



GlobeOp Financial Services S.A.

4th March 2009

Preliminary Results Analyst Call

Duration: 00:36:55

Presenters

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

Operator: Thank you for standing by and welcome to the GlobeOp Analyst 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, Wednesday 4th March 2009. I would now like to hand over to your first speaker today, Hans Hufschmid. Please go ahead sir.

Moderator: First of all good afternoon and before we begin we have a quick housekeeping point. Certain statements in our press release may contain forward looking statements. By nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by those statements. Forward looking statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Undue reliance should not be placed on forward looking statements. Thank you.

Hans Hufschmid: Good afternoon everyone. My name is Hans Hufschmid; I am the CEO of GlobeOp Financial Services. Joining me today is Marty Veilleux, our Chief Financial Officer. We are pleased to welcome you to our conference call this afternoon. First I will go through a few highlights from our 2008 results announcements issued this morning, before handing over to Marty to talk through additional financial detail. We will then open the call to questions.

I am pleased to report another robust set of full year results for GlobeOp despite a year of unprecedented turmoil in the financial markets. We achieved record revenues and increased profitability for the year and maintained a strong balance sheet with no debt. Strategically, we had three broad goals for 2008. One, to continue to grow our client base; two, to increase efficiency, productivity and profitability; and three, to further strengthen client relationships through responsive service and ongoing investments.

In an increasingly challenging market, the achievements we made are noteworthy. We grew our client base and market share. We added \$12.5 billion of assets under administration - AuA - from new and existing clients, with more than 100 funds converting \$5 billion in AuA from the competition to GlobeOp's platform. Middle-, back-office and fund administration services remain our core business, accounting for 93% of revenues. Transaction solutions revenues doubled in 2008 led by GoOTC, our OTC derivatives processing service.

We ended the year on an excellent financial footing with \$51million in cash and no debt. Our assets under administration, or AuA, were \$88 billion, only 9% lower than a year earlier against a market backdrop of high fund redemptions, low subscriptions, negative fund performance and few new funds. In addition, GlobeOp clients outperformed their peers in 2008, averaging a 10% decline in fund returns compared to an industry average of more than 20% and an S&P 500 index that declined 39%.

Difficult markets can be an opportunity for strong companies to demonstrate resilience and quality in client service. We used our systems, skills and market knowledge to help clients diversify counterparty risks by opening more than 150 new client/broker relationships during the Lehman events in September.

To support future client needs, we also invested in our New York data centers, with upgrades in Harrison and a new office and data centre in Yorktown Heights. We expect industry trends we identified in the Autumn of 2008 to solidify this year. They align well with our strategy and value proposition. New relationships and ongoing due diligence are certain. Investors are demanding independent valuations and reconciliation as well as reassurance that assets exist, positions are true and that cash reported is real. As the source of scarce capital, investors will be able to demand change. Fund managers, in turn, will seek third-party operational solutions to meet these increased investor requirements, while also seeking to improve their own operational cost structure.

We also expect continued uncertainty to impact the first part of 2009. Funds will remain under pressure from redemptions and raising capital will continue to be difficult. GlobeOp's services and solutions are well suited to the evolving market. Professional, independent and transparent trade processing controls and reporting can help funds attract and retain investors. GlobeOp focuses solely on administration and middle- and back-office services, without the distraction of conflict that comes from trading and lending activities. We believe this independence will be highly valued and that our strong balance sheet reinforces our status as a preferred outsourcing partner.

I am confident that GlobeOp has the people, processes, technology and vision to become the recognized leader among independent fund administrators. I look forward to updating investors as we progress towards that objective.

Before turning the call over to Marty, I would like to personally thank Clay Brendish for the leadership and wise counsel he has provided as Chairman since 2007. As you know from this morning's announcement, Clay has decided not to seek re-election at this year's AGM. The Board and Management Committee appreciate his contributions towards the governance of GlobeOp and we wish him well in his future endeavors.

I would now like to ask Marty to review our financials in greater detail.

Marty Veilleux: Thank you Hans. As noted in our results announcement, we had record revenues of \$185.2 million in 2008. In addition, our profit

growth was very strong, with adjusted operating profit growing 27% and net income increasing 233% versus the prior year. AuA was very resilient in 2008 too. Despite much turmoil in the marketplace, we ended the year with \$88 billion of AuA, just 9% below the prior year amount. AuA stands at \$91 billion as of the end of February, but we will speak more about 2009 in a moment.

Cash flow was once again very strong. We generated operating cash flow of nearly \$44 million in 2008 versus \$34 million in 2007. Thus, despite significant investments made during the year, as well as repurchases of shares and payments of dividends, our cash balance expanded from \$40 million at the end of 2007 to \$51 million at the end of 2008. Thus, 2008 was quite a successful and noteworthy year for us. Let me provide further details.

Revenue for 2008 was \$185.2 million as compared to \$166 million in 2007. Our middle-, back-office and administration (MBA) business grew 11% to \$171.8 million. It continues to represent 93% of our total revenue. Risk reporting revenue declined 5% to \$8.3 million and transaction solutions revenue more than doubled to \$5.1 million.

The increase in MBA revenue was driven by an increase in our average AuA in 2008 versus 2007. AuA activity during 2008 included the addition of \$7.4 billion from new clients and \$5.1 billion from new funds of existing clients. That was offset by a reduction of \$21.5 billion related to net redemptions, negative fund performance and terminations.

Looking at profitability, operating profit was \$38.2 million in 2008 versus \$16 million for 2007. However, 2008's results included \$1.4 million of exceptional gains and 2007 included \$6.5 million of exceptional costs, including IPO-related costs. We also show adjusted operating profit in our results announcement, as we utilize that measure internally to assess our operating performance. A description and reconciliation to IFRS operating profit is shown in the notes to the release. You can see that it excludes exceptional gains and losses.

In summary, our adjusted operating profit was \$50 million in 2008 versus \$39.4 million in 2007. This 27% increase in profit was the result of our revenue growth, coupled with the leveraging of our operating expenses. For example, as revenue was growing 12% in 2008, our two most

significant costs, employee cost - excluding share-based compensation expense - and technology costs both grew only 8%.

Our focus on productivity and profitability since the beginning of 2007 has driven these improvements in operating performance. As a result, our adjusted operating profit margin, which was 21% in 2006 and 23.7% in 2007, expanded to 27% in 2008. Our results announcement also shows that profit before tax and exceptionals increased 73% year-over-year. We earned \$21.6 million in 2007 and \$37.3 million in 2008. Unlike adjusted operating profit, these amounts include the impact of share-based compensation expense, as well as depreciation and amortization. So regardless of which metric you utilize to gauge profitability, we had a very good year.

Our reported taxes for 2008 were impacted by a reduction in deferred tax assets related to our share options and restricted stock awards. With the decline in our share price during the second half of the year, accounting rules required us to reduce the estimated value of future tax deductions that we will be able to take when share option awards are exercised and stock awards are vested. That bookkeeping reduction in deferred tax assets had a negative impact on our reported tax expense. However, it had no impact on the amount of taxes we will pay on our 2008 income. Our cash tax rate for 2008 was 33%.

By the way, an increase in our share price would work the other way. We would be required to increase our estimate of future tax deductions and that would lower our reported tax rate, but again our cash taxes would not be impacted.

Finally, looking at our balance sheet and cash flow, we ended the year with \$51 million in cash and we had no borrowings under our \$30 million revolving line of credit. During the year, we generated almost \$44 million of positive cash flow from operations. That compares to \$34 million in 2007 and \$15 million in 2006. This growth in operating cash flow was primarily due to increased levels in our adjusted operating profit and was augmented by improvements in our working capital utilization.

During 2008, we had \$17.8 million of capital expenditures, including \$8.8 million on the purchase and improvements to a new data center and office facility in Yorktown Heights, New York and \$4.8 million to expand and

upgrade our data center in Harrison, New York. Despite these investments, as well as the payment of \$3.2 million of dividends and the repurchase of \$3.8 million of company shares during 2008, our cash balance increased \$11 million over the December 2007 balance. Moreover, we now have two facilities with data center and office space that we own free and clear. This will allow us to reduce third-party reliance and better serve our clients. Plus, it sets the stage for us to reduce data center costs during the second half of 2009.

Finally, let me mention that we will be paying a dividend of 1.1 pence per share and that's payable in May of 2009. That is an increase of 10% over last year's payment.

In summary, we believe our 2008 results were very good and show resilience in a challenging market. We also continued to demonstrate our ability to carefully manage our cost structure and drive strong cash flow. Here in 2009, we remain committed to disciplined cost management, productivity improvements and cash generation.

As noted in our outlook statement, we have had an encouraging start to 2009. AuA currently stands higher than it was at the end of 2008. Outflows were \$16 billion in January and February and that was very much in line with our pre-close update issued in the first half of December. However, it was more than off-set by \$19 billion of inflows and positive client fund performance booked in January and February. As a result, our AuA grew to \$91 billion by the end of February. We currently see \$10 billion of outflows slated from March through June; that compares to \$8 billion for the same four-month period in 2008. The \$10 billion figure will be offset by any inflows from subscriptions, inflows from new fund launches and inflows from new client wins, including conversions.

Pinpointing the magnitude and timing of those inflows is not possible, especially in this current environment. Therefore while our pipeline is promising and we are very aggressively pursuing those opportunities, we remain focused on further productivity improvements and we are prudently managing our business. As we look ahead, we believe our ability to meet the expanding needs of the marketplace, combined with our strong balance sheet and our highly efficient operating model, puts us in a very enviable position relative to other administrators. With that said, let me

hand it back to Hans for his closing remarks and then we will take your questions.

Hans Hufschmid: Thank you Marty. In closing I would like to repeat that while the hedge fund sector continues to face challenges, I believe the fundamental industry dynamics are encouraging because of new trading opportunities. In addition, proprietary trading desks at investment banks are closing, reducing competition for alpha, and funds now require less leverage to profitably manage assets. Our people, processes and technology support clients during all market conditions. An independent, transparent, financially stable service provider will be particularly important to fund clients and their investors during times of market stress and change. These qualities and the ability to adapt creatively to new market opportunities position us well for the future. We are focused on a successful year in 2009.

I would now like to hand the call back to the operator and we will be ready to take questions.

Operator: We will now begin a question and answer session. If you wish to answer 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 from KBW. Please ask your question.

Michael Long: I have got a few questions I just wanted to raise; the first is just a little bit more general. I just wondered whether with this climate and market of people perhaps adopting more simple hedge fund strategies and people perhaps less inclined to invest in less liquid and less opaque instruments, whether your technological advantage in dealing with these areas, perhaps is negated somewhat compared to some of your competitors?

The second question was, just in terms of the pipeline. I wonder if you can give any more color on where the pipeline is coming from? And I know visibility is poor and certainly in terms of the timing, but if you could just give us any sort of scope in terms of when at the latest you would expect some of this pipeline to come on board, or not come on board?

Finally, I just wondered whether you had any feel from your hedge fund clients in terms of how far we were in halting the leveraging process at the moment, and whether there is still a substantial possibility of this drive of pushing assets under management down for them and assets under administration down for you? Thank you.

Hans Hufschmid: Thanks Michael; let me take these questions one at a time. The first one on our clients having a preference - or investors having a preference for simple strategies, liquid strategies or that the illiquid stuff is less in demand hence giving an advantage to our competitors. Clients have two concerns. Investors have two concerns. One concern has to do with transparency and the other – so that is where independent administration comes in, where the basic question in Madoff's case, for instance, was never asked - is how you price the portfolio. But are the assets actually there and who verifies for me, the investor, that the assets are actually there? That is the very basic, very first question that investors are now asking and they are asking that that will be addressed in two different ways.

One way is to hire an independent administrator - and we can talk about this a little more in the pipeline - but if you are a self-administered fund, that creates problems for you and you are probably forced to use an independent administrator. The other way to address that problem is really by investing via managed accounts as opposed to by shares in the fund. The other thing that investors are concerned about is the gating and that is where your comment probably comes from. Simple strategies because if you invest in simple strategies that trade mainly in currencies, futures and equities you should have a liquid strategy and hence a fund that should not be gated. I can't really say that we are seeing that. We are definitely seeing concern about gating, but we are not seeing that expressed in a move towards simple strategies.

One of the most profitable strategies, or most potentially profitable strategies out there, is distressed debt right now and that is certainly not liquid and there is a fair amount of demand for that. And I think the way people really deal with that is that they make sure that the lock-up provisions are properly put in place. In other words, the problem is not so much that you have a one-year or two-year lock up, the problem is that you have a six-month lock up and when you want to take your money out which is six-month's notice, you get gated. Investors want to make sure

that the strategy that the hedge fund trades is in sync with the lock-up provisions of the fund.

In terms of the pipeline that we see, we see a lot of potential business from competitors. We see a lot of big clients that are unhappy with the service that they receive from competitors, but they are somewhat reluctant. They understand the merits of our value proposition and they understand what we can bring to the table – but they are reluctant to change at this point because of what changing administrators means. There are two aspects to that. One is that they need to move from one administrator to another and we can do a lot of that work for them and we can take a lot of that pain off their plate. But the other aspect to changing administrators has to do with your investors. You need to tell your investors that they now need to sink the money somewhere else, so you need to change your PPM and your investors need to change things on their side. That is the part where a lot of these funds do not want to trouble their investors right now, for fear of the investor saying ‘if I have to change things why don’t I just pull the money out?’

We also see a pipeline for a self-administered fund that is fairly substantial in size, not so much in number of funds, but certainly the mandates are all very substantial. We booked one of those in late December - that was an \$11 billion fund, the biggest existing fund that we have landed - and the other ones are similar in size and scope. That is a process that is ongoing. We are talking to these clients. I think we have a couple of competitive advantages there. Number one, we have a scalable infrastructure that other administrators cannot offer. We have a very complete set of services – in other words we can do everything from the very simple stuff to the very expensive stuff and the very complex stuff. Again a lot of competitors can’t do that.

The third competitive advantage is that we are a very, very big user of Geneva. I think Geneva is the accounting engine of choice for a lot of hedge funds. We have the biggest Geneva installation of anybody out there and a lot of these big hedge funds are also using Geneva. That makes it very easy for them to integrate with us, because we can just take their Geneva records, plug it into our system, and then start reconciliations, P&L and all that stuff from there. I can tell from the reaction of these fund managers that they are under pressure from the investors to come up with solutions to this - but so far to my knowledge,

only one fund has pulled the plug and that is Millennium, the one we've got. The other ones are works in progress.

Then the deleveraging. We have a proxy that we can look up but we don't mention leverage accurately across our clients because really it does not drive anything that we do for our clients. We do look at volumes, and volumes have gone way down. Our average OTC volume used to run at 2,000 to 2,500 trades a day for quite a while, and that is now down to 1,000, or even below 1,000 trades a day. Our average trading volumes for non-OTCs have come down about 20 or 25% and both are very strong indications that these funds have de-leveraged substantially. January was a profitable month, a very profitable month for our clients, they made more than a 1% return in January. I think February will really be a very interesting telltale sign for the industry because I have a suspicion – and we will see once the February numbers come out – but I have a suspicion that these funds really have adjusted to the trading environment better and we might see the return profile change.

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

Philip Middleton: Two things: firstly I wonder if you could say a little bit more about the evolution of your cost base and in particular the personnel costs. Because I would assume that there would be some – although these are terrible conditions we are operating in – there are probably some benefits to you there. And secondly I wonder, could you talk a little more about how quickly you are finding the more mainstream managers adapting to some of your services - the OTC purchasing package for instance?

Marty Veilleux: As far as the personnel cost goes, turnover has come down quite rapidly and substantially over the last nine months and even the last year in New York and the UK, so that has been very positive for us. With low turnover we get more productivity out of the average employee. We also get more productivity out of our management team – they spend less time sourcing and interviewing and bringing people up to speed, so that has been very positive to us. So we have been able to improve our productivity. At the same time the average cost of our personnel has gone down from \$50,000 a year to \$49,000 per year. So it has come down year-over-year and the amount of work out of the average employee has

increased too. So very positive for us and we expect that trend to continue into 2009.

Hans Hufschmid: In terms of other managers and how we are viewed and how our services are viewed by them, I would say that there is a tremendous amount of interest in our services out there and really they are driven by two things - leaving the self-administration piece aside from that right now. One of the big advantages that we have in my view is focus. Middle- back-office fund administration - that is all we do. Every day we get up – that is all we think about, and we have tried to build a business that is scalable, that is efficient, that is precise and a high level of client service. That is the goal that we work towards every day.

Whereas a lot of our competitors are in the administration business also, providing a substrate of the services that we provide. They are in the business not because they want to be great administrators; they are in that business because they want to do the lending for the fund of funds; they want to do the execution for the hedge funds; they want to take your overnight balances for the hedge funds; they want to lend securities to hedge funds. Really they are using administration as a way to get into what they consider to be the real profitable piece of that business.

The administration piece alone often does not make money for them. So now we are in a situation in today's market where the peripheral revenue sources have dried up. The fund of funds - a very good example is Fortis that had a very strong fund of funds business and they provided leverage to the fund of funds and that is all gone. That is a huge chunk of their revenue gone. You look at some of the investment banks and some of the commercial banks that own administrators - the same argument goes there. The hedge funds are just not producing the revenues that they used to produce. That has caused a sort of de-focus and a noticeable decline in quality of service and that helps us.

Another element that is in our favor is the cost element. Cost has never been a factor for the big funds in the past. They have never really looked at 'if I outsourced I could save myself \$20 million' because it just was not big enough or significant enough in the scope of the business that they ran. But now some of these funds have lowered their management fee. Most of them are below the high water mark so they run into financial

constraints themselves in being able to run the business, and outsourcing is a very sound step for them.

Operator: Your next question comes from Keith Baird from Oriel Securities. Please ask your question.

Keith Baird: I just have a couple of questions; I don't know if I missed this in the statement, but did you give the average assets under management for 2008, as opposed to the year-end figure?

Marty Veilleux: No we did not, but we can disclose that, we can talk about that and we do talk about it in the results announcement; how much it went up year-over-year, and the average. If you look at the months, which is very important to do when the AuA balances have ebbed and flowed during the year, it turned out to be about \$100 billion in 2008 and that was up from about \$17 billion from 2007.

Keith Baird: \$100 billion then, for 2008

Marty Veilleux: Yes, Keith

Keith Baird: Another thing was that you referred to, I think it is \$12.5 billion of new client funds during 2008. I wonder if you could split that between existing clients and new clients, brand new clients?

Marty Veilleux: That was \$7.4 billion of brand new clients and \$5.1 billion of new funds from existing clients.

Keith Baird: I also had a question on share re-purchases, in terms of what is the current level of re-purchased stock and what was the level at the year-end?

Marty Veilleux: We re-purchased about 900,000 shares in the middle of the year and on this second re-purchase program we are up to approximately 600,000 shares. That is 1.6 million shares we've re-purchased. A portion of those shares - as we mentioned during the first re-purchase program - were to provide shares to people that had restrictive stock units that were vesting, so some of those shares have been issued to employees.

Keith Baird: Do you intend to carry on with the share repurchase program, or do you have any kind of limits for that at the moment?

Marty Veilleux: Our time limit is - we are authorized to continue it up until the AGM which is scheduled for April 27th. And we also had a maximum number of shares that we were going to purchase and that number was 2 million shares.

Keith Baird: I also had a question on the dividend policy – you raised the dividend by 10% for 2008. Just going forwards, how might that work in the context of perhaps a more challenging year in 2009? Would you consider cutting the dividend, or how might you approach that?

Marty Veilleux: I think a lot would depend on exactly how the year plays out: our cash balances, the amount of profitability that we have in the year during the year. But I think what we have demonstrated this year was that although we increased it this year, it was a very modest increase because we obviously value cash very much and we know that many other companies are cutting their dividends right now. So we thought that this was definitely a gesture of showing people that we are committed to giving back some of our profits. But as we have stated since the IPO, it is going to be a modest dividend policy.

Keith Baird: Finally, could you say something about what the capex requirements might be for the current year? I think they were relatively high in the year that has just gone.

Marty Veilleux: Correct. They were relatively high this past year because of the two data centers that we were building; one that we bought and one that we already owned. Much of that, substantially all of the spending related to both of those is completely done – was completely done - in 2008. Some will come into 2009, but this year we think that the levels will come down to the \$9-10 million mark as opposed to the \$17.8 million in 2008.

Operator: Your next question comes from Justin Hughes from Philadelphia Financial. Please ask your question.

Justin Hughes: I just want to follow up on the Millennium conversion - the \$11 billion – was that converted as of December 31st or when do you expect those assets to be coming on?

Hans Hufschmid: That was January 1st.

Justin Hughes: That was as of January 1st, so that's in the inflows that you already said from January 1st through to today.

Hans Hufschmid: That is correct.

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 cancel your request, please press the # key. There are no further questions. Please continue.

Hans Hufschmid: Thank you everyone for joining us today and we look forward to speaking with you again at the mid-year. Have a good day, thank you.

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