



ASX Announcement

21 August 2017

Market Update

Key highlights:

- Unaudited FY17 Operating EBITDA of \$12.2m, in line with guidance
- Strategic R&D update and significant changes to E-VOLVE project program
- FY18 EBITDA and strategic R&D guidance

FY17 Unaudited Revenue and EBITDA

GBST (ASX: GBT), a global provider of technology to the financial services industry, today announced an unaudited operating EBITDA of \$12.2m for FY17, in line with guidance, compared to \$20.0m in FY16.

Earnings were impacted by increased product development costs to upgrade the group's wealth administration and capital markets software platforms. Expensed strategic Research & Development (R&D) costs were \$9.6m in FY17, up 169% on FY16. Excluding R&D costs, operating EBITDA was \$21.8 million in FY17, compared to \$23.6m in FY16.

Total revenue was down 19% to \$88.0m, primarily reflecting client related project delays and the decline of the British pound against the Australian dollar. The company has a strong balance sheet, with cash of \$11.7m at 30 June 2017 and no debt.

Results summary - full year to 30 June	2017 (\$m)	2016 (\$m)	% Change
Total revenue and other income	88.0	108.1	(19)
Operating EBITDA before strategic R&D	21.8	23.6	(8)
Strategic R&D	9.6	3.6	(169)
Operating EBITDA	12.2	20.0	(39)
Restructure and other non-operating expenses	(0.2)	(2.8)	
EBITDA	12.0	17.2	(30)

GBST Managing Director and CEO, Robert DeDominicis, said: "Although we hoped to deliver a stronger outcome, the strength of our recurring revenue ensures the underlying business is in a strong position. Annuity revenue was 67% of the total. UK wealth management projects are progressing well. Another highlight was the successful implementation of Syn~ by a major institutional bank. Syn~ has now become the post-trade processing leader in Australia with 25% market share.

The FY17 Audited results are on track for release on Monday 28 August 2017.

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Strategic R&D update

As previously announced, GBST has been investing in the renewal of its software platforms including:

- the E-VOLVE program to transform Composer;
- development of a contemporary digital front-end called ComposerWeb 2.0 to provide users with a modern digital user-experience; and
- further improvement of Syn~.

Progress on E-VOLVE

We are building a more powerful Composer wealth administration platform, and have committed to provide clients with a more open multi-tier architecture that increases operational efficiency and excites their customers with new digital experiences. Our development program is having to overcome a number of challenges, particularly related to the automated migration of code by a third-party vendor. These challenges will impact the timing of the implementation of the project. Having reviewed a number of strategic options, it has now been decided that GBST will undertake much of the migration and development work itself.

This will allow GBST to have greater control of the program as well as assist in delivering a final product that will meet our clients' expectations. GBST is currently replanning the project and this process is expected to take at least two months to complete. Expected development costs relating to the E-VOLVE program are outlined below.

Focus on digital solutions

Over the next three years, GBST will increase strategic R&D investment to strengthen its digital solutions and take advantage of long-term market growth. Aligned to client priorities, GBST will accelerate development of its front-office digital capability through the ComposerWeb 2.0 product. This will modernise the intermediary portal for advisers and their clients, beginning in the UK. Interest from existing clients is very high and work has commenced on an initial implementation.

Leading analyst firm, Gartner Group, notes that the rapid rate of change in digital technologies and customer expectations is creating tremendous pressure on the traditional wealth management business model. Wealth management firms are moving towards an "open architecture" model where they support clients with a wider range of investment products. Embracing this model, GBST will offer clients access to new asset classes and flexible options at lower cost, and in a shorter timeframe.

CTO appointed and Board Technology Committee established

In light of the increased investment in strategic R&D, GBST has increased its technology delivery and governance capability. GBST has strengthened its management team with the appointment of a Chief Technology Officer, Mark Knowlton, based in Australia. Mark brings significant technology thought leadership and delivery experience to this role.

To assist the Board and management to provide appropriate governance and oversight, GBST has also created a Technology Committee to measure and monitor the progress of the R&D investment.

Expected development cost

These investments related to the E-VOLVE and ComposerWeb 2.0 project referred to above are expected to cost up to \$50m and will be delivered over the next three financial years. The rate and ultimate amount of this spend will depend on many factors including project

scope, client demand and overall company performance. The company will continue to invest in its other platforms, including Shares and Syn~, to ensure market-leading capability and performance for customers.

Outlook and FY18 guidance

The company expects operating EBITDA before strategic R&D in product development in the range of \$20m - \$25m for FY18. Strategic R&D in product development expenditure is expected to be in the range of \$10m - \$15m for FY18, with \$10 - \$12m of that related to E-VOLVE and ComposerWeb 2.0.

Robert DeDominicis said: "We have a robust business model, underpinned by recurring annuity income secured by long term contracts, leading positions in the markets which we serve, strong client relationships and powerful, highly scalable products. As E-VOLVE progresses, GBST will collaborate with clients, allowing their feedback to guide design and future enhancements. The E-VOLVE project extension will not impact existing clients' operations or business plans. E-VOLVE will be delivered, as incremental regular releases, for both UK and Australian regions.

"Development of ComposerWeb 2.0, targeting wealth managers' growing demand for a contemporary digital front office, will commence in FY18 and is expected to launch in the first half of 2018. GBST has already secured one client and anticipates further sales."

Growing UK market

The UK market continues to grow, with funds under management increasing above £1 trillion in 2017 to £1.1 trillion in June 2017.¹ Digital disruption is driving wealth management businesses to focus on aggressive cost control and operational efficiency.

Major projects in the UK are progressing, and GBST is working closely with clients to maximise opportunities made possible through Composer.

Global opportunity

Following completion of GBST's program to transition a leading global institutional bank's back- and middle-offices from Shares to Syn~, the company's capital markets business has good prospects for growth in Australia, Asia-Pacific and Japan, including potential new clients in the advanced stages of scoping new business.

Robert DeDominicis said: "More than 50% of GBST's revenue is generated outside Australia, and GBST has significant growth potential. We aim to capitalise on the expanding wealth management and capital markets sectors, which are expected to remain high-growth markets through 2020 and the next decade."

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¹ <https://www.theinvestmentassociation.org/fund-statistics/funds-under-management.html?what=table&show=7>