ASX Announcement

Smartgroup Corporation Ltd (ASX: SIQ)

A$75 million underwritten institutional placement

Release date: Monday 26 February 2018

Equity raising

Smartgroup Corporation Ltd (ASX:SIQ) ("**Smartgroup**" or the "**Company**") is undertaking a fully underwritten placement of approximately 6.8 million shares to raise approximately $75 million (the "**Placement**'").

Background and use of proceeds

As previously announced to the market, Smartgroup has successfully completed four key acquisitions over the last twelve months, being AccessPay, Aspire, RACV's Salary Solutions business, and most recently, Fleet West. The integration of these businesses is progressing well, with synergies being delivered earlier than expected. The acquisitions are expected to contribute $18.7 million of EBITDA in CY 2018 (excluding one-off integration costs of $3.2 million) and have allowed Smartgroup to expand its footprint in the PBI, salary packaging, novated leasing and fleet management sectors. These acquired businesses administer c.79,500 salary packages and c.9,400 vehicles across 1,500 clients.

Smartgroup has an established track record of identifying, completing and integrating accretive acquisitions. Smartgroup continues to actively seek out new growth opportunities, products and potential acquisition targets both aligned to the Company's core capabilities as well as in adjacencies that complement its existing business.

Net proceeds from the Placement will be used to strengthen Smartgroup's balance sheet and provide financial flexibility to support organic growth and pursue future acquisitions.

Smartgroup's pro forma gearing as at 31 December 2017 was 1.2x Net Debt / CY 2017 EBITDA, following approximately $65 million worth of acquisitions in 2017/2018YTD. Upon completion of the Placement and the application of net proceeds to partially repay indebtedness, Smartgroup's pro forma gearing will reduce to 0.5x with pro forma net debt as at 31 December 2017 of approximately $45 million.

Underwritten Placement

The Placement is fully underwritten at a fixed price of $11.05 per share, which represents a 5.5% discount to the last closing price of $11.69 on Monday, 26 February 2018.

The New Shares to be issued under the Placement ("**Placement Shares**") will rank equally with existing Smartgroup fully paid ordinary shares on issue, including entitlement to Smartgroup's fully franked final dividend of 18.5 cents per share for CY 2017. The Placement is expected to settle on Thursday, 1 March 2018 and New Shares issued under the Placement will be allotted and issued on Friday, 2 March 2018.

Macquarie Capital (Australia) Limited ("**Macquarie**") and Morgans Corporate Limited ("**Morgans**") are acting as joint lead managers, bookrunners and underwriters to the Placement.

Share purchase plan

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

Shareholders on the Smartgroup share register at 7.00pm on Friday, 23 February 2018 ('**Record Date**'), whose registered address is in Australia or New Zealand will be entitled to subscribe for up to $15,000 worth of Smartgroup shares through the SPP, subject to the terms and conditions of the SPP which will be set out in the SPP booklet. The SPP will be capped at $15 million. Shares issued under the SPP will rank equally with existing shares of Smartgroup.

Further information in relation to the SPP, including the SPP terms and conditions, will be outlined in a separate SPP Booklet which will be dispatched to eligible shareholders.

Indicative timetable

The timetable below is indicative only and subject to change. Smartgroup reserves the right to alter the below dates at its full discretion and without prior notice, subject to the ASX Listing Rules and the Corporations Act.

All times below are Sydney, Australia time.

SPP record date	7.00pm on Friday, 23 February 2018
Announcement and Placement bookbuild conducted	After market close Monday, 26 February 2018
Settlement of Placement Shares	Thursday, 1 March 2018
Allotment and issue of Placement Shares	Friday, 2 March 2018
Placement Shares commence trading on ASX	Friday, 2 March 2018

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Forward looking statements

This announcement contains forward looking statements, including statements of current intention, statements of opinion and predictions as to possible future events. Forward looking statements should, or can generally, be identified by the use of forward looking words such as “believe”, “expect”, “estimate”, “will”, “may”, “target” and other similar expressions within the meaning of securities laws of applicable jurisdictions. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward looking statements. Such statements are not statements of fact and there can be no certainty of outcome in relation to the matters to which the statements relate. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements. Those risks, uncertainties, assumptions and other important factors are not all within the control of Smartgroup and cannot be predicted by Smartgroup and include changes in circumstances or events that may cause objectives to change as well as risks, circumstances and events specific to the industry, countries and markets in which Smartgroup operates. They also include general economic conditions, exchange rates, interest rates, competitive pressures, selling price, market demand and conditions in the financial markets which may cause objectives to change or may cause outcomes not to be realised.

None of Smartgroup or any of its subsidiaries, advisors or affiliates (or any of their respective officers, employees or agents) makes any representation, assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward looking statement or any outcomes expressed or implied in any forward looking statements. Statements about past performance are not necessarily indicative of future performance.

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Appendix A

Key business risks

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

- 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

- Smartgroup's top 5 employer clients accounted for 29% of CY 2017 Smartgroup revenue. 4 of the top 5 contracts have terms that extend beyond 2019. One of the top 5 contracts is subject to the exercise of a one-year extension option in 2018.

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 Fringe Benefits Tax Assessment Act 1986 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

- ASIC has recently announced investigations into the sale of add on insurance. These investigations are not complete and it is possible that the recommendations may impact on the current selling practices and commission structure utilised by Smartgroup in its insurance business

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, the relevant contracts 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

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

- 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

Loss of key personnel

- A number of acquisitions made by Smartgroup 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

- SmartGroup has completed a number of acquisitions recently, including Fleet West, RACV Salary Solutions, Aspire, AccessPay, Selectus, Autopia and Advantage Salary Packaging. To the extent that Smartgroup does not complete the integration of the more 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

Appendix B

International Offer Restrictions

This document does not constitute an offer of new ordinary shares ("New Shares") of the Company in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the New Shares may not be offered or sold, in any country outside Australia except to the extent permitted below.

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WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the "SFO"). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO and any rules made under that ordinance).

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Netherlands

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- to any legal entity that is authorized or regulated to operate in the financial markets or whose main business is to invest in financial instruments;
- to any legal entity that satisfies two of the following three criteria: (i) balance sheet total of at least €20,000,000; (ii) annual net turnover of at least €40,000,000 and (iii) own funds of at least €2,000,000 (as shown on its last annual unconsolidated or consolidated financial statements);
- to any person or entity who has requested to be treated as a professional client in accordance with the EU Markets in Financial Instruments Directive (Directive 2014/65/EC, "MiFID II"); or
- to any person or entity who is recognised as an eligible counterparty in accordance with Article 30 of the MiFID II.

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- 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.

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