

# McMillanShakespeareGroup

## ASX ANNOUNCEMENT

### ACQUISITION OF UNITED FINANCIAL SERVICES

Please find attached a Media Release and Investor Presentation in relation to McMillan Shakespeare's acquisition of United Financial Services Pty Ltd, United Financial Services Network Pty Ltd and United Financial Services (Queensland) Pty Ltd (collectively known as "UFS") for \$42 million.

The acquisition is subject to customary closing conditions and is expected to complete by 31 July 2015 or earlier if the conditions are satisfied.



**Mark Blackburn**  
CFO and Company Secretary  
McMillan Shakespeare Limited



**Mike Salisbury**  
Managing Director and CEO  
McMillan Shakespeare Limited

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# McMillanShakespeareGroup

## MEDIA RELEASE

### MCMILLAN SHAKESPEARE FURTHER EXPANDS ITS PRESENCE IN THE AUTOMOTIVE SEGMENT WITH THE ACQUISITION OF UNITED FINANCIAL SERVICES

The Board of Directors of McMillan Shakespeare Limited (“**MMS**”) is pleased to announce today that MMS has entered into a binding agreement to acquire 100% of the shares in privately owned companies United Financial Services Pty Ltd, United Financial Services Network Pty Ltd and United Financial Services (Queensland) Pty Ltd (collectively known as “**UFS**”) for a purchase price of \$42 million, funded 60% cash from existing MMS cash reserves and 40% MMS scrip.

The transaction is scheduled to complete on 31 July 2015, subject to certain conditions precedent, which are expected to be satisfied before this date.

Founded in 1996, UFS is a financial services business, specialising in the delivery of consumer and commercial finance and insurance products. UFS is a large scale originator of finance and insurance for vehicles and leisure goods, originating circa \$370 million in auto and personal loans and \$14 million in insurance premiums per annum. UFS has a national footprint with 1,900 active dealers and 150 individual finance brokers across 28 office locations.

In FY14, UFS achieved pro forma<sup>1</sup> revenue and EBITDA of \$38.5 million and \$4.9 million respectively, with the Company forecasting solid growth in FY15. Based on the current run rate<sup>2</sup>, FY15 pro forma revenue and EBITDA is forecast to increase to \$41.3 million and \$5.3 million respectively. The acquisition is forecast to be earnings accretive for MMS on a FY16 basis<sup>3</sup>.

Mike Salisbury, Managing Director and CEO of MMS, said “The acquisition of UFS represents an attractive opportunity for MMS to consolidate our position in the auto financing sector by adding to our existing operations. The acquisition builds on the investment made by MMS early this year (February 2015) via the \$115 million acquisition of the market leading business, Presidian Pty Ltd.”

“The combination of MMS and UFS will present numerous cross selling opportunities across both organisations and the realization of corporate and operational synergies.”

“UFS has developed strong relationships via its extensive distribution network which is complementary to the existing MMS Australia wide distribution network, while the combined MMS / UFS platform will originate and broker c. \$1.5 billion of loans per annum.”

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<sup>1</sup> Pro forma revenue and EBITDA excludes one-off and abnormal items including shareholder expenses, one-off consultancy fees, legal expenses and transaction costs

<sup>2</sup> The current run rate is based on the 11 months trading performance to 31 May 2015

<sup>3</sup> FY16 EPS accretion based on broker consensus MMS FY16 performance and UFS FY16 forecast trading performance and transaction funding structure

Key executives including Martin O'Donnell, Managing Director of UFS NSW, will remain with MMS post acquisition.

The investment will be funded via a combination of MMS cash reserves and new equity issued to UFS shareholders.

For further information on the acquisition including an overview of the UFS business and the strategic rationale please refer to the Investor Presentation.

For further information please contact:



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McMillan Shakespeare Limited



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# Acquisition of United Financial Services

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July 2015

McMillanShakespeareGroup

# Important notice and disclaimer

"This presentation has been prepared by McMillan Shakespeare Limited (ACN107 233 983) (MMS) for the sole purpose of providing an overview of its recent acquisition of United Financial Services Pty Ltd (ACN 072 442 445), United Financial Services Network Pty Ltd (ACN 095 911 283) and United Financial Services (Queensland) Pty Ltd (ACN 073 887 813) (collectively known as UFS) and its corporate group. This presentation is not a prospectus, disclosure document, product disclosure statement or other offering document.

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All dollar values are in Australian dollars (A\$) unless otherwise stated and financial data is presented as at the date stated."

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# 1. Transaction overview

# Transaction overview

## Agreement to acquire United Financial Services, United Financial Services Network and United Financial Services (Queensland) (collectively “UFS”) for \$42.0 million

<b>UFS overview</b>	<ul style="list-style-type: none"> <li>▪ Independent financial agency and brokerage services business, specialising in the delivery of consumer and commercial finance and insurance products with a focus on used vehicles</li> <li>▪ Combined network of over 1,900 dealers and 150 finance brokers across 28 branch locations</li> <li>▪ FY15 forecast pro forma normalised revenue and EBITDA of \$41.3 million and \$5.3 million, respectively<sup>1</sup></li> </ul>
<b>Compelling strategic rationale</b>	<ul style="list-style-type: none"> <li>▪ Complements McMillan Shakespeare Limited’s (“MMS”) recent acquisition of Presidian Pty Ltd (“Presidian”), a leading independent provider of finance, warranty and insurance</li> <li>▪ Combined consumer finance business (Presidian and UFS) represents the market leading dealer network offering across both the new and used vehicle segments</li> <li>▪ Complementary distribution footprint, with a combined network of circa 4,400 active dealers and 600 finance brokers</li> <li>▪ Combined offering will drive benefits for all stakeholders</li> </ul>
<b>Acquisition snapshot</b>	<ul style="list-style-type: none"> <li>▪ Agreement to acquire UFS for \$42.0 million</li> <li>▪ Implied EV / FY15 pro forma normalised EBITDA purchase price multiple of 7.9x based on YTD run-rate performance<sup>1</sup></li> <li>▪ Acquisition is EPS accretive on a FY16 basis<sup>2</sup></li> <li>▪ Completion of the transaction remains subject to satisfaction of customary conditions with anticipated transaction close by 31 July, 2015</li> </ul>
<b>Transaction funding</b>	<ul style="list-style-type: none"> <li>▪ 40% MMS scrip with shares held in escrow for up to 24 months (\$12.51 per share = 1,342,926 shares)<sup>3,4</sup></li> <li>▪ 60% cash comprising existing MMS cash reserves (cash as at 30 June 2015<sup>5</sup>: \$86.0 million)</li> </ul>

1. Based on the combined UFS trading performance through to 31 May 2015, with one month June forecast based on the 11 month average to May 2015, excluding one-off and abnormal items including shareholder expenses, one-off consultancy fees, legal expenses and transaction costs (Pro forma normalised EBITDA of \$5.3 million)

2. FY16 EPS accretion based on FY16 MMS broker consensus and FY16 forecasts for UFS, and transaction funding structure

3. MMS scrip component to be based on 30-day volume weighted average price for the period prior to the announcement of the transaction of \$12.51 per share equating to 1,342,926 shares

4. Escrow shares to be released per the following schedule: 25% released 6 months after completion, 25% released 12 months after completion, and the balance (50%) released 24 months after completion

5. Based on unaudited management accounts as at 30 June 2015



# UFS highlights

**1****One of the market leaders across automotive sector**

- One of Australia's largest automotive brokerages
- Generating Net Amount Financed ("NAF") of \$370 million per annum and Gross Written Premiums ("GWPs") of \$14 million per annum

**2****Extensive distribution capabilities**

- National footprint of branded branches and contractors across 28 locations
- 150 broker network with relationships into 1,900 active dealers

**3****Consistent earnings**

- Demonstrated a consistent pattern of revenue and earnings across both finance and insurance products
- Generating favourable EBITDA margins of circa 13%

**4****Dedicated compliance resources**

- Commitment to compliance with all NCCP and FSRA documentation requirements
- Licensed IT platform designed to ensure compliance with relevant laws

**5****Growth opportunities**

- Continued expansion of the commercial finance offering commences late FY15
- Increased penetration of insurance products across existing finance customer base

# Strategic rationale for an acquisition

## Extends the consumer finance (F&I) platform

- Capital light with no residual or associated credit risk
- Originate and broker c. \$1.5 billion loans per annum
  - MMS (inclusive of Presidian) - \$1.1 billion
  - UFS - \$370 million
- Create the leading player in the auto finance space servicing the attractive Used Car market segment
  - Provides strong presence in NSW market

## Substantial synergies available

- Enhanced pricing across combined consumer loan originations of c. \$1.5 billion per annum
- Strengthening broker network to cross-sell warranty and after-market services
- Utilise the Presidian back office and wider MMS corporate platform to identify and realise both corporate and operational cost synergies

## Complementary distribution footprint within the retail financial services sector

- Scale to provide industry leading product range and continuously enhanced levels of systems and compliance support
- Presidian – 2,500+ active dealers, 80+ broker outlets, 450 finance brokers and 14 Money Now retail outlets, **plus**
- UFS – 1,900+ active dealers, 150 finance brokers, across 28 office locations

## Strengthens the strategic fit with legacy MMS business

- Legacy MMS business focused on new vehicles (via operating and novated leasing businesses)
- UFS (and Presidian) predominantly focused on used vehicle market
- MMS product offering designed to service customer through the vehicle life cycle (transition from new to used)

## 2. Overview of UFS

# UFS overview

- UFS is a financial agency and brokerage services business, specialising in the delivery of consumer and commercial finance and insurance products primarily to the motor vehicle sector, however has been extended to cover the motor bike, marine and caravan sectors

## Finance Products

- Finance lease
- Asset purchase
- Chattel mortgage
- Novated leases
- Secured and unsecured personal loans
- Mortgages

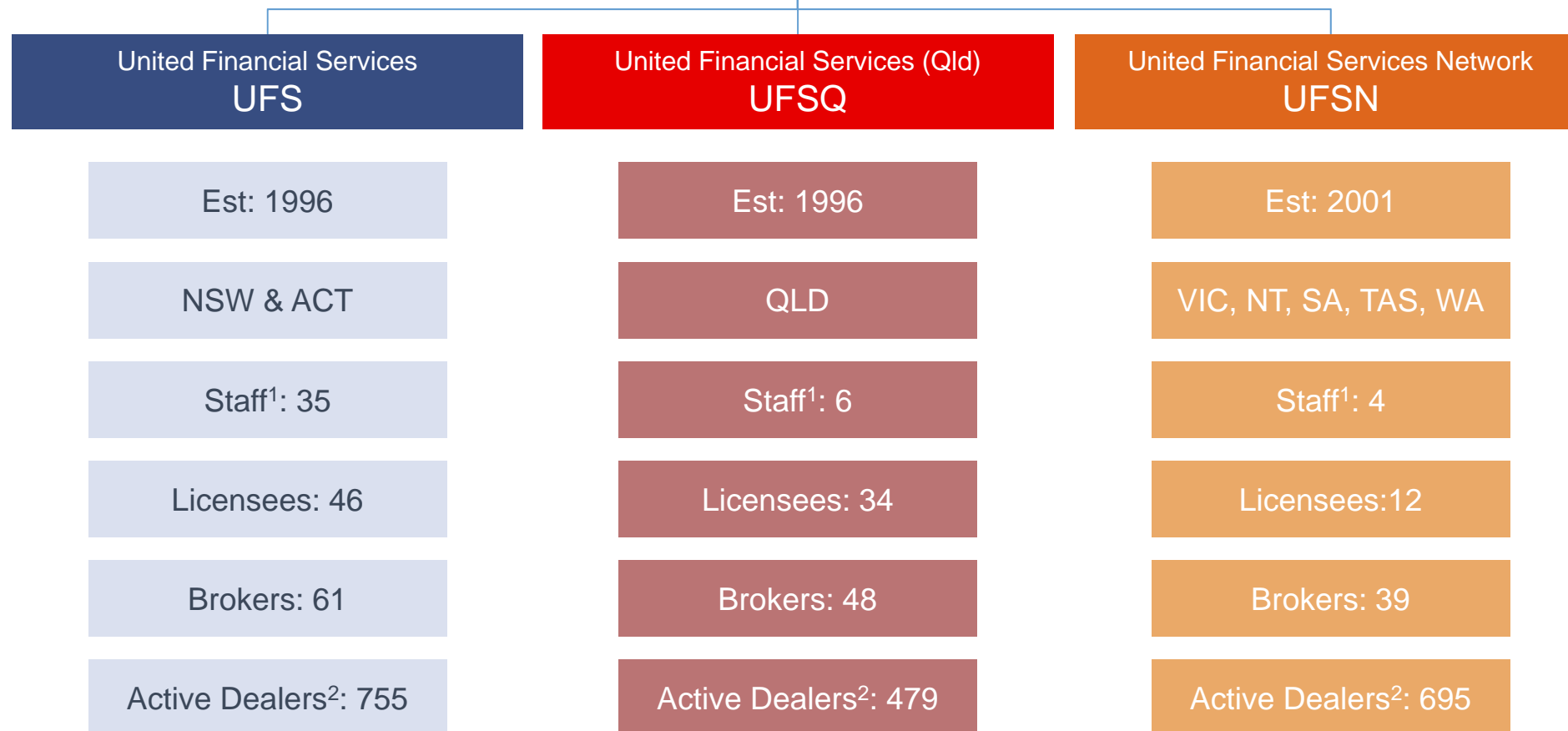
## Insurance Products

- Comprehensive third party insurance (CTP)
- Consumer Credit insurance (CCI)
- Guaranteed Asset Protection Insurance (GAP)
- Tyre and rim insurance

- Comprises three operating units covering NSW, Queensland and the rest of Australia (Victoria, Western Australia, South Australia, Tasmania and Northern Territory) – head office located in Sydney
- On a combined basis, UFS has a workforce of 45 FTE's, originating via 150 finance brokers and 1,900 active dealers across Australia
- UFS utilises a diverse panel of lenders (20) and insurers (10) to ensure it provides its broker network and customers with the best available product and outcome
- In FY15<sup>1</sup>, the Company is forecast to generate pro forma normalised revenue of \$41.3 million and EBITDA of \$5.3 million
  - Average vehicle value: \$21,840, average vehicle age: 6.9 years

1. Based on the combined UFS trading performance through to 31 May 2015, with one month June forecast based on the 11 month average to May 2015, excluding one-off and abnormal items including shareholder expenses, one-off consultancy fees, legal expenses and transaction costs (Pro forma normalised EBITDA of \$5.3 million)

# Divisional snapshot

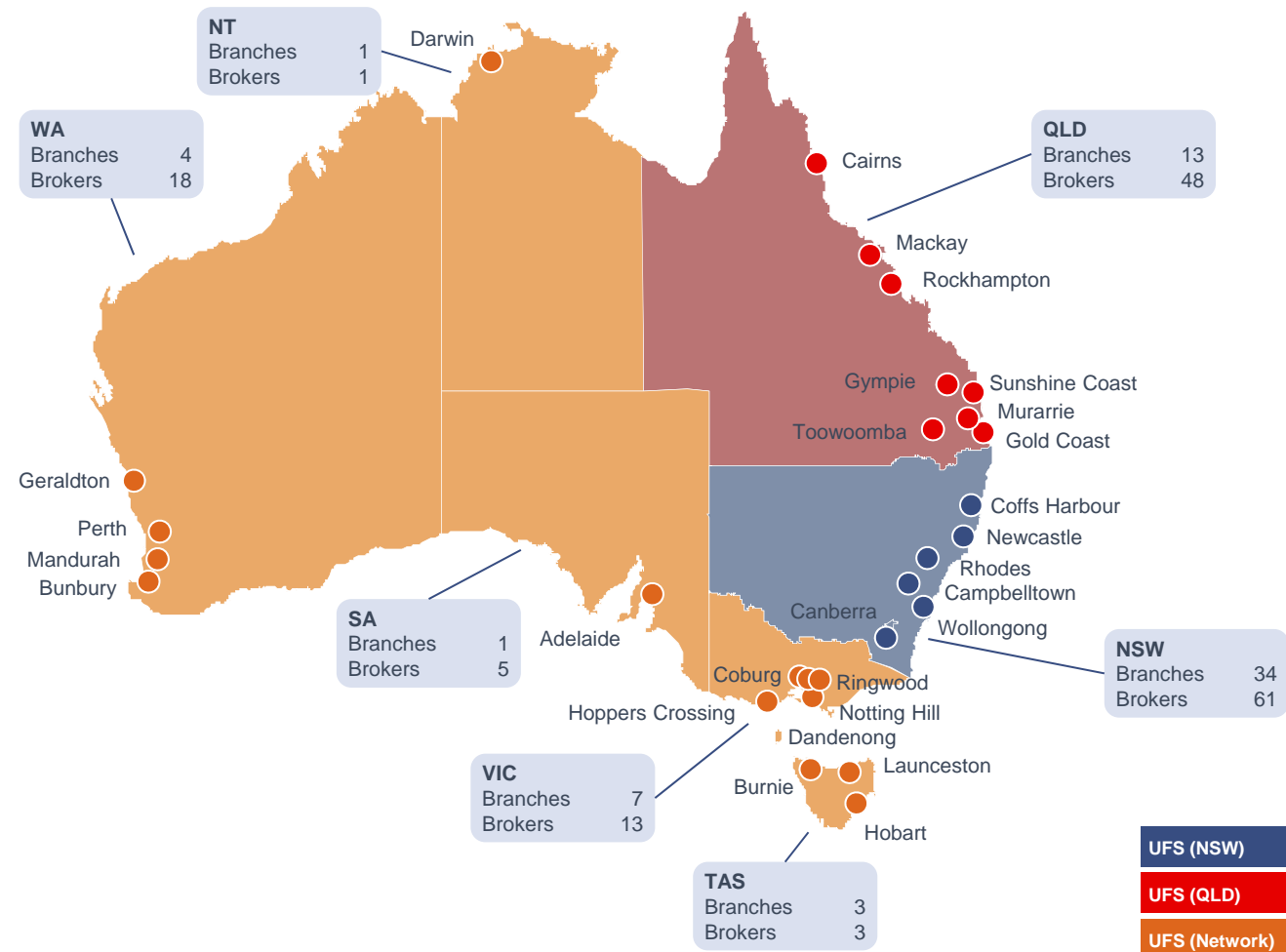


1. Represents FTE's employed

2. Active Dealer numbers are based on any dealer or supplier that referred a customer or where a party to a loan application YTD February 2015

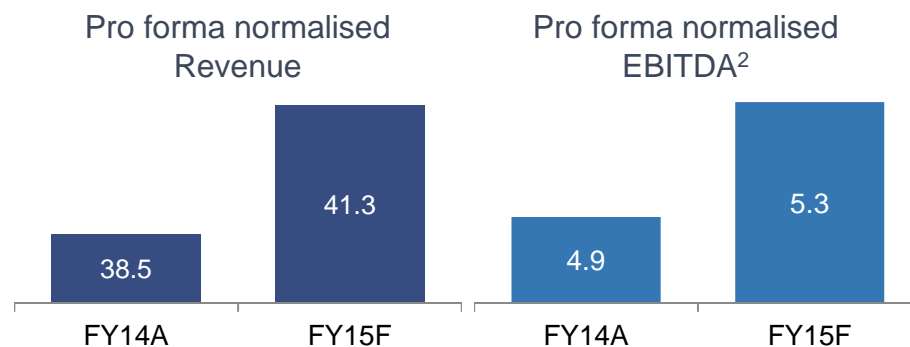
# Distribution network

- The UFS distribution capabilities consist of:
  - 28 company and contractor owned branches
  - extensive network of licensed finance brokers and credit representatives
  - national relationship with over 1,900 active dealers
  - a growing web presence
- UFS' distribution channels include motor dealers, auction houses, car brokers and via private sales

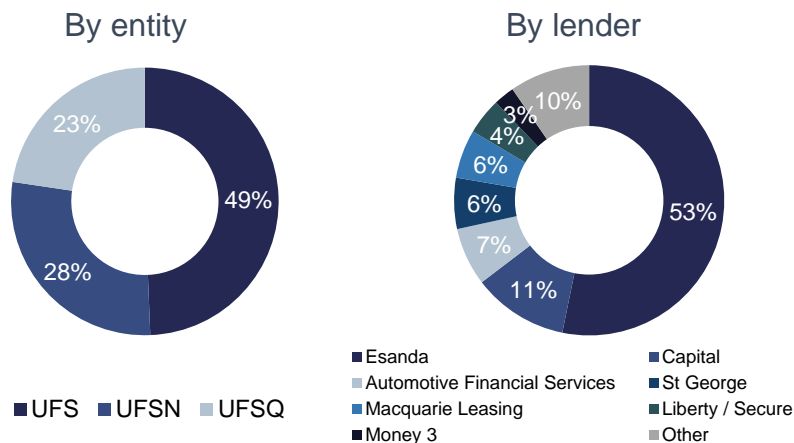


# Summary financial performance

## Financial performance (\$m)<sup>1</sup>



## Net amount financed (NAF)<sup>3</sup>



## Commentary

### FY15F results

- Revenue increase in FY15F achieved principally due to year-on-year NAF growth of 3.6% and more favourable pricing arrangements
  - NAF growth driven by an increase in the contractor network coupled with organic growth
  - NAF is spread across the three business units with lending relationships across all primary providers
- Generates attractive EBITDA margins of circa 13% from finance and insurance product offerings

### Outlook for FY16

- Growth beyond FY15 is expected to be derived via
  - Proposed expansion of UFS's commercial loan offering
  - Increased penetration (cross-sell) of insurance products to finance customers

1. Pro forma normalised financial performance excludes one-off and abnormal items including shareholder expenses, one-off consultancy fees, legal expenses and transaction costs  
 2. Based on the combined UFS trading performance through to 31 May 2015, with one month June forecast based on the 11 month average to May 2015  
 3. As at May-2015

## Other key attributes

Access to leading industry based IT platform, DriveThru, provided to UFS distribution network

- Long term license agreement in place

Access to white label auto financing product via Automotive Financial Services Pty Ltd (AFS)

Focussed compliance and training regime ensuring all required NCCP and FSRA documentation completed in a timely manner

Retention of key employees including the divisional Managing Directors, to support transition into MMS environment

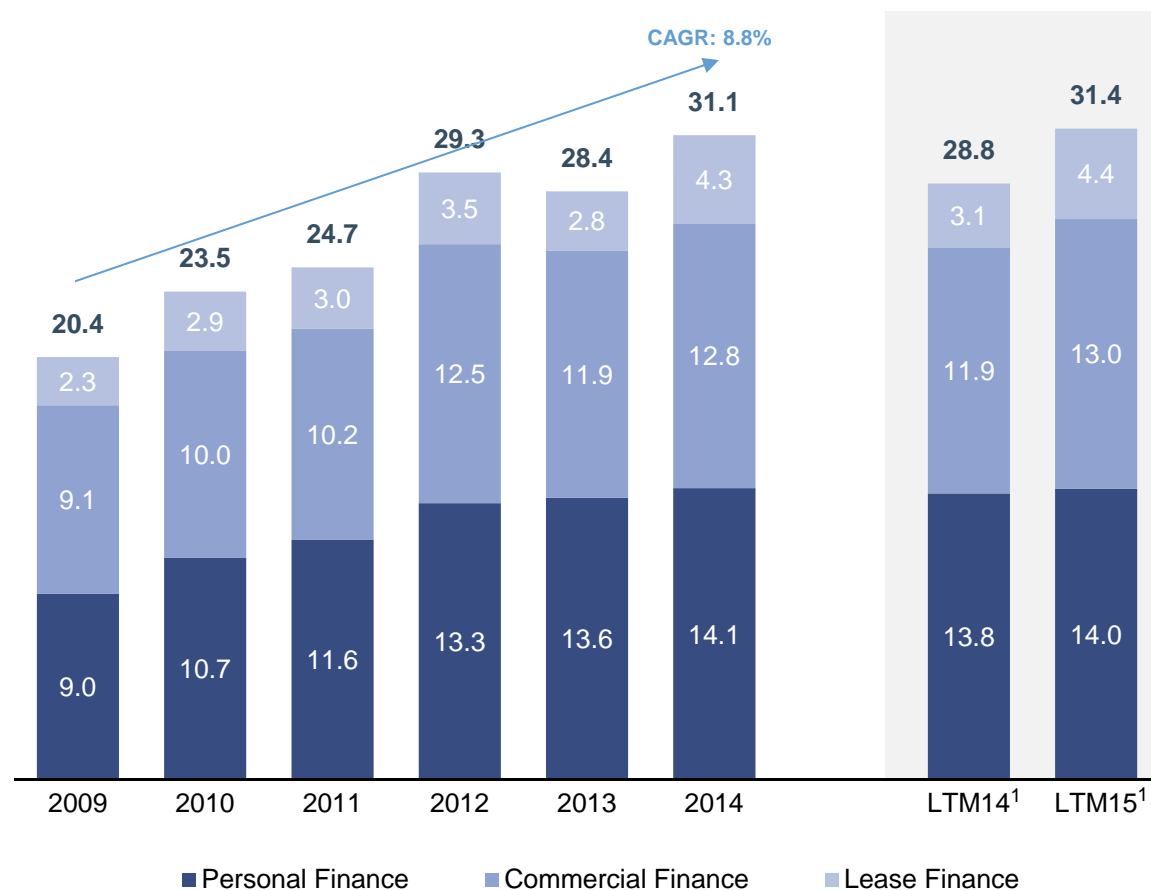
Centralised database in place processing over 30,000 loan applications each year, feeding into web based marketing and eCRM initiatives



### 3. Australian motor vehicle financing landscape

# Australian motor industry vehicle finance overview

## 5-year growth profile (\$bn)



## Commentary

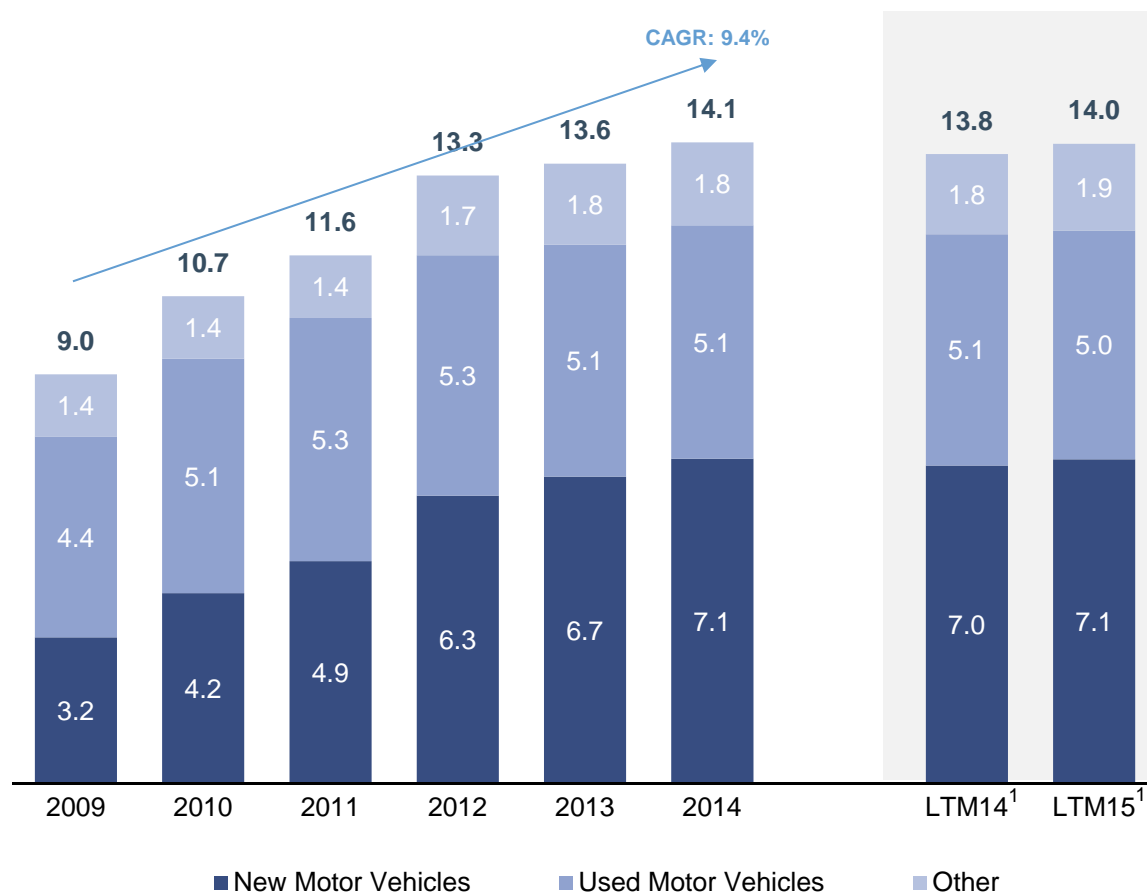
- Total motor vehicle financing for the 12 months to April 2015 totalled \$31.4 billion
  - LTM15<sup>1</sup> year on year growth rate of 9.0%
- Motor vehicle financing experienced strong growth over the last 5 years
  - 5 year CAGR<sup>2</sup> to December 2014 of 8.8%
- UFS primarily operates within the personal finance segment
  - Personal finance segment commands the greatest share of the overall market at 45%
- **Opportunity for UFS (and Presidian) to increase market share within the personal finance segment (currently ~6.0%) and to increase exposure within the commercial finance segment**

Source: Australian Bureau of Statistics 5671 – Lending Finance, Australia April 2015

1. Last twelve months to April
2. CAGR = compound annual growth rate

# Australian motor industry vehicle finance overview Personal finance

## 5-year growth profile (\$bn)



## Commentary

- New motor vehicle financing has driven personal finance growth over the last 5 years to 2014
  - CAGR of 17.3%
- However, the unit sales of used motor vehicles, the market UFS operate within, remain the majority of the unit sales, given the assumed lower selling price
  - Estimated that the unit sales within the used car market is 3.5x the size of the new car market<sup>2</sup>

Source: Australian Bureau of Statistics 5671 – Lending Finance, Australia April 2015

1. Last twelve months to April

2. Goldman Sachs Equity Research – McMillan Shakespeare Limited July 10, 2015

## 4. Strategic rationale and combined business model

# Complements recent Presidian acquisition



- Leading independent provider of finance, warranty and insurance with a focus on used vehicles
- Combined network of over 2,500 dealers, 80+ broker outlets, 450 brokers and 14 retail branches (Money Now)
- Generating NAF in excess of \$450 million per annum<sup>1</sup>
- Run rate of the time of acquisition representing normalised Revenue and EBITDA of \$75.4 million and \$14.4 million, respectively<sup>2</sup>

MMS completed the acquisition of Presidian on 27 February 2015 for an acquisition price of \$115.0 million, representing an acquisition multiple of 8.0x run-rate FY15 EBITDA<sup>2</sup>

## Rationale for the Presidian acquisition

1

Cross selling opportunities with existing MMS product offering

2

Represented a unique opportunity to secure a platform for further industry consolidation

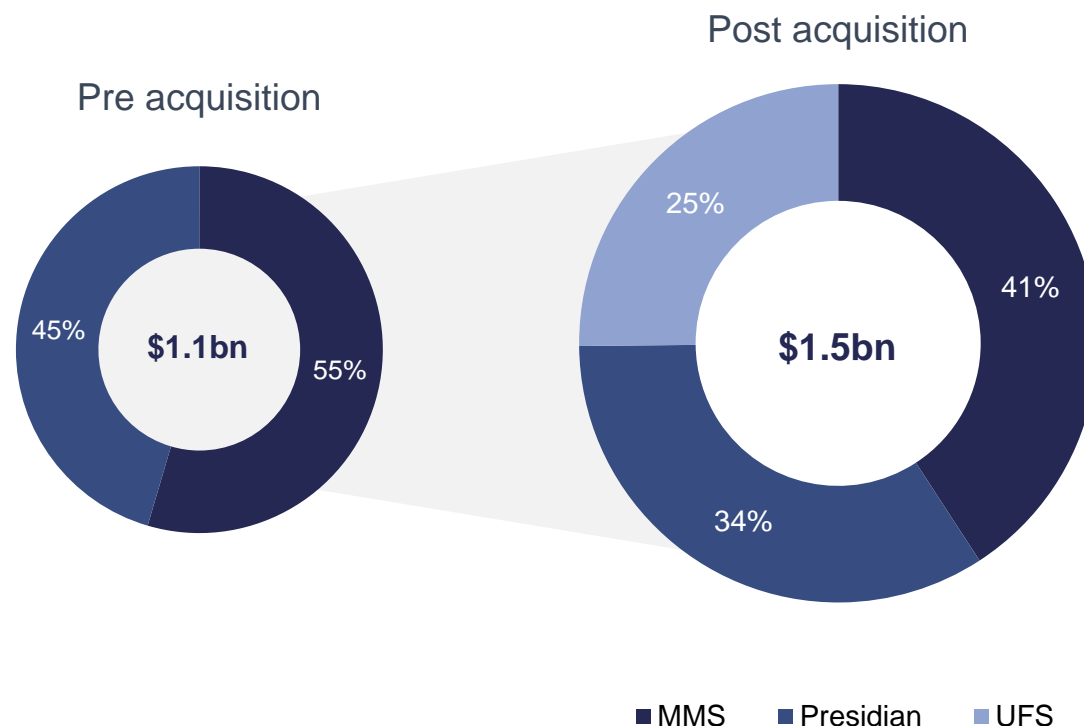
1. Based on NAF run rate at the time of acquisition

2. The run rate at acquisition was based on annualised 6 months trading performance to 31 December 2014

# Enhanced consumer loan book

## Loan origination per annum<sup>1</sup>

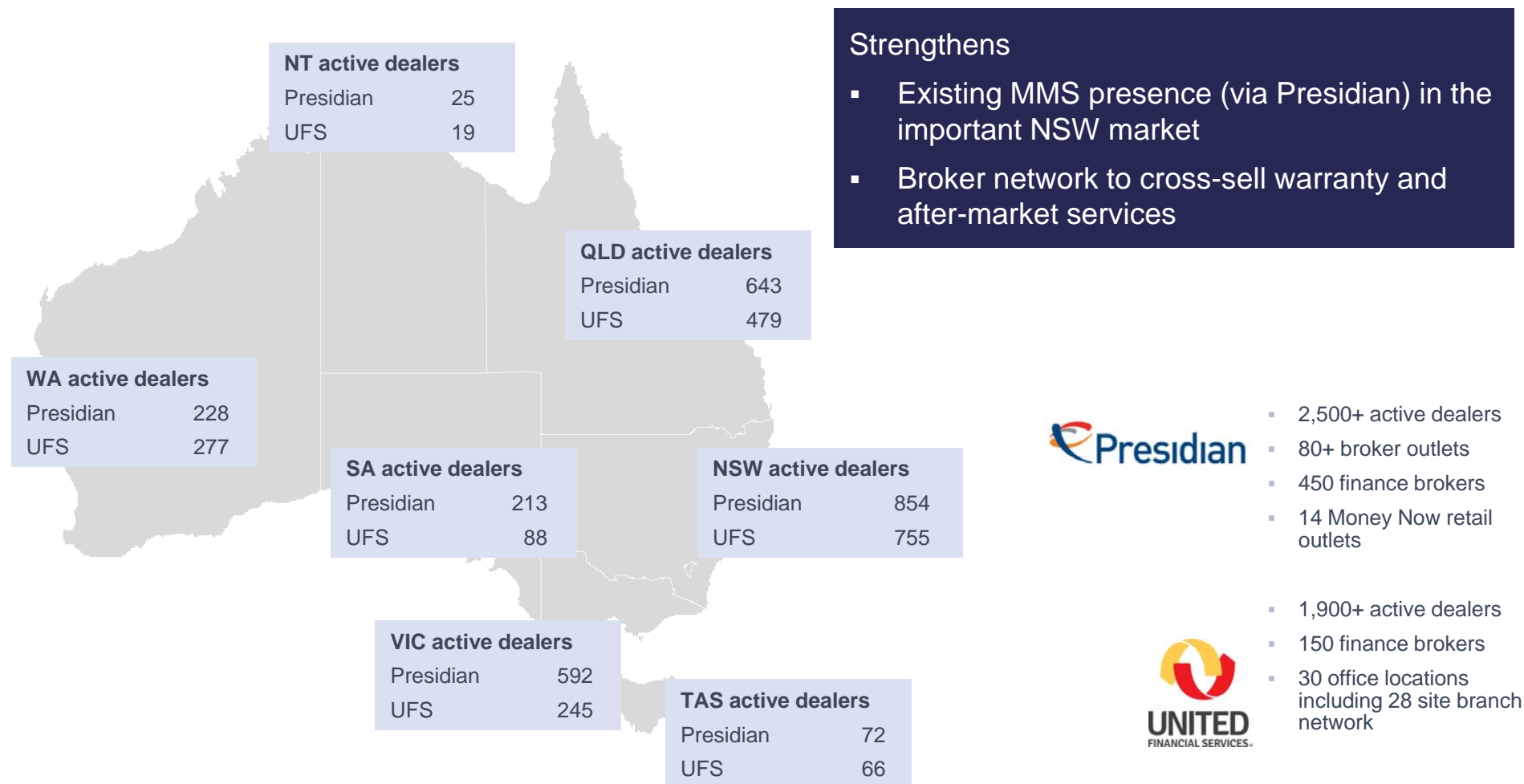
Scale benefits to be secured from the enlarged consumer loan book



- Originate and broker c. \$1.5 billion loans per annum
- Sourced from an extensive panel of lenders across the combined book (in excess of 20 lenders)

1. Loan origination per annum based on 30 June 2015 management accounts /forecasts

# Strengthens existing distribution footprint



# Complements existing MMS business model

	Group Remuneration Services	Asset Management	Retail Financial Services
Market position	Novated leasing #1	Operating leasing #5	Used motor vehicle financing #1
Brands			
Service offering	<ul style="list-style-type: none"> <li>Salary packaging administration</li> <li>Novated leases</li> </ul>	<ul style="list-style-type: none"> <li>Fleet Management</li> <li>Operating leases, finance leases</li> <li>Commercial Hire Purchase</li> </ul>	<ul style="list-style-type: none"> <li>Finance, warranty and insurance offering</li> </ul>
Customers	<ul style="list-style-type: none"> <li>Hospitals, health &amp; charity workers</li> <li>Public and private sector lease programs</li> </ul>	<ul style="list-style-type: none"> <li>Predominantly corporate customer base</li> </ul>	<ul style="list-style-type: none"> <li>Retail customer base</li> <li>Dealer, broker and retail network</li> </ul>
Distribution footprint	<ul style="list-style-type: none"> <li>Over 800 customers</li> <li>Circa 1.0 million employees</li> </ul>	<ul style="list-style-type: none"> <li>Over 300 customers</li> <li>Select brokers</li> </ul>	<ul style="list-style-type: none"> <li>4,400 active dealers</li> <li>600 finance brokers</li> </ul>



## 5. Transaction summary

# Transaction summary

## Sources & uses

Sources (\$m)		Uses (\$m)	
Proceeds from the issue of MMS shares	16.8	Payment in the form of MMS shares	16.8
Surplus cash	26.2	Payment in the form of cash	25.2
		Estimated transaction costs	1.0
<b>Total Sources</b>	<b>43.0</b>	<b>Total Uses</b>	<b>43.0</b>

## Funding structure

- \$42.0 million acquisition price
  - 40% MMS scrip
    - Priced by reference to the 30-day volume weighted average price (VWAP) prior to announcement of the transaction
      - \$12.51 per share = 1,342,926 shares
  - 60% cash sourced from existing MMS cash reserves
- Scrip held in escrow for up to 24 months<sup>1</sup>
- MMS will utilise surplus cash on Balance Sheet to fund the 60% cash component

## Key transaction features

- Long term licensing agreement entered into with key third party IT party supplier (DriveThru Systems Pty Ltd)
- Suitable employment agreements entered into with key employees
- Suitable consulting agreements entered into with key consultants
- Targeting completion by 31 July 2015 subject to satisfaction of customary closing conditions
- Acquired on a debt free basis
- **EPS accretive on a FY16 basis<sup>2</sup>**

1. Escrow shares to be released per the following schedule: 25% released 6 months after completion, 25% released 12 months after completion, and the balance (50%) released 24 months after completion  
 2. FY16 EPS accretion based on FY16 MMS broker consensus and FY16 forecasts for UFS, and transaction funding structure