

Presentation by
McMillan Shakespeare Limited

CLSA Presentation

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Company overview



Key points

- MMS is a unique provider of workplace benefits in Australia.
- Fleet management business of Interleasing Australia acquired in April 2010.
- The combined business provides salary packaging administration and integrated fleet management services. It is the only company of its type.
- Clients include a variety of state and federal government agencies, hospitals, charities and large private sector organisations.
- Employs around 600 staff, with offices in every state in Australia.
- Services delivered through “a house of brands”.



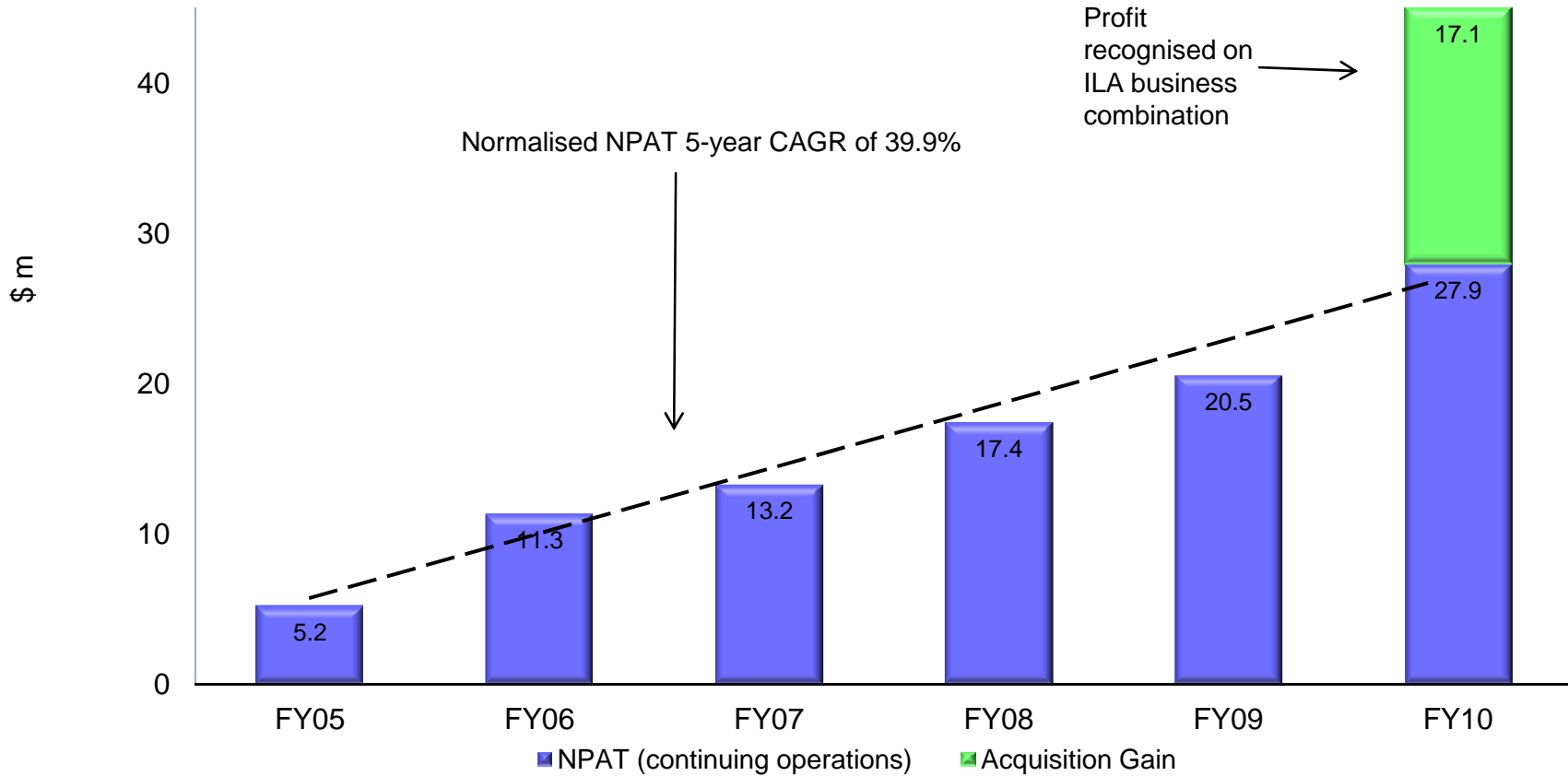
Financial performance

	FY05	FY06	FY07	FY08	FY09	FY10
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total revenue	35,838	48,721	54,536	66,624	77,259	131,021
Normalised pre tax profit from continuing operations	7,915	15,013	19,079	24,919	28,912	39,904
Normalised NPAT	5,054	11,305	13,237	17,368	20,523	27,905
Normalised Basic EPS (cents)	8.0	17.1	19.8	25.8	30.4	41.2
Dividends declared per share (cents)	3.9	9.5	12.5	16.5	19.0	24.0
Amount franked	100%	100%	100%	100%	100%	100%
Normalised ROE (%)	24%	39%	36%	39%	39%	42%
5 year normalised EPS CAGR						39%

Normalised numbers exclude the \$17.1m acquisition profit recognised in FY10 as a result of the business combination of ILA.



Historical normalised NPAT⁽¹⁾

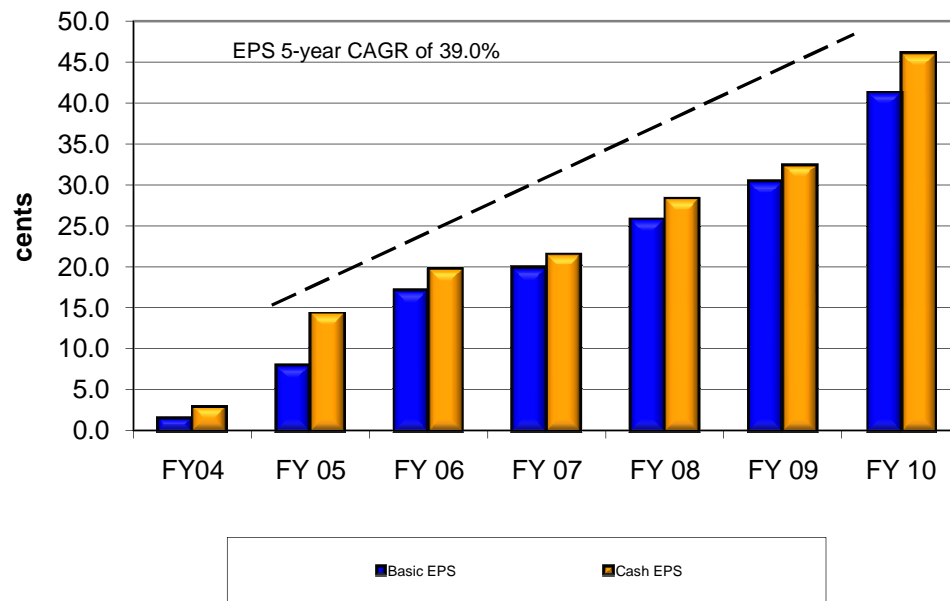


Note 1: Normalised numbers exclude the \$17.1m acquisition profit recognised in FY10 as a result of the business combination of ILA

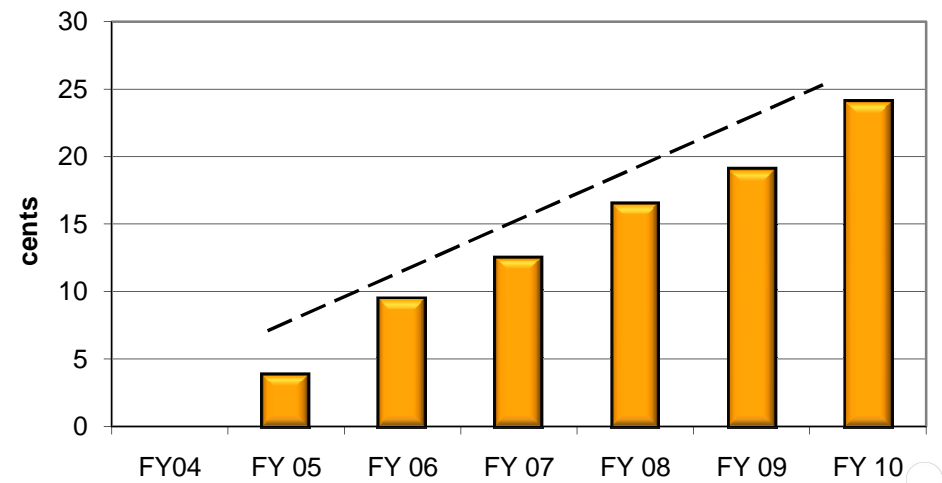


Earnings and dividends per share

Normalised earnings per share (EPS) (1)



Total dividends per share



Note 1: Normalised EPS excludes the profit recognised on acquisition as a result of the business combination of ILA



What is salary packaging?

- Australia's taxation system allows tax concessions for certain employee benefits and for certain industry sectors which makes salary packaging attractive.
- Eligible employees increase their disposable income by using pre-tax salary to pay for goods or services.
- Employers use these benefits to attract and retain staff in a tight employment market.
- Payroll systems do not cope well with salary packaging i.e. a bespoke system is required.
- MMS with its knowledge, people and systems, administers budgets; deducts pre-tax salary; makes payments to service providers on behalf of an employee; and accurately reports transactions for tax purposes.
- A high transaction load, a complex business process and the tax implications leads many employers to outsource this task.

What is fleet management?

- MMS finances and manages vehicle fleets for its large corporate customers and charges a monthly “rental” fee.
- “Management” includes:
 - maintenance;
 - fuel;
 - tyres;
 - traffic fines;
 - registration;
 - insurance; and
 - accident management.
- Fleet management is a complex and capital intensive task. Many corporations choose to outsource management and/or lease their fleet.

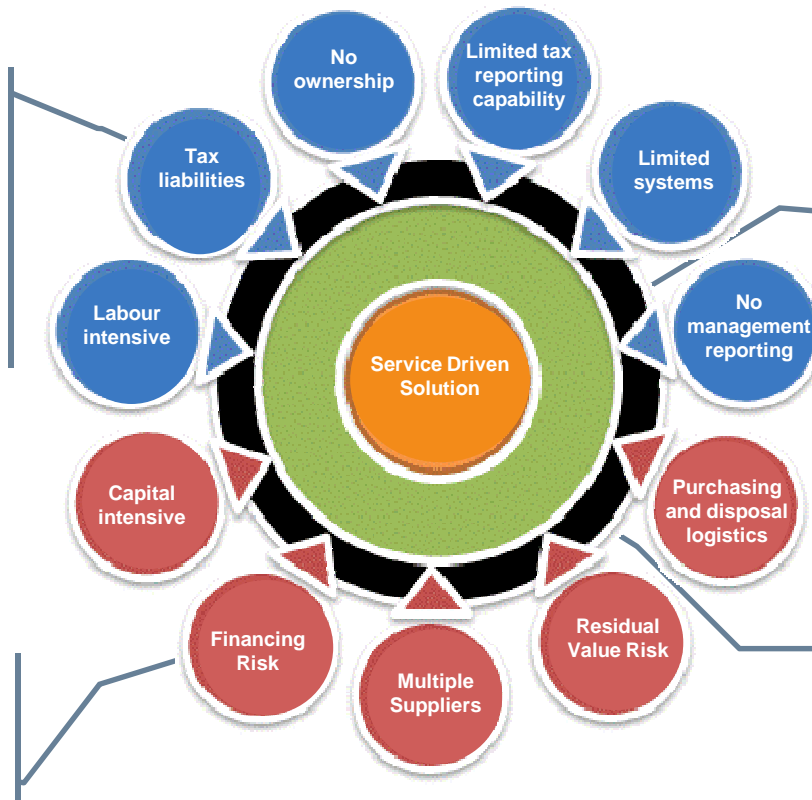


Service driven solutions – solving complex workplace problems for employers and employees

Client Challenges

- Employers want to attract and retain staff through benefits but face a series of complex issues outside of their core business activities when dealing with employee benefits, Fringe Benefits Tax and salary packaging administration.

- Employers face a complex series of issues when owning and managing a vehicle fleet.



Drivers of demand

MMS Solutions

Relationships, experience and expertise layer

- Dedicated specialists in Fringe Benefits Tax, exemptions and managing the vehicle value chain.
- Supplier relationships to procure vehicles and after market services.
- Dedicated personnel assist with employee's questions and claims.
- Complete outsource of all functions
- Assists CFO with tax compliance.

Capital, systems and risk management layer

- Ability to finance vehicle purchases and arrange lease finance.
- Single supplier.
- Regular reporting.
- FBT liability indemnity.
- Robust systems with backup to administer employee business, pre-tax payments and FBT reporting (millions of separate transactions).

Revenue sources

- Salary packaging administration fees:
 - annuity income stream; paid directly from employees' salary.
- Facilitation and procurement fees for assisting with novated lease settlements.
- Net interest margin on financed vehicles.
- Fees for managing customer vehicle fleets.
- Supplier rebates based on transaction volumes e.g. fuel, tyres, maintenance.
- See Appendix I for further details.



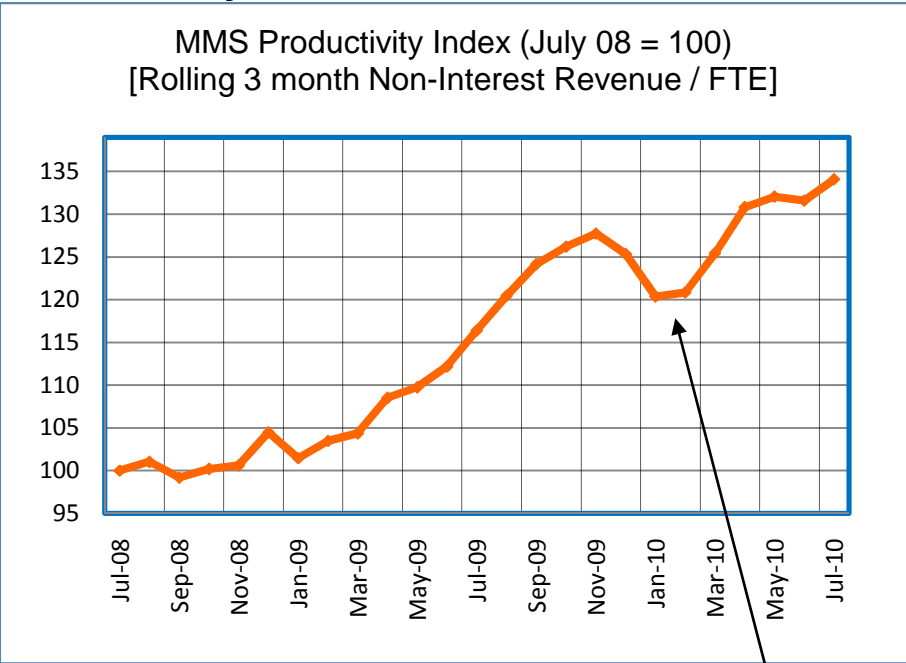
What is MMS's comparative/competitive advantage?

- A unique market position: the only integrated provider of salary packaging and “company car” solutions.
- Industry leading service levels.
- Scale in BPO business/dominant player (MMS is over twice the size of its nearest competitor - lower delivered cost).
- Proprietary, scalable salary packaging IT systems. Difficult and costly to replicate.

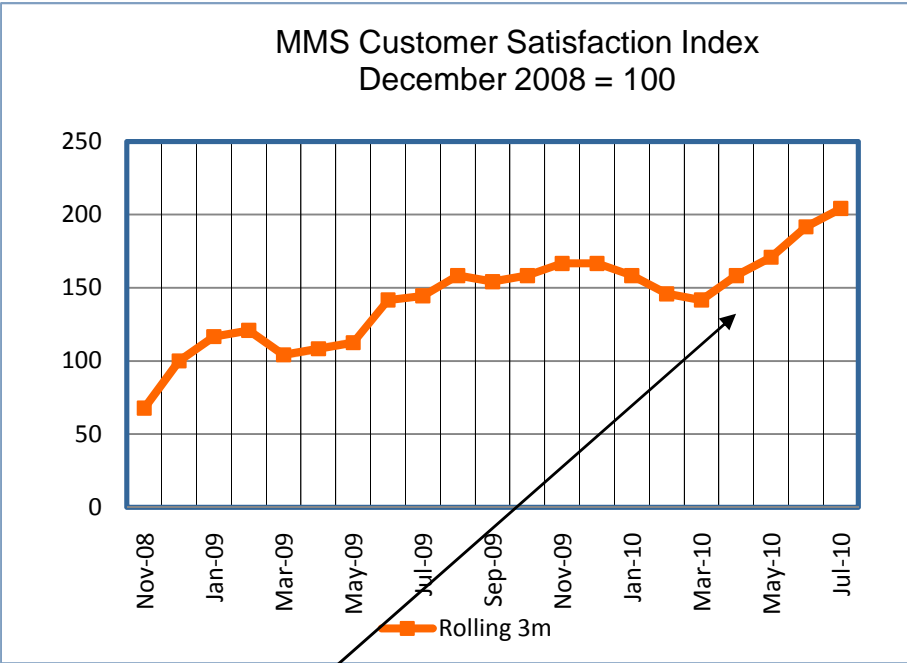


Client service levels and productivity

Productivity Index

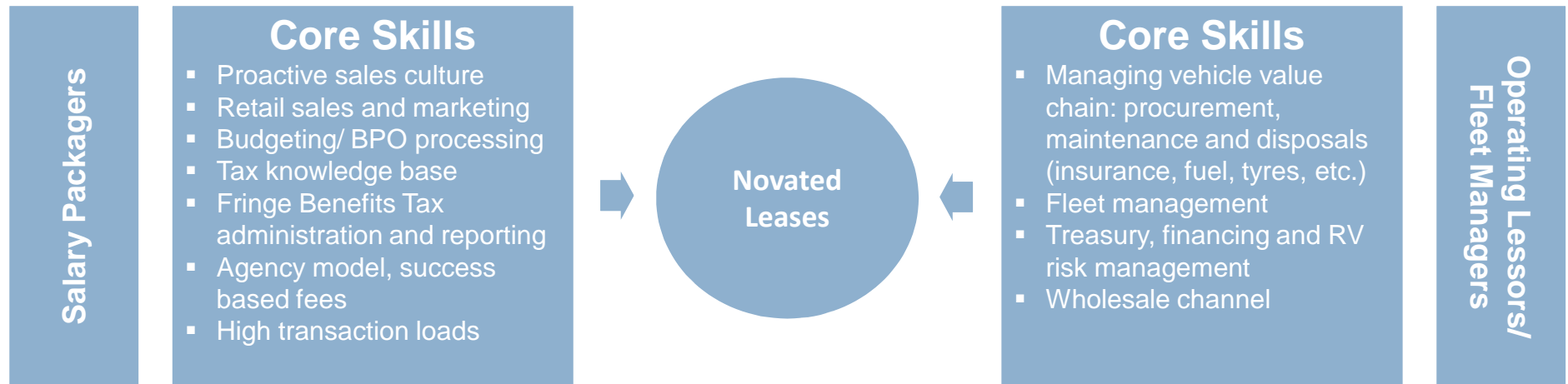


Customer Satisfaction Index



Increased head count to maintain client service levels during the end of FBT year process.

Our unique market position



- Ability to offer clients a “one car” solution (operating, novated and managed leases and Fringe Benefits Tax management).
- Novated leases require salary packing AND operating lease skill sets because they involve the purchase and financing of motor vehicles AND Fringe Benefits Tax management and administration.
- Many customers prefer to deal with one supplier.
- Cross selling opportunities.

Interleasing Australia (ILA)

Key Points

- Acquired in April 2010 for \$208m, at a discount to net assets.
- Major passenger car and light commercial vehicle owner and fleet manager.
- Multi-brand fleet with exclusive rights to Holden Leasing brand.
- Provides operating and managed leases to corporate clients.
- Track record of managing the vehicle value chain.
- Conservative accounting, robust second hand car values, counter party risk controls.
- Salary packaging cashflows provide attractive debt market terms.
- Financing will include on balance sheet and off balance sheet facilities.

Growth opportunities

Salary Packaging	Synergies	Asset Management
<ul style="list-style-type: none"> ▪ Increase salary packages through higher penetration rate and new client wins. 	<ul style="list-style-type: none"> ▪ Cross-sell salary packaging and novated leases to ILA client base. 	<ul style="list-style-type: none"> ▪ Grow the loan book over time with operating and managed leases.
<ul style="list-style-type: none"> ▪ Provide broader workplace benefits to clients' employees. 	<ul style="list-style-type: none"> ▪ Cross-sell operating and managed leases to salary packaging client base. 	<ul style="list-style-type: none"> ▪ Grow in-life car services, reduce maintenance costs and manage the vehicle value chain.
<ul style="list-style-type: none"> ▪ Increase procurement, supply and financing of cars under novated leases. 	<ul style="list-style-type: none"> ▪ Deployment of purchasing power to generate greater procurement discounts and distribution fees. 	<ul style="list-style-type: none"> ▪ Conservative management of residual, credit and interest rate risk.



How will MMS continue to grow?

- Market grows at 3-8%pa depending on economic conditions.
- See Appendices II and III for market overviews.
- Only around 12-14% of MMS target salary packaging market is outsourced.
- Improving employee participation rates with existing customers.
- Unique market offering creates new business and cross sell opportunities. Since the acquisition of Interleasing and Holden Leasing (1 April 2010) 8 new business contracts and 10 cross sell contracts achieved.
- High service levels/word of mouth promotion.



Key Sensitivities

- New car sales market.
- Second hand car values.
- Interest rates.
- Interest rate margin on operating leases.
- Key contract tender.
- Economic conditions generally.



Appendices

I	Sources of Revenue
II	Market opportunity
III	Market opportunity (cont'd)
IV	Credit Risk
V	Interest Rate Risk
VI	Residual Value Risk
VII	Regulatory themes post Henry Inquiry
VIII	Gearing
IX	Debt facilities
X	Share price chart

Sources of revenue

Salary Packaging (including motor vehicles)	Novated Lease Management	Novated Lease Distribution Fees	Operating Leases	Management Services
<ul style="list-style-type: none"> Recurring income. Portion of employee's pre-tax salary is transferred to MMS, usually on a fortnightly basis. 	<ul style="list-style-type: none"> Recurring Income. 	<ul style="list-style-type: none"> MMS can procure and supply car and after market parts and arrange finance for the employee. 	<ul style="list-style-type: none"> ILA rents passenger and commercial vehicle fleets typically to corporate customers. 	<ul style="list-style-type: none"> ILA receives administration fees for managing client owned car fleets i.e. Corporates.
<ul style="list-style-type: none"> Disbursements made on behalf of employees from funds held in trust account. 	<ul style="list-style-type: none"> Employee pays for lease administration. Paid out of pre-tax salary. 	<ul style="list-style-type: none"> Success based distribution fees are paid by the financier and/or suppliers. 	<ul style="list-style-type: none"> Typically a three year lease term. 	<ul style="list-style-type: none"> Services include arranging toll fees, repairs, fuel, insurance and scheduled maintenance.
<ul style="list-style-type: none"> MMS earns an annual management fee paid typically in fortnightly instalments. 	<ul style="list-style-type: none"> Typically a four year lease period. 	<ul style="list-style-type: none"> One-off fees i.e. Unlike administration fees, not recurring income. 	<ul style="list-style-type: none"> ILA retains ownership of the vehicles (appears on the ILA Balance Sheet as a fixed asset). 	<ul style="list-style-type: none"> Agency business with low levels of Capital Employed.
<ul style="list-style-type: none"> MMS typically has a 5 year contract with the employer on a 3+1+1 basis. Some contracts allow MMS to earn interest on float money. 	<ul style="list-style-type: none"> Employee is the beneficial owner of the car. 		<ul style="list-style-type: none"> Recurring rental income covers interest costs, depreciation/principal repayments, in-life car services e.g. Fuel, tolls, tyres, green slips, infringements and management fees. 	
<ul style="list-style-type: none"> Customer base includes over 800 charities, NFP's, public health, government departments and corporates. 			<ul style="list-style-type: none"> Cars sold at lease expiry using retail and wholesale channels. 	



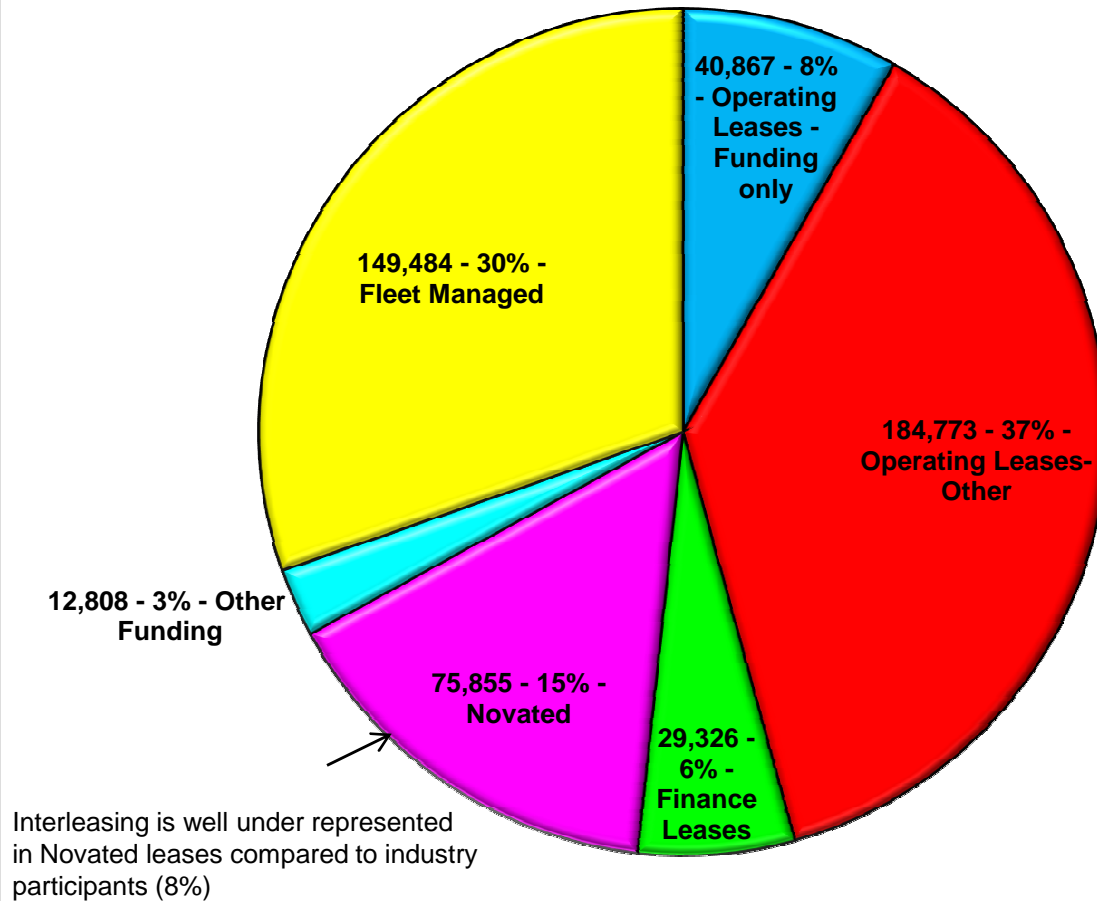
Market opportunity

	Full FBT	Rebatable FBT	\$17,000 Exempt	\$30,000 Exempt
Types of Employers	Government departments. Private companies. Public companies.	Independent schools. Sporting clubs. Religious institutions. Trade unions.	Public hospitals. Private not-for-profit hospitals.	Public benevolent institutions. Charities.
FBT Treatment	FBT rate 46.5% on taxable value of benefits. Certain benefits, including motor vehicles on novated leases are concessionally taxed.	Rebatable FBT on first \$30,000 of grossed-up taxable value of benefits (46.5% rebate). Equates to \$16,050 of benefits concessionally taxed. Full FBT on excess over \$30,000.	FBT exempt on first \$17,000 of grossed-up taxable value of benefits. Equates to \$9,095 of benefits. Full FBT on excess over \$17,000.	FBT exempt on first \$30,000 of grossed-up taxable value of benefits. Equates to \$16,050 of benefits. Full FBT on excess over \$30,000.
Common Fringe Benefits	Novated leases. Associate leases. Additional superannuation. Professional association membership fees. Living away from home allowance. Remote area housing allowance.	Novated leases. Additional superannuation. Mortgage/rent. In-house school fees.	Additional superannuation. Mortgage/rent. Meal entertainment and venue hire. Personal loans. Living expenses. Novated leases (not part of cap).	Additional superannuation. Mortgage/rent. Meal entertainment and venue hire. Personal loans. Living expenses. Novated leases (not part of cap).
Total workforce	10.7m			
By sector	9.5m	1.2m		
MMS target market	2.5m	1.0m		
Typical participation	0-20%	59-90%		
Target participation	5-25%	80-90%		
Estimated outsourced participants	0.45m			
Conclusion	Large untapped market to exploit			



Market opportunity (cont'd)

Australian Fleet Lessors Association (AFLA) - Total Portfolio at July 2010
By Type of Facility (units/%)



- ILA is a tier 2 industry player.
- ILA share of novated leases as % of total fleet significantly less than AFLA average.
- MMS's expertise in novated lease allows MMS to target even greater % novated lease share.
- Access to capital and significant flexibility in pursuing optimum funding structure.
- CAGR for 2001-2009 was 8% (AFLA). Expect 5-8% over next 5 years.

Credit Risk

The risk that customers can not pay their lease installments or do not pay on time, resulting in losses on collecting monies owed

- All new business proposals reviewed prior to credit advanced, using robust rules.
- Annual reviews of all credit line facilities undertaken and more often if required.
- Credit default experience minimal over past 4 years.
- Appropriate securities such as guarantees, security deposits obtained where required.
- Direct debit is used to a high degree, increasing surety of payment.
- Credit Committee monitors risk and reports to Board monthly in accordance with Board approved policy.
- Defaults mitigated by fact that assets can be sold in liquid resale markets.

Interest Rate Risk

The risk that as interest rates move up or down, the net profit of the business moves likewise

- Leases are for fixed terms at fixed interest rates.
- Revenue side locked in.
- McMillan matches to the profile of how leases amortise, the funding term of what we borrow.
- Derivatives can be used for this (ie: Interest Rate Swaps; Forward Rate Agreements) or funds can be borrowed for varying terms direct from lenders (i.e.: bullet terms to 5 years at a fixed rate).

ACCORDINGLY:

- Negligible interest rate risk results.
- Board policy in place – monitored monthly.



Residual Value Risk

The risk that the estimated future value used to calculate the monthly rentals higher than the actual sales proceeds received on disposal of the asset

- Approach used – highly professional and disciplined approach to pricing.
- People assessing and monitoring are car people with car knowledge.
- Monitoring of resale prices on a month to month basis.
- Reviewing future values of current leases on a quarterly basis.
- Monthly rental can be re-priced during term via reviewing actual versus estimated usage of the asset, as determined at inception.



Regulatory themes post Henry Inquiry

- Government has ruled out changes to Fringe Benefits Tax exemptions for Not-for-Profit's "at any time".
- Henry has recommended flat rate (20%) for FBT on motor vehicles. No government response, however, no material impact envisaged.
- Henry recommended government consider taxing fringe benefits via employees' income tax returns rather the employers' FBT return. No government response. MMS service still required under either scenario; salary packaged superannuation already taxed via employee.



Gearing

	Balance at 30th June 2010 \$000
Net debt	125,970
Book value of equity	89,417
Gearing - net debt / (net debt + equity)	58%
Interest times cover (4Q FY10)	5.80

** As at 30th June 2010 the group is well within its banking covenants.

Source: Bloomberg



Debt facilities

Existing bank facilities include:

- Facility A - \$30.0 million debt funding provided to MMS (Termination date 31 March 2013) - amortises \$4m every 6 months commencing December, 2010.
- Facility B - \$5.0 million working capital facility provided to MMS (Termination date 31 March 2011).
- Facility C - \$180.0 million debt funding provided to ILA (Termination date 2 years from commencement of facility).

Significant headroom within debt facilities to deliver on business plan.

Source: Bloomberg



Share price chart



Source: Bloomberg