



# ASX Announcement 2020 Half Year Results Investor Presentation

Release date: 19 August 2020

In accordance with the ASX Listing Rules, Smartgroup Corporation Limited (**ASX: SIQ**) encloses for release to the market its 2020 half year results investor presentation.

For further information, contact:

A handwritten signature in black ink, appearing to read "N. Underwood".

**Nigel Underwood**

Chief Financial Officer  
Smartgroup Corporation Ltd  
1300 665 855

A handwritten signature in black ink, appearing to read "S. MacIntosh".

**Sophie MacIntosh**

Chief Legal Officer and Company Secretary  
Smartgroup Corporation Ltd  
1300 665 855

This announcement was authorised for release by the Board of Directors of Smartgroup.

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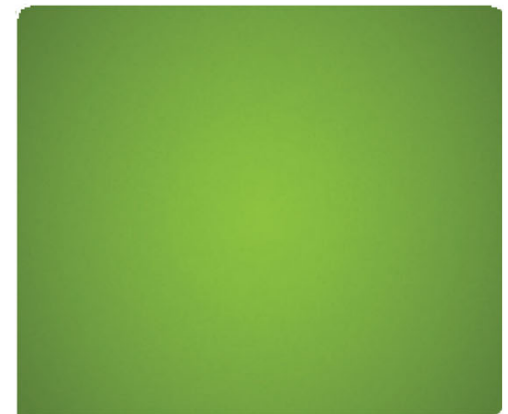
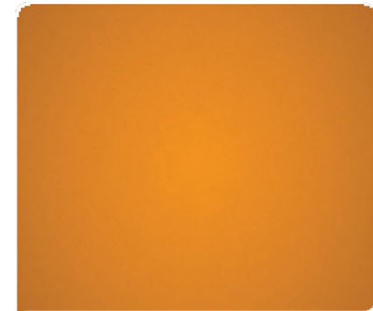
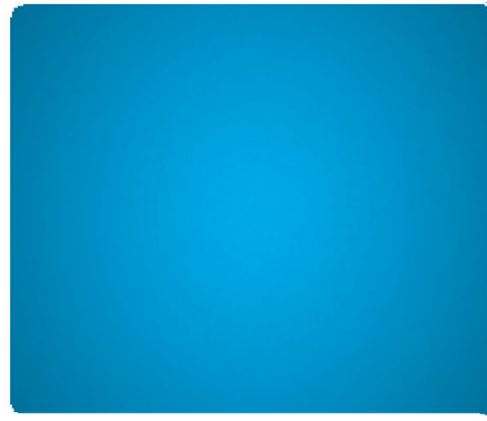
# Investor Presentation

## H1 2020 Results



19 August 2020

**Tim Looi** – Managing Director and CEO  
**Nigel Underwood** – Chief Financial Officer



# H1 2020 NPATA in line with guidance

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## 1. Financial results in line with guidance

- H1 2020 revenue of \$111.4m
  - H1 2020 EBITDA<sup>1</sup> of \$48.4m
  - H1 2020 NPATA<sup>2</sup> of \$32.1m vs. guidance of c.\$32m
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## 2. Resilient performance against COVID-19 backdrop

- More than 90% of 2020 client renewals already completed (based on top 20 clients by revenue)<sup>3</sup>
  - 355,500 total packages and 67,500 novated leases in car park (down c.1% vs. 31 Dec 19)
  - Fleet vehicles under management stable at 24,500 vehicles
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## 3. Continued simplification and business improvement

- Retirement of the Selectus platform
  - Restructure of operational workforce effective June 2020
  - Expansion of panel of funding providers
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## 4. Strong cashflow generation with net debt / EBITDA of 0.1x

- Adjusted after-tax operating cashflows at 112% of NPATA<sup>2</sup>
  - Fully franked interim dividend of 17.0 cps<sup>4</sup>, representing a dividend payout ratio of 70%
  - Net debt of \$12.2m at 30 June 2020
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1. EBITDA is earnings before interest, tax, depreciation and amortisation of intangibles adjusted to exclude significant non-operating items.

2. NPATA is net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of intangibles and significant non-operating items. Adjusted to exclude \$5.1m impairment to the investment in HWS. Refer to Appendix for the reconciliation.

3. The remaining 10% of client renewals are expected to be completed before 31 December 2020.

4. Record date of 2 September 2020 and payment date of 16 September 2020.

## Financial results in line with guidance with COVID-19 impacting result versus prior year

\$m	H1 2020	H1 2019	Change %
Revenue	111.4	125.8	(11%)
EBITDA <sup>1</sup>	48.4	58.8	(18%)
NPATA <sup>2</sup>	32.1	40.5	(21%)
Shares on issue (millions)	132.9	131.9	1%
NPATA per share (cps)	24.1	30.7	(21%)

	As at 30 June 2020	As at 30 June 2019	Change %
Packages	355,500	348,000	2%
Novated leases under management	67,500	66,250	2%
Fleet vehicles under management	24,500	22,200	10%
FTEs <sup>3</sup>	617	703	(12%)

1. EBITDA is earnings before interest, tax, depreciation and amortisation of intangibles adjusted to exclude significant non-operating items.

2. NPATA is the net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of intangibles and significant non-operating items. In H1 2020, it has been adjusted to also exclude \$5.1m impairment to the HWS investment.

3. The 617 FTE excludes 20 vacancies for roles created in the operational restructure and 30 roles previously filled with temp employees. Refer to the 30 June 2020 Half Year Report for more information.

# COVID-19 response and our people

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## **We continue to actively respond to the COVID-19 environment**

- The group moved to a working from home environment for 100% of all employees in late March
  - Changes were made to customer engagement, including webinars to replace face-to-face visits
  - A cost containment plan was implemented in April 2020 for a period of 3 months, including:
    - Temporary salary reductions (Chairman and CEO 50%; Board and Group Executives 20%; Others 0-10%)
    - Suspension of commissions and short-term incentive arrangements
    - Restriction of all non-essential expenditure and implementation of an annual leave reduction program
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## **The group implemented a restructure to simplify the business, effective June 2020**

- Reduction of net c.50 FTE roles in the group, with annualised savings of c.\$4.0m (pre-tax)
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## **In May 2020, the group completed the successful refinancing of its debt facilities**

- Maturities extended to May 2022; Total facility amounts unchanged at \$103.0m
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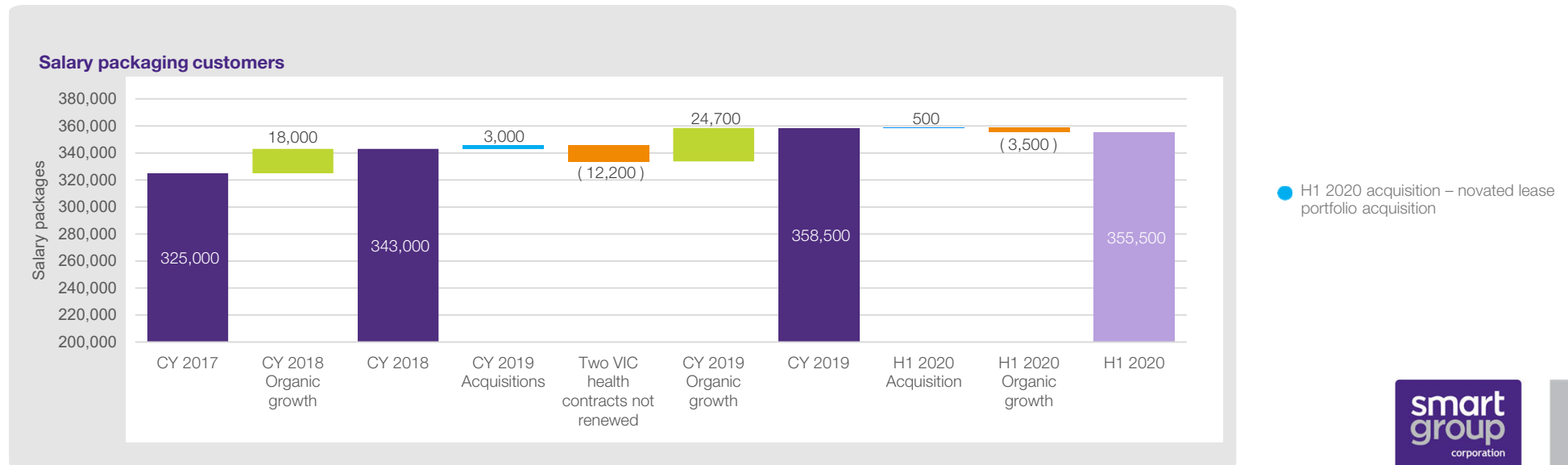
**Throughout this period, our focus remains on safeguarding the well-being of our employees and maintaining a high level of service to customers**

# Salary packaging has been resilient with most 2020 client renewals completed

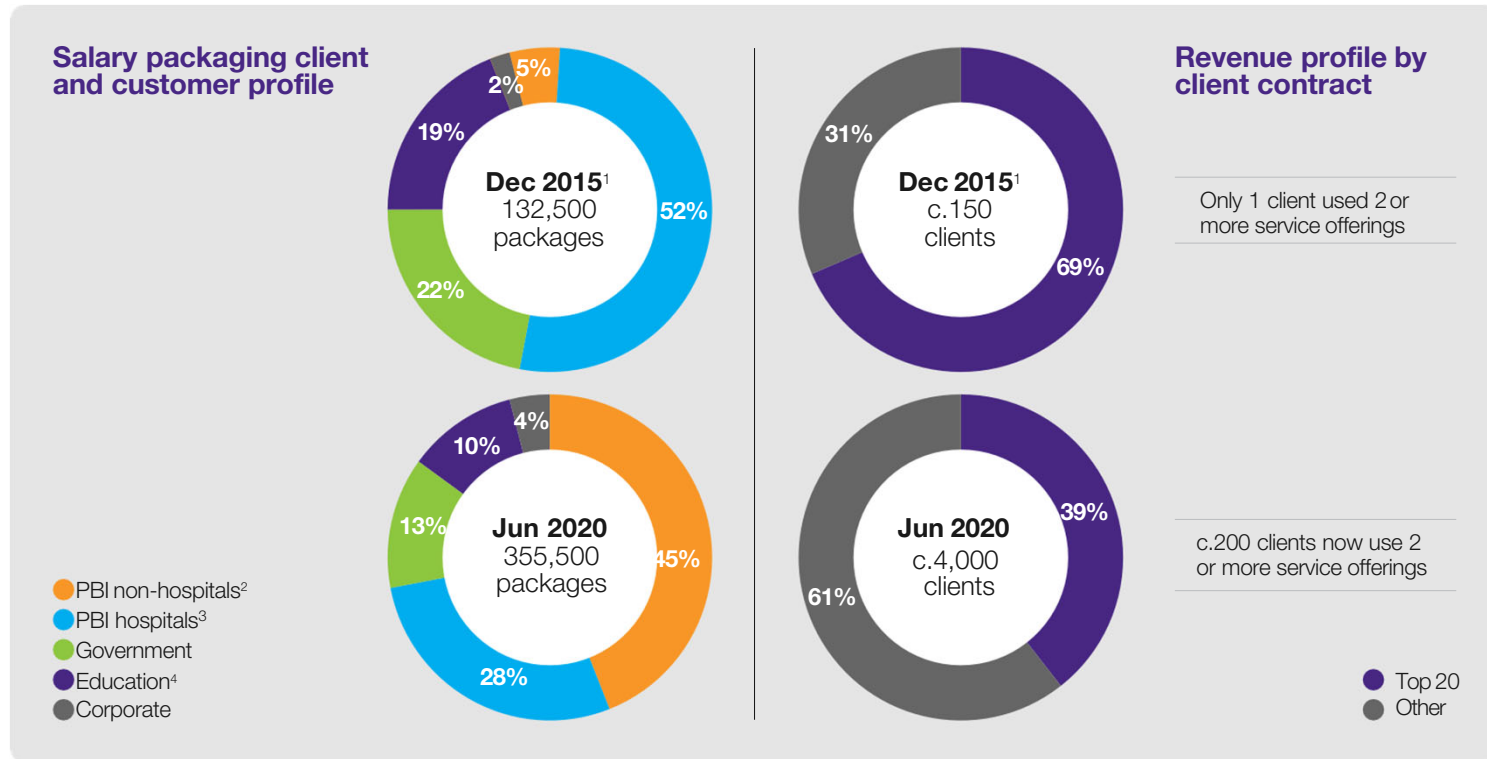
Salary package numbers remained resilient throughout H1 2020, down c.1% vs December 2019

We are well progressed on the renewal or extension of contracts due in 2020, with more than 90% of 2020 renewals already successfully executed (based on top 20 contracts)

Client activity and access improved throughout Q2 2020 (albeit on a State by State basis). We continue to monitor ongoing developments, including recent restrictions in Victoria



# We continue to have a diversified employer client base that represent attractive sectors within the Australian workforce



1. December 2015 adjusted to exclude c.50,000 packages and c.350 clients from the acquisition of Advantage completed in December 2015 and the investment in Health-e Workforce Solutions in October 2015.

2. 'PBI non-hospitals' includes charities and other not-for-profit organisations registered as a public benevolent institution (PBI) and recognised by the ATO as eligible for FBT exemption, excluding PBI hospitals with hospital employees having a different tax status to employees of all other PBI organisations.

3. 'PBI hospitals' includes public and private not-for-profit hospitals.

4. 'Education' includes public and private not-for-profit educational institutions.

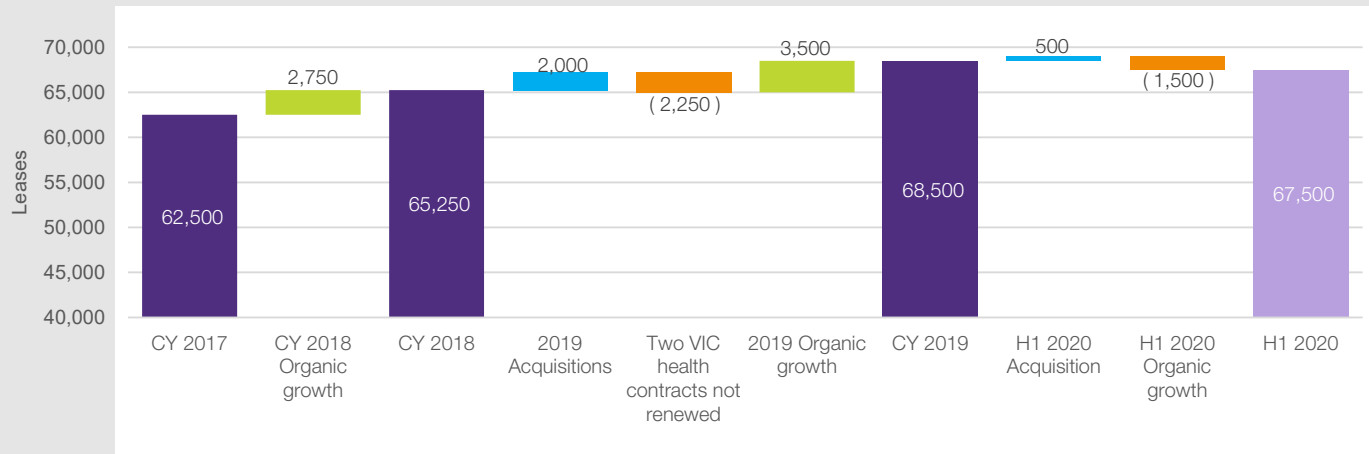


# Overall novated lease car park ended H1 2020 at similar levels to December 2019 despite COVID-19 impacts

## June 2020 car park c.1% lower than December 2019

- H1 2020 impacts mainly seen in Q2 2020 as lease settlement volumes declined
- Acquisition of c.500 vehicle lease portfolio

Novated lease vehicles under management



● H1 2020 acquisition – novated lease portfolio acquisition

## Novated leasing volumes performed above market in Q1 2020 with Q2 2020 COVID period slightly lower than market

Novated leasing revenue performance for Q1 2020 broadly in line with Q1 2019 despite the 12% decline in Australian private new vehicle sales

Impacts of COVID-19 seen in Q2 2020 with a reduction in new novated leases and an increase in refinances (vs. new leases) from lease expiry customers











Overall yields up slightly in Q1 2020 and reduced in Q2 2020 given an increased mix of refinances

Novated lead volumes improved from April to June 2020 but remain below historical levels

	CY 2019 (vs pcp)	Q1 2020 (vs pcp)	Q2 2020 (vs pcp)	H1 2020 (vs pcp)
Aust private new vehicle sales <sup>1</sup>	(7%)	(12%)	(25%)	(19%)
<b>Total novated volume</b>	<b>4%</b>	<b>1%</b>	<b>(29%)</b>	<b>(15%)</b>
<b>Yield (total)</b>	<b>(3%)</b>	<b>2%</b>	<b>(9%)</b>	<b>(2%)</b>
<b>Refinance (% of total)</b>	<b>22%</b>	<b>20%</b>	<b>32%</b>	<b>26%</b>

1. Australian private new vehicle sales data source: VFACTS. Excludes other new vehicle sales categories – Business, Government, Rental, Heavy Commercial.

# Selectus transition completed in H1 2020, further simplifying the platform footprint

		Acquisition completion date	Integration completion date	Rebatable <sup>1</sup>	PBI <sup>2</sup>	Government	Corporate
Continuing brands	 smartsalary	NA		■	■	■	■
	 AccessPay	May 2017		■	■		
	 Advantage Salary Packaging	December 2015			■		
	 Autopia	July 2016					■
Retiring/retired brands	 Selectus	August 2016	Q2 CY 2020	■	■	■	■
	 salarysolutions	October 2017	Q2 CY 2019	■	■	■	■
	 ASPIRE BENEFITS MANAGEMENT	August 2017	Q4 CY 2017	■	■	■	■
	 mylease	April 2019	Q3 CY 2019	■	■	■	■
	 PAY-PLAN SALARY PACKAGING	June 2019	Q3 CY 2019	■	■	■	■
	 LEASE ASSET FINANCE	October 2019	Q4 CY 2019	■	■	■	■

● New client servicing functionality 
 ■ Continuing client service model 
 ■ Clients transitioned and brand retired

1. Rebatables are tax exempt employers that meet a number of special conditions under FBT legislation. Examples include non-government schools, trade unions and employer associations. Employees of Rebatables can salary package non-cash benefits up to a cap and be entitled to a rebate of the gross FBT payable.
2. Public Benevolent Institutions fall under one of two categories for FBT purposes, with hospital employees having a different tax status to employees of all other PBI organisations.

# Other updates

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## Funding

- Overall credit approval rates were in line with H2 2019 levels
  - Successfully executed a multi-year contract with our largest provider on similar terms
  - Added two new funding providers to broaden our funding panel
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## Regulatory and add on insurance update

- Announcement by the Department of Treasury to delay the introduction of legislation in connection with a deferred sales model for the sale of add-on insurance for 6 months until December 2020
  - Release of the revised ASIC draft Product Intervention Order for Add-on Motor Vehicle Financial Risk Products on 5 August 2020. Consultation with ASIC continues regarding this draft order
  - As announced in December 2019, new pricing from add-on insurance provider commenced 1 July 2020. Applying this price change to H1 2020 volumes would have reduced after-tax profit by \$2.3m<sup>1</sup>
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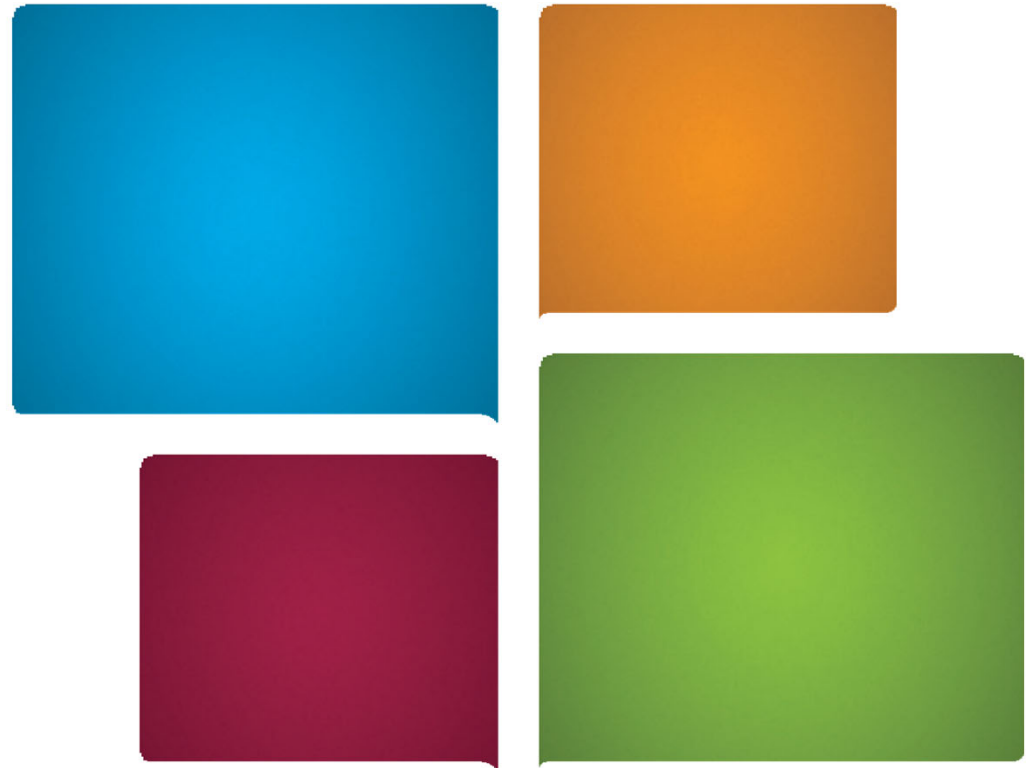
## Health-e Workforce Solutions (HWS)

- Non-cash impairment of \$5.1m to investment in HWS following a review of financial performance. The carrying value of HWS as at 30 June 2020 is \$0.6m
  - The group's adjusted contribution from HWS was a loss of \$0.1m in H1 2020
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1. Estimated impact of price change on H2 2020 profit was \$4m (after tax) announced in December 2019. The application of the price changes to H1 2020 sales would have reduced profit by \$2.3m (after tax). The variance arises from lower volumes than the comparative H2 2019, lower penetration rates and a favourable mix of products.

# Financial results

H1 2020



**Nigel Underwood**  
Chief Financial Officer

## H1 2020 NPATA of \$32.1m, a 26% decrease from the prior year, reflects the impact of COVID-19

\$m	Q1 2020	Q2 2020	H1 2020 adjusted <sup>1</sup>	H1 2019	Change %
Revenue	62.1	49.3	<b>111.4</b>	125.8	(11%)
Product costs	(2.0)	(1.2)	<b>(3.2)</b>	(4.0)	(20%)
Overhead	(31.7)	(28.1)	<b>(59.8)</b>	(62.1)	(4%)
EBITDA <sup>2</sup>	28.4	20.0	<b>48.4</b>	58.8	(18%)
NPAT	14.5	8.4	<b>22.9</b>	30.8	(26%)
NPATA <sup>3</sup>	19.6	12.5	<b>32.1</b>	40.5	(21%)

- Revenue decreased 22% from Q1 to Q2 2020 due to COVID-19. The decrease was mostly in leasing
  - Q1 2020 leasing business consistent with pcp in both revenue and volumes
  - Q2 2020 leasing volumes (29%) vs. pcp, while yields fell 9% due to an increase in refinancing proportion to 32%
- No government assistance (JobKeeper) received
- NPAT includes \$5.1m write-down of the investment in HWS, excluded for the purpose of NPATA

1. A reconciliation of the statutory accounts to adjusted earnings is attached in the Appendix.

2. EBITDA excludes (\$0.1m) (H1 2019: \$0.3m) for joint venture contribution.

3. NPATA is the net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of intangibles and significant non-operating items.

## After-tax operating cashflow remains strong at 112% of NPATA

\$m	Adjusted H1 2020 <sup>1</sup>	Adjusted H1 2019 <sup>1</sup>
Receipts from customers (inclusive of GST)	136.8	142.3
Payments to suppliers and employees (inclusive of GST)	(86.9)	(83.1)
Interest receipts from operations	0.6	1.4
Interest paid	(0.9)	(0.8)
Interest paid on lease liabilities	(0.5)	(0.5)
Income taxes paid	(13.3)	(17.6)
<b>Net cash from operating activities</b>	<b>35.8</b>	<b>41.7</b>
As a % of NPATA	112%	103%
Capital expenditure	(0.2)	(0.2)

1. H1 2019 excludes payments for M&A transaction costs (inclusive of GST) of \$0.2m (\$0.0m in H1 2020). Net cash from operating activities excludes receipts and payments from customers' salary packaging accounts and significant non-operating items.

# The balance sheet is well capitalised with net debt reduced to \$12m

\$m	Note	30 June 2020 statutory	31 Dec 2019 statutory
Cash	1	86.5	39.6
Restricted cash*	2	56.5	65.4
Trade and other current assets		21.6	28.3
<b>Current assets</b>		<b>164.6</b>	<b>133.3</b>
Property and equipment		1.2	1.4
Right-of-use assets		10.4	11.6
Intangible assets	3	301.5	311.9
Other non-current assets	4	10.4	14.7
<b>Non-current assets</b>		<b>323.5</b>	<b>339.6</b>
<b>Total assets</b>		<b>488.1</b>	<b>472.9</b>
Trade and other payables		30.5	35.3
Customer salary packaging liabilities	2	56.5	65.4
Lease liabilities		13.9	15.1
Provisions and other liabilities		18.3	20.0
Non-current interest-bearing loans	5	99.4	60.4
<b>Total liabilities</b>		<b>218.6</b>	<b>196.2</b>
<b>Net assets</b>		<b>269.5</b>	<b>276.7</b>
Issued capital		262.5	259.1
Retained earnings & reserves	6	7.0	17.6
<b>Total capital</b>		<b>269.5</b>	<b>276.7</b>
<b>Net corporate debt**</b>		<b>12.2</b>	<b>21.0</b>
<b>Net corporate debt / LTM EBITDA</b>		<b>0.12</b>	<b>0.20</b>

## Notes

- \$38.0m additional debt drawn in H1 2020.
- Restricted cash and customer salary packaging liabilities represent funds held in dedicated salary packaging accounts on behalf of clients.
- \$0.6m intangible assets added from the acquisition of contract rights in 2020. Total amortisation for H1 2020 is \$11.0m.
- Other non-current assets reduced due to the \$5.1m impairment of the investment in HWS.
- Syndicated debt facility is provided by two major Australian banks. \$38.0m additional debt was drawn in H1 2020 and the debt facility was refinanced to May 2022.
- Retained earnings & reserves reduced due to the payment of the 2019 final dividend of \$28.3m.

\* Restricted cash can be used only for customers' salary packaging payments and are unavailable for working capital purposes.

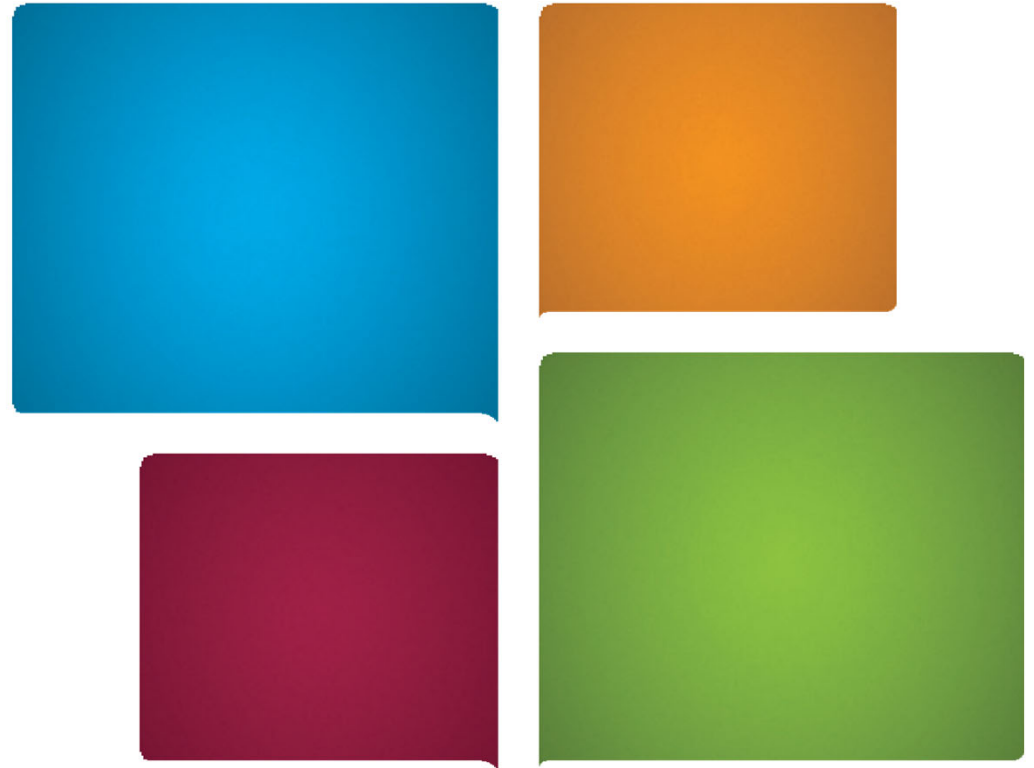
\*\* Excludes capitalised interest of \$1.2m (2019: nil) and borrowing costs of \$0.5m (2019: \$0.3m).





# Closing remarks...

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**Tim Looi**  
Managing Director and CEO

# Summary and trading update

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## 1. Financial results in line with guidance

- Half year NPATA of \$32.1m vs. guidance of c.\$32m
  - Fully franked H1 2020 dividend of 17.0 cps, representing 70% payout
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## 2. Resilient performance against COVID-19 backdrop

- More than 90% of top 20 client renewals complete
  - Total packages, car park and fleet vehicles under management stable
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## 3. Continued simplification and business improvement

- Retirement of the Selectus platform
  - Restructure of operational workforce effective June 2020
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## 4. Strong cash flow generation and well capitalised balance sheet

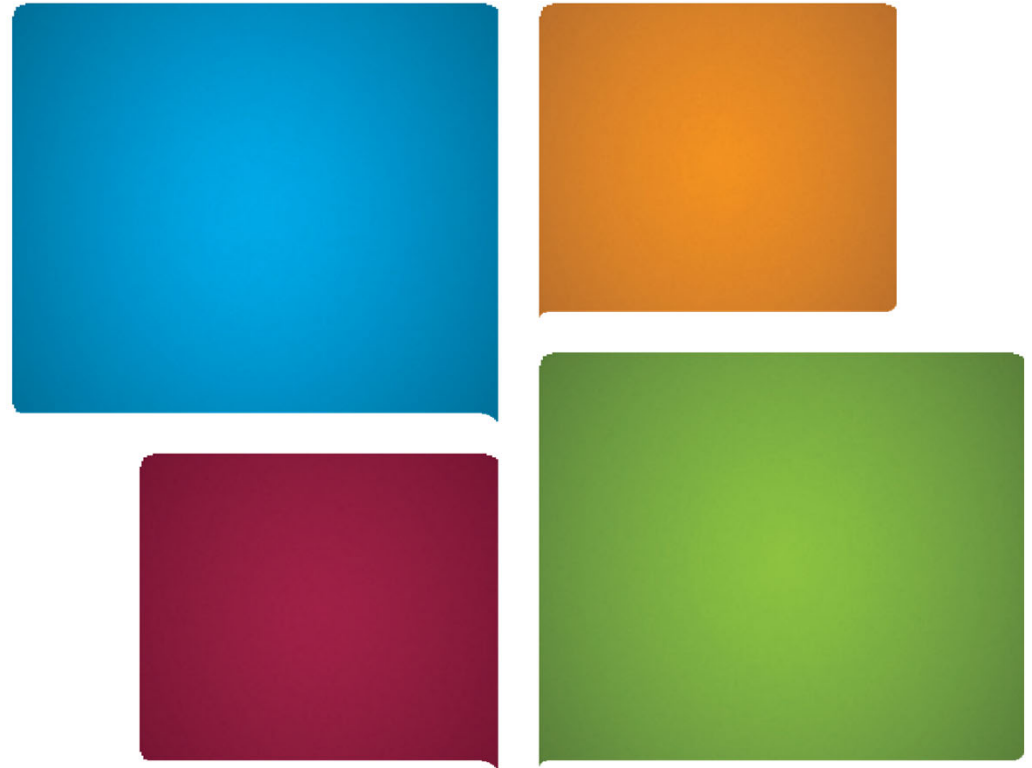
- Cashflow generation at 112% of NPATA
  - Net debt to EBITDA of 0.1x
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## 5. H2 2020 off to a positive start but Victoria expected to be challenging

- Improvements in vehicle volumes and mix in July, relative to Q2 2020
- Reinstatement of full salaries and incentives
- Outlook difficult to forecast given ongoing COVID impacts

# Questions ?

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# Appendix: Reconciliation of earnings to statutory financial statements

\$m	H1 2020 Statutory results	Non-IFRS Adjustment measures	Reclass: Equity share of investments	Add back: Acceleration of LTIP expense	Add back: Impairment of joint venture investment	H1 2020 Adjusted
Revenue	111.4	–	–	–	–	111.4
<b>Operating EBITDA</b>	<b>48.0</b>	–	–	<b>0.4</b>	–	<b>48.4</b>
Joint venture contribution	(0.2)	–	0.1	–	–	(0.1)
<b>Segment note EBITDA</b>	<b>47.8</b>	–	<b>0.1</b>	<b>0.4</b>	–	<b>48.3</b>
Depreciation expense	(1.5)	–	–	–	–	(1.5)
Amortisation expense	(11.0)	–	(0.1)	–	–	(11.1)
Impairment of joint venture investment	(5.1)	–	–	–	5.1	–
Net finance costs	(2.7)	–	–	–	–	(2.7)
<b>PBT</b>	<b>27.5</b>	–	–	<b>0.4</b>	<b>5.1</b>	<b>33.0</b>
Income tax expense	(10.1)	–	–	–	–	(10.1)
<b>NPAT</b>	<b>17.4</b>	–	–	<b>0.4</b>	<b>5.1</b>	<b>22.9</b>
Add back: Amortisation of acquired intangibles		7.3	0.1	–	–	7.4
Cash tax benefit		1.8	–	–	–	1.8
<b>NPATA</b>	<b>17.4</b>	<b>9.1</b>	<b>0.1</b>	<b>0.4</b>	<b>5.1</b>	<b>32.1</b>
Shares on issue (millions)						132.9
NPATA per share (cps)						24.1

# Important notice and disclaimer

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