Half Year Report
30 June 2023

ABN 48 126 266 831

smart group corporation

Market Release
30 June 2023

24 August 2023

ASX Market Announcements Office
ASX Limited
20 Bridge Street
Sydney, NSW, Australia, 2000

Smartgroup Corporation Ltd - Results for announcement to the market

In accordance with the ASX Listing Rules, Smartgroup Corporation Ltd **(ASX: SIQ)** encloses for release to the market:

1. Appendix 4D,
2. Review of operations, and
3. Smartgroup Corporation Ltd Half Year Report for the period ended 30 June 2023.

Smartgroup Corporation Ltd will conduct a briefing on the results at 9:00 am (Sydney time) on 24 August 2023.

Anthony Dijanosic
Chief Financial Officer
1300 665 855

Sophie MacIntosh
Chief Legal and Sustainability Officer and Company Secretary
1300 665 855

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

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Appendix 4D
Statutory results for announcement to the market

		$'000's		$'000's
Revenue from ordinary activities	up	3,043	3% to	**116,622**
Profit from ordinary activities after tax attributable to the owners of Smartgroup Corporation Ltd	down	(1,971)	6% to	**28,938**
Net profit for the period attributable to the owners of Smartgroup Corporation Ltd	down	(1,971)	6% to	**28,938**

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
Final 2022 dividend per share (paid 23 March 2023)	15.0	15.0	30%
Special 2022 dividend per share (paid 23 March 2023)	14.0	14.0	30%
Interim 2023 dividend per share (payable 22 September 2023)	15.5	15.5	30%

The record date for determining entitlement to the interim dividend is 8 September 2023 with an expected total distribution of $20,700,000. There is no dividend reinvestment plan in place.

Net tangible liabilities	30 June 2023	31 Dec 2022
Net tangible liabilities per ordinary security, cents per share	(56.26)	(52.37)

Independent auditor's review

The financial report for the half year ended 30 June 2023 has been reviewed by PricewaterhouseCoopers and there are no disputes or qualifications.

Review of Operations
30 June 2023

	30 June 2023 $'000	30 June 2022 $'000	Movement
Revenue	116,622	113,579	3%
Expenses			
Product costs	(4,133)	(3,783)	9%
Employee benefits expense	(49,880)	(42,587)	17%
Administration and corporate expenses	(13,288)	(16,034)	(17%)
Occupancy expenses	(734)	(761)	(4%)
Advertising and marketing expenses	(996)	(707)	41%
Other expenses	(581)	(316)	84%
Operating EBITDA [1]	**47,010**	**49,391**	**(5%)**
Share of profits from joint venture accounted for using the equity method	200	225	(11%)
Merger and acquisition transaction costs	(15)	(49)	(69%)
Restructuring and CEO transition costs	(587)	-	N/A
Segment EBITDA [2]	**46,608**	**49,567**	**(6%)**
Finance costs	(1,261)	(799)	58%
Depreciation expense	(2,345)	(1,927)	22%
Amortisation of acquired intangible assets	(68)	(1,594)	(96%)
Amortisation of contract rights and internally developed intangibles	(1,290)	(575)	124%
Profit before income tax for the half year	**41,644**	**44,672**	**(7%)**
Income tax expense	(12,706)	(13,763)	(8%)
Net profit after income tax for the half year	**28,938**	**30,909**	**(6%)**
Add: Amortisation, tax effected	48	1,116	(96%)
Add: Acquisition transaction costs, tax effected	11	34	(68%)
Add: Restructuring and CEO transition costs, tax effected	411	-	N/A
Add: Cash tax benefit on deductible amortisation	26	298	(91%)
NPATA [3]	**29,434**	**32,357**	**(9%)**
EBITDA margin	40%	43%	-3pts
NPATA margin	25%	28%	-3pts
Net operating cash inflow [4]	29,758	43,493	(32%)
Net operating cash inflow as a percentage of NPATA	101%	134%	25%

	Cents	Cents	Movement
NPATA per share [5]	22.2	24.2	(8%)
Dividends declared per share [5]	15.5	17.0	(9%)

1 Operating EBITDA is the earnings before interest, tax, depreciation and amortisation adjusted for significant non-operating items.
2 Segment EBITDA is the earnings before interest, tax, depreciation and amortisation.
3 NPATA is the net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of acquired intangibles and significant non-operating items.
4 Net cash inflow from operating activities has been adjusted to exclude transaction costs relating to business acquisitions, and receipts and payments related to customer salary packaging bank accounts.
5 NPATA per share and dividends declared per share at 30 June 2023 are based on 132,734,222 shares (30 June 2022: 133,724,773 shares), which includes the 3,038,415 shares held by the Company under the Loan Funded Share Plan (LFSP) (30 June 2022: 4,117,238 shares).

Review of Operations (continued)
30 June 2023

Financial performance

The 2023 Half Year Report for Smartgroup Corporation Ltd and its controlled entities ("Smartgroup" or "the Group") reflects positive developments regarding some of the external headwinds that the Group has been dealing with for some time - motor vehicle supply is stabilising, the tightness in the labour market is less of an issue and interest rate rises have slowed. These positive developments are now translating to revenue and earnings growth when compared to the second half of 2022.

Revenue at $116,622,000 is 3% higher than the half year to 30 June 2022 and 5% higher than the six months to 31 December 2022, demonstrating good momentum. Smartgroup has been able to achieve a strong 40% Operating EBITDA[1] (Earnings Before Interest, Tax, Depreciation and Amortisation) margin for the six months to 30 June 2023. Operating EBITDA at $47,010,000 is 5% lower than the half year to 30 June 2022, but represents a 7% increase on the six months to December 2022.

Interim 2023 statutory Net Profit After Tax (NPAT) of $28,938,000 represents a decrease of 6% over the half year to 30 June 2022, largely resulting from increased employee benefits costs, though this NPAT figure represents a 4% increase from the second half of 2022. The increase in costs is driven by several factors: the legislated increase to statutory superannuation in mid-2022; wage inflation to meet market rates as Smartgroup acted to retain and attract talent; and an investment in increased capacity in the novated leasing area to meet higher demand, the revenue from which should largely flow through later in 2023 and into 2024.

The increased operating costs and a reduction in the 'Cash tax benefit on deductible amortisation' add-back to Net Profit After Tax and Amortisation (NPATA) for the half year to 30 June 2023, resulted in a 9% decrease in NPATA to $29,434,000, however this represents a 2% increase from the second half of 2022.

For the half year to 30 June 2023, $268,000 of IT development costs were capitalised (H1 2022: $6,442,000).

Salary packaging

Salary packaging customers at c.385,000 are in line with June 2022, with the successful onboarding of a number of new clients and organic package growth from existing clients.

Novated leasing

Since late 2020, worldwide motor vehicle supply shortages have impacted novated lease settlement timeframes. The average timeframe between when an order is placed and when it is settled is now over eighty days, compared to historic timeframes of less than twenty days. Over the last twelve or so months, motor vehicle supply has begun stabilising, in terms of order to settlement timeframes not changing materially. While the average time from order to delivery is still well above historic levels, the relative stability of vehicle supply means that increased order levels are driving an increase in settlement volume. As a result, novated leasing settlement volumes for the half year were 9% higher than the half year to 30 June 2022.

Demand for electric vehicles ("EVs") is high, following the passing of the Federal Government Electric Car Discount Policy late last year, which enables customers to get into EVs in a cost-effective manner.

EVs made up over a quarter of all our lease quotes and orders for the half year to 30 June 2023. Demand for EVs is coming from all client segments, but particularly from the corporate and government segments. As more, lower-priced EVs come into the Australian market, we expect other client segments to be further activated. There is relatively good availability for the EVs that have been launched to the Australian market and we are seeing some promising results.

The ongoing delays from motor vehicle supply shortages led to a further c.$1 million increase in future revenue for the half year. Smartgroup recognises revenue only when a settlement occurs, so this vehicle order pipeline growth represents deferred revenue that, in a pre-COVID environment, would normally have been recognised in this period.

Though vehicle supply shortages continue to impact the number of novated leases under management, the 7% reduction compared to June 2022 was primarily a result of the transition out of a large client in late 2022. Novated leases under management grew by c.600 for the half year to 30 June 2023, as a result of strong leasing demand and stabilising motor vehicle supply.

The proportion of customers taking out higher yielding new novated leases, as opposed to refinancing existing leases, has remained reasonably constant since the onset of vehicle supply issues, at 74%. This compares to historical levels of c.78-80%.

1 Operating EBITDA excludes the share of profit from joint venture and merger and acquisition transaction costs.

Review of Operations (continued)
30 June 2023

Smartgroup launched a new Car Leasing Portal to a pilot group of c.100 clients in February 2023, then to a further c.100 clients in April and May. The portal allows customers to compare multiple vehicles and lease options, then generate a quote and complete a credit application digitally, at any time of day.

Fleet management

Fleet vehicles under management grew by 5% versus June 2022, but have been largely stable for the half year to 30 June 2023. Our funded lease pilot program has been expanded from 12 to 25 clients. This is an offering that is resonating, and strengthening our client relationships.

Cash flow and net debt

Cash flow from operations for the half year to 30 June 2023 was 101% of NPATA (H1 2022: 134%). In June 2022, the Group received an upfront payment from St George, representing $11,574,000 of future performance fees. This payment was in respect of novated lease financing originated with St George, prior to the transition of the St George auto funding book to Angle Finance. Adjusting for this one-off upfront payment, H1 2022 cash flow from operations would have been 99% of NPATA, which is consistent with the half year to 30 June 2023.

The Group net debt position at 30 June 2023 is $40,299,000 (31 December 2022: Net debt of $27,193,000). Leverage, as measured by net debt / last twelve months EBITDA, is 0.44x (31 December 2022: 0.25x).

In June 2023, Smartgroup's banking facilities were refinanced, resulting in a $20,000,000 increase of the revolving facility limit from $65,000,000 to $85,000,000, and a $2,000,000 increase in the letter of credit facility from $5,000,000 to $7,000,000. The term of the banking facilities was also extended to 28 September 2026. Gross debt drawn at 30 June 2023 is $65,000,000.

Directors' Report
30 June 2023

The Directors present their report, together with the half year financial statements, on the consolidated entity (referred to hereafter as the Group) consisting of Smartgroup Corporation Ltd (referred to hereafter as the Company or parent entity) and the entities it controlled at the end of, or during, the half year ended 30 June 2023.

Directors

The following people were Directors of the Company during the whole of the reporting period and up to the date of this report, unless otherwise stated:

Michael Carapiet
Timothy Looi (resigned 25 July 2023)
Scott Wharton (appointed 25 July 2023)
Gavin Bell
Carolyn Colley
Deborah Homewood
Anne McDonald
John Prendiville
Ian Watt

Principal activities

During the reporting period the principal continuing activities of the Group consisted of outsourced administration, fleet management, and software, distribution and group services. Outsourced administration comprises salary packaging, novated leasing and payroll administration.

Dividends

Dividends paid during the half year ended 30 June 2023 were as follows:

	30 June 2023 $'000	30 June 2022 $'000
Final dividend for the year ended 31 December 2022 of 15.0 cents (2021: 19.0 cents) per ordinary share	**19,800**	25,174
Final special dividend for the year ended 31 December 2022 of 14.0 cents (2021: 30.0 cents) per ordinary share	**18,480**	39,748

On 23 August 2023, the Directors declared a fully-franked dividend of 15.5 cents per ordinary share. The record date is 8 September 2023 and the dividend will be paid on 22 September 2023. This dividend has not been included as a liability in these half year financial statements. The total estimated dividend to be paid is $20,700,000.

Review of operations

The profit after tax for the Group is $28,938,000 (30 June 2022: $30,909,000). Refer to the Review of Operations for further commentary on the results.

Environmental regulation

The Group is not affected by any significant environmental regulation under Australian Commonwealth or State law in respect of its operations.

Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

Directors' Report (continued)
30 June 2023

Rounding of amounts

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in this report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors.

On behalf of the Directors,

Michael Carapiet

23 August 2023
Sydney

Auditor's Independence Declaration

As lead auditor for the review of Smartgroup Corporation Ltd for the half-year ended 30 June 2023, 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.

This declaration is in respect of Smartgroup Corporation Ltd and the entities it controlled during the period.

David R Cox
Partner
PricewaterhouseCoopers

Sydney
23 August 2023

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 30 June 2023

	30 June 2023 $'000	30 June 2022 $'000
Revenue	**116,622**	113,579
Share of profit from joint venture accounted for using the equity method	**200**	225
Expenses		
Product costs	**(4,133)**	(3,783)
Employee benefits expense	**(50,265)**	(42,587)
Administration and corporate expenses	**(13,490)**	(16,034)
Occupancy expenses	**(734)**	(761)
Advertising and marketing expenses	**(996)**	(707)
Depreciation expense	**(2,345)**	(1,927)
Amortisation of acquired intangible assets	**(68)**	(1,594)
Amortisation of contract rights and internally developed intangibles	**(1,290)**	(575)
Other expenses	**(581)**	(316)
Operating profit	**42,920**	**45,520**
Finance costs	**(1,261)**	(799)
Merger and acquisition transaction costs	**(15)**	(49)
Profit before income tax expense	**41,644**	**44,672**
Income tax expense	**(12,706)**	(13,763)
Profit after income tax expense attributable to the ordinary equity holders	**28,938**	**30,909**
Other comprehensive income		
Net change in fair value of cash flow hedges taken to equity, net of tax	**(456)**	285
Total comprehensive income attributable to the ordinary equity holders	**28,482**	**31,194**

Earnings per share

	Note	Cents	Cents
Basic earnings per share (cents)	9	**22.3**	23.8
Diluted earnings per share (cents)	9	**22.3**	23.8

Consolidated Statement of Financial Position
As at 30 June 2023

	Note	30 June 2023 $'000	31 December 2022 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**24,701**	26,707
Restricted cash and cash equivalents	11	**33,811**	36,020
Trade and other receivables	5	**19,749**	18,421
Other current assets		**7,048**	4,468
Total current assets		**85,309**	**85,616**
Non-current assets			
Investments accounted for using the equity method		**574**	374
Derivative financial instruments	10	**572**	1,062
Deferred tax assets		**13,453**	14,821
Right-of-use assets		**5,548**	6,592
Property and equipment		**10,758**	8,447
Intangible assets	4	**287,840**	288,930
Total non-current assets		**318,745**	**320,226**
Total assets		**404,054**	**405,842**
LIABILITIES			
Current liabilities			
Trade and other payables		**35,573**	31,908
Customer salary packaging liability	11	**33,811**	36,020
Provisions		**14,398**	13,907
Contract liabilities		**9,104**	9,421
Income tax payable		**1,361**	4,875
Lease liabilities		**3,887**	4,248
Other current liabilities		**2,028**	1,722
Total current liabilities		**100,162**	**102,101**
Non-current liabilities			
Provisions		**1,411**	1,321
Contract liabilities		**2,302**	3,663
Lease liabilities		**3,463**	4,631
Borrowings	6	**64,691**	53,784
Total non-current liabilities		**71,867**	**63,399**
Total liabilities		**172,029**	**165,500**
Net assets		**232,025**	**240,342**
EQUITY			
Share capital	7	**263,418**	263,418
Reserves	8	**13,983**	12,958
Accumulated losses		**(45,376)**	(36,034)
Equity attributable to the owners of Smartgroup Corporation Ltd		**232,025**	**240,342**
Total equity		**232,025**	**240,342**

Consolidated Statement of Changes in Equity

For the half year ended 30 June 2023

	Note	Issued capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2022		**262,878**	**10,512**	**(7,160)**	**266,230**
Profit for the period		-	-	30,909	30,909
Other comprehensive income		-	285	-	285
Total comprehensive income for the period		**-**	**285**	**30,909**	**31,194**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	7	(61)	-	-	(61)
Share-based payments		-	3,033	-	3,033
Dividends provided for or paid	2	-	-	(64,922)	(64,922)
Balance at 30 June 2022		**262,817**	**13,830**	**(41,173)**	**235,474**
Balance at 1 January 2023		**263,418**	**12,958**	**(36,034)**	**240,342**
Profit for the period		-	-	28,938	28,938
Other comprehensive income		-	(456)	-	(456)
Total comprehensive income for the period		**-**	**(456)**	**28,938**	**28,482**
Transactions with owners in their capacity as owners:					
Share-based payments		-	1,481	-	1,481
Dividends provided for or paid	2	-	-	(38,280)	(38,280)
Balance at 30 June 2023		**263,418**	**13,983**	**(45,376)**	**232,025**

Consolidated Statement of Cash Flows

For the half year ended 30 June 2023

	Note	30 June 2023 $'000	30 June 2022 $'000
Cash flows from operating activities			
Receipts from customers		**133,974**	144,589
Payments to suppliers and employees		**(90,224)**	(86,131)
Transaction costs relating to mergers and acquisitions		**(15)**	(49)
Interest received from cash held on behalf of customers		**2,720**	112
Interest and transaction costs paid on borrowings		**(1,677)**	(418)
Interest paid on lease liabilities		**(379)**	(321)
Income taxes paid		**(14,656)**	(14,338)
Net cash from operating activities excluding salary packaging receipts and payments		**29,743**	**43,444**
Receipts in restricted cash		**1,346,487**	1,193,905
Payments of customer salary packaging liability		**(1,348,696)**	(1,196,814)
Net cash inflow from operating activities		**27,534**	**40,535**
Cash flows from investing activities			
Payments for intangibles		**(268)**	(6,442)
Payments for property, plant and equipment		**(3,447)**	(2,167)
Interest received		**334**	18
Net cash outflow from investing activities		**(3,381)**	**(8,591)**
Cash flows from financing activities			
Proceeds from borrowings		**11,100**	30,000
Proceeds from long term incentive plan		**505**	1,540
Dividends paid		**(38,280)**	(64,922)
Principal repayments on lease liabilities		**(1,693)**	(1,069)
Net cash outflow from financing activities		**(28,368)**	**(34,451)**
Net decrease in cash and cash equivalents		**(4,215)**	**(2,507)**
Cash and cash equivalents at the beginning of the period		**26,707**	32,453
Restricted cash and cash equivalents at the beginning of the period		**36,020**	41,196
Cash and cash equivalents at the end of the period		**24,701**	32,855
Restricted cash and cash equivalents at the end of the period		**33,811**	38,287
Total		**58,512**	**71,142**

Notes to the Consolidated Financial Statements
30 June 2023

1 Basis of preparation

Smartgroup Corporation Ltd (the Company) is a company limited by shares, incorporated and domiciled in Australia. The financial statements cover the consolidated entity (referred to hereafter as the Group) consisting of the Company and the entities it controlled for the half year ended 30 June 2023.

The consolidated half year financial report is a general purpose financial report prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Smartgroup Corporation Ltd is a for-profit entity for the purpose of preparing the half year financial report.

This half year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the 2022 Annual Report and any public announcements made by the Company during the interim reporting period, in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The half year financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

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

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards, which is set out below.

Net current liability position

As at 30 June 2023, the Group had net current liabilities of $14,853,000 primarily due to payment of special dividends totalling $18,480,000 in March 2023.

The Group has prepared projected cash flows for the twelve months from the date of the Directors' Declaration, taking into consideration the continued business impact of delayed motor vehicle availability. These forecasts indicate that the Group is expected to generate sufficient levels of operating cash flows to enable it to pay its debts as and when they fall due.

Further, the Group currently has undrawn debt facilities of $20,000,000 that may be drawn for operational liquidity purposes, with these facilities maturing on 28 September 2026. These factors support the Group's ability to continue as a going concern.

New or amended accounting standards and interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period:

- Amendments to AASB 101 Presentation of Financial Statements; and
- Amendments to AASB 112 Income Taxes.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the half year ended 30 June 2023 and are not expected to have any significant impact for the full financial year ending 31 December 2023.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Notes to the Consolidated Financial Statements (continued)
30 June 2023

2 Dividends

On 23 August 2023, the Directors declared a fully-franked interim dividend of 15.5 cents per ordinary share. The record date is 8 September 2023 and the dividend will be paid on 22 September 2023. This dividend has not been included as a liability in these half year financial statements. The total estimated dividend to be paid is $20,700,000.

Dividends are paid out from the parent entity which has retained earnings as at 30 June 2023 of $47,292,000. As at 30 June 2023, the Group has accumulated retained losses of $45,376,000. The difference in retained earnings and accumulated losses is primarily due to the amortisation of intangible assets recognised in the Group financial statements arising from historic business combinations.

3 Operating segments

Identification of reportable operating segments
The Group has identified its segments based on the internal reports that are reviewed and used by the Chief Executive Officer and Chief Financial Officer, who are identified as the Chief Operating Decision Makers (CODM), in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the half year financial statements.

Types of products and services
The principal products and services of each of these operating segments are as follows:

Outsourced administration (OA)	This part of the business provides outsourced salary packaging services, novated leasing and associated products, and outsourced payroll services.
Vehicle services (VS)	This part of the business provides end-to-end fleet management services.
Software, distribution and group services (SDGS)	This part of the business provides salary packaging software solutions, the marketing of salary packaging debit cards, distribution of vehicle insurances and workforce management software to the healthcare industry.

Inter-segment transactions
Inter-segment transactions were made at market rates. Inter-segment transactions are eliminated on consolidation.

Inter-segment receivables, payables and loans
Inter-segment loans are initially recognised at the consideration received. Inter-segment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Inter-segment loans are eliminated on consolidation.

Notes to the Consolidated Financial Statements (continued)
30 June 2023

3 Operating segments (continued)

Half year ended 30 June 2023	OA	VS	SDGS	Intersegment eliminations / Corporate	Total
	$'000	$'000	$'000	$'000	$'000
Revenue					
Products, services and commissions	68,455	-	-	-	68,455
Management and administrative fees	31,167	5,346	2,140	-	38,653
Performance fees and rebates	7,405	1,647	462	-	9,514
Inter-segment sales	141	1,706	16,340	(18,187)	-
Total revenue	**107,168**	**8,699**	**18,942**	**(18,187)**	**116,622**
Segment results (EBITDA)	**53,314**	**5,871**	**6,986**	**(19,563)**	**46,608**
EBITDA margin	*50%*	*67%*	*37%*		*40%*
Depreciation					(2,345)
Amortisation					(1,358)
Finance costs					(1,261)
Profit before income tax expense					**41,644**
Income tax expense					(12,706)
Profit after income tax expense					**28,938**
NPAT margin					*25%*
30 June 2023					
Assets					
Segment assets	93,529	24,359	18,020	268,146	404,054
Total assets					**404,054**
Liabilities					
Segment liabilities	66,073	8,301	12,534	85,121	172,029
Total liabilities					**172,029**

Notes to the Consolidated Financial Statements (continued)
30 June 2023

3 Operating segments (continued)

Half year ended 30 June 2022	OA	VS	SDGS	Intersegment eliminations / Corporate	Total
Revenue	$'000	$'000	$'000	$'000	$'000
Products, services and commissions	63,769	-	-	1,754	65,523
Management and administrative fees	30,594	3,817	2,451	-	36,862
Performance fees and rebates	9,220	1,533	441	-	11,194
Inter-segment sales	130	1,896	16,580	(18,606)	-
Total revenue	**103,713**	**7,246**	**19,472**	**(16,852)**	**113,579**
Segment results (EBITDA)	**55,531**	**4,811**	**4,072**	**(14,847)**	**49,567**
EBITDA margin	*54%*	*66%*	*21%*		*44%*
Depreciation					(1,927)
Amortisation					(2,169)
Finance costs					(799)
Profit before income tax expense					**44,672**
Income tax expense					(13,763)
Profit after income tax expense					**30,909**
NPAT margin					*27%*
31 December 2022					
Assets					
Segment assets	100,517	22,018	37,888	245,419	405,842
Total assets					**405,842**
Liabilities					
Segment liabilities	72,751	5,433	32,240	55,076	165,500
Total liabilities					**165,500**

Notes to the Consolidated Financial Statements (continued)
30 June 2023

4 Intangible assets

	30 June 2023 $'000	31 December 2022 $'000
Goodwill		
At cost	**272,664**	272,664
Total goodwill	**272,664**	**272,664**
Customer contracts		
At cost	**63,609**	63,609
Accumulated amortisation	**(63,487)**	(63,419)
Total customer contracts	**122**	**190**
Acquired software and websites		
At cost	**77,915**	77,915
Accumulated amortisation	**(77,915)**	(77,915)
Total acquired software and websites	**-**	**-**
Contract rights		
At cost	**5,168**	5,168
Accumulated amortisation	**(4,067)**	(3,550)
Total contract rights	**1,101**	**1,618**
Brand names and logos		
At cost	**1,304**	1,304
Total brand names and logos	**1,304**	**1,304**
Internally developed software and websites		
At cost	**13,744**	13,476
Accumulated amortisation	**(1,095)**	(322)
Total internally developed software and websites	**12,649**	**13,154**
Total intangible assets	**287,840**	**288,930**

Notes to the Consolidated Financial Statements (continued)
30 June 2023

5 Trade and other receivables

	30 June 2023 $'000	31 December 2022 $'000
Trade receivables	**8,443**	8,532
Less: Allowance for expected credit losses	**(356)**	(555)
	8,087	**7,977**
Contract assets	**7,701**	6,040
Other receivables	**3,961**	4,404
	11,662	**10,444**
Total trade and other receivables	**19,749**	**18,421**

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement between 14 and 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. Contract assets predominantly consist of accrued revenues with funds held in restricted cash accounts, with a corresponding customer salary packaging liability balance. These are unbilled transactions for commission-based revenue, with no associated credit loss as funds have been collected and are held within the restricted cash accounts.

Expected credit loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors that may affect the ability of the customers to settle the receivables, such as GDP rates. They are also adjusted to reflect historical and current debtor-specific information impacting the probability that certain debtors will enter bankruptcy or financial reorganisation, or default on payments (more than 60 days overdue). The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of management's estimate of future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

30 June 2023	Gross carrying amount ($'000)	Expected credit loss allowance ($'000)	Specific loss allowance ($'000)	Total loss allowance ($'000)	Weighted-average loss rate
Grade 1 (Financiers and supply chain partners)	1,203	(2)	(104)	(106)	8.81%
Grade 2 (Employer/Corporate)	5,097	(3)	(115)	(118)	2.32%
Grade 3 (Dealers)	2,143	(1)	(131)	(132)	6.16%

As at 30 June 2023, the Group has $419,000 provided in relation to counterparty arrangements with motor vehicle dealerships, given significant uncertainty of vehicle supply. This provision is reflected in Current Liabilities - Provisions within the Consolidated Statement of Financial Position.

Notes to the Consolidated Financial Statements (continued)
30 June 2023

6 Borrowings

As at 30 June 2023, the following bank facilities were available to the Group:
- A revolving facility of $85,000,000;
- A letter of credit facility of $7,000,000; and
- Ancillary facilities of $1,000,000.

The banking facilities are guaranteed and secured by the Company and certain of the Company's subsidiaries. The facilities are subject to a variable interest rate, which is based on the 3-month BBSY (Bank Bill Swap Bid Rate) plus a margin. In March 2023, an additional $11,100,000 was drawn down. The loan facility was refinanced in June 2023, resulting in a $20,000,000 increase of the revolving facility limit from $65,000,000 to $85,000,000 and a $2,000,000 increase in the letter of credit facility from $5,000,000 to $7,000,000. Gross debt drawn at 30 June 2023 is $65,000,000, with an additional $20,000,000 available to draw. The banking facilities mature on 28 September 2026.

The Group is subject to certain financing covenants and meeting these is given priority in all capital risk management decisions. These covenants include leverage and interest cover ratios with reference to recurring earnings before interest, tax, depreciation and amortisation, and with distribution restrictions on dividends. There have been no events of default on the financing arrangement during the year (2022: nil).

7 Equity - issued capital

	30 June 2023 Shares	31 December 2022 Shares	**30 June 2023 $'000**	31 December 2022 $'000
Ordinary Shares — fully paid	**132,734,222**	133,670,773	**284,242**	289,479
Less: Shares associated with the loan funded share plan (LFSP)	**(3,038,415)**	(3,974,966)	**(20,824)**	(26,061)
	129,695,807	**129,695,807**	**263,418**	**263,418**

(a) Movements in ordinary shares:

	Date	**Number of shares**	**Total $'000**
Opening balance	1 January 2022	133,498,979	287,036
Shares issued for LFSP	8 March 2022	630,705	4,775
	11 May 2022	599,177	5,250
Buy-back of forfeited LFSP shares	2 March 2022	(655,666)	(4,905)
	2 March 2022	(348,422)	(2,223)
	31 October 2022	(54,000)	(333)
Deferred tax directly recognised in equity			(121)
Balance	**31 December 2022**	**133,670,773**	**289,479**
Shares issued for LFSP	10 March 2023	983,304	5,878
Buy-back of forfeited LFSP shares	6 March 2023	(1,664,826)	(9,382)
	12 May 2023	(255,029)	(1,733)
Balance	**30 June 2023**	**132,734,222**	**284,242**

Notes to the Consolidated Financial Statements (continued)
30 June 2023

7 Equity - issued capital (continued)

(b) Movements in loan funded share plan

	Date	Number of shares	Total $'000
Opening balance	1 January 2022	(3,906,746)	(24,158)
LFSP shares exercised	21 February 2022	103,574	662
Shares issued for LFSP	8 March 2022	(630,705)	(4,775)
	11 May 2022	(599,177)	(5,250)
Buy-back of forfeited shares	2 March 2022	655,666	4,904
	2 March 2022	348,422	2,223
	31 October 2022	54,000	333
Balance	**31 December 2022**	**(3,974,966)**	**(26,061)**
Shares issued for LFSP	10 March 2023	(983,304)	(5,878)
Buy-back of forfeited shares	6 March 2023	1,664,826	9,382
	12 May 2023	255,029	1,733
Balance	**30 June 2023**	**(3,038,415)**	**(20,824)**

Loan funded shares:
At the Annual General Meeting (AGM) on 10 May 2023, loan funded shares to the incoming CEO were approved by shareholders. On 8 March 2023, loan funded shares were granted to the remainder of the executive management team under the Loan Funded Share Plan (LFSP).

The issue price is calculated based on the 20-day volume weighted average price of shares trading on the ASX up to and including 8 March 2023 for the March grant. Shares vest over a 3-year period subject to 2 vesting conditions, the “EPS Performance Hurdle” and the “TSR Performance Hurdle”.

The shares granted as part of the LFSP are eligible for dividends and are held by the participant until they vest or are forfeited. Should the Company pay dividends or make capital distributions in the future, any dividends paid, or distributions made to the participant will be applied to repay the loan and to meet the tax liability on those dividends or distributions. The vesting of the shares is subject to two performance hurdles, being an earnings growth hurdle and a total shareholder return hurdle, and a continuous employment condition. The shares can only be exercised once the participant has repaid the loan.

For the half-year ended 30 June 2023, 1,919,855 shares issued under the LFSP were bought back as vesting conditions on the shares had not been met and the shares were forfeited, resulting in a $11,114,941 reduction in ordinary share capital.

The unvested shares issued under the LFSP at 30 June 2023 have been treated as contingently issuable, as the vesting conditions have not been satisfied at the balance date. Therefore, the shares issued under the LFSP are excluded from basic earnings per share.

Performance rights:
On 10 May 2023, performance rights to the incoming CEO were approved at the AGM, and performance rights granted to the CEO and management team on 25 May 2023. Performance rights have a nil exercise price and are valued based on the 10-day volume weighted average price of shares traded on the ASX up to, and including, 24 May 2023. Performance rights vest over a 1 year period. These rights granted do not include voting rights nor attract dividends, and are subject to vesting conditions being performance hurdles relating to the annual Key Performance Indicators (KPIs). Performance rights cannot be transferred and are not quoted on the ASX.

Notes to the Consolidated Financial Statements (continued)
30 June 2023

8 Equity - reserves

	30 June 2023 $'000	31 December 2022 $'000
Cash flow hedge reserve	**240**	696
Share-based payments reserve	**12,449**	11,823
Other reserves	**1,294**	439
	13,983	**12,958**

Hedging reserve - cash flow hedges

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to executive and other senior management as part of their remuneration.

Other reserves

Other reserves are used to record increments and decrements to the valuation of non-current assets, and preserve current profits for the purpose of paying dividends in future years.

9 Earnings per share

	30 June 2023 $'000	30 June 2022 $'000
Consolidated profit after income tax expense for the period attributable to the owners of Smartgroup Corporation Ltd	**28,938**	30,909

	Number	Number
Weighted average ordinary shares used in calculating basic earnings per share	**129,695,807**	129,666,051
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	**15,624**	268,615
Weighted average number of ordinary shares used in calculating diluted earnings per share	**129,711,431**	**129,934,666**

	Cents	Cents
Basic earnings per share (cents)	**22.3**	23.8
Diluted earnings per share (cents)	**22.3**	23.8

Notes to the Consolidated Financial Statements (continued)
30 June 2023

10 Fair value of financial instruments

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

At 30 June 2023	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Interest rate swap contracts - cash flow hedges	**-**	**572**	**-**	**572**
Total financial assets	**-**	**572**	**-**	**572**

At 31 December 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Interest rate swap contracts - cash flow hedges	-	1,062	-	1,062
Total financial assets	**-**	**1,062**	**-**	**1,062**

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values, due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Derivatives - interest rate swap contracts
The derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

11 Cash held on behalf of customers and associated liabilities

The Group administers funds on behalf of customers, and this can take one of two forms:
- Restricted cash and cash equivalents (pooled customer funds)
- Cash held on behalf of customers (segregated bank accounts in a customer's name)

Restricted cash and cash equivalents

	30 June 2023 $'000	31 December 2022 $'000
Restricted cash and cash equivalents	**33,811**	36,020
Customer salary packaging liability	**(33,811)**	(36,020)

The restricted cash and cash equivalents in the Consolidated Statement of Cash Flows represents funds held by the Group on behalf of certain customers. The use of these funds is restricted to the making of salary packaging payments on behalf of those customers only and therefore not available for general use. The Group recognises a liability for all restricted cash balances to reflect the amounts owing to its customers.

The restricted cash accounts are held with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. For the half year ended 30 June 2023, the Group has recognised finance revenue of $577,000 (30 June 2022: $33,000) from restricted cash.

Notes to the Consolidated Financial Statements (continued)
30 June 2023

11 Cash held on behalf of customers and associated liabilities (continued)

Cash held on behalf of customers - not recognised in the Consolidated Statement of Financial Position

	30 June 2023 $'000	31 December 2022 $'000
Accounts established by the Group as cash held on behalf of customers	96,591	114,424
Accounts established by customers directly	58,952	76,898
	155,543	**191,322**

Cash held on behalf of salary packaging administration customers is deposited by customers into segregated bank accounts, to be used only to settle their employees' salary packaging obligations to suppliers. The Group cannot use these funds for any other purpose than as directed by its customers. Customers are liable to ensure adequate funds are kept in the segregated bank accounts for salary payments. The Group has assessed that these assets are held in a fiduciary capacity rather than being assets of the Group and as such, have excluded them from the Consolidated Statement of Financial Position.

The segregated bank accounts used for cash held on behalf of customers are with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. For the half year ended 30 June 2023, the Group has recognised interest revenue of $1,331,000 (30 June 2022: $47,000) from those accounts established by the Group as cash held on behalf of customers, and $812,000 (30 June 2022: $32,000) from those accounts established by the customers directly. These amounts are recognised within management and administration revenue.

12 Events occurring after the reporting period

No matter or circumstance has occurred after period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

Directors' Declaration
30 June 2023

In the Directors' opinion:

(a) the attached financial statements and notes set out on pages 8 to 22 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half-year ended on that date, and

(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.

Signed in accordance with a resolution of directors.

On behalf of the directors,

Michael Carapiet
Chairman
Sydney
23 August 2023

Independent auditor's review report to the members of Smartgroup Corporation Ltd

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Smartgroup Corporation Ltd (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, material accounting policy information and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Smartgroup Corporation Ltd does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half-year ended on that date

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

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

The directors of the Company 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 internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 Group's financial position as at 30 June 2023 and of 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*.

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.

PricewaterhouseCoopers

PricewaterhouseCoopers

David R Cox
Partner

Sydney
23 August 2023

Corporate directory

Directors	Michael Carapiet Timothy Looi (resigned 25 July 2023) Scott Wharton (appointed 25 July 2023) Gavin Bell Carolyn Colley Deborah Homewood Anne McDonald John Prendiville Ian Watt
Company secretaries	Sophie MacIntosh Jonathan Swain
Principal registered office in Australia	Level 8, 133 Castlereagh Street Sydney NSW 2000 Australia 1300 665 855
Share and debenture register	LINK Market Services Limited Level 12, 680 George Street Sydney NSW 2000 1300 554 474
Auditor	PricewaterhouseCoopers One International Towers Watermans Quay Barangaroo Sydney NSW 2000
Solicitors	Minter Ellison Lawyers Level 20, Collins Arch 447 Collins Street Melbourne VIC 3000 02 9921 8888
Bankers	Westpac Group 275 Kent Street Sydney NSW 2000 Australia and New Zealand Banking Group Limited 242 Pitt Street Sydney NSW 2000
Stock exchange listing	Smartgroup Corporation Ltd shares are listed on the Australian Securities Exchange (ASX Code: SIQ)
Website	www.smartgroup.com.au

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group
corporation