

## MARKET ANNOUNCEMENT

<b>Date:</b>	20 May 2020
<b>To:</b>	Australian Securities Exchange
<b>Subject:</b>	<b>Investor Briefing Business Review – Conference call script</b>

Attached is a script of the call delivered by the CEO for the Investor Briefing Business Review conference call held on the 20<sup>th</sup> May 2020.

This announcement is authorised by the Company Secretary.

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MARKET ANNOUNCEMENT

## Investor Briefing – Business Review | 20<sup>th</sup> May 2020

### CEO conference call script

#### **Stuart Irving, Chief Executive Officer and President**

Good morning everyone and thank you for joining this call today.

Nick Oldfield, our CFO, and Michael Brown from Investor Relations are here as well.

This is the third in our series of investor townhalls.

The aim of these calls is to give you timely and transparent insight into how our businesses are performing during this period of heightened volatility.

On this call, I will provide updates across our major business lines as well as some insights into what we are seeing in our main markets and then take questions.

We released a new presentation pack to ASX last night which I will refer to throughout the call.

#### **Slide 2 – Key messages**

Let's start with slide 2.

When we last spoke to you on 7<sup>th</sup> April, it felt like we were in the eye of the COVID storm.

Now at Computershare many of our services are non-discretionary in nature.

As a result, our key business lines are robust and, excluding margin income, they are operating resiliently but of course we are not immune to overall market conditions.

During this period of unprecedented disruption, we have continued to deliver high levels of service to our customers, often remotely. We have lobbied for exemptions to market regulations to help our customers communicate with shareholder and built and deployed products in days rather than months. I'm proud of what our team has achieved in this period of heightened stress for many. We are well organised and our people are highly skilled and competent. That's coming through strongly in client feedback and it bodes well for the future.

We have maintained our sharp focus too. Projects need to carry on. We are continuing to execute on our long-term growth strategies. At Computershare, our plan is to build stronger businesses with scale and more exposure to positive structural growth trends. This focus on long-term planning, disciplined execution, investing for growth and driving efficiencies is absolutely unchanged.

There are some early signs of improvement in our cyclical and event-based revenues. It's too early to call it a recovery but there are some encouraging trends and I will talk about them more later.

Next, our countercyclical revenues are building momentum. These include capital raisings and bankruptcies. We have some additional disclosure in this pack for you today.

My final point here is, with this operating resilience and growing stability, we are maintaining guidance for management EPS to be down around 20% for FY20.

### **Slide 3 – Business Review**

Slide 3 is a quick snapshot for you and I will talk about the business lines in detail later, so lets go straight to page 4.

### **Slide 4 – Margin Income**

Our earnings are clearly being impacted by the decline in margin income. There's no hiding from that. Compared to the \$246 million we earned in margin income last year, we expect to earn around \$180 million this year, and around \$100 million for next year.

These are not new numbers, but they are big drops in high margin revenue for us, and they are depressing Earnings Per Share. Our challenge for the next few years is of course how to replace this high margin revenue.

In this table, we provide our view on the breakdown of margin income by business line for both the second half of FY20 and a projection for FY21.

As you can see, all our business lines are affected by the impact of lower interest rates. This is new disclosure.

Some of the business lines have the ability to put in more duration in the deposits than others and that explains why the drop is not linear across them all.

### **Slide 5 - Mortgage Services**

Let's move to page 5. Now I will be spending a bit of time on this page.

In US Mortgage Services there are three key points I'd like to make: strategy, growth and value.

First, strategy. While there is volatility in the market with run off in performing loans, delinquency and lower market prices etc, our strategy is unchanged. We are an asset servicer, not an asset trader. We manage this business on a long term, through the cycle basis.

This is important because we make careful investments in MSR's every year at below market prices, regardless of market conditions. Our goal is to control the duration of our servicing revenues to build a sustainable business.

We service the mortgage for the life of the asset. We assume mortgages last nine years on average, so our single most important metric in this business is duration, and therefore the revenue profile. The market volatility on asset prices does not affect our servicing revenues or cashflows.

The second point is growth. The servicing book continues to grow at a disciplined pace. We now service around \$118 billion of UPB. We are doing what we said we would do, and building scale in a disciplined way.

This growth includes a combination of performing and non-performing loans as you can see on this page.

The third key point I want to make is on value.

There have been a lot of questions around MSR prices and book value and market value so let me break this down as simply as I can for you.

At the half-year we reported the book value of the MSR's we own at the 31st December at \$440 million.

There are two factors to bridge from this number to the current book value; run off and purchases.

Run off has two parts. The first is straight forward amortisation. Amortisation cost \$23 million in the first four months of 2020. That's exactly as we expected.

The second part is additional, or as we say elevated run off. This is not included in book value as we amortise on a straight-line basis, but it does help us bridge to market value as you can see in the chart. It reduced the market value by \$27 million. It's a manageable number. Run off levels were high earlier in the half as we called out, and are starting to moderate.

Now, let's turn to purchases. Purchases have exceeded run off in this period which is why book value at 30th April has grown to \$485 million.

Purchases also split into two groups, maintenance Capex to replace amortisation, and MSR investments to grow the book. We have always reported the breakdown this way in our cash flow statement, so you should be familiar with this.

With recent volatility, MSR prices have been reduced and accordingly, we've been able to acquire similar volumes of servicing as over previous months, whilst deploying less capital.

Let me give you an example. In April, our net spend to acquire \$2 billion in UPB was around \$10 million. That's around half as much as it might have cost historically. So the return on capital from this particular months purchase will be higher.

In the first four months of the year we spent \$23 million on maintenance purchases – that's the offset to amortisation as I said, and an additional \$45 million on MSR investments to grow the book.

Looking forward, by 30th June we expect Book Value to have reduced to around \$440 million, which is effectively the same level as it was at the start of the half. We expect ongoing amortisation, a strip sale to recycle capital and some more MSR purchases as per the plan. Looking at it another way, the same level of capital is supporting a larger UPB servicing base, and generating greater revenues and cash flows.

Now what about market value? If prices are lower, what does that mean for the MSR's we already own.

So the question is, is the market valuation different to your book value? The answer is yes, it is different. It's always different. And it swings from premium to discount through the cycle. Of course market prices never follow straight lines.

Before I take you through the numbers, as you have heard me say, we report this business under Australian-IFRS. We amortise the MSR's we buy on a straight line, nine-year basis and they are tested for impairment at each reporting date as part of the Mortgage Services Cash Generating Unit. So short term fluctuations in market prices don't affect us, other than in local US statutory accounts where mark to market is required.

We also have our portfolio valued by external specialists. It's a good discipline and we have done that exercise today. They update their valuation models for changes in interest rates and run off risk and derive new market value estimates.

If we marked to market the MSR portfolio today, the market value of the book would be \$364 million. This is a point in time number and does not represent an impairment to the book value.

We continue to regularly review our amortisation policy for MSR's to ensure it is materially in line with both historical and anticipated run off. We will do this exercise as part of our June year-end reporting process. Any change to this amortisation policy at that point in time will be on a go forward basis.

So to finish on this page, run off is an important metric for our business model and it's moderating as we said. MSR prices are down, but it's a point in time view in a period of heightened volatility and it doesn't affect our servicing revenues or cash flows. With purchases at lower levels, we can improve the duration of our revenues and our returns on capital. We will always maintain our disciplined approach to growth and buy MSR's at a discount to market and with strip sales and sub servicing, some excellent opportunities are developing. We are on track to build a sustainable, high-quality servicing business and the next stage in our growth will be less capital intensive.

## **Slide 6 – Mortgage Services**

I'll move to page 6.

Now, let's look at the other shift in the market and how it affects us – loan performance. This issue is trending in line with our expectations.

In simple terms there's a sequence here; forbearance requests are the lead indicator for delinquency rates, and delinquency rates trigger advance payments. We show you this data on this page.

To cut through the detail, let me touch on the main points;

1. Forbearance requests are flattening off after peaking in early April. The market is stabilising. Fewer mortgagees are asking for relief from payments.
2. Delinquency rates are also performing to expectations. Delinquency rates on the performing books rose initially to around 5% levels and are now flattening. The serrated green line on the top right-hand chart shows they are at similar levels to what we saw in early April. We track this data weekly. We may still see an increase in COVID related delinquencies in the next couple of months, but borrowers are trying to stay current with their payments.
3. As a result of this, advances are also in line with our expectations. We did take on a new book of loans, as part of the growth in UPB, which recently increased our advances, but the underlying rate has been stable. Given we are less than two months out from the end of the financial year, we can see that our net advance capital should finish FY20 at around the same level it was at 31st December. Around \$100 million. That's clearly a much better outcome than many expected and we have substantial headroom in our advance debt facilities.

I'll finish on Mortgage Services with a shift to the UK. Even though we have been working remotely, and saw a substantial inbound operational increase due to the UK equivalent of forbearance or "Mortgage Holidays" as they call it in these parts, we have successfully completed the migration of all the outstanding loans onto our proprietary UK mortgage platform. The job is done.

Excellent remote management and the support of the UK Asset Resolution team carried us through.

We will start to see the synergy benefits accrue with the full run rate from September. I am happy to close off on that chapter.

We do however have our work cut out in a challenging UK mortgage market as far as new originations go, but we are now in control of all our costs and can continue to manage that closely as we await recovery.

## **Slide 7 – Employee Share Plans**

Let's go to Employee Share Plans on page 7.

Since our last call in early April, we have seen some encouraging developments in this business.

Issuer paid fees increased in April by 13% on the pcp. Clients are supporting higher participation levels and we had some good new client wins too. The recurring revenues in this business are growing.

We are also seeing some stability coming back into the market linked transaction fees. Looking at the trend on a month by month basis, these fees fell by 34% in March versus February at the height of the volatility, but they have levelled off to a 4% decline in April compared to March. Remember too, that when an employee chooses to postpone the exercise, our revenues are deferred rather than lost.

Finally, we also show a real case study here of issuance in a bear market. This is part of what we call the equitisation of remuneration and why we like the underlying structural trends in this business. The table on the bottom right is a client that has increased the volume of issuance by over 200% for its grant this year. The clients share price had fallen 22%, however the volume of units has more than offset price and the value of the units issued has risen by 70%. That's not an isolated example.

### **Slide 8 – Issuer Services**

There are also some trends I'll call out in our main Issuer Services business on page 8.

Register Maintenance is operating resiliently. Client fees for April are marginally lower although the number of shareholders we service is increasing. In the US it has grown by 0.4% and in Australia it is up by 3.9%.

There is also a good example here of how we have been at the forefront of allowing our customers to meet their governance requirements. With physical meeting restrictions we have been helping clients transition to virtual meetings. We have successfully delivered 410 of these with another 526 in planning.

Momentum is building in Corporate Actions with increasing activity levels. We have seen 161 new corporate actions since mid-March. IPO activity in HK is strong as some US issuers look to have a second listing there. IPO activity is up over 80% and the outlook is positive. As you have seen, capital raising activity in Australia and New Zealand has returned. We have been well represented in raises here.

There are early activity indicators in US. We can't control the timing of these events but the pipeline is good. This activity is also supporting client balances for margin income.

### **Slide 9 – Business Services**

Turning to slide 9, an update on Business Services, this is another area where we are seeing positive trends. There is good momentum in what we call our counter cyclical revenues.

We have been appointed to administer 26 new bankruptcy cases so far this calendar year. That's more than we had in the whole of 2019. Of course, it is Chapter 11 filing that is key for us. We have also disclosed the past ten years revenues for this business to help you take a view on how much of that margin income hole it may fill.

And in Class Actions we have been appointed to around 80 new cases this year, where we typically have around 20 cases per month on average, although with delays in court proceedings I expect a bit of lag in earnings.

Elsewhere in Business Services, Corporate Trust revenues have been benefitting from increased activity levels as Canadian banks issue large amounts of covered bonds and this has offset the impact of lower rates for this period.

### **Slide 10 – Capital Management**

I'm now on slide 11, Capital Management.

As you can see here, our balance sheet is well placed to fund our growth strategies. We are well within the target leverage range at around 2.15x at year end and net debt is coming down organically.

We are also well within our banking covenants, which incidentally are linked to EBITDA not gearing.

With the refinancing of the \$450 million 2021 facility significantly progressed, our balance sheet provides the strength and flexibility to enable us to execute our long-term growth strategies, make careful bolt on acquisitions, take advantage of lower priced MSR's and make distributions to shareholders. That's the benefit of having a capital light and cash generative business model.

### **Page 11 – Conclusion**

On page 11 I'll make some simple concluding remarks.

In a nutshell, even with the heightened volatility and all the disruptions we have seen, it's effectively business as usual at Computershare.

Our key businesses are operating resiliently and there are positive signs in our cyclical businesses.

Momentum is certainly building in our counter cyclical businesses such as bankruptcy and capital raisings. But margin income is woeful, albeit unchanged, and it's depressing our earnings.

In the meantime, we are focused on what we can control – that's executing our strategies to build stronger businesses and deliver high service levels for clients.

And one day, in a galaxy far, far away, where the cycle is stronger, I'll talk about the optionality we have retained across our business and how it's converting into profitability. I will look forward to that call. Now on that note, I'll open up the line for questions.