

13 February 2019

1HFY19 RESULTS

Continuing to transform and extend client opportunities

GBST Holdings Ltd (ASX:GBT), a global provider of technology to the financial services industry through its GBST Composer, GBST Syn~ and GBST Shares platforms, today reported its first half results for FY19.

- Total revenue and other income \$43.9m, up 3% from \$42.7m 1HFY18
- Operating EBITDA before Strategic R&D \$5.8m, down 40% from 1HFY18
- Operating EBITDA and EBITDA \$5.4m, up 12% and 19% respectively from 1HFY18
- Gross Strategic R&D investment \$10.3m, up 113% from \$4.8m 1HFY18
- Profit before tax of \$3m, up 55% from \$1.9m 1HFY18
- NPAT \$3.7m, up 48% from \$2.5m 1HFY18
- Adoption of AASB15 resulted in \$1.2m net profit after tax recognised in opening retained earnings
- Cash inflow from operations of \$10m, up 86% from 1HFY18 \$5.4m
- Strong balance sheet with cash on hand of \$9.6m; and debt free
- Strategic R&D program progressing to plan

Commenting on the 1HFY19 result, Managing Director and CEO Mr Robert DeDominicis said:

“It was pleasing that Licence Revenue growth was positive, growing 5% from the 6 months to 31 December 2017, and by 5% from the 6 months to 30 June 2018 (after adjusting for one-off licence fees). Service revenue was 4% lower than the corresponding period to 31 December 2017, and 12% lower than the period to 30 June 2018, reflecting the completion of major projects with new clients.

Operating EBITDA before Strategic R&D was down significantly, with half-year operating expenditure up by \$5m compared to 1HFY18 and up \$3m compared to 2HFY18. The cost increase reflects that the transformation of our software incurs a duplication of infrastructure costs during the development phase; one-off costs to expedite and reduce risks of execution in our software transformation; one-off short-term resource expense to deliver client opportunities; and the increased use of cloud hosting, replacing capital expenditure. We are already experiencing lower costs in 2HFY19 and are targeting to progressively reduce our operating cost base.

A key change in GBST’s operating expense is cloud hosting expense which has increased in the half, from \$0.3m to \$1.0m. Cloud replaces investment in servers and related hardware that was capitalised. To obtain the equivalent infrastructure would require an investment of \$4.5m every 3 years.

Most importantly, GBST’s Strategic R&D program made significant progress in the half, with Catalyst delivered and operational at Vitality and E-VOLVE on track with clients now using delivered components or in the process of upgrading.

Whilst operating cash flow was strong for the half, the continued high level of investment in our systems requires prudent capital management and accordingly, no interim dividend has been declared.”

Key Financial Metrics*

	1HFY19	2HFY18	1HFY18	1HFY19 vs 2HFY18	1HFY19 vs 1HFY18
	\$m	\$m	\$m	%	%
Total revenue and other income	43.9	45.6	42.7	(4%)	3%
Operating EBITDA before Strategic R&D	5.8	10.5	9.7	(45%)	(40%)
Less Strategic R&D expenditure	(0.4)	(2.9)	(4.8)	86%	92%
- Gross Strategic R&D expenditure	(10.3)	(9.9)	(4.8)	(4%)	(113%)
- Strategic R&D capitalised	9.9	7.0	-	41%	100%
Operating EBITDA	5.4	7.7	4.9	(30%)	12%
Restructure and other non-operating expenses	-	(0.1)	(0.3)	-	-
EBITDA	5.4	7.6	4.6	(29%)	19%
EBITDA % Margin	12%	17%	11%		
Profit before income tax	3.0	5.8	1.9	(48%)	55%
Income tax credit/(expense)	0.7	(2.1)	0.6	133%	23%
Net Profit after income tax	3.7	3.7	2.5	(2%)	48%
Adjusted NPAT (\$m)	4.4	4.6	3.6	(3%)	24%
Basic EPS (cents)	5.4	5.5	3.7	(2%)	48%
Adjusted EPS (cents)	6.5	6.7	5.3	(3%)	24%
Dividends per share (cents)	-	2.5	2.5	(100%)	(100%)
Cash inflow from operations (\$m)	10.0	5.8	5.4	71%	86%
Cash at bank (\$m)	9.6	11.4	15.0	(16%)	(36%)

* To be read in conjunction with the GBST half-year financial report for the period ending 31 December 2018. Please note that due to rounding to the nearest \$million, numbers presented in the table above may not add precisely to the totals provided.

Net profit after tax up 48% to \$3.7m

Half-year Revenue was up 3% to \$43.9m from 1HFY18, \$1.2m favourable to 1HFY18 with licence fees and third party up \$1.7m and service revenue down \$0.5m.

Half-year operating expenses were \$38m, \$5m above 1HFY18, including:

- \$1.6m from supporting duplicate (old and new) environments through the Strategic R&D transition;
- \$1m in Strategic R&D related costs (training, corporate infrastructure) that is a one-off cost and has been expensed;
- Increase of \$0.8m in contractor expenditure on client projects to ensure delivery to time frames. This is a short-term expense to secure these client opportunities;
- Increased cloud hosting expenditure of \$0.6m across the group, offsetting capital expenditure and associated maintenance; and
- Increased legislative and release costs of \$0.5m.

Half-year Operating EBITDA before Strategic R&D was down 40% to \$5.8m, from 1HFY18.

Half-year Strategic R&D expense was \$0.4m (1HFY18 \$4.8m), after capitalisation of \$9.9m in costs (no capitalisation in 1HFY18).

Increased operating amortisation due to initial amortisation of Catalyst of \$0.5m.

Income tax benefit of \$0.7m for the half-year primarily reflects R&D tax credits. The prior half-year recorded an income tax benefit of \$0.6m.

Three-year Strategic R&D Program progressing to plan

Catalyst development is complete, the first client is live with a web portal for financial intermediaries and investors and new client projects commencing.

E-VOLVE is tracking to plan and is over 20% complete with clients now using delivered components or in the process of upgrading.

Overall Total Strategic R&D investment in 1HFY19 of \$10.3m was on time and meeting progress milestones.

Total Strategic R&D investment in FY19 is expected to be approximately \$22m across the portfolio.

Costs have been capitalised in accordance with accounting standards (\$9.9m capitalised in 1HFY19).

Cash flow and capital management

The Group has reported a closing cash position with \$9.6m cash on hand at 31 December 2018, down from \$11.4m at 30 June 2018 reflecting the uplift in spending on the Strategic R&D program during the year (to \$10.3m) and dividends paid to shareholders during the half-year (\$1.7m).

Net cash inflow from operations was \$10.0m for the half-year, up \$4.6m from \$5.4m in 1HFY18.

The net assets of the Group increased by \$3.5m during the half-year to \$72.3m. GBST has no debt.

The high level of investment in the multi-year Strategic R&D program requires prudent capital management, and accordingly no interim dividend has been declared.

Growth prospects focused on:

- UK Wealth Management business revenue growth is leveraging the investment in E-VOLVE & Catalyst. Client upgrades to latest release and the development of new savings products which expands our market opportunities from an estimated £7 Trillion of Assets to £9.5 Trillion of Assets in the UK alone.
- Australian Wealth Management commencing the transition to E-VOLVE, rollout of Catalyst to new clients and reusing the Catalyst framework for new products and Web-Portals such as TaxIntell and Margin Lending.
- Australian Capital Markets is preparing clients for the ASX changes; GBST has experience with such changes in other markets and can leverage existing proven technology.

Outlook

As we look to the full year, GBST is expecting revenue growth of 5-7% on FY18, with 2HFY19 being a 13-14% uplift on 1HFY19. Licence revenue is expected to be 70%, and services revenue 30% of total FY2019 revenue. Services revenue is subject to client projects commencing to plan.

We are expecting Operating EBITDA before Strategic R&D for the full year to be at least \$18m, reflecting increased revenue from work already signed, and risk weighted revenue from clients near the final stages of agreement.

We expect full year Strategic R&D to be \$21-22m, with continued capitalisation of circa 80%.

In conclusion, Mr DeDominicis said: 'We have now commenced three new major projects and as they ramp up, we will have increased services revenue and then recurring licence revenue. These new projects are being delivered on our new technology architecture which reinforces the benefits from our Strategic R&D Program.'

- Ends -

Investor Call

The results will be presented by GBST CEO & Managing Director, Robert DeDominicis, and Chief Financial Officer, Matthew Walton, on an investor and analyst briefing call at 10:00am AEDT on 13 February 2019. The conference call number for Australian investors is 1300 628 593 (international +61 3 9067 7903). Please complete the registration process with the call operator.

About GBST

GBST is a specialist financial technology company which provides administration and transaction processing software for retail wealth management organisations and global and regional investment banks. Founded in 1983, the company operates in Australia, Asia, Europe and North America. GBST is listed on the Australian Securities Exchange under ASX ticker code GBT.

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APPENDIX – SEGMENT DETAIL

United Kingdom - Wealth Management

Underlying UK business Licence Revenue grows and delivers Catalyst

United Kingdom – Wealth Management	1HFY19 \$m	2HFY18 \$m	1HFY18 \$m
Revenue	18.8	20.9	19.0
Operating EBITDA before Strategic R&D & group expenditure	6.0	8.8	7.8

At the commencement of FY19, the internal reporting structures were changed with certain group costs moved up into segment direct costs and the residual Group Expenditure no longer allocated to Divisional results.

Key points

- Revenue down marginally by 1% from 1HFY18 to \$18.8m; down 10% from 2HFY18.
- Licence and third-party revenue up 14% to \$11.9m from 1HFY18; down 7% from 2HFY18. In 2HFY18, GBST benefited from a one-off licence fee for regulatory change; excluding this one-off revenue, has 1HFY19 licence revenue increasing by 5% over 2HFY18.
- Services revenue down 20% to \$6.9m from 1HFY18; down 15% from 2HFY18 due to the completion of major client projects in 2HFY18.
- Operating EBITDA before Strategic R&D & group expenditure is down 24% to \$6.0m from 1HFY18, 33% down from 2HFY18; largely driven by:
 - increased hosting expenditure
 - increase in variable resource cost as work ramps up on client funded projects.

GBST has delivered all client projects to plan, including Investec Wealth & Asset Management to power their 'Click & Invest' proposition, the Retirement Advantage new retirement product and the Direct to Consumer Portal for Vitality. Furthermore, we are in the final phase of the Nationwide/Cofunds migration to Aegon which is expected to complete in 2019.

In 1HFY19 we have continued to work with a leading provider of retirement, investment and protection products on the scoping and planning phase of a project that will result in the migration of several hundred thousand policies across their range of retail savings products. The new range of products that will be administered on Composer will further extend the market opportunities in the UK from an estimated £7 Trillion of Assets to £9.5 Trillion of Assets in the UK alone.

Australia – Wealth Management

Superannuation and Tax services work cements GBST's position as a market leader in the Wealth Management sector

Australia – Wealth Management	1HFY19 \$m	2HFY18 \$m	1HFY18 \$m
Revenue	8.2	8.4	7.0
Operating EBITDA before Strategic R&D before group expenditure	2.6	4.1	3.4

At the commencement of FY19, the internal reporting structures were changed with certain group costs moved up into segment direct costs and the residual Group Expenditure no longer allocated to Divisional results.

Key points

- Revenue up 17% from 1HFY18 to \$8.2m; down 3% from 2HFY18.
- Licence and third-party revenue up 3% to \$6.4m from 1HFY18; up 2% from 2HFY18.
- Services revenue up 126% from 1HFY18; down 18% from 2HFY18. This movement reflects the commencement of significant project work in 2HFY18, which continued into 1HFY19.
- Operating EBITDA before Strategic R&D and group expenditure decreased 22% to \$2.6m from 1HFY18, 36% from 2HFY18; largely driven by increased hosting expenditure and support costs for legislation updates such as the ATO Member Account Transaction Services changes.

GBST has successfully completed the first phase of a multiyear project for a leading bank client, which included a range of enhancements to the platform. The next phase will focus on the migration of member accounts onto Composer.

GBST released a new version of Tax Analyser which includes a Transition module, that assists Transition Managers with the ability to undertake "what-if" scenarios to assist decision making and optimise returns for superannuation fund members. This was done alongside a new capability for Capital Gains Tax relief which has already provided improved returns to the members of the fund.

GBST is now working with a leading Australian financial institution to deliver a Digital platform for tax analysis, reporting and Tax return preparation. This is a new service capability for the industry that will reduce costs, errors and timeframes significantly.

Australia – Capital Markets

Continue to grow through investment in technology to cater for the opportunities from the ASX Chess Replacement

Australia – Capital Markets	1HFY19 \$m	2HFY18 \$m	1HFY18 \$m
Revenue	10.9	10.7	10.6
Operating EBITDA before Strategic R&D before group expenditure	5.7	5.1	4.3

At the commencement of FY19, the internal reporting structures were changed with certain group costs moved up into segment direct costs and the residual Group Expenditure no longer allocated to Divisional results.

Key points

- Revenue up 3% to \$10.9m from 1HFY18; up 2% from 2HFY18.
- Licence revenue was up 3% to \$10.2m from 1HFY18; up 5% from 2HFY18, driven in part by the ANZ Share Invest migration to CMC Markets and the migration of Sequioa/D2MX to SHARES, which was partially offset by the negative impact from adoption of AASB15 of \$0.2m.
- Service revenue was in line with 1HFY18, and down 32% to \$0.7m from 2HFY18, primarily driven by the D2MX Share migration and a major client's project completing in 2HFY18.
- Operating EBITDA before Strategic R&D and group expenditure increased 32% to \$5.7m from 1HFY18, up 12% from 2HFY18; largely driven by cost reductions.
- GBST maintains a dominant position in the Australia Equity Markets settlement and clearing with approximately 63% of equity transactions being handled through GBST technology.

A major focus for the Capital Markets Australia business is the ASX CHESSE replacement program. The ASX is implementing a distributed ledger-based system that incorporates the globally-adopted ISO 20022 messaging standard. GBST has broad experience implementing systems that connect to new market infrastructure including most recently the Singapore market which uses ISO 20022 messaging. Leveraging this experience and the GBST Syn~ platform, GBST has the opportunity to provide its Australian client base with a proven multi-market, multi-currency and multi-asset capability to ensure clients experience a seamless transition to the CHESSE Replacement system. GBST is now in the advanced stages of planning for the CHESSE upgrade following client consultations in 2018.

GBST is also planning to commence a new Syn~ migration for a major ASX Participant in the 2HFY19 along with the implementation of Syn~ to support International Margin Lending and Foreign Currency Cash Deposit Management for an ASX-listed Wealth Manager.

Rest of the World – Capital Markets

Continuing to grow through investment in our Syn~ solution to the market

Rest of the World – Capital Markets	1HFY19 \$m	2HFY18 \$m	1HFY18 \$m
Revenue	6.0	5.4	6.1
Operating EBITDA before Strategic R&D before group expenditure	1.5	1.6	2.3

At the commencement of FY19, the internal reporting structures were changed with certain group costs moved up into segment direct costs and the residual Group Expenditure no longer allocated to Divisional results.

Key points

- Revenue increased 11% from 2HFY18, down 2% from 1HFY18 which included one-off licence revenue.
- Licence revenue down 6% to \$3.9m from 1HFY18, increased 6% from 2HFY18. 1HFY18 included a one-off licence revenue. Adjusting for this one-off licence fee, 1HFY19 grew 11% over 1HFY18.
- Services revenue increased 7% to \$2.1m from 1HFY18, primarily driven by the global roll out of Syn~ TAC for a major Investment Bank, the implementation of the Syn~ platform for Wing Lung Bank in Hong Kong and completion and implementation of the SGX Phase 2 Post Trade requirements for three global Investment Banks in Singapore.
- Operating EBITDA before Strategic R&D and group expenditure decreased 35% to \$1.5m in 1HFY19, from 1HFY18; largely driven by one-off licence revenue in 1HFY18 and an increase in support and pre-sales costs.

Capital Markets International continues to experience success in the Asia region with Wing Lung Bank being our most recent new client project in Hong Kong which went live late January 2019.

GBST is currently in the middle of an implementation of Syn~ TAC for a major Investment Bank with go live expected mid-2019, this implementation is a global roll out of Syn~ TAC across the client and is a significant win for GBST.

The Singapore Stock Exchange (SGX) has released a new clearing and settlement platform and GBST has updated Syn~ to connect to this platform. The SGX Phase 2 project has been completed with three client implementations.

Capital Markets International is actively working with partner opportunities and is focused on integration of Syn~ TAC into a partner portfolio to leverage their capability in the North American Markets. The pipeline of opportunities is working through growing client awareness of the product and the marketing phase.

The project with Japanese financial technology company, SBI BITS, is progressing to plan for 2019.