ASX Announcement

Release date: 24 August 2023

Steady revenue growth with positive operating momentum

Smartgroup Corporation Ltd (ASX: SIQ) ("Smartgroup" or "the Company"), a leading specialist employee management services provider, today reported its half year results for the six-month period ended 30 June 2023 (H1 2023).

Overview

- Revenue of $116.6m, an increase of 3% on pcp and 5% up on H2 2022
- Operating EBITDA of $47.0m down 5% on pcp, up 7% on H2 2022
- NPATA[1] of $29.4m down 9% on pcp, up 2% on H2 2022
- New lease vehicle order pipeline now represents future revenue of c.$20m, up c.$1m from December 2022
- Electric vehicles accounted for 30% of H1 2023 new car lease quotes, with the Corporate and Government client segments each at 36%
- Car Leasing Portal now rolled out to c.200 clients, with c.35% uplift in quotes on pcp from the initial c.100 pilot clients
- Strong operating cash flow at 101% of NPATA
- Interim dividend declared of 15.5 cents per share fully franked[2]
- Strong balance sheet with modest debt position at 0.4x EBITDA

Increased novated leasing demand and targeted cost management

Smartgroup CEO Scott Wharton said: "The operational performance for the half year has been solid and there have been positive developments in some of the vehicle supply and labour market headwinds we have been facing. Leasing demand is robust and electric vehicles ("EVs") are becoming a much larger part of our business. Like many companies, Smartgroup has seen wage inflation over the past twelve months and in response, it has taken active steps to manage costs, while continuing to invest in revenue generation.

"We continue to realise benefits from our digital investments, with the recently launched Car Leasing Portal seeing a significant quote uplift for pilot clients."

Revenue for the half year was $116.6 million, up 3% on the prior corresponding period and 5% on H2 2022. The new lease vehicle order pipeline currently stands at around $20m of future revenue, c.$16m higher than historic levels and up c.$1m from December 2022.

EBITDA of $47.0m is down 5% on pcp, reflecting higher operating costs from wage inflation and investments in resourcing to meet novated leasing demand. Comparing to H2 2022, EBITDA is up 7%, demonstrating the Company's momentum. EBITDA margin remains strong at 40% for the half-year.

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

[2] Record date 8 September 2023 and payment date 22 September 2023

Profit after tax, as measured by NPATA, was $29.4m for H1 2023, down 9% on pcp, but up 2% on H2 2022.

Vehicle delivery timeframes are stabilising, with good EV availability across a range of makes and models. However timeframes continue to remain above historic levels. Delayed vehicle delivery timeframes and in some cases, vehicle repricing, continue to cause the need for credit re-approval and increased customer engagement, which have driven costs higher. Cost management will continue to be a focus in the months ahead.

Smartgroup has continued to generate a strong operating cash flow of $29.7m, representing 101% of NPATA, and maintains a strong balance sheet with a modest net debt position of $40.3m.

This strong cash flow conversion has enabled the Board of Directors to declare an interim fully franked dividend of 15.5 cents per share for the six months to 30 June 2023, representing a payout ratio of 70% of NPATA.

Smartgroup recorded organic growth of approximately c.6,000 salary packages for the half-year and now serves a total of c.385,000 customers across Australia.

Novated leasing has seen a 2% yield improvement versus pcp and H2 2022.

New Car Leasing Portal launched

During H1, the new Car Leasing Portal, which allows customers to obtain quotes and process credit applications 24/7, was launched to a pilot group of c.100 clients, with a 35% uplift versus pcp in vehicle quotes seen from those clients in the 4 months since go-live. A further c.100 clients went live on the portal in April and May, and the portal will be progressively rolled out to the bulk of clients throughout 2023.

Demand for EVs continues to grow

The abolishment of Fringe Benefits Tax on many new EVs, through the introduction of the Federal Government Electric Car Discount Policy in November 2022, has continued to drive demand for EVs. EV quotes accounted for 30% of all new car novated lease quotes in the first half of the year, with demand coming from all client segments, but particularly from corporate and government clients.

A number of new EV makes/models at lower price points are due for release in Australia in the medium term, which is expected to drive further demand.

Outlook

Smartgroup CEO, Scott Wharton, said "Novated leasing demand and EV demand in particular remains robust, and we are optimistic about maintaining this momentum in the medium term. In the month of July, EV orders represented around half of our new car orders in the Corporate client segment, and we are seeing growth across all other client segments. The Company is well positioned to leverage the easing of new vehicle supply constraints when it occurs, which will unlock the large new vehicle order pipeline we have built and prepared for in our staffing investments.

“We continue to actively manage our cost base, while investing in resourcing to meet the levels of demand we are seeing”.

HY 2023 Investor Briefing Presentation

Chief Executive Officer Scott Wharton, Chief Financial Officer Anthony Dijanosic and Chief Operating Officer Sarah Haas will hold a briefing this morning to discuss the results. The details are as follows:

Time: 9:00 am AEST
Date: Thursday 24 August 2023
URL: https://webcast.openbriefing.com/siq-hyr-2023/

The audio briefing will be streamed live at the above URL. The briefing will also be made available on the investor section of the Smartgroup website: https://ir.smartgroup.com.au/Investors/ under the Financial Reports and Presentations tab.

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

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