MMS Group FY12 Results Presentation

August 2012

McMillanShakespeareGroup

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

The McMillan Shakespeare Group of Companies

Consolidated financial performance

	FY12 $000 Group Remuneration Services	FY11 $000 Group Remuneration Services	% Increase	FY12 $000 Asset Management	FY11 $000 Asset Management	% Increase	FY12 $000 Total	FY11 $000 Total
Revenue from operating activities	137,284	111,648	23%	163,342	158,890	3%	300,626	270,538
Expenses	80,048	66,380	21%	142,902	139,591	2%	222,950	205,971
Pre tax profit from operating activities	57,236	45,268	26%	20,440	19,299	6%	77,676	64,567
Operating margin	41.7%	40.5%		12.5%	12.1%		25.8%	23.9%
Tax	16,971	13,610	25%	6,172	5,839	6%	23,143	19,449
Segment net profit after tax	**40,265**	**31,658**	**27%**	**14,268**	**13,460**	**6%**	**54,533**	**45,118**
Unallocated items								
Interest income							1,404	767
Interest and borrowing costs on parent company debt							(861)	(1,814)
Public company costs							(870)	(831)
Integration							-	(491)
Tax on unallocated items							99	711
Profit after tax from operating activities							**54,305**	**43,460**
NPAT growth							**25%**	
Return on equity							38%	43%
Basic earnings per share (cents)							76.63	64.00
Diluted earnings per share (cents)							74.11	61.22
Diluted EPS Growth							**21%**	
Final dividend declared per share (cents)							25.00	22.00

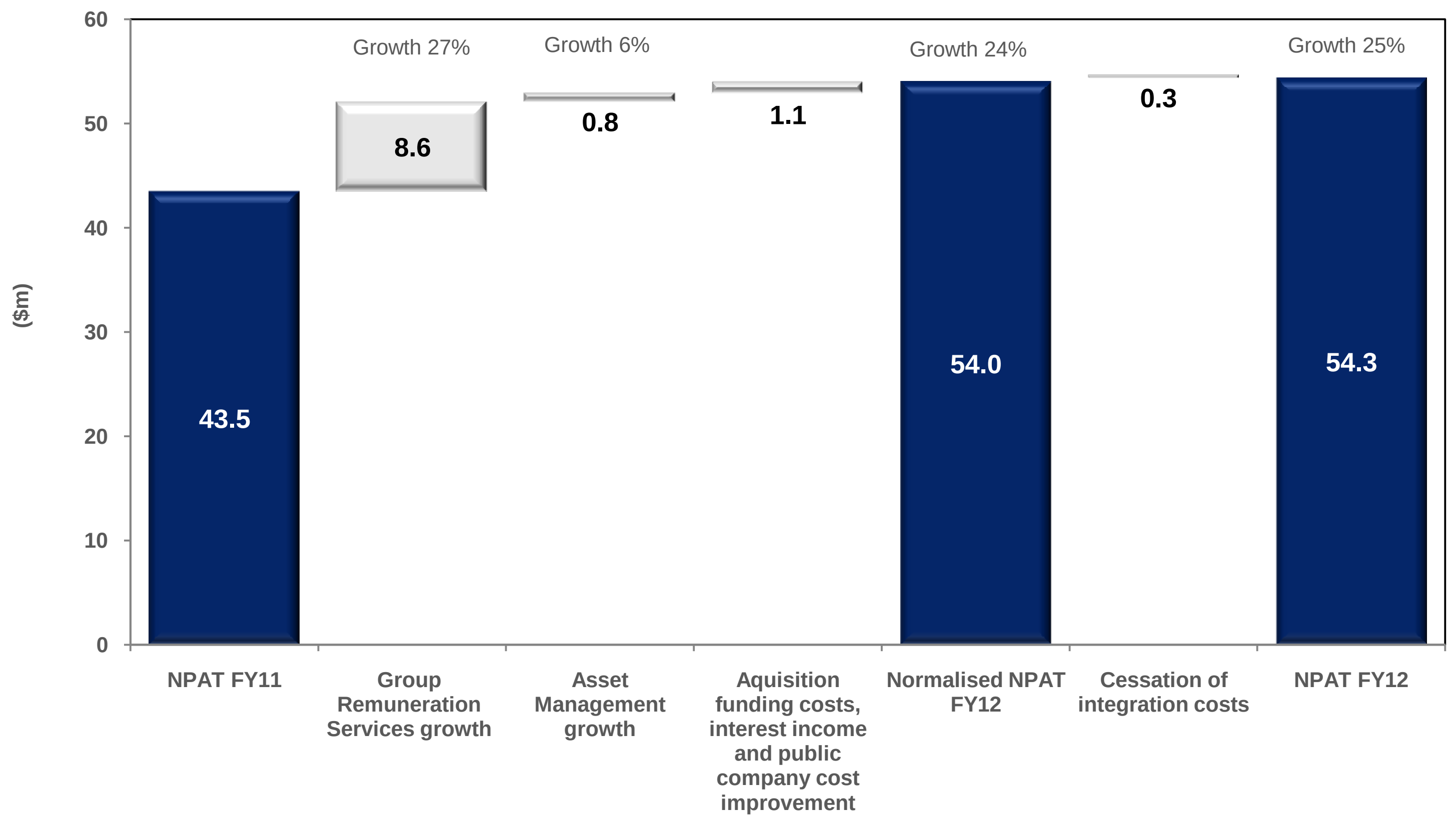
Financial highlights

- A year of consistent delivery, ongoing organic profitable growth and gathering momentum.
- Consolidated NPAT of $54.3m (growth of 25%).
- Diluted EPS growth of 21%.
- Group Remuneration Services NPAT of $40.3m (27% growth).
- Asset management NPAT $14.3m (6% growth) but normalised for FY11 tyre and maintenance provision release arising from change to IFRS – growth of 21%.
- Strong free cashflow ($56.3m pre-fleet increase).

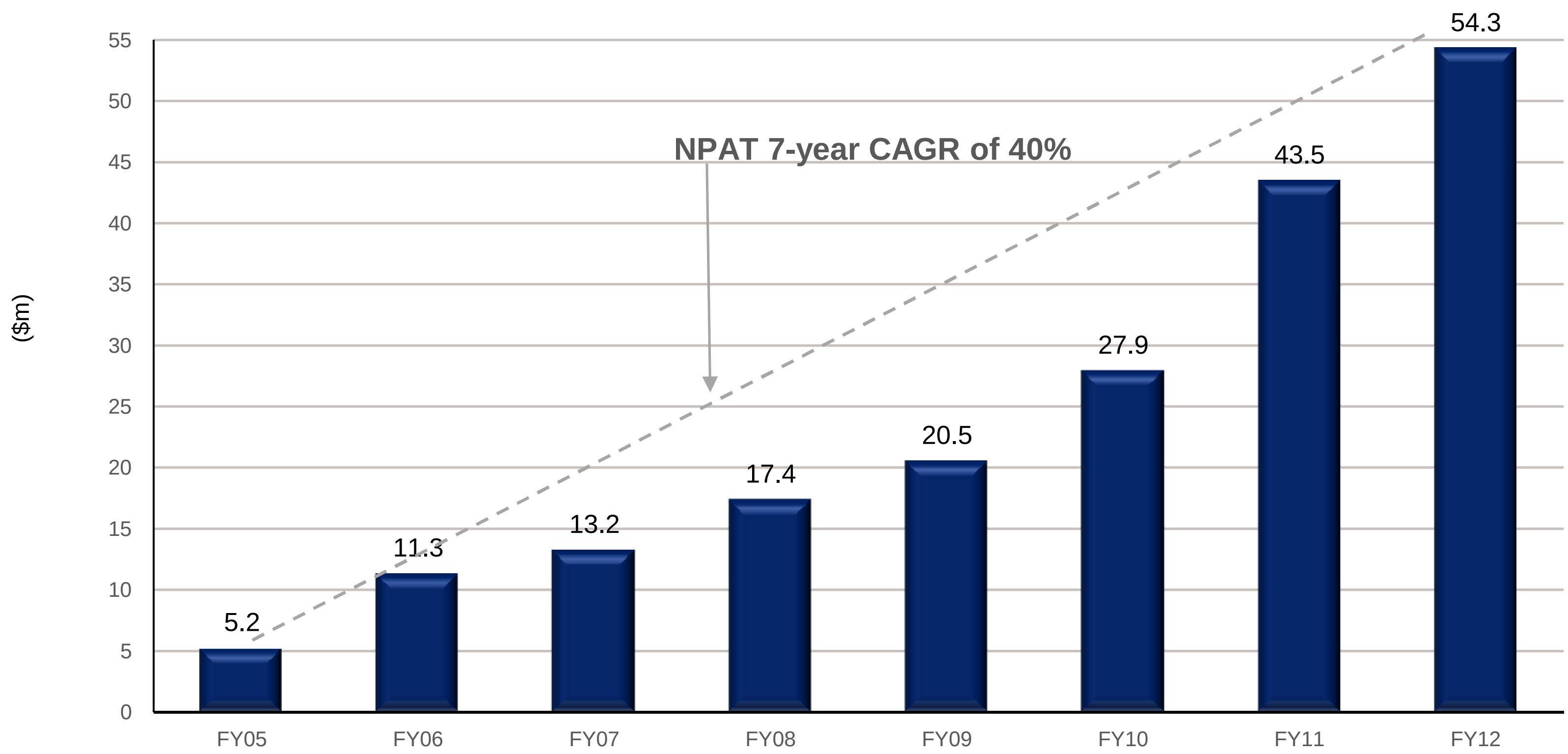
Financial highlights (cont'd)

- Final dividend of 25cps (total FY12 dividend of 47cps versus 38cps FY11) FY12 payout ratio of 61%.
- Return on equity of 38%.
- Parent company debt fully repaid i.e. the $30m facility drawn in April 2010 to part fund the acquisition of Interleasing.
- $30m of share capital raised as a result of exercise of employee options.

NPAT bridge FY11 to FY12

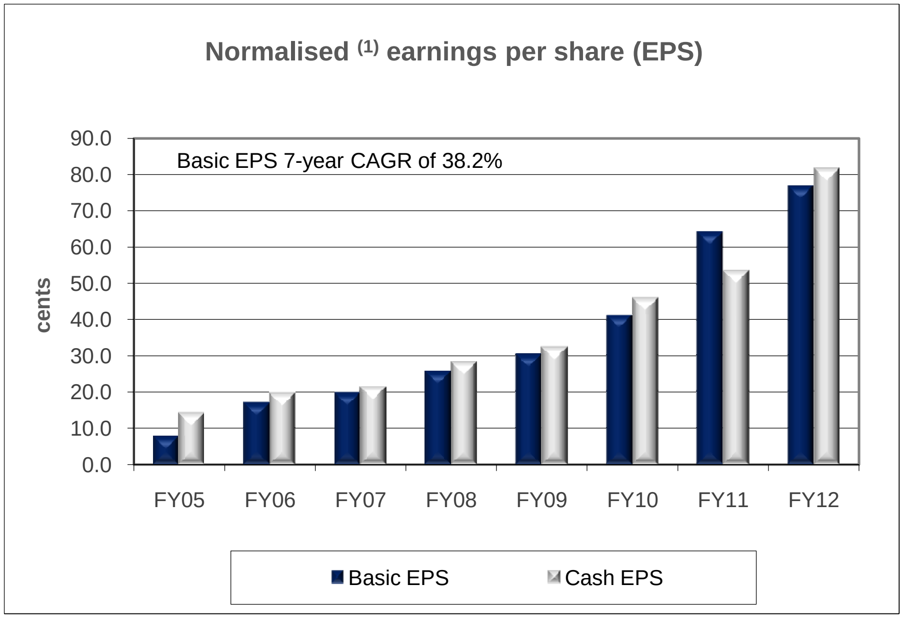


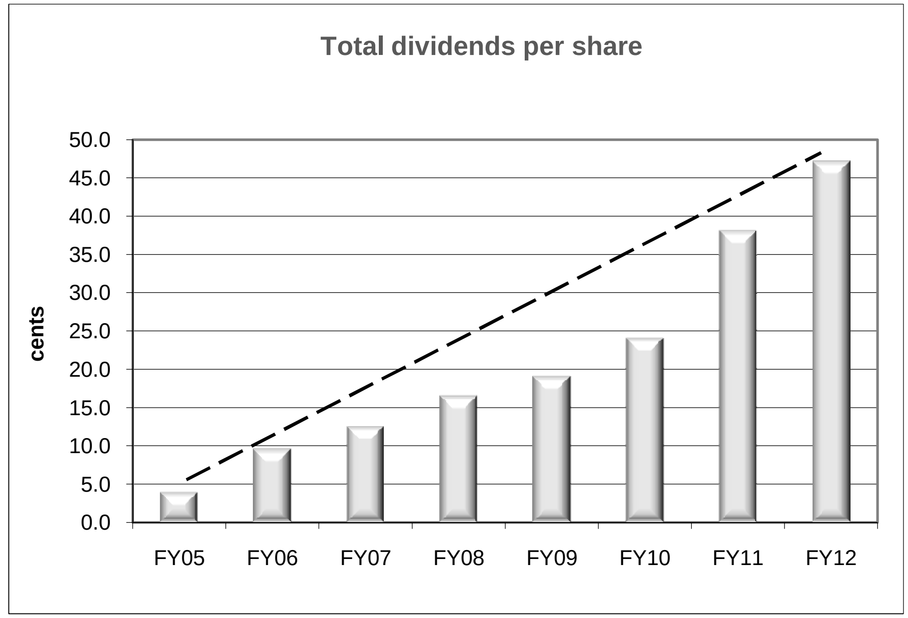
Normalised[1] NPAT



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

Historical earnings and dividends per share





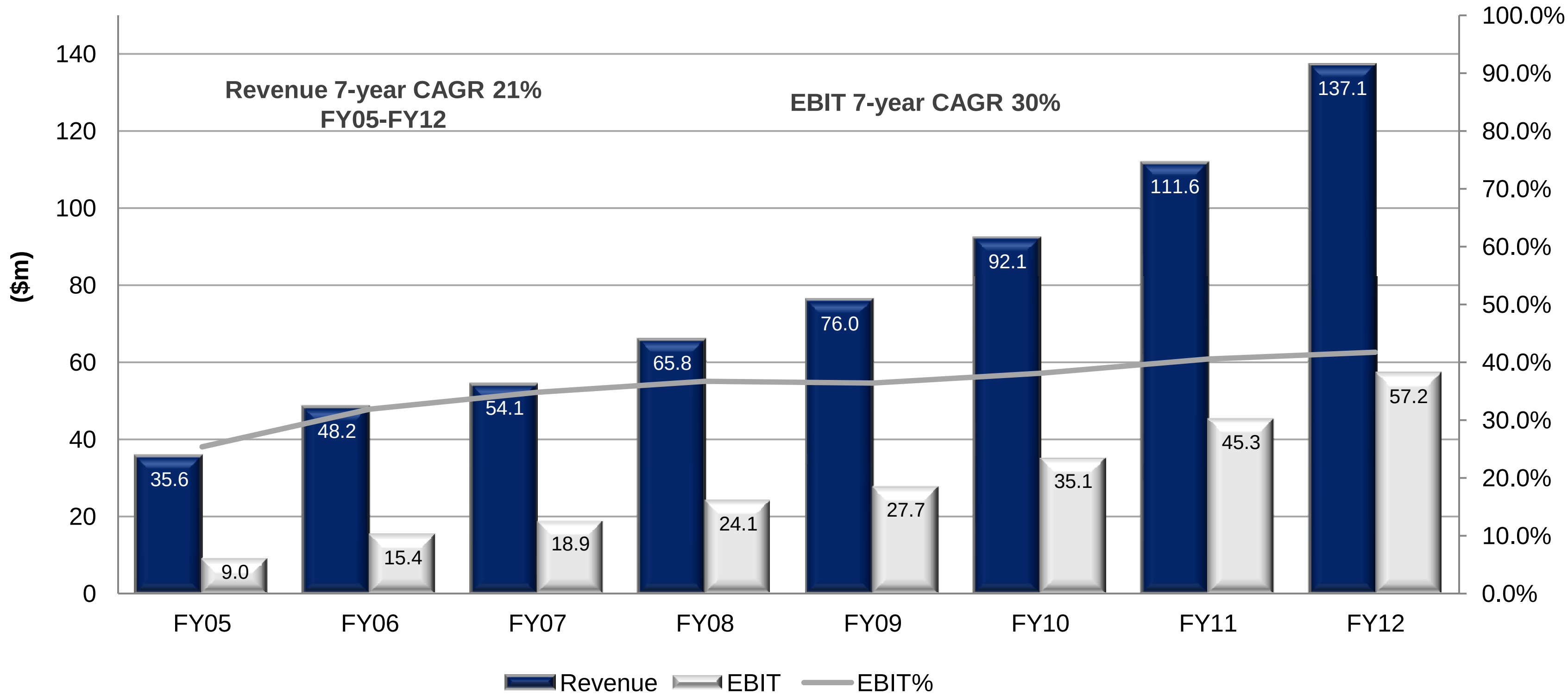
FY11 and FY12 cash EPS is after funding major systems upgrade as part of 5 year IT strategy.

Note 1: Normalised EPS excludes the profit recognised on acquisition as a result of the business combination of ILA in FY10. Cash EPS includes CAPEX but excludes the investment in fleet growth.

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 financial performance

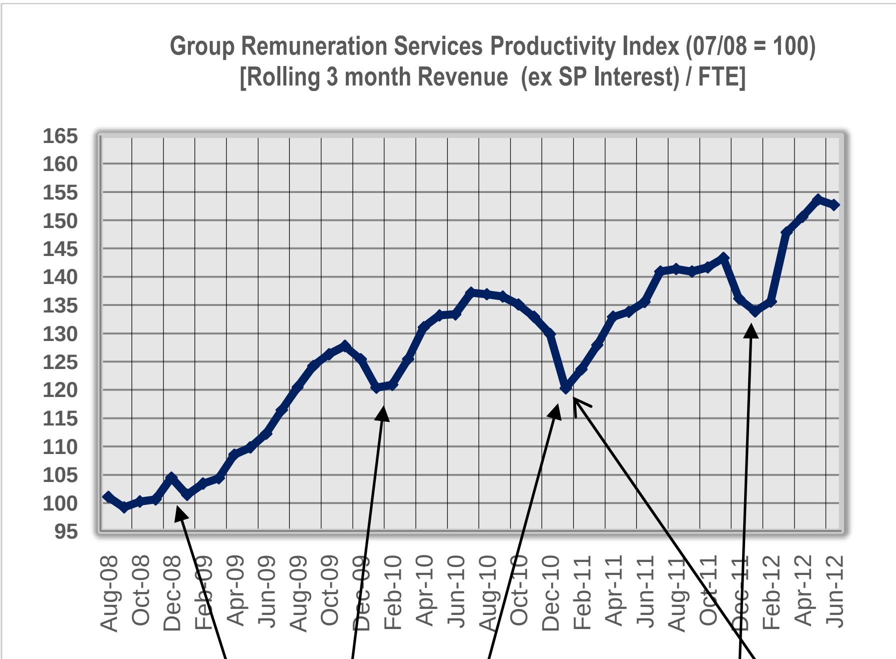


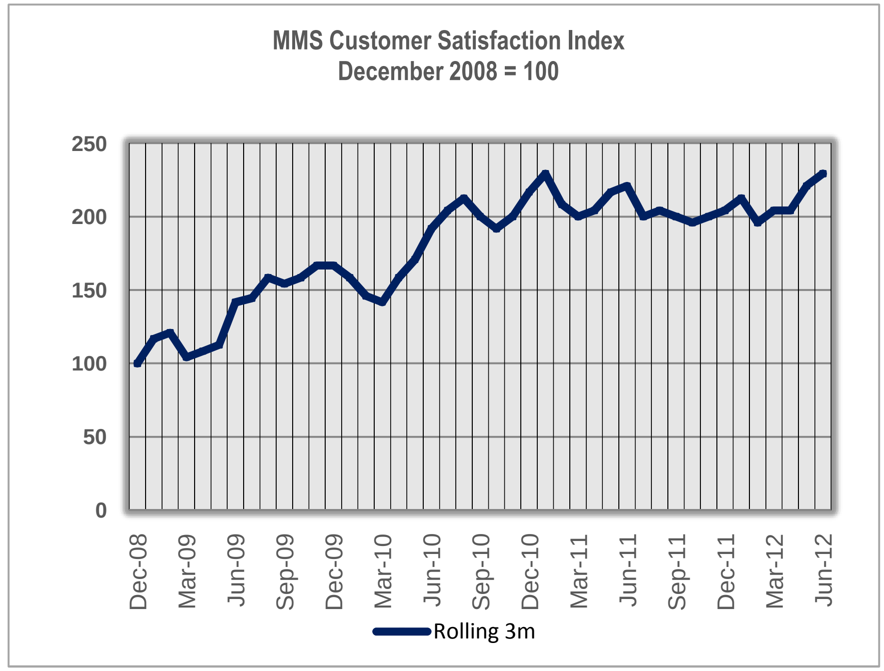
Group Remuneration Services financial performance

(cont'd)

	FY12 $000	FY11 $000	% Inc	Comment
Segment revenue	**137,284**	**111,648**	**23%**	(ex float interest 24%)
Expenses				
Employee expenses	54,250	43,908	24%	SA Govt transition / Customer relationship management
Depn and amort of PPE and software	3,438	3,310	4%	
Property expenses	4,275	3,935	9%	Additional space
Other expenses	18,085	15,226	19%	
Total expenses	**80,048**	**66,380**	**21%**	
Profit before tax	**57,236**	**45,268**	**26%**	Ongoing productivity improvements
Tax	16,971	13,610	**25%**	
Net profit after tax	**40,265**	**31,658**	**27%**	

Competitive strengths and performance indices





Queensland floods.

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

Group Remuneration Services commentary

- Maintenance of strong momentum in new business and participation growth.
- Investment in customer relationship capability bearing fruit.
- Core operating contribution growth of 28%.
- Strong H2FY12 result driven by pleasing increase in unit sales and sales per customer, with some expansion in average yield.
- Strong free cashflow of $44m.
- Maintained customer metrics above benchmarks.
- Ongoing productivity improvements.
- Retention of all major customers.
- Appointed sole provider to S.A. Government (previously panel of 3).
- Increased exposure to private sector via Asset Management customer base.

Note: Core operating contribution – profit before finance, tax and depreciation derived directly from salary packages managed and novated leasing, i.e. excludes impact of interest earnings on float.

Asset Management segment financial performance (cont'd)

	FY12 $000	FY11 $000	% Inc	Comment
Segment revenue	**163,342**	**158,890**	**3%**	
Expenses				
Depreciation of motor vehicle fleet	66,942	63,681	5%	
Interest on fleet financing	9,524	9,464	1%	
Lease and vehicle management expenses	50,850	52,434	-3%	
Employee and other expenses	15,586	14,012	11%	Investment in distribution and marketing
Total Expenses	**142,902**	**139,591**	**2%**	
Profit before tax	**20,440**	**19,299**	**6%**	
Tax	6,172	5,839	**6%**	
Net profit after tax	**14,268**	**13,460**(1)	**6%**	
Net profit adjusted for FY11 T&M provision release(1)	**14,268**	**11,817**	**21%**	Increasing momentum, book in growth and remarketing profits

Note 1: The tyre and maintenance provision release in FY11 ($2.3m) related to provisions that existed at the time of acquisition of Interleasing but were required under AIFRS to be released by reference to the stage of completion of the lease when the outcome of the service contracts could be reliably estimated.

Asset Management segment commentary

- Business growth gathering momentum (assets under finance $262m versus $220 FY11; $214m FY10).
- Strong NPAT performance of 6% growth (normalised for FY11 tyre and maintenance release – 21%).
- Conduit for Group Remuneration Services sales into the private sector i.e. contributor to Group Remuneration Services segment growth.
- Competitive cost of funds.
- Net interest margin exceeding budget.
- Liquidity, diversity and duration of funding extended on better terms.
- Strong remarketing performance.
- Increase in yield from in-life services, through leveraging combined scale of Asset Management and Group Remuneration Services (novated leases) vehicles under management.

Asset Management segment commentary (cont'd)

- Credit losses of less than $40,000.
- Interest rate risk managed through hedging facilities.
- Prudent provisioning against possible future losses on residual values increased to $1.9m.

Fleet assets WDV

Remarketing performance

- FY12 gross profits from end of lease motor vehicle sales (remarketing profits) increased by 31% vs pcp.
- The strong remarketing profit contribution was driven by:
  - Volume of returning vehicles as old book ran off.
  - The undersupply of used motor vehicles as result of the drop in the Australian new motor vehicle sales during the GFC and the supply issues caused by the Japanese earthquake and the Thai and Queensland floods.
  - Efforts by the remarketing team to use the best sales channel to maximise sales results.

Asset Management – key balance sheet numbers

	FY12 $000	FY11 $000	Movement $000
Operating lease assets	244,023	210,661	33,362
Motor vehicle inventories	1,980	1,477	503
Finance leases & CHP	15,561	7,948	7,613
Total funded fleet assets	261,564	220,086	41,478
Fleet financing borrowings[1]	156,000	113,000	43,000
Maintenance instalments received in advance	6,622	6,306	316
Net assets	97,769	87,535	10,234

Note 1: Fleet finance borrowing at 30 June 2012 included borrowings of $10m drawn down in 4QFY12 used to invest in a short term deposit.

Gearing

	MMS & Group Remuneration Services 30-Jun-12 $000	Asset Management 30-Jun-12 $000	Group Balance at 30-Jun-12 $000	Group Balance at 30-Jun-11 $000
Net debt	-52,167	153,748	101,580	114,966
Book value of equity	70,282	97,769	168,051	114,512
Gearing - net debt / (net debt + equity)	-288%	61%	38%	50%
Interest times cover			9.6	6.6
Debt to total funded fleet WDV		60%		

** As at 30th June 2012 the group remains well within its banking covenants, while optimising the use of surplus cash to increase returns. Significant headroom is available within debt facilities to deliver on business plan.

Cash Flow

	Group Remuneration Services $000	Asset Management $000	Unallocated / parent co. $000	MMS Group Total $000
Segment NPAT	40,265	14,268	(228)	54,305
Non-fleet depn/amort, reserves and fleet prov movements	5,760	1,777	-	7,537
Working capital inflow / (outflow)	3,523	(1,388)	-	2,135
Operating cashflow pre fleet increase and abnorm tax payments	49,548	14,657	(228)	63,977
Capex (non fleet) and software incl. 5 year IT systems upgrade	(3,780)	(1,420)	-	(5,200)
Free cash flow before fleet increase and abnorm tax payments	45,768	13,237	(228)	58,777
Tax payments in excess of tax expense	(2,253)	1,070	(1,289)[1]	(2,472)
Free cashflow before fleet increase	43,515	14,307	(1,517)	56,305
Investing activities and fleet increase:				
Net growth in Asset Management Portfolio	-	(41,477)	-	(41,477)
Free cash flow	43,515	(27,170)	(1,517)	14,828
Financing activities:				
Equity contribution	-	-	30,088	30,088
Intercompany funding	1,850	(1,850)	-	-
Net debt (repayments)/ borrowings (net of costs)	-	42,892	(17,000)	25,892
Dividends paid	-	-	(31,422)	(31,422)
	1,850	41,042	(18,334)	24,558
Net cash movement	45,365	13,872	(19,851)	39,386

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

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Funding

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

- provide longer-term funding facilities to enhance liquidity position;
- reduce funding costs;
- provide funding diversification; and
- support growth.

The Asset Management facility has:

- been increased from $180m to $270m with the ability to increase further;
- been extended to August 2015;
- been repriced to lower the cost;
- provides significant headroom for growth; and
- Increased the borrowings to asset leverage ratio.

The balance of the parent company borrowings ($17m as at the end of the last financial year) has been fully repaid.

FY12 Key points

- Business combination (Group Remuneration Services and Asset Management) strategy working well.
- 79% of new business and cross-sales in private sector.
- Continued investment in business to reinforce competitive strengths and sustain growth and advantage.
- Asset Management systems upgrade on track for completion in CY13.
- Business Intelligence enhanced capability on track for completion in FY13.
- Salary packaging system upgrade to commence FY13.
- New premises and staff in S.A. to support S.A. Government opportunity.
- Increase of 124 staff (head count c.800).
- Treasury and credit well managed; Deferred effects of fall in interest rates.

Sensitivities

- Interest rates (earnings on float).
- Second hand car prices (remarketing earnings).
- New car sales (novated lease participation).
- Government austerity/redundancy programs.
- Delivery of new IT programs.

Outlook

- Ongoing profitable growth in Group Remuneration Services through new contracts won over the past 12-18 months and ongoing participation growth.
- Asset Management earnings development may not be as strong in FY13 due to a combination of a possible reduction in the average remarketing yield per unit and the reduced volume of vehicles available for disposal as the run-off of the old book concludes. Improving revenue mix and sales channel strategy should partially offset.
- Ongoing new business growth.
- Validate S.A. Government's decision to move to one provider (lower cost; better service; better participation; better counter-party risk management).
- Rising barriers to entry, integrated model gaining share.
- Further development of our funding strategy to maintain liquidity and duration.
- Look for opportunistic acquisition/bolt-ons.

Appendix I

Accounting for Operating Leases

Accounting for Operating Leases

- Governed by International Financial Reporting Standards (IFRS).
- Rental, comprising principal and interest, management fees and all charges for services such as maintenance, tyres, automobile association membership, registration renewal, insurance, fuel and road toll management are recorded as **REVENUE (<u>Lease Rental Services</u>)**.
- Proceeds on assets sold at termination are included in **REVENUE (<u>Proceeds from sale of leased assets</u>)**.
- Income earned through supply chain management is included as **REVENUE (<u>Lease Rental Services</u>)**.
- Depreciation of the fleet is **straight-line**. Accordingly each month the depreciation charge is evenly spread. It equals the "principal" component included in the Rental.
- Interest expense is recorded as a cost of operation so is included in **EBIT.**
- Vehicle Expenses include all payments made to suppliers of services to the asset management operation including payments for fuel, maintenance, tyres, registration, insurances, automobile association membership and includes the Written Down Value of all assets disposed of, at disposal date.
- ***Lessor*** is owner (Non-Current asset "Property Plan and Equipment" on Lessor balance sheet) and ***Lessee*** is the user (notes to accounts shows remaining rental commitments).

Accounting for Operating Leases

Impairment

- Impairment of Residual Values tested annually. Impairment loss brought to profit and loss as part of *Depreciation and Amortisation and Impairment Expenses.*
- Impairment amount reduces the "cost" of the Asset.
- Each lease contract tested. Loss contracts only brought to account.
- Proactive contract rewrites mark to market residual value.
- Each lease contract tested for impairment at reporting date. Loss contracts only brought to account - taken through P&L.

Impairment provisions are brought to account over the life of the lease term and are, thereafter, upwardly or downwardly revised, as the case may be. Accordingly the effects are recognised progressively rather than actual losses being brought to account, only when they are realised. If a loss reduces in quantum, then impairment provision is reduced accordingly.

Operating Lease Example

- Cost of Asset $25,000
- Residual Value $14,200
- Term 36 months
- Monthly Rental $700 per month
- Includes maintenance; tyres, registration, insurance, automobile association, management fee for services provided
- 100% debt finance – average year over the 3 years

PROFIT AND LOSS

Revenue ($700*12)	$8,400
Less: Depreciation ([$25,000 - $14,200]/36)	($3,600)
Less: Interest	($1,656)
Less: Vehicle Expenses paid	($1,250)
Profit before Income Tax	**$ 1,894**

BALANCE SHEET

Assets under operating Leases	
At Cost	$25,000
Less Accumulated depreciation	($3,600)
	$21,400

3 Year Lease – Returned in Good Condition

Profit & Loss	**Yr 1** $	**Yr 2** $	**Yr 3** $	**Total** $
Revenue	8,400	8,400	8,400	25,200
Profit on Sale (@ 5%)	-	-	710	-
Depreciation	(3,600)	(3,600)	(3,600)	(10,800)
Interest (8%)	(1,656)	(1,160)	(721)	(3,537)
Vehicle Expenses	(1,250)	(1,750)	(3,000)	(6,000)
Contribution before overheads	1,894	1,890	1,789	5,573
ROE				**37%**

Cash Flow Statement	**Yr 1** $	**Yr 2** $	**Yr 3** $
Open - Cash / (Debt) Position	0	(14,506)	(9,016)
Capital - 20%	5,000	0	0
Acquire Vehicle	(25,000)	0	0
Rental Income	8,400	8,400	8,400
Interest Expense	(1,656)	(1,160)	(721)
Vehicle Expenses	(1,250)	(1,750)	(3,000)
Disposal Proceeds	0	0	14,910
Close - Cash / (Debt) Position	(14,506)	(9,016)	10,573

- Assumptions (as per presentation) plus:
- 20% equity
- 5% disposal profit
- Utilisation of in-life services as planned

3 Year Lease – Lower Disposal Result

Profit & Loss	Yr 1 $	Yr 2 $	Yr 3 $	Total $
Revenue	8,400	8,400	8,400	25,200
Profit on Sale (@ 1%)	-	-	142	142
Depreciation	(3,600)	(3,600)	(3,600)	(10,800)
Interest (8%)	(1,656)	(1,160)	(721)	(3,537)
Vehicle Expenses	(1,250)	(1,750)	(3,000)	(6,000)
Contribution before overheads	1,894	1,890	1,221	5,005
ROE				**33%**

Cash Flow Statement	Yr 1 $	Yr 2 $	Yr 3 $
Open - Cash / (Debt) Position	-	(14,506)	(9,016)
Capital - 20%	5,000	-	-
Acquire Vehicle	(25,000)	-	-
Rental Income	8,400	8,400	8,400
Interest Expense	(1,656)	(1,160)	(721)
Vehicle Expenses	(1,250)	(1,750)	(3,000)
Disposal Proceeds	-	-	14,342
Close - Cash / (Debt) Position	(14,506)	(9,016)	10,005

- Assumptions (as per presentation) plus:
- 20% equity
- 1% disposal profit
- Utilisation of in-life services as planned