MMS Group FY14 Results Presentation

August 2014

McMillanShakespeareGroup

FY14 Key Points

- Business has fully recovered from the 16 July, 2013 proposed changes to novated leasing benefits and returned to strong growth:
  - Group Remuneration Services (GRS) 2HFY14 revenue grew 8% on PCP (10% ex interest on the float*).
  - GRS 2HFY14 NPAT grew 16% on PCP (21% ex interest on the float).
  - Consolidated Group 2HFY14 NPAT was 10% higher than PCP (13% ex interest on the float).
- Full year NPAT of $55m 12% lower than PCP due to the FBT temporary disruption. Impact includes:
  - Reduction in revenue from novated leasing.
  - Higher expense ratio due to decision to retain staff.
  - $1.4m in one-off after tax costs associated with proposed FBT changes.

* Ex interest on the float growth shows the business's underlying growth after removing the impact of interest earned on non corporate funds which is impacted by changes in interest rates.

FY14 – Key Points (cont'd)

- Asset Management NPAT $13.6m. Result includes UK JV losses, new system depreciation, lease extensions and the resultant impact on end-of-life (remarketing) profits.
- Final dividend(1) of 31cps; total FY14 dividend of 52 cps.
- Basic EPS of 73.8 cps (83.4 cps PCP) and diluted EPS of 72.7 cps (11% decrease).
- ROE reduced to 26% due to FBT disruption.
- Free cash flow (pre increase in fleet assets) of $52m (94% of NPAT), notwithstanding the impact of the proposed FBT changes and $8.5m of CAPEX which included major system upgrade costs.

(1) Final dividend of 31cps has been determined after taking into account the total FY13 dividend payout ratio was contained at 50%.

FY14 Key Points (cont'd)

- Assets under finance and management continued to grow ($27m or 9% on PCP), despite patchy economic conditions and a very competitive market.
- CLM (UK) acquired for $A14m ($A12.4m net of cash acquired) in October, 2013.
- The UK businesses originated £22m of assets.
- Momentum building in UK business, entry into that market appears well timed; favourable taxation ruling on proposed car salary sacrifice product; UK economy appears to be gathering momentum.
- New Australian asset management system successfully delivered in July 2013 (5 year write off period from 1 July 2013 - annual depreciation charge of $1.9m).
- Good pipeline of new business opportunities; tender numbers increasing.

FY14 Key Points (cont'd)

- Business and staff proved very resilient in the face of proposed FBT changes.
- Development of enterprise wide innovation platform; to be rolled out in September 2014.
- Productivity improvements in 2HFY14 a combination of benefits from IT investment and lower starting headcount due to hiring freeze following 16 July, 2013 announcement.

Consolidated Financial Performance

	2014 $000 Group Remuneration Services	2013 $000 Group Remuneration Services	% Incr.	2014 $000 Asset Management(1)	2013 $000 Asset Management	% Incr.	2014 $000 Total	2013 $000 Total
Revenue from operating activities	157,247	155,855	1%	188,069	171,962	9%	345,316	327,817
Expenses	97,163	89,230	9%	167,206	150,358	11%	264,369	239,589
Pre tax profit from operating activities	60,084	66,625	(10%)	20,863	21,604	(3%)	80,947	88,228
Operating margin	38.2%	42.7%		11.1%	12.6%		23.4%	26.9%
Tax	18,096	19,832	(9%)	6,186	6,561	(6%)	24,282	26,392
Segment net profit after tax pre-UK	**41,988**	**46,793**	**(10%)**	**14,677**	**15,043**	**(2%)**	**56,665**	**61,836**
Share of JV	-	-		(1,120)	(410)		(1,120)	(410)
Segment net profit after tax	**41,988**	**46,793**		**13,557**	**14,633**		**55,545**	**61,426**
Unallocated items								
Net interest income							1,978	2,247
Public company costs							(1,436)	(1,008)
Acquisition and investment related expenses							(1,177)	(128)
Tax on unallocated items							60	(374)
Net profit after tax							**54,970**	**62,163**
Growth							**(11.6%)**	**14.5%**
Return on equity							26%	34%
Basic earnings per share (cents)							73.76	83.42
Diluted earnings per share (cents)							72.65	81.87
Diluted EPS growth							**(11.3%)**	**10.5%**
Interim dividend paid per share (cents)							21.00	24.00
Final dividend declared per share (cents) (2)							31.00	18.00
Total dividend							52.00	42.00
Payout ratio (2)							70%	50%

(1) Includes CLM acquisition from 22 October 2013.

(2) Final FY14 dividend of 31cps has been determined after taking into account the total FY13 dividend payout ratio was contained at 50%.

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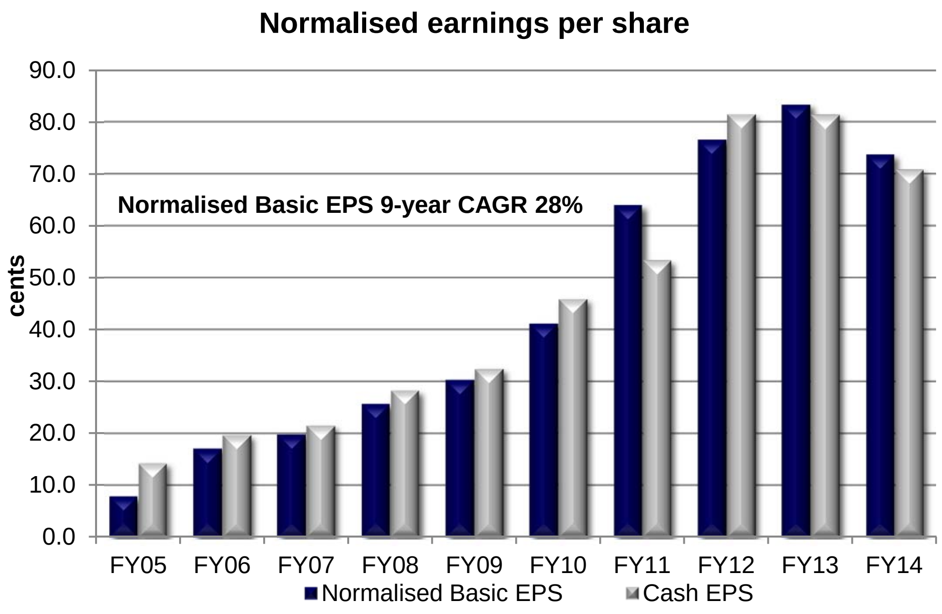
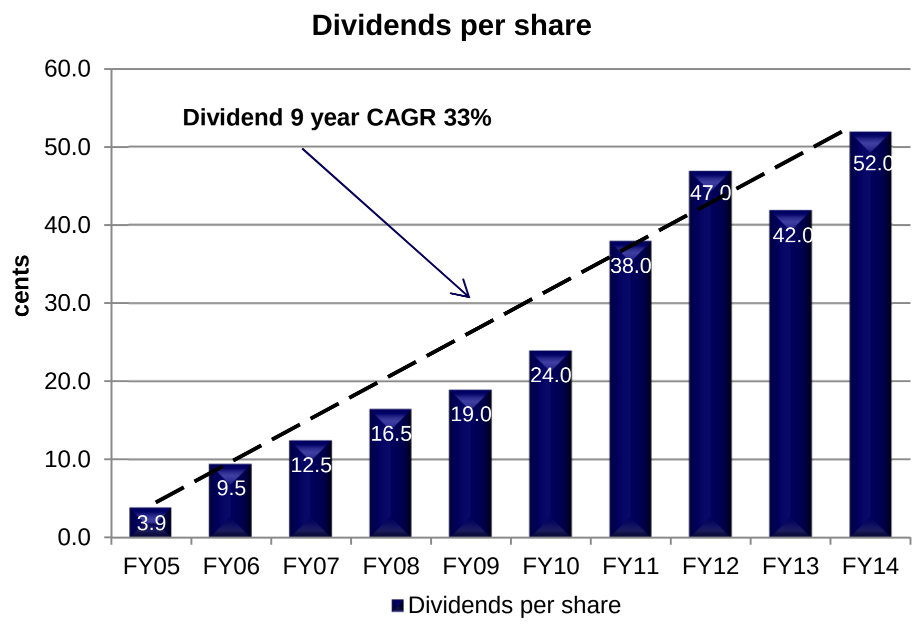
Historical earnings and dividends per share

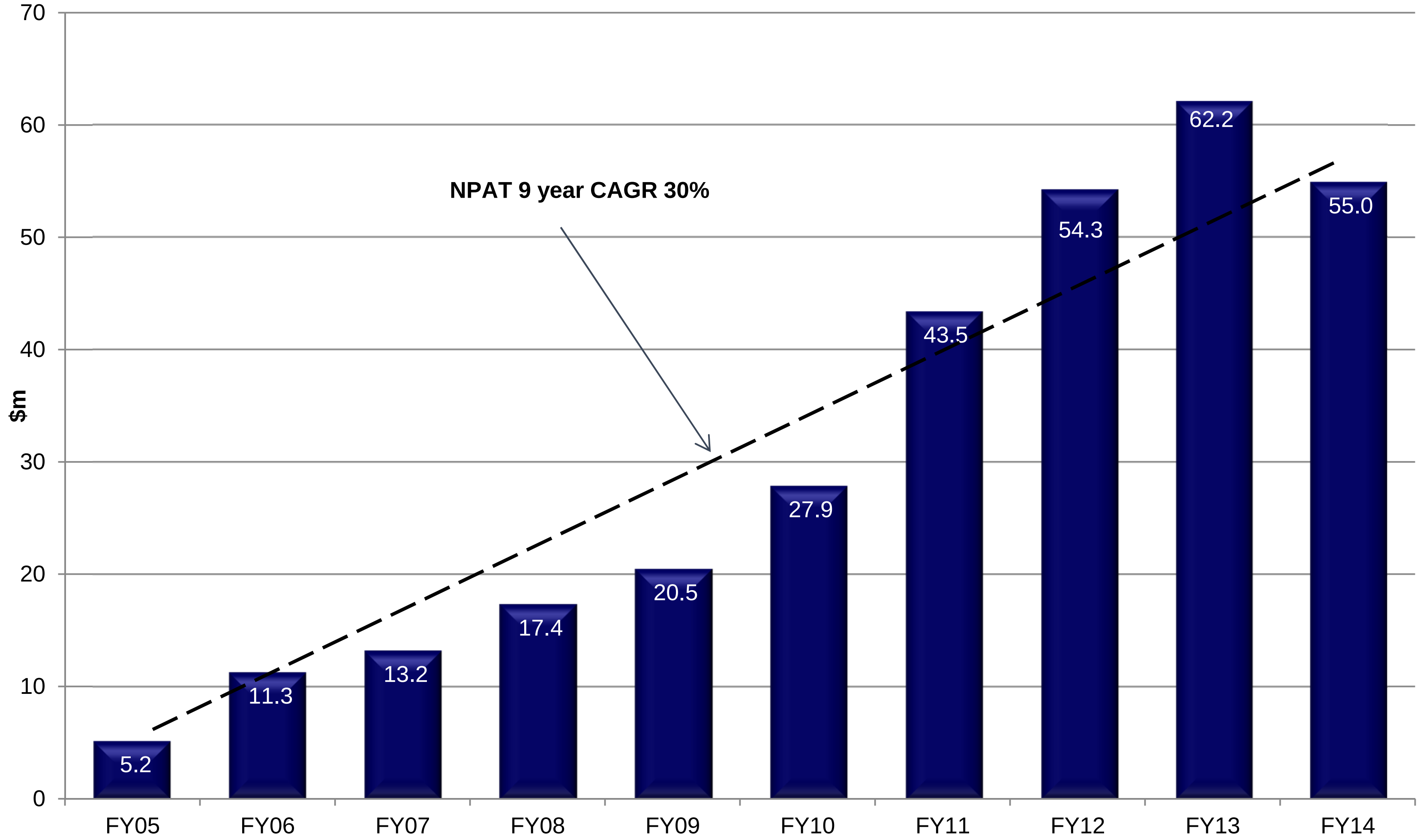




Cash EPS includes CAPEX but excludes the investment in fleet growth. FY11, FY12, FY13 and FY14 EPS includes funding the major systems upgrade as part of 5 year IT strategy.

Note : Normalised EPS excludes the profit recognised on acquisition as a result of the business combination of ILA in FY10.

Normalised (1) NPAT Performance



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

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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. This segment includes our business's in Australia, New Zealand and United Kingdom.

Group Remuneration Services FY14 Financial Performance

	2014 $000	2013 $000	% Inc	Comment
Segment revenue	157,247	155,855	1%	(Note 1: ex float interest growth of 2%)
Expenses				
Employee expenses	67,138	62,408	8%	
Depn and amort of PPE and software	3,680	3,484	6%	
Property and other expenses	26,345	23,338	13%	
Total expenses	97,163	89,230	9%	
Profit before tax	60,084	66,625	-10%	
Tax	18,096	19,832	-9%	
Net profit after tax	41,988	46,793	-10%	

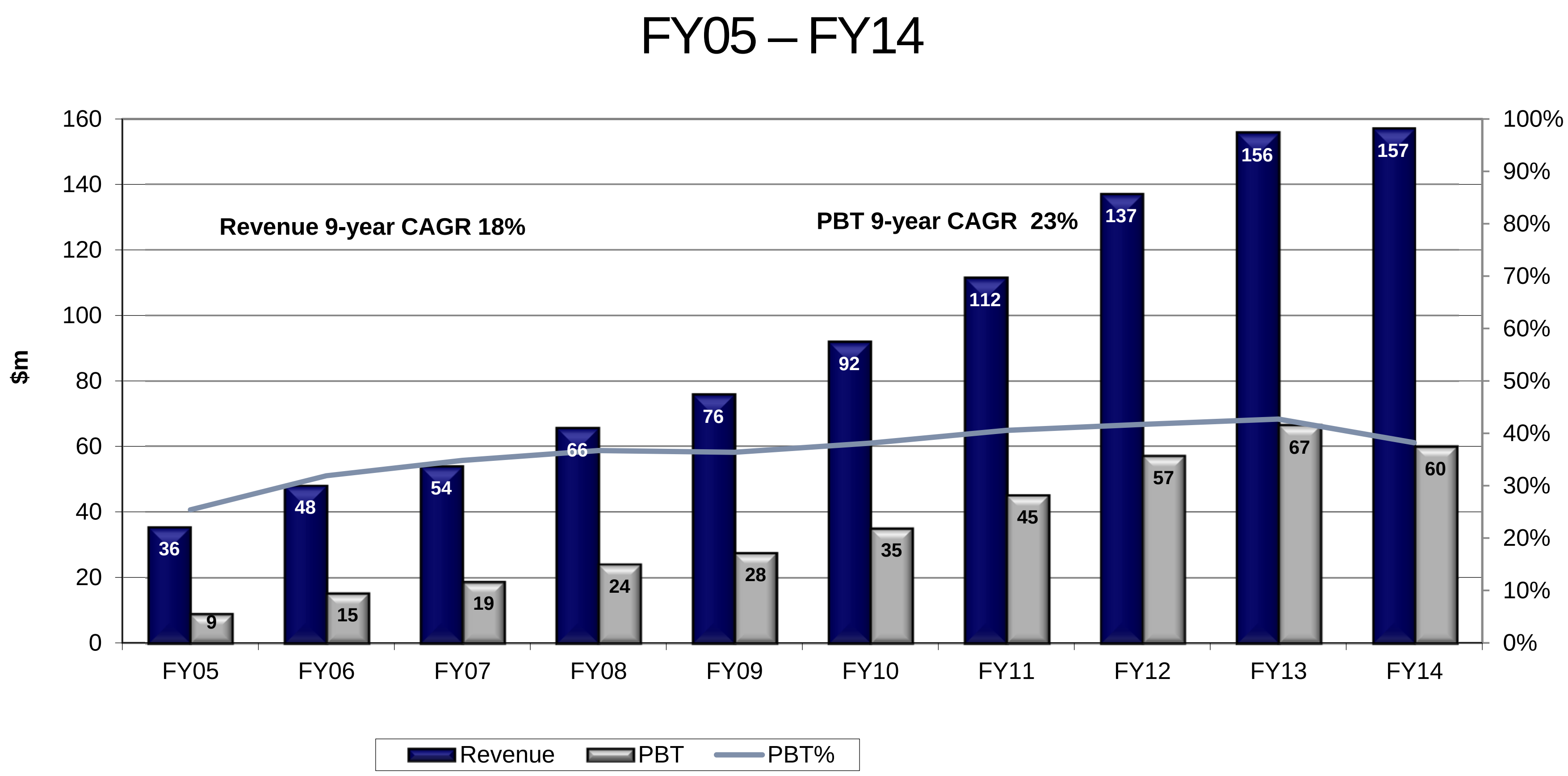
Note 1: Excluding the impact of interest derived from external funds administered, revenue was higher by 2%

Group Remuneration Services 2HFY14 Financial Performance

	2HFY14 $000	2HFY13 $000	% Inc	
Segment revenue	86,699	80,098	8%	(Note 1: ex float interest 10%)
Expenses				
Employee expenses	32,482	31,516	3%	
Depn and amort of PPE and software	1,884	1,675	12%	
Property and other expenses	12,131	11,683	4%	
Total expenses	46,497	44,875	4%	
Profit before tax	40,202	35,223	14%	
Tax	11,451	10,419	10%	
Net profit after tax	28,751	24,804	16%	

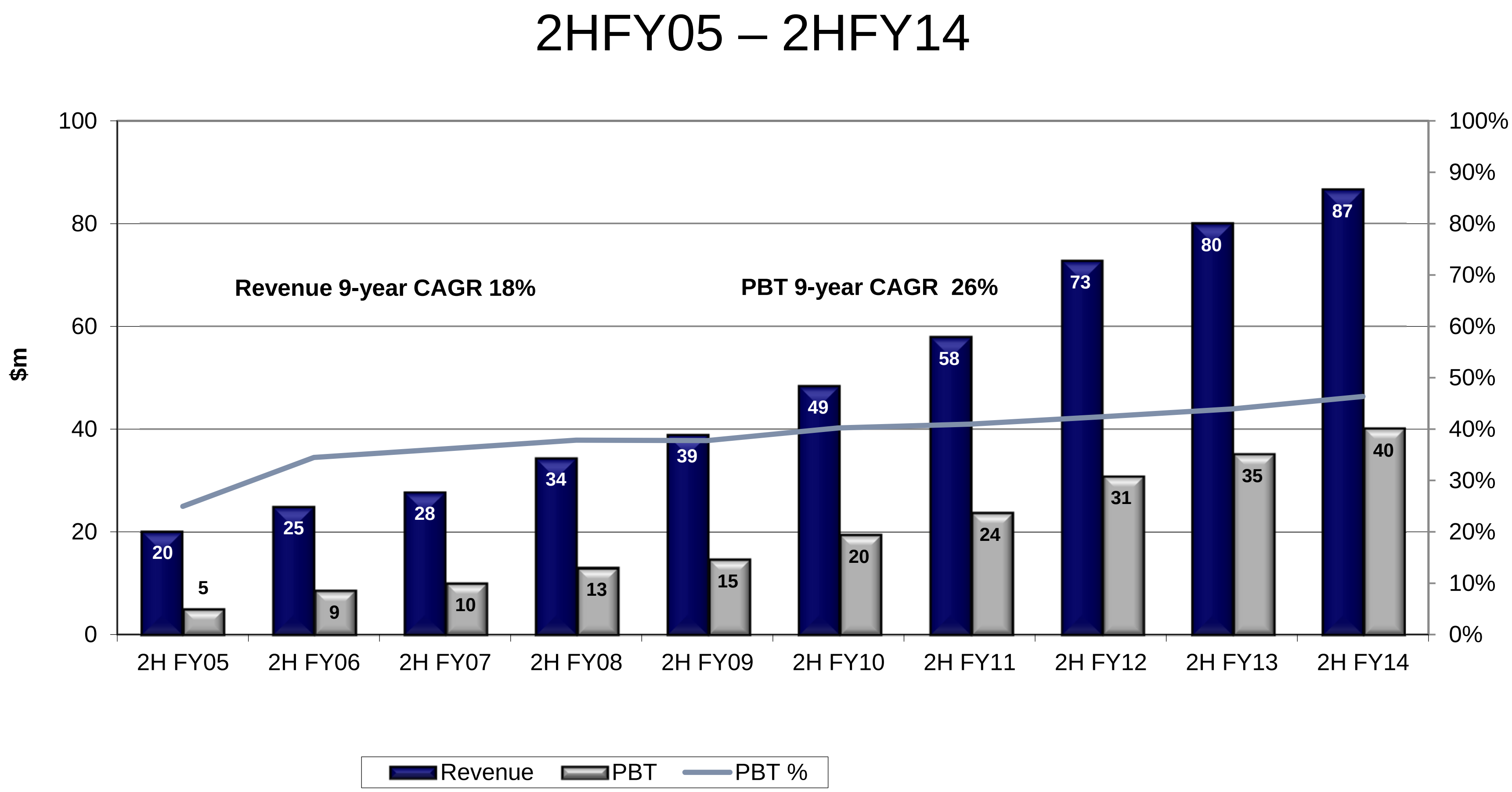
Note 1: Excluding the impact of interest derived from external funds administered, revenue was higher by 10%

Group Remuneration Services Financial Performance (cont'd)



PBT – Profit before tax

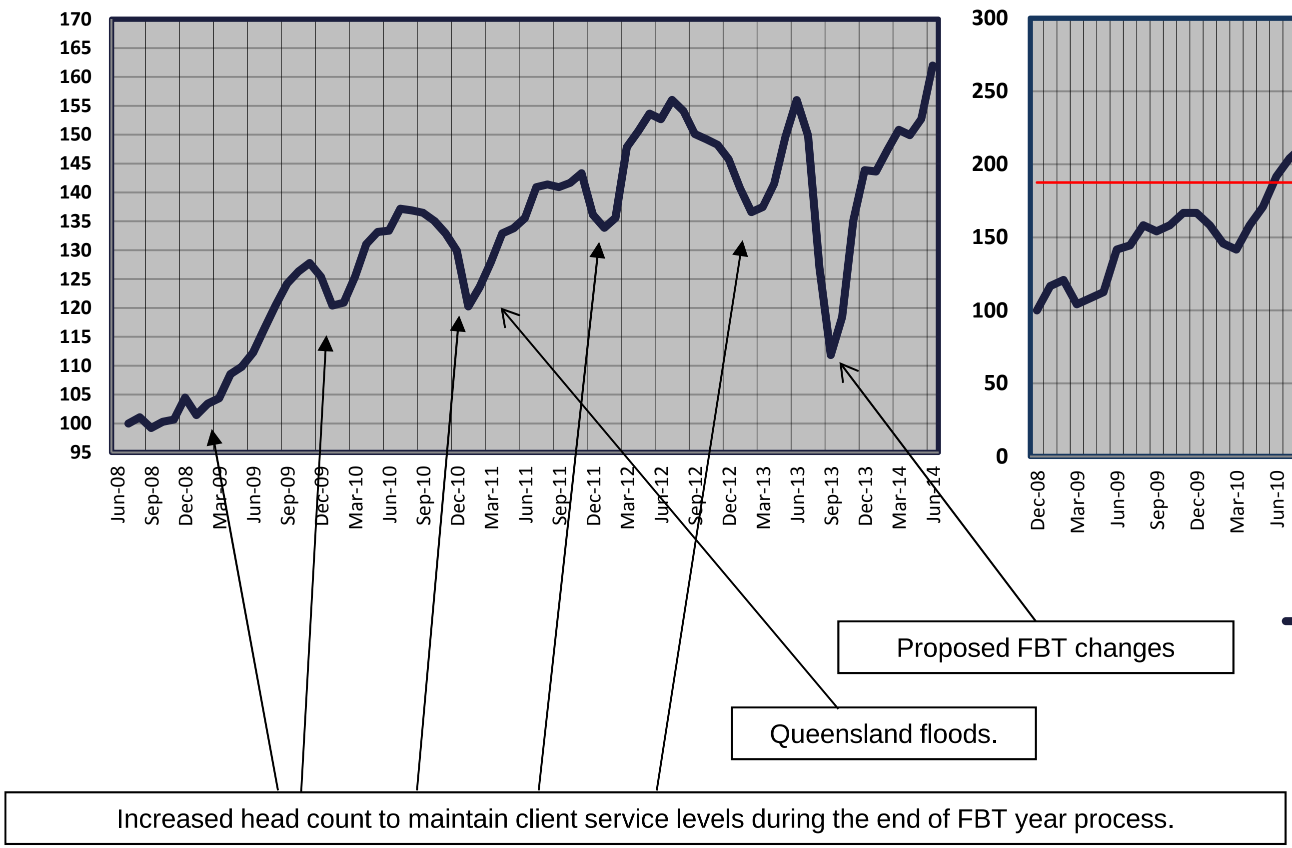
Group Remuneration Services Financial Performance (cont'd)



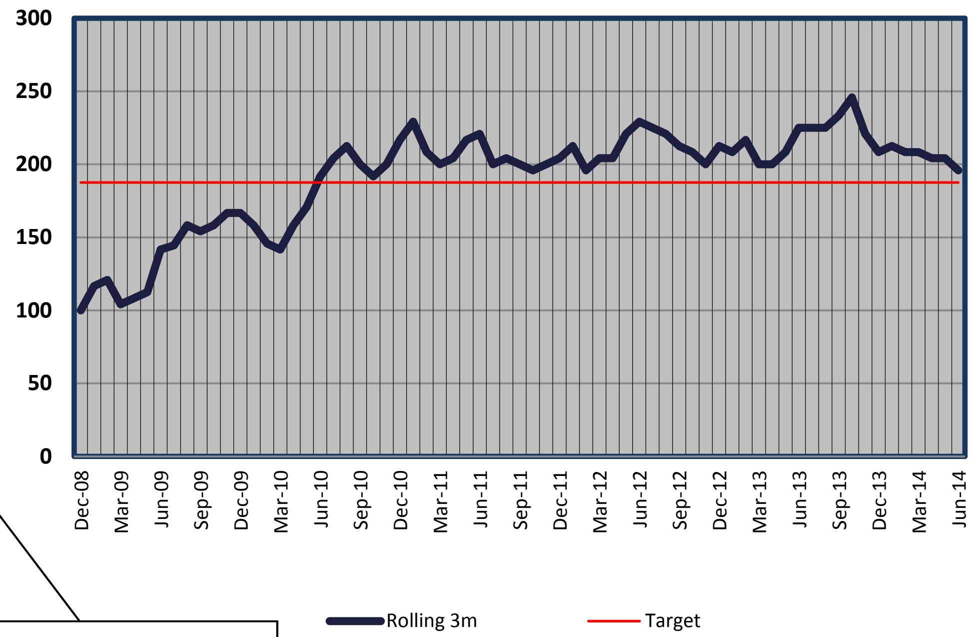
PBT – Profit before tax

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



Group Remuneration Services Commentary

- FY14 NPAT of $42m was $4.8m (10%) less than PCP including reduction in revenue and increased staff costs as a result of the decision to retain all staff.
- 2HFY14 GRS NPAT growth on PCP of 16% on PCP, (21% ex interest on the float).
- FY14 core operating contribution decline of 5%, 2HFY increase of 18% on PCP.
- Strong free cash flow of $38m.
- Maintained customer metrics above benchmarks.
- Good pipeline of new business.
- Successful release of IT based productivity projects; more to come in FY15.
- Business has good momentum going into FY15.

Note: Core operating contribution – profit before finance, tax and depreciation derived directly from salary packages managed and novated leasing, excluding one off costs associated with proposed FBT changes.

Asset Management (AM) Financial Performance

	Group AM 2014 $000	CLM & UK AM 2014 $000	Australia AM 2014 $000	Group AM 2013 $000	Group AM % Inc	Australia AM % Inc	
Segment revenue	188,069	9,874	178,195	171,962	9%	4%	(1)
Expenses							
Depreciation of motor vehicle fleet	81,475	-	81,475	74,729	9%	9%	
Depreciation and amortisation of plant & equipment, software and intangibles	2,988	450	2,538	829	261%	206%	
Interest on fleet financing	10,872	403	10,469	11,043	-2%	-5%	
Lease and vehicle management expenses	52,692	5,453	47,239	47,396	11%	0%	(1)
Employee and other expenses	19,179	2,635	16,544	16,361	17%	1%	
Total expenses	167,206	8,941	158,265	150,358	11%	5%	
Profit before tax	20,864	933	19,930	21,604	-3%	-8%	
Tax	6,186	264	5,922	6,561	-6%	-10%	
Net profit after tax excluding UK JV	14,677	669	14,008	15,043	-2%	-7%	
Share of JV	(1,120)	(1,120)	-	(410)	173%	0%	
Net profit after tax including JV	13,557	(450)	14,008	14,633	-7%	-7%	

Note 1: Growth percentage is less than otherwise would have been due to reduced motor vehicle unit sales and yield on disposal of vehicles.

Asset Management Commentary

- 9% portfolio growth on PCP in a low growth economic environment.
- Commenced funding in the UK.
- Implemented new asset management system on time and on budget – this has improved capability to better service customers.
- Depreciation cost (first time) of new asset management system (full 12 months - $1.9m). Capital cost will be written off over 5 years.
- Excluding vehicle end of life profits and new system depreciation, Australian/NZ NPAT grew by 11% on PCP.
- Continuing rebalancing of income streams (end of life vehicle profits reducing as a percentage of segment profits).
- Highly competitive environment – NIM under pressure but holding up and new funding lines have reduced cost of funds.

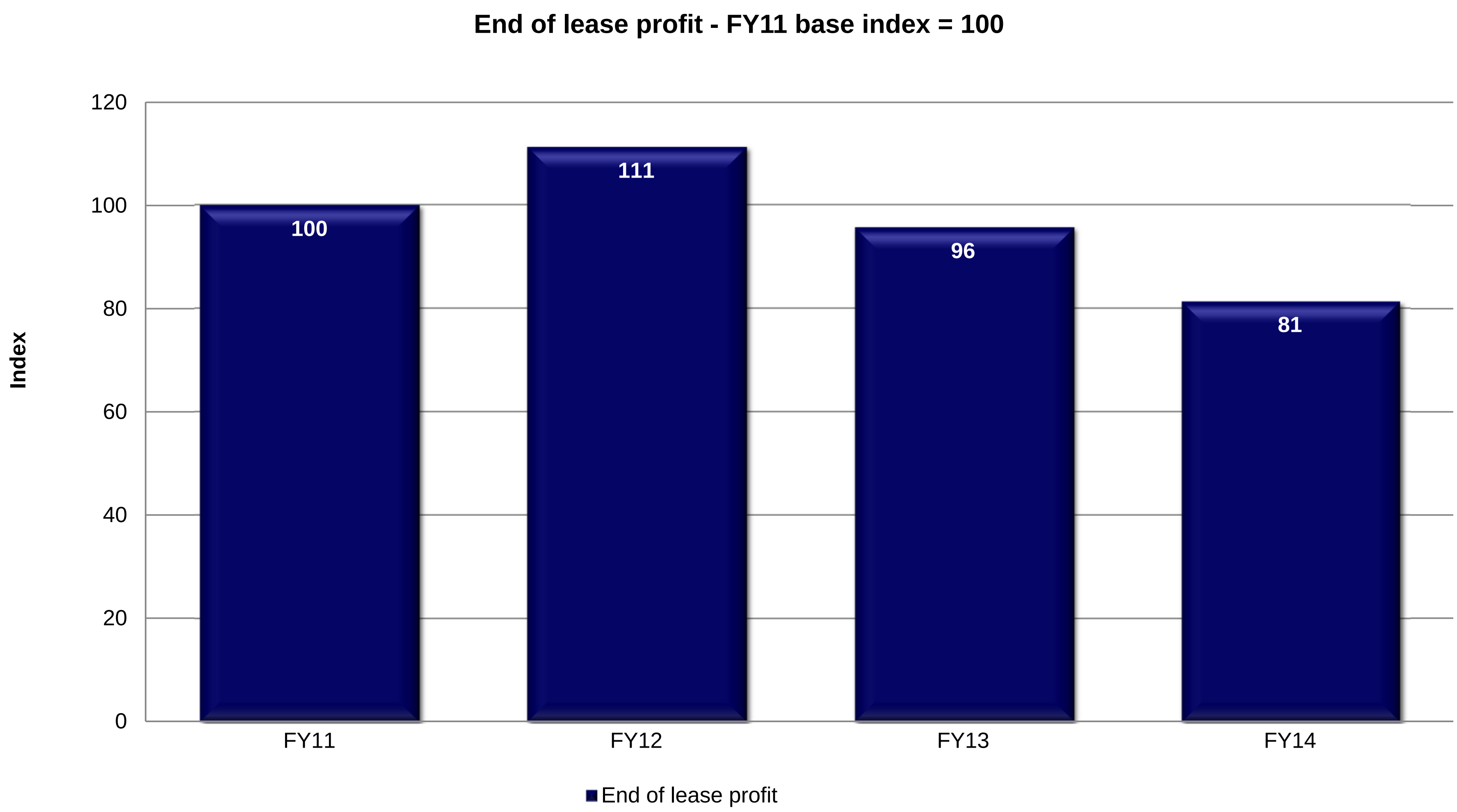
Asset Management Commentary (cont'd)

- 16 July, 2013 (Proposed FBT changes) caused considerable confusion in respect of tool of trade vehicles (move from Statutory to Operating Cost method) - customers elected to delay replacements.
- Increasing pipeline of opportunities and Asset Management continues to provide novated lease opportunities to GRS segment.
- Funding – extended to March 2017, on improved terms – club facility now has 3 of the 4 tier 1 Australian banks and provides funding in Australia, NZ and UK.

Asset Management Commentary (cont'd)

- RV provision at 30 June 2014 of $2.0m.
- Uncertain economic conditions meant significant number of lease extensions rather than investing in new assets i.e. fewer cars returning for remarketing; lowers book growth and remarketing revenue and reduces potential interest income (delayed profit opportunity on eventual asset return).
- Market conditions for sale of cars remain in line with expectations.
- UK performing in line with expectations, is expected to turn profitable this year.
- UK gathering momentum; economy improving; car salary sacrifice product approved; books of receivables and businesses becoming available for acquisition.

End of lease profit



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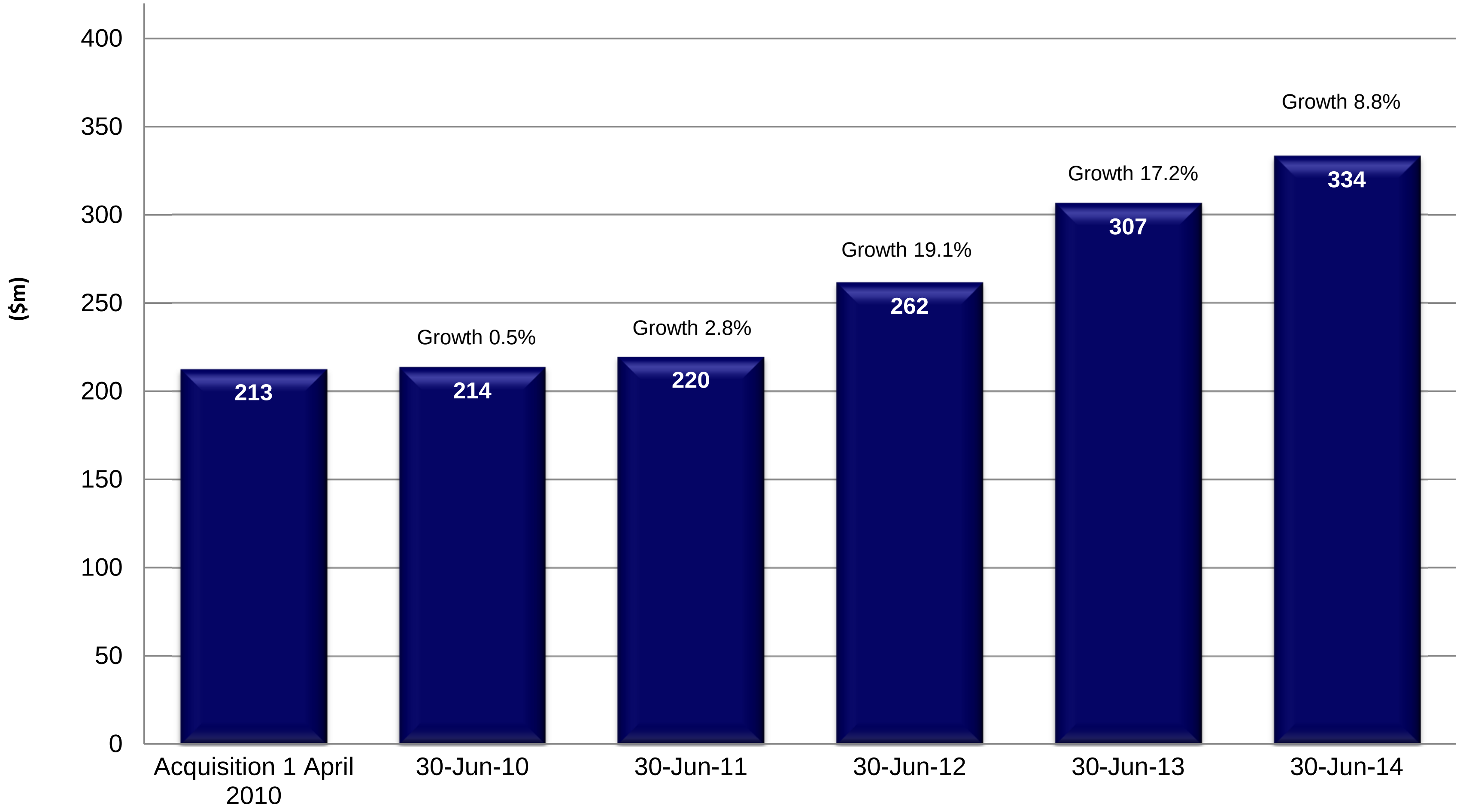
Fleet Assets WDV



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Asset Management Key Balance Sheet Numbers

	30-Jun-14 $000	30-Jun-13 $000	Movement $000	
Operating lease assets	303,408	287,749	15,659	
Motor vehicle inventories	5,379	4,844	535	
Finance leases & commercial hire purchase	24,906	14,577	10,329	
Total funded fleet assets	333,692	307,170	26,523	
Fleet financing borrowings	215,100	182,000	33,100	
Maintenance instalments received in advance	7,529	7,626	-97	
Net assets	125,259	102,718	22,541	Note 1

Note 1: Increase includes investment in CLM and establishment of funding entities in the UK and NZ.

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Gearing

	MMS & Group Remuneration Services 30-Jun-14 $000	Asset Management 30-Jun-14 $000	Group Balance at 30-Jun-14 $000		Group Balance at 30-Jun-13 $000
Net debt	(64,502)	208,405	143,903		124,761
Book value of equity	98,588	125,259	223,847		195,435
Gearing - net debt / (net debt + equity)	(189%)	62%	39%		39%
Interest times cover (2)			10.1	(1)	11.6
Debt to total funded fleet WDV		64%			

* As at 30 June 2014 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.

Note 1: The drop in interest times cover from 11.6 to 10.1 is due to the profit impact of the, now redundant, proposed FBT changes on motor vehicles.
Note 2: Interest times cover: earnings before interest and taxes divided by net interest.

FY14 Cashflow

	Group Remuneration Services $000	Asset Management $000	Unallocated / parent co. $000	MMS Group Total $000
Segment NPAT	41,988	13,557	(575)	54,970
Non-fleet depn/amort, reserves and other non-cash items	6,643	4,106	-	10,749
Working capital inflow / (outflow)	(3,292)	(515)	-	(3,807)
Operating cashflow before increase in AM portfolio and abnormal tax payments	45,339	17,148	(575)	61,912
Capex (non fleet & ex-sales) and software incl. 5 year IT systems upgrade	(5,968)	(2,486)	-	(8,454)
Free cash flow before increase in AM portfolio and abnormal tax payments	39,371	14,662	(575)	53,458
Tax payments in (excess) of / lower than tax expense	(1,544)	(272)	-	(1,816)
Free cashflow before increase in AM portfolio	37,827	14,390	(575)	51,642
Investing activities and fleet increase:				
Equity contribution into subsidiary companies	-	14,478	(14,478)	-
Investment in UK JV (net of cash acquired, excl acquisition costs)	-	(12,418)	-	(12,418)
Subordinated loan to UK JV	-	(2,419)	-	(2,419)
Net growth in Asset Management Portfolio	-	(24,619)	-	(24,619)
Free cash flow	37,827	(10,588)	(15,053)	12,186
Financing activities:				
Intercompany funding	6,208	(6,208)	-	-
Net debt (repayments)/ borrowings (net of costs)	-	30,836	-	30,836
Dividends paid	-	-	(29,064)	(29,064)
	6,208	24,628	(29,064)	1,772
Net cash movement	44,035	14,040	(44,117)	13,958

AM: Asset Management

Funding

- Additional major Australian bank added to the MMS Club funding facility bringing the total to 3 of the 4 major Australian banks.
- Club facility extended in March 2017 with an increase in the facility limit to $A300m (unused $106m) and £25m (unused £12.8m) on more favourable terms.
- Cash as at 30 June 2014 $71m.

Risks and Sensitivities

- Interest rates movements (earnings on float).
- Second hand car prices (remarketing earnings).
- New car sales (novated lease participation).
- Government austerity/redundancy programs.
- Government policy development, in particular changes to FBT laws.
- General economic conditions (unemployment; lease extensions).

Outlook

- FY15 should see another year of profitable growth in all lines of business.
- UK business expected to gain momentum; new car salary sacrifice product launch.
- Phase 2 of salary packaging systems has been delivered which will drive improved service.
- Growth in assets under finance and management, notwithstanding intense competition.
- Expected launch of new products and services in both the UK and Australia during FY15.
- Business well placed to acquire opportunistically in current or adjacent products, services and markets.

MMS overview

- McMillan Shakespeare Group (ASX: MMS)
  - Group Remuneration Services
  - Asset Management
    - United Kingdom
      - Maxxia Finance UK (100% owned)
      - CLM
      - JV (50% owned)
    - Australia & NZ

Group Remuneration Services

- Salary packaging administration
- Novated leases
- Hospitals, health & charity workers
- Public and private sector lease programs
- Over 800 customers
- Circa 1m employees employed by customers
- Annual administration fee
- Transaction fees on leases
- Growth opportunity in packaging
- Lease penetration growth opportunity, private sector

Asset Management

- Fleet Management
- Operating leases, finance leases
- Mainly corporate customer base
- Balanced revenue
- Stream of management fees, NIM, in-life services
- Profit on sale, RV risks on balance sheet
- UK growth opportunity, bank dominated, Basel III
- Competitive cost of funds
- Maxxia Finance UK finance assets managed by JV
- CLM acquired Oct’13