
Smartgroup Annual General Meeting, 3 May 2017

Address by Deven Billimoria, Managing Director and CEO

Good morning everyone and thank you for joining us today – it is good to see so many of you again. My name is Deven Billimoria, and I'm the Managing Director and CEO of Smartgroup.

In a small change to my normal AGM address, today's presentation has been split into two sections. I will first talk you through the small but exciting acquisition we have just announced. I will then provide an overview of our performance in 2016, and I'll take you through some of the highlights in what has been another successful year for Smartgroup.

So turning to the first part of the presentation and **slide number 1**, we describe our acquisition of Adelaide-based AccessPay, a specialist salary packaging provider in the PBI sector.

Currently AccessPay administers approx. 40,000 salary packages and 600 novated leases across 500 organisations.

It has forecast FY2017 revenues of approx. \$8.3 million and pro-forma EBITDA of \$2.3 million.

We have acquired AccessPay for \$15 million in cash and shares, and we have retained the key management.

As you can see from **slide 2** the acquisition of AccessPay adds further scale to our salary packaging business and continues to build our PBI footprint.

On **slide 3**, we highlight the contributions we expect AccessPay to add to Smartgroup.

One of the main points here is the fact that AccessPay and Advantage have similar client bases with similar service delivery and we expect there to be opportunities where we can leverage best practice across both.

We have a long track record of buying well run businesses with strong management teams and supporting them to continue growing their businesses. Therefore we forecast the acquisition of AccessPay, including the one-off IT and other integration expenses, to be c.4% EPS accretive in CY2018.

Now I would like to take you through the second part of the presentation and provide you with an overview of our performance in 2016.

As shown on **slide 4**, Smartgroup delivered another successful year of strong financial and operational results supported by a stronger second half:

First, we delivered revenues for the full year of \$144.4 million and a net profit after tax and amortisation of \$44.0 million; top and bottom line numbers up on the prior year by 57% and 68%, respectively.

Second, we continued to grow Smartgroup's core packaging and leasing business with significant client renewals and wins across all our businesses.

Third, we continued to focus on driving efficiency improvements in Smartsalary with the increased uptake of online claims. Today we are 40% more efficient than in 2011.

Fourth, we completed the complementary acquisitions of Autopia and Selectus, which provide increased scale in the corporate sector and also expand our footprint into the rebatable segment of the salary packaging market – a segment not previously serviced by Smartgroup.

One aspect of the acquisitions was the synergies that we would achieve through the aggregation of the businesses. We are pleased to report that we are tracking ahead of schedule with approx. \$1.5 million (pre-tax) realised to the end of CY2016.

And finally to underline our strong performance this year we declared a final dividend of 15 cents per share for H2 2016, representing a 72% increase over the prior corresponding period. This dividend is fully franked and brings our total dividend for CY2016 to 24.8 cents per share.

Turning to **slide 5**, we have seen continued growth in revenues and earnings versus the prior 2015 period.

In the table at the bottom of the page you can see our salary packages and novated leases under management continue to grow, both organically and with the acquisitions of Autopia and Selectus.

Looking at **slide 6**, we see Smartgroup's growth has continued since our IPO in 2014 but with a noticeable increase in the second half of 2016 as a result of the acquisitions and new contract wins.

The fully franked dividend of 15 cents per share represents a payout ratio of approximately 70% of NPATA of second half earnings.

On **slide 7**, you can see that our growth in salary packaging and novated leasing has increased as a result of organic and acquisitive activities.

As at the end of 2016, our salary packaging customers totalled approximately 221,000 and the total number of novated leases under management was approximately 53,000.

Turning to **slide 8**, we can see how this increase in salary packaging and novated leases resulted in strong EBITDA growth with pro-forma EBITDA for CY2016 of approximately \$75.3 million including an \$11 million pre-acquisition contribution from Autopia and Selectus.

Moving to **slide 9**, you can see how our client base has continued to diversify with our top 5 clients now accounting for only 29% of revenue at the end of 2016 compared to 51% three years ago.

On **slide 10**, you will see that during the year we continued to focus on the long-term improvement of Smartsalary's operational efficiencies.

The increased uptake of online claims has contributed to an improvement in operational efficiency of 40% since 2011.

Now turning to **slide 11**, we are pleased to be recognised once again in 2016 as one of Australia's most innovative and customer-centric companies.

In 2016 Smartgroup Corporation, Smartfleet, and Health-e Workforce Solutions were all separately recognised for their achievements in innovation, and Smartsalary was recognised for two separate National Customer Service Awards.

A remarkable set of accolades collected by the remarkable group of people that I am privileged to work with.

On **slide 12**, underscoring the point made on the previous page, for the second consecutive year Smartsalary has achieved the highest customer service score in CSIA history.

This is a fantastic achievement and one that we are very proud of. I would like to thank our entire team for working hard to achieve this result for our wonderfully loyal customers.

Turning to **slide 13**, I would like to highlight the appointments we have made to Smartgroup's executive team.

Over the past 7 months we have recruited a number of talented and experienced executives. The fact that Smartgroup has been able to attract high calibre individuals such as Tony, Sophie, Therese and Clarence to the Group speaks to the appeal of our culture.

I believe that this additional capability and knowledge positions Smartgroup well for the next stage of growth.

Now in summary, turning to **slide 14**, 2016 saw Smartgroup grow across all key financial and operating metrics.

Actions to capture synergies from the Autopia and Selectus acquisitions have tracked ahead of schedule and overall cash flow generation remains strong.

2017 has started well and we are pleased with our acquisition of AccessPay.

Finally turning to **slide 15**, we show our revenue and EBITDA growth since business inception.

That concludes my address and I thank you for taking the time to join us this morning.

Now allow me to hand back to our Chairman, Michael Carapiet.