

SILVERLAKE AXIS LTD

(Incorporated in Bermuda)
(Company Registration No. 32447)

PRESS RELEASE - FOR IMMEDIATE RELEASE

Silverlake Records Revenue Growth For 9M FY2020, Aided By Higher Recurring Revenues

Singapore, 14 May 2020 - Singapore Exchange Mainboard listed Silverlake Axis Ltd ("SAL" or the "Group"), a leading provider of Digital Economy Solutions and Services to major organisations in Banking, Insurance, Retail, Government, Payment and Logistics industries, today provided financial and operational updates on a voluntary basis for the period ended 31 March 2020.

- 9M FY2020 Group revenue increased 3% to RM506.8 million, with growth from recurring revenue segments and sale of software and hardware products
- Encouraging growth momentum achieved in recurring revenue segments, representing 74% of total revenue in 9M FY2020:
 - (i) Maintenance and enhancement services grew 10% to RM347.6 million
 - (ii) Software-as-a-Service for insurance processing grew 17% to RM28.8 million
- Total expenses in Q3 FY2020 decreased by 4% over Q3 FY2019 as a result of the Group's focused activities on cost optimisation
- Earnings before interest, taxes, depreciation and amortisation ("EBITDA") in 9M FY2020 was RM25.9 million lower at RM218.3 million compared to RM244.2 million in 9M FY2019 (which included RM23.1 million of one-off net Other Income)
- Cash and bank balances stood at a healthy RM441.6 million as at 31 March 2020 (RM442.0 million as at 30 June 2019)

FINANCIAL HIGHLIGHTS

FOR THE NINE MONTHS PERIOD AND THIRD QUARTER ENDED 31 MARCH 2020

	Nine months period ended 31 March			Third quarter ended 31 March		
	2020	2019	Change	2020	2019	Change
	Unaudited RM	Unaudited RM	%	Unaudited RM	Unaudited RM	%
Revenue	506,782,139	490,648,386	3	151,660,202	154,131,045	(2)
Gross profit	304,214,780	304,134,058	0	82,769,030	91,002,667	(9)
Other income	8,700,138	31,655,690	(73)	2,281,744	20,495,559	(89)
Operating expenses	(147,939,938)	(127,496,931)	16	(49,182,900)	(51,438,502)	(4)
Profit before tax	169,611,471	208,961,046	(19)	36,826,803	60,901,002	(40)
Income tax expense	(44,032,569)	(30,844,524)	43	(11,262,938)	(8,259,119)	36
Profit for the period	125,578,902	178,116,522	(29)	25,563,865	52,641,883	(51)
EBITDA	218,324,932	244,228,736	(11)	53,445,874	73,646,122	(27)
Basic earnings per share (sen)	4.77	6.72	(29)	0.97	1.99	(51)
Diluted earnings per share (sen)	4.77	6.72	(29)	0.97	1.99	(51)

In Q3 FY2020, the Group recorded revenue of RM151.7 million, a marginal decrease of 2% as compared to Q3 FY2019, with an EBITDA of RM53.4 million in Q3 FY2020 and net profit attributable to shareholders was RM25.6 million.

For the 9M FY2020, the Group's revenue increased by 3% to RM506.8 million. However, due to lower other income and higher expenses, EBITDA declined 11% to RM218.3 million compared to RM244.2 million in 9M FY2019 (which included one-off net Other Income of RM23.1 million). With higher taxation, the profit after tax attributable to shareholders decreased by 29% to RM125.6 million as compared with 9M FY2019.

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Revenue By Business Activities	Nine months period ended			Third quarter ended		
	31 March			31 March		
	2020 Unaudited RM	2019 Unaudited RM	Change %	2020 Unaudited RM	2019 Unaudited RM	Change %
Software licensing*	52,501,002	66,652,477	(21)	9,953,013	21,426,501	(54)
Software project services*	51,223,132	67,618,905	(24)	18,201,196	19,035,568	(4)
Maintenance and enhancement services**	347,642,494	316,710,037	10	111,446,188	98,898,932	13
Sale of software and hardware products	21,598,220	5,483,670	294	1,213,805	4,653,591	(74)
Credit and cards processing	4,653,073	9,483,893	(51)	1,604,093	1,429,872	12
Software-as-a-Service**						
- Insurance processing	28,839,876	24,699,404	17	9,120,732	8,686,581	5
- Retail	324,342	-	N/M	121,175	-	N/M
Total	506,782,139	490,648,386	3	151,660,202	154,131,045	(2)

* Project related revenue

** Recurring revenue

N/M = Not Meaningful

Group revenue of RM151.7 million in Q3 FY2020 was marginally lower than the RM154.1 million recorded in Q3 FY2019 due to lower contribution from project related revenue segments and sale of software and hardware products which is cyclical. For 9M FY2020, the Group recorded a 3% increase in revenue to RM506.8 million with growth coming from the recurring revenue segments and the sale of software and hardware products.

Recurring revenue segments of maintenance, enhancement services and Software-as-a-Service recorded a growth of 12% to RM120.7 million in Q3 FY2020. For 9M FY2020, the growth was 10% at RM376.8 million. A key strength of the Group, the continuing growth of these recurring segments has lifted their share to 80% of Group revenue in Q3 FY2020 and 74% for 9M FY2020.

Compared with Q3 FY2019, project related revenue comprising software licensing and software project services declined 30% to RM28.2 million in Q3 FY2020. The completion of a Thailand based core banking transformation project in Q4 FY2019 as well as lower progressive revenue recognised from a few major contracts secured in Malaysia and Thailand which are nearing completion led to the overall decrease in project related revenue in Q3 FY2020 compared with Q3 FY2019. The decrease was partially offset by revenue contribution from the delivery of new core banking implementation contracts secured in Indonesia and Vietnam in 1H FY2020, as well as a technology refresh contract secured in Malaysia in late FY2019. The Group adopts IFRS revenue recognition standard which stipulates the recognition of project revenue on percentage of completion method whereby the revenue recognised may differ from quarter to quarter.

Sale of software and hardware products of RM1.2 million in Q3 FY2020 was 74% lower than the RM4.7 million recorded in Q3 FY2019 due to a sizeable contract delivered in Q3 FY2019. For 9M FY2020, there was a significant increase in revenue from this segment, contributed by a sale of high value hardware in Q2 FY2020 to support the technology refresh contract disclosed.

For the 9M FY2020, although the Group's revenue increased by 3%, gross profit remained flat at RM304.2 million compared to 9M FY2019. The decrease in gross profit margin was mainly due to a change in revenue mix, lower software licensing revenue and higher sale of software and hardware products in 9M FY2020 as compared with 9M FY2019.

Lower other income was recorded in 9M FY2020 as compared to the recognition of the following one-off items in 9M FY2019:

- (i) a pre-tax gain of RM8.8 million from the disposal of land in Q2 FY2019;
- (ii) a gain of RM18.2 million in Q3 FY2019 from the reversal of value-added tax ("VAT") accrued as the Group obtained VAT exemption for the prior disposal of shares in Global InfoTech Co. Ltd. ("GIT").

The decrease was partially offset by a gain of RM5.1 million recognised in Q2 FY2020 as a result of the fair value adjustment made on the contingent consideration for the acquisition of SIA X Infotech Group ("XIT Group").

Total expenses in Q3 FY2020 were 4% lower as compared with Q3 FY2019 as a result of cost optimisation strategies adopted. For 9M FY2020, total expenses were 16% higher due to the consolidation of XIT Group, increased finance costs from the unwinding of discount on contingent consideration payable for acquisitions and infrastructure investments.

The increase in income tax expense from RM8.3 million in Q3 FY2019 (9M FY2019: RM30.8 million) to RM11.3 million in Q3 FY2020 (9M FY2020: RM44.0 million) was mainly due to the expiry of pioneer status of a Malaysian subsidiary effective Q1 FY2020, higher taxable income from certain subsidiaries as well as higher withholding tax on overseas revenue in the current financial period as compared to the previous corresponding period.

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With the decision for the Group to adopt half-yearly reporting following the amendments to Rule 705 of the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”) which took effect from 7 February 2020, the dividend payout (which required to be accompanied by the financial statements for the period pursuant to Rule 704(25)) will be assessed on a half-yearly basis taking into consideration various factors including the expansion plans and funding requirements of the Group.

BUSINESS AND INDUSTRY OUTLOOK

FY2020 has been a challenging year with significant volatility in the business environment, starting with the US-China trade disputes, and followed by the COVID-19 pandemic in early 2020 which resulted in the movement restriction measures implemented in the geographies the Group operates. Despite these adverse circumstances, there was no material disruption to the Group’s operations in 9M FY2020 and the Group continued to deliver on existing contracts as well as secured a number of new contracts. A total of RM65 million of new contracts were closed in Q3 FY2020, a strong testament to the resilience of the Group’s businesses and its people. Large deals continue to be a challenge to close, with many delayed by the movement restriction measures or the economic uncertainties. However, the Group is achieving some success in closing the smaller incremental projects and believe that this trend will continue through to FY2021.

The Group is proactively taking measures to minimise and mitigate the impact of the COVID-19 pandemic to the Group’s businesses and its overall ability to serve its customers. The Group has implemented its business continuity plan to minimise disruption to its operations and ensure the viability of its businesses. The Group is an essential service supplier to the banking and finance industry. None of the Group’s major customers have terminated contractual obligations for material contracts nor exercised temporary relief or force majeure clauses. The majority of the Group’s revenue, comprising recurring revenue from banking related maintenance and enhancement services as well as non-banking segments of insurance and retail, remain positive. Although the Group’s key businesses have not been affected by measures taken by governments to address the impact of COVID-19, the Group envisages a new operating environment in the post-pandemic era. The Group is innovating to adapt to the rapidly changing conditions. The Group foresees that the need for social distancing will change the way we deliver work to our stakeholders. The Group expects a more agile way of working and communicating with employees and clients. The use of tech tools to communicate, collaborate and work will become more pervasive. There will be less face to face meetings and less time spent in offices. The majority of meetings will be done remotely via video conferencing. There will be more collaboration via emails and instant messaging. Greater interest in social distancing will limit group events such as conferences, conventions and overseas meetings for the foreseeable future, and will lead to a decrease in the volume of business travel.

In addition, the Group has accelerated efforts and instituted some restructuring programmes to rationalise costs as well as extract efficiencies from operations.

ABOUT SILVERLAKE AXIS

Silverlake Axis Ltd (SAL) provides software solutions and services to the Banking, Insurance, Retail, Government, Payment and Logistics industries. Founded in 1989, SAL has an impeccable track record of successful delivery of innovative and transformative solutions to its enterprise customers and their ecosystems. The Group has more than 380 enterprise customers in over 80 countries across Asia, Europe, Middle East, Africa and the Americas.

Under Axis Systems Holdings Limited, SAL was listed on the SGX-SESDAQ on 12 March 2003. It was renamed Silverlake Axis Ltd in 2006 following the acquisition of SAACIS, the company that owns the Silverlake Integrated Banking Solution (SIBS) and the listing was transferred to the Mainboard of the Singapore Exchange on 22 June 2011. For more information about SAL, please visit www.silverlakeaxis.com.

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