McMillanShakespeareGroup

McMillan Shakespeare Limited
ABN 74 107 233 983 AFSL No. 299054
The Tower, Melbourne Central,
Floor 21, 360 Elizabeth Street,
Melbourne VIC 3000
Phone: 03 9097 3000
Fax: 03 9097 3048
Web: www.mmsg.com.au

22 February 2017

Manager Company Announcements
ASX Limited

Via E-lodgement

Dear Sir/Madam

McMillan Shakespeare Limited
Interim Results

Please find attached the Appendix 4D Half-year Report, Directors' Report, the Financial Report and Auditor's Independent Review Report for the half-year ended 31 December 2016.

This information should be read in conjunction with McMillan Shakespeare Limited's 2016 Annual Report.

This announcement comprises the information required by ASX Listing Rule 4.2A and the statement required by Rule 4.2C.2.

Yours faithfully
McMillan Shakespeare Limited

Mark Blackburn
Chief Financial Officer and Company Secretary

McMillan
Shakespeare Limited

Interim Financial Statements and Appendix 4D

Half-year ended 31 December 2016

McMillanShakespeareGroup

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Appendix 4D – Half-year Report 1

1. Details of the reporting period and the previous corresponding period

Current period: 1 July 2016 to 31 December 2016
Previous corresponding period: 1 July 2015 to 31 December 2015

2. Results for announcement to the market

	Key information	Percentage change	Half-Year ended 31 December 2016 $'000
2.1	Revenues from ordinary activities	Up 3% to	251,254
2.2	Profit after income tax	Up 4% to	40,424
2.3	Net profit after income tax attributable to members of the parent entity	Up 4% to	40,424

	Dividends	Amount per share	Franked amount per share
2.4	Interim dividend	$0.31	$0.31
2.5	Ex-dividend date	30 March 2017	
	Record date for determining entitlements to the dividend	31 March 2017	
	Dividend payment date	13 April 2017	

2.6 Commentary on results for the financial year

Underlying Net Profit After Tax and Acquisition Amortisation (UNPATA), being net profit after tax but before the after-tax impact of acquisition-related transaction expenses and the amortisation of acquired intangible assets, has been used to measure the financial performance of the Group. The Company believes this measure of performance best represents the core financial results of the Group's operations for the half-year ended 31 December 2016. UNPATA has been calculated from NPAT as reported in item 2.2 above, as follows.

	Half-year 31 Dec 2016	Half-year 31 Dec 2015
	$'000	$'000
Profit after income tax (item 2.2)	40,424	38,935
Amortisation of acquired intangible assets after tax	1,217	1,159
Acquisition transaction costs after tax	474	1,699
UNPATA	**42,115**	**41,793**

Group UNPATA for the half-year ended 31 December 2016 of $42.1m was 1% higher than the previous corresponding period (pcp) of $41.8m. The Asset Management segment was 19% higher than the pcp. The Group Remuneration Services segment was steady notwithstanding a change in the arrangement with a major client. The Retail Financial Services segment was 14% lower than pcp notwithstanding the growth in net amount financed. This reduction in UNPATA was largely due to a change in the mix of financing and uncertainty regarding potential regulatory changes.

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The financial operating performance of the segments is summarised below.

	Half-year 31 Dec 2016	Half-year 31 Dec 2015	Half-year 31 Dec 2016	Half-year 31 Dec 2015
	Revenue	Revenue	UNPATA	UNPATA
	$'000	$'000	$'000	$'000
Group Remuneration Services	90,522	91,416	28,244	28,319
Asset Management	104,017	97,428	8,223	6,919
Retail Financial Services	55,897	54,642	6,151	7,117
Total segment operations	**250,436**	**243,486**	**42,618**	**42,355**
Unallocated public company costs and net interest			(503)	(562)
UNPATA			**42,115**	**41,793**

Basic earnings per share as shown in the financial statements was 48.59 cents per share (1H16: 47.10 cents per share) and on a diluted basis was 48.47 cents per share (1H16: 47.00 cents per share). Please refer to the accompanying December 2016 Half-year Results Announcement for more details on the financial results.

3. Net tangible assets per share

	31 Dec 2016	30 Jun 2016
Ordinary shares	$1.47	$1.39

4. Control gained or lost over entities during the period

Name of entities where control was gained during the period	Date control acquired
European Vehicle Contracts Limited (UK) (EVC)	1 December 2016

Name of entities where control was lost during the period	Date control lost
None	N/A

MMSG Appendix 4D – Half-year Report

5. Dividend

Dividends	Amount per share	Franked amount per share
	Cents	Cents
Final dividend in respect of the financial year ended 30 June 2016 per share	34.0	34.0
Interim dividend	31.0	31.0

The record date for determining entitlement to the dividend is 31 March 2017.

The interim dividend is payable on 13 April 2017.

6. Dividend reinvestment plan

None

7. Investment in associates and joint ventures

The Group's 50% joint venture interest in Maxxia Limited, a company operating in the UK, reported a loss after tax for the period of $677,000 (1H16: $608,000).

8. Foreign entities

Not applicable

9. Review

This report contains an unqualified review opinion from an independent auditor.

Half-year Results Announcement

McMillan Shakespeare Limited

McMillan Shakespeare Limited (ASX: MMS) today released its results for the half-year ended 31 December 2016, with a reported after tax profit of $40.4m. Highlights of the operating results were:

	Group Remuneration Services			Asset Management			Retail Financial Services			Total		
$'000	1H17	1H16	%	1H17	1H16[3]	%	1H17	1H16[2]	%	1H17	1H16	%
Revenue from operating activities	90,522	91,416	*(1.0%)*	104,017	97,428	*6.8%*	55,897	54,642	*2.3%*	250,436	243,486	*2.9%*
Expenses	47,177	49,150	*(4.0%)*	90,946	85,741	*6.1%*	45,929	43,411	*5.8%*	184,052	178,302	*3.2%*
EBITDA	43,345	42,266	*2.6%*	13,071	11,687	*11.8%*	9,968	11,231	*(11.2%)*	66,384	65,184	*1.8%*
Depreciation and amortisation of PPE and software	1,976	2,069	*(4.5%)*	1,534	1,740	*(11.8%)*	772	571	*35.2%*	4,282	4,380	*(2.2%)*
Amortisation of intangibles	-	-	-	410	315	*30.2%*	1,270	1,296	*(2.0%)*	1,680	1,611	*4.3%*
Net profit before tax	41,369	40,197	*2.9%*	11,127	9,632	*15.5%*	7,926	9,364	*(15.4%)*	60,422	59,193	*2.1%*
Operating margin	45.7%	44.0%		10.7%	9.9%		14.2%	17.1%		24.1%	24.3%	
Tax	13,125	11,878	*10.5%*	3,232	2,965	*9.0%*	2,664	3,153	*(15.5%)*	19,021	17,996	
Segment net profit after tax	28,244	28,319	*(0.3%)*	7,895	6,667	*18.4%*	5,262	6,211	*(15.3%)*	41,401	41,197	*0.5%*
Segment underlying NPATA	28,244	28,319	*(0.3%)*	8,223	6,919	*18.8%*	6,151	7,117	*(13.6%)*			
Unallocated items												
Net interest income/ (expense)										20	(181)	
Public company costs										(738)	(623)	
Acquisition expenses[1]										(593)	(2,293)	
Tax on unallocated items										334	835	
Net profit after tax										40,424	38,935	*3.8%*
Net profit after tax growth										3.8%	25.1%	
Underlying NPATA[4]										42,115	41,793	*0.8%*
Key Metrics												
Return on equity										21.6%	23.0%	
Return on capital employed										20.1%	20.5%	
Basic earnings per share (cents)										48.59	47.10	*3.2%*
Diluted earnings per share (cents)										48.47	47.00	*3.1%*
Diluted earnings per share growth										3.1%	14.7%	
Underlying earnings per share (cents)										50.6	50.6	-
Interim dividend paid per share (cents)										31.00	29.00	*6.9%*
Dividend payout ratio										61.3%	57.4%	

1 Acquisition expenses for EVC acquisition in the half and UFS and Anglo Scottish (UK) in 1H16
2 Includes UFS from 31 July to 31 December 2015.
3 Includes Anglo Scottish from 4 November to 31 December 2015.
4 Underlying NPATA excludes the after-tax one-off items in relation to the transaction costs incurred for the acquisition of EVC in the half and UFS and Anglo Scottish in 1H16 and amortisation of acquisition related intangible assets.

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Appendix 4D – Half-year Report

Review of operations

The Group had strong operating metrics for the half.

- Consolidated UNPATA of $42.1m was a 1% improvement over the prior period. Salary packaging and novated lease units grew by 8% and 7% respectively, and RFS net amount financed increased by 22%. Revenue growth in the GRS segment was constrained during the period by new contract terms. AM Australia/NZ and AM UK assets managed (WDV) grew by 3% and 9% respectively and the AM UK net amount financed grew by 73%. Expenses across the Group were well controlled. Devaluation of the Pound reduced UK denominated UNPATA in Australian dollar terms by $0.4m.
- The GRS segment UNPATA remained consistent with the pcp. Revenue reduced by 1% following the renewal of a major contract and expenses reduced by 4% however, the tax rate increased to 31.7% from 29.5% previously.
- Assets under management (on balance sheet) in Australia and New Zealand grew by 2% and a further $4m in assets were financed using Principal and Agency (P&A) agreements. Assets under management (on balance sheet) in the UK grew by 9% and a further $155m of assets were financed during the period.
- In the RFS segment, growth in net amount financed was strong, however insurance gross written premiums fell by 14% and warranty policies written were flat. UNPATA fell 14% to $6.2m due to reduced margins in finance originations and reduced premiums written. After a thorough review the segment has been rebranded, restructured and a new management team has been appointed.
- The Company completed two acquisitions in the UK; European Vehicle Contracts Limited on 1 December 2016 and Capex Asset Finance Limited on 6 January 2017. These two acquisitions form part of the Group's broker aggregation strategy in the UK.
- Cash generation before investment in fleet was $34.2m (lower than pcp due to one-off VAT refunds in prior periods and additional tax instalments and GST funding in this period).
- Cash at bank at 31 December 2016 was $57.5m. Excluding debt to fund fleet and other financed assets, the Group had no net debt.
- Return on equity was 21.6% and return on capital employed was 20.3%.
- Basic and diluted earnings per share were 48.6 cents and 48.5 cents respectively.
- The Company declared an interim fully franked dividend of 31.0 cents per share. The record date is 31 March 2017 and will be paid on 13 April 2017.

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Appendix 4D – Half-year Report

Yours faithfully,

McMILLAN SHAKESPEARE LIMITED

Tim Poole
Chairman

Mike Salisbury
Managing Director

22 February 2017
Melbourne, Australia

For more information, please contact:

Mr Mike Salisbury
Managing Director and Chief Executive Officer
McMillan Shakespeare Limited
Telephone: +61 3 9097 3273
E-mail: mike.salisbury@mmsg.com.au

Mr Mark Blackburn
Chief Financial Officer and Company Secretary
McMillan Shakespeare Limited
Telephone: +61 3 9097 3273
E-mail: mark.blackburn@mmsg.com.au

McMillan Shakespeare Limited
ABN 74 107 233 983
AFSL No. 299054
Level 21, The Tower, Melbourne Central,
360 Elizabeth Street, Melbourne, Victoria 3000
Tel: +61 3 9097 3000
Fax: +61 3 9097 3060
Web: www.mmsg.com.au

Directors' Report

Directors

The Directors of McMillan Shakespeare Limited (the Company) present their report on the consolidated entity consisting of the Company and the entities it controlled at the end of, or during the half-year ended 31 December 2016 (the Group or Consolidated Group).

The names of the Directors of the Company during the whole of the reporting period and up to the date of this report are as follows:

Mr T. Poole

Mr M. Salisbury

Mr J. Bennetts

Mr R. Chessari

Mr I. Elliot

Ms S. Dahn

Review of Operations

A review of the operations of the consolidated entity during the half-year ended 31 December 2016 and the results of these operations are set out in the attached results announcement.

Results

The consolidated net profit for the half-year ended 31 December 2016 attributable to the members of the Company after providing for income tax was $40.4m.

Dividend

On 22 February 2017, the Board of Directors declared a fully franked dividend of 31.0 cents per ordinary share. The record date is 31 March 2017 and the dividend will be paid on 13 April 2017.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Corporations Instrument.

Subsequent events

Subsequent to reporting date, the Company acquired Capex Asset Finance Limited, a UK based asset finance broker, to augment the Asset Management segment UK operations. The initial consideration for the acquisition was $5.1m pending purchase price adjustments that are being finalised and deferred consideration based on the achievement of earning targets. At the date of this report, acquisition accounting had not been finalised.

In February 2017, the Company entered into a new five year £5.9m floating rate amortising term loan facility ending on 31 December 2021 to fund the UK acquisitions of European Vehicle Contracts Limited and Capex Asset Finance Limited.

Directors' Report

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* is included on page 9 of the half-year financial report.

Signed in accordance with a resolution of the Directors made pursuant to section 306(3) of the *Corporations Act 2001*.

Tim Poole
Chairman

Mike Salisbury
Managing Director

22 February 2017
Melbourne, Australia

Auditor’s Independence Declaration

Grant Thornton

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

Auditor’s Independence Declaration
To The Directors of McMillan Shakespeare Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of McMillan Shakespeare Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b no contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

B.A. Mackenzie
Partner - Audit & Assurance

Melbourne, 22 February 2017

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

Independent Auditor's Review Report

GrantThornton

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF MCMILLAN SHAKESPEARE LIMITED

We have reviewed the accompanying half-year financial report of McMillan Shakespeare Limited (the Company), which comprises the consolidated financial statements being the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-year Financial Report

The Directors of McMillan Shakespeare Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such controls as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the McMillan Shakespeare Limited consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of McMillan Shakespeare Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

Independent Auditor's Review Report

GrantThornton

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence
In conducting our review, we complied with the independence requirements of the *Corporations Act 2001*.

Conclusion
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of McMillan Shakespeare Limited is not in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

B.A. Mackenzie
Partner - Audit & Assurance

Melbourne, 22 February 2017

Directors' Declaration

Directors' Declaration

(a) The financial statements and notes of McMillan Shakespeare Limited for the half-year ended 31 December 2016 are in accordance with the *Corporations Act 2001*, including;

  i. giving a true and fair view of its financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

  ii. compliance with AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Tim Poole
Chairman

Mike Salisbury
Managing Director

22 February 2017
Melbourne, Australia

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2016

	Half-year ended 31 Dec 2016 $'000	Half-year ended 31 Dec 2015 $'000
Revenue from continuing operations (refer note 4)	251,254	244,261
Expenses		
Employee expenses	(58,029)	(58,837)
Depreciation and amortisation	(44,800)	(45,753)
Leasing and vehicle management expenses	(33,871)	(25,608)
Brokerage commissions and incentives	(24,115)	(23,800)
Net claims incurred	(4,591)	(3,685)
Consulting costs	(1,288)	(1,614)
Marketing costs	(2,140)	(1,929)
Property and corporate expenses	(5,287)	(5,670)
Technology and communication expenses	(5,497)	(5,363)
Other expenses	(5,483)	(6,463)
Finance costs	(5,770)	(6,543)
Share of joint venture result	(677)	(608)
Acquisition expenses	(593)	(2,293)
Total expenses	**(192,141)**	**(188,166)**
Profit before income tax expense	**59,113**	**56,095**
Income tax expense	(18,689)	(17,160)
Net profit for the period	**40,424**	**38,935**
Other comprehensive income		
Items that may be re-classified subsequently to profit or loss:		
Changes in fair value of cash flow hedges	399	446
Exchange differences on translating foreign operations	(3,035)	(719)
Income tax	(161)	(146)
Other comprehensive loss, net of tax	(2,797)	(419)
Total comprehensive income for the year	**37,627**	**38,516**

Basic earnings per share (cents)	**48.59**	47.10
Diluted earnings per share (cents)	**48.47**	47.00

Notes to the financial statements are annexed.

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	31 Dec 2016 $'000	30 Jun 2016 $'000
Current assets			
Cash and cash equivalents	6	57,510	95,583
Trade and other receivables		40,496	37,396
Finance lease receivables		59,086	46,280
Deferred acquisition costs		2,136	2,084
Inventory		8,650	7,282
Prepayments		7,192	7,827
Other assets	14(c)	5,114	-
Total current assets		180,184	196,452
Non-current assets			
Assets under operating lease		298,313	292,825
Finance lease receivables		91,040	89,279
Property, plant and equipment		8,256	9,307
Goodwill	7	187,413	182,629
Other intangible assets	7	69,863	72,003
Deferred acquisition costs		1,075	964
Other financial assets		1,422	1,732
Deferred tax assets		242	194
Total non-current assets		657,624	648,933
Total assets		837,808	845,385
Current liabilities			
Trade payables		71,006	70,381
Other liabilities	8	12,740	16,384
Provisions	9	12,193	13,023
Unearned premium liability		6,393	5,966
Current tax liability		7,416	10,116
Borrowings	10	13,072	12,944
Derivative financial instruments		420	819
Total current liabilities		123,240	129,633

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	31 Dec 2016 $'000	30 Jun 2016 $'000
Non-current liabilities			
Borrowings	10	320,147	332,626
Provisions	9	2,408	1,885
Other financial liability		8,055	6,740
Unearned premium liability		2,974	2,755
Deferred tax liabilities		1,148	1,251
Total non-current liabilities		334,732	345,257
Total liabilities		**457,972**	**474,890**
Net assets		**379,836**	**370,495**
Equity			
Issued capital	11	144,380	144,380
Reserves		1,289	4,086
Retained earnings		234,167	222,029
Total equity		**379,836**	**370,495**

Notes to the financial statements are annexed.

Consolidated Statement of Cash Flow

For the half-year ended 31 December 2016

	Half-year ended 31 Dec 2016 $'000	Half-year ended 31 Dec 2015 $'000
Cash flows from operating activities		
Cash receipts from customers	268,811	285,134
Cash payments to suppliers and employees	(127,311)	(135,233)
Proceeds from sale of assets under lease	31,912	25,587
Proceeds from sale of lease portfolio [1]	-	32,805
Payments for lease assets	(136,980)	(135,394)
Interest received	919	931
Interest paid	(4,846)	(6,261)
Income taxes paid	(21,648)	(17,363)
Subsidiaries' acquisition expenses	(593)	(2,616)
Net cash from operating activities	10,264	47,590
Cash flows from investing activities		
Payments for plant and equipment	(379)	(1,301)
Payments for software	(3,288)	(2,278)
Payments for joint venture subordinated loan	(466)	(190)
Deposit for future acquisition (refer note 14(c))	(5,114)	-
Acquisition of subsidiaries (net of cash acquired, refer note 14)	(3,321)	(35,732)
Net cash used in investing activities	(12,568)	(39,501)
Cash flows from financing activities		
Proceeds from issue of new shares	-	5,358
Proceeds from borrowings	19,057	26,978
Repayment of borrowings	(25,959)	(36,483)
Dividends paid	(28,286)	(22,463)
Net cash used in financing activities	(35,188)	(26,610)
Effect of exchange changes on cash and cash equivalents	(581)	(21)
Net decrease in cash and cash equivalents	(38,073)	(18,542)
Cash and cash equivalents at the beginning of the half year	95,583	85,729
Cash and cash equivalents at the end of the half-year	57,510	67,187

1 1H16 - Proceeds from a portion of the UK fleet was moved off balance sheet as part of the principal and agency arrangements with a number of funding providers.

Notes to the financial statements are annexed.

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2016

Half-year ended 31 December 2016	Issued capital $'000	Retained Earnings $'000	Option Reserve $'000	Cash flow Hedge Reserve $'000	Foreign Currency Translation Reserve $'000	Total $'000
Equity as at beginning of period	144,380	222,029	10,092	(615)	(5,391)	370,495
Profit attributable to members of the parent entity	-	40,424	-	-	-	40,424
Other comprehensive income /(loss) after tax	-	-	-	238	(3,035)	(2,797)
Total comprehensive income for the period	**-**	**40,424**	**-**	**238**	**(3,035)**	**37,627**
Transactions with owners in their capacity as owners:						
Dividends paid	-	(28,286)	-	-	-	(28,286)
Equity as at 31 December 2016	**144,380**	**234,167**	**10,092**	**(377)**	**(8,426)**	**379,836**

Half-year ended 31 December 2015	Issued capital $'000	Retained Earnings $'000	Option Reserve $'000	Cash flow Hedge Reserve $'000	Foreign Currency Translation Reserve $'000	Total $'000
Equity as at beginning of period	121,617	186,149	8,449	(526)	2,754	318,443
Profit attributable to members of the parent entity	-	38,935	-	-	-	38,935
Other comprehensive income /(loss) after tax	-	-	-	300	(719)	(419)
Total comprehensive income for the period	**-**	**38,935**	**-**	**300**	**(719)**	**38,516**
Transactions with owners in their capacity as owners:						
Issue of shares	22,763	-	-	-	-	22,763
Option expense	-	-	1,063	-	-	1,063
Dividends paid	-	(22,463)	-	-	-	(22,463)
Equity as at 31 December 2015	**144,380**	**202,621**	**9,512**	**(226)**	**2,035**	**358,322**

Notes to the financial statements are annexed.

Notes to the Financial Statements

For the half-year ended 31 December 2016

1. Corporate information

McMillan Shakespeare Limited (the Company) is a company limited by shares, incorporated and domiciled in Australia.

2. Basis of preparation

The consolidated half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*.

This half-year financial report does not include notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the Company during the half-year period in accordance with the continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the *Corporations Act 2001*. The Company is a for-profit entity for financial reporting purposes under the Australian Accounting Standards.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

The consolidated half-year financial report was approved by the Board of Directors on 22 February 2017.

3. Significant accounting policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the Group's last annual financial report for the year ended 30 June 2016 with the following updates.

There were no new and revised accounting standards and interpretations issued by the Accounting Standards Board in the period that had any significant relevance to operations of the Group.

Notes to the Financial Statements

For the half-year ended 31 December 2016

4. Revenue

	Half-year ended 31 Dec 2016 $'000	Half-year ended 31 Dec 2015 $'000
Remuneration Services	90,747	91,490
Asset Management Services	96,990	95,095
Brokerage Services	61,378	56,528
Other revenue	2,139	1,148
	251,254	244,261

5. Dividends

On 22 February 2017, the Board of Directors declared a fully franked dividend of 31.0 cents per ordinary share. The record date is 31 March 2017 and the dividend will be paid on 13 April 2017.

	Half-year ended 31 Dec 2016		Half-year ended 31 Dec 2015	
	Cents per share	Total $'000	Cents per share	Total $'000
Recognised amounts				
Fully paid ordinary shares - Final dividend	**34.0**	**28,286**	**27.0**	**22,463**
Unrecognised amounts				
Fully paid ordinary shares - Interim dividend	**31.0**	**25,790**	**29.0**	**24,126**

Notes to the Financial Statements

For the half-year ended 31 December 2016

6. Cash and cash equivalents

	31 Dec 2016 $'000	30 Jun 2016 $'000
Cash on hand	3	3
Bank balances	24,007	14,992
Short term deposits	33,500	80,588
	57,510	95,583

Cash and cash equivalents held in trust

The GRS segment administers the cash flows on behalf of clients as part of the remuneration benefits administration service. At reporting date, the balance of monies held in bank accounts in trust for clients, representing all client contributions to operate their accounts were as follows.

	31 Dec 2016 $'000	30 Jun 2016 $'000
Client monies in trust	368,020	373,489
Client monies in trust free from administration fees	33,085	33,077
	401,105	406,566

These balances are not included in the Consolidated Statement of Financial Position.

Pursuant to contractual agreement with clients, the Company received interest of $4,699,000 at an average interest rate of 2.5% (half-year ended 31 December 2015: $4,772,000 at an average interest rate of 2.81%) for managing client monies and as part substitute for administration service fees.

7. Goodwill and other intangible assets

Goodwill	**31 Dec 2016 $'000**
Balance at the beginning of the period	182,629
Additions from business combinations (refer note 14)	6,547
Foreign exchange translation	(1,763)
Balance at the end of the period	187,413

Other intangible assets	
Dealer relationships, brand, customer contracts and software	
Balance at the beginning of the period	72,003
Additions	3,288
Amortisation	(5,051)
Foreign exchange translation	(377)
Balance at the end of the period	69,863

Notes to the Financial Statements

For the half-year ended 31 December 2016

8. Other liabilities

	31 Dec 2016 $'000	30 Jun 2016 $'000
Maintenance instalments received in advance	5,042	5,815
Receipts in advance	2,255	5,300
Unearned property incentives	5,443	5,269
Net carrying value	12,740	16,384

9. Provisions

	31 Dec 2016 $'000	30 Jun 2016 $'000
Current		
Employee benefit entitlements	8,697	9,333
Provision for rebate and cancellations	3,131	3,337
Provision for onerous contracts	365	353
	12,193	13,023
Non-current		
Employee benefit entitlements	1,418	717
Provision for onerous contracts	810	988
Other	180	180
	2,408	1,885

Notes to the Financial Statements

For the half-year ended 31 December 2016

10. Borrowings

	31 Dec 2016 $'000	30 Jun 2016 $'000
Current		
Bank borrowings	13,072	12,944
Non-current		
Bank borrowings	320,147	332,626
	333,219	345,570

Details of the Group's facilities and amounts drawn to are as follows.

Borrowing	Facility Local Currency '000	Facility $'000	Drawn[3] $'000	Undrawn $'000
Revolving	AUD 220,749	220,749	161,000	59,749
Amortising[1]	AUD 47,375	47,375	47,375	-
Revolving	GBP 77,000	131,055	105,780	25,275
Amortising[2]	GBP 4,750	8,085	8,085	-
Revolving	NZD 20,000	19,250	11,262	7,988

1 This facility has been used for the acquisition of the Presidian Group.
2 This facility has been used to finance the acquisition of CLM.
3 Drawn amounts are before borrowing costs.

Notes to the Financial Statements

For the half-year ended 31 December 2016

11. Share capital

(i) Movement in ordinary shares during the period.	Half-year ended 31 December 2016 Number of shares	$'000
Total issued capital at 31 December 2016	83,204,720	144,380
Treasury shares	(10,276)	
Shares held by public at 31 December 2016	83,194,444	

(ii) Treasury shares

Treasury shares are shares in McMillan Shakespeare Limited that are held by the McMillan Shakespeare Limited Share Plan Trust (EST) for the purpose of issuing shares under the McMillan Shakespeare Limited Executive Option Plan. Details of the treasury shares during the period are as follows.

	Number of shares
Balance of treasury shares at 31 December 2016	10,276

There were no changes to treasury shares during the period.

(iii) Options

Employee options on issue at 31 December 2016.

Option class	Number	Exercise price	Expiry date
Employee Performance options	978,417	$10.18	30 September 2019
Employee Performance options	469,081	$10.18	30 September 2018
Employee Performance options	107,877	$10.83	30 September 2018
Employee Performance options	76,048	$11.87	30 September 2018
Employee Performance options	85,692	$12.88	30 September 2018
Employee Performance options	33,436	$13.82	30 September 2018
	1,750,551		

Notes to the Financial Statements

For the half-year ended 31 December 2016

12. Segment reporting

Reportable segments

McMillan Shakespeare Limited and its controlled entities operate predominantly within one geographical location, Australia. There are three reportable segments in “Group Remuneration Services”, “Asset Management” and “Retail Financial Services”, in accordance with AASB 8 “Operating Segments” based on aggregating the operating segments taking into account the nature of the business services and products sold and the associated business and financial risks and how they affect the pricing and rates of return.

Group Remuneration Services - This 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.

Asset Management - This segment provides financing and ancillary management services associated with motor vehicles, commercial vehicles and equipment. During the half-year, the segment was complemented by the acquisition of EVC on 1 December 2016.

Retail Financial Services - This segment provides retail brokerage services, aggregation of finance originations and extended warranty cover, but does not provide financing. During the previous half-year, the segment was complemented by the acquisition of UFS on 31 July 2015.

	Segment revenue		Segment profit after tax	
	Half-year Dec 2016 $'000	Half-year Dec 2015 $'000	Half-year Dec 2016 $'000	Half-year Dec 2015 $'000
Group Remuneration Services	90,522	91,416	28,244	28,319
Asset Management	104,017	97,428	7,895	6,667
Retail Finance Services	55,897	54,642	5,262	6,211
Total for segment operations	250,436	243,486	41,401	41,197
Net interest income / (expense)			20	(181)
Public company costs			(738)	(623)
Acquisition expenses			(593)	(2,293)
Tax on unallocated items			334	835
Profit after tax from continuing operations for the half-year			40,424	38,935

Notes to the Financial Statements

For the half-year ended 31 December 2016

12. Segment reporting (cont'd)

Segment assets and liabilities	31 Dec 2016 $'000	31 Dec 2015 $'000
Segment assets		
Group Remuneration Services	84,612	59,067
Asset Management	515,628	520,785
Retail Financial Services	187,004	184,573
Total segment assets	787,244	764,425
Unallocated	50,564	80,960
Consolidated assets per statement of financial position	**837,808**	**845,385**
Segment liabilities		
Group Remuneration Services	46,972	53,680
Asset Management	331,523	337,537
Retail Financial Services	32,188	38,437
Total segment liabilities	410,683	429,654
Unallocated	47,289	45,236
Consolidated liabilities per statement of financial position	**457,972**	**474,890**

13. Financial instruments

Information on the Group's financial assets and financial liabilities measured at fair value are provided below.

Fair value of financial assets and financial liabilities measured on a recurring basis

Financial liabilities	Fair value at		
	31 Dec 2016 $'000	30 Jun 2016 $'000	Valuation technique and key input
Interest rate swaps	(420)	(819)	Discounted cash flow using estimated future cash flows based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted to reflect the credit risk of various counterparties.
Contingent consideration	(8,055)	(6,740)	Discounted cash flow using WACC of 14% that includes a Capital Asset Pricing Model rate with average annual revenues with a range of $5.0m to $17.0m and average annual profits with a range from $1.7m to $4.0m[1].

1 A significant portion of contingent consideration is calculated on the achievement of tiered EBITDA targets and a 5% change in the probability-adjusted revenues and profits while holding all other variables constant, is not expected to have a significant change to the carrying amount of the contingent consideration.

Notes to the Financial Statements

For the half-year ended 31 December 2016

14 Business combination

(a) Subsidiary acquired

The Group acquired 100% of European Vehicle Contracts Limited ("EVC") on 1 December 2016, a company incorporated in the UK specialising in the provision of motor vehicle finance. The EVC business operates through a network of 400 franchised and independent new and used car dealers using an advanced online quotation system and provides an interface between dealers and lenders. The acquisition is expected to be a strong complement to the Anglo Scottish business acquired last year and augments the Asset Management segment.

(b) Consideration transferred

Consideration for EVC is expected to be $7.5m (£4.4m) pending the finalisation of purchase price adjustments, and includes an upfront payment of $4.9m (£2.9m) and contingent consideration that has been fair valued at $1.6m (£0.9m). Cash assumed from EVC was $1.6m. Under the arrangement, the contingent consideration is payable in two tranches based on the achievement of cumulative EBITDA targets at the end of two and four years, with a total maximum amount payable of $5.3m (£3.1m). The EBITDA targets comprise stratified levels between £1.4m to £3.9m and the contingent consideration is calculated on pre-set amounts for every £ achieved over the stratified level.

At reporting date, it has been estimated that a potential earn-out consideration of $1.6m (undiscounted of $1.8m (£1.0m)) is payable under the agreement. The fair value is based on a probability weighted assessment of EBITDA projected under current business plans and present valued using the segment's incremental borrowing rate.

Consideration for the acquisitions is summarised as follows.

	Total $'000
Cash	5,846
Contingent consideration	1,612
Total	7,458

Notes to the Financial Statements

For the half-year ended 31 December 2016

14. Business combination (cont'd)

(c) Reconciliation of consideration to cash flow

Purchase consideration – cash outflow for EVC acquisition	Total $'000
Cash consideration	5,846
Cash acquired	(1,614)
Net cash consideration	4,232
Cash payable for purchase price adjustments after reporting date	(911)
Net cash outflow in period	**3,321**

During the half, $5,114,000 was transferred into escrow for the prospective acquisition of Capex Asset Finance Limited in the UK (refer note 15) and has been included in Other Assets (current) in the Consolidated Statement of Financial Position.

(d) Assets acquired and liabilities assumed at the date of acquisition

Fair Value at acquisition date (provisional)	Total $'000
Cash	1,614
Trade and other receivables, inventories and prepayments	1,208
Property, plant & equipment and software	90
Assets acquired	2,912
Trade payables and accrued expenses	1,211
Income tax provision	329
Provisions	255
Borrowings	206
Liabilities assumed	2,001
Identifiable net assets acquired	911
Goodwill	6,547
Consideration	**7,458**

Notes to the Financial Statements

For the half-year ended 31 December 2016

14. Business combination (cont'd)

The assets and liabilities acquired have been stated provisionally and in accordance with AASB 3 "Business Combinations". They have been translated at acquisition date foreign exchange rates resulting in goodwill provisionally calculated of \$6.5m. Acquisition-related expenses of \$0.6m have been paid and expensed on consolidation and included in the Statement of Consolidated Profit or Loss and Other Comprehensive Income for the period.

The accounting for the EVC acquisition has only been provisionally determined at reporting date. At reporting date cash consideration payable has not been determined pending finalisation of the completion statement and any consequential purchase price adjustments. At the date of this report, fair valuation of identifiable assets and liabilities and related deferred taxes and goodwill had not been finalised.

Trade receivables of EVC at acquisition resulted from trade sales with customers and have been provisionally fair valued at \$0.6m. Their collection and conversion to cash are expected in full pursuant to customer terms.

Goodwill has been provisionally calculated and is attributable to the profitability, financial synergies from complementaries in the Asset Management business, operating software, competent skill base and the expanded market coverage. None of the goodwill is expected to be tax deductible.

(e) Impact of acquisition on the results of the Group

The Consolidated Statement of Profit or Loss and Other Comprehensive Income for the period includes sales revenue of \$527,000 and net profit after tax of \$5,118. Had the acquisition occurred effective 1 July 2016, revenue of EVC to the Group would have been \$5,611,000 and net profit after tax adjusted for differences in the accounting policies between the Group and EVC would have been \$315,000.

15 Events subsequent to reporting date

Subsequent to reporting date, the Company acquired Capex Asset Finance Limited, a UK based asset finance broker, to augment the Asset Management segment UK operations. The initial consideration for the acquisition is \$5.1m pending purchase price adjustments that are being finalised and deferred consideration based on the achievement of earning targets. The addition of Capex Asset Finance Limited will add to regional market coverage in the UK and complements the Group's other acquisitions in Anglo Scottish and European Vehicle Contracts Limited in the segment. At the date of this report, acquisition accounting had not been finalised.

In February 2017, the Company entered into a new five year £5.9m floating rate amortising term loan facility ending on 31 December 2021 to fund the UK acquisitions of European Vehicle Contracts Limited and Capex Asset Finance Limited.

McMillan Shakespeare Limited
ABN 74 107 233 983
AFSL No. 299054
Level 21, 360 Elizabeth Street
Melbourne Victoria 3000
www.mmsg.com.au

McMillanShakespeareGroup