



## ASX Announcement

### Smartgroup Corporation Ltd (ASX: SIQ)

### Trading update, acquisition of Selectus Pty Ltd and equity raising

**Release date: 25 July 2016**

#### Trading update

Smartgroup is pleased to provide a trading update for the six month period ending 30 June 2016 (H1 CY2016). Smartgroup currently expects to report:<sup>1</sup>

- H1 CY2016 Revenue of approximately \$60.5 million (35% increase from H1 CY2015)
- H1 CY2016 EBITDA of approximately \$25.5 million (42% increase from H1 CY2015)
- H1 CY2016 NPATA of approximately \$18.0 million (44% increase from H1 CY2015)

The expected results outlined above are estimated, unaudited half year results that exclude anticipated M&A costs to 30 June 2016 of \$0.5 million (pre-tax). The figures are for Smartgroup only and do not include any impact from the Autopia and Selectus acquisitions. Full details of the H1 CY2016 results will be released on 25 August 2016.

#### Acquisition of Selectus Pty Ltd ('Selectus')

Smartgroup is pleased to announce it has entered into an agreement to acquire 100% of Selectus for initial consideration of \$119 million plus subsequent consideration of up to \$50 million, subject to FY2017 EBITDA and certain performance metrics relating to the future growth of the Selectus business.

Selectus, based in Melbourne, is the largest privately owned national provider of novated leases and salary packaging administration services. Selectus manages over 13,000 vehicles across Australia. It has a strong client base that includes over 500 employer clients including organisations in the government and rebatable sectors (e.g. various Catholic Education Offices across Australia). Selectus recorded revenue<sup>2</sup> of \$31.6 million and EBITDA<sup>2</sup> of \$14.0 million in FY2016, representing growth of 12.5% and 20.7% on the prior year, respectively. The acquisition will add another strong brand to Smartgroup's salary packaging business and provide exposure to the rebatable segment, a segment not currently serviced by Smartgroup. The Selectus management team will also be retained following the acquisition.

The initial consideration of \$119 million, transaction costs of \$5 million and additional working capital of \$25 million will be funded through the issue of \$30 million of Smartgroup

<sup>1</sup> Figures rounded to nearest \$0.5 million.

<sup>2</sup> Pro forma normalised and unaudited. Pro forma normalised figures have been adjusted to: (i) exclude items that are considered to be non-recurring in nature; and (ii) include the full year impact of arrangements which were in place for part of a year.



shares to Selectus shareholders; a fully underwritten placement to raise approximately \$49 million<sup>3</sup>; and \$70 million of new debt facilities.

The maximum consideration of \$169 million implies an FY2017 acquisition multiple of approximately 6.5x, including Pro Forma Synergies.<sup>4</sup> The transaction is estimated to result in pro forma full year CY2016 EPS accretion on NPATA basis<sup>5</sup> of approximately 6-7% before synergies and approximately 15-16% including Pro Forma Synergies.

Smartgroup CEO, Deven Billimoria said:

“The acquisition of Selectus, together with the recent acquisition of Autopia, mark a step change in our growth and I am excited by the opportunities that are ahead of us. Collectively, we will be able to leverage one another’s expertise and relationships to grow the group, while continuing to provide the excellent service our valued customers have come to expect.”

Commenting on the acquisition, Selectus CEO, Paul King said:

“We have admired Smartgroup’s business for many years and we are excited to be working with them. We believe Selectus and Smartgroup will combine our respective expertise and relationships to successfully grow the businesses in the coming years.”

### **Acquisition details**

Upfront consideration of \$119 million will consist of:

- \$89 million paid in cash; and
- \$30 million of Smartgroup shares to be issued to the vendors, including \$5.5 million to be issued to existing Selectus management shareholders.

The Smartgroup shares to be issued to vendors will be issued at \$6.56 per share. The shares will be subject to the following escrow conditions:

- 50% will be released from escrow following the announcement of Smartgroup’s H1 CY2017 audited results in August 2017; and
- 50% will be released from escrow following the announcement of Smartgroup’s H1 CY2018 audited results in August 2018.

A conditional component of the consideration will be payable in August 2017, following the announcement of Smartgroup’s H1 CY2017 audited results.

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<sup>3</sup> Based on underwritten floor price of \$6.35 per share.

<sup>4</sup> Estimated synergies of \$6 million based on Smartgroup management estimate. To the extent that the actual results are materially different to the underlying assumptions, the quantum of synergies will vary. Also refer to the detailed Key Risks contained in Appendix C of the accompanying Investor Presentation for a discussion of risk factors that could impact upon Smartgroup, its business and the acquisition of Selectus (including risks to realising potential benefits from the acquisition). Maximum consideration excludes any cash payment in lieu of dividends.

<sup>5</sup> Based on Smartgroup CY2016 NPATA of \$37.5 million (midpoint of expected NPATA range) plus pro forma full year NPATA impact of Autopia acquisition, estimated to be \$2.5 million (annualised full year impact of the \$1.2 million estimated contribution to Smartgroup in 2H CY2016).



Up to \$25 million of Smartgroup shares will be issued to the vendors, subject to Selectus achieving between \$12.5 million and \$16.5 million FY2017 EBITDA (excluding any synergies) and the achievement of certain performance metrics ('**Conditional Shares**'). The Conditional Shares will be issued at \$6.56 per share and Conditional Shares will be subject to the following escrow conditions:

- 50% will be released from escrow following the announcement of Smartgroup's H1 CY2018 audited results in August 2018; and
- 50% will be released from escrow following the announcement of Smartgroup's H1 CY2019 audited results in August 2019.

In addition, the vendors will receive a cash payment equal to the value of any nominal dividends (excluding any associated franking value) that any Conditional Shares issued in August 2017 would have notionally been entitled to had they been issued on the acquisition completion date, expected to be 31 August 2016.<sup>6</sup>

If Selectus' FY2017 EBITDA exceeds \$16.5 million and satisfies certain performance metrics, additional conditional consideration of up to \$25 million will be payable ('**Earnout**'). The Earnout will be calculated as 8.0x Selectus FY2017 EBITDA in excess of \$16.5 million (excluding any synergies), capped at \$25 million. A minimum of 75% of the Earnout payable is to be paid in cash and the balance may be satisfied with Smartgroup shares and/or cash, at Smartgroup's election, with any issue of shares being subject to Smartgroup shareholder approval. Any shares issued will be issued at the 5 day VWAP prior to the announcement of Smartgroup's H1 CY2017 result and will be subject to the same escrow conditions as the Conditional Shares.

The table on the following page indicates the potential total consideration depending on the FY2017 audited EBITDA achieved by Selectus (excluding any synergies).

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<sup>6</sup> This date is subject to change in accordance with the terms of the Selectus acquisition agreement.

## Consideration structure

Value				
Selectus FY2017 EBITDA <sup>7</sup>	Upfront payment	Conditional Shares <sup>7,8</sup>	Earnout <sup>7,8</sup>	Total consideration <sup>9</sup>
Less than \$12.5 million	\$119 million	-	-	\$119 million
\$12.5 - \$16.5 million	\$119 million	\$0 - \$25 million	-	\$119 - \$144 million
\$16.5 million	\$119 million	\$25 million	-	\$144 million
\$16.5m - \$20.0 million	\$119 million	\$25 million	\$0 - \$25 million	\$144 - \$169 million
Greater than \$20 million	\$119 million	\$25 million	\$25 million	\$169 million
Description				
<b>Form of consideration</b>	\$89 million cash \$30 million scrip	Scrip	Minimum of 75% to be paid in cash with balance to be paid in cash and/or scrip at Smartgroup's election and any issue of shares subject to Smartgroup shareholder approval	
<b>Conditions</b>		FY2017 EBITDA & performance metrics	FY2017 EBITDA & performance metrics	
<b>Escrow conditions</b>	50% released post H1 CY2017 audited result 50% released post H1 CY2018 audited result	50% released post H1 CY2018 audited result 50% released post H1 CY2019 audited result	50% released post H1 CY2018 audited result 50% released post H1 CY2019 audited result	
<b>Scrip issue price</b>	\$6.56	\$6.56	5 day VWAP to H1 CY2017 results	

Selectus is expected to contribute ~\$5.0 million EBITDA and ~\$3.5 million NPATA in H2 CY2016 under Smartgroup's ownership,<sup>10</sup> including the one-off effect of ~\$0.2 million of integration costs.

The acquisition is highly complementary to Smartgroup's existing leasing business. Estimated synergies of approximately \$6 million are expected to be realised in CY2017.<sup>11</sup> Estimated synergies include benefits from optimising supplier arrangements and sale of products. Such synergies do not count towards the FY2017 Selectus EBITDA that will determine the award of the Conditional Shares and payment of the Earnout.

<sup>7</sup> The audited FY2017 EBITDA result that will determine the amount of the Conditional Shares and Earnout payment will exclude synergies that Smartgroup derives from the combination.

<sup>8</sup> Assumes other performance metrics are also satisfied.

<sup>9</sup> Total consideration will also include a cash payment equal to the value of any nominal dividends (excluding any associated franking value) declared between completion and issue of the Conditional Shares, that would have been payable on any Conditional Shares issued, if they had been issued on the completion date.

<sup>10</sup> Assumes Smartgroup ownership from 31 August 2016, however this date is subject to change in accordance with the terms of the Selectus acquisition agreement. Excludes M&A costs.

<sup>11</sup> Estimated synergies of \$6 million based on Smartgroup management estimate. To the extent that the actual results are materially different to the underlying assumptions, the quantum of synergies will vary. Also refer to the detailed Key Risks contained in Appendix C of the accompanying Investor Presentation for a discussion of risk factors that could impact upon Smartgroup, its business and the acquisition of Selectus (including risks to realising potential benefits from the acquisition).



The acquisition will be funded by a combination of a new debt facility and equity, raised via an institutional placement. Following the transaction, Smartgroup will maintain a strong balance sheet with pro forma net debt / FY2016 EBITDA of 1.6x as at 30 June 2016.<sup>12</sup> Smartgroup anticipates that net debt / EBITDA will be reduced to ~1.0x at 31 December 2017, assuming the current dividend policy is maintained.

## Outlook

For the year ending 31 December 2016 (CY2016), Smartgroup expects to report CY2016 NPATA between \$41.2 million and \$43.2 million, including:

- \$36.5 million – \$38.5 million from Smartgroup;
- \$1.2 million NPATA from Autopia in H2 CY2016;<sup>13</sup> and
- \$3.5 million NPATA from Selectus in H2 CY2016.<sup>14</sup>

The expected results outlined above exclude anticipated M&A costs to 31 December 2016 of \$5.5 million (pre-tax).

## Equity raising

Smartgroup is undertaking a fully underwritten placement (the '**Placement**') to eligible institutional investors, of approximately 7.6 million shares ('**New Shares**') to raise approximately \$49 million<sup>15</sup> to partially fund the Selectus acquisition.

The Placement is underwritten by Macquarie Capital (Australia) Limited at a floor price of \$6.35 per share, which represents a 3.1% discount to the last closing price on Friday, 22 July 2016. The price at which New Shares will be issued to investors under the Placement will be determined under a bookbuild which is expected to be completed today.

The Placement is expected to settle on Thursday, 28 July 2016 and the New Shares issued under the Placement will be allotted on the following business day Friday, 29 July 2016. New Shares issued under the Placement will rank equally with Smartgroup's existing shares and will be eligible for any dividend declared with regard to the H1 CY2016 results.

Smartgroup's shares will remain in trading halt today while the Placement is conducted. Normal trading in Smartgroup shares is expected to recommence on Tuesday, 26 July 2016 or such other time as the completion of the Placement is announced to the market.

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<sup>12</sup> Pro forma FY2016 EBITDA includes pro forma full year Selectus and Autopia EBITDA but excludes any synergies.

<sup>13</sup> Acquired 4 July 2016.

<sup>14</sup> Assuming ownership from 31 August 2016, however this date is subject to change in accordance with the terms of the Selectus acquisition agreement.

<sup>15</sup> Assuming underwritten floor price of \$6.35.



## **Share purchase plan**

A share purchase plan ('**SPP**') will accompany the Placement, under which eligible existing Smartgroup shareholders will be given the opportunity to acquire additional shares in Smartgroup. The SPP will not be underwritten and participation in the SPP will be optional.

Shareholders on the Smartgroup share register at 7.00pm on Friday, 22 July 2016 ('**Record Date**'), whose registered address is in Australia or New Zealand will be entitled to subscribe for up to \$15,000 worth of Smartgroup shares through the SPP, subject to the terms and conditions of the SPP which will be set out in the SPP booklet and dispatched to eligible shareholders in due course. Shares issued under the SPP will rank equally with existing shares of Smartgroup.

### **For further information please contact:**

Amanda Morgan  
General Counsel and Company Secretary  
Smartgroup Corporation Ltd  
Telephone: 0413 602 112

Tim Looi  
Chief Financial Officer  
Smartgroup Corporation Ltd  
Telephone: 0408 409 513

### **For media enquiries please contact:**

Citadel-MAGNUS

Peter Brookes      0407 911 389

James Strong      0448 881 174



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