

## **McMillan Shakespeare Limited**

### **Annual General Meeting, 25 October 2016**

### **Chairman's Address**

I am delighted to be presenting my first report as Chairman of McMillan Shakespeare Limited at our 2016 Annual General Meeting.

#### **FY2016 Performance**

The financial scoreboard for McMillan Shakespeare for the 2016 financial year was strong. Our measure of underlying net profit after tax, or UNPATA, was \$87.2 million up 25.3% on the 2015 year. Underlying earnings per share was 105.1 cents up 17.2% and total fully franked dividends in respect of the 2016 financial year was 63 cents per share up 21.2%. Importantly, our return on capital employed was a very healthy 21.9%.

Whilst the 2016 financial scoreboard was strong and our team delivered some outstanding achievements across our businesses, we planned and budgeted for better. Our salary packaging and novated leasing business was impacted by a delay in the outcome of a significant tender, the financial performance of our UK joint venture did not meet expectations and the integration of Presidian and UFS has been more challenging than expected.

#### **Board Composition**

On 27 October 2015 Ron Pitcher AM retired as Chairman and a Director of McMillan Shakespeare Limited. I spoke last year about Ron's outstanding service as Chairman since the Company listed on the ASX in March 2004. Ron's contribution is difficult to measure but an increase in the Company's market capitalisation from \$33 million to more than \$1 billion over 11 years provides a reasonable insight.

From January this year we were delighted to welcome Sue Dahn as a Director and Chair of the Board's Audit, Risk and Compliance Committee. Sue has extensive experience in senior roles with the Victorian Government and global and local accounting firms. She is currently a partner leading Investment Advisory Services at Pitcher Partners and a non-executive Director of MTAA Super. Sue's blend of skills and experience means she is well suited to serving as a Director of McMillan Shakespeare.

#### **Regulatory Environment**

During the 2016 financial year, bipartisan support was confirmed for the current salary packaging and FBT arrangements. This support recognised the economic contribution flowing from these arrangements and that the vast majority of benefits are received by low to average income earners in not-for-profit and public sector roles. This was a pleasing outcome for our industry and closes a period of uncertainty that has existed since 2013.

In the UK the government is considering limiting the range of benefits that attract income tax advantages when provided as part of salary sacrifice arrangements. Consultation has recently closed and we understand a range of submissions were made from a broad cross section of industries and sector participants. The outcome of this review will not impact our existing UK business but may impact new growth initiatives.

In September this year ASIC made an announcement about its review of the sale of add-on insurance products through car dealers. ASIC is also separately conducting a review of finance provided to consumers by automotive dealers. Although the results of these reviews are not expected to have a material impact on our financial results in the short term, we are carefully monitoring developments and working with our suppliers. Furthermore, whilst there may be some restructuring of existing supply chains during the next few years, ultimately we believe the likely improvement in design, quality and pricing of products will be a positive long term development.

#### **Outlook**

The Board is very confident about the prospects for McMillan Shakespeare. The Company operates in attractive, growing markets and generates high returns on capital employed. Whilst the markets are competitive, McMillan Shakespeare businesses generally have very strong market positions and, in our salary packaging and novated leasing business, minimal recontracting risk in the medium term. Our conversion of profit to cash is also high which sustains a high dividend payout ratio whilst providing the capacity to invest in attractive growth opportunities.

The Board and senior leadership team presently have three areas of focus.

Firstly, to deliver growth from our current businesses and to optimise their performance. During the past 12 months or so our team has been very successful at recontracting major clients and winning new opportunities in our salary packaging and novated leasing business. We have a tremendous base to work from to deliver organic growth. New digital initiatives will also continue to play a role in improving service and lowering cost to serve. In asset management, both locally and overseas, we are being more targeted about the business development opportunities we pursue. We will also continue to modify our approach to funding and risk to improve returns on capital employed. In retail financial services we have a range of initiatives centred around completing the integration of Presidian and UFS, strengthening the leadership team and organically growing volumes.

Secondly, to deliver medium term growth through expanding the services offered to our customers. Presently only 5% of the estimated one million employees that sit within our salary packaging and novated leasing client base use novated lease funding to buy a new car. Maxxia Plus is currently being rolled out to clients and is one example of where we hope to use our expanded portfolio of skills, experience, technology and relationships to provide value to our customers.

Thirdly, to continue to examine selective acquisition opportunities. In the near term these are likely to be relatively modest and UK based as we seek to expand our geographic coverage and distribution, increase volumes and supplement the successful acquisition of Anglo Scottish made during the 2016 financial year.

Execution of the three areas of strategic priority for the Board and senior leadership team outlined above will result in McMillan Shakespeare being well positioned for the future.

### **Closing**

In closing this morning, I would like to acknowledge and thank Mike Salisbury, his leadership team and all our employees for their hard work and contribution during the 2016 financial year. Our team is experienced, skilled and dedicated and it is a great strength of our Company.

I would also like to thank my Board colleagues for the expertise they provide McMillan Shakespeare.

Finally, I would like to thank all our shareholders for your continued support and interest in our Company.