

MMS Group Goldman Sachs Emerging Companies Conference

May 2012

McMillanShakespeareGroup



Maxxia Maximising
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benefits

RemServ

 **HOLDEN**
Leasing

Interleasing

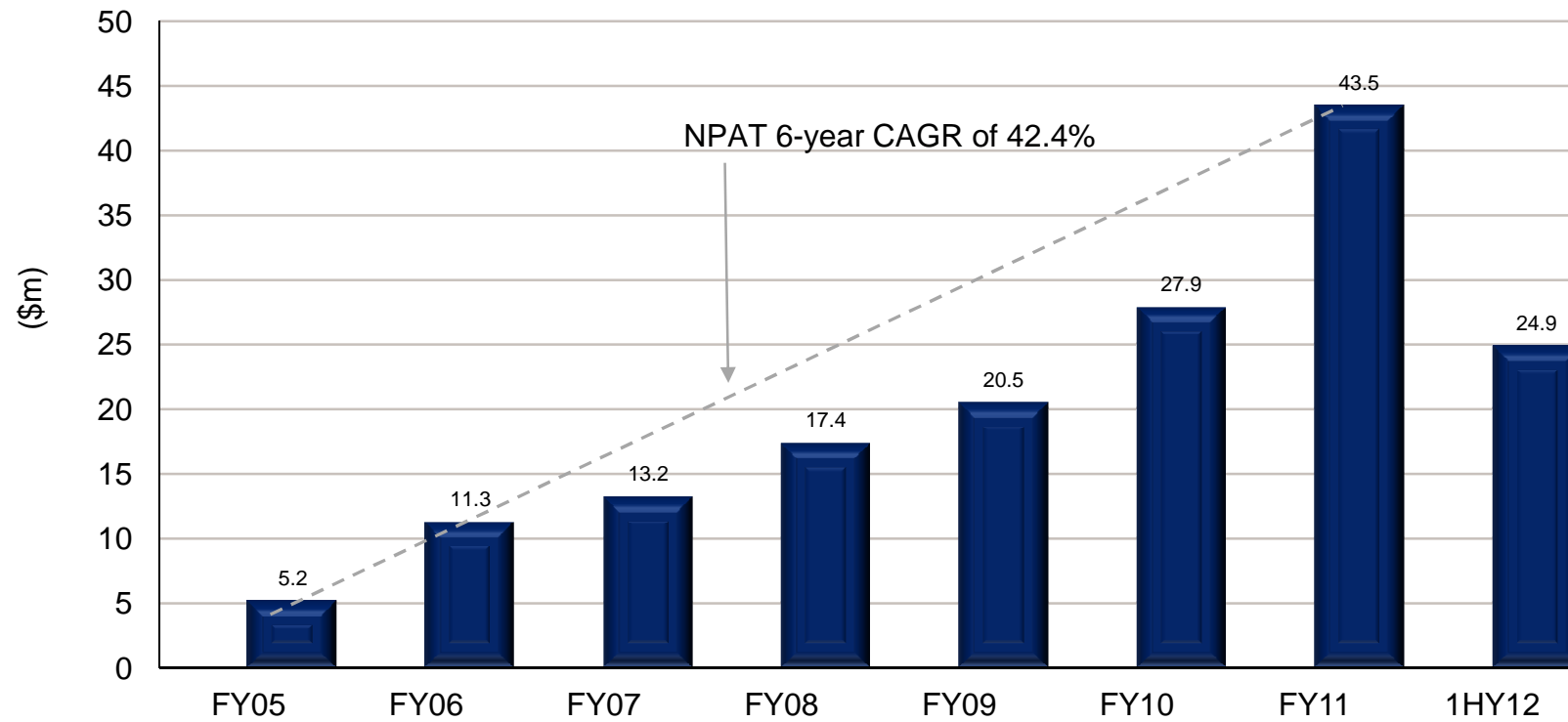
The McMillan Shakespeare Group of Companies

Company overview

- Provider of salary packaging administration and integrated fleet management services with unique competitive strengths.
- Group has two segments:
 - The **Group Remuneration Services**- provides administrative services in respect of salary packaging and facilitates the settlement of salary packaging 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**- provides financing and ancillary management services associated with motor vehicles, commercial vehicles and equipment.
- Clients include a variety of state and federal government agencies, hospitals, charities and large private sector organisations.
- Employs around 800 staff, with offices in every state in Australia.
- Services delivered through “a house of brands”.
- Largest salary packaging and novated lease provider – over \$3billion in salaries under management; 110,000 phone calls per month; over 500,000 financial transactions per month.

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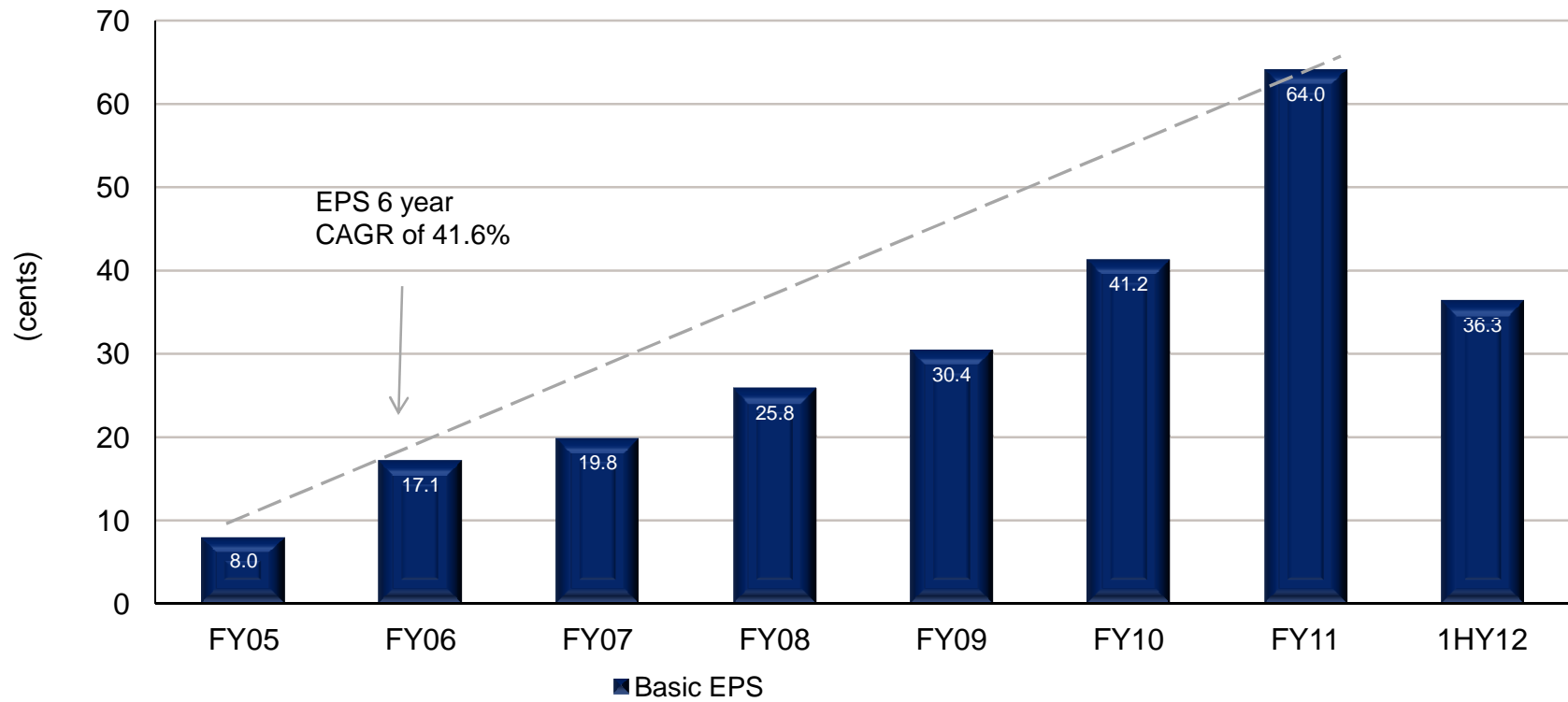
Normalised⁽¹⁾ NPAT



Note 1: Normalised NPAT excludes the profit recognised on acquisition of Interleaving in FY10 (\$17m profit after tax)

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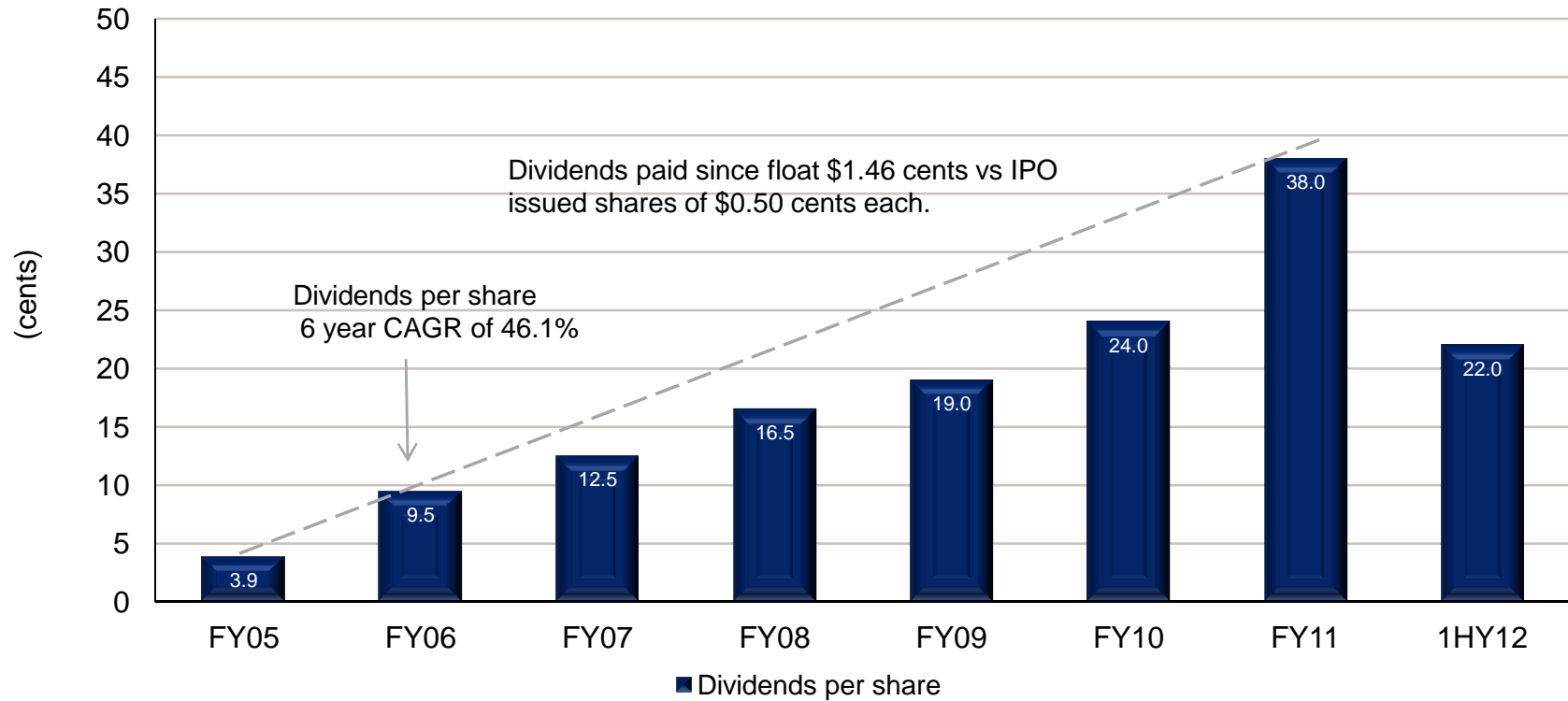
Normalised⁽¹⁾ earning per share (EPS)



Note 1: Normalised EPS excludes the profit recognised on acquisition of Interleasing in FY10 (\$17m profit after tax)

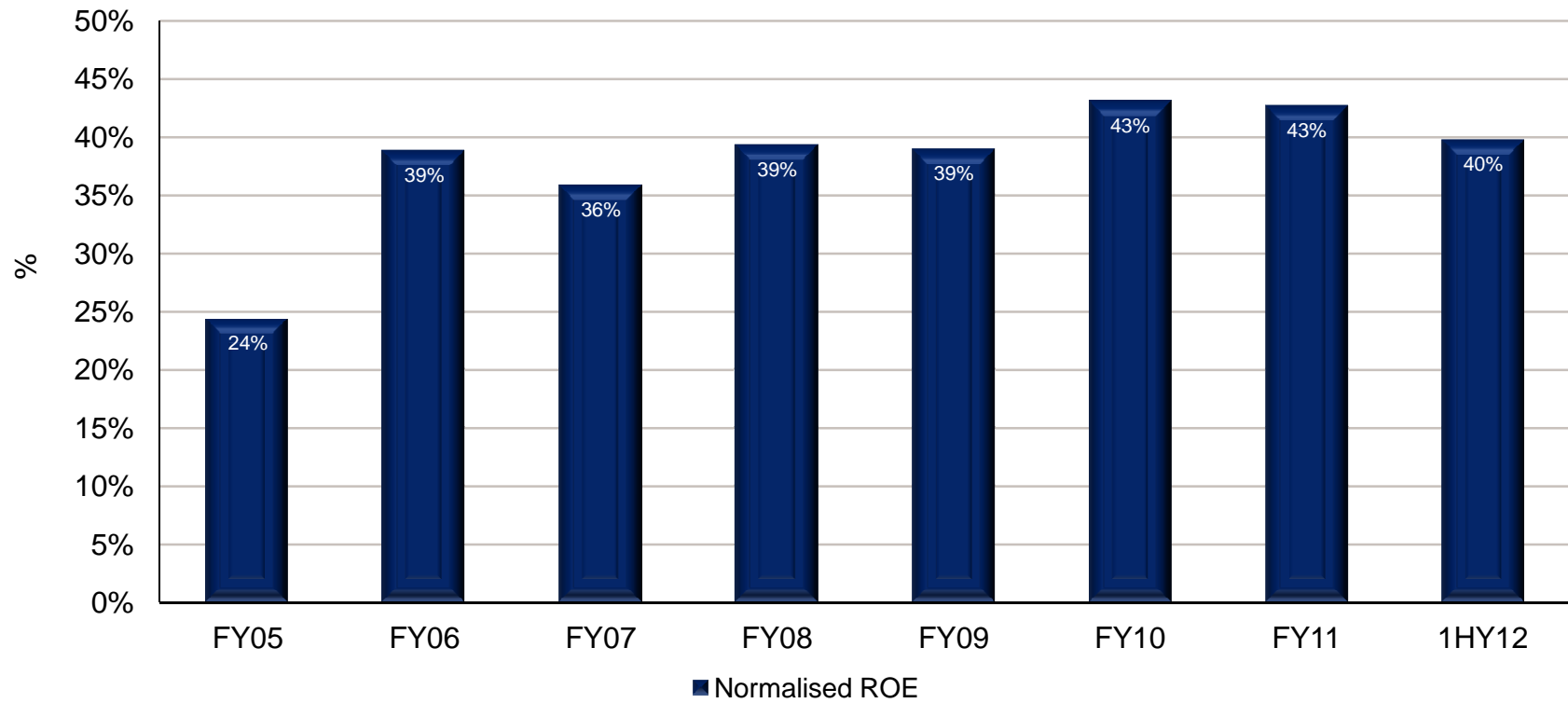
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Dividends per share



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Normalised return on equity (ROE)



Financial highlights 1H FY12

- Consolidated NPAT of \$25m (21.4% growth on PCP).
- Group Remuneration Services NPAT of \$18.5m (23% growth on PCP).
- Asset Management NPAT of \$7m (5.1% growth on PCP).
- Basic EPS of 36.3 cents per share (19.8% growth on PCP).
- Interim dividend of 22 cents per share (16 cents PCP).
- Annualised return on equity of 40%.
- Strong free cash flow of \$25m (pre-fleet increase).

Integrated model - unique market position

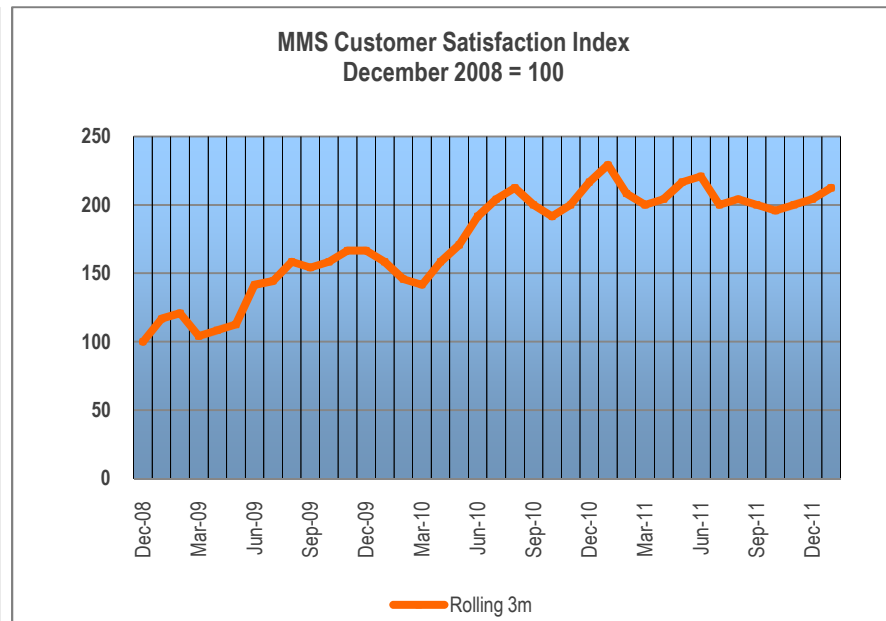
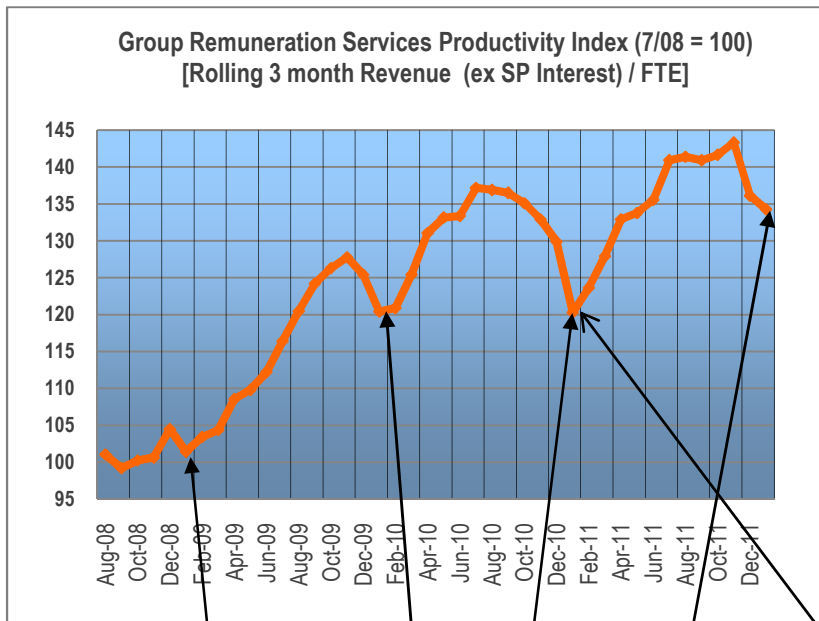


- Ability to offer clients a “one car” solution (operating, novated and managed leases and Fringe Benefits Tax management).
- Novated leases require salary packing AND operating lease skill sets because they involve the purchase and financing of motor vehicles AND Fringe Benefits Tax management and administration.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

Unique business model underpinned by key competitive strengths

- World class service levels (as independently measured by net promoter methodology).
- Low delivered cost (expense ratio reduced from 73% in 2008 to 57.5%).
- Industry leading counter-party risk management:
 - strong balance sheet
 - fully insured, including crime and fidelity
 - FBT indemnity
 - full disaster recovery/business continuity capability
- Attractive customer to financiers = low cost of funds.
- Bespoke, fully scalable FBT management/salary packaging systems.

Competitive strengths and performance indices



Queensland floods.

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

Revenue model

Remuneration Services

- Salary packaging administration fees:
 - annuity income stream; paid directly and regularly from employees' salary.
- Interest income on float.
- Facilitation and procurement fees for assisting with novated lease settlements.
 - Event based income received on settlement of lease.
- Negative working capital requirement.

Asset Management

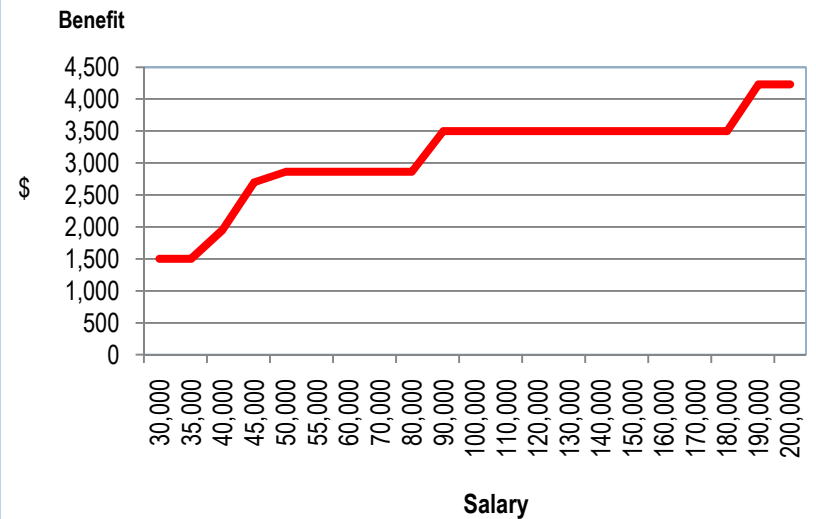
- Net interest margin on financed vehicles.
- Fees for managing customer vehicles.
- Supplier rebates based on transaction volumes e.g. fuel, tyres, maintenance.
- Vehicle remarketing profit.

Tax benefits for charities and public health from salary packaging

**Yearly benefit schedule
PBI \$16,050**

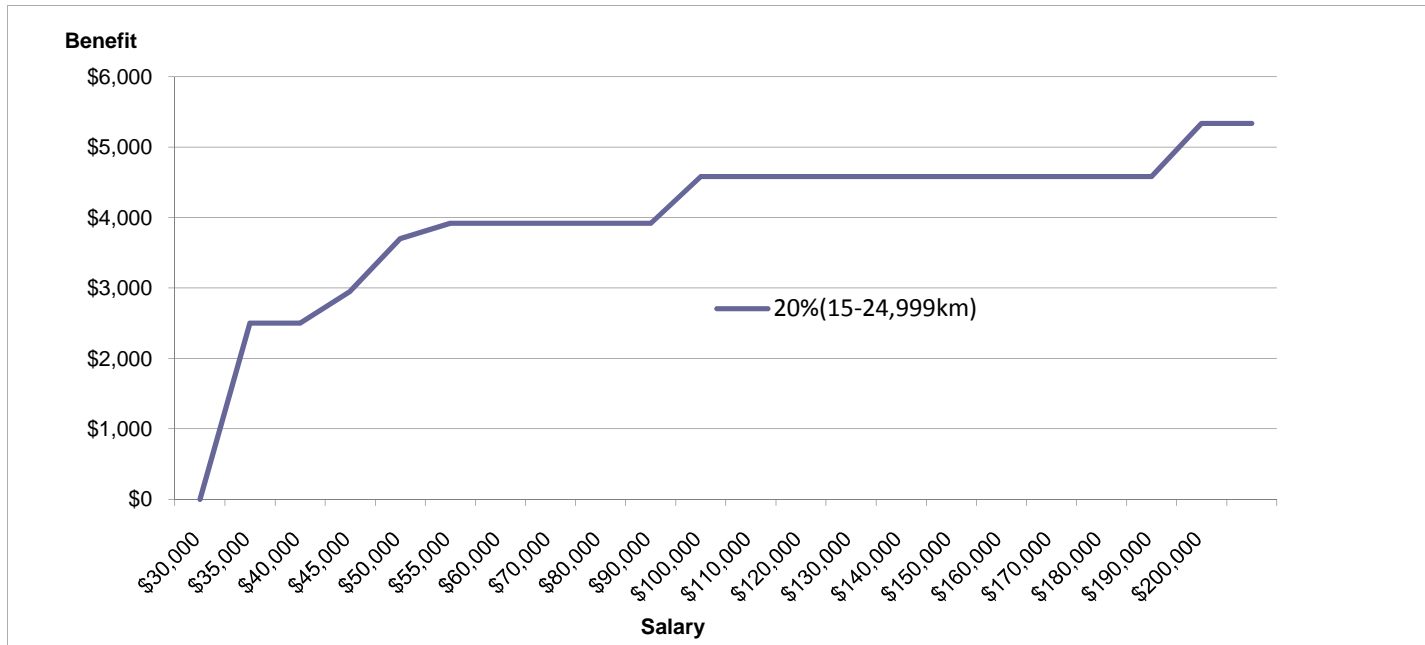


**Yearly benefit schedule
Health \$9,095**



Tax benefits from novated leasing

Cost of motor vehicle - \$33,600
 Statutory fraction for 15,000-24,999km - 20%



Assumptions: No business use, ECM applied, operating costs are those of a large passenger vehicle (includes GST savings on operating costs but not those saved on the acquisition of the motor vehicle).

Business update

- Leading indicators show no sign of impact from global economic uncertainty.
- MMS appointed sole provider to South Australian Government (previously panel of three).
- Low/medium but rising barriers to entry – large customers focus on counterparty risks, distribution efficiency, IT systems/DRP and BCP critical; bespoke, scalable systems required for salary packaging administration.
- Asset Management turned from being a book in run off to a ROE > WACC growth business. Assets under finance accelerating. Feeds into the Group Remuneration Services segment.
- Extension of credit lines on better terms last February underlines business model's "bankability".
- Cross sell opportunities between the two business segments continue to crystallize.

Key opportunities for growth

- Relatively small exposure to private sector.
- Operating lease capability (acquired April 2010) is opening up private sector opportunities for salary packaging administration and novated leases.
- NSW Health, salary packaging mostly in-sourced, >100,000 employees.
- Many other hospitals and charities in-sourced around Australia.
- The health and charity market grows at around 8% p.a. (i.e. strong natural growth in a large segment of our portfolio).
- Novated lease market grows at 5-8%p.a., thus providing another source of natural growth with existing customers.
- Appointed sole provider SA Government from 1 July, 2012; c.100,000 employees.
- More that 200 new contracts and cross-sales achieved in 18 months to 31/12/2011, thus providing ongoing growth through participation as these contracts mature.

Potential sensitivities

- New car sales.
- Second hand car values.
- Interest rates.
- Uncertain global economy.

Managing residual value risk

- Residual Values are set for term and kilometres by a Residual Value Committee.
- Proactive contract re-writes are undertaken to mark-to-market residual values where vehicle usage varies to that at inception e.g. kilometres driven; fair wear and tear.
- A portfolio revaluation is performed to assess the future value of operating leases in the light of macro / micro economic conditions – taxes, fuel, employment, GDP, new vehicle volumes, model changes.
- Where appropriate, provisions are taken up.

Appendices: Case study public hospital

- Card fees

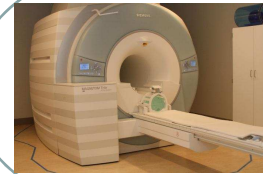


Meal entertainment

- NIM
- Mgt fees
- Commission
- In life services
- RV



Tool of trade operating lease



- NIM
- Mgt fees

Equipment finance and management



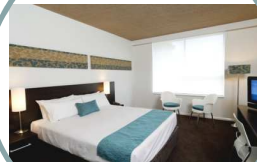
- Admin fee

Exempt – Cap \$17k



- Admin fee
- Mgt fee
- Commission
- In life services rebates

Novated Lease



- Admin fee

Venue Hire

Balance sheet summary

	MMS & Group Remuneration Services ⁽¹⁾ 31-Dec-11 \$000	Asset Management 31-Dec-11 \$000	Group Balance at 31-Dec-11 \$000	Group Balance at 30-Jun-11 \$000
Net debt	-11,406	123,766	112,360	114,966
Book value of equity	42,344	94,216	136,560	114,512
Gearing - net debt / (net debt + equity)	-37%	57%	45%	50%
Interest times cover			8.2	6.6

Note 1: Includes debt of \$4m for the acquisition of ILA.

** As at 31st December 2011 the group remains well within its banking covenants, while better utilising surplus working capital. Headroom is available within debt facilities to deliver on business plan.

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1HFY12 cash flow

	Group Remuneration Services \$000	Asset Management \$000	Unallocated / parent co. \$000	MMS Group Total \$000
Segment NPAT	18,479	6,944	(505)	24,918
Non-fleet depn/amort and fleet prov movements	2,829	788	-	3,617
Working capital inflow / (outflow)	2,833	(830)	-	2,004
Operating cashflow pre fleet increase and abnorm tax payments	24,141	6,902	(505)	30,538
Capex (non fleet) and software incl. 5 year IT systems upgrade	(1,542)	(1,622)	-	(3,164)
Free cash flow before fleet increase and abnorm tax payments	22,599	5,280	(505)	27,374
Tax payments in excess of tax expense	(917)	(996)	(645) ⁽¹⁾	(2,557)
Free cashflow before fleet increase	21,682	4,284	(1,150)	24,817
Net growth in Asset Management Portfolio	-	(19,149)	-	(19,149)
Free cash flow	21,682	(14,865)	(1,150)	5,668
Financing activities:				
Equity contribution	-	-	11,965	11,965
Intercompany funding	(999)	999	-	-
Net debt (repayments)/ borrowings (net of costs)	-	30,000	(13,000)	17,000
Dividends paid	-	-	(15,027)	(15,027)
	(999)	31,000	(16,062)	13,938
Net cash movement	20,683	16,135	(17,212)	19,606

Note 1: Unallocated tax payments represent tax payments in respect of the profit on acquisition of ILA recognised in FY10.

Sources of revenue

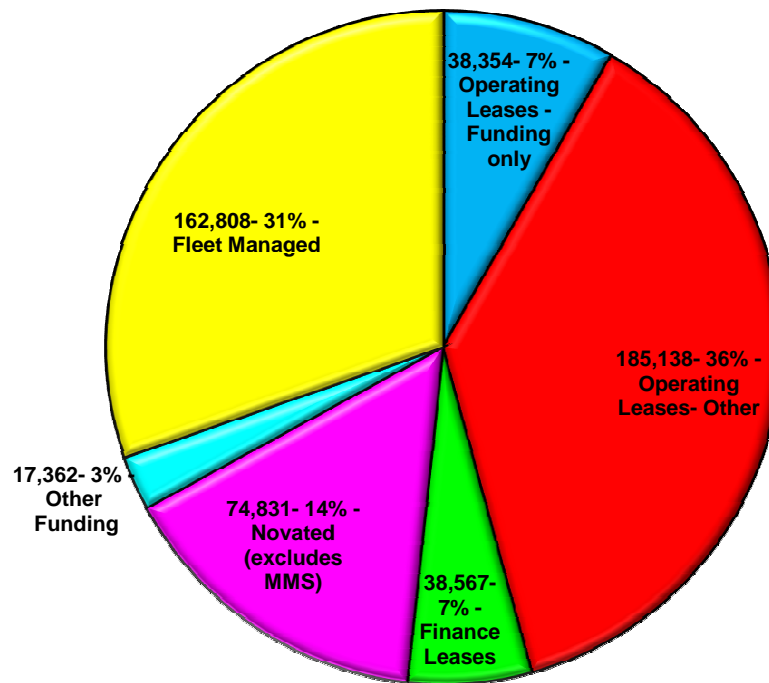
Salary Packaging (including motor vehicles)	Novated Lease Management	Novated Lease Distribution Fees	Operating Leases	Management Services
<ul style="list-style-type: none"> Recurring income. Portion of employee's pre-tax salary is transferred to funds held in trust, usually on a fortnightly basis. 	<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. 	<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 March 2012 By Type of Facility
(units/%)



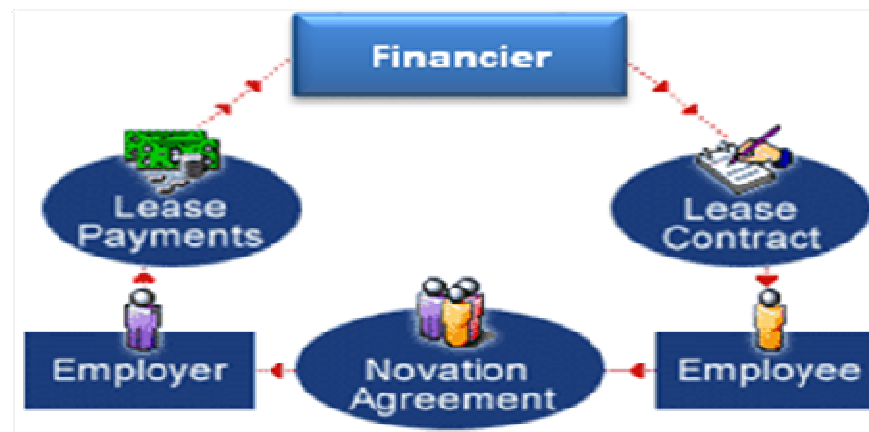
- ILA is a tier 2 industry player.
- ILA share of novated leases as % of total fleet significantly less than AFLA average.
- MMS's expertise in novated lease allows MMS to target even greater % novated lease share.
- Access to capital and significant flexibility in pursuing optimum funding structure.
- CAGR for 2001-2009 was 8% (AFLA). Expect 3-6% over next 5 years.

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 potential tax liabilities and implications leads many employers to outsource this task.
- MMS has robust and reliable systems, proven DRP and BCP support and the balance sheet to support clients and their employees in times of distress.

What is a novated lease?

- Enables employees to finance and operate a personal vehicle using their pre-tax income.
- A three way agreement between financier, employee and employer.
- Employee enters into a lease directly with the financier then assigns the obligations of the lease to the employer through a Deed of Novation.
- Employer then pays for lease and operating expenses from employee's income.
- MMS acts as an agent and facilitator – no balance sheet risk / MMS does not own vehicle.



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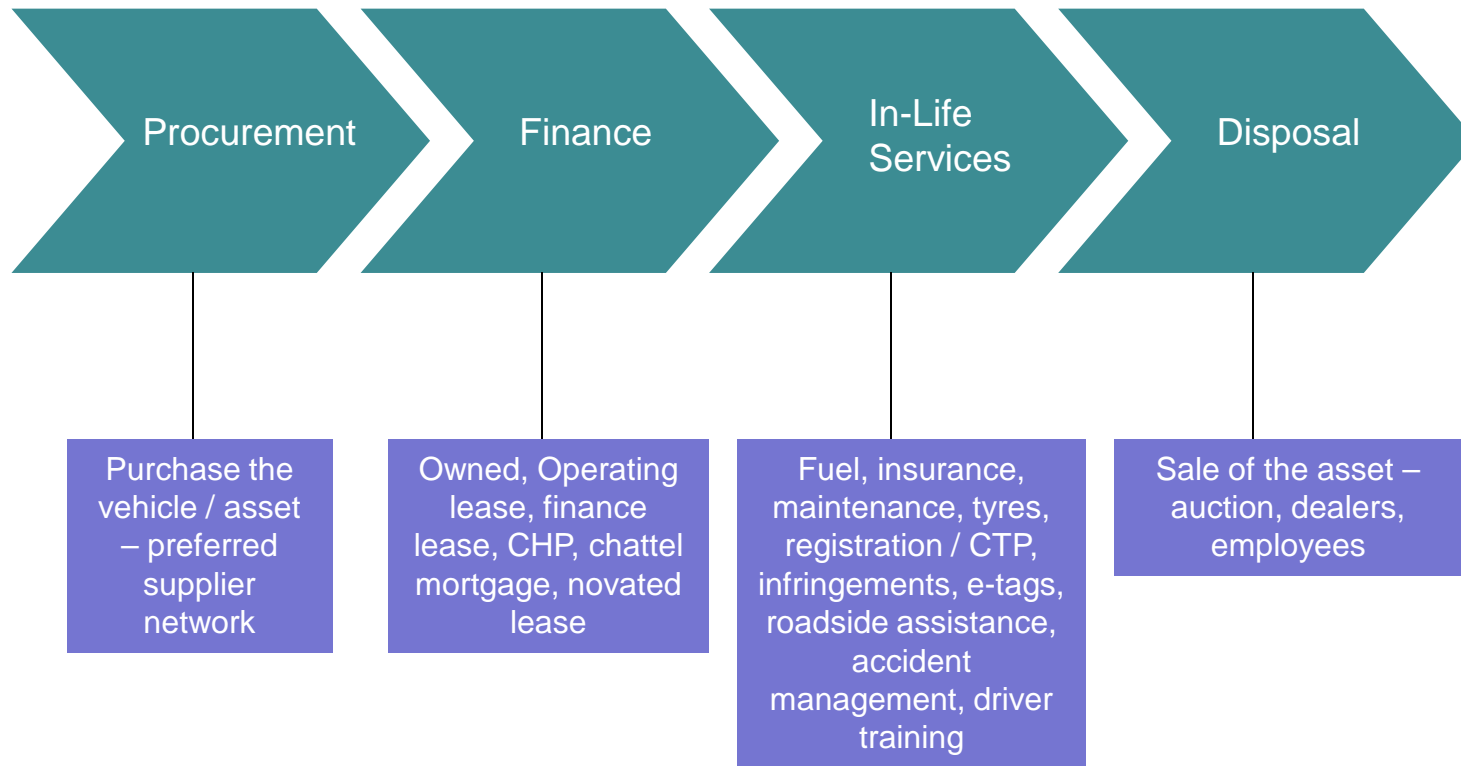
Why is the novated lease market growing?

- Relatively young <20 year old. Around 21% of the funded vehicle market.
- Despite market perceptions, average income earners are becoming high users.
- Dec 98 – March 2012 600% overall growth however slowed last three year to annual growth of around 3%. (AFLA) (10,259 – 74,831 excludes MMS).
- In the majority of cases a novated lease provides a more cost effective outcome than using post tax income.
- Allows vehicle to be purchased without the payment of Goods And Services Tax (GST). Effectively discounts purchase price by 1/11th.
- GST credits on operating expenses are passed back to employees.
- Delivers discounts on purchase and operating expenses to individuals that are normally available to large fleets.
- Seen by many Human Resource practitioners as a vital offering in their employee attraction and retention strategies, particularly where there is strong competition for staff e.g. mining.
- Complex and time consuming for employers to manage therefore increasingly outsourced to specialists.

What is asset management

- Financing and management services associated with motor vehicles, commercial vehicles and equipment.
- A financier can provide funding but this ignores the management of the asset during its life.
- Fleet Management Organisations (FMOs) bring funding and management together; from purchasing an asset, managing it operationally and finally disposal.
- FMOs also deliver to the customer:
 - Knowledge via its experienced staff
 - Systems to manage and report
 - Buying power
- Many major corporates regard asset management as non-core business.

The asset life cycle



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"> ▪ Management of residual, credit and interest rate risk.