



GlobeOp Interim Results Analyst Call

18 September 2007

Duration: 0:24:24

Presenters

Hans Hufschmid, Chief Executive Officer

Martin Veilleux, Chief Financial Officer

Operator: Thank you for standing by and welcome to the GlobeOp Interim Results conference call.

At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, you will need to press *1 on your telephone. I must advise you this conference is being recorded today, Tuesday, 18th September 2007. I would now like to hand over to your speakers today, Martin Veilleux and Hans Hufschmid. Please go ahead sir.

Hans Hufschmid: Good morning everyone and thank you for joining the call this morning. My name is Hans Hufschmid. I'm the CEO of GlobeOp Financial Services and with me I have Martin Veilleux, our Chief Financial Officer. I will give you a brief overview of the highlights from our first half results and the immediate impact of more recent events in the markets before handing over to Marty to talk you through our financial performance.

I am pleased to report that the first half of 2007 was a strong one financially and strategically for GlobeOp Financial Services. Revenues are well ahead of last year and our assets under administration continued to expand. Consistent with our strategy to optimize operational performance and cost effectiveness, both our assets under administration per employee and our adjusted operating profit have improved. Marty will provide greater detail shortly.

Strategically we have achieved several important milestones thus far in 2007. We initiated our public listing during the first half of the year and became a quoted company on the London Stock Exchange main market on July 30th. As part of the process, we have added two highly experienced and well respected independent directors to our board, Clay Brendish as Chairman and David Gelber as Director.

Turning to the markets and our clients, hedge funds have had a difficult trading environment in July and August, and the long-term impact is not yet known. The immediate market impact on client fund performance has varied. Some funds performed poorly, others performed well. As a consequence, some funds have faced redemptions, some are closing and others are accelerating their asset-gathering activities.

Because of our strong growth in both first half revenues and assets under administration, as well as strong sales thus far in the third quarter, we believe there should be continued solid growth in our second half revenues. Market demand for GlobeOp services and solutions remain strong. To date in the third quarter we have had more than \$5 billion of assets under administration from new clients, more than during the entire first six- month period. Therefore, despite a difficult external environment, full year results are expected to be in line with market expectations.

I would like to turn the call over to Marty to review our financial results in greater detail.

Martin Veilleux: Thank you, Hans. Revenues for the first half of this year were \$77.8 million compared to \$63.7 million in first half of 2006. This increase of \$14.1 million represents 22% growth over last year and was primarily due to the expansion of our MBA revenue. Our core MBA, or Middle Back and Admin, revenue increased 23% period over the period and comprised 94% of our total revenue in the first half of 2007. MBA revenue is largely driven by assets under administration, and our AuA grew 23%, from \$69 billion at June 30th, 2006, to \$85 billion dollars at June 30, 2007. This growth in AuA was due to the performance of our clients' funds including subscriptions and redemptions, the addition of new clients and the addition of new funds from existing clients during the period, partially off-set by funds or clients leaving the platform. We have also reported the addition of more than \$5 billion of AuA from new clients so far in Q3.

Looking at profitability, we had an operating loss of \$7.3 million in the first half of 2007 versus an operating profit of \$7 million for the first half of 2006. However, this year's results included \$16.5 million of costs which were not incurred in 2006. These costs included listing fees related to our IPO, legal settlement costs and approximately \$500,000 related to water damage at one of our facilities in April.

We also show adjusted operating profit in our earnings release as we utilize this measure internally to assess our operating performance. A description and reconciliation to IFRS operating profit is shown in the earnings release but, in summary, our adjusted operating profit was \$17 million the first half of this year versus \$13 million in the first half of 2006. This 31% increase in profit was the result of our 22% revenue growth coupled with the leveraging of our operating expenses. In particular, our single largest expense, which is employee cost excluding cost related to share options, decreased as a percentage of revenues. This cost was \$33.7 million in the first half of 2006 and \$40.2 million in the first half of this year. That was a 19% increase but was less than our revenue growth rate of 22%. As a result, employee cost declined from 53% of revenue in the first half of last year to 51.7% in the first

half of this year. Consequently, adjusted operating profit increased from 20.4% of revenues during the first half of 2006 to 21.8% during the first half of this year.

The increase in employee cost was due to a 19% increase in head count, but I should also point out that much of the increase in head count from June 30, 2006 to June 2007 occurred in the second half of 2006. Since the beginning of this year, we have focused on productivity and profitability and, as such, of the 257 employees we have added to our head count from June 2006 to June 2007, only 57 were added in the first half of this year. Also, since most of our head count additions have been in India, our average cost per employee declined from approximately \$53,000 per year in the first half of 2006 to approximately \$51,000 per year in the first half of this year.

Our first half results also show that profit before tax and exceptionals increased 50% period over period. That is, we earned \$5.4 million the first half of last year and we earned \$8 million in the first half of this year. Looking at our results below profit before taxes, our taxes for the first half of 2007 were impacted by the non-deductibility of a large portion of our listing fees and also the non-deductibility of non-cash interest we accrued on preferred stock which we had until its conversion in early June of this year. These non-deductible items will also impact our overall tax rate for 2007 but since these costs will not be incurred in the future, they will not impact our effective tax rate after this year.

Finally, looking at our balance sheet and cash flow, we ended the first half of this year with nearly \$21 million cash and we had no borrowings under our \$30 million revolving line of credit. During the first half of 2007 we generated \$8.3 million of cash flow from operations versus a use of cash flow of operations of \$1.7 million during the first half of 2006. This \$10 million increase in operating cash flows was primarily due to the improvements we saw in adjusted operating profit as well as faster billings and quicker collections of receivables.

In closing, overall we believe that our first half results were very strong and we believe we are well-positioned for continued solid growth in the second half of this year. With that, we will open up the call to any questions.

Operator: We will now begin the question and answer session. If you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the # key. Once again that is if you wish to ask a question, please press *1 on your telephone and wait for your name to be announced.

Your first question comes from Michael Long of KBW. Please ask your question.

Michael Long, KBW: Good morning. My question was regarding the margin on the average AuA figure. I wondered if you could tell us what that figure was for the first half and how that compares to the first half of last year as well. Thank you.

Martin Veilleux: That's something that we have not been disclosing. We do price our Middle Back Admin services on a sliding scale so, as our clients grow, the incremental fee comes down slightly to share the economics of the efficiencies that we generate. So as our clients grow - and they have been growing - our average fee per AuA does come down marginally and we would expect that to continue going forward. It's also a very good thing for us because that incremental revenue is very profitable revenue for us. So, while we can't give you the exact answer on that, Michael, I would say it is coming down very modestly as we would expect and it also helps to generate good solid profit for us.

Michael Long: In terms of the movement, has it been moving as recently as the first quarter over the second quarter just qualitatively, or is the effect more long term where you would be looking at last year with this year? And I have a follow-up question. Did you comment on any further sort of pipeline you have in addition to the \$5 billion that you spoke about really coming in the third quarter? Do you have any further comment and any update on that please?

Martin Veilleux: I will talk about the price and then maybe Hans can talk about the pipeline a little bit. As far as the pricing goes, we have seen nothing in the recent pricing that would tell us that Q2's are relative and the structure is any different than it was in Q1, so we would say that other than being driven by the growth of clients, there should be really no change in the fee structure and the rate of revenue we get on the AuA.

Michael Long: Okay, thank you.

Hans Hufschmid: Just splitting the pipeline into two groups, one is clients that have committed to us - they have become clients of ours and we are in either negotiations with them on the contract or we are in implementation. That looks strong for the remainder of this year. And then the sales pipeline itself, the pipeline of prospects, are clients that are talking to us about our services but have not committed yet -- that also is still very, very strong.

Michael Long: Okay, but in addition to the \$5 billion, there is nothing else that could be quantified at the moment?

Hans Hufschmid: The \$5 billion is the business that started today. We have business studies -- I don't know. Marty, do you have some numbers?

Martin Veilleux: Yes. Michael, we are a little hesitant to give specific numbers on that but as Hans said, the pipeline, both the newer term clients that we have been talking to, is strong and the

longer term of prospects is good and strong. We are not comfortable saying that there is going to be a specific amount by a specific date, but we are heartened, and that is one of the reasons why we are positive in our statement that we should be in line with market expectations on our results.

Michael Long: Okay one more qualitative as well -- are you also seeing interest in your unbundled services, the OTC processing and also the risk services, at the moment?

Hans Hufschmid: Yes, both of those actually are starting to accelerate pace, obviously from a lower base, but we have signed up some very substantial clients for the OTC business that are on our platform and they are starting to roll out their training, and that's what we are really waiting for. They are hooked in but they haven't started trading aggressively yet. We are still very, very positive about the prospects for our GoOTC business and for our risk business.

Michael Long: Okay, thank you.

Operator: Your next question comes from Philip Middleton of Merrill Lynch. Please ask your question.

Philip Middleton: You have a lot of credit clients, and with the recent difficulties in the market, I was wondering whether you feel your clients' AuAs perform more or less in line with the broader hedge fund industries we've seen over the last couple of months. And also I want you to comment on how easy it is to price things at the moment, because this has been a debate in the market of late and that must make your life a bit trickier.

Hans Hufschmid: On the first question, yes, we do have a lot of credit clients but that doesn't necessarily mean they have problems. People that trade any illiquid instruments as opposed to derivatives definitely have faced problems and issues with credit. We do the collateral management for all of our clients, so we see what is happening to the collateral spreads. And where clients used to post 3% collateral on a given asset, that has now gone to 10% or 12%, and that obviously has an impact on the hedge funds because it forces them to de-leverage their portfolio or raise additional cash. And I would imagine the de-leveraging will have an impact on fund performance.

So it's not the credit traders themselves but people that trade in illiquid instruments -- that could be CDOs, that could be asset-backed, that could be mortgages, that could be emerging markets, collateral, convertible bonds and things like that.

In terms of the performance of our clients versus the market -- we have obviously have a very good handle on what the July performance was because they're all officially calculated. And so if I look at July, our clients lost about three quarters of a percent, which to my thinking is

not that different from what I have heard from what the general hedge fund indices report. So I would argue that we are pretty much in line with the overall market. Having said that, we have not finished reporting yet for August and we're still six or seven days away from getting a better number, but I've seen August numbers reported from the indices that say the market is down 1.5%. That to me seems light. I would estimate that our clients are probably going to be more like 3% down and I have heard from others in the market that they feel that that's really more reflective of what the market has done as opposed to the 1.5%.

Your second question about the pricing?

Philip Middleton: Yes, sale price. How easy is it to price at the moment?

Hans Hufschmid: Again, the derivatives are no problem. All we need is the volatility curves, the spread curves, and the credit curves and what have you and we can price CDOs, CDSs and that kind of stuff, option swaps, cash flows -- there's no problem. Where it gets trickier is asset-backed and mortgages and the securities, as opposed to the derivatives. And we have always had a philosophy where we take counterparty marks, so we take marks from the investment banks that our clients deal with and we use those to mark it for them.

Philip Middleton: Thanks very much.

Operator: Once again, if you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. You have a further question from Philip Middleton of Merrill Lynch. Please ask your question.

Philip Middleton: Yes. I wondered what trends in operating leverage you had seen because obviously this is one of the big debates you had when coming to the market, the ability to demonstrate operating leverage. And you made some comments about head count in Q3 but I just wondered, do you feel there's some point coming where you will have materially to increase head count again? Do you still feel you may be looking at a new facility, maybe somewhere in India in 2009ish? I just wondered how your thinking had evolved?

Martin Veilleux: As far as operating leverage goes, we still remain extremely confident that we could improve the operating leverage. If we deconstruct the results that we disclosed, you could back into what Q2 was - it's just plain math - and you could see that our adjusted operating margin which we reported externally, which was 21% in Q1, went to 22.5% in Q2, and that's how you get the blended rate of 21.8% for the six months. So you can see that the trend is positive, very much in line with our expectations. As you know, head count is extremely critical to our cost structure and we have been very careful with that. Again, we only had 4% increase in head count the first half of this year. We believe that that's indicative of where we will be the second of this year. We are going to continue to be very careful in growing our head count and reaping the results of increased tenure and improved technology, so we

remain extremely confident that our adjusted operating profit could continue to be leveraged going into 2009. As far as occupancy right now, we have spare space for approximately 400 to 450 people. We don't see a need within the next several quarters - you're right, it is a possibility that we might need additional space perhaps in 2009 - but I still think we have a lot of room for growth and we could show some marked improvement in our adjusted operating profit before we get there. And if it does grow in 2009, the occupancy cost, that is because we have more revenue and we have more people, so that will still allow us to continue to leverage our business even when we add the additional facility cost.

Philip Middleton: Thanks, and just one last thing. You mentioned the factors that have been distorting the tax rate thus far. Before you listed, I think you were talking about having a more detailed look at your tax rate in the next few months. I just wondered how far you have got with that yet.

Martin Veilleux: We are nearly complete on that. I believe one of the logical ways to look at this is to say, besides the one-off items, if you looked at the tax rate in the US and you looked at the tax rate in the UK and picked a mid-point, say 35%, that would be a good, very safe place to start. Based upon the initial findings of our tax analysis, I would be very surprised if we did not get into the very low 30s in 2008. So, a few percentage points improvement at least and that is without taking advantage yet of the possibility of adding more profit through Ireland - we just added a location there - and also more through Cayman, which has a very favorable tax structure. So, even without taking full advantage of those, I see it going into the low 30s for 2008.

Philip Middleton: Thanks, that's very helpful. Thank you very much.

Martin Veilleux: You're welcome.

Operator: Once again, if you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. There are no further questions at this time, thank you. Please continue.

Hans Hufschmid: Well, thank you everyone for joining us today and we hope to meet those of you we have not yet met individually over the coming weeks and months and we will, of course, keep you updated with our progress in between for more results reporting. Thank you very much.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.