18 February 2020
ASX Release

Mainstream Group Holdings Limited interim results for the half year ended 31 December 2019

Mainstream Group Holdings Limited (Mainstream, ASX: MAI) announced its results for the six months ended 31 December 2019 (HY20) today.

Highlights

- Revenue of $26.7 million (+7% from HY19, with Fund Services (ex-Super) up +19%)
- EBITDA[1] of $3.2 million (-12% from HY19, or -8% with inclusion of share-based payments)
- Funds under administration now $187 billion (+9% from FY19 and +27% from HY19)

Results summary

	Six months to 31 Dec 2019	Six months to 31 Dec 2018
Revenue	$26.7m	$24.9m
Operating EBITDA[2]	$6.1m	$6.0m
Operating EBITDA Margin (%)	23%	24%
EBITDA[1]	$3.2m	$3.6m
EBITDA Margin (%)	12%	14%

The below table reconciles Mainstream's net loss after income tax of $0.5m to its EBITDA[1] of $3.2m for the six months ended 31 December 2019 compared to the prior corresponding period. It shows EBITDA reduced by 12%, or 8% after inclusion of share-based payments.

	Six months to 31 Dec 2019 $ (000's)	Six months to 31 Dec 2018 $ (000's)
(Loss)/Profit after income tax expense	**(521)**	**229**
Add:		
Income tax expense	230	58
Amortisation expense	394	1,254
Depreciation expense	1,809	593
Interest expense	270	230
Share-based payments	982	1,227
EBITDA[1]	**3,164**	**3,591**
EBITDA including share-based payments	**2,181**	**2,364**

[1] EBITDA is a non-IFRS financial measure used to highlight the operating performance of the Group. EBITDA is calculated as earnings before interest financing expense, tax, depreciation, amortisation, impairment and share-based payments. HY20 EBITDA has been impacted by $1.2m from the adoption of AASB 16 Leases from 1 July 2019. HY19 EBITDA has not been restated to reflect the impact of AASB 16 Leases.
[2] Operating EBITDA is not an IFRS standard and is used to highlight Operating Margin before Corporate Costs.

Funds under Administration highlights

Funds under Administration (FuA) grew to a record $187 billion as at 31 December 2019. This represented an increase of 9% over the half year and 27% on the prior 12 months. Rising global stock markets contributed 75% and net inflows[3] 25% of the $15 billion increase over the period. The number of funds administered by the Group is now 1,011 (FY19: 1,012) and the number of clients is 348 (FY19: 356).

Mainstream continues to benefit from strong growth in its key markets and clients, as reflected in the sizeable increase in funds under administration over the period. We are also seeing consolidation of fund managers who lack scale, performance or distribution.

Business update

The Group's revenue was $26.7 million for the six months to 31 December 2019, an increase of 7% over the six months to 31 December 2018. All revenue growth was organic, driven by ongoing demand for services in our core markets of Australia, Asia and the US.

Revenue from Mainstream Fund Services, including custody, was up 19% on the prior half year and contributed 98% of the Group's revenue, with Mainstream Superannuation Services providing the balance.

Asia-Pacific ("APAC"), which includes Australia, Singapore and Hong Kong, contributed 72% of the Group's revenue during the six months to 31 December 2019 (HY19: 73%). Our custody growth strategy made good progress, with higher than expected revenue due to funds under custody and cash balances already achieving their full year targets.

The Americas (USA and Cayman Islands) accounted for 19% (HY19: 17%) of revenue. The key driver behind this increase was the two-year-old US private equity business which now administers $7 billion in assets. Reflecting this growth, Jay Maher, CEO, Private Equity, will now run our whole US operations, including both the alternatives (hedge) and private equity businesses. Europe (Ireland, the Isle of Man and Malta) contributed 9% of revenue (HY19: 10%).

In line with strategy, Mainstream is making a number of investments in future growth this financial year. Investment in our people, processes and technology contributed to a net loss after tax of $0.5 million for the period (compared to a net profit of $0.2 million for the six months to 31 December 2018).

Global headcount grew to 278 people as at 31 December 2019 (compared to 259 people as at 30 June 2019). This included the recruitment of seven additional unit registry employees to support growth in our Australian operations and four additional US hires as part of our build-out strategy.

Expenses for the half year 31 December 2019 included $0.5 million of transaction costs relating to the engagement of professional advisers to assess and respond to external parties looking to explore a range of market opportunities. These advisory services have now been completed.

[3] Net inflows refers to applications and new clients less redemptions, cash distributions and lost clients.

We continue to focus on our clients' demand for digital service delivery and automation. There is also strong interest from prospective clients to meet changing investor demands and alleviate margin pressures through straight-through processes. Consequently, Mainstream invested $4.8 million on new and existing technology during the period (HY19: $4.1 million). $1 million of IT costs were capitalised, with the remainder invested in market leading digital and automation projects including:

- Operations to support listed and unlisted funds within a single fund (quoted fund)
- A proprietary web portal for fund manager clients
- A proprietary investor portal and online application for initial investments
- Upgrading of our unit registry reporting platform
- Automated general ledger reporting

These investments, part of our two year IT development strategy to September 2020, will significantly differentiate our service offering in Australia and are expected to contribute significantly to revenue and profitability from FY21.

Dividend

Given the focus on investing in the future growth of the business, the Board elected not to declare an interim dividend for the half year ended 31 December 2019. The Board will reassess their capital management position at the full year with respect to any final dividend.

Outlook and guidance

The Group's growth prospects are promising, with a strong pipeline in our core markets of Australia, Asia and the US based on our market position. In particular, recent disruption and consolidation within the Australian fund administration and custody sectors is providing quality new business leads.

Mainstream confirms it is on track to deliver its previously advised FY20 revenue guidance of approximately $55 million.

The Board is revising the Company's FY20 EBITDA guidance from $10.5 million to approximately $9 million (after application of AASB 16 Leases) to reflect the accelerated spend on growth investments alongside $0.5 million of transaction costs and merging of senior management roles in our US operations. This guidance is sensitive to key client wins or losses and material market or interest rate movements.

Commenting on the results, Mainstream Chief Executive Officer Martin Smith said "The focus for this year is investing for growth, as communicated in September 2018. We expect shareholders to see the benefits of these investments in FY21. We are pleased with the progress in our higher margin private equity and custody businesses. The development of our quoted fund capability, expected to launch at the end of this month, is another highlight. These initiatives, plus disruption in the Australian market, are expected to increase demand for our services and differentiate our offering, laying the foundation for future growth. We remain very positive about the outlook in our core markets."

Authorisation

This ASX Announcement has been authorised by the Company's Board of Directors.

For more information

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About Mainstream

Mainstream Group Holdings Limited (ASX: MAI) provides fund and superannuation administration services underpinned by investment in people, processes and technology.

As at December 2019 the Group provides administration services to 1,011 funds and more than 105,000 investors with assets under administration in excess of AUD $187 billion.

Mainstream employs 278 people, with operations in Australia, Singapore, Hong Kong, the United States, the Isle of Man, Malta, Ireland and the Cayman Islands.

For more information, please visit: www.mainstreamgroup.com.