



ASX Announcement 2019 Full Year Results Investor Presentation

Release date: 19 February 2020

In accordance with the ASX Listing Rules, Smartgroup Corporation Limited (**ASX: SIQ**) encloses for release to the market its 2019 full year results investor presentation.

For further information, contact:

A handwritten signature in black ink, appearing to read "Tim Looi".

Tim Looi
Chief Financial Officer
Smartgroup Corporation Ltd
Telephone: 0408 409 513

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

Sophie MacIntosh
Chief Legal Officer and Company Secretary
Smartgroup Corporation Ltd
Telephone: 0407 486 823

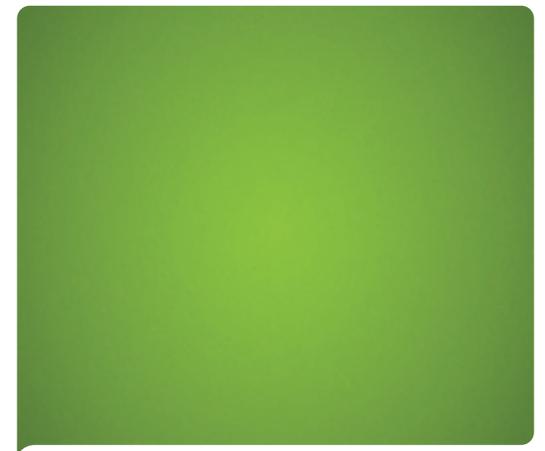
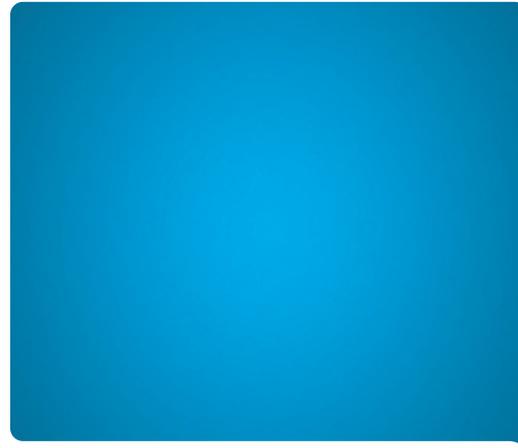
This announcement was authorised for release by the Board of Directors of Smartgroup.

Investor Presentation

Full year CY 2019 Results



19 February 2020



Deven Billimoria – Managing Director and CEO
Tim Looi – Chief Financial Officer

Smartgroup has delivered another year of growth despite some industry headwinds

1. Positive financial performance

- Revenue of \$249.8m up 3% vs CY 2018
- NPATA¹ of \$81.0m up 4% vs CY 2018

2. Success in servicing clients

- Organic growth of c.24,700 salary packages and c.3,500 novated leases
- Net growth of c.15,500 salary packages and c.3,250 novated leases (after acquisitions and client losses)

3. Further automation, integration and expansion of service offering

- Digital innovation and automation continues, with 55 digital FTEs
- Salary Packaging & Novated Leasing businesses consolidating to 4 in CY 2020
- 200 clients now use two or more service offerings, growth of c.22% over the last 12 months

4. Strong cashflow generation with flexible balance sheet

- Adjusted after-tax operating cashflows at 110% of NPATA, leverage less than 0.2x
- Fully franked final dividend of 21.5cps² (covering H2 CY 2019 period)
- Full year fully franked ordinary dividends of 43.0cps, up 4% from CY 2018, plus 20.0cps special dividend

5. Smartgroup performing well in the context of some industry headwinds

- Smartgroup total novated leasing volumes up 4% in the context of Australian private new vehicle sales down 8% in 2019³
- Regulatory review in relation to add-on insurances continues

1. NPATA is net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of intangibles and significant non-operating items. Refer to Appendix for the reconciliation.

2. Record date of 2 March 2020 and payment date of 16 March 2020.

3. Private new vehicle sales data source: VFACTS. Excludes other new vehicle sales categories; Business, Government, Rental, Heavy Commercial.

Smartgroup delivered steady performance across all financial and operational metrics...

\$m	CY 2019	CY 2018 ²	Change %
Revenue	249.8	241.8	3%
EBITDA ¹	118.2	115.0	3%
NPATA	81.0	77.8	4%
Shares on issue (millions)	131.7	130.9	1%
NPATA per share (cps)	61.5	59.4	4%

	As at 31 December 2019	As at 30 December 2018	Change %
Packages	358,500	343,000	5%
Novated leases under management	68,500	65,250	5%
Fleet vehicles under management	24,000	22,900	5%
FTEs ³	689	695	(1%)

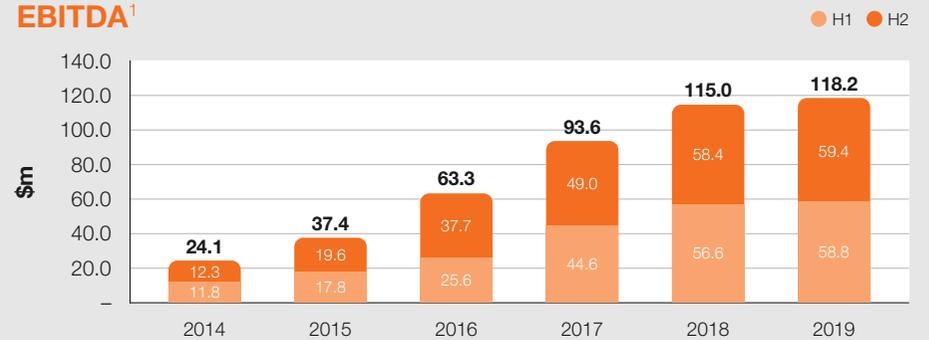
1. EBITDA is earnings before interest, tax, depreciation and amortisation of intangibles adjusted to exclude significant non-operating items.
2. CY 2018 EBITDA and NPATA comparatives restated for one-off impact on application of AASB 16 Leases from 1 January 2018.
3. Excludes contractor or agency resources who were employed on a short-term basis to meet specific business needs or project deliverables.

...and increasing revenue, earnings and dividends

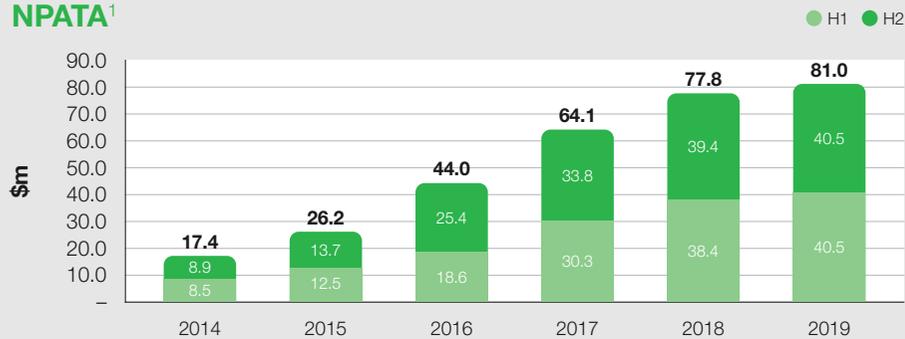
Revenue



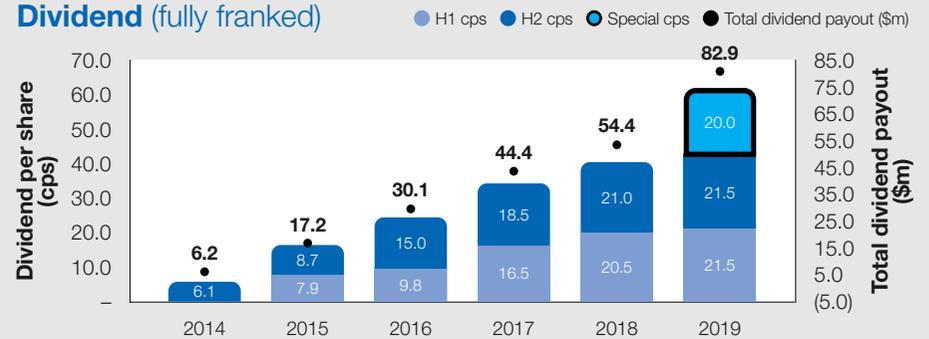
EBITDA¹



NPATA¹



Dividend (fully franked)

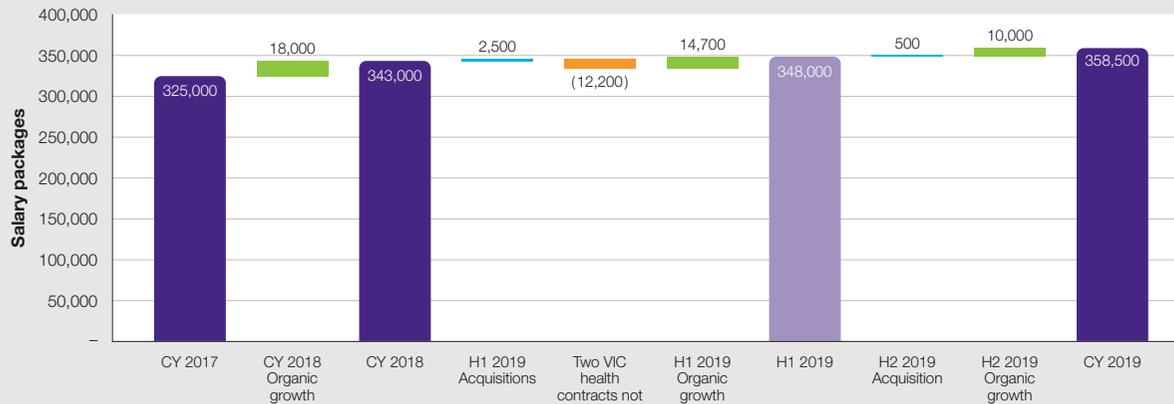


Shares on issue (m) 101.5 103.7 121.5 123.2 130.9 131.7

1. Adjusted to reflect one-off impact on adoption of AASB 16 Leases from January 2018. Impact is to increase 2018 EBITDA by \$1.6m in each of H1 and H2; and reduce 2018 NPATA by \$0.1m in each of H1 and H2.

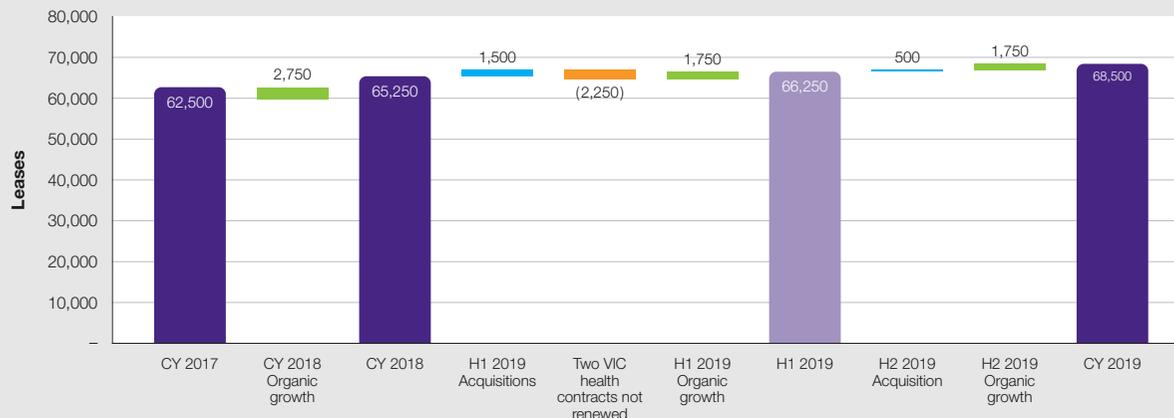
Smartgroup continued to see organic growth across salary packaging and novated leasing...

Salary packaging customers



- Organic growth of 10,000 packages and 1,750 leases in H2 2019
- Victorian health contracts representing c.12,000 packages renewed in H2 2019

Novated lease vehicles under management

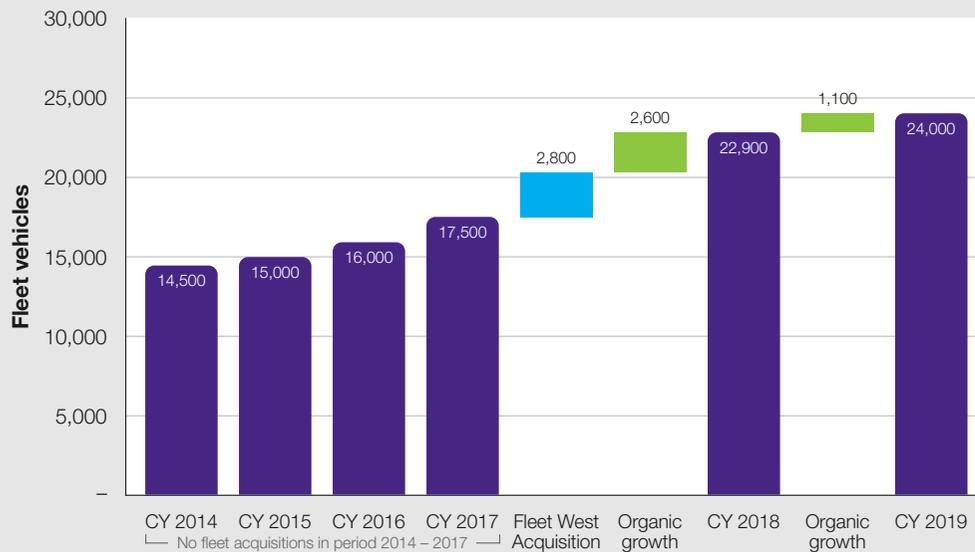


- H1 2019 acquisitions – Mylease and Pay-Plan.
- H2 2019 acquisition – Lease & Asset Finance.
- Two Victorian health contracts were not renewed. Contract end dates were 31 March 2019 and 30 June 2019; each client represented c.1% of EBITDA.

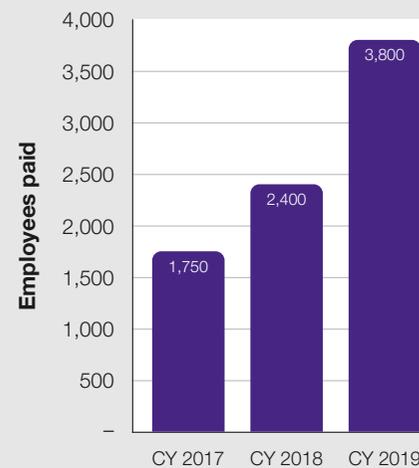


...and also across fleet management and payroll services

Fleet vehicles under management



Employees paid by Smartsalary Payroll Solutions¹ platform since acquisition

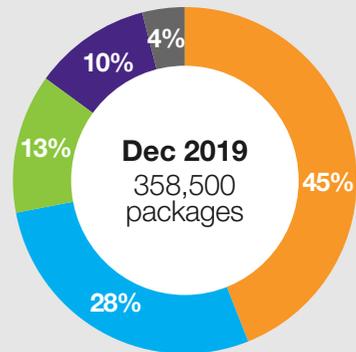
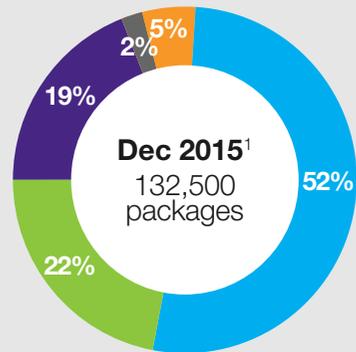


- At December 2019, Smartgroup had 38 payroll employer clients, 30 of which are also using salary packaging

1. Smartgroup acquired 50% ownership of AccessPay Payroll Solutions through its acquisition of the AccessPay Group on 2 May 2017, with the remaining 50% acquired on 1 May 2018, following which the business was rebranded Smartsalary Payroll Solutions.

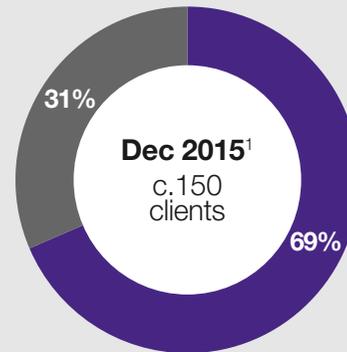
Smartgroup has a diversified employer client base that represents attractive sectors within the Australian workforce

Salary packaging client and customer profile

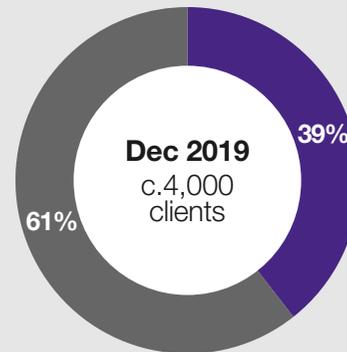


- PBI non-hospitals²
- PBI hospitals³
- Government
- Education⁴
- Corporate

Revenue profile by client contract



Only 1 client used 2 or more service offerings



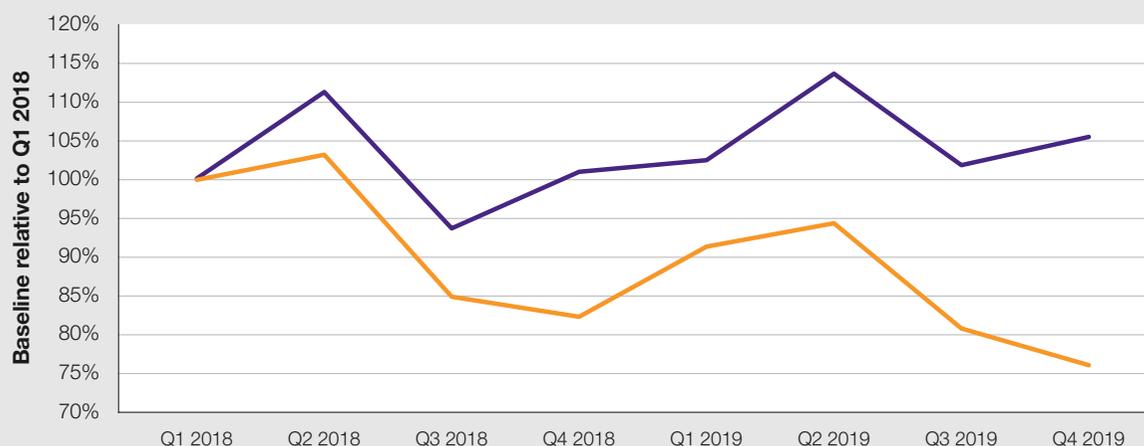
c.200 clients now use 2 or more service offerings

- Top 20
- Other

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.

Smartgroup's novated leasing volumes have continued to grow, despite the downturn in private new vehicle sales

Private new vehicle sales¹ relative to Q1 CY 2018



Units ('000s)	CY 2018	CY 2019
Private new vehicle sales ¹	515.4	476.5
Change YOY		(8%)
SIQ change YOY ²		4%

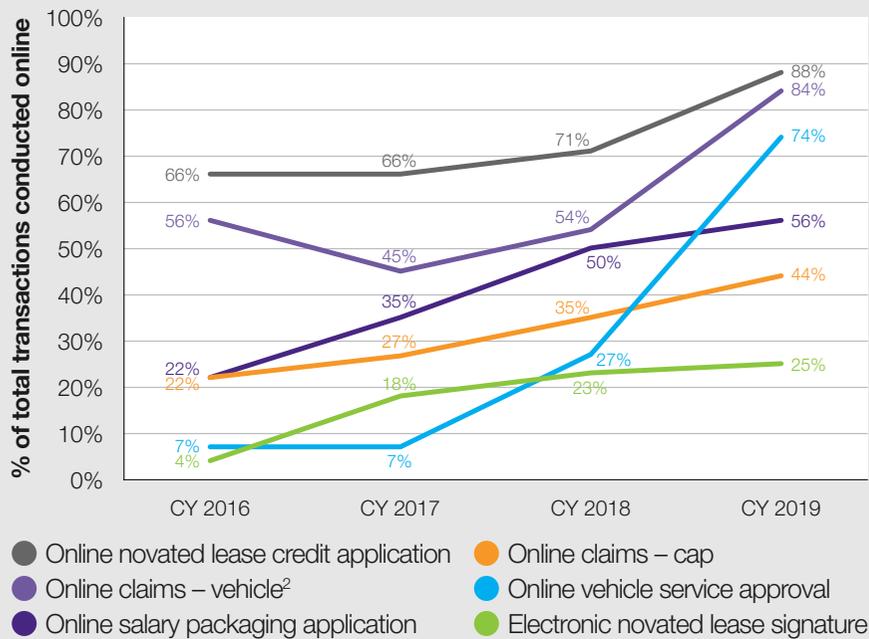
● SIQ total settlements ● Private new vehicle sales

- Smartgroup has increased its total novated leasing volumes in CY 2019 by c.4% versus pcp with its new vehicle novated leasing volumes remaining flat in CY 2019 versus pcp
- Smartgroup's average novated leasing yield has decreased in CY 2019 by c.3% versus pcp

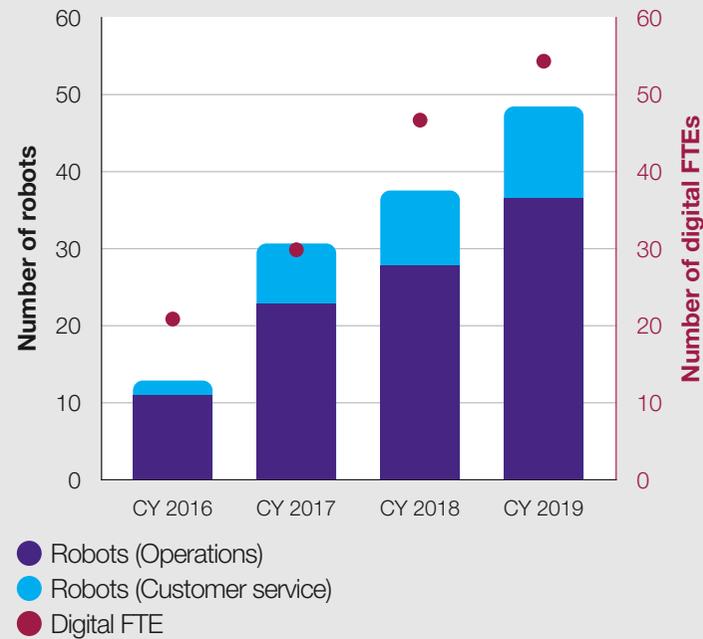
1. Private new vehicle sales data source: VFACTS. Excludes other new vehicle sales categories; Business, Government, Rental, Heavy Commercial.
 2. Based on SIQ total settlements.

We continue to focus on increasing adoption of digital channels and automation

Progressive uptake of online channels from increased customer adoption and migration of packages and leases onto core platforms¹

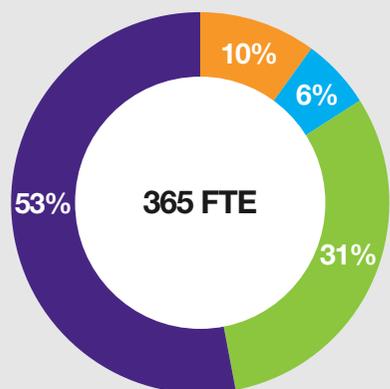


Smartgroup now has 49 robots, equivalent to 55 digital FTEs

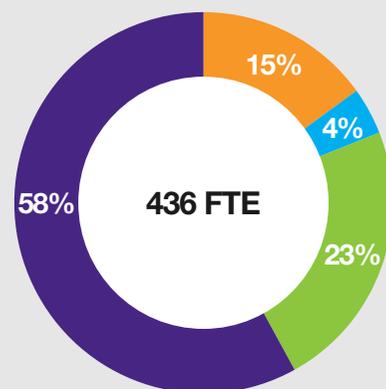


1. Does not include transactions from discontinued Salary Solutions, Aspire, Mylease, Pay-Plan and Lease & Asset Finance systems.
 2. 2017 reflects full year impact of less-automated Autopia and Selectus acquisitions.

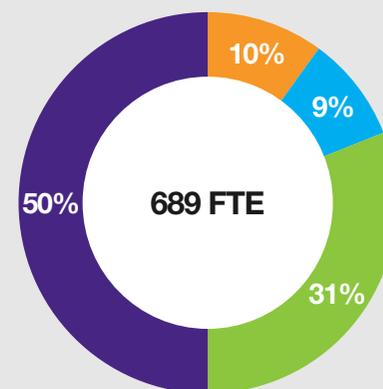
The staffing profile reflects the successful integration of acquired businesses and the focus on our customers and technology



NOVEMBER 2015



ACQUISITIONS SINCE IPO¹



DECEMBER 2019

Packages	132,500	157,500	358,500
Novated leases under management	32,500	27,100	68,500
Packages / FTE	363	361	520
NL VUM / FTE	89	62	99

● Corporate
 ● IT
 ● Sales and Marketing
 ● Operations

1. Includes all acquisitions completed since November 2015; excludes 50% equity stake in Health-e Workforce Solutions.

Smartgroup continued to be recognised as one of Australia's most customer-centric companies, as well as an inclusive and diverse employer

Smartgroup capabilities triangle

Customer service

Providing and maintaining the highest levels of service, to ensure an optimal experience for our customers, is paramount.



Smartsalary
2015 – 2019 Maintained highest ever CSIA accreditation score



2019 National Service Champion
2017 National Service Champion
2016 National Service Champion
2015 Highly Commended (National)
2011–2015 Winner (NSW State)
2012 Winner (National)

Innovation

We strive for continuous improvement and process efficiency.



Smartgroup
Five times since 2013

— FINANCIAL REVIEW —
MOST INNOVATIVE COMPANIES

Employee engagement

The foundation of operational excellence at Smartgroup.




INCLUSIVE EMPLOYER 2019–2020



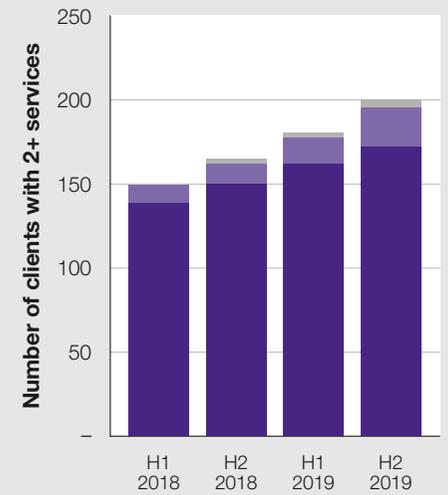
Smartgroup
Forbes Asia Best Under A Billion 2019

Smartgroup continued to see success in delivering multiple services through core, new and partner service offerings

200 clients now use two or more service offerings

Smartgroup service	Number of Smartgroup services used by individual clients																	
	2 services						3 services						4 services					
Core services																		
Salary packaging ¹ c.4,000 clients	[Grid of colored blocks representing client counts for 2, 3, and 4 services]																	
New service offerings																		
Fleet management	[Grid of colored blocks]																	
PBI fleet solutions	[Grid of colored blocks]																	
Payroll	[Grid of colored blocks]																	
Share plan administration	[Grid of colored blocks]																	
Workforce management ²	[Grid of colored blocks]																	
Partner service offerings																		
Mortgage health check	[Grid of colored blocks]																	
Debt management	[Grid of colored blocks]																	
Client numbers using services	51+	11-50	11-50	11-50	11-50	1-10	1-10	1-10	1-10	1-10	1-10	1-10	1-10	1-10	1-10	1-10	1-10	1-10

Number of clients using two or more services has grown c.30% over the last 2 years



- Number of clients using 2 services
- Number of clients using 3 services
- Number of clients using 4 services

1. Approximately 20 benefits can be salary packaged, one of which is a novated lease.
 2. Workforce management clients are individual hospitals, serviced by Health-e Workforce Solutions, 50% owned by Smartgroup.



Integration of acquired businesses and consolidation of salary packaging service delivery continues

		Acquisition completion date	Integration completion date	Rebatable ¹	PBI ²	Government	Corporate
Continuing brands		NA					
		May 2017					
		December 2015					
		July 2016					
Retiring/retired brands		August 2016	Expected 2020				
		October 2017	Q2 CY 2019				
		August 2017	Q4 CY 2017				
		April 2019	Q3 CY 2019				
		June 2019	Q3 CY 2019				
		October 2019	Q4 CY 2019				

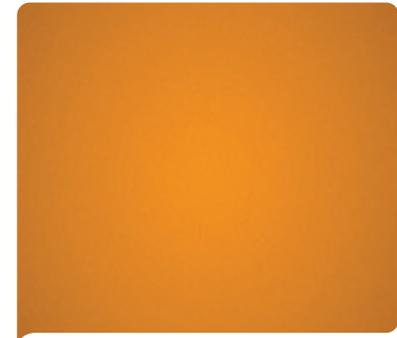
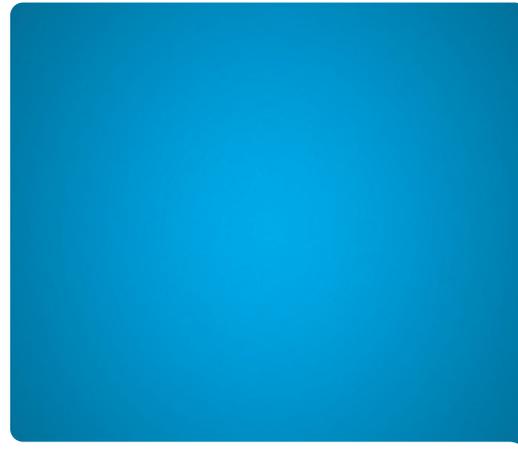
● New client servicing functionality ● Continuing client service model ● Clients transitioned and brand retired

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.

Financial results

Full year CY 2019

Tim Looi
Chief Financial Officer



In CY 2019 Smartgroup delivered continued growth across all financial metrics...

\$m	CY 2019 adjusted ¹	CY 2018 adjusted ²	Change %
Revenue	249.8	241.8	3%
EBITDA ³	118.2	115.0	3%
NPAT	62.5	59.8	5%
NPATA	81.0	77.8	4%

1. A reconciliation of the statutory accounts to adjusted earnings is attached in the Appendix.
2. EBITDA, NPAT and NPATA comparatives restated for one-off impact on application of AASB 16 Leases from 1 January 2018.
3. EBITDA excludes \$0.3m (\$0.3m CY 2018) for joint venture contribution.

...and generated after-tax operating cashflow of 110% of NPATA¹

\$m	Adjusted CY 2019 ²	Adjusted CY 2018 ²
Receipts from customers (inclusive of GST)	283.0	270.1
Payments to suppliers and employees (inclusive of GST)	(161.4)	(156.1)
Interest receipts from operations	2.2	2.6
Interest paid	(1.6)	(3.8)
Interest paid on lease liabilities	(1.0)	(0.9)
Income taxes paid	(31.8)	(31.4)
Net cash from operating activities	89.4	80.5
As a % of NPATA	110%	103%
Capital expenditure	(0.9)	(0.4)

1. Operating cash flows include the impact of AASB 16 Leases. Under the previous accounting standard, operating cash flows as a percentage of NPATA would have been 107% (2018: 100%).

2. Excludes payments for M&A transaction costs (inclusive of GST) of \$0.4m (2018: \$0.8m). Net cash from operating activities excludes receipts and payments from customers' salary packaging accounts and significant non-operating items.

Smartgroup's balance sheet is well capitalised

\$m	Note	31 Dec 2019 statutory	31 Dec 2018 statutory
Cash		39.6	39.2
Restricted cash*	1	65.8	42.3
Trade and other current assets	2	28.3	36.3
Current assets		133.7	117.8
Property and equipment		1.4	1.9
Right-of-use assets		11.6	11.5
Intangible assets		311.9	318.3
Other non-current assets		14.7	14.5
Non-current assets		339.6	346.2
Total assets		473.3	464.0
Trade and other payables		35.3	29.2
Customer salary packaging liabilities	1	65.8	42.3
Lease liabilities		15.2	15.6
Provisions and other liabilities	2	19.9	31.6
Non-current interest-bearing loans	3	60.4	53.0
Total liabilities		196.6	171.7
Net assets		276.7	292.3
Issued capital		259.1	256.7
Retained earnings & reserves	4	17.6	35.6
Total capital		276.7	292.3
Net corporate debt**		21.0	14.6
Net corporate debt / LTM EBITDA		0.2	0.1

Notes

1. Restricted cash and customer salary packaging liabilities represent funds held in common salary packaging accounts on behalf of clients.
2. Following a change in funding arrangements for Fleet West managed vehicles, back-to-back leased vehicle assets have reduced by \$7.6m in 2019 and leased vehicle borrowings have reduced by \$8.3m. Vehicle borrowings have been excluded from net corporate debt.
3. Syndicated debt facility is provided by two major Australian banks and matures at the end of CY2021. \$6.9m drawn during 2019.
4. Retained earnings & reserves reduction due to payment of 2018 final and 2019 interim ordinary dividends (\$55.8m) and 2019 special dividend (\$26.3m).

* Restricted cash and all customer salary packaging cash can be used only for those customers' salary packaging payments and not for working capital purposes.

** Excludes capitalised borrowing costs of \$0.3m (2018 \$0.7m) and vehicle borrowings of \$1.1m (2018 \$9.4m).



Regulatory review of add-on insurances

- There are two ongoing regulatory reviews from the Australian Securities and Investments Commission (ASIC) and the Australian Department of Treasury (Treasury) which have the potential to impact the future contribution Smartgroup receives from add-on insurance products.

Regulator	Summary
ASIC	<ul style="list-style-type: none">• Consultation paper “CP324: Product Intervention: The sale of add-on financial products through caryard intermediaries” released October 2019.• Submissions were provided by 12 November 2019 since which point ASIC has not provided an update.
Australian Department of Treasury	<ul style="list-style-type: none">• Treasury paper entitled “Financial Services Royal Commission – Enhancing consumer protections and strengthening regulators” which includes exposure draft legislation to be introduced into Parliament by mid-2020, released 31 January 2020 for public comment.• Includes recommendations associated with the provision of add-on insurance with a consultation process open until 28 February 2020.

- Given the draft nature of the recommendations, the range of possible outcomes and potential steps Smartgroup might take to mitigate any impact, Smartgroup is not yet able to provide specific detail on the quantum and timing of any such impacts, and whether or not they will be material.
- After adjusting for the insurance underwriter changes announced in December 2019, Smartgroup estimates that it generates c.\$17m^{1,2} revenue per annum from the sale of add on insurance products expected to be covered by the ASIC and Treasury reviews.
- Smartgroup will continue to consult with both ASIC and Treasury in relation to proposed reforms.

1. Aggregate revenue from sales of Lease Protection Insurance, Platinum Warranty Insurance, Tyre and Wheel Insurance and Total Assist Insurance. Does not include revenue from Comprehensive Insurance and other products that are not expected to be covered by the proposed Treasury reforms.
2. Proforma based on estimated full-year impact of changes on CY 2019 revenue announced in December 2019.

Senior Management update

- As announced in November 2019, Deven Billimoria to retire as Managing Director and CEO (effective 28 February 2020).

- Tim Looi to commence as Managing Director and CEO (from 29 February 2020).

- Recently appointed executives add experience and capability to the Executive Management Team:

Nigel Underwood
Chief Financial Officer



Prior experience:

CFO of Bellamy's Australia (ASX:BAL) after senior finance roles in Qantas, Jetset, Virgin Australia and Keolis Downer.

Commencement date:

April 2020

Angus Buckley
Chief Commercial Officer



Prior experience:

Investment banking at Macquarie Capital, since 2003.

Commencement date:

January 2020

Tony Forward
Chief Information Officer



Prior experience:

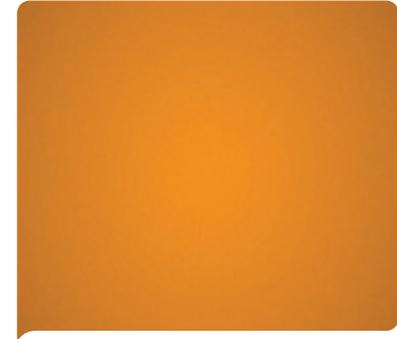
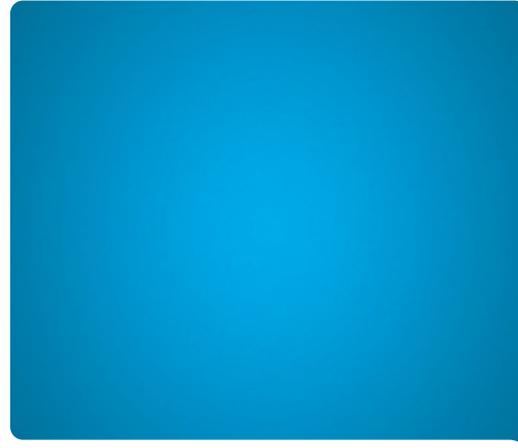
CIO, Australia & New Zealand, QBE Insurance and Technology leadership positions at IAG, BT Financial Group and Westpac.

Commencement date:

January 2020
(Acting CIO since October 2019)

Closing remarks...

Deven Billimoria
Managing Director and CEO



In summary

- 1. Smartgroup has delivered another year of positive financial and operational results despite some industry headwinds.**

- 2. Success in servicing clients and expanding service offering.**

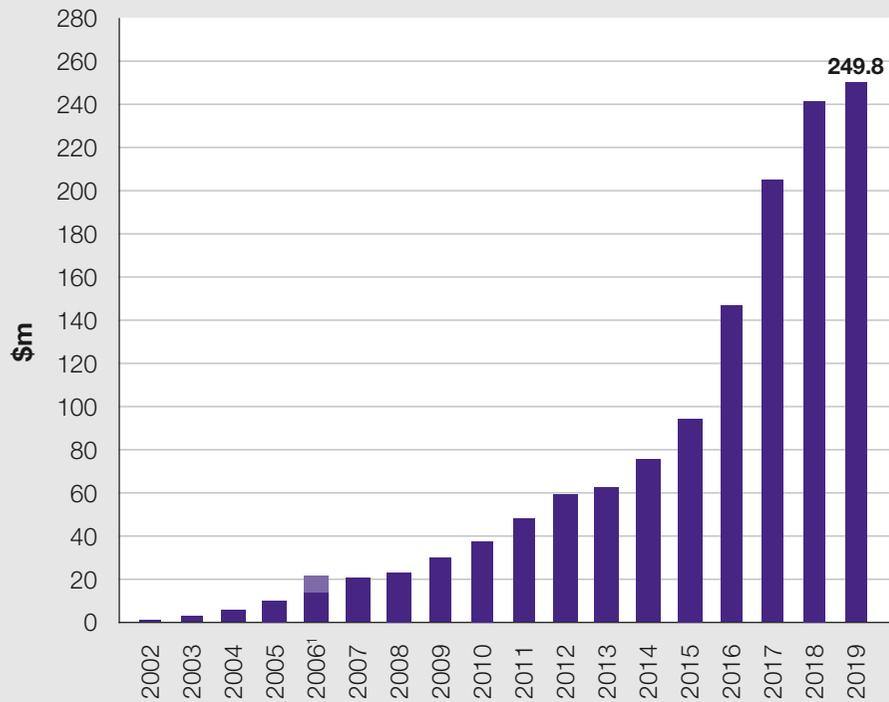
- 3. Continued progress with automation and the consolidation of service delivery.**

- 4. Strong cashflow generation with flexible balance sheet.**

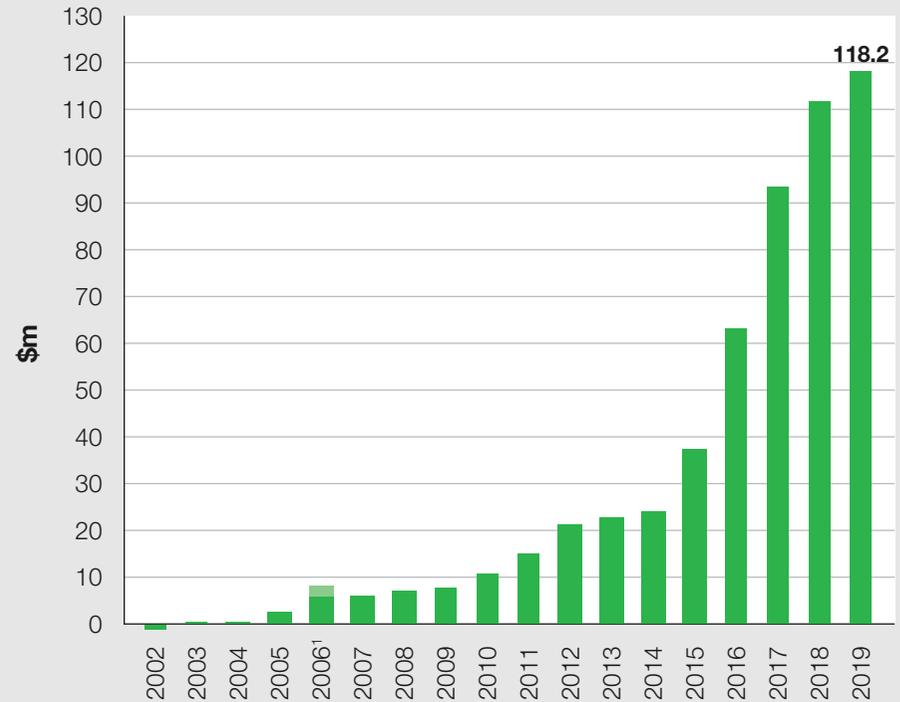
- 5. Fully franked final ordinary dividend of 21.5cps, bringing full year ordinary dividends to 43.0cps, plus a 20.0cps special dividend.**

...building on our track record since company inception

Revenue

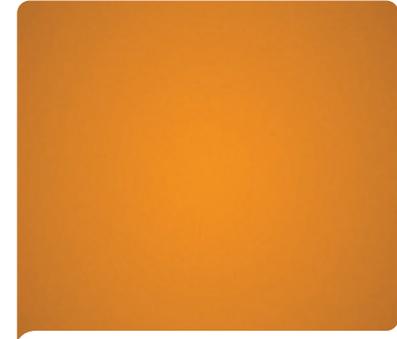
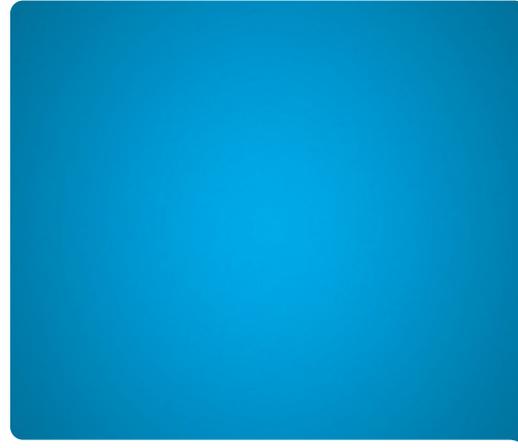


EBITDA



1. 2006 represents 18 months of results due to the change of year end from 30 Jun to 31 Dec.

Questions?



Appendix

– reconciliation of earnings to statutory financial statements

\$m	2019 statutory results	Reclass: Equity share of investments	Add back: M&A costs	Add back: Onerous lease costs (acquired properties)	Add back: acceleration of LTIP expense	2019 Reported
Revenue	249.8	–	–	–	–	249.8
Operating EBITDA	116.9	–	0.6	0.4	0.3	118.2
Joint venture contribution	–	0.3	–	–	–	0.3
Segment note EBITDA	116.9	0.3	0.6	0.4	0.3	118.5
Depreciation expense	(3.5)	–	–	–	–	(3.5)
Amortisation expense	(21.7)	(0.3)	–	–	–	(22.0)
Net finance costs	(3.0)	–	–	–	–	(3.0)
PBT	88.7	–	0.6	0.4	0.3	90.0
Income tax expense	(27.3)	–	(0.1)	(0.1)	–	(27.5)
NPAT	61.4	–	0.5	0.3	0.3	62.5
Add back: Amortisation of acquired intangibles	14.8	0.2	–	–	–	15.0
Cash tax benefit	3.5	–	–	–	–	3.5
NPATA	79.7	0.2	0.5	0.3	0.3	81.0
Shares on issue (millions)						131.7
NPATA per share (cps)						61.5

Appendix

– reconciliation of the movement in net tangible assets

	\$m	# of shares (m)	NTA (cps)
Net tangible assets – Dec 2018	(45.6)	130.9	(34.83)
Net cash from operating activities	89.0		
Increase in borrowings	(6.9)		
Ordinary dividends paid	(55.8)		
Special dividend paid	(26.3)		
Other tangible asset/liability movements	(9.5)		
Net tangible assets – Dec 2019	(55.1)	131.7	(41.85)

Important notice and disclaimer

Disclaimer

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