

MMS Group FY13 Results Presentation

10 September 2013

McMillanShakespeareGroup



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The McMillan Shakespeare Group of Companies

FY13 presentation contents

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Consolidated financial performance

| | 2013 | 2012 | % | 2013 | 2012 | % | 2013 | 2012 |
|--|---------------|---------------|------------|---------------|---------------|-----------|---------------|---------------|
| | \$000 | \$000 | Increase | \$000 | \$000 | Increase | \$000 | \$000 |
| | Group | Group | | Asset | Asset | | Total | Total |
| | Remuneration | Remuneration | | Management | Management | | | |
| | Services | Services | | | | | | |
| Revenue from operating activities | 155,855 | 137,284 | 14% | 171,962 | 163,342 | 5% | 327,817 | 300,626 |
| Expenses | 89,230 | 80,048 | 11% | 150,358 | 142,902 | 5% | 239,588 | 222,950 |
| Pre tax profit from operating activities | 66,625 | 57,236 | 16% | 21,604 | 20,440 | 6% | 88,229 | 77,676 |
| Operating margin | 42.7% | 41.7% | | 12.6% | 12.5% | | 26.9% | 25.8% |
| Tax | 19,832 | 16,971 | 17% | 6,561 | 6,172 | 6% | 26,393 | 23,143 |
| Segment net profit after tax pre-UK | 46,793 | 40,265 | 16% | 15,043 | 14,268 | 5% | 61,836 | 54,533 |
| Unallocated items | | | | | | | | |
| Interest income | | | | | | | 2,247 | 1,404 |
| Interest and borrowing costs on parent company debt | | | | | | | - | (861) |
| Public company costs | | | | | | | (1,008) | (870) |
| Tax on unallocated items | | | | | | | (374) | 99 |
| Profit after tax from operating activities pre-UK | | | | | | | 62,701 | 54,305 |
| | | | | | | | 15.5% | 21.4% |
| Share of JV | | | | (410) | | | (410) | - |
| Acquisition expenses | | | | - | | | (128) | - |
| Net profit after tax | 46,793 | 40,265 | | 14,633 | 14,268 | | 62,163 | 54,305 |
| NPAT growth | | | | | | | 14.5% | 21.4% |
| Return on equity | | | | | | | 34% | 38% |
| Basic earnings per share (cents) | | | | | | | 83.42 | 76.63 |
| Diluted earnings per share (cents) | | | | | | | 81.87 | 74.11 |
| Diluted EPS growth | | | | | | | 10.5% | 21.0% |
| Final dividend declared per share (cents) | | | | | | | - | 25.00 |

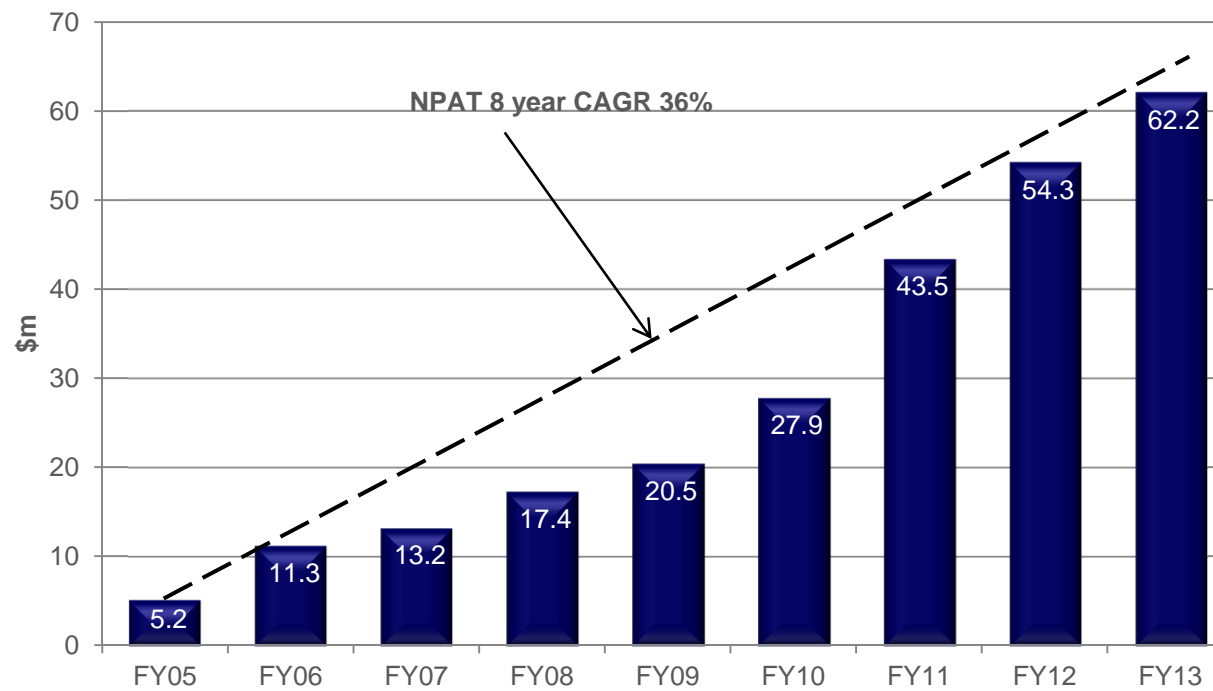
Financial highlights

- A year of consistent delivery and ongoing organic profitable growth.
- Consolidated NPAT of \$62.2m (growth of 15%).
- Diluted EPS growth of 10.5%.
- Group Remuneration Services NPAT of \$46.8m (16% growth, 23% core operating contribution growth).
- Asset management NPAT \$15.0m (5% growth, 19% ex remarketing profits).

Financial highlights

- Strong free cashflow (\$60.1m pre-fleet increase).
- Return on equity of 34%.
- No final dividend declared due to the on-going uncertainty in relation to the previously proposed changes to the FBT on motor vehicles.

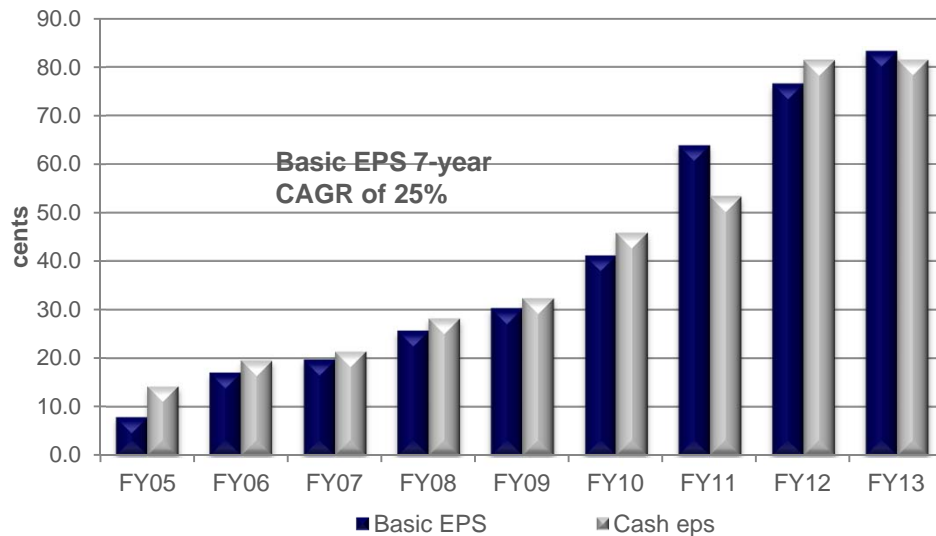
Normalised⁽¹⁾ NPAT



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

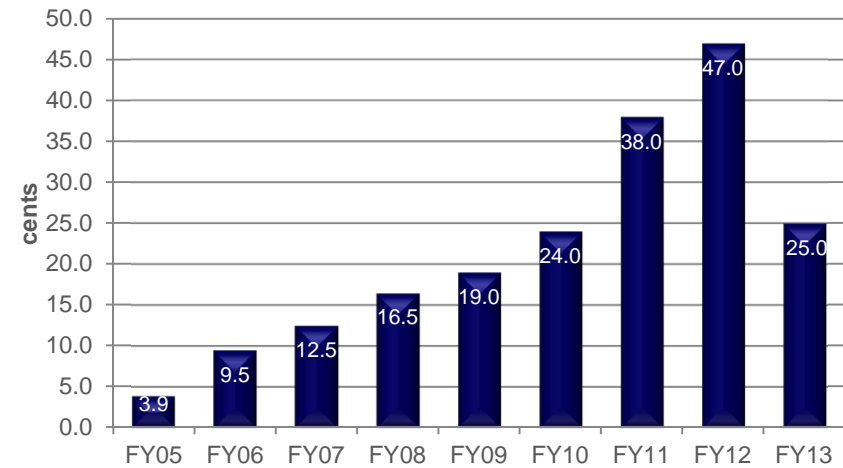
Historical earnings and dividends per share

Earnings per share



FY11, FY12 and FY13 cash EPS is after funding major systems upgrade as part of 5 year IT strategy.

Dividends per share



Note: Due to the uncertainty in relation to the previously proposed legislation changes to FBT on motor vehicles, no final dividend for the year ended 30 June 2013 has been declared.

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 in Australia, New Zealand and the United Kingdom.

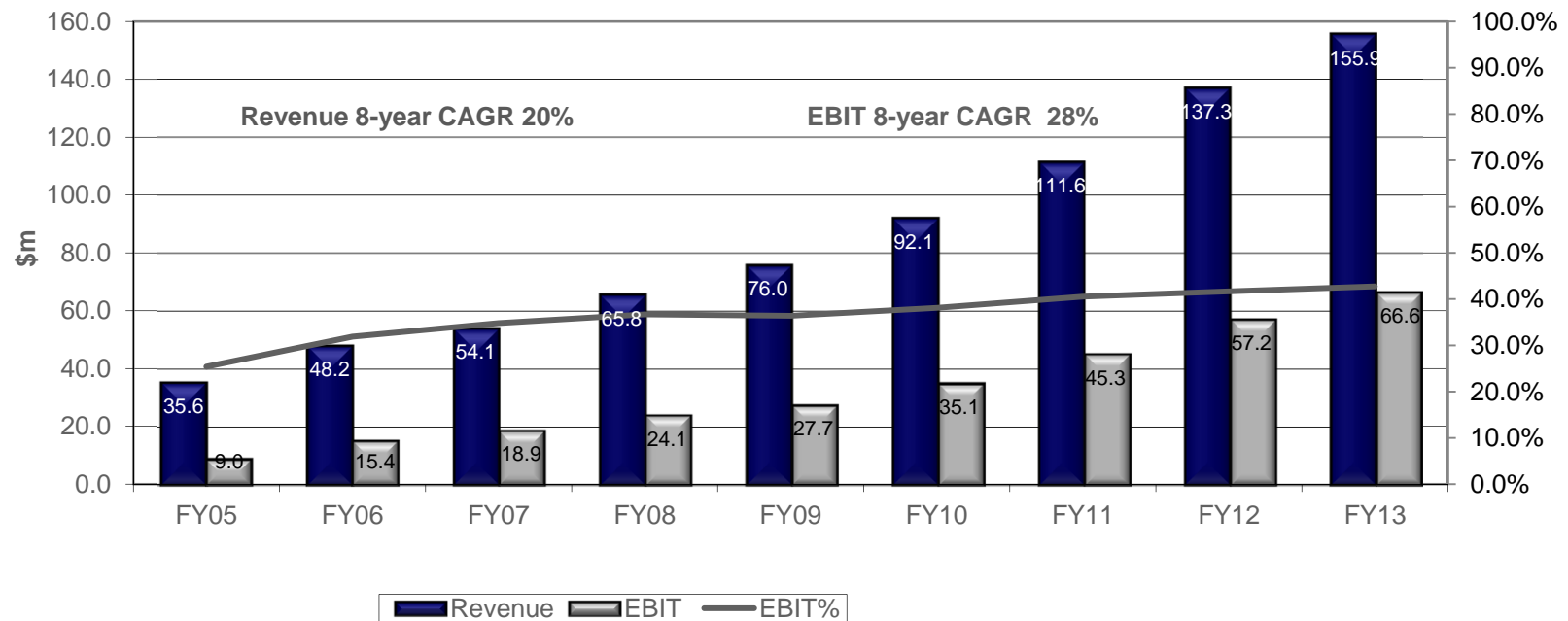
Group Remuneration Services financial performance

| | 2013 | 2012 | % |
|------------------------------------|----------------|----------------|----------------|
| | \$000 | \$000 | Inc |
| Segment revenue | 155,855 | 137,284 | 14% (1) |
| Expenses | | | |
| Employee expenses | 62,408 | 54,250 | 15% |
| Depn and amort of PPE and software | 3,484 | 3,438 | 1% |
| Property and other expenses | 23,339 | 22,360 | 4% |
| Total expenses | 89,230 | 80,048 | 11% |
| Profit before tax | 66,625 | 57,236 | 16% |
| Tax | 19,832 | 16,971 | 17% |
| Net profit after tax | 46,793 | 40,265 | 16% |

Note 1: Excluding the impact of interest derived from external funds administered, the revenue growth was 16%.

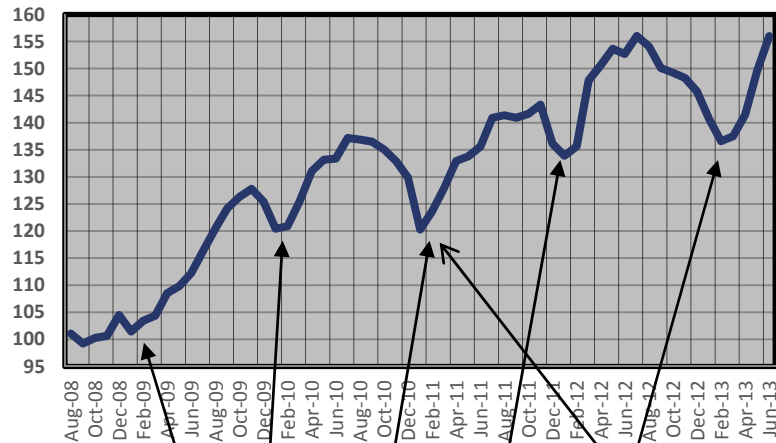
Group Remuneration Services financial performance

(cont'd)

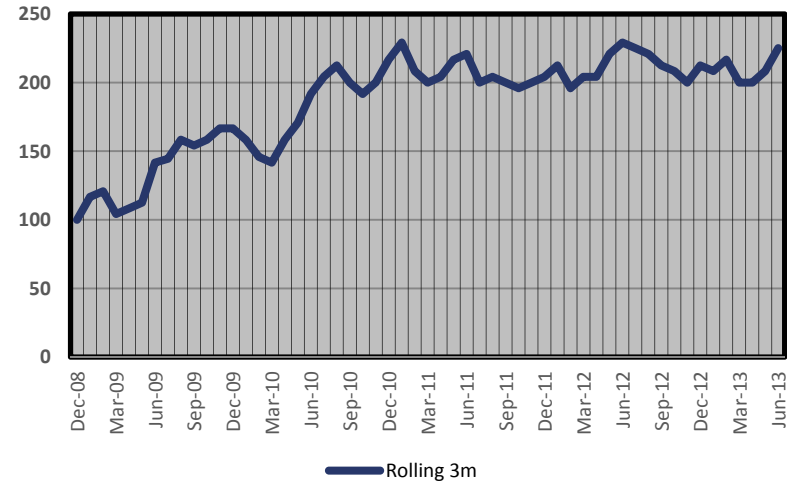


Competitive strengths and performance indices

Group Remuneration Services Productivity Index (7/08 = 100)
[Rolling 3 month Revenue (ex SP Interest) / FTE]



MMS Customer Satisfaction Index
December 2008 = 100



Queensland floods.

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

Group Remuneration Services commentary

- Maintenance of good momentum in new business and participation growth.
- Strong operational performance - core operating contribution growth of 23%.
- FY13 result driven by ongoing increases in unit sales and sales per customer, with some expansion in average yield.
- Strong free cashflow of \$46m.
- Maintained customer metrics above benchmarks.
- Ongoing productivity improvements.
- Ongoing success in selling into the private sector.
- Phase one of Salary Packaging systems upgrade successfully delivered.
- Business intelligence systems successfully delivered.

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

| | 2013 \$000 | 2012 \$000 | % Inc |
|---|----------------|----------------|-----------|
| Segment revenue | 171,962 | 163,342 | 5% |
| Expenses | | | |
| Depreciation of motor vehicle fleet | 74,729 | 66,942 | 12% |
| Interest on fleet financing | 11,043 | 9,524 | 16% |
| Lease and vehicle management expenses | 47,396 | 50,850 | -7% |
| Employee and other expenses | 17,189 | 15,585 | 10% |
| Total expenses | <u>150,357</u> | <u>142,902</u> | 5% |
| Profit before tax | <u>21,604</u> | <u>20,440</u> | 6% |
| Tax | 6,561 | 6,172 | 6% |
| Net profit after tax excluding UK JV | <u>15,043</u> | <u>14,268</u> | 5% |
| Share of JV | (410) | | |
| Net profit after tax including JV | <u>14,633</u> | | |

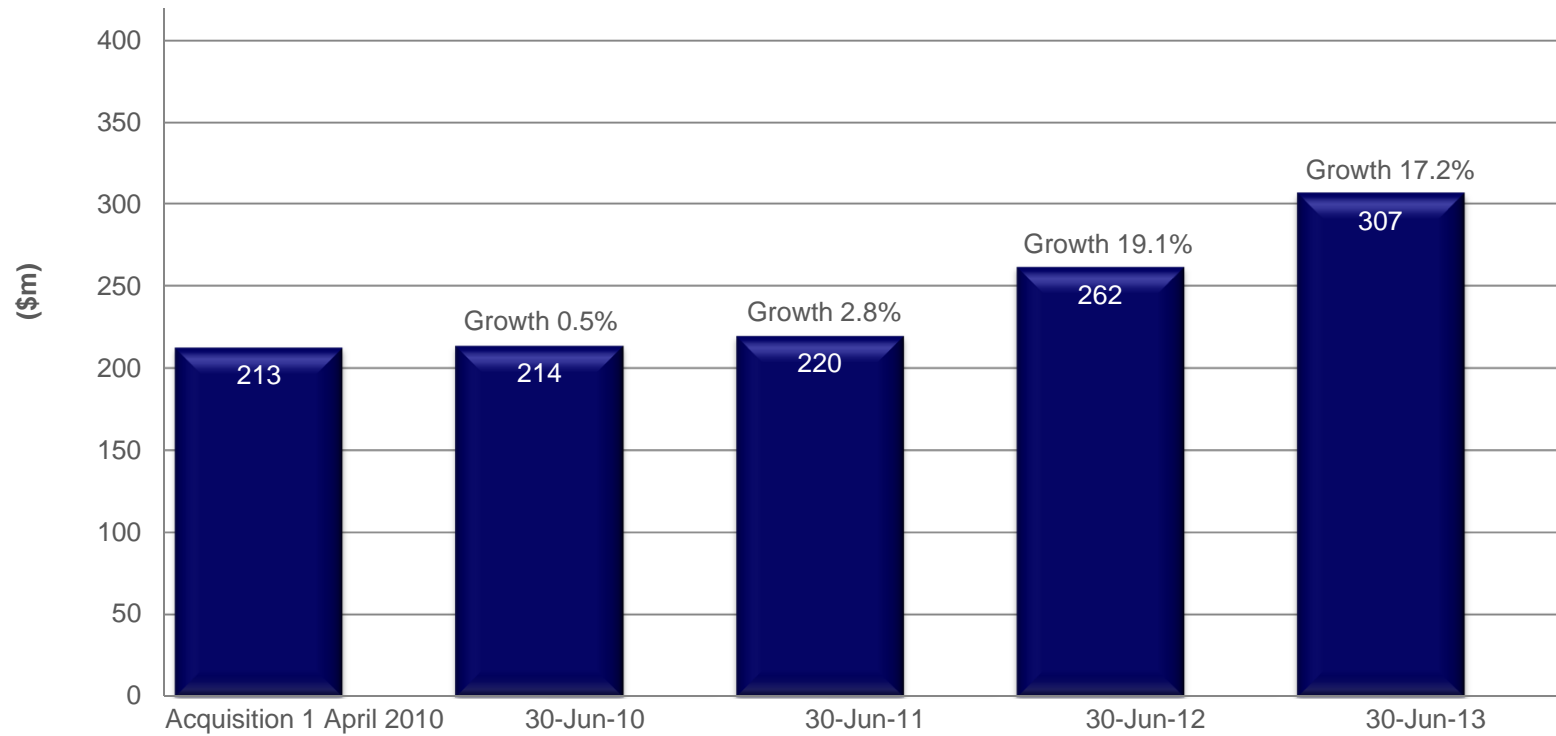
Asset Management segment commentary

- Good growth in assets under finance (assets under finance \$307m versus \$262m FY12; \$220m FY11; \$214m FY10).
- Growth of assets under finance in second half fairly flat. Uncertain economy saw customers putting vehicles in inertia. Strong competition in panel arrangements.
- 5% NPAT growth notwithstanding lower remarketing income (excluding RV profits, NPAT growth was 19%, reflecting ongoing rebalancing of income streams post 2010 acquisition of Interleasing/Holden Leasing).
- Ongoing 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.

Asset Management segment commentary (cont'd)

- New asset management system successfully delivered.
- Increase in yield from in-life services, through leveraging combined scale of Asset Management and Group Remuneration Services (novated leases) vehicles under management.
- UK JV up and running and gathering momentum. Small loss expected in FY14 as we continue to invest.
- Maxxia Finance Ltd set up in UK (100% owned by MMS) and GBP funding facility in place. Tight UK credit market means attractive spreads available on good credit risks.
- Realised credit losses of \$171k.
- Interest rate risk managed through hedging facilities.
- Prudent provisioning against possible future losses on residual values increased to \$2.0m.

Fleet assets WDV



Remarketing performance

- As foreshadowed in FY12 results presentation, gross profits from end of lease vehicle sales in FY13 were less than for FY12.
- Average sale prices for returning vehicles remained strong and exceeded our expectations. However, market is becoming more seasonal i.e. normalising after several years of unusually high prices due to GFC; Japanese earthquake and Thai flood.
- In the absence of unforeseen circumstances, we still expect solid second hand car prices in FY14.

Asset Management key balance sheet numbers

| | 30-Jun-13 | 30-Jun-12 | Movement |
|---|----------------|----------------|----------|
| | \$000 | \$000 | \$000 |
| Operating lease assets | 287,749 | 244,023 | 43,726 |
| Motor vehicle inventories | 4,844 | 1,980 | 2,864 |
| Finance leases & CHP | 14,577 | 15,560 | -984 |
| Total funded fleet assets | <u>307,170</u> | <u>261,564</u> | 45,606 |
| Fleet financing borrowings (1) | 182,000 | 156,000 | 26,000 |
| Maintenance instalments received in advance | 7,626 | 6,622 | 1,004 |
| Net assets | 102,718 | 97,769 | 4,949 |

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

Gearing

| | MMS & Group Remuneration Services 30-Jun-13 \$000 | Asset Management 30-Jun-13 \$000 | Group Balance at 30-Jun-13 \$000 | Group Balance at 30-Jun-12 \$000 |
|--|--|---|---|---|
| Net debt | (54,212) | 178,972 | 124,761 | 101,580 |
| Book value of equity | 92,717 | 102,718 | 195,435 | 168,051 |
| Gearing - net debt / (net debt + equity) | (141%) | 64% | 39% | 38% |
| Interest times cover | | | 11.6 | 9.6 |
| Debt to total funded fleet WDV | | 59% | | |

* As at 30 June 2013 the group remains well within its banking covenants, while optimising the use of surplus cash to increase returns. Group interest cover has increased notwithstanding additional borrowings. Significant headroom is available within debt facilities to deliver on business plan

Cash Flow

| | Remuneration Services \$000 | Asset Management \$000 | Unallocated / parent co. \$000 | MMS Group Total \$000 |
|---|-----------------------------------|------------------------------|--------------------------------------|-----------------------------|
| Segment NPAT | 46,793 | 14,633 | 737 | 62,163 |
| Non-fleet depn/amort, reserves and other non-cash items | 6,863 | 1,432 | - | 8,295 |
| Working capital inflow / (outflow) | (1,884) | 1,191 | - | (693) |
| Operating cashflow pre fleet increase and abnormal tax payments | 51,772 | 17,256 | 737 | 69,765 |
| Contract establishment costs | (3,446) | - | - | (3,446) |
| Capex (non fleet & ex-sales) and software incl. 5 year IT systems upgrade | (4,531) | (5,096) | - | (9,627) |
| Free cash flow before fleet increase and abnormal tax payments | 43,795 | 12,160 | 737 | 56,692 |
| Tax payments in (excess) of / lower than tax expense | 2,131 | 2,203 | (967) ⁽¹⁾ | 3,367 |
| Free cashflow before fleet increase | 45,926 | 14,363 | (230) | 60,059 |
| <i>Investing activities and fleet increase:</i> | | | | |
| Investment in UK JV | - | (337) | - | (337) |
| Subordinated loan to UK JV | - | (500) | - | (500) |
| Net growth in Asset Management Portfolio | - | (45,606) | - | (45,606) |
| Free cash flow | 45,926 | (32,080) | (230) | 13,616 |
| <i>Financing activities:</i> | | | | |
| Intercompany funding | (3,165) | 3,165 | - | - |
| Net debt (repayments)/ borrowings (net of costs) | - | 25,720 | - | 25,720 |
| Dividends paid | - | - | (36,517) | (36,517) |
| | (3,165) | 28,885 | (36,517) | (10,797) |
| Net cash movement | 42,761 | (3,195) | (36,747) | 2,819 |

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

Funding

- The Asset Management facility for the Australian fleet assets:
 - Remains at \$270m with the ability to increase further;
 - Expires in August 2015; and
 - Provides significant headroom for growth.
- Subsequent to 30 June 2013 the Group completed a financing arrangement for new borrowing facilities of GBP15m to fund expansion in the UK.
- Cash at 30 June is \$57.2m

Outlook

- Labor's announcement on proposed changes to FBT on motor vehicles is likely to have a material adverse affect on our Remuneration Services segment in FY14. But due to the uncertainties set out below, this is presently unquantifiable.
- The policy announcements⁽¹⁾ made by the successful Coalition mean a return to business as usual but:
 - There will be a ramp up period.
 - Employers who have shut programs down (minority but some large companies) need to agree to restart.
 - Employees need to be communicated with and any uncertainty about benefits of novated leasing removed.
 - And even when business as usual is re-established, there is typically around 42 days in the novated lease sales cycle.

Note 1: See for example Media Release dated 9 September, 2013 "Australia Open for Business – Labor's FBT hit dead, buried and cremated"
<http://www.andrewrobb.com.au/Goldstein/LocalIssues/tabid/123/articleType/ArticleView/articleId/1565/Media-Release--Australia-open-for-business-Labors-FBT-hit-dead-buried-and-cremated.aspx>

Outlook (cont'd)

- It was not possible to sell new employer novated leasing contracts after 16 July 2013 nor to implement contracts that had been won prior to 16 July. This may have a short term adverse effect on the business but is unquantifiable.
- Net of the impacts of the previous government's 16 July 2013 announcement on FBT on motor vehicles, we expect ongoing profitable growth in Group Remuneration Services through new contracts won over the past 12-18 months and ongoing participation growth.
- In these unusual and unprecedented circumstances, we have no reasonable basis to predict how long the ramp up will take. Accordingly, we will further update the market at our AGM on 22 October 2013.

Outlook (cont'd)

- Ongoing growth in assets under finance in the asset management book and consolidation of JV in UK.
- Further development of our funding strategy to maintain liquidity and duration.
- Further productivity improvements in Remuneration Services through ongoing IT investment.
- Seeking opportunistic acquisition/bolt-ons.

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.
- Novated lease ramp up following election.