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Broadridge Financial Solutions, Inc. (BR) CEO Tim Gokey on Q1 2020 Results - Earnings Call Transcript

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FQ1: 11-06-19 Earnings Summary

Press Release *Slides*

EPS of $0.68 misses by $-0.02 | Revenue of $948.6M (-2.49% Y/Y) misses by $-31.33M

Earning Call Audio

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Broadridge Financial Solutions, Inc. (NYSE:BR) Q1 2020 Earnings Conference Call
November 6, 2019 8:30 AM ET

Company Participants

Edings Thibault - Head of Investor Relations

Tim Gokey - President and Chief Executive Officer

Jim Young - Corp Vice President and Chief Financial Officer

Conference Call Participants

David Togut - Evercore ISI

Darrin Peller - Wolfe Research

Peter Heckman - D.A. Davidson

Chris Donat - Sandler O'Neill

Puneet Jain - JP Morgan

Operator

Good morning, everyone and welcome to the Broadridge First Quarter 2020 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please also note, today's event is being recorded.

At this time, I'd like to turn the conference call over to Mr. Edings Thibault, Head of Investor Relations. Sir, please go ahead.

Edings Thibault

Thank you, Jamie. Good morning and welcome to Broadridge's fiscal first quarter 2020 earnings call. Our earnings release and the slides that accompany this call may be found on the Investor Relations section of broadridge.com. Joining me on the call this morning are Tim Gokey, our CEO and our CFO Jim Young.

Before I turn the call over to Tim a few standard reminders. We will be making forward-looking statements on today's call regarding Broadridge that involve risks. A summary of these risks can be found on the second page of the slides and a more complete description on our annual report on Form 10-K. We'll also be referring to several non-GAAP measures, which we believe provide investors with a more complete understanding of Broadridge's underlying operating results. An explanation of these non-GAAP measures and reconciliations to their comparable GAAP measures can be found in the earnings release and presentation.

Let me now turn the call over to Tim Gokey.

Tim Gokey

Thank you, Edings, and good morning, everyone on the call today. Broadridge had a solid first quarter and is well positioned for the year. We generated 8% recurring revenue growth. We had record first quarter sales and we continue to feel good about our underlying business trends. We also completed tuck-in acquisitions across each of our franchises that will strengthen Broadridge and drive long term growth.

While the largely anticipated lower event driven activity impacted our results in this seasonally small quarter, we are well positioned to deliver a strong fiscal year 2020 and we are reaffirming our full year guidance. Moreover, ongoing industry trends continue to underline why Broadridge is so well positioned for longer term growth.

This morning, I'll provide you with a brief overview of our first quarter results. And given the increased level of M&A we've seen over the past few months. I'll review how it fits together to strengthen our franchises. Jim, will then follow with an overview of our financial results, including the shift of our wealth advisor solutions from ICS and GTO. As always, we'll close with your questions.

Let's get started on Slide 4. Broadridge reported solid first quarter results. As we analyze the quarter, keep in mind that Q1 is our seasonally lightest of the year. Typically, we generate anywhere from 12% to 14% of our full year adjusted EPS in the first quarter and that's right where we ended up.

With that in mind, let's touch on the headline results. Recurring revenues rose 8% to $623 million driven in large part by the acquisitions we made in the fourth quarter, which are performing well. Organic growth was like 2%, but we expect it to accelerate through the year driven by stronger growth in both ICS and GTO from on-boarding sales that have already taken place. With a $330 million backlog Jim mentioned last quarter, we have very good minus 5 on our ability to generate revenue from sales.

As expected, event driven revenues declined significantly relative to the first quarter of 2019. Recall that in 2019, we benefited from a proxy campaign at a significant mutual fund complex. The lasting of that large campaign drove most of the decline in event driven revenues and earnings. And Jim will give an update on how this plays into our full year forecast.

Last point on results. Strong sales. Close sales rose more than 100% to $38 million the first quarter record, which speaks to the strength of our underlying business. Our first quarter sales are especially gratifying coming up our strong fourth quarter and an indication of the momentum we see in the market. I'm pleased with the investments we've made in our business over the past few months with targeted tuck in M&A across all three of our franchise focus areas. As I will discuss in a few minutes, our investments over the past 24 months have collectively strengthened our business and improved our long term growth profile across governance, capital markets, and wealth and investment management.

Finally, the key takeaway from the quarter is the Broadridge remains on track to deliver another strong year of top and bottom line growth. We continue to expect strong growth sales 8% to 10% recurring fee revenue growth and 8% to 12% adjusted EPS growth in fiscal year '20. This outlook positions us to deliver on the three year growth objective we shared with you at our 2017 Investor Day, including at the high end of our adjusted EPS range.

Beyond fiscal year '20, ongoing industry trends have only strengthened my confidence in our growth outlook and the potential opportunity in front of us. The past few months have brought increased evidence to the financial services industry facing significant structural cost pressures. The move is by online brokers to slashed trading commissions and by global banks to realign the strategic focus that have driven home the challenges the industry faces. In addition, regulatory change remains the constant with the SEC, moving rapidly to implement regulation best interest and the moves in Europe for the shareholder rights directive. These challenges are helping drive our growth.

Financial services firms need to move rapidly to adapt their businesses and evolve how they serve their clients. That's causing them to embrace industry solutions to neutralize critical non-differentiating functions; tap, to more and better data; and raise the effectiveness of their communications. As we see playing out in our record sales and backlog, no one is better positioned than Broadridge to provide these solutions. So all the challenges faced by the industry are real. They only reinforce the underlying trends that have fueled our growth and they highlight why we remain so excited about our outlook.

Now let's turn to Slide 5 for a review of our results. I'll start with our ICS segment. Our recurring revenues, excluding customer communications rose 10% driven by 6%, organic growth in the addition of the TD Ameritrade retirement assets. The biggest organic driver was higher mutual fund and ETF revenues where recent share gains helps drive growth.

Equity stock record growth was solid at 7%. Our fund and ETF interim record growth slowed to 1%, getting early in the quarter before we bound it. Temporary slowdowns of interim record growth are not unusual and we expect interim record growth to be bound over the course of fiscal '20.

Our ICS segment also benefited from strong demand for our data and analytics products. The acquisition of the TD Assets added nicely to our growth. And I'm pleased with the progress we're making in the integration of that business. Culture communications revenue fell 2% driven by combination of client losses and bio nutrition. As expected, event driven revenues declined steeply year-over-year, as we left exceptionally strong mutual fund proxy activity in the first quarter fiscal '19 and revenues returned to more normalized levels.

We see event driven revenue picking up for the second half of the year, driven in part by proxy campaign at a large mutual fund complex. I continue to be excited by the momentum at our GTO business where we grew 15% for the quarter and expect mid-teens growth through remainder of the year. Organic growth of 3% was held back in the quarter by an on-boarding delay, which is now complete and we therefore expect organic growth to pick up meaningfully in the second quarter and for the remainder of the year.

The acquisition of RPM has also contributed nicely for first quarter results, driven in part by strong license sales. While these sales for an RPM pipeline when we acquired the business, we were able to expand the scope of a particularly meaningful solution for a large client as a result of the Broadridge relationship. So it's good to see an early return on our expected revenue synergies. We also took another step for the creation of a separate wealth management business within our GTO segment by transferring advisor solutions products from ICS to GTO. We are modest from a revenue perspective; this is a small but meaningful from pulling together our wealth solutions into a more unified whole and Jim will share the detail.

Finally, and importantly, Broadridge posted record first quarter sales. We continue to see strong sales momentum across multiple product lines. Notable wins included the sale of our global post trade management technology platform from major European Banks, as well as an increase in government services we provide through major asset manager. It's early in the year, and we faced a tough comp in the second quarter as a result of our landmark sale to UBS last year and we're off to a strong start.

Broadridge has been very active on the M&A front the past few months, making multiple acquisitions to strengthen our business. So I want to take a few minutes to review our recent deals, and why they will help us achieve our strategic goals.

Let's turn to Slide 6, to start that discussion. Acquisitions are an integral part of our capital stewardship and investment strategy and are tightly aligned with the franchise strategy we laid out at our last Investor Day. Since the end of fiscal '17, we've made 13 tuck in acquisitions deploying a total of almost $700 million. These investments are tightly linked to our strategic goals. In governance, our strategy is to build the next generation of governance communications and to extend our services across the governance network.

We invested more than $300 million in the past 24 months to help accelerate that strategy. We significantly expanded the data driven solutions, most recently with Fi360 and the TD Ameritrade asset. Fi360 provides fiduciary focus of accreditation, data analytics retirement advisors intermediaries that broadens our data analytics capabilities and strengthens our solution set for regulation best interest.

We've also added to our issuer products suite broadened our regulatory communications footprint and strengthened our digital capabilities. And wealth, we're creating the open architecture solution for the future for investors, advisors and operations. Acquisitions are playing an important role in this vision and we've invested nearly $350 million since the end of fiscal '17. The biggest acquisition was RPM that strengthens our wealth business in Canada, and extends our capabilities to integrate banking into wealth management. We also acquired new capabilities around security, space lending, and most recently, advisor compensation.

In capital markets, we're driving the growth of our business globally. Much of that growth has been organic. But I'm pleased that we were able to acquire Shadow Financial in October broadening our capabilities into new asset classes, including exchange traded derivatives and crypto currencies. Across governance, capital markets and wealth management, our M&A investments have helped accelerate our strategic objectives and strengthened our long term growth profile.

It deepened our relationships with key clients, added talent broadened the capabilities and given us additional addressable market and niche transactions organically. These investments have had clear financial benefits as well. In total, this should contribute approximately $175 million for FY20 exit recurring revenue run rate, adding 2 points to our three year revenue CAGR, in line with our Investor Day objectives. Moreover, we expect them to be accretive for organic growth with a blended growth rate well above our corporate average. The past six months have been busy on the M&A front and I'm excited about what we've been able to execute.

We've been talking to many of these prospects for some time, in some cases for years. With a strong cash flow and balance sheet, we're able to act when the right opportunity comes, even when multiple properties come for sale over short period of time. As CEO, it is great to have that flexibility. So no change to our capital allocation strategy, and continue to look for attractive tuck-ins.

I'll now turn the call over to Jim, who'll review our financials but before I do, let me summarize our key messages. First, we reported solid first quarter results with 8% recurring revenue growth and record first quarter sales. Second, ongoing industry trends underline why Broadridge is well positioned for longer term growth. Third, continue to make the investments across our business to accelerate a strategic objective and position Broadridge for that growth. And fourth, we're on track to deliver strong fiscal '20 with 8% to 10% recurring fee revenue growth and 8% to 12% growth in adjusted EPS.

It's an exciting time to be at Broadridge. We're on track to deliver another strong year and energize while the opportunities play a key role in transforming the financial services industry. Before I turn it over to Jim, I want to thank our nearly 12,000 associates around the world for their hard work and dedication, our clients, and to the corresponding chain. The work they do strengthens our clients and enables better financial lives for all of us for millions of others. Jim?

Jim Young

Thanks Tim and good morning everyone. Broadridge reported a solid first quarter and we're on track to deliver a strong fiscal year 2020. Before reviewing our results, I'll make a few call outs. First, a reminder on seasonality. Our first quarter is typically our smallest recurring revenue in earnings quarter of the year. Consistent with the outlook we provided in August in our historical average, our Q1 adjusted EPS came in at 13% of our full year adjusted EPS guidance at the mid-point.

Second; acquisitions, fiscal year-to-date through early November, we have invested $179 million in four targeted tuck-in acquisitions aligned with our franchise strategy. We expect that these acquisitions will contribute an additional point to recurring fee growth in fiscal '20. We also expect that these acquisitions will be earnings dilutive in fiscal '20 after accounting for financing cost.

These investments coupled with our seasonally negative free cash flow in Q1 pushed our adjusted leverage ratio up to 2.2 times at September 30, slightly above our long term target of 2.0 times. This was a temporary spike and we expect to finish the year close to our target. Third, event driven activity. As expected, event driven fee revenue declined notably from record first quarter a year ago, driving a decline in first quarter earnings. A $40 million Q1 event fees were also a bit lower than our expectations.

However, this level of event fees in line with prior periods normalizing for significant mutual fund proxy activity or notable proxy contest. We now expect event fees to be at the low end of our initial full year expectations of a decline of 5% to 15%. Fourth, some modest changes to our segment reporting. As part of our strategy of building a wealth management franchise, we have consolidated our advisor solutions products into GTO from ICS, representing $43 million manual revenue in fiscal '19.

All fiscal '19 segment numbers have been revised to reflect this change and I'll be referring to the revised numbers in my remarks. The supplemental product revenue breakout and the Appendix of presentation show the revised numbers for all four quarters for fiscal '19. Fifth and most importantly, guidance. We expect to deliver a strong fiscal year 2020 and are reaffirming full year guidance across all metrics.

Let's turn to Slide 7 for a review of our first quarter drivers. I'll start with recurring fee revenues. Recurring fee revenues rose 8% in the quarter. Acquisitions carry below was 6 points of growth coming from our fiscal fourth quarter 2019 acquisitions, RPM, TD and Rockall. Organic recurring fee growth in the quarter was light at 2%, on-boarding of new business or closed sales as shown here was the largest organic contributor as we continue to on-board sales across both our ICS and GTO segments and ship away at our healthy revenue backlog.

Internal growth, which has been a consistent contributor to organic growth, was modestly negative in the first quarter driven by slower growth in mutual fund and ETF interims, lower customer communications volumes and less professional services work. As Tim touched on, we expect organic revenue growth to accelerate in remainder of the year, driven by GTO on-boardings, healthy proxy volumes and return to a more normalized levels of interim record growth among other factors.

Moving down to total revenue. Total revenues declined 2% to $949 million in the quarter. Strong gains and recurring fee revenues were offset by a largely expected decline in event driven fee and related distribution revenues, following record event driven levels a year ago. And finally, the weaker British pound and the acquisitions of RPM and Rockall had a modest negative impact on our FX line.

Next, I'll cover the performance of our ICS and GTO segments from Slide 8. As I indicated earlier in my remarks, these results reflect the relocation of certain advisory solutions products from ICS to GTO for both periods. I'll start with ICS; recurring fee revenues grew 4%. Looking at the drivers behind the 4% increase, solid net new business gains contributed 3 points inclusive of the impact from known client losses and customer communications.

Internal growth dipped to slightly negative, largely from the impact of the slowdown and interim record growth to 1%, weaker customer communication volumes and some equity proxy activity that pushed later in the year. The TD Ameritrade assets acquisition that closed in Q4 of fiscal '19, contributed an additional 2 points of growth. Going forward, we expect the acquisitions of Fi360 and Appatura will also contribute to ICS recurring revenue growth.

We expect ICS organic growth to pick up over the balance of fiscal year '20, as we benefit from the full weight of higher proxy volumes in the second half of the year, the return of interim record growth to more normalized levels and the continued contribution from our data and analytics products. ICS total revenues declined 7% driven primarily to decline in event driven revenues and related distribution revenues. Again we now expect full year event fees to come in at the low end of our earlier estimate of a decline of 5% to 15% from the $244 million we reported in fiscal '19.

Turning to GTO, GTO revenue growth accelerated to 15% in Q1 driven by 12 points of growth from the RPM and Rockall acquisitions. RPM included some strong license sales that Tim referenced in his remarks. On the organic front and as Tim also noted, we are back on schedule in terms of major on-boarding activity and we expect GTO to deliver mid-to-high single-digit organic growth for the full year.

Looking forward, we expect that the revenue growth contribution from acquisitions will weigh in a bit, even with the addition of Shadow and financial database services. And that stronger organic growth will fill that gap as we continue to expect recurring revenue growth in the mid-teens for the year.

Let's turn to profits on Slide 9. Adjusted operating income declined $19 million or 16% in the first quarter, driven by the decline in event driven fee revenues. Remember, that event revenues carry significant levels of incremental profitability, as they leverage in existing cost infrastructure. So when those revenues come down significantly as they did in Q1, income drops, especially in small earnings quarters like Q1. Below the operating income line, we benefit modestly from investment gains and our effective tax rate was 12.4%, included in that number, our excess tax benefits for equity compensation of $5.7 million down from $7 million a year ago.

We continue to expect full year ETB benefit of $20 million. Adjusted EPS fell 14% to $0.68 for the quarter, representing 13% of our full year adjusted EPS guidance at the midpoint. This result is very consistent with the outlook we provided in August and a typical earnings contribution for the seasonally small first quarter.

Let's turn to cash flow and the balance sheet on Slide 10. Free cash flow is typically negative in the first quarter and that was again the case in fiscal '20. Broadridge generated free cash flow of negative $107 million in the first quarter.

As Tim noted, tuck-in M&A is an important part of our capital allocation framework and is tightly aligned with our strategic objectives. Broadridge invested a $179 million in the first four months of fiscal '20 completing four acquisitions. The two largest deals Shadow and Fi360, accounted for $39 million and $120 million respectively enclosed in the second quarter. We also made two other smaller acquisitions, one in September and one in October.

We expect the fiscal '19 and '20 acquisitions combined will contribute 4 plus points to our recurring revenue growth in fiscal '20. Given our typical reinvestment approach and financing costs, we expect modest EPS contribution in fiscal '20 from these combined deals. It's been a busy peak quarters and we're very pleased with our acquisitions. In the quarter, Broadridge also invested $20 million in capital expenditures and returned $55 million to shareholders in the form of the quarterly dividend.

Again, Broadridge's leverage ratio, using adjusted debt-to-EBITDAR at September 30 was 2.2 times and we anticipate that it will pick up a bit again in Q2 reflecting the $120 million purchase price for Fi360. There's a temporary spike above the long term target of 2.0 times and as a result of the seasonally negative Q1 free cash flow and the timing of M&A closings. There's no change to our capital allocation strategy and leverage target.

As we benefit from the seasonally stronger free cash flows in the second half of the year, we expect to de-lever in the normal course and to generate an additional flexibility to pursue attractive tuck-in M&A opportunities and or repurchase shares while finishing the year in line with our 2.0 times leverage target. Separately, you'll note that $399 million now appears as current portion of long term debt. This is because we have $400 million in senior notes coming due at September 2020.

To support our capital allocation plans and subject to market conditions, we will consider opportunistically raising addition of that capital at some point over the next couple of quarters in order to, appropriately manage our upcoming maturities.

Let's turn to guidance on Page 11. Our fiscal year 2020 guidance is unchanged. We continue to expect recurring fee revenue growth to be in a range of 8% to 10%. That includes mid-single-digit organic growth as we expect organic growth above ICS and GTO to pick up through the year.

We expect total revenue growth to be in the range of 3% to 6% including a decline in event driven fee revenues of close to 15%. We expect our adjusted operating income margin to be approximately 18%. We expect adjusted EPS growth to be 8% to 12%. We expect close sales to be in the range of $190 million to $230 million. Finally, as you think about Q2, please note that we expect event driven revenues to be in line with Q1 results, before strengthening in the second half of the year.

With event driven revenues at this level, we expect Q2 adjusted EPS to be level with the first quarter results and be approximately 26% or so full year adjusted EPS as the first half typically represents. So to sum up, we're off to a solid start of fiscal 2020 and we remain on track to deliver a strong fiscal 2020 in our full year guidance and importantly, we're also on track to meet our three year objectives which concluded at the end of fiscal 2020.

Jamie we will now open it up for questions.

Question-And-Answer Session

Operator

[Operator Instructions]

Ladies and gentlemen, at this time we will begin the question and answer session. [Operator Instructions] Our first question today comes from David Togut from Evercore ISI. Please go ahead with your question.

DavidTogut

Thank you, good morning Tim and Jim. Just a quick question on organic revenue growth expectations for fiscal 2020, looks like the first quarter came in a little late at 2%. As you look at the 8% to 10% recurring fee revenue growth which you're reiterating in your 2020 guide, how many percentage points of that growth comes from organic versus acquisitions?

JimYoung

Good morning David, this is Jim. As I said, we think about 4 points or so will come from the acquisitions which keep us right in target for mid-single-digit organic growth contribution. As you point out we feel really good over the balance of the year, especially as we see these GTO on-boardings ramp up over the course of the year.

DavidTogut

Got it. And I think on the June quarter call Jim, you called out 3PPT of growth from acquisitions for FY20 so that's a change?

JimYoung

Correct, because we just added, we just added these four acquisitions which will add about a point to our revenue growth.

DavidTogut

Understood and then just a final question, so with the organic growth coming in about a point below expectation or else - or at least the 8 to 10 point revenue growth guide for recurring fee revenue growth, is there anything changing in your expectations or is this just this delay on the on-boarding at GTO?

JimYoung

Yeah, David when we look at kind of Q1 relative to the rest of the year, we definitely see a few transitory items. You had slightly low interim record growth, so we expect that to pickup with on-boarding come in later in the quarter as opposed to the beginning of the quarter. So we will get the full quarter benefit. Next quarter, small quarter, we're going to have things like we have some equity proxy activities that fell in Q1 last year, but now appears to be pushing to later in the year.

So those are the types of things that we used to believe that the 2% organic for the quarter is light and that we pick up the pace starting in Q2 and put us on track for that mid-single-digit organic growth rate.

DavidTogut

Understood, thank you very much.

Operator

Our next question comes from Darrin Peller from Wolfe Research. Please go ahead with your question.

DarrinPeller

Hey, guys thanks. Look, I just want to start-off. I mean it's good to see the M&A activity contributing, but I mean to follow up on that explain a little bit about the organic side. I guess what first of all would growth have been if the implementations were more on time on the GTO side? And then, I think more importantly what would you say is the pro forma growth profile of GTO now?

In other words, have you owned all these deals a year ago, I know it was in your run rate, what would be the growth profile of GTO be?

JimYoung

Darrin this is Jim, well I think as opposed to sort of looking at what Q1 would have been we come back to feeling like this year it's going to be a mid-single-digit organic growth rate. And that's what we've measured, as you know, we can have some ups and downs and especially in a small quarter. So again, we feel really solid; we're on track for this mid-single-digit organic growth rate.

And as we think about the GTO, we look at this business actually being above that average for the year. So we're targeting GTO to be mid to high single-digit organic growth. The acquisitions as Tim mentioned, generally speaking are accretive to that growth rate. So on balance of those annualized in we expect relatively small the grand few things for

GTO. But on balance, they'll help the growth rate. But again, targeting mid to high single-digits growth for GTO with a really big revenue backlog behind us, feels like deadly good spot.

TimGokey

Yeah, just to add on to that Darrin. I think it's an interesting question you had. We owned these businesses a year ago, we probably would be reporting higher organic because they are experiencing very nice year-on-year growth within those businesses. So we feel good about the profile, especially on the GTO side where we're experiencing really good revenue from sales this year.

DarrinPeller

Okay, and then just on the BRCC side, I mean I guess that's been still a headwind, some of that was full transitory from a year, two years ago at this point, a year and a half ago. Where are we on that in terms of that business? Do you foresee that business turning leveling off or reflecting at some point soon?

TimGokey

Yeah. Darrin it's Tim, we are expecting BRCC to be a contributor to earnings growth in fiscal '20 but not to revenue growth. And we are continuing to as you mentioned work through the off boarding of a major client, the good news is, that that client is taking longer to go away which means that we'll make more revenue, and the bad news is we're still talking about it.

But we think that's going to actually continue throughout fiscal '20. We had anticipated that will be done by now. I think the other point here is that, we do continue to have discussions with large clients about their in-house transaction communications that was a key part of our mid-term investment thesis. And, we are seeing good growth in digital products which is part of our long-term thesis, not enough to offset the correct volumes.

DarrinPeller

Okay, that's helpful. Just one last quick one. I mean, in terms of the backlog, it continues to look strong. Can you talk about the flow through the $330 million revenue backlog? And then in terms of new bookings, also, how much of that was inorganic versus organic? But more importantly, just the timing of the flow through of the backlog over the next few quarters and year and beyond?

TimGokey

Darren. So obviously the revenue backlog features prominently in our revenue growth. So in that mid-single digit organic growth rate that we're targeting, we need a number of points of growth, the majority of our points of growth coming from that backlog. So I won't give you an exact quantification of that, but that is our driver every year. So but we'll anticipate ending the year with continued healthy backlog as we add to it. But again, this is a business that always is thinking about how do we add 6, 7, 8 points of growth coming from that backlog. And that can give you a sense of the type of revenue conversion we have going on any one period.

DarrinPeller

Alright. That's helpful, Tim. Thanks, guys.

Operator

Our next question comes from Peter Heckman from D.A. Davidson. Please go ahead with your question.

PeterHeckman

Good morning, gentlemen. Can you talk about some of the puts and takes of both universal proxy and then confirms, both things that the SEC looks like they're relatively serious about pursuing and how Broadridge would work to facilitate that for the industry?

TimGokey

Yeah. Thanks, Peter, it's Tim. And that's a definitely good question. And we are - while I'd say broadly, there hasn't been anything on the regulatory front that is this really significant since our last call. The SEC is contained to work on issues around proxy. They made some statements around Investment Advisors. There's a meeting just yesterday.

And some work on proxy plumbing. And when they talk about proxy plumbing, what they're largely talking about some of the things you mentioned, which is and to invoke confirmation and potentially universal proxy card. We are well set up to deliver on both of those. We are introducing end-to-end confirmation for those clients where we're the tabulator this year, which is significant portion of public companies.

We are working with the industry to introduce that for all public companies. We need cooperation from others as a working group the SEC has established. But we think this is a positive development for corporate governance and a positive development for us. Not in any particular fee characteristic, but just in terms of increasing everyone's overall confidence.

With respect to universal proxy, that's something that we are definitely able to support and have prototypes around and look forward to implementing whatever is decided by the by the SEC and the industry.

Operator

Our next question comes from Chris Donat from Sandler O'Neill Chris. Please go ahead with your question.

ChrisDonat

Good morning. Thanks for taking my questions. I want to ask one about the, I guess, sort of this year in longer term expectations for ETFs position growth. And this is related to the - a number of brokers going to zero commissions. It used to be the part of the proliferation of ETFs over the last five to 10 years with some brokers doing launching their own ETF and then having a promotional pricing on commissions for that.

Now, it seems like the economic rationale for those ETFs is going away. And I would think one outcome might be that you see the industry consolidate on a handful of the really large liquid ETFs. Is that something you think might happen and would that potentially lead to fewer ETFs positions? Are there even how do you think in general about what the if the zero commission brokerage fees have any impact on ETF ownership?

TimGokey

Yeah. Chris, very interesting question. I think that ETFs are a really nice vehicle to have a lot of benefits for clients in terms of their liquidity and other characteristics and intraday pricing. And so I think they're going to continue to be very popular. It is true that there has been some trend around brokers introducing ones. I don't know how widely held those hours. I think actually the bigger trend is with more proliferation of different factory ETFs. And now people talking about active ETF. So there is a lot that is causing change there. I think another interesting sort of analogy is that while the number of public companies has stopped growing and even gone down, position growth has continued.

So I'm not sure that there's a correlation between position growth and a number of choices out there. I will - just since you mentioned zero commissions. Just let me talk a little bit about that, because I think people actually wondering a little bit about what is the impact of that. And I think that is something that is. The timing is hard to hard to determine. So the timing may be unexpected, but essentially, it's just a long term trends that we've seen.

The biggest impact is really clearly on the online brokers, Fidelity, Schwab, e-Trade, Ameritrade. Those are not as significant part of our wealth book. We're more focused on advisor and wealth managers. But we are seeing is that the change is creating the need for all wealth managers to evolve their business model in terms of how they add value because it is not as much from the asset management side from the stock ticking and trading side.

And so to accomplish that evolution, they need to invest in technology for the differentiation. And I think that is really favoring us as we work with clients to create a broad range of services that it helps them not only take down costs, but also support these new sources of differentiation. So it's just, one of those clear signals that the world continues to evolve, which is why technology is so important.

ChrisDonat

Got it. And thanks for that piece on the evolution of the industry. Related to that just wondering and you just said that the online books are small piece of your revenues. But given lower commissions, do you think your pricing or really your contracts might change on the GTO side and being more fixed and less volumetric going forward or is it too soon to tell on that?

TimGokey

Yeah, I think it's too early to tell. It is - these contracts are all pretty long term in nature. We've had discussions with some wealth managers about the idea of focusing our contracts more on one position and a number of positions than on the number of trades, because you really look at what the cost drivers are and their revenue drivers on their side is more about positions. And we're looking for a long term construct between us and our clients that aligns with their revenue model and aligns with our cost model. And positions may be a better way to go on that. But those are long term discussions and I wouldn't expect to really see any impact in the years.

ChrisDonat

Got it. Okay. Thanks very much, Tim.

TimGokey

You bet.

Operator

And our next question comes from Puneet Jain from JPMorgan. Please go ahead with your question.

PuneetJain

Okay, thanks for taking my question. I know you expect gross sales to contribute to growth acceleration rest of the year. Can you also review expected trends in internal growth?

JimYoung

Sure, as you recall a couple of key drivers in there are going to be interim record growth which comes in fairly evenly throughout the year, as we mentioned, little low this quarter. We're expecting it to come back. So that'll pick up in terms of contribution. And then, probably the single biggest contributor to that internal growth is our equity position growth

SRG as we refer to it. And that's really back half weighted even specifically in Q4. So as those come into play, we expect really nice internal growth contribution as we get to the back half of the year.

Other than that there are always puts and takes throughout the rest of the business, little bit of professional services here and there. But the really big drivers are to keep your eye on that along with trade growth, which is always a contributor to some degree in that mix. But really, it's the position growth that we keep our eye on as we think about that sort of full year number.

PuneetJain

Got it. And it's been quite a while since you closed the UBS contract. Are you seeing any benefit from flywheel effect from closing the UBS deal with other wealth management clients, or is it too early for that?

TimGokey

Puneet, it's Tim. First of all, just we continue to make very good progress on UBS itself. And I'm really excited about the technology there. It has created lots of discussions with other large wealth managers. And when we talked about the pain points, and the open architecture platform of the future, there's a lot of head nodding and a lot of positivity.

All that said, as you pointed out, these conversations are long-term in nature. So there's nothing imminent to report. What I would say is separate from the creation of the new platform and the conversations about that with other wealth managers is that we are continuing in other ways to strengthen our wealth capability and our wealth platform. And you certainly saw that with some of the M&A. You are seeing that with moving some of these product lines into GTO. When you look at some of our recent onboarding, they do include significant wealth components. When we look at the underlying what's happening in our wealth business as we develop that into our third franchise, we're seeing good progress there. So we think the strategy is on track, and we continue to be excited about the opportunity.

PuneetJain

Got it. Thank you.

Operator

And ladies and gentlemen, at this time I'm showing no additional questions. I'd like to turn the conference call back over to management for any closing remarks.

Tim Gokey

Well, thank you. I just want to thank you everyone, for being here today. And to summarize, we feel very good about 8% as a recurring fee revenue number. Obviously, the record sales and our underlying business trends. As you heard, we're reiterating our full year guidance. And we continue to have a really good confidence in the long-term trend and in the investments that we're making to support that growth. So thank you very much again. And look forward to talk to you again next quarter.

Operator

Ladies and gentlemen, that does conclude today's conference call with you. Thank you for joining today's presentation. You may now disconnect your lines.