were seen across both staff and vendor costs. Over the last six months, we also made a conscious decision to increase investment in member experience in RSS which resulted in higher resourcing and technology costs.

At the operating NPATA level, we've reported earnings of $42.1 million which was up 4.4%, reflecting the higher operating EBIT partially offset by higher interest costs on our corporate debt. As Vivek mentioned, our statutory NPAT loss of $34 million was impacted by a number of factors which are outlined in the bridge on slide 18.

It included $10 million of acquired amortisation, net of tax and operating NPATA loss of $2.6 million from the divested fund solutions and BCM businesses. $46.2 million charge relating to the redress provision, including related deferred tax. $20.8 million charge related to acquisition, integration, and transaction costs net of tax.

For the first half '24, net operating cashflow of $87.8 million was lower than last year. The net operating cash conversion of 68% reflects seasonality on trade and other receivables, the timing of FY23 staff bonus payments, and the unwind of BCM and FS working capital prior to divestment.

As we've outlined on slide 10, the prior year net operating cashflow benefited from the annual management charge balances in fund solutions. Adjusted for these AMC balances, the net operating cashflow conversion was broadly flat year on year.

CapEx on a continuing operations basis for the first half was $47 million or 9% of Group revenue. As we mentioned at the AGM, the CapEx spend is first half weighted and we've made a conscious decision to accelerate our investment in RSS to uplift member experience.

Free cashflow of $44.3 million was impacted by significant items, higher CapEx, and higher interest costs on our corporate debt. Looking at finance expenses, we have seen a significant increase in costs, mainly driven by the impact of higher interest rates given our debt is 100% floating. As a reminder, there's a natural hedge against margin income in corporate markets.

We ended the period with net debt of $801.7 million and our leverage ratio was 3.3 times, above our targeted range of two to three times. Our leverage ratio is calculated after adjusting for restricted cash of $261.2 million which represents cash held for the LF equity income fund settlement.

[Turning now to] our two businesses in turn, starting with retirement and super solutions or RSS. RSS revenue for the first half '24 increased by 6.4% to $285.1 million. RSS recurring revenue benefited from member growth, indexation, and acquisitions, but was offset by prior client losses owing to industry consolidation and a change in the scope of services for AustralianSuper.

RSS non-recurring revenue was in line with expectations. As you can see in the graph, strong member growth in RSS continued, with ANZ member numbers up 6.6% year on year to 10.2 million. Offshore, RSS has made great progress over the last 12 to 24 months. The UK now administers around 1.8 million pension accounts. RSS now has a strong foothold in Hong Kong after our acquisition and agreement HSBC for the provision of digital pension and value-added services to HSBC's ORSO clients for a period of 10 years.

We believe the HSBC transaction will be a significant consolidation opportunity. Not only in the ORSO market but also in the adjacent MPF market. As a reminder, Hong Kong operates with a FUM based revenue model. We expect the region to be a material revenue contributor to the RSS division over the next three to five years. As I've already mentioned, we did make a conscious decision to uplift our investment in member experience and we expect FY24 RSS EBIT margins to be consistent with levels delivered in the first half.

Turning now to corporate markets.

Corporate markets delivered a strong performance with revenues of $247 million, which were up 23.4% compared to the prior period. On a constant currency basis, revenue was up by 18.6%.

ANZ revenue was $107.9 million which was up 12.6%, contributing 43.7% of overall corporate market revenues. The business delivered strong client wins throughout the half and was assisted by higher margin income and corporate action related activities in Australia.

UK revenue of $100.1 million was up 36.8% and contributed 40.5% of corporate market revenues. The revenue was supported by client retention and higher margin income. India has continued to capitalise on the underlying fundamentals in that market and has continued to benefit from higher shareholder numbers. Revenue was up 13.9%, contributing 8.8% of overall corporate market revenues.

In terms of margin income, our float balances averaged approximately $1.8 billion during the first half of '24 and benefited from some one off capital markets activity and the growing equity share plan business in the UK.

Average central bank rates were approximately 4.9%, with a 91% earn through, with the float balance split 70% to the UK and the remaining exposed to Australian rates. We expect float balances for the second half to be in the $1.6 billion to $1.8 billion range.

Now I'll hand back to Vivek.

Vivek Bhatia: Thank you, Andrew. Now looking at the outlook for FY24, noting that our guidance is on a proforma continuing operations basis. We expect Group revenues to grow by at least 6.5% and Group operating EBIT growth of between 7% and 9% in FY24. This guidance remains unchanged to what we had provided at our AGM in November 2023.

In closing for today, I'd like to point out a few things. Our simplification program is now complete. We continue to deliver to guidance as demonstrated by today's result, with increasingly consistent business and financial performance.

We reaffirm our FY24 guidance as communicated at our AGM in November 2023 and we remain on track to complete the scheme with Mitsubishi UFJ Trust and Banking Corporation by May or June of this year. Finally, I would like to thank my entire leadership team and every single one of our 6500 employees globally for their ongoing dedication and focus.

I would also like to thank you for your attendance today and we will now open up for questions.

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're on a speakerphone, please pick up the handset to ask your question. Once again, that is star one to ask a question. We'll now pause a moment to allow for any questions to register.

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

Vivek Bhatia: Thank you very much. Again, I would like to thank you for your attendance today and thank you for your ongoing support. Have a lovely day. Thank you.

[END OF TRANSCRIPT]