MMS Group 1HFY11 Results Presentation

McMillanShakespeareGroup

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Maxxia Maximising your workplace benefits | RemServ | HOLDEN Leasing | Interleasing

The McMillan Shakespeare Group of Companies

Half year presentation contents

Financial highlights

- Consolidated NPAT of $20.5m.
- NPAT and EPS growth of 83% on PCP.
- Group Remuneration Services NPAT of $15.0m or 35% growth.
- Asset Management NPAT of $6.6m.
- Interim dividend of 16 cents per share (10 cents PCP).
- Normalised(1) return on equity of 43%.

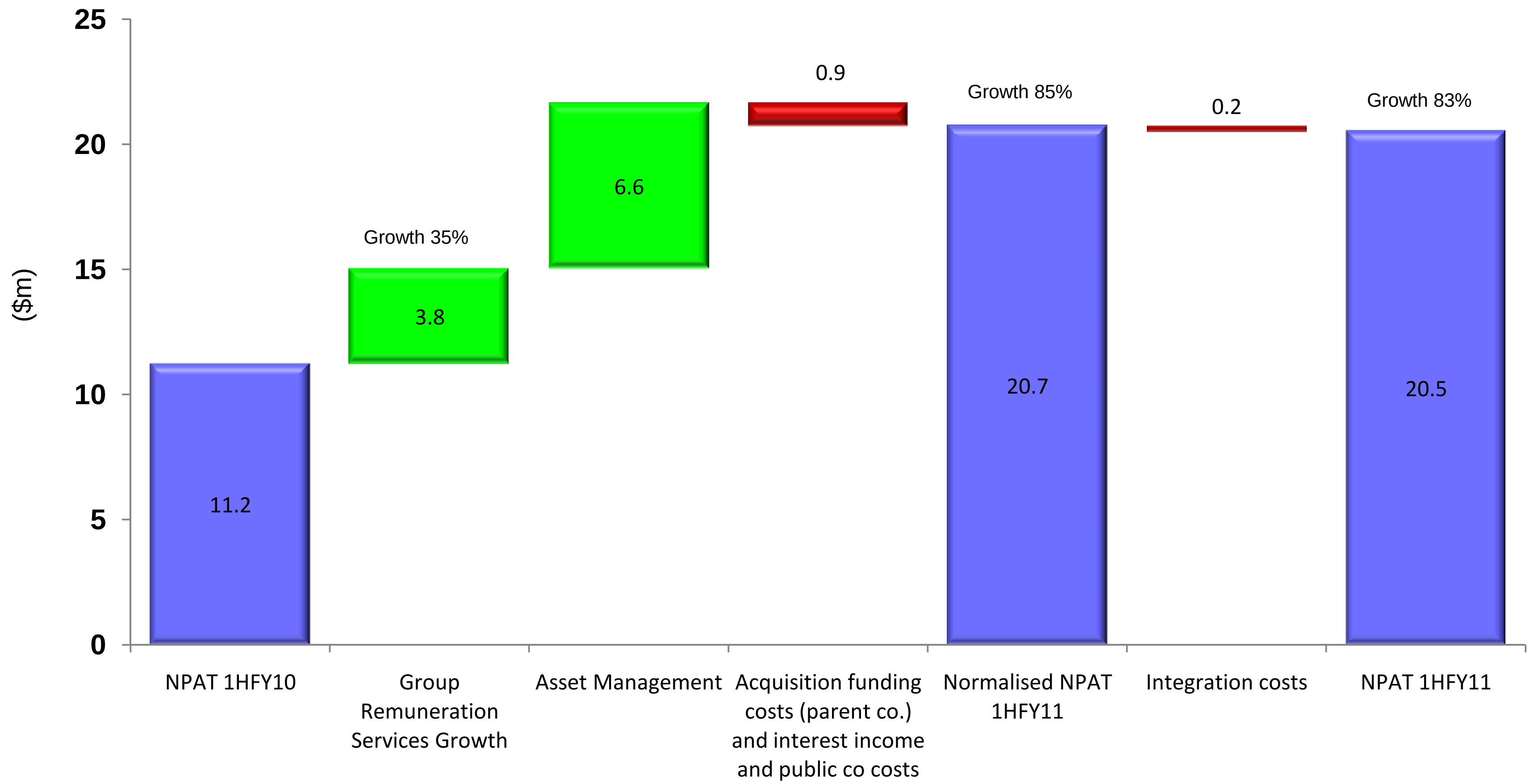
Note 1: Excludes the retained earnings impact of the profit recognised on acquisition as a result of the business combination of ILA.

Consolidated financial performance

	1HFY10 $000 Group Remuneration Services ("Original" business)	1HFY11 $000 Group Remuneration Services ("Original" business)	% Increase	1HFY11 $000 Asset Management	1HFY11 $000 Unallocated	1HFY11 $000 Total
Revenue from operating activities	43,098	53,618	24%	82,683	-	136,301
Expenses	27,235	32,123	18%	73,209	-	105,332
Pre tax profit from operating activities	15,863	21,495	36%	9,474	-	30,969
Operating margin	36.8%	40.1%		11.5%		22.7%
Tax	4,770	6,473	36%	2,868	-	9,341
Segment net profit after tax	11,093	15,022	35%	6,606	-	21,628
Interest income	541	-		-	360	360
Interest and borrowing costs on parent company debt	-	-		-	(1,184)	(1,184)
Public company costs	(348)	-		-	(475)	(475)
Integration	-	-		-	(276)	(276)
Tax on unallocated items	(58)	-		-	472	472
Net profit after tax	11,228	15,022		6,606	(1,102)	20,526
NPAT Growth						83%
Normalised ROE[1]	38%					43%
Basic earnings per share (cents)	16.6					30.3
Diluted earnings per share (cents)	16.6					29.2
Interim dividend declared per share (cents)	10.0					16.0

Note 1: Normalised ROE excludes the retained earnings impact of the profit recognised on acquisition as a result of the business combination of ILA.

NPAT bridge


25
20
15
10
5
0
($m)
11.2
Growth 35%
3.8
6.6
0.9
Growth 85%
20.7
0.2
Growth 83%
20.5
NPAT 1HFY10
Group Remuneration Services Growth
Asset Management
Acquisition funding costs (parent co.) and interest income and public co costs
Normalised NPAT 1HFY11
Integration costs
NPAT 1HFY11

Definition of segments

Group Remuneration Services segment definition:

The segment provides administrative services in respect of salary packaging and facilitates the settlement of motor vehicle novated leases for customers, but does not provide financing. The segment also provides ancillary services associated with motor vehicle novated lease products such as insurance and after market products.

Asset Management segment definition:

The segment provides financing and ancillary management services associated with motor vehicles, commercial vehicles and equipment.

Group Remuneration Services segment

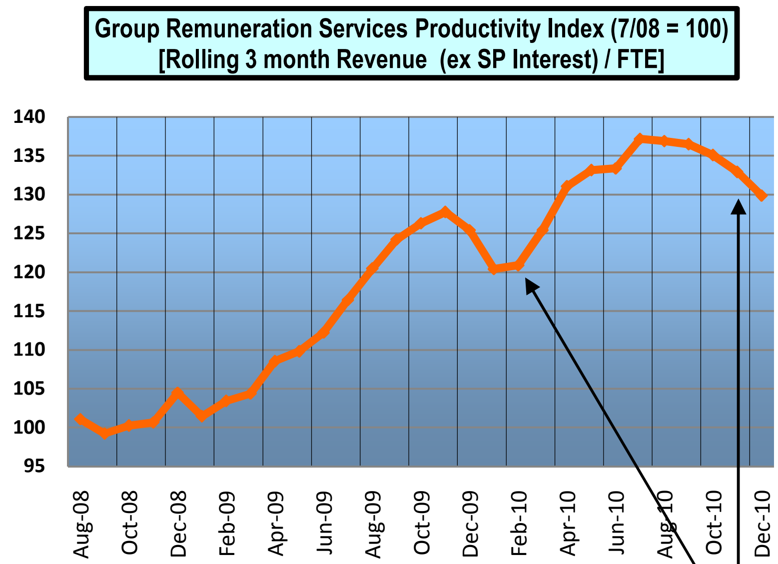
- Revenue growth of 24% on PCP.
- NPAT growth of 35% on PCP.
- Core operating contribution increase of 32% over PCP.
- Customer metrics exceeding our benchmarks.
- Ongoing productivity improvements.

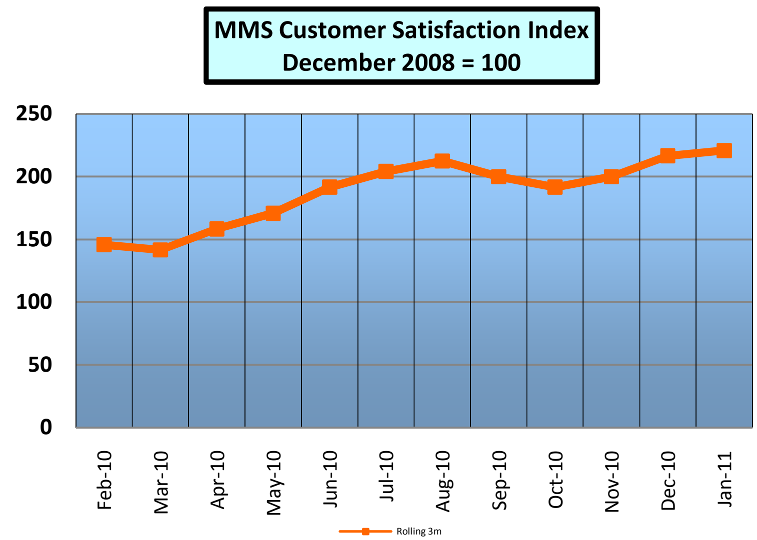
Note 1: Core operating contribution - profit before finance, tax and depreciation as a percentage of revenue derived directly from salary packages managed and novated leasing.

Group Remuneration Services financial performance

	1HFY10 $000	1HFY11 $000	% Inc	Comment
Segment revenue	43,098	53,618	24%	
Employee expenses	18,612	20,775	12%	Significantly below revenue growth
Depn and amort of PPE and software	873	1,537	76%	Reflects recent investment in IT, CRM, BCP/DRP and premises
Property expenses	1,047	1,936	85%	Additional space and new premises
Other expenses	6,703	7,875	17%	Significantly below revenue growth
Total expenses	27,235	32,123	18%	
	15,863	21,495	36%	
Tax	4,770	6,473		
Net profit after tax	11,093	15,022	35%	

Productivity and customer satisfaction indices





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

Asset Management segment highlights

- First half performance exceeded expectations.
- Assets under finance starting to grow, notwithstanding steep run-off curve.
- Satisfactory NIM and management fees.
- Pleasing residual value performance.
- Minimal credit losses <$25k.
- Interest rate position fully covered.
- Debt facility re-negotiated to 2014 with more favourable/flexible terms.

Asset Management financial performance

	1HFY11 $000
Segment revenue	82,683
Depreciation of motor vehicle fleet	32,079
Interest on fleet financing	5,032
Motor vehicle fleet expenses	28,291
Employee expenses	6,197
Other expenses	1,610
Total expenses	73,209
	9,474
Tax	2,868
Net profit after tax	6,606

Asset Management key balance sheet numbers

	31st Dec 2010 $000	30th June 2010 $000
Operating lease assets	204,672	202,471
Finance leases	8,679	9,226
Fleet financing borrowings	108,000	112,727
Maintenance instalments received in advance	6,310	8,653
Net assets	89,628	83,022

Gearing

	MMS & Group Remuneration Services (1) 31st Dec 2010 $000	Asset Management 31st Dec 2010 $000	Group Balance at 31st Dec 2010 $000	Group Balance at 30th Jun 2010 $000
Net debt	14,457	105,227	119,684	125,970
Book value of equity	11,983	89,628	101,611	89,417
Gearing - net debt / (net debt + equity)	55%	54%	54%	58%
Interest times cover			5.70	5.80

(1) Includes net debt of MMS for the acquisition of ILA

As at 31st December 2010 the group remains well within its banking covenants, while better utilising surplus working capital. Significant headroom is available within debt facilities to deliver on business plan.

1HFY11 cash flow

	Group Remuneration Services $000	Asset Management $000	Unallocated/ MMS $000	MMS Group Total $000
Segment NPAT	15,022	6,606	(1,102)	20,526
Non-cash (non-fleet depreciation and fleet provision movements)	1,537	(1,314)	-	223
Working capital inflow/(outflow)	1,578	534	-	2,112
	18,137	5,826	(1,102)	22,861
Tax payments in excess of tax expense	(1,617)	(1,645)	-	(3,262)
Net operating cashflow before fleet increase	16,520	4,181	(1,102)	19,599
Investing activities and fleet increase:				
Net growth in operating lease portfolio funded with cash	-	(2,200)	-	(2,200)
Acquisition costs	-	-	(340)	(340)
Capex (non-fleet) and systems	(2,929)	(12)	-	(2,941)
Free cash flow	13,591	1,969	(1,442)	14,118
Financing activities:				
Equity contribution	1,057	-	-	1,057
Intercompany funding	(2,400)	2,400	-	-
Debt repayments	(4,000)	(4,727)	-	(8,727)
Dividends paid	(9,497)	-	-	(9,497)
	(14,840)	(2,327)	0	(17,167)
Net cash movement	(1,249)	(358)	(1,442)	(3,049)

Funding

The Group renegotiated its borrowing arrangements for Interleasing subsequent to reporting date. The objectives of the renegotiation were to:

- Provide longer-term funding facilities to enhance liquidity position;
- Reduce funding costs; and
- Provide greater flexibility.

The $180m ILA facility has:

- been extended by two years to 31 March 2014;
- been repriced to lower the cost; and
- incorporated improved capital management covenants.

The parent company facility of $30m has been reduced to $26m following the first six monthly repayment of $4m during 1HFY11. The expiry date of 31 March 2013 for this facility remains unchanged. Our alternative funding initiatives are developing in accordance with our funding strategy.

1HFY11 key activities and highlights

Overall, a focus on: integration; maintaining momentum in our core business; and disciplined prioritisation of tasks and opportunities / making choices / not trying to do everything at once.

Integration

- Other than upgrade of Interleasing IT systems, integration activities will be largely complete by end Q3FY11.
- The combined business is settling into its rhythm.
- New business wins and cross sells continue to build momentum.
- Asset Management capability has opened up significant new opportunity in the private sector for Group Remuneration Services; a largely untapped market for MMS.
- Asset Management has also been successfully sold into Group Remuneration Services clients.
- A new, different and more capable organisation is emerging from the combination of the Group Remuneration Services business with the Asset Management business.

1HFY11 key activities and highlights (cont'd)

Core business

- Disaster Recovery (DR) and Business Continuity plans (BCP) successfully deployed in QLD floods:
  - RemServ (200 people) forced to evacuate its Brisbane premises.
  - DR sites immediately occupied in Brisbane and Melbourne.
  - All systems/phones operational.
  - RemServ operated successfully for two weeks outside its premises.
  - All salary packaging payments made; RemServ floated funds from its own reserves to cover mortgage and other payments for employees whose employers could not remit funds due to the floods.

1HFY11 key activities and highlights (cont'd)

  - Vivid demonstration to customers of the benefits of a comprehensive DR/BCP process.
- No significant customer contract losses.
- Interleasing systems upgrade work continues to run smoothly and within budget.
- ILA (despite steep run-off curve when acquired in April 2010), now moving into growth.

1HFY11 key activities and highlights (cont'd)

- Ongoing industrialisation of our business (better product and service delivery at lower cost) through ongoing investment in:
  - IT and Business Systems.
  - People (recruitment, training, learning and development).
  - Marketing and brand development to create differentiation and ultimately, "franchise" brands.

Sensitivities

- Queensland flood impact not material (current estimated pre-tax loss to business of $1m). Around $0.3m of this insured, subject to “flood” definition.
- Queensland economy post floods/cyclone.
- New car sales.
- Second hand car values.
- Interest rates.
- Key contract tenders.

Outlook

- Continued, disciplined development of our core businesses. Industrial strength BPO.
- Ongoing growth through:
  - New business and cross-sell from our stronger post acquisition value proposition.
  - Increasing participation rates within existing customer portfolio.
  - Competitive cost of funds and flexible financing facilities.
- Maintain industry leading service levels.
- Look for continuing productivity improvement.
- Continue to invest ahead of the growth curve.