Investor presentation

Trading update, acquisition of Selectus and equity raising

25 July 2016

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Smartgroup trading update 01

Smartgroup trading update

Smartgroup H1 CY2016 audited results will be released on 25 August 2016

- Smartgroup provides a trading update for the six month period ending 30 June 2016. Figures are estimated and unaudited half year results. Details of the H1 CY2016 audited results will be released on 25 August 2016

- Smartgroup currently expects to report[(1),(2)]:
  - H1 CY2016 revenue of $60.5 million (+35% increase on H1 CY2015)
  - H1 CY2016 EBITDA of $25.5 million (+42% increase on H1 CY2015)
  - H1 CY2016 NPATA of $18.0 million (+44% increase on H1 CY2015)

- The above figures are unaudited and exclude anticipated M&A costs to 30 June 2016 of $0.5 million (pre-tax)

- Expected results outlined above are for Smartgroup only, no impact from Autopia or Selectus acquisitions

(1) Rounded to the nearest $0.5 million.
(2) Refer to the Important Notices pages of this presentation and the Key Risks in Appendix C.

Acquisition of Selectus 02

Acquisition of Selectus

Selectus is highly complementary to Smartgroup’s salary packaging and novated leasing business

About Selectus

- The largest national, privately owned salary packaging and novated leasing business in Australia
- Established in 1997, Selectus is based in Melbourne and employs approximately 130 staff
- Approximately 500 employer clients, many of whom are long standing clients
- Expertise in rebatable market segment
  - Approximately one third of Selectus’ customer base are rebatable clients
- Administers salary packages for approximately 27,000 employees
- Experienced management team

Smartgroup opportunity

- Expand Smartgroup’s novated leasing portfolio by 13,000+ vehicles under management to 47,000+ vehicles under management
- Further diversify Smartgroup’s client base – increasing by 500+ employer clients and 27,000+ employee clients to a total of 1,400+ employer clients and 215,000+ employee clients
- Asset light business model with capex <1% of revenue
- Estimated ~$6 million of synergies to be realised in CY2017, net of one off integration costs (“**Pro Forma Synergies**”)[1]
- Key management retained to lead Selectus business following acquisition

(1) Synergies are estimated by Smartgroup’s management. To the extent that the actual results are materially different to underlying assumptions, the quantum of synergies will vary. Also refer to the detailed Key Risks contained in Appendix C 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).

Transaction summary

Smartgroup to acquire Selectus and launch an underwritten placement to partially fund the acquisition

Purchase price	• Smartgroup to acquire 100% of Selectus for $119 million in upfront consideration ($89 million in cash and $30 million in scrip) plus subsequent consideration of up to $50 million in August 2017, if certain performance metrics are satisfied, comprising: – up to $25 million of Smartgroup shares if Selectus achieves FY2017 EBITDA (excluding synergies)(1) of between $12.5 million and $16.5 million ("**Conditional Shares**") and a cash payment in lieu of dividends(2); and – additional consideration of up to $25 million if Selectus achieves FY2017 EBITDA (excluding synergies)(1) between $16.5 million and $20 million ("**Earnout**")
Expected financial impact	• Selectus expected to contribute ~$5.0 million EBITDA(3) and ~$3.5 million NPATA(3) to Smartgroup in H2 CY2016(4) • Estimated ~$6 million of synergies to be realised in CY2017, net of one off integration costs(5) • Acquisition and associated equity raising ("**Transaction**") estimated to result in CY2016 EPS accretion on a pro forma full year NPATA basis of ~6-7% (before synergies) and ~15-16% including Pro Forma Synergies(5) • Post Transaction pro forma net debt / FY2016 EBITDA ratio of 1.6x as at 30 June 2016(6) – Net debt/EBITDA expected to be ~1.0x at 31 December 2017 assuming current dividend policy is maintained
Funding	• Upfront consideration (plus Transaction costs and cash for working capital flexibility) to be funded by: – ~$30 million scrip issued to vendors; – ~$49 million raised via fully underwritten placement(7) ("**Placement**"); and – ~$70 million via a new debt facility • Any Earnout in August 2017 to be funded by a minimum of 75% in cash and the balance funded by cash and/or shares, at Smartgroup's election, with any issue of shares subject to shareholder approval • A share purchase plan ("**SPP**") will also be conducted, details of which will be provided to eligible investors in due course. Record date for SPP is Friday, 22 July 2016 (7.00pm Sydney time)

(1) Selectus FY2017 audited EBITDA excluding synergies.
(2) Nominal dividends (excluding the value of any associated franking credits) declared between completion and issue of the Conditional Shares, that would have notionally been payable on any Conditional Shares issued if they had been issued on the completion date.
(3) Pro forma, normalised and unaudited. Excludes acquisition costs.
(4) Assumes Transaction close 31 August 2016, however this date is subject to change in accordance with the terms of the Selectus acquisition agreement. Includes impact of anticipated one-off integration costs of ~$0.2 million.
(5) Synergies are estimated by Smartgroup's management. To the extent that the actual results are materially different to underlying assumptions, the quantum of synergies will vary. Also refer to the detailed Key Risks contained in Appendix C 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).
(6) Pro forma FY2016 EBITDA includes pro forma full year Selectus and Autopia EBITDA but excludes any synergies.
(7) Assuming underwritten floor price of $6.35.

Total consideration

Maximum consideration of ~$169 million implies an FY2017 acquisition multiple of ~6.5x including Pro Forma Synergies(1)

Selectus FY2017 audited EBITDA(2)	Upfront payment	Conditional Shares(3)	Earnout(3)	Total consideration(4)
≤$12.5m	$119m	-	-	$119m
>$12.5m - $16.5m	$119m	$0 - $25m	-	$119m - $144m
>$16.5m – $20.0m	$119m	$25m	$0m – 25m	$144m - $169m
≥$20.0m	$119m	$25m	$25m	$169m
Timing	~End August 2016	~August 2017 (post H1 CY2017 audited results announcement)		
Form of consideration	$89m cash $30m 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	
Conditions		FY2017 EBITDA & performance metrics	FY2017 EBITDA & performance metrics	
Escrow conditions on scrip	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	
Scrip issue price	$6.56	$6.56	5 day VWAP to H1 CY2017 audited results	

- Refer to Appendix A for further detail

(1) Estimated synergies of $6 million based on Smartgroup management estimate. To the extent that the actual results are materially different to underlying assumptions, the quantum of synergies will vary. Also refer to the detailed Key Risks contained in Appendix C 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.
(2) 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.
(3) Assumes other performance metrics are also satisfied.
(4) Total consideration will also include a cash payment equal to the value of any nominal dividends (excluding the value of any associated franking credits) declared between completion and issue of the Conditional Shares, that would have notionally been payable on any Conditional Shares issued if they had been issued on the completion date.

Financial impact

Transaction expected to be approximately 6-7% accretive to CY2016 EPS on a pro forma full year NPATA basis excluding synergies and approximately 15-16% including Pro Forma Synergies

Expected impact on Smartgroup

- Selectus is expected to contribute ~$5.0 million EBITDA and ~$3.5 million NPATA to Smartgroup in H2 CY2016(1)
- Post Transaction pro forma net debt / FY2016 EBITDA of 1.6x as at 30 June 2016(2)
  - Net debt/EBITDA expected to be ~1.0x at 31 December 2017, assuming current dividend policy is maintained
- Pro forma full year CY2016 EPS accretion, on NPATA basis(3) of:
  - ~6-7% excluding synergies
  - ~15-16% including Pro Forma Synergies

Estimated synergies

- Limited synergies (net of costs) expected in CY2016
- CY2017 estimated synergies of ~$6 million(4)
- Smartgroup is confident in achieving synergies on an ongoing basis
  - Includes benefits from optimising supplier arrangements and sale of products
- Synergies not dependent on price increases
- Note: such synergies do not to count towards the FY2017 Selectus EBITDA that will determine the award of the Conditional Shares and payment of the Earnout

(1) Assumes Transaction close 31 August 2016, however this date is subject to change in accordance with the terms of the Selectus acquisition agreement. Includes impact of anticipated one-off integration costs of ~$0.2 million.
(2) Pro forma leverage calculated based on pro forma FY2016 EBITDA including Smartgroup, Selectus and Autopia EBITDA, excluding synergies. Including Pro Forma Synergies, leverage would be 1.5x.
(3) 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). Excludes $5.5 million of estimated pre-tax M&A costs. See Section 4 'Outlook' for further detail.
(4) CY2017 estimate of ~$6 million is based on Smartgroup management plan. To the extent that the actual results are materially different to underlying assumptions, the quantum of synergies will vary. Also refer to the detailed Key Risks contained in Appendix C 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).

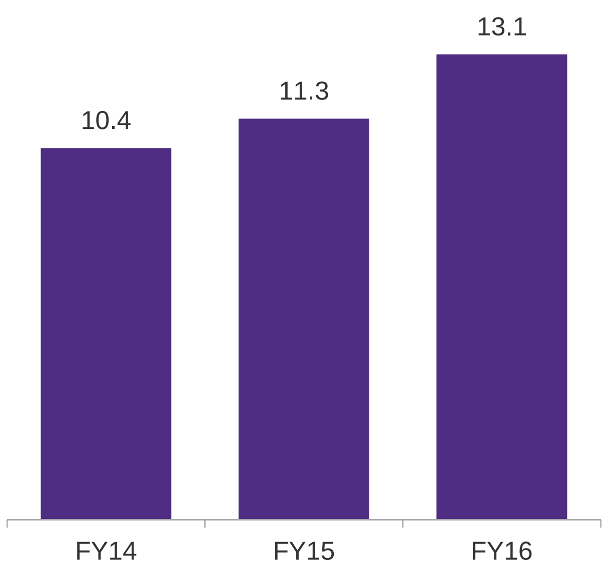
Overview of Selectus 03

Overview of Selectus

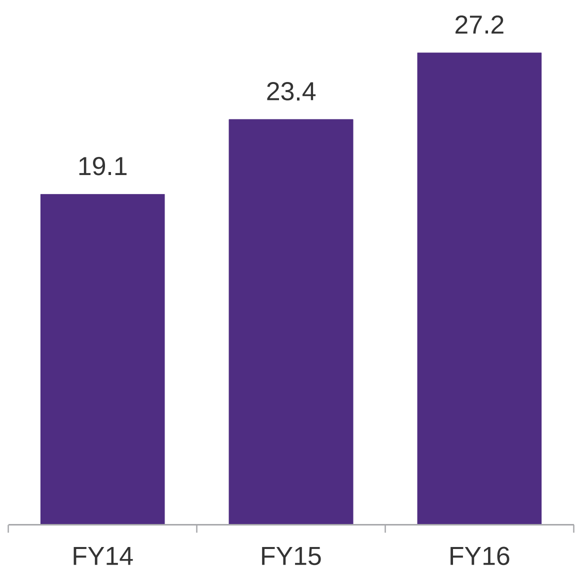
Selectus is the largest national, privately owned salary packaging and novated leasing business in Australia

- Founded in 1997
- Headquartered in Melbourne with approximately 130 employees nationally
- Existing management team in place since 2012

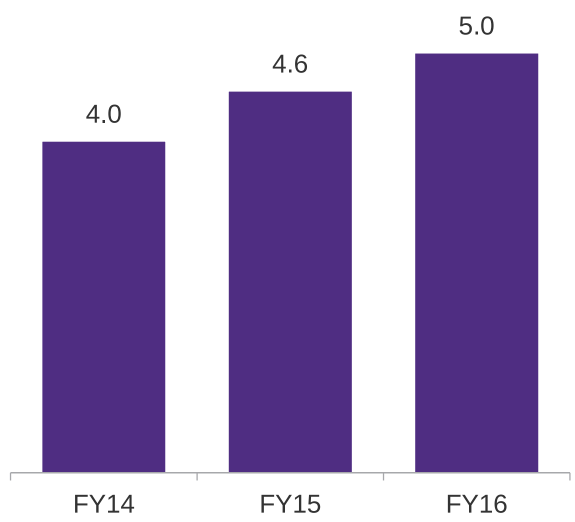
Vehicles under management (‘000)



Employee customers (‘000)



Leases settled (‘000)

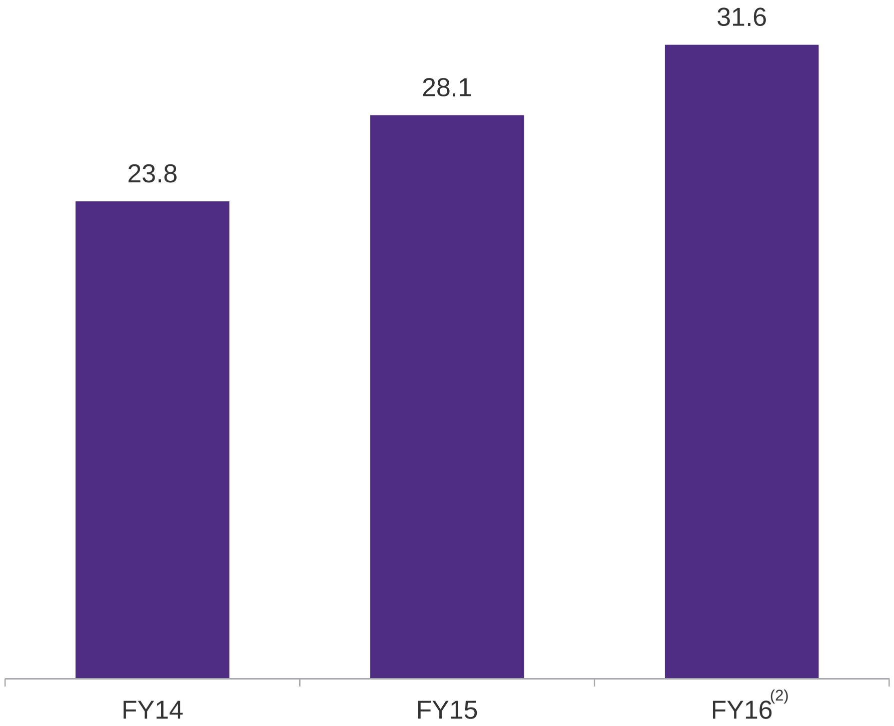


Source: Vendor, FY refers to the year ending 30 June.

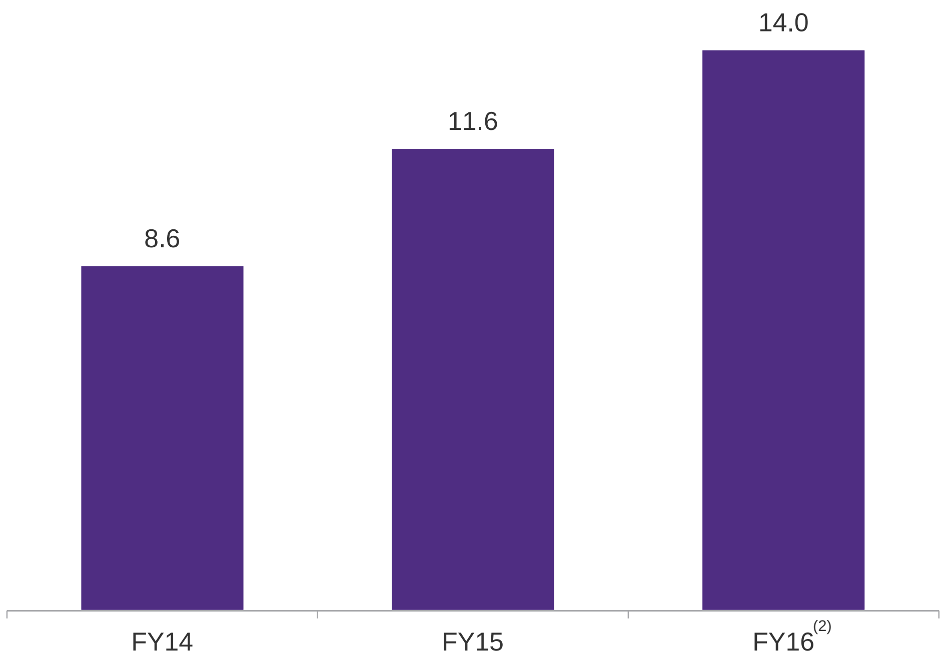
Financial profile

Selectus has a track record of revenue and EBITDA growth. Smartgroup expects Selectus to achieve high single digit EBITDA growth in FY2017 under Smartgroup ownership (before synergies)

Pro forma normalised revenue ($m)(1)



Pro forma normalised EBITDA ($m)(1)



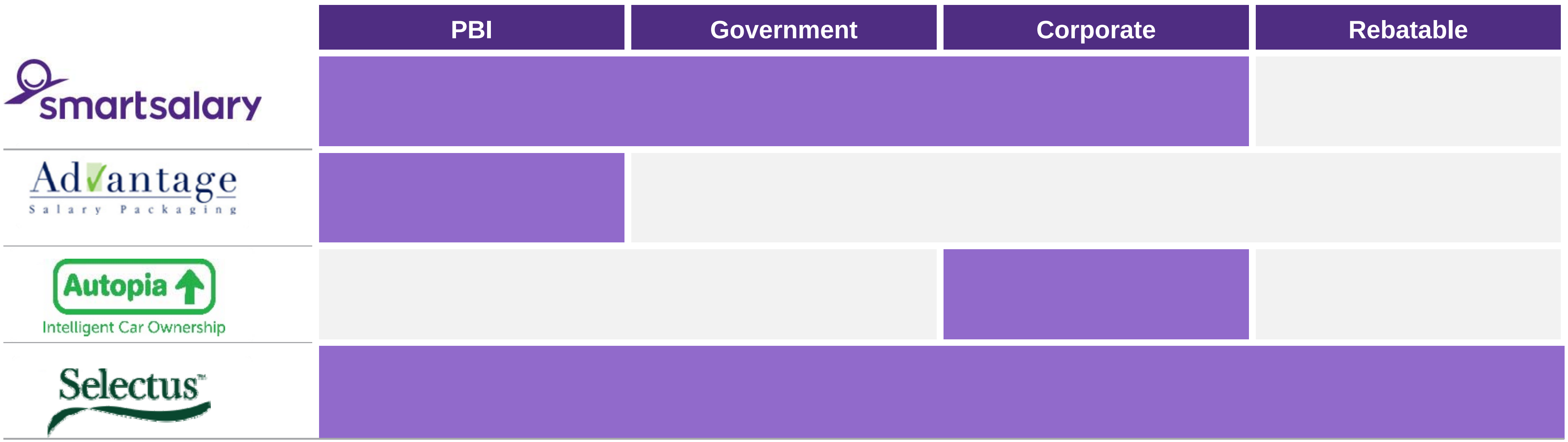
Source: Vendor financials, adjusted by Smartgroup. FY refers to the year ending 30 June.
(1) Pro forma normalised figures have been adjusted to: (i) exclude items that are considered to be non-recurring in nature; and (ii) include the full year impact of arrangements which were in place for part of a year.
(2) FY2016 financials are pro-forma normalised and unaudited.

Rebatable expertise

Selectus provides another strong brand to Smartgroup's salary packaging business and expands Smartgroup's salary packaging and novated leasing business into the rebatable sector

- Selectus is the leading provider of salary packaging and novated leasing to the rebatable sector
- The rebatable sector consists of specified categories of organisations including certain non-profits. Employees of rebatable employers can salary package non cash benefits up to a cap and be entitled to a rebate of the gross FBT payable
- The rebatable sector is not serviced by Smartgroup and includes an additional pool of potential employee customers

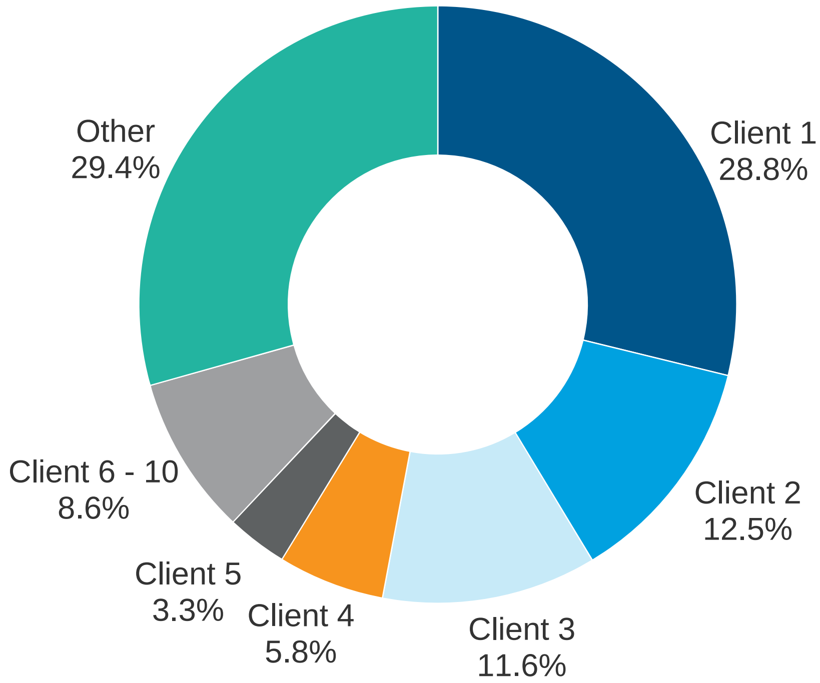
Outsourced salary packaging and leasing offerings



Customer contracts

The contract relationships of Selectus are similar to Smartgroup's existing business. Selectus' top four customers have all had relationships with Selectus for nine years or more and have undergone renewal processes as clients of Selectus

FY2016YTD(1) revenue split by customer base



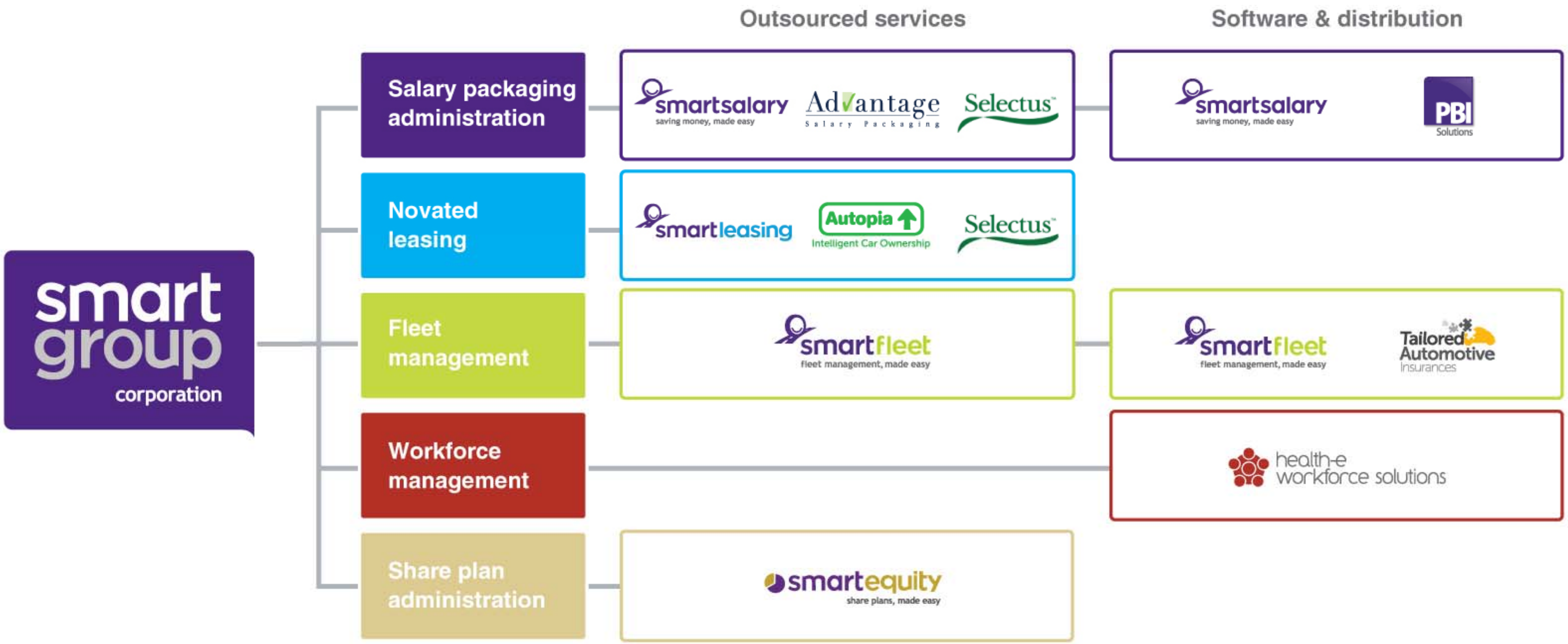
Long term customer relationships

Client	Tenure with Selectus (years)	Next extension date	Contract end date (inclusive of all extensions)	% of FY2016 Smartgroup post Transaction revenue(2)
1	15	2017	2019	~6%
2	15	n/a	2018	~3%
3	9	n/a	2017	~2%
4	9	n/a	2016	~1%

(1) Source vendor provided financials. July 2015 – March 2016.
(2) FY2016 refers to the 12 month period ending 30 June. Assumes full-year revenue contribution from Selectus and Autopia.

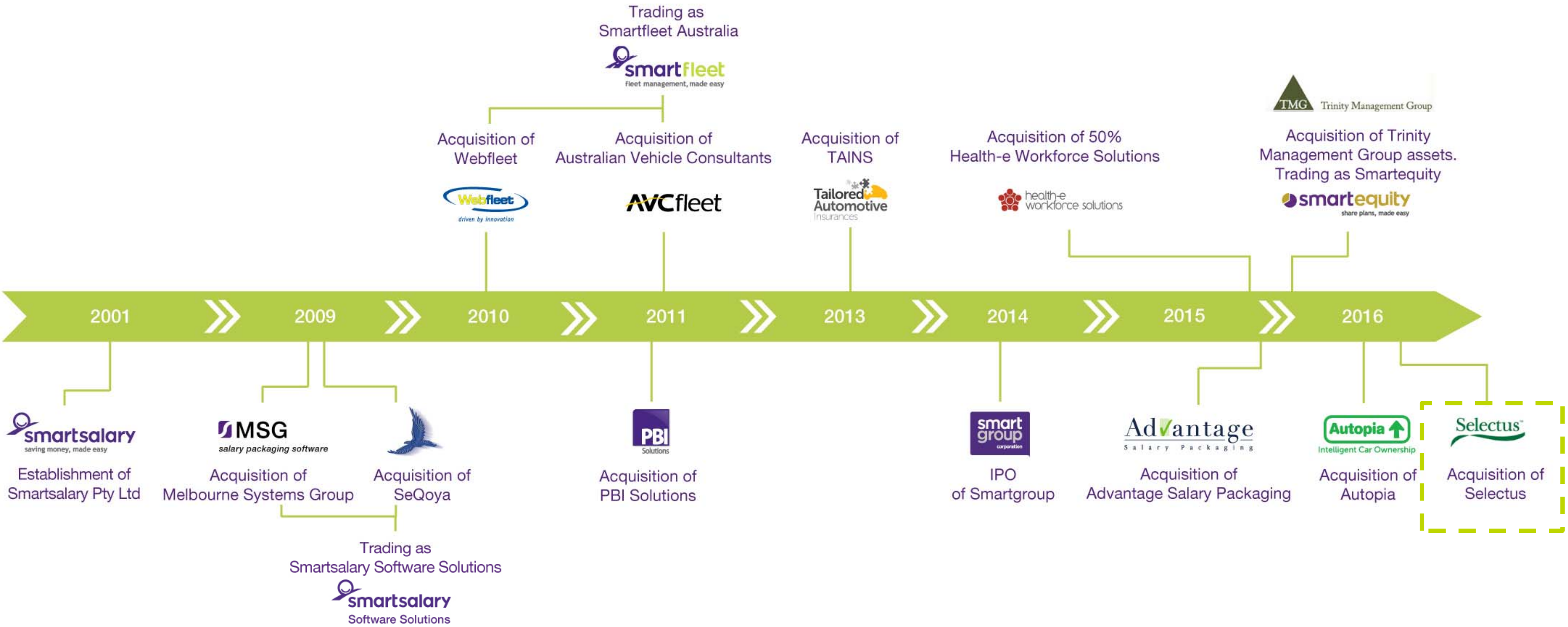
Smartgroup overview

The Selectus acquisition will expand Smartgroup's portfolio



Acquisition history

Selectus is Smartgroup’s 11th acquisition, and fifth since the IPO



Outlook 04

CY2016 outlook

Smartgroup expects to deliver $41.2 million - $43.2 million NPATA in CY2016, including part period contributions from the Autopia and Selectus acquisitions

	CY2016F NPATA[1]
Smartgroup (including Smartequity from 1 February 2016)	$36.5 – 38.5 million
Autopia (part year from 4 July 2016)	$1.2 million
Selectus (part year from 31 August 2016)[2]	$3.5 million
Total	**$41.2 – 43.2 million**

(1) Excludes anticipated M&A costs of $5.5 million (pre-tax).
(2) Assuming ownership from 31 August 2016, however this date is subject to change in accordance with the terms of the Selectus acquisition agreement.

Equity raising 05

Overview of funding

Acquisition of Selectus to be financed via fully underwritten institutional placement and new debt facility

- Upfront consideration of $119 million (plus $5 million of transaction costs and $25 million of cash for working capital flexibility) to be funded via:
  - ~$30 million shares issued to vendors (at issue price of $6.56 per share)
  - ~$49 million underwritten institutional placement (assuming the underwritten floor price of $6.35)
  - ~$70 million new debt facility
- As part of the acquisition, Smartgroup will be entering into a new syndicated facility agreement:
  - Diversified bank group to include ANZ and Westpac; and
  - Extended facilities to a new three year maturity (July 2019)
- Following the acquisition, Smartgroup will have approximately $158 million in facility limits, drawn to approximately $153 million
- Pro forma 31 December 2015 net debt expected to be approximately $116 million post the Transaction. Please refer to Appendix B for pro forma balance sheet
- Post completion pro forma gearing expected to be 1.6x net debt/FY2016 pro forma EBITDA(2) as at 30 June 2016, estimated to reduce to ~1.0x by 31 December 2017

Sources and uses ($m)

Sources		Uses	
Fully underwritten institutional placement	$49m(1)	Selectus approximate upfront purchase price (subject to customary completion adjustments)	$119m
Shares issued to vendors	$30m	Estimated Transaction costs	$5m
Debt funding	$70m	Cash for working capital flexibility	$25m
Total Sources	**$149m**	**Total Uses**	**$149m**

(1) Assuming the underwritten floor price of $6.35.
(2) Pro forma FY2016 EBITDA includes pro forma full year Selectus and Autopia EBITDA but excludes any synergies.

Institutional placement

Key terms

Offer size	• Fully underwritten institutional placement of approximately 7.6 million shares (“**New Shares**”) to raise approximately $49 million (assuming the underwritten floor price of $6.35 per new share)
Offer price	• Variable price, with an underwritten floor price of $6.35 per new share • Final issue price determined via a bookbuild • Underwritten floor price represents: – 3.1% discount to the closing price on 22 July 2016 of $6.55 – 3.3% discount to the 5 day VWAP to close of trade on 22 July 2016 of $6.57
Ranking	• New Shares will rank equally with existing ordinary shares from their time of issue • Shares issued under the Placement and SPP to be issued prior to record date of any CY2016 interim dividend in September 2016
Share purchase plan	• A SPP will be undertaken to allow all shareholders the opportunity to acquire new shares • Details will be provided to eligible shareholders in due course

Indicative offer timetable

Friday 22, July 2016	• Record date for SPP (7.00pm Sydney time)
Monday, 25 July 2016	• Trading halt (before market open) • Bookbuild conducted for the Placement
Tuesday, 26 July 2016	• Announcement of completion of Placement (before market open) • Trading halt lifted; normal trading resumes
Thursday, 28 July 2016	• Settlement of New Shares issued under the Placement
Friday, 29 July 2016	• Allotment and normal trading of new securities under the Placement

Note: Dates and times are indicative only and subject to change without notice. Smartgroup reserves the right to alter the dates in this presentation at is discretion and without notice, subject to the ASX Listing Rules and the Corporations Act 2001 (Cth). All dates refer to Sydney, Australia time.

APPENDIX

A

Overview of consideration

Total consideration

Total consideration of $169 million will be payable if Selectus achieves FY2017 audited EBITDA of $20 million and certain performance metrics

Selectus FY2017 EBITDA(1) ($m)	Upfront cash ($m)	Upfront scrip ($m)	Deferred shares ($m)	Earnout ($m)	Total(2) ($m)
≤12.0	89.0	30.0	-	-	119.0
12.5	89.0	30.0	-	-	119.0
13.0	89.0	30.0	3.1	-	122.1
13.5	89.0	30.0	6.3	-	125.3
14.0	89.0	30.0	9.4	-	128.4
14.5	89.0	30.0	12.5	-	131.5
15.0	89.0	30.0	15.6	-	134.6
15.5	89.0	30.0	18.8	-	137.8
16.0	89.0	30.0	21.9	-	140.9
16.5	89.0	30.0	25.0	-	144.0
17.0	89.0	30.0	25.0	4.0	148.0
17.5	89.0	30.0	25.0	8.0	152.0
18.0	89.0	30.0	25.0	12.0	156.0
18.5	89.0	30.0	25.0	16.0	160.0
19.0	89.0	30.0	25.0	20.0	164.0
19.5	89.0	30.0	25.0	24.0	168.0
≥20.0	89.0	30.0	25.0	25.0	169.0

(1) FY2017 audited EBITDA, exclusive of synergies.
(2) Total consideration will also include a cash payment equal to the value of any nominal dividends (excluding the value of any associated franking credits) declared between completion and issue of the Conditional Shares, that would have notionally been payable on any Conditional Shares issued if they had been issued on the completion date.

Upfront payment

Upfront payment of $119 million payable on completion

- $89 million to be paid in cash; and

- $30 million (4.6 million shares) to be paid in Smartgroup shares issued to existing Selectus shareholders
  - Including $5.5 million issued to existing management shareholders who are being retained post acquisition

- Shares will be issued at an issue price of $6.56 per Share
- Shares issued will rank equally with existing Smartgroup shares
- Shares subject to escrow restrictions:
  - 50% released from escrow after Smartgroup's H1 CY2017 audited results (August 2017); and
  - 50% released from escrow after Smartgroup's H1 CY2018 audited results (August 2018)

Conditional Shares

Any Conditional Shares will be issued in August 2017 post the release of Smartgroup's H1 CY2017 audited results, subject to Selectus' FY2017 audited EBITDA and certain performance metrics

- Up to $25 million of Conditional Shares to be issued at $6.56 per share (up to 3.8 million shares)
- Conditional on FY2017 audited EBITDA and satisfaction of certain performance metrics
- Assuming performance metrics satisfied:
  - FY2017 EBITDA ≤$12.5 million: 0% Conditional Shares issued
  - FY2017 EBITDA ≥$12.5 million and ≤$16.5 million: 0% - 100% Conditional Shares issued
  - FY2017 EBITDA ≥$16.5 million: 100% Conditional Shares issued
- The audited FY2017 EBITDA result that will determine the amount of the Conditional Shares to be issued, will exclude synergies that Smartgroup derives from the combination
- Any Conditional Shares to be issued in August 2017 following the announcement of Smartgroup's H1 CY2017 audited results
- Any Conditional Shares which are issued will be subject to escrow:
  - 50% released after H1 CY2018 audited results (August 2018); and
  - 50% released after H1 CY2019 audited results (August 2019)
- In addition, the vendors will receive a cash payment equal to the value of any nominal dividends (excluding the value of any associated franking credits) that the Conditional Shares issued would have notionally been entitled to, had they been issued on the acquisition completion date, expected to be 31 August 2016[(1)]
  - Expected to include any CY2016 interim and final dividend that are declared

(1) This date is subject to change in accordance with the terms of the Selectus acquisition agreement.

Earnout

Earnout may be payable in August 2017 post the release of Smartgroup's H1 CY2017 audited results, subject to Selectus' FY2017 audited EBITDA and certain performance metrics

- Up to $25 million payable subject to the following:
  - minimum of 75% payable to be paid in cash; and
  - balance mixture of cash and/or Smartgroup shares at Smartgroup's election, with any issue of shares subject to shareholder approval
- The Earnout will be calculated as 8.0x Selectus FY2017 audited EBITDA in excess of $16.5 million (excluding synergies)
  - The Earnout is capped at $25 million
- The audited FY2017 EBITDA result that will determine the amount of the Earnout to be paid, will exclude synergies that Smartgroup derives from the combination
- The Earnout is also conditional on satisfaction of certain performance metrics
- If shares issued:
  - Issued in August 2017 following the announcement of Smartgroup's H1 CY2017 audited results
  - Issued at 5 day VWAP prior to the announcement of Smartgroup's H1 CY2017 audited results
  - Any shares issued will be subject to the same escrow conditions as the Conditional Shares:
    - 50% released after H1 CY2018 audited results (August 2018); and
    - 50% released after H1 CY2019 audited results (August 2019)

APPENDIX

B

Pro forma balance sheet

Pro forma balance sheet

Pro forma balance sheet as at 31 December 2015

	Smartgroup (31 Dec 2015)	Unaudited adj. for other acquisitions (Smartequity and Autopia)	Unaudited adj. for Selectus acquisition	Unaudited pro forma Smartgroup
Cash	19.5	(4.6)	24.8	39.7
Intangibles	119.0	37.0	145.8	301.8
Other assets	28.9	1.2	3.4	33.5
Total assets	**167.4**	**33.6**	**174.0**	**375.0**
Trade and other payables	21.9	0.5	2.1	24.5
Borrowings	52.8	32.5	70.0	155.3
Other liabilities	10.2	0.6	2.3	13.1
Total liabilities	84.9	33.6	74.4	192.9
Net assets	**82.5**	**-**	**99.6**	**182.1**
Cash and cash equivalents	19.5	(4.6)	24.8	39.7
Borrowings	52.8	32.5	70.0	155.3
Net debt	**33.3**	**37.1**	**45.2**	**115.6**

APPENDIX

C

Key risks

Key business risks

Risk	Explanation
Loss of major employer client contracts	• Significant client contracts are frequently up for renewal and there can be no guarantee that Smartgroup will be successful in future tender or renewal processes, or that Smartgroup will be able to renew these employer client contracts on similar or more favourable terms • One of Smartgroup's top 10 employer client contracts will be up for renewal in the year ending 31 December 2017. This contract represented approximately 10% of CY2015 revenue • Smartgroup is also currently participating in a tender process for a client that represented 3% of CY2015 revenue • Smartgroup's top 5 employer clients accounted for 48% of CY2015 Smartgroup revenue and Selectus' top four employer client contracts accounted for 57% of Selectus' FY2015 revenue • The majority of the contracts for the top employer clients also contain a right for the clients to terminate their contracts without cause, and on short notice • The loss of a major contract if a client terminates a contract, does not renew their contract at the end of the contract term, or renews the contract on materially different terms, would have a material adverse effect on Smartgroup's business, operations and financial performance
Regulatory risk	• The provision of products and services within salary packaging administration and novated leasing is underpinned by the associated benefits permitted under taxation laws including the Income Tax Assessment Acts 1997 and 1936, the FBTAA and A New Tax System (Goods and Services Tax) Act 1999, as administered by the ATO • Various changes to the regulatory framework have been proposed in recent years. However, in May 2016 the Australian Labor Party confirmed a current position in support of current Fringe Benefit Tax arrangements • Despite this there can be no guarantee that regulatory changes will not be proposed in the future which may have a material adverse effect on Smartgroup's business, operations and financial performance
Increased competition	• There has been increased competition in the salary packaging and novated leasing industry in recent years, which may be reflected in lower pricing on tenders or loss of customers • Competition may further increase from a merger between existing competitors or the entry of new competitors • Smartgroup's competitive position in the market may deteriorate as a result of any of these factors or by failure of Smartgroup to meet changes in market conditions, customer demands or technology advancements • Any such deterioration in Smartgroup's competitive position could materially adversely affect Smartgroup's business, operations and financial performance
Loss of key suppliers	• Smartgroup maintains a number of important relationships with key third party suppliers and service providers, including suppliers of customer relationship management software, insurance, novated lease finance, employee benefits cards, fuel and telephony • In respect of some of these suppliers, Smartgroup has no formal contract in place or the relevant contract may be terminated without cause, and on short notice • There is a risk that one or more of these suppliers may terminate its contract or substantially alter the terms on which it is willing to offer services to Smartgroup • Smartgroup's business may be disrupted or the replacement supplier may impose more onerous terms, which could ultimately materially adversely affect Smartgroup's business, operations and financial performance

Key business risks

Risk	Explanation
Loss of access to lease funder arrangements	• Smartgroup depends on third party financial institutions to provide funding for its employee customers which may limit, cease or detrimentally affect the terms of their funding • Third party funders may cease to provide funding, or materially limit the amount of funding that they provide to employee customers, or change the terms on which such funding is currently provided without cause, and on short notice • Any loss of access, or material limitation to the terms of funding for employee customers could materially adversely affect Smartgroup's ability to win new contracts or retain existing contracts, which could affect Smartgroup's business, operations and financial performance
Not able to comply with debt covenants	• Smartgroup has various financial and non-financial covenants under its finance facilities which could limit its future financial flexibility • Smartgroup estimates that its pro forma net indebtedness on completion of the Transaction will be approximately $116 million • If Smartgroup's operating results deteriorate, it may be unable to meet the covenants governing its indebtedness, which may require Smartgroup to seek amendments, waivers or covenant compliance or alternative borrowing arrangement, reduce debt or raise additional equity • If a breach of covenant were to occur, there is no guarantee that Smartgroup's financiers would consent to an amendment or waiver, or that its financiers would not exercise their enforcement rights, such as immediate repayment, or taking control of Smartgroup, or putting Smartgroup into administration
Damage to Smartgroup's reputation and brand	• Smartgroup's reputation and brand are a key component of Smartgroup's success in winning and retaining contracts, winning employee customers within employer clients, maintaining relationships with employer clients and third party suppliers and attracting and retaining employees • Reputational damage could arise in a number of circumstances including deterioration in service levels, breach of the law, litigation, information technology system breach or failure, failures of internal controls, improper conduct, and adverse media coverage • Reputational damage may result in loss of employer clients, loss of employee customers or failure to win new clients or customers, loss of key suppliers and inability to attract and retain employees. If any of these occurs, this could have a material adverse effect on Smartgroup's business, operations and financial performance
Disruption or failure of information technology systems	• Smartgroup depends on the performance, reliability and availability of its software, technology platforms and communication systems (and certain third party systems) to provide services to employer clients and employee customers • There is a risk that these systems may be adversely affected by a number of factors including damage, equipment faults, power failure, computer viruses, misuse by employees or contractors, external malicious interventions such as hacking, fire, natural disasters or weather interventions. Events of that nature may cause part of Smartgroup's technology platform or websites to become unavailable or obsolete, where these systems are unable to be used in the future • Smartgroup's operational processes or disaster recovery plans may not adequately address every potential event and its insurance policies may not cover loss or damage that Smartgroup suffers as a result of a system failure • Any systemic failure or sustained interruption in service provision could severely damage Smartgroup's reputation and ability to generate new business or retain existing business • There is also a risk that potential errors or faults in Smartgroup's technology platform (or its personnel's use of such technology) could cause transaction errors that could adversely affect employee customers' ability to obtain benefits under FBT and salary packaging laws or the accuracy of information relating to their benefits

Key business risks

Risk	Explanation
Loss of key personnel	• Each of Smartgroup, Advantage Salary Packaging, Health-e Workforce Solutions, Autopia and Selectus operate with small management teams that have been with each of the businesses for more than four years and have extensive experience in the business and industry • The Smartgroup CEO and Managing Director has a long association with the business and good relationships with key employer clients and suppliers • The loss of key management personnel without suitable and timely replacements may have an adverse effect on the business, operations and financial performance • In addition, Smartgroup relies on its ability to attract and retain suitably qualified employees, including sales employees, customer service operators and qualified information technology personnel. The inability to attract and retain such persons may adversely affect Smartgroup's ability to carry out its growth strategy or result in higher recruitment or employment costs, which ultimately may result in deterioration in Smartgroup's competitive position or business, operations and financial performance
Unsuccessful integration of recent acquisitions	• In addition to the Selectus acquisition, Smartgroup has recently completed a number of acquisitions including Advantage Salary Packaging, Autopia, assets of Trinity Management Group and a stake in Health-e Workforce • To the extent that Smartgroup does not complete the integration of the other recent acquisitions in an orderly manner, the full benefits, expected efficiencies and synergies from those acquisitions may be achieved only in part, or not at all • This could adversely affect Smartgroup's financial performance and position, and the future prospects of Smartgroup
Failure of internal controls	• Smartgroup relies on internal controls to ensure that it complies with contracts with employer clients including service levels, benefit administration compliance and relevant laws and regulations • Internal controls are also relied on to detect any fraud by employees of Smartgroup or employee customers in respect of the sums of money for salary packaging benefits received by Smartgroup on behalf of employer clients • Any failure of these internal controls could result in damage to Smartgroup's reputation, loss of an employee client or inability to attract new clients. These factors could materially adversely affect Smartgroup's business, operations and financial performance
Litigation, claims, disputes and regulatory action	• Disputes or litigation may arise from time to time in the course of business activities of Smartgroup • There is a risk that any material or costly dispute or litigation could adversely affect Smartgroup's reputation or financial performance • A number of benefits which Smartgroup procure or administer for employee customers involve financial and other services which are highly regulated and subject to close scrutiny by regulators. There is a risk that a regulator may find that Smartgroup breaches or has breached certain regulations, which could result in damage to Smartgroup's reputation, breach of contracts and damages claims, penalties or other regulatory actions, loss of employer clients or inability to attract new clients
Infringement or loss of intellectual property rights	• Smartgroup relies on laws relating to trade secrets and copyright to assist to protect its proprietary rights in its internal and customer facing technology platforms. Smartgroup also generates revenue through licensing of proprietary Seqoya software to employer clients • There is a risk that unauthorised use or copying of Smartgroup's proprietary software, data, specialised technology or databases will occur or that a third party could challenge Smartgroup's ownership or use of certain intellectual property • Any infringement or loss of Smartgroup's intellectual property could result in significant costs, for example in defending claims or making alternative arrangements, and deterioration in Smartgroup's competitive position

Key Transaction risks

Risk	Explanation
Reliance on information provided for due diligence	• Smartgroup has undertaken and is continuing to undertake a due diligence review in respect of the Selectus acquisition. Despite taking reasonable efforts, Smartgroup has not been able to verify the accuracy, reliability or completeness of all the information provided against independent data • There is a risk that information provided by the Seller (including financial information) was incomplete, inaccurate or unreliable and there is no assurance that the due diligence was conclusive or identified all material issues in relation to Selectus' business. Limited contractual representations and warranties have been obtained from Selectus in respect of the adequacy and accuracy of the materials disclosed during the due diligence process
Completion risk	• Completion of the Selectus acquisition is conditional on certain matters which are considered by Smartgroup to be customary conditions for a transaction of this nature and Smartgroup anticipates that the conditions will be able to be satisfied in the required timeframes • There is a risk that any condition may not be able to be satisfied or waived and that completion of the acquisition may be delayed or cancelled. It is also possible that a party may seek to terminate the acquisition agreement if certain events occur • If the Selectus acquisition fails to complete, Smartgroup will need to consider alternative uses for the proceeds of the Placement or options for returning capital. In this event, Smartgroup will also have incurred the various costs associated with the Transaction with potentially no return. Failure to complete the acquisition may have an adverse impact on Smartgroup's financial performance, financial position and its share price
Integration risk and realisation of synergies	• It is possible that the operational or financial analysis as well as the forecasted estimates undertaken by Smartgroup regarding the acquisition of Selectus are inaccurate or are not realised in due course because of factors within or outside of Smartgroup's control • To the extent that actual results achieved by Selectus are weaker than those indicated by Smartgroup's analysis and forecasts, there is a risk that this may have an adverse impact on Smartgroup's financial position and financial performance, ability to realise forecast synergies and ultimately its share price
Restrictions imposed under its debt facility	• Smartgroup has various financial and non-financial covenants under its finance facilities which could limit its future financial flexibility. If Smartgroup's operating results deteriorate, it may be unable to meet the covenants governing its indebtedness, which may require Smartgroup to seek amendments, waivers of covenant compliance or alternative borrowing arrangements, reduce debt or raise additional equity • If a breach of covenant were to occur, there is no guarantee that Smartgroup's financiers would consent to an amendment or waiver, or that its financiers would not exercise their enforcement rights, such as immediate repayment, or taking control of Smartgroup, or putting Smartgroup into administration. Failure to comply with covenants may also impact the Company's ability to pay dividends • Such events could limit Smartgroup's flexibility in planning for, or reacting to, downturns in its business or otherwise materially adversely affect Smartgroup's business, operations and financial performance
Equity raising dilution risk	• If shareholders do not participate in the SPP then their percentage shareholding in Smartgroup will be diluted as a result of the Placement and scrip consideration • Even if a shareholder does take up their full allocation under the SPP, the percentage shareholding in Smartgroup may be diluted by the Placement and scrip consideration and possibly also from the SPP because participation is limited to a fixed amount and shareholders are not entitled to participate in the SPP on a pro rata basis relative to their existing shareholdings
Equity raising underwriting risk	• Smartgroup has entered into an underwriting agreement under which the underwriter has agreed to fully underwrite the Placement • If certain conditions are not satisfied or certain events occur under the underwriting agreement, the underwriter may terminate this agreement which may require Smartgroup to search for alternative financing

APPENDIX

D

Selling restrictions

Foreign selling restrictions

International Offer Restrictions

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Malaysia

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New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (the "FMC Act"). The new shares are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;

meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;

is large within the meaning of clause 39 of Schedule 1 of the FMC Act;

is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or

is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

Foreign selling restrictions

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Any offer is not made to you with a view to the new shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire new shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

United Kingdom

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