



**GlobeOp Financial Services S.A.**

**6<sup>th</sup> August 2008**

## **Interim Results Analyst Conference Call**

Duration: 00:25:28

### **Presenters**

- Hans Hufschmid, Chief Executive Officer
- Martin Veilleux, Chief Financial Officer

**Operator:** Thank you for standing by and welcome to the analyst call. At this time all participants are in 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, Wednesday 6<sup>th</sup> August 2008. I would now like to hand over to your first speaker today, Hans Hufschmid. Please go ahead.

**Hans Hufschmid:** Thank you and good morning all. My name is Hans Hufschmid, the CEO of GlobeOp Financial Services. Joining me today is Martin Veilleux our Chief Financial Officer. We are pleased to welcome you to our earnings call this morning. First I will run through a few highlights from our interim results as outlined in our announcement issued this morning before handing over to Marty to talk through additional financial details. We will then open the call to questions.

I am pleased to report that despite the continuing difficult financial markets, the first six months of 2008 was another period of excellent growth for GlobeOp. We performed well against all of our business targets and announced an interim dividend of 0.65 pence per share.

Our revenues grew 21% in the first half of 2008 to \$94.5 million. This includes 21% growth in our core middle- and back-office administration business which was driven by strong growth in our assets under administration - 22% year-on-year from \$85 billion at June 2007 to \$104 billion at the end of June 2008. This includes an increase of \$7 billion during the first half of 2008. This AuA growth, our main performance indicator, has been driven mainly from the organic expansion of our existing clients' funds both through net subscriptions and performance, and also from the launches of new funds by existing clients, which have outnumbered the number of start-ups. Therefore the volatile markets have dampened the ability of fund managers to launch new funds recently. The more established managers are clearly still attracting new capital and successfully launching funds.

The first half of this year also marked another period of profit improvement. Adjusted operating profit increased 45% to \$24.6 million and as a percentage of revenues expanded to over 26%. This reaffirms the highly efficient power of our operating model.

Another point to note is that Transaction Solutions Revenues nearly tripled to over \$2.6 million. This was driven by the success of GoOTC services. Revenues from the over-the-counter derivatives business maintain growth as client continue to turn to GlobeOp's expertise in managing complex derivatives processing.

We continue to make real strides against all our objectives, which include growing our client base and increasing efficiency to drive profitability. So far in the second half of 2008 we have seen solid growth with around \$1.5 billion added in AuA from new clients and \$1 billion in AuA from new funds launched by existing clients.

Our clients' resilience in these difficult market conditions not only demonstrates the depth and quality of our client base but it is also testament to the superiority and the robustness of our systems and services. Looking ahead we will continue to invest in our people, processes and technology to ensure we further increase market share whilst at the same time ensure we deliver continued enhancements to client service.

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

**Martin Veilleux:** Thank you Hans. The first half of 2008 marked another period of excellent growth for GlobeOp. Revenues, profit, cashflow and AuA all increased and had strong performance.

As Hans mentioned, the revenues for the first half of the year were \$94.5 million and that compared to \$77.8 million the first half 2007. That increase of \$16.7 million represented a 21% growth over last year and was primarily due to the expansion of our middle- and back admin business. The middle- and back admin business also increased 21% period-over-period and it comprised 93% of our total revenues in the first half of this year.

MBA revenue was largely driven by Assets under Administration or AuA, and our AuA grew 22% from \$85 billion at 30<sup>th</sup> June 2007 to \$104 billion at 30<sup>th</sup> June 2008. That growth of AuA was primarily due to the addition of new clients during the second half of 2007 and the growth of existing clients the first half of this year, as they continued to launch new funds and attract new capital and new subscriptions.

As you know, we have also reported the addition of \$2.5 billion in AuA last month in July. That was our strongest month so far in 2008 for new launches, and it was the result of both existing clients adding new funds and the addition of brand new clients to our platform. Looking at profitability, we had an operating profit of \$17.4 million in the first half of 2008 versus an operating loss of \$7.3 million in the first half of 2007. Last year's results, you may recall, included \$16.5 million of exceptional costs. Excluding those one-time items our operating profit for the first half of 2007 would have been \$9.2 million. But even with that adjustment added back to 2007 results, this year's operating profit increased \$8.2 million or grew 90%.

We also show adjusted operating profit in our earnings release as we utilise this measure internally to assess our operating performance. Our description and reconciliation to IFRS operating profit is shown in the announcement.

In summary, adjusted operating profit was \$24.6 million in the first half of 2008 versus \$17 million in the first half of 2007. That 45% increase in profit was the result of our strong revenue growth coupled with leveraging our expenses. That is, while revenue was growing 21% and AuA was expanding 22%, our principal expenses were increasing at a far lower rate. For example, employee costs - which are our single largest expense - increased only 14% compared to the first half of 2007. Technology costs, our second largest cost element, increased only 13% and occupancy costs increased 12%. As a result, adjusted operating profit as a percentage of revenues was 26.1% in the first half this year, compared to 21.8% the first half of last year.

Actually, if you go back to 2006 you will see our adjusted operating profit was 20.4% of revenues the first half of 2006 and you will also see that we have steadily improved our profit rate each of the last four half year periods. We believe this indicates the power of our operating model and is a trend we are keenly focused on. I should also point out that cost we exclude from adjusted operating profit also has declined in relation to revenue. Share based compensations declined 19% versus the first half of 2007 and depreciation expense increased only 14%.

Our 2008 first half announcement also shows profit before tax and exceptionals, and that increased 113% period-over-period as we earned \$8 million the first half of last year and \$17.1 million the first half of this year.

Looking at taxes, for the first half of 2008, taxes were at an average effective rate of 30% and were no longer impacted by the non-deductable items that we saw in prior years. Net income for the first half of this year was \$12.4 million a \$20.4 million improvement versus last year's net loss of \$8 million. As a result the fully diluted earnings per share this year was 12 cents versus a loss of 15 cents per share in the first half of 2007.

On every level our profit performance for this year was extremely strong and grew exceptionally over last year. Looking at our balance sheet and cash flow we ended the first half of this year with nearly \$47 million in cash and we had no borrowings under our \$30 million revolving line of credit. During the first half of 2008 we generated \$14.2 million of cash flow from operations versus \$8.3 million during the first half of 2007. That \$6 million

increase in operating cash flow was primarily due to our improved adjusted operating profits performance.

Looking beyond operating cash flow, we invested \$5.6 million on capital expenditures and software this year, and that included investing in the expansion of our Harrison data centre. We also paid \$2 million this year with our first dividend as a public company.

In closing we believe our first half results were outstanding and we showed excellent resilience in a challenging market. We are also very pleased with our continuing demonstration of strong operating leverage and excellent cash generation. We are encouraged by the magnitude of fund launches from new and existing clients as we begin the second half of this year. Overall we believe we are well positioned for additional ongoing success.

With that let me turn the call back over to Hans for some additional comments.

**Hans Hufschmid:** Thank you, Marty. I would like to reiterate that whilst you bear in mind all of the uncertain outlooks for the market, we continue to believe that fundamental industry dynamics are encouraging with new opportunities ahead for GlobeOp. We expect new strategy from these types of funds to emerge over time.

As we have outlined in the past, the current market uncertainty is not new to our management team. We have experienced volatile and illiquid markets several times during our careers. We are all well aware that market turbulence has heightened the need for independence, transparency and speed in OTC valuation -- all of which are areas of strength for us.

With that the Board remains confident in the outlook for the year, our efficient and scalable business model remains robust and we believe it positions us well for the future. We are focused on a successful second half of 2008. I would now like to open the call to 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. Your first question comes from Michael Long of KBW; please ask your question.

**Michael Long:** Good morning. My first question was regarding whether or not you thought there were any risks to assets from the underlying assets that haven't been written down. We are talking about perhaps more complex fixed income instruments that are hard to market, but which are illiquid. We have been hearing recently that it has been marked down at the bank. I was wondering whether perhaps there is any risk that your customers would still have to mark these down going forward, or whether you think that any markdowns that happen would probably already have happened by now and therefore the risk is pretty minimal unless there was a new event.

My second question was related to operating margin. There was quite an impressive increase in the margins in the first half and presumably there should be something in the second half as well. I wondered if you have any targets or what you think the operating margin would be for 2008?

Finally, I just have a quick question about your premises needs. Are there any requirements to increase your premises in India either in 2009 or 2010? Thanks.

**Hans Hufschmid:** Thanks. Let me take the question on asset valuation and then I will hand it over to Marty for the other two questions.

On asset valuation I think there is very little, if any risk at all, that our clients will have to write down assets further unless the markets deteriorate further. Our clients' portfolios are valued on a daily basis. Every month-end they are marked to market and so we represent the market value as of the end of June.

**Michael Long:** Thank you.

**Martin Veilleux:** As far as the operating profit performance goes, we are at 26.1% the first half of this year, that is growth over not only the first half of last year but even the second half where we had slightly over 25%. We see it continuing. Obviously the rate that it could continue to grow is dependant on revenue growth, but we have been talking about the possibility that as we exit 2008 we could be towards 28%. And again that

would be dependant on revenue growth, but we believe that there is still some operating leverage, a good amount of operating leverage, left in our model.

One of the things we have pointed out before too is that it depends on where the AuA growth comes from, and one of the items that particularly drives that is if the performance of our clients' funds is strong. So far this year it has been positive but very, very modest. At some point in time when that turns around, that will definitely help the operating profit performance but even in a neutral environment we think we could push up those operating profit percentages above the levels that they are at right now.

As far as facilities go, we continue to grow and most of our growth, nearly all of our growth, is in India and one of the things we are looking at is (took routine out) capacity in India, but also having an opportunity to move out from some locations that have higher lease rates to perhaps lower lease rates. We do foresee, towards the end of this year or the beginning of next year, expanding our facilities there but I believe that we are going to be able to mitigate a good portion of that by shifting from those higher lease rate facilities into lower lease rate facilities. So I don't think it is going to be a substantial amount that anyone will notice in our operating expenses.

**Michael Long:** Just getting back to the margin. I guess I am looking a bit more short-term in terms of the first half and the second half. Is it fair to assume that you just get more leverage in the near-term even if the market is only growing at the sort of rate you grew in the first half? You don't need to expand your cost base line; that leverage is still very much there for the second half of this year.

**Martin Veilleux:** Yes, so addressing that again, we do see the positive trend continuing in the operating profit percentage and again it depends on how much revenue growth we have in the second half in early 2009. But we would see the operating profit percentage continue to grow past the 26.1%. Again it depends on revenue levels, but perhaps if you go back to the second half of 2007 and see the growth that we had from then until now, that will show you a trend line that we think is representative of the path that we are on.

**Michael Long:** Thank you.

**Operator:** Your next question comes from Philip Middleton from Merrill Lynch, please ask your question.

**Phillip Middleton:** Good morning. A couple of things; first of all I wondered if you could give us a bit of an idea about how first half AuA growth is split between new and existing customers. Secondly, is there any particular reason why July was so strong for new launches? Is that marketing efforts coming through or is that just how it is for no particular reason? Thirdly, could you say a little bit about the Risk module which, in the context of a very good set of results, is obviously the bit which was less happy than everything else? Fourthly, more generally, given you make a lot of money of OTC processing -- an increasing amount -- what do you think about all the talk about OTC being driven on exchange?

**Martin Veilleux:** Let me start with the first question Philip. Could you just go through quickly the four of those again really quickly for me?

**Phillip Middleton:** I have probably forgotten them. There was where did AuA growth come in the first half; there was why were new client launches so strong in July - is it marketing coming through or is it slightly random or what do we read into that; then I asked a bit about the Risk segment and then the rather general one which is; there is a lot of talk about OTC transactions migrating on exchange, what do you reckon about all that?

**Martin Veilleux:** Sure. So I will take the first one, Hans will take the last three. As far as the segmentation, we did not give you precise numbers in the earnings release on what the AuA growth was. You know that it was at \$97 billion at the end of 2007 and it went to \$104 billion at the end of the first half 2008. What we did say though, is predominately that growth was from existing clients, and that was existing clients adding additional assets onto their existing funds so net new subscriptions, and then from existing clients adding new funds. Basically that broke down...so that covered most of the growth ... so about \$3 billion from each one of those two portions of AuA expansion. Those two would make up \$6 billion of the AuA growth.

There is another \$1 billion from brand new clients during the first half of the year. Then there was about half a billion dollars of positive performance and that was offset by about half a billion dollars of

terminations, which as you know relative to history and the improving trends that we have had, that was a very, very modest amount of smaller clients coming off the platform. Again primarily driven by that \$6 billion from the existing clients as they added funds and added subscriptions into existing funds.

**Hans Hufschmid:** Michael, the first question on the July launches. One of the things that happened in the first half is that the launch of new clients was very slow. Probably the slowest that we have seen ever. That is really a result of the difficult markets. We have had some very, very substantial names in the pipeline that were not able to launch because they could not raise capital; something that if they had done this a year ago they would have been almost in the mega-launch category.

We changed our tactics slightly and we focused on existing clients and we started about three or four months ago. We started a strategy where we go and visit the top 400; we have a goal to visit the top 400 hedge funds that are over \$1 billion globally. We tell them our story and we essentially have a CEO, COO level discussion about the markets and about the business. And out of that really has come quite a lot of business that is starting to come through now. We have seen the first results of earnings in July and we are actually very, very positive that this will continue through the remainder of 2008.

On the Risk side, Risk has had a couple of big clients that shut down so the business continues to be extremely important for us from a strategic perspective, but growth has been disappointing for us and we are working on turning that around. Your question on the OTC is good one. I would love to have the answer to that one. The thing to remember there really is that 50% of the OTC market is still paper based and that is really where the manual and labour intensive aspect of processing comes in. We have been very successful in OTC; getting mandates from large institutional clients who outsource their OTC processing to us. I don't really see that changing.

I have asked this question about whether the exchanges will be clearing OTCs anytime soon and there are some very, very strong opinions that this will never happen because it is against the interest of the market discipline. It cuts into their profit margin and factors like that. It is

something that in my view could have happened a long time ago so...as I said I would love to know the answer to that question myself.

**Phillip 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. If you wish to ask a question please press \*1 on your telephone key pad. Your next question comes from Michael Long from KBW; please ask your question.

**Michael Long:** I was just wondering whether you could give any colour on your progress with expanding your client base, the non-traditional hedge funds that you talked about at the time of the IPO, you were talking about more traditional Asset Managers. Has there been much progress that you could report on so far?

**Hans Hufschmid:** You can essentially think of the OTC business as an extension of that. Most of our OTC clients are not traditional hedge funds; they are custodians or long only asset managers. That is probably a pretty good proxy for you in terms of the progress.

**Michael Long:** But at the core MBA business, has there been much going on there to expand your client base?

**Hans Hufschmid:** No I think the core MBA business has remained within our core clients. It is primarily hedge funds and proprietary trading desks of investment banks, and we have not added long-only mutual fund type businesses to the platform.

**Michael Long:** Thank you.

**Operator:** Once again if you wish to ask a question, please press \*1 on your telephone. You have no further questions at this time, please go ahead.

**Hans Hufschmid:** Thanks everyone for joining us today and we look forward to speaking to you again at year-end if not sooner. Thank you.

**Operator:** That does conclude our conference for today, thank you for participating; you may all disconnect.