MMS Group
Macquarie Securities Conference

May 2013

McMillanShakespeareGroup

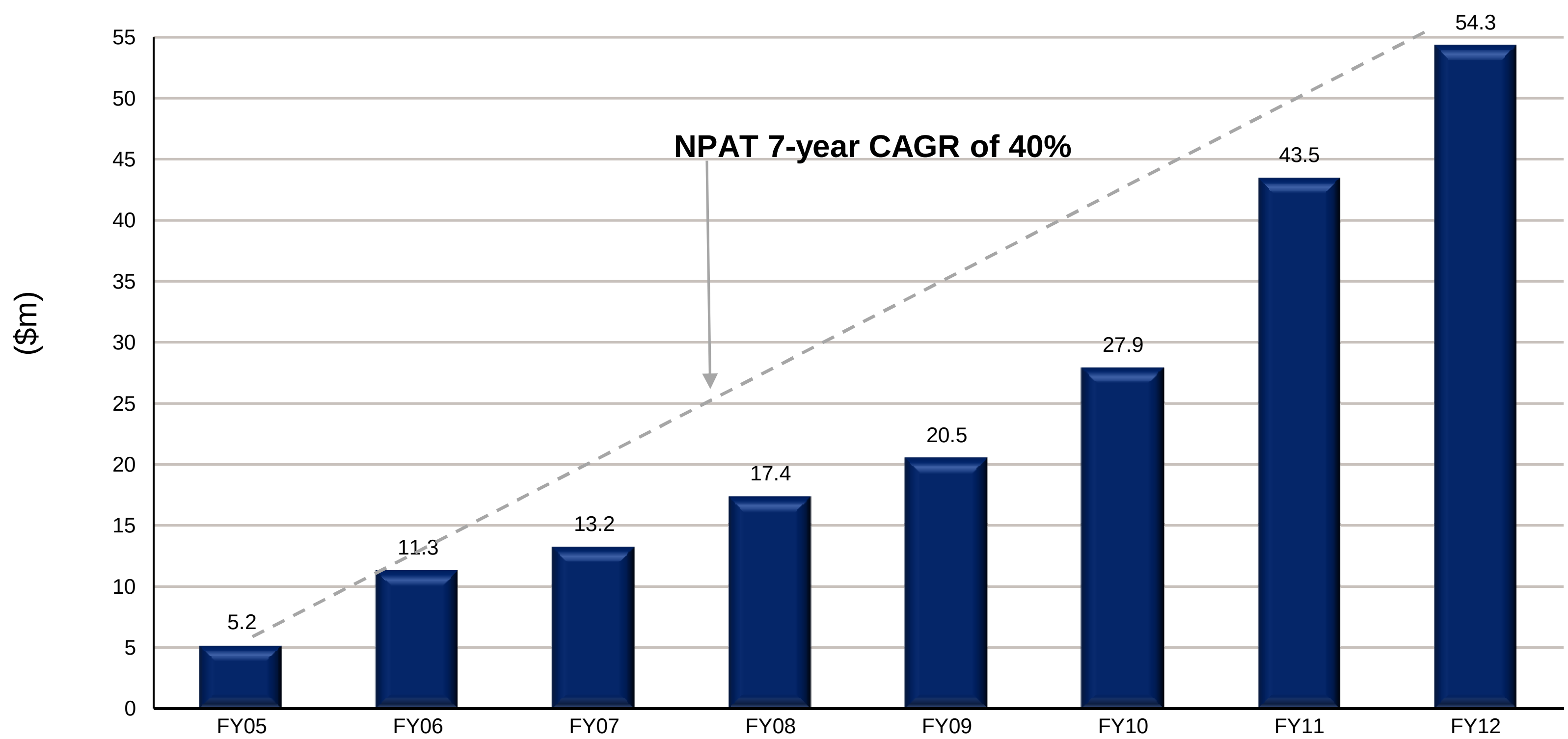
Maxxia | RemServ | Holden Leasing | Interleasing

The McMillan Shakespeare Group of Companies

Company overview

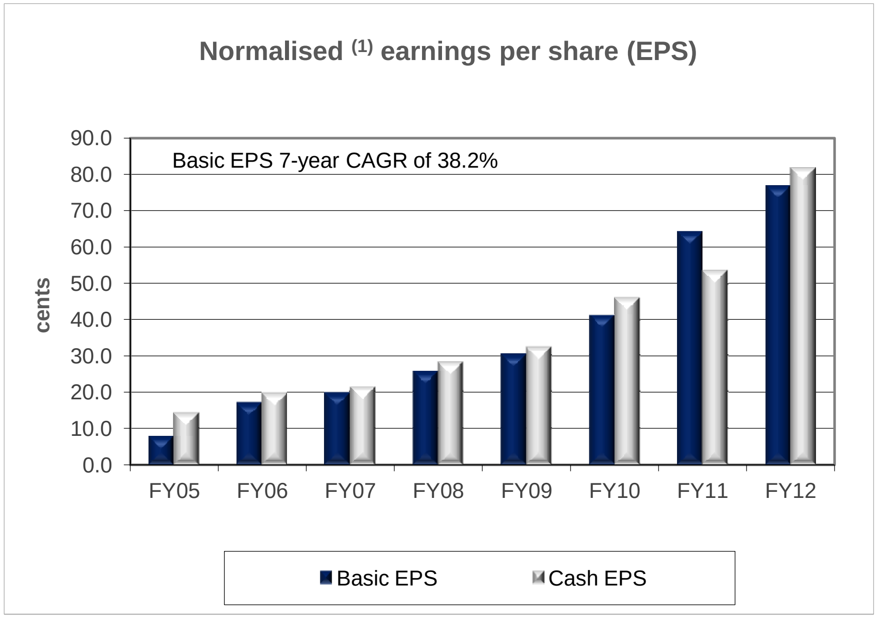
- Provider of salary packaging administration and integrated fleet management services with unique competitive strengths.
- Group has two segments:
  - The **Group Remuneration Services (GRS) -** provides administrative services in respect of salary packaging and facilitates and manages motor vehicle novated leases for customers.
  - **Asset Management (AM) -** 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 – circa $4 billion in salaries under management; 110,000 phone calls per month; over 500,000 financial transactions per month.

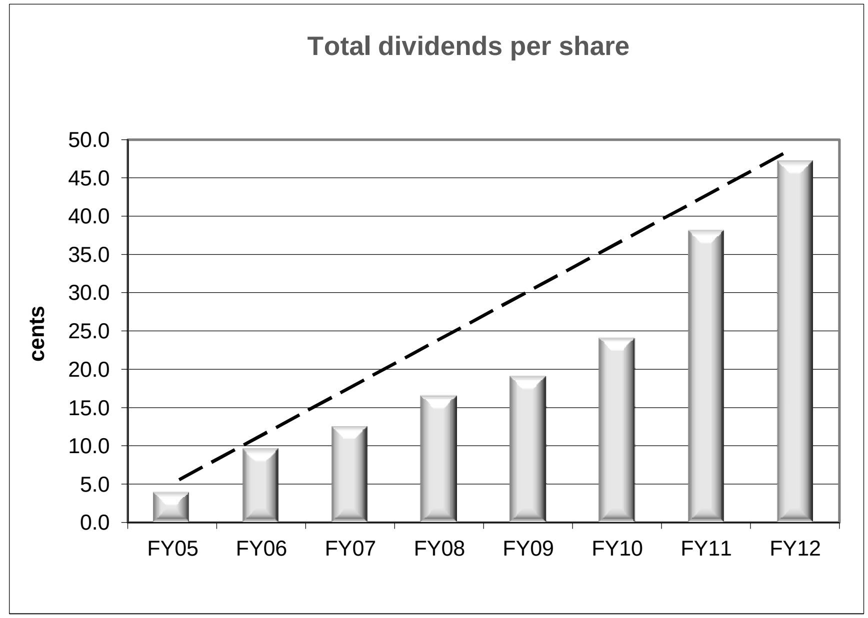
Normalised(1) NPAT



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

Historical earnings and dividends per share

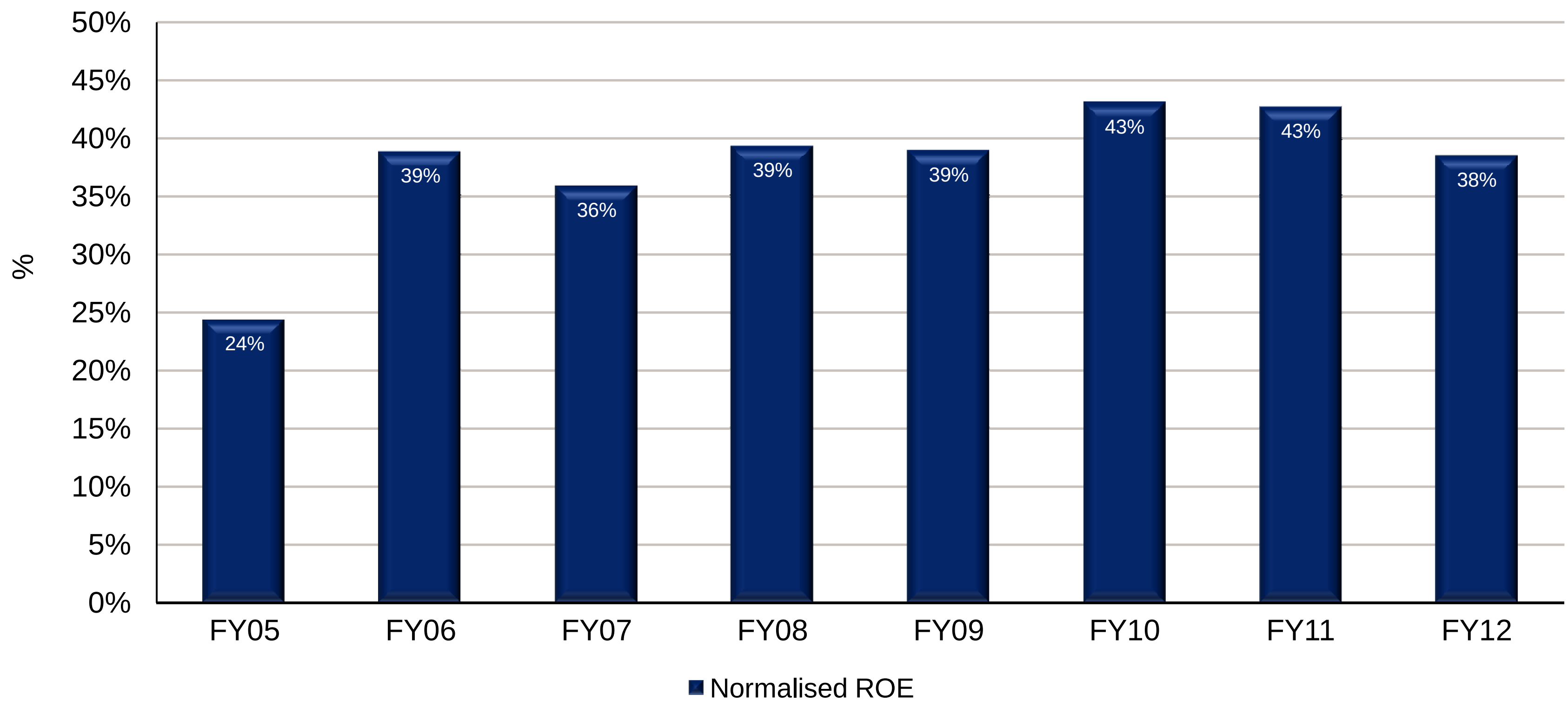




FY11 and FY12 cash EPS is after funding major systems upgrade as part of 5 year IT strategy.

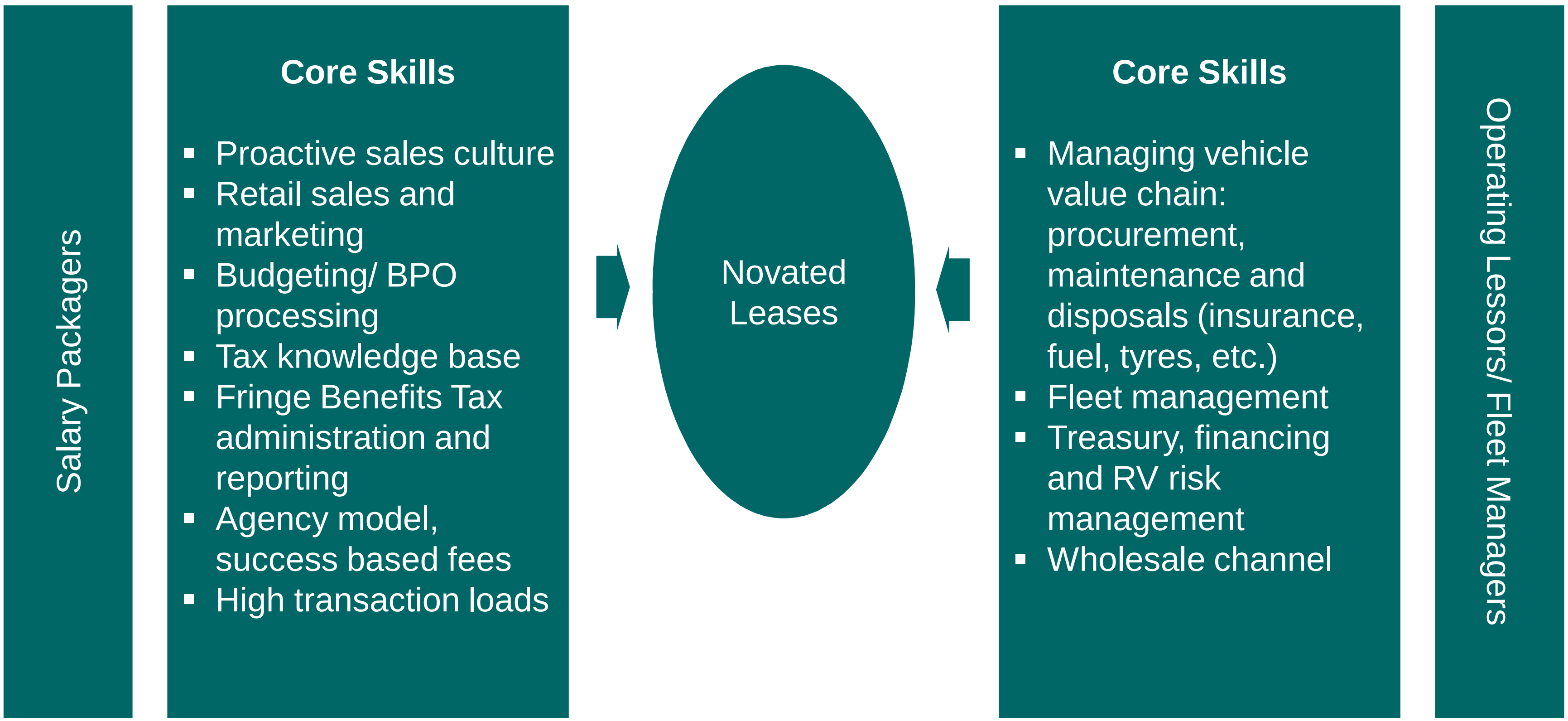
Note 1: Normalised EPS excludes the profit recognised on acquisition as a result of the business combination of ILA in FY10. Cash EPS includes CAPEX but excludes the investment in fleet growth.

Normalised[1] return on equity (ROE)



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

Integrated model - unique market position



Unique business model underpinned by key competitive strengths

- World class service levels (as independently measured by net promoter methodology).
- Low delivered cost (expense ratio in GRS segment reduced from 75% in 2005 to 56%).
- Industry leading counter-party risk management:

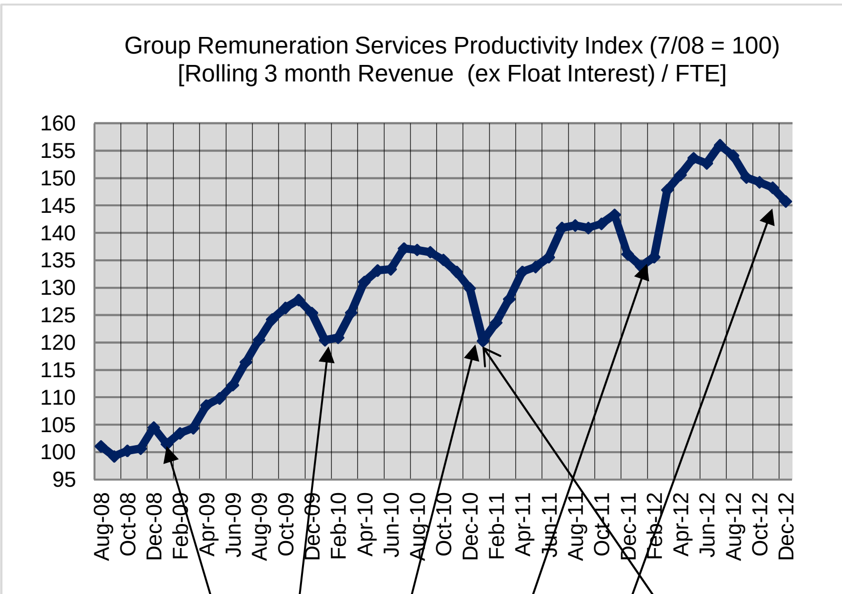
  - strong balance sheet

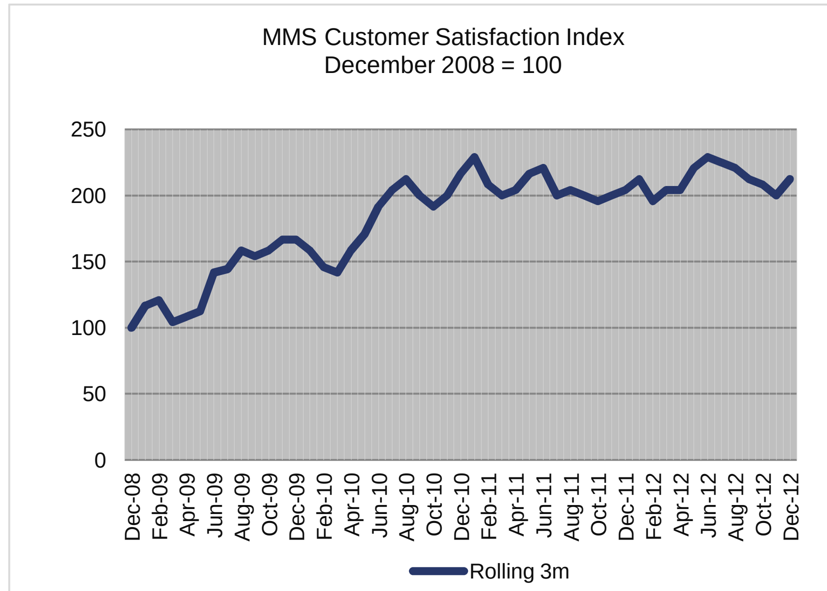
  - fully insured, including crime and fidelity

  - FBT indemnity

  - full disaster recovery/business continuity capability
- Attractive customer to financiers = low cost of funds.
- Bespoke, fully scalable FBT management/salary packaging systems.

Remuneration Services competitive strengths and performance indices





Queensland floods.

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

Asset Management competitive strengths

- Low cost of funds.
- Vehicle disposal methodology.
- Salary packaging capability.

Revenue model

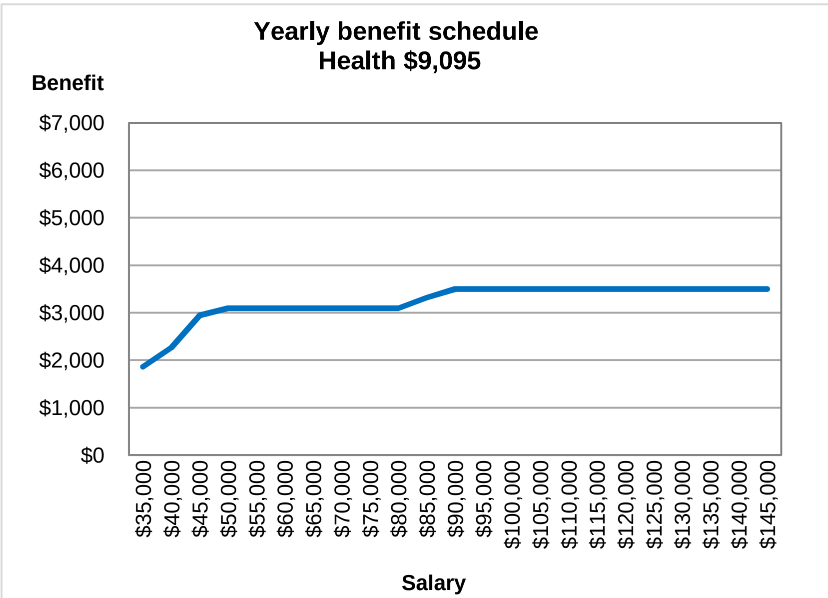
Remuneration Services

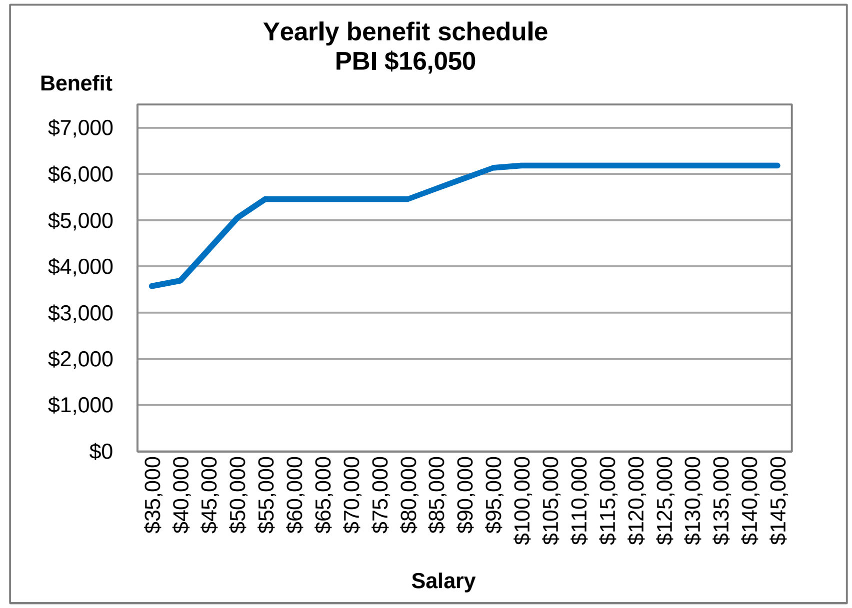
- Salary packaging administration fees:
  - Annuity income stream; paid directly and regularly from employees' salary.
- Interest income on float.
- Facilitation and procurement fees for assisting with novated lease settlements.
- Vehicle management income.
- Negative working capital requirement.

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.

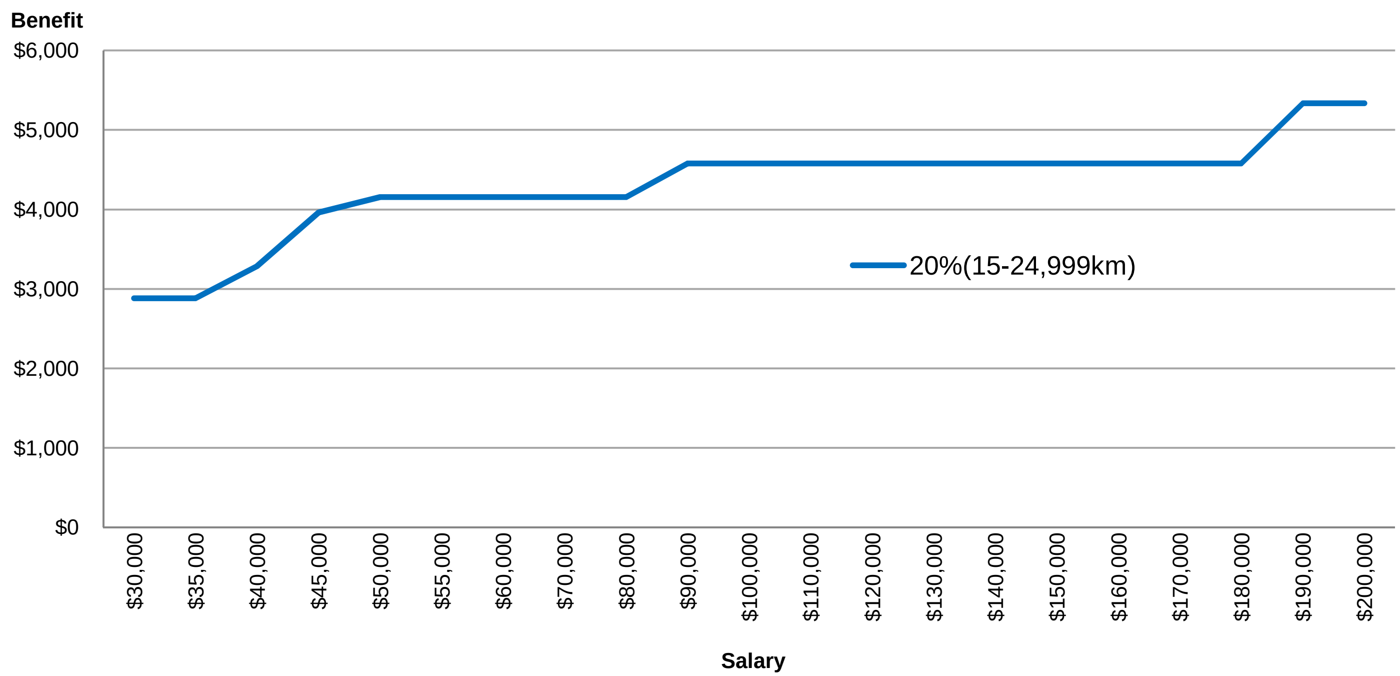
Tax benefits for charities and public health from salary packaging





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).

1HFY13 key points

- Integrated business performing strongly.
- Ongoing strong profitable growth in Group Remuneration Services segment. Operating margins improved.
- Assets under finance and management growth.
- Integrated model continues to gain momentum; 54 new contracts and cross sales (80% to the private sector).
- Upgrade of asset management systems is running on-time and on-budget.
- On going significant investment in client relationship management (people and programs).
- Good pipeline of new business.

1HFY13 key points (cont'd)

- Business remains resilient in the face of ongoing economic turmoil. Leading indicators appear strong.
- We have entered into a joint venture company with an experienced local management team to launch our Maxxia business into the UK through a low cost / low risk model. The joint venture commenced on 1 February 2013.

Financial highlights

- Consolidated NPAT of $29.7m (19.4% growth on PCP, ex interest on the float, 25.6%).
- Group Remuneration Services NPAT of $22.0m (19.0% growth on PCP, ex interest on the float 28.0%).
- Asset Management NPAT of $7.3m (5.0% growth on PCP).
- Interim dividend of 24 cents per share (22 cents PCP).
- Diluted EPS(1) of 39.3 (13.4% growth on PCP) and Basic EPS(1) of 39.9 cents per share (10.0% growth).
- Annualised return on equity of 34%(1).
- Strong free cash flow of $27.1m (after CAPEX but before fleet increase).

Note 1: Diluted EPS, Basic EPS and return on equity have been impacted by the issue of 2.3m executive options in March 2012 and 2.0m in November 2011.

Consolidated financial performance

	1HFY13 $000 Group Remuneration Services	1HFY12 $000 Group Remuneration Services	% Increase	1HFY13 $000 Asset Management	1HFY12 $000 Asset Management	% Increase	1HFY13 $000 Total	1HFY12 $000 Total
Revenue from operating activities	75,757	64,413	18%	84,396	78,593	7%	160,153	143,006
Expenses	44,354	38,066	17%	73,982	68,518	8%	118,336	106,584
Pre tax profit from operating activities	31,403	26,347	19%	10,414	10,075	3%	41,817	36,422
Operating margin	41.5%	40.9%		12.3%	12.8%		26.1%	25.5%
Tax	9,413	7,868	20%	3,124	3,131	0%	12,537	10,999
Segment net profit after tax	**21,990**	**18,479**	**19%**	**7,290**	**6,944**	**5%**	**29,280**	**25,423**
Unallocated items								
Interest income							1,332	457
Interest and borrowing costs on parent company debt							-	(601)
Public company costs							(667)	(578)
Tax on unallocated items							(198)	217
Profit after tax from operating activities							**29,747**	**24,918**
NPAT growth							**19.4%**	**21.4%**
Return on equity							34%	40%
Basic earnings per share (cents)							39.91	36.27
Diluted earnings per share (cents)							39.28	34.64
Diluted EPS Growth							**13.4%**	**18.7%**
Interim dividend declared per share (cents)							24.00	22.00

Competitive environment

Remuneration Services

- Overall steady, but some ongoing pressure on salary packaging fees; exacerbated by low interest environment.
- Increasingly, employers taking more procurement oriented approach.
- Employer needs cover broad spectrum; large government contracts through to small charities.
- End users requiring quicker / simpler solutions.
- Suppliers remain keen to do business with MMS.

Asset Management

- Credit now appears readily available to market participants.
- Some particularly aggressive players in the market.
- Employers increasing procurement sophistication.
- Suppliers keen to do business with MMS.
- Second hand car market remains strong.

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. First hospital group tender just released.
- Many other hospitals and charities in-sourced around Australia.
- The health and charity market grows at around 4% 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 359 new contracts and cross-sales achieved in 24 months, thus providing ongoing growth through participation as these contracts mature.

Outlook

- Ongoing organic profitable growth through:
  - New business and cross-sell from our stronger integrated value proposition, competitive cost of funds and flexible financing facilities.
  - Increasing participation rates within existing customer portfolio.
- Continue to invest ahead of the growth curve to ensure sustainability of business model.
- Maintain industry leading service levels.
- Look for continuing productivity improvement.
- Business well placed to maintain momentum through continuing disciplined execution of clear strategy.

Sensitivities

- Interest rates (earnings on float).
- Second hand car prices (remarketing earnings).
- New car sales (novated lease participation).
- Key contract tenders.
- Government austerity/redundancy programs.
- Delivery of new IT programs.
- The not-for-profit sector tax concession working group, (www.notforprofit.gov.au).
- Significant international events, general economic conditions and consumer confidence.
- Increasing competitive response.

The UK Opportunity

- Maxxia (UK) is a 50/50 joint venture company between Visper Asset Finance Limited (VAF) and MMS with an opportunity to move to 100% after five years.
- The VAF management team formerly worked for GMAC, through the Masterlease brand, in the UK, South America and Europe.
- Interleasing was part of the Masterlease stable when sold to MMS in 2010.
- After disposing of the balance of the Masterlease businesses, the management team came together to form VAF. Together they bring over 150 years of asset management expertise in the UK and beyond.
- There are salary packagers / benefit providers operating under the UK tax laws (notably for cars and child care) and there is a large market for asset finance and management (2.3 million fleet vehicles). No UK provider has an integrated offering such as MMS deploys in Australia.

The UK Opportunity (cont'd)

- The total committed investment for MMS over five years is UK £1.5m plus the cost of a senior MMS Executive to act as Managing Director of UK business (VAF will provide the CEO).
- The joint venture applies only to distribution / brokerage i.e. if MMS decides to fund assets or acquire other businesses, those will not form part of the joint venture.
- In summary, this opportunity provides MMS with a low cost, low risk "look" at the UK market, backed by a UK management team with over 150 years of experience in one of the UK's leading asset management companies.
- In addition, the joint venture sets a platform for MMS to test the integrated benefits / asset management strategy that has created significant shareholder value in Australia.

Appendices

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.

Case study public hospital

- Card fees

Meal entertainment

- NIM
- Mgt fees

Equipment finance and management

- Admin fee

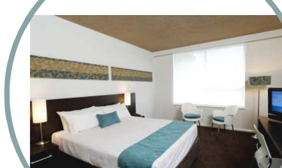
Exempt – Cap $17k

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

Tool of trade operating lease

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

Novated Lease



- Admin fee

Venue Hire

Sources of revenue

Salary Packaging (including motor vehicles)	Novated Lease Management	Novated Lease Distribution Fees	Operating Leases	Management Services
▪ Recurring income. Portion of employee's pre-tax salary is transferred to funds held in trust, usually on a fortnightly basis.	▪ Recurring income.	▪ MMS can procure and supply car and after market parts and arrange finance for the employee.	▪ ILA rents passenger and commercial vehicle fleets typically to corporate customers.	▪ ILA receives administration fees for managing client owned car fleets i.e. Corporates.
▪ Disbursements made on behalf of employees from funds held in trust account.	▪ Employee pays for lease administration. Paid out of pre-tax salary.	▪ Success based distribution fees are paid by the financier and/or suppliers.	▪ Typically a three year lease term.	▪ Services include arranging toll fees, repairs, fuel, insurance and scheduled maintenance.
▪ MMS earns an annual management fee paid typically in fortnightly instalments.	▪ Typically a four year lease period.	▪ One-off fees i.e. Unlike administration fees, not recurring income.	▪ ILA retains ownership of the vehicles (appears on the ILA balance sheet as a fixed asset).	▪ Agency business with low levels of capital employed.
▪ MMS typically has a 5 year contract with the employer on a 3+1+1 basis.	▪ Employee is the beneficial owner of the car.		▪ Recurring rental income covers interest costs, deprecation/principal repayments, in-life car services e.g. Fuel, tolls, tyres, green slips, infringements and management fees.	
▪ Customer base includes over 800 charities, NFP's, public health, government departments and corporates.			▪ 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			

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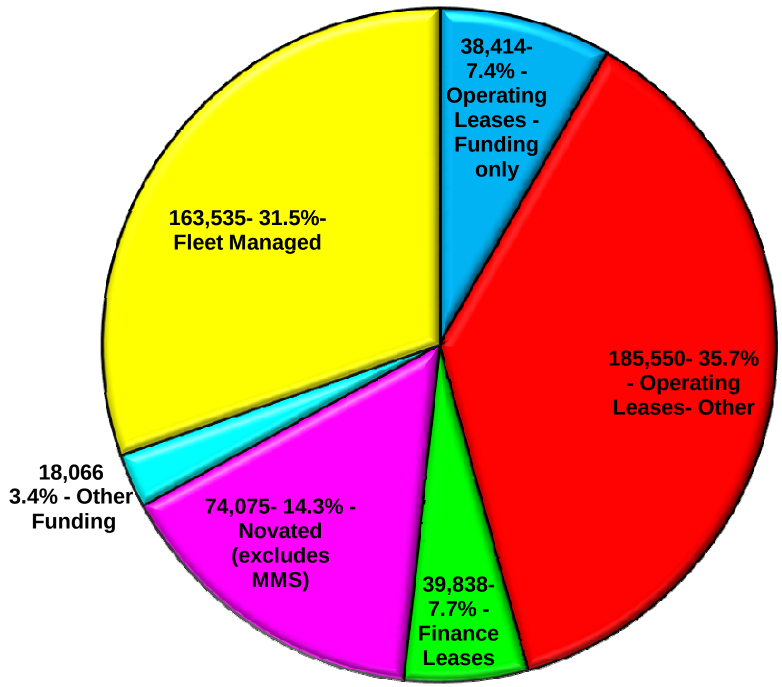
Market opportunity (cont'd)

Australian Fleet Lessors Association (AFLA) - Total Portfolio at June 2012 By Type of Facility (units/%)



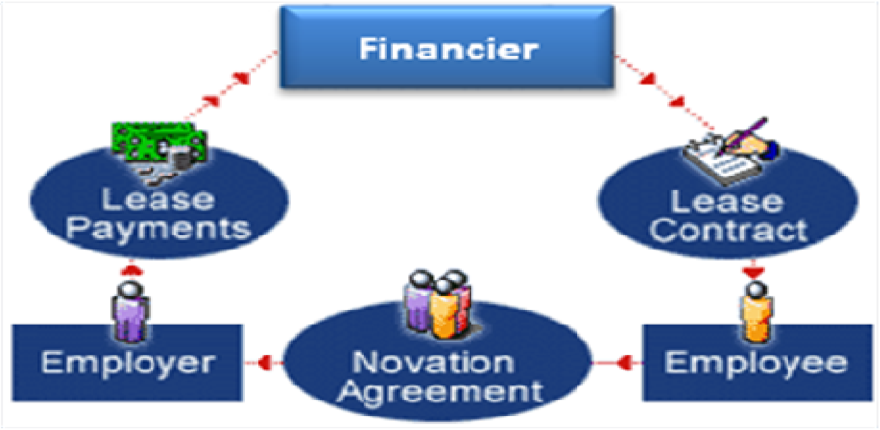
- ILA is a tier 2 industry player.
- ILA share of novated leases as % of total fleet less than AFLA average.
- MMS's expertise in novated lease allows MMS to target even greater % novated lease share.
- Access to capital and significant flexibility in pursuing optimum funding structure.
- CAGR for 2001-2009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



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 – June 2012 600% (10,259 – 74,075 excluding MMS), overall growth however has slowed over last three years (AFLA).
- 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

- **Procurement**: Purchase the vehicle / asset – preferred supplier network
- **Finance**: Owned, Operating lease, finance lease, CHP, chattel mortgage, novated lease
- **In-Life Services**: Fuel, insurance, maintenance, tyres, registration / CTP, infringements, e-tags, roadside assistance, accident management, driver training
- **Disposal**: Sale of the asset – auction, dealers, employees

Growth opportunities

Salary Packaging	Synergies	Asset Management
▪ Increase salary packages through higher penetration rate and new client wins.	▪ Cross-sell salary packaging and novated leases to ILA client base.	▪ Grow the loan book over time with operating and managed leases.
▪ Provide broader workplace benefits to clients' employees.	▪ Cross-sell operating and managed leases to salary packaging client base.	▪ Grow in-life car services, reduce maintenance costs and manage the vehicle value chain.
▪ Increase procurement, supply and financing of cars under novated leases.	▪ Deployment of purchasing power to generate greater procurement discounts and distribution fees.	▪ Management of residual, credit and interest rate risk.

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	($1,560)
Less: Vehicle Expenses paid	($2,000)
Profit before Income Tax	**$ 1,240**

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