FINEOS

FINEOS Corporation, Holdings Plc.
FINEOS House, EastPoint Business Park, Dublin 3 (Registered Office)

T +353 1 639 9700 | F +353 1 639 9701
E info@FINEOS.com | W www.FINEOS.com

26 February 2025

FINEOS transitioning to a higher quality subscription revenue business with improving margins

FINEOS Corporation Holdings PLC (ASX:FCL), a leading provider of core systems for life, accident and health insurance (LA&H) carriers globally, is pleased to announce its financial results for the full year ended 31 December 2024 (FY24).

Since 1 January 2024 the company moved to operating its financial year on a calendar year basis.

FY24 Key Highlights versus prior corresponding period (12 months ended 31 December 2023 "CY23")

- Total Revenue was €133.2m, up 6.9% and at the upper end of most recent guidance
- Subscription revenue was €69.9m, up 6.6% and represented 52.5% of total revenue
- Services revenue was €62.2m, up 6.0%
- ARR of €71.2m at 31 Dec 24, up 9.0% from €65.3m at 31 Dec 23
- Gross Profit was €100.4m, up 13.8%
- Gross profit margin was 75.4%, up from 70.8%
- EBITDA was €20.2m, up 112.8%
- EBITDA margin was 15.2%, up from 7.6%
- Statutory Net loss after tax was (€5.8m), down from a net loss after tax of (€13.7m)
- Cash balance of €19.8m at 30 Dec 24
- On track to return to positive free cashflow in FY25

Financial Overview:

Total revenue increased 6.9% to €133.2 million in FY25 from the prior corresponding period (pcp). Driving this increase was a 6.6% pcp increase in subscription revenue to €69.9 million with the growth attributable to successful client scaling, cloud upgrades, along with some new name client wins.

As at 31 December 2024, FINEOS held an operating cash balance of €19.8 million, which is our seasonally lowest point of the year for cash reserves and remained perfectly sufficient to run our business. Our operating cash reserves will grow in 1H25 in line with the seasonal nature of our SaaS licensing and we will be positive free cash flow for FY25.

Pleasingly, attrition levels remain very low, with the employee retention rate in FY24 remaining well above 90%. The Product Consulting average utilisation rate was 85% in FY24, down 2 percentage points from pcp. FINEOS continues to focus on the geographic dispersion of roles to lower cost regions.

Operating expenses increased 1.8% to €80.2 million in FY24 from pcp, driven by higher product consulting fees, other income and general & administration costs, partly offset by lower sales & marketing costs, cloud operations support and R&D costs.

On a statutory basis, FINEOS reported a net loss after tax of (€5.8) million, a 57.8% improvement on the loss reported in the pcp.

Operational Highlights

There were a number of significant highlights in FY24. In Q4 2024, FINEOS AdminSuite went live on time and on budget, at Guardian Life. Further, the launch of voluntary benefits at New York Life - Group Benefit Solutions was successful. These are important customer milestones for the FINEOS Platform for Employee Benefits.

During Q4 FY24, the FINEOS New Business & Underwriting product rewrite was completed as SaaS and is cloud native. As a result, this product is now an integral component of the FINEOS AdminSuite and is available for sale.

In 2H24 FINEOS Absence for Employers went live with two large US employers and is now ready for market. Also during 2H24 FINEOS won two new name deals for FINEOS Absence (IDAM) and this reinforces the IDAM products strong position as a market leader.

Commenting on the results, Founder and Chief Executive Officer Michael Kelly said: "FY24 has seen us achieve a number of very important customer success accomplishments. In North America we have continued our strong track record of platform and product enhancement delivery. Guardian Life went live on FINEOS AdminSuite on time and within budget. This was a significant milestone for Guardian Life, FINEOS and for the employee benefits market, as it highlighted the ease of implementation and the significant value of our highly focused product R&D investment program to purpose build our platform for the employee benefits market.

With our long-standing client, New York Life - Group Benefit Solutions (GBS), we implemented our full product capabilities within FINEOS AdminSuite to support their market launch into the Voluntary Benefits/Supplemental Health market. This enabled New York Life -GBS to go into live production for new business for these product lines at the beginning of 2025. New name sales were also achieved for FINEOS Absence (IDAM) against stiff competition from incumbent vendors. Finally, we went into successful live production with our first two US employers, who licensed our FINEOS Absence product for self-administration in the Direct-to-Employer absence management market.

In Asia-Pacific, FINEOS now have four clients contracted to upgrade to the FINEOS Platform with two already live and the ACC in New Zealand contracted to upgrade their on-premises FINEOS Claims system to the FINEOS Platform in mid FY25, FINEOS is confident that an increasing number of clients in APAC will want and need to invest and upgrade to the FINEOS Platform in order to modernise and enhance their customer experience, improve productivity, while adhering to global and local industry standards in the areas of security, privacy, and compliance regulation.

Improving our efficiency remains a major focus for FINEOS. In FY24 we focused on a range of operational efficiency initiatives and achieved improvements in our margins as a result. Gross profit margin improved by 4.6 percentage points to 75.4% and EBITDA more than doubled to €20.2 million. EBITDA margins rose strongly to 15.2% in FY24. Through FY24, FINEOS continued to grow higher margin recurring subscriptions revenue, and significantly reduced the level of cash burn as the business progressively moves towards positive free cash flow in FY25.

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The North American employee benefits market, which has been our primary strategic focus since our Initial Public Offering (IPO) in August 2019, continues to be an exciting growth market for the insurance industry as employment trends, the regulatory environment, and work practices continue to change. Given the technology fluent generation of employees and the full-employment economy, the competition for talent is more intense than ever, meaning employers want to offer their people the very best employee benefits to attract and retain the high caliber of people they require for their business success. Our market leadership, our quote to claim FINEOS Platform for Employee Benefits, and our strong track record of customer success position FINEOS strongly for continued growth in cross-sales and new sales pursuits. In addition, we are seeing continued positive interest in upgrading to our FINEOS Platform from the on-premises segment of our client-base, which resides primarily in Australia. We also continue to enjoy a high level of activity with our wider client base in all our geographies. We, therefore, continue to be optimistic and positive about our outlook and growth prospects for FY25 and beyond."

FY25 Key Priorities

- Achieve positive FCF for FY25 and cash generative thereafter
- Progressively embed AI within the FINEOS Platform for improved performance and outcomes
- Guardian Life - 1/1/2026 Phase 2 go live on FINEOS AdminSuite to enable further scaling
- Continue to invest in Customer Success to scale and move FINEOS clients off their legacy core systems
- Increase new business sales as well as cross sell more FINEOS AdminSuite to our existing FINEOS clients
- Continue to grow and build our partnerships with key System Integrators
- Build pipeline and deal conversions for FINEOS Absence for Employer
- Continue to improve operational efficiencies to gain greater margins
- Execute our mission: global market leader in group, voluntary and absence employee benefits

Outlook & Guidance for FY25

- FY25 (1 January – 31 December) revenue to be in the range €138m - €143m
- Guidance reflects ongoing work on large programs and the lengthy sales cycles
- On track for successful delivery of key projects to replace legacy systems with several large carriers to maximise product subscriptions
- Continue strategy of cost savings through operational efficiencies. FY25 total costs expected to decrease (versus FY24)
- Continue to expect positive free cash flow in FY25 in aggregate, and to be cash generative thereafter
- Pipeline remains strong as the FINEOS Platform for Employee Benefits market reputation grows

Note: All guidance provided is calculated based on the assumption of a EUR:USD fx rate of 1:1.0837. Guidance should be read in conjunction with the risks set out on page 19 of the annual report.

Outlook & Guidance beyond FY25

As presented at the FINEOS Investor Day, in November 2024, FINEOS has invested at above 'industry normal' R&D investment levels to meet strong, positive demand from Tier 1 North American carriers who are undertaking multi-year programs to migrate from legacy core systems to FINEOS AdminSuite on the FINEOS Platform.

FINEOS acquired Limelight Health in 2021 and invested in additional R&D, during CY23 and FY24, to rewrite this product as an enterprise SaaS component of FINEOS AdminSuite.

The heightened level of R&D investment over the past three years had a significant effect on reducing Gross Margin to 65.3% in FY22 and EBITDA to a low of 1.6% in FY23.

In FY24, FINEOS invested in the R&D work required to automate the SaaS features of the FINEOS Platform to drive greater efficiency and an improved client self-service experience. This has positively affected Gross Margin and EBITDA, a trend we expect to continue.

The FINEOS Platform and FINEOS AdminSuite are now sufficiently scaled and proven, meaning our ongoing annual requirement for R&D investment has leveled off. As more efficiencies kick in and as new business from existing and new clients increases, Gross Margin and EBITDA will also continue to increase. Gross Margin has already moved from 70.8% in CY23 to 75.4% in FY24 and EBITDA has moved from 7.6% in CY23 to 15.2% in FY24.

Finally, given the positive trend achieved in FY24 and our growing leadership position in our existing target markets, we expect Subscription fees to increase as a percentage of total revenues to 65% in FY27 and 75% in FY29. We also expect R&D investment to decrease as a percentage of total revenue to 30% in FY27 and 25% in FY29. Gross Margin will increase to 75% in FY27 and 80% in FY29, while EBITDA will increase to 25% in FY27 and 40% in FY29.

Note: Guidance should be read in conjunction with the risks set out on page 19 of the annual report.

Results call details:

Investors and analysts are invited to join a conference call hosted by Michael Kelly, Founder and CEO and Ian Lynagh, CFO on Wednesday 26 February at 6:00pm AEDT / 7:00am IST.

Participants must register for the conference call at the link below and will receive their dial in number upon registration to: https://s1.c-conf.com/diamondpass/10044728-w6rg43.html

This notice has been authorised for provision to the ASX by the Company's CEO.

Investor enquiries:

Howard Marks
P: +61 402 438 019
E: howard.marks@automicgroup,com.au