McMillanShakespeareGroup

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28 October 2022

Manager Company Announcements
ASX Limited
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By E-lodgement

Chair, CEO and Senior Management Addresses – 2022 Annual General Meeting

Please find attached for immediate release in relation to McMillan Shakespeare Limited (ASX: MMS) the following documents in relation to the Company's 2022 Annual General Meeting:

- Chair's address;
- Managing Director and CEO's address; and
- Senior Management addresses.

Yours faithfully
McMillan Shakespeare Limited

Ashley Conn
Chief Financial Officer

This document was authorised for release by the MMS Board.

Chair's Address – Helen Kurincic

Slide 3 – Chair Address

Given the macro-economic environment, the services provided by our MMS businesses of salary packaging, novated leasing, asset management, disability plan management and support co-ordination, increase in importance given the difference our company can make to people's lives. Today, I'll be providing you with an overview of our results for FY22, our sustainability strategy, Board changes and CEO transition, and capital management. Our Group Managing Director and CEO, Rob De Luca, will lead an overview of the Group's financial and operational performance for the year and our areas of focus for FY23 with contributions from two of our Executive leaders.

MMS delivered a strong operating performance for FY22, driven by our focus on improving the customer experience, momentum from recent new business wins, and the simplification of the business portfolio which saw us make strategic divestments and introduce a new segment structure. While COVID-19 and global motor vehicle supply constraints continued to also impact performance. Normalised underlying net profit after tax, or normalised UNPATA, for the Group was $83.8m, up 16.5% on the previous financial year, whilst normalised earnings per share rose by 16.5% to 108.3 cents. Normalised refers to adjustments made for the negative earnings transitional period for the implementation of our funding warehouse, OnBoard Finance.

We are pleased to have delivered a fully franked dividend of 108 cents per share for the year, inclusive of the final dividend of 74 cents per share payable on 10 November 2022. This represents 100% of normalised UNPATA and is in line with our commitment to return between 70% to 100% of normalised UNPATA to shareholders via dividends.

Our core Group Remuneration Services (GRS) segment achieved total normalised revenue of $206.6 million for FY22, reflecting growth of 2%, whilst normalised UNPATA contracted by 2.1% to $48.4 million. Revenue growth was driven by an additional 13,500 salary packages under management by period end and an uplift of 3% in novated lease orders compared with FY21.

Constraints on vehicle supply resulted in a significant volume of orders being carried over beyond FY22, where we expect the revenue to be recognised. Total carryover revenue as at 30 June 2022 was $26 million.

Our Plan and Support Services (PSS) segment achieved 21.4% growth in normalised UNPATA during the year, increasing to $6.6 million. This performance was largely driven by organic growth in new customers and the acquisition of the Plan Tracker business.

Asset Management Services (AMS) performed well, with strong used cars prices generating a significant increase in remarketing profits and contributing to a 63.4% rise in normalised UNPATA, which was $30.2 million during FY22.

During FY22 we moved to simplify the Group and its activities in order to be better positioned to focus on our core capabilities, products, and markets. As part of this strategy, we divested the CLM Fleet Management and Davantage Warranty businesses, and we'll be considering exit options for our UK businesses during this financial year.

In FY22, we continued to implement our Group Sustainability Strategy, which guides our response to key environmental, social and governance risks and opportunities for our business, and we commend you to our Sustainability Report. As Australia's largest novated lease provider, and through our brands Maxxia, RemServ and Interleasing, we have a key role to support and educate our customers in their transition to a low carbon future through the adoption of low and zero emissions vehicles.
In FY21 we established a net zero carbon emissions target by 2030 for our direct operations and we began switching our company car fleet to electric vehicles, with 18% of our Australian owned fleet now transitioned to EVs.

Within MMS, at the end of FY22, we had transitioned all our Australian controllable sites to 100% renewable energy, achieved a 25% annual reduction in our Group carbon footprint across our direct operations and met our 30-30-40 gender diversity target across our leadership categories, with the Board committing to increase its gender diversity target to 40:40:20 by 30 June 2030 for Board, Other Executives/General Managers and Senior Manager levels.

We were also delighted to have launched two important initiatives during the last period, in our Accessibility Inclusion Plan – designed to make a positive difference for our people and customers living with disability– and our Reflect Reconciliation Action Plan – which aims to create opportunities for First Nations Australians.

We also delivered during FY22 a smooth MD and CEO transition with Mike Salisbury retiring after 14 years of committed, values led service with MMS including nearly 8 years as MD and CEO.
We welcomed our new MD and CEO, Rob De Luca, with over 20 years in the banking, financial services, wealth management and disability sectors, Rob has a wealth of experience in navigating technological, economic and regulatory change to successfully drive growth and improve the customer experience.

I also take this opportunity to formally thank Non-Executive Director and previous Chair, Tim Poole, for his outstanding commitment and contribution to the Group over nearly nine years through to 31 August 2022.

We recently announced that Arlene Tansey will join the Board as an independent Non-Executive Director effective 7 November 2022 and will stand for election at our 2023 AGM. Arlene is a highly experienced director of ASX listed companies, high growth businesses and government entities with a financial services background in commercial and investment banking. Arlene will join our Audit, Risk and Compliance Committee and our People, Culture and Remuneration Committee.

In our FY22 results announcement in August, we also announced a 10% off market share buy-back. The Buy-back aimed to achieve a balance between returning capital to shareholders, retaining flexibility to invest capital for growth, and maintaining an appropriate balance sheet. We believe this will benefit all shareholders, regardless of whether they participated or not, given the improvements in both our earnings per share and return on equity.

Earlier this week we announced we had successfully completed the buy-back where we purchased back 10% of our shares at a cost of a $90.2m. The price was $11.66 per share which was a 14% discount to the prevailing 5 day volume weighted average price and included a fully franked dividend component per share of $10.67. The discount was the maximum allowable and reflected the strong demand we had from shareholders, with tenders scaled back by approximately 50.7% with MMS buying back approximately 49.3% of shares (subject to the Priority Allocation and other terms set out in the Buy-back Booklet). The Buy-back proceeds are to be sent to the participating shareholders by 1 November 2022.

To our shareholders, thank you for your support as we look excitedly to the future and the positive difference this Company can make to people's individual lives whilst contributing to the sustainability of this and future generations. Thank you to all our customers and clients who entrust us as we continue to focus on service enhancements, and thanks to Rob De Luca, the executive leadership team, my fellow Directors and every single one of our MMS people for your part in helping deliver on the opportunities ahead.

Thank you and I'll now pass over to Rob De Luca.

CEO Address – Rob De Luca

Slide 4 – Management presentation

Thankyou Helen, good morning and welcome everyone.

It is a privilege to be here today as CEO of the McMillan Shakespeare Group. It's an exciting time to lead the Group for a range of reasons:

- Firstly, the current labour market dynamics are underscoring the importance and need of a strong Employee Value Proposition by employers to their employees through available means like Salary Packaging, particularly in light of the rising cost of living.

- Secondly, the important role we play in supporting both the integrity and financial sustainability of the National Disability Insurance Scheme (NDIS) is being reflected in the increasing uptake by participants of Plan Management services as the Scheme continues to expand towards an expected 859,000 participants by 2030.

- Thirdly, the increasing interest from our customers and the opportunity which is generated from that as they look to reduce their transport related emissions and how we best help them on their transition to low and zero emissions vehicles, particularly in light of the Federal Government's Electric Vehicle Discount Bill.

Today I will provide you with a brief overview of our performance across FY22, including the key financial and operational highlights for the group, as well as providing an update on our current outlook for FY23.

We will also hear from two of our leaders who I will introduce in a moment.

I will now turn to the presentation on slide 5.

Slide 5 – FY22 Overview

Normalised revenue increased by 9.2% to $594.3 million and normalised UNPATA was up 16.5% to $83.8 million for the period and our return on capital employed increased to 38.6%.
Our customer focus translated into underlying growth across our business segments and underpinned our Net Promotor Scores with an average of 52.

Within our GRS segment, we had significant new client wins and an increase in customer demand and activity which saw salary packages up 3.8% and novated lease orders up 3.0% compared with the previous period.

Our newly created PSS segment grew during FY22, with plan management and support coordination customer numbers up by nearly 64% on FY21 to 25,876 whilst we saw a 20% increase in the hours of support coordination provided to participants over the period.

Our AMS segment performed well across all three businesses – namely Australia and New Zealand, the United Kingdom and Aggregation with the Net Amount Financed across the segment up 13.9% year on year.

The health and wellbeing of our people remained a key priority for the Group during the period, as our staff adapted well to hybrid working arrangements. We invested in supporting the mental health of our people and re-ignited our internal leadership programs that enabled our leaders to re-connect and collaborate in-person.

We also achieved a sustainable engagement score of 83% through our last employee survey, positioning us well above the broader Australian norm.

From a strategic priority perspective, we continued to invest in Digital capabilities with attention to meeting the ever-increasing needs of our customers, to improve how they engage with us and increasing distribution access.

Our digital initiatives during FY22 included the introduction of new Maxxia and RemServ Chat Bots and a LiveChat experience as well as enhancing our Digital Estimate platform.

We provided our customers with additional tools to help them navigate the NDIS, as well as making enhancements to our Customer Dashboards to encourage greater self-service.

In our Australian and New Zealand asset management business we simplified our branding across Australia and New Zealand aimed at enhancing brand recognition and experience to businesses operating across both geographies.

In our PSS segment, we successfully completed the acquisition of Plan Tracker in July 2021, and we took action to simplify our business through the divestments which Helen referred to earlier.
You will now hear from Ashley Conn, our Chief Financial Officer and Company Secretary, on the progress and outlook for our Warehouse, Onboard Finance which was successfully launched in April this year.

Ashley will be followed by Kylie Chambers, Managing Director of our Group Remuneration Services segment, incorporating the Maxxia and RemServ businesses, to provide an overview of the outlook for electric vehicles in our GRS business.

Slide 6 – Ashley Conn on Warehouse update

Thanks Rob. As Rob mentioned the launch of OnBoard Finance, our funding warehouse, was an important milestone during FY22.

By way of background in FY20 we announced our decision to introduce a funding warehouse for our GRS novated leasing business to supplement our use of Principal and Agency (“P&A”) funders.

This was to help ensure we have a secure and committed source of funding through times of constrained capital market conditions given the changing landscape of the finance and novated finance markets. This changing landscape included events such as: the global financial crisis, the Hayne Royal Commission that led to changes in appetite for novated lease finance origination from major funders and more recently Westpac/St George’s announcement of the divestment of its auto finance business to Angle Finance. Other strategic and financial rationale included:

- Increasing pricing tension for customers
- Enabling more customers access to novated leasing products and services
- Reducing risk of volatility in earnings by creating an annuity earning stream
- Providing alternative funding for attracting new investors and lenders; and
- Increasing per transaction NPV to MMS

Importantly, as mentioned, we will continue to balance the use of the Warehouse with P&A funders. In particular, we have previously stated that the Warehouse will fund 20% of novated funding needs when it is up at its full run rate and the remaining 80% will continue to be done via P&A. This mix looks to balance the Warehouse's need for scale to access capital markets and be sufficiently profitable with the need to continue our competitive P&A arrangements to have a range of funding options for our clients and customers. We anticipate reaching the 20% run rate during FY23.

In establishing the Warehouse we have invested in people, expertise and systems to ensure that we have our own inhouse execution capability. Pleasingly we have also received good support from the capital markets in sourcing the necessary funding. It is our intention that once the Warehouse is of sufficient scale, and subject to market conditions, we will term out into the Asset Back Securities market to maintain the most competitive funding pricing possible.

In terms of our first leases we started writing leases in the Warehouse shortly after we received our credit license in early April 2022. These leases are written by OnBoard Finance via the trading names of Maxxia Finance and RemServ Finance, utilising the strong brand recognition we have with our customers. At the end of FY22 we had written $1.5 million of leases.

The switch to funding leases through the Warehouse has a different accounting treatment for those leases versus P&A funding. In particular, the contribution from Warehouse leases is recognised over the life of the lease as opposed to P&A funding where we receive and recognise the finance commission at the time of the commencement of the lease. Given the differences in the accounting and cash flow of the warehouse versus P&A in FY22, as Helen touched on, we announced that we will be presenting financial results on a "normalised" basis.

Normalised refers to adjustments made for the negative earnings transitional period for the implementation of the funding warehouse, OnBoard Finance. It normalises for the Warehouse's in-year operating and establishment expenses and for an adjustment for commissions that would have otherwise been received in period had the sales been financed via a principal and agency funder rather than through the Warehouse.

Normalised financials are currently expected to be stated up to and including FY25 and the normalisation adjustment for FY23 is expected to be approximately $11 million. From FY24 onwards the warehouse is expected to grow UNPATA.

For clarity the FY22 normalisation to UNPATA was $1.7 million and $2.4 million to EBIT. A reconciliation of NPAT to UNPATA and normalised UNPATA is included in the appendix of our FY22 results presentation.

In summary we view OnBoard Finance as an important enhancement for the MMS Group. It will help drive growth in our GRS business, support our clients and customers and importantly assist MMS in pursuing our purpose of making a difference in people's lives.

I will now pass to Kylie Chambers, our Managing Director of our Group Remuneration Services segment who will provide an update on Electric Vehicles.

Slide 7 – Kylie Chambers on Electric Vehicle (EV) FBT Exemption update

Thanks Ashley.

As Rob mentioned earlier in terms of electric vehicles we are witnessing growing interest and focus on low and zero emissions vehicles from a policy, customer and broader community perspective. And whilst EV sales in Australia remain a low percentage of all new vehicle sales, a greater number of our customers are looking at how we can assist them in their potential transition to an EV – much of this interest is off the back of the Federal Government's Electric Car Discount Bill which was recently introduced into the Parliament.

We welcome the work of the Federal Government in terms of its focus and intent to decarbonise land transport over time. We believe the Electric Car Discount Bill, which we understand is likely to become law this calendar year, will ultimately further stimulate demand and make a novated lease in particular the most cost-effective means to acquire and operate an eligible EV.

Under this proposed legislation, the Federal Treasurer has stated that for a vehicle of around $50,000 it will save the employer up to $9,000 a year and for individuals using a salary sacrifice arrangement to pay for the same model, their saving would be up to $4,700 a year.

Importantly the Bill will support opportunity and EV take-up across both our Asset Management and novated leasing businesses. In our Australian Asset Management business it will provide greater financial incentive to customers to transition their fleets as appropriate to EV's in line with their sustainability commitments.

Whilst in our novated lease business the Bill when passed will provide significant savings and therefore incentive to customers to acquire an eligible EV directly via their employer given that it will in effect provide whole-of-life cost of ownership parity or better compared with a like traditional petrol- or diesel-powered vehicle.

Pleasingly, as Australia's largest novated lease provider, together with our Asset Management business, we are well placed for this opportunity through investments already undertaken in system readiness for this pending legislative change, together with investments made in building and enhancing internal expertise around low and zero emission vehicles.

In our underlying novated lease business a key strength of our Group is the eco-system of partnerships we have built out around the provision of ICE vehicles for our customers – and importantly we are taking that same intent and experience to focus on developing a market leading EV eco-system in support of our customers transition to EV's.

The partnerships we are developing around the provision of EV charging infrastructure are one example of this as we aim to position ourselves as a market leader and provider of choice.

Our activity also includes a focus on EV product development, deepening client engagement and heightening customer education around EV's. We firmly believe that enhancing the customer understanding of EV's, how they operate in daily life and their benefits will play an important role in longer-term take up.

Importantly we are cognisant that EV take-up remains low in Australia and that the vehicle supply constraints affecting new car supply globally also extend to EV's and even more so in some cases given the technology requirements of such vehicles – however we are well placed with the work we have undertaken to date, together with our network of relationships to service customer enquiries and place orders as the transition to low and zero emissions vehicles continues to evolve and gather pace in the Australian market over the short to long term.

We very much look forward to playing a leading role in helping to accelerate the uptake of EV's across our client and customer base. That's it from me and I will now pass back to Rob.

Slide 8 – Outlook

Thankyou Kylie.

I now turn to slide 8.

In FY23 we commenced the period with approximately $26 million in novated lease carryover revenue from the previous period and to date we are seeing a continuation of constrained vehicle supply and related demand dynamics witnessed in FY22, together with inflationary wage pressures and rising interest rates.

Notwithstanding these pressures, during the first quarter of FY23, we haven't seen an impact on novated lease customer demand as evident in leads, orders and the retention of these opportunities. Vehicle remarketing yields experienced during the first quarter remain at elevated levels compared to their pre-COVID-19 levels.

We look forward to the Federal Government gaining passage through the Parliament of its Electric Vehicle Discount Bill. As Kylie mentioned, we believe this will provide well needed support to Australia's future adoption of low and zero emission vehicles.
Business momentum is expected to further benefit from our ongoing customer focus. Growth in our GRS segment through the onboarding of recent new client wins achieved in FY22 will provide further momentum across FY23, whilst we continue to focus on upcoming tenders and ongoing client renewals.

We continue to progress our strategic priorities including ongoing investments in digital and data analytics to enhance the customer experience and support future productivity gains.

The new warehouse, OnBoard Finance, will continue to be ramped up with the UNPATA impacted estimated to be approximately ($11 million) for FY23 as outlined by Ashley.

As mentioned, we are at the early stages of exploring our exit options from our remaining UK businesses whilst progressing to fully integrate the Plan Tracker business. These are both part of our commitment to move to a more focused and simplified business. We will continue to drive organic growth in PSS as the NDIS continues to expand and where appropriate, consider similar other non-organic opportunities in a disciplined manner recognizing the evolving NDIS environment.

And finally, we will continue to proceed with our disciplined approach to capital management and improving returns to our shareholders, noting that our increased final dividend for FY22 is due for payment on 10 November 2022 and that as Helen mentioned earlier, this week we successfully completed our off-market share buy-back.

Before I close, I want to reiterate the strength of the underlying performance of the business across FY22 and that our outlook for the current period remains consistent with the commentary we provided in association with the release of full year FY22 results.
I am excited by the opportunity which lies ahead as we pursue long-term sustainable growth for the business.

Finally, I want to thank our loyal customers, the dedication of our people and our committed shareholders for their support. Thank you.