



ASX Announcement

Release date: 6 May 2021

Macquarie Australia Conference and 2021 business update

Smartgroup Corporation Ltd (ASX: SIQ) ("Smartgroup" or "the Company"), a specialist employee management services provider, is pleased to provide a business update ahead of its participation in the Macquarie Australia Conference today.

Business update to 30 April 2021

- New health sector client onboarded in April with c.8,500 packages
- Successful multi-year contract renewal for a long-term government education client
- Large client renewals progressing well, with tender in progress for the largest client
- Salary packaging customers up 12,000 since December 2020, 3% growth
- Novated leases and fleet vehicles under management remain stable, despite volumes continuing to be hampered by industry vehicle supply issues
- Novated leasing yields down 2% on H2 2020 monthly average due to lower product uptakes
- Revenue at \$71.0 million and NPATA at \$21.9 million (both unaudited), for the 4 months to 30 April 2021
- Small net debt position following payment of 2020 final and special dividends in March

Smartgroup CEO Tim Looi said "We are pleased with the start to 2021. In the four months to 30 April 2021, Smartgroup has performed well securing client renewals, as well as new client wins. Salary packaging has seen good growth and with a return to increased on-site client activities, we are well placed for the rest of the year."

A Smart Future: Targeting EBITDA uplift of \$15-20 million in 2024, a ~20% increase

Smartgroup's strategy is to drive dividend and earnings growth by being the trusted partner for Australian employers to deliver benefits to their employees.

Smartgroup is pursuing an estimated addressable market opportunity of 1.2-1.5 million employees of Smartgroup's current clients. Smartgroup estimates that there are up to 1.2 million cars owned by our clients' employees, of which just over 66,000 are novated leases under management. This represents a significant opportunity to drive growth in novated leases within the existing customer base.

To drive this growth, we will be focusing on three strategic pillars:

1. **Delivering great customer experiences** for both our salary packaging customers and their employees;



2. **Investing in digital** to create a seamless customer experience, which will enhance product take-up amongst our clients' employees and increase margins through a lower cost to serve; and
3. **Simplifying and streamlining operations** to reduce complexity and risk, driving both operational efficiencies and better ways to service our customers.

The management team has already progressed well in pursuit of this opportunity, building the foundations for greater business efficiency through integration of acquired brands and platforms, implementation of initiatives to simplify the organisational structure, and alignment of incentive structures across the business.

The next phase of strategic initiatives, The Smart Future, is expected to deliver sustainable operational and financial benefits. Management is targeting additional annualised EBITDA uplift (above system growth) of \$15-20 million in 2024, with some initial EBITDA uplift targeted to commence in H2 2022. It is expected that approximately two thirds of this uplift will be driven by revenue expansion and one third from sales and services efficiencies.

The digital investment required to achieve this outcome is estimated to be in the order of \$5-6 million per annum over the next three years, of which around \$4 million per annum is expected to be capex (amortised over a 3-5 year period). This will be funded from the strong cashflows generated by the Company. This investment is partially offset by a c.\$2 million per annum reduction in operating expenses, once the transition of Advantage clients to the Smartsalary and AccessPay brands is complete.

Smartgroup CEO Tim Looi said: "We are pleased to share our progress for 2021 so far and look forward to building on the momentum we have established through implementation of our strategic pillars. The Smart Future investment is targeted to generate sustainable additional annualised EBITDA uplift of \$15-20 million in 2024, through both revenue expansion and operational efficiency."

The remainder of 2021 will see management focus on progressing the transition of Advantage clients to Smartsalary and AccessPay, commencing work on the digital investment program and driving shareholder returns.

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

For further information:

Website: www.smartgroup.com.au

Email: Investor Relations: ir@smartgroup.com.au

Anthony Dijanosic
Chief Financial Officer
1300 665 855

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

Macquarie Australia Conference

6 May 2021

Tim Looi – Managing Director and CEO

smart
group
corporation

Our investment proposition

Smartgroup's investment proposition is underpinned by its capital light business model, generating strong cash flows and dividends

- ✓ Premium established player with scale in a proven industry
- ✓ High quality earnings, with high cash flow conversion, solid returns and fully franked dividends
- ✓ Robust capital light business model supported by a strong balance sheet
- ✓ Diversified customer base operating in attractive sectors
- ✓ Strong long-term contractual relationships with key clients
- ✓ Organic growth strategy and targeting enhanced operational efficiencies through digital investment



360,000+

Salary
Packaging
customers



~66,000

Novated
Leases



~25,000

Fleet
Vehicles
Managed



~700

Full Time
Equivalents

What we do

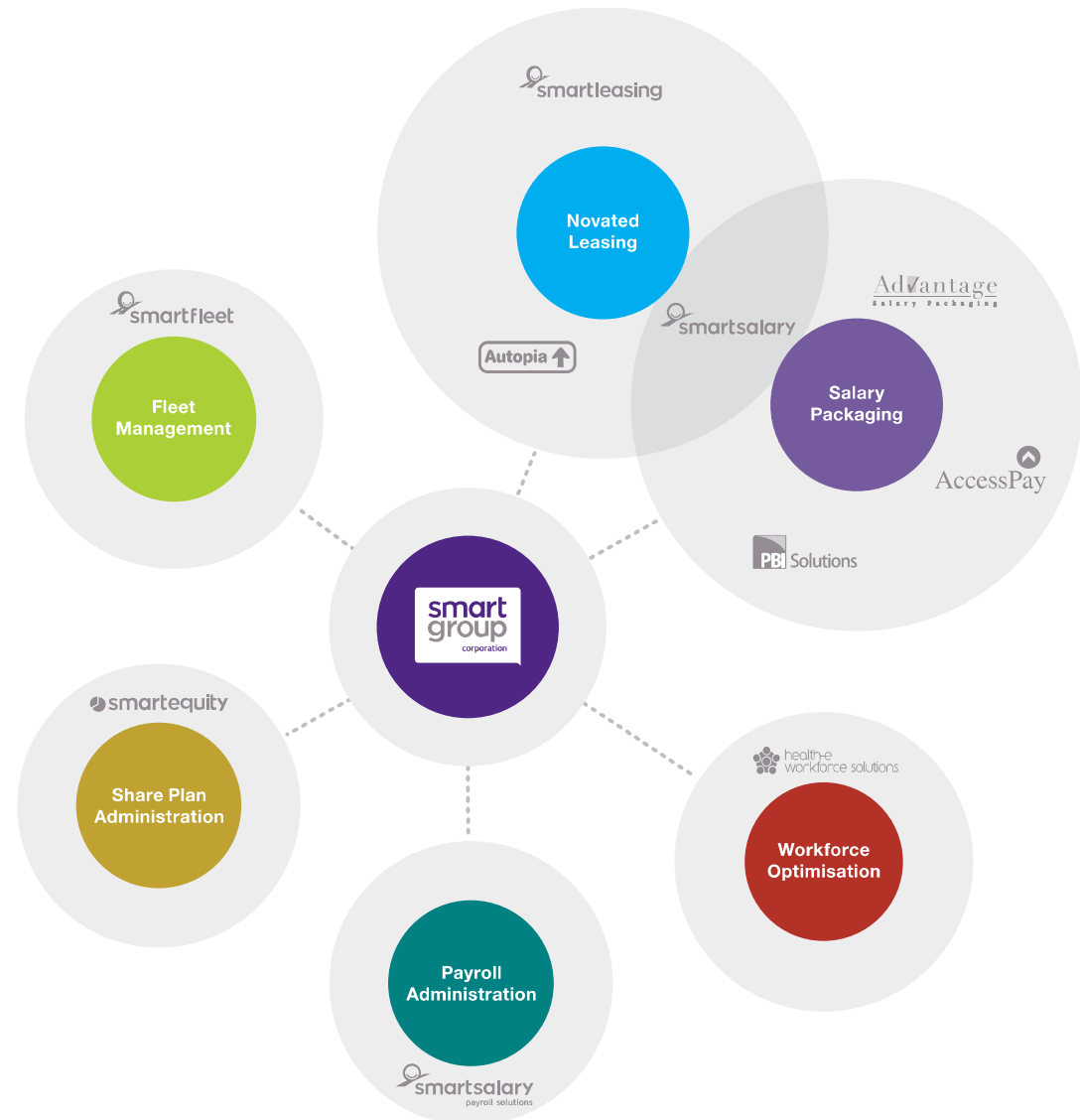
At Smartgroup, we simplify salary packaging, fleet management and a range of other employee management services for organisations across Australia

Our services

- Salary packaging
- Novated leasing
- Outsourced or inhouse fleet management
- Payroll administration
- Share plan administration
- Workforce optimisation

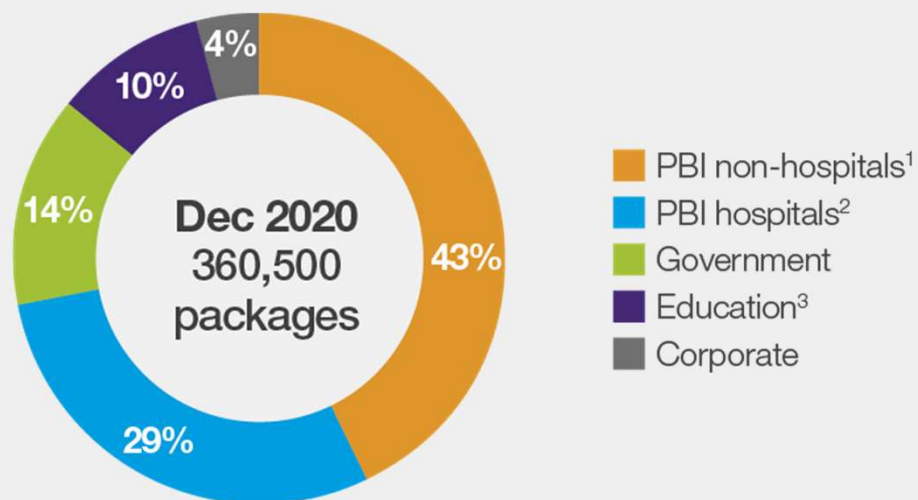
Our clients and customers

- Employers and their employees
 - Charities and other Not For Profit entities
 - Government – local, state and federal
 - Healthcare providers – public and private
 - Corporates – small, medium and large
 - Education providers – public and private schools and universities

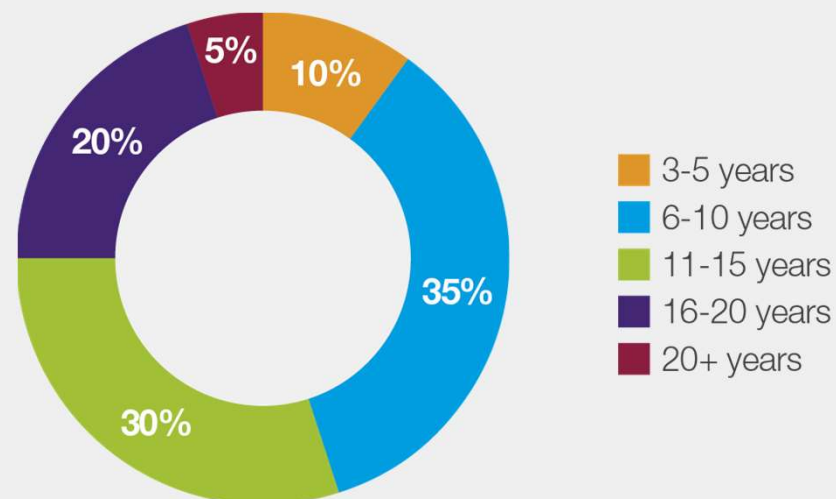


Strong long-term relationships with key clients

Salary packaging client and customer profile



Relationship length of Top 20 clients



1. '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.

2. 'PBI hospitals' includes public and private not-for-profit hospitals.

3. 'Education' includes public and private not-for-profit educational institutions.

2020 full year results recap

Delivering good performance in challenging times

Results to 31 December 2020

✓ Financial results in line with guidance

- Revenue of \$216.3m down 13% vs CY2019
- NPATA¹ of \$65.2m vs guidance of c.\$65m, down 20% vs CY2019

✓ Steady operational performance in a challenging environment

- 100% renewal or extension of the top 20 client contracts maturing in 2020 (8 in total)
- Total packages in line with Dec 2019
- Novated leases under management down 3% vs Dec 2019
- Fleet vehicles under management up 4% vs Dec 2019

✓ Continued simplification

- Restructure of operational workforce, leading to c.\$4m annual cost savings
- Retirement of the Selectus platform
- Ongoing rationalisation of systems

✓ Strong cashflow generation and net cash position

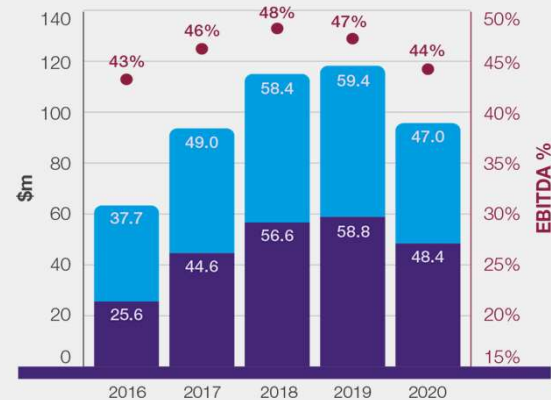
- Adjusted after-tax operating cashflows at 115% of NPATA¹ and a net cash position at \$2.5m
- Fully franked final dividend of 17.5cps² (covering H2 CY 2020 period) and fully franked special dividend of 14.5cps²
- Total fully franked ordinary and special dividends of 49.0cps³

Cost discipline supports strong EBITDA margin of 44%

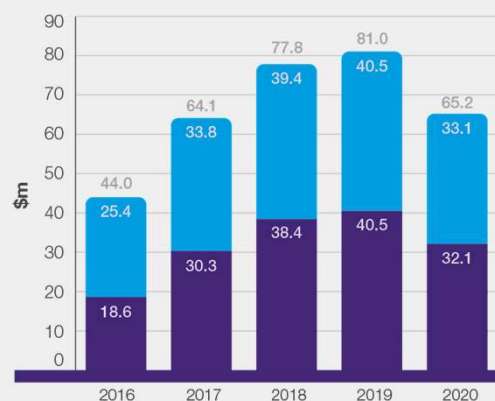
Revenue



EBITDA¹



NPATA¹



Dividend (fully franked)²

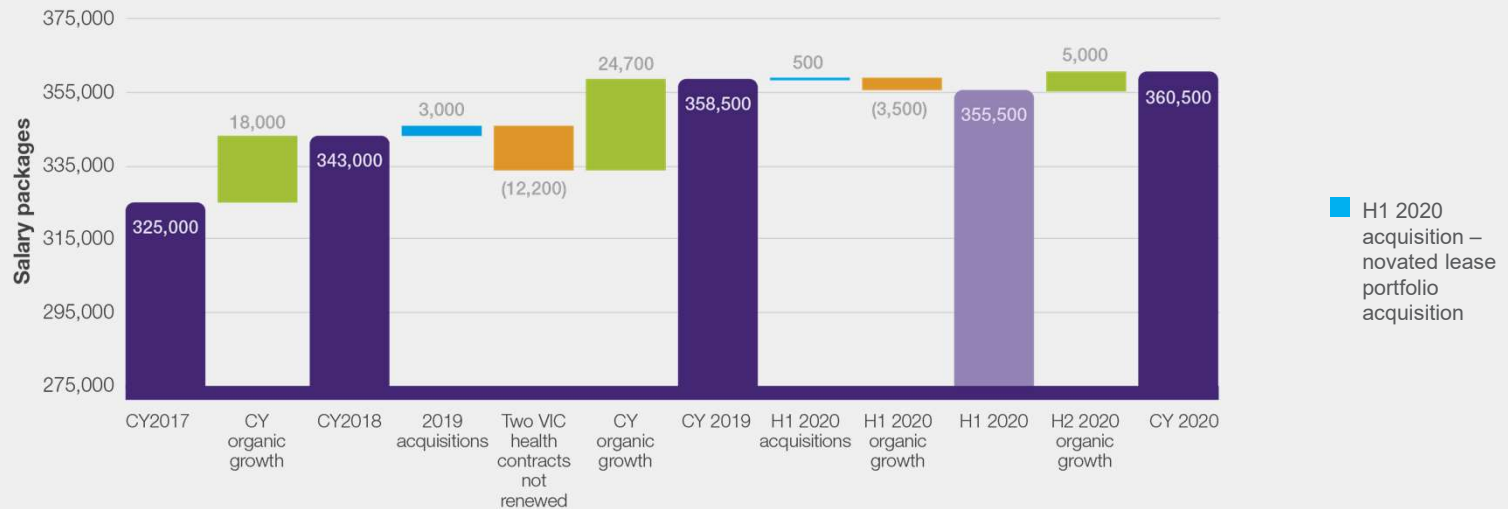


1. Adjusted to reflect one-off impact on adoption of AASB 16 Leases from January 2018. Impact is to increase 2018 EBITDA by \$1.6m in each of H1 and H2 and reduce 2018 NPATA by \$0.1m in each of H1 and H2.

2. The profits related to the \$7.3m special dividend were transferred to the group holding company in 2021 and therefore this is classified as an interim special dividend in respect of the 2021 year.

Salary packaging customer numbers remained stable

Salary packaging customers

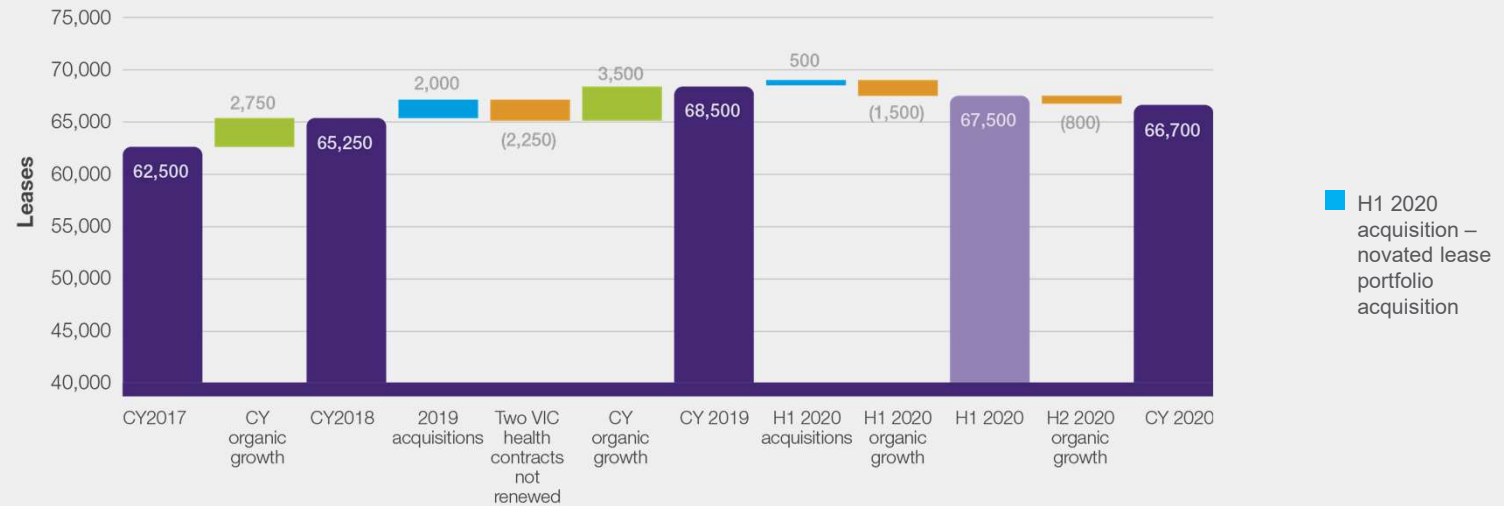


CY 2020 net organic growth of 1,500 packages

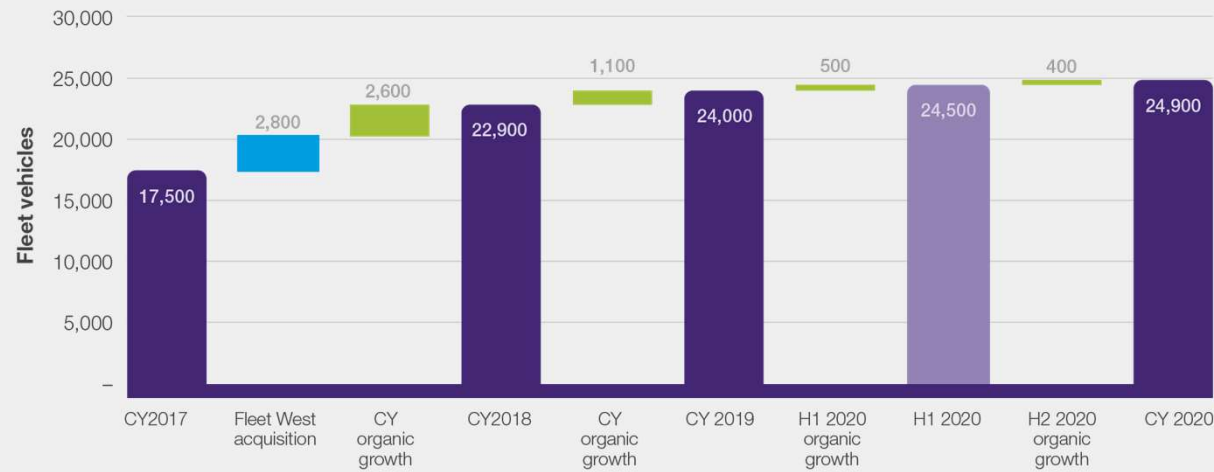
Onboarded new health client in late 2020 with c.3,500 packages and added to novated leasing panel for 4 government departments

Novated leases and fleet vehicles under management remained stable

Novated leases under management



Fleet vehicles under management



Business update to April 2021

Solid start to 2021

✓ New client and renewals – a positive start to the year

- Onboarded new health contract in April – c.8,500 packages
- Successful multi-year contract renewal for a long-term government education client
- Large client renewals progressing well, with tender in progress for largest client

✓ Operations

- Salary packaging customers up by c.12,000 (+3%) since December 2020
- Stable novated leases and fleet vehicles under management
- New novated leasing volumes stable versus H2 2020 monthly average
- Novated lease yields down 2% on H2 2020 monthly average due to lower product uptakes
- As expected, vehicle supply issues continue to impact new novated lease volumes

✓ Financials

- Revenue at \$71.0m and NPATA at \$21.9m (both unaudited) for the 4 months to 30 April 2021
- Small net debt position following payment of 2020 final and special dividends in March

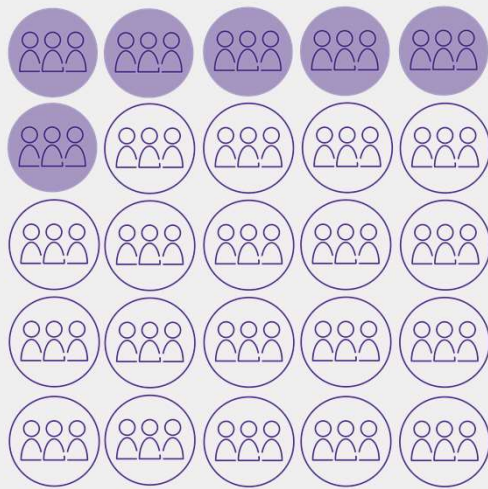
The Smart Future program

Investing for organic growth


We have built a client base that employs a large number of Australians

Significant organic growth opportunities from existing clients

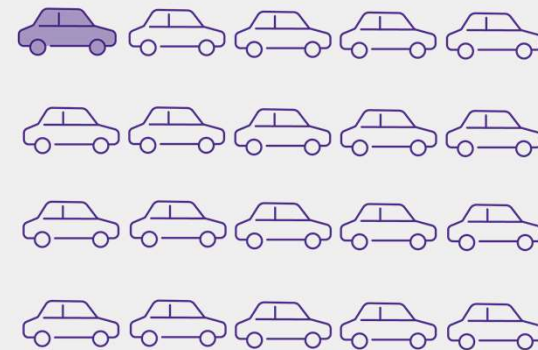
Addressable market
c.1.2-1.5m¹ employees within
existing client base





 Equals 60,000 employees
(potential customers)

 Smartgroup customers

Addressable market
c.0.9-1.2m² total cars owned by
those employees



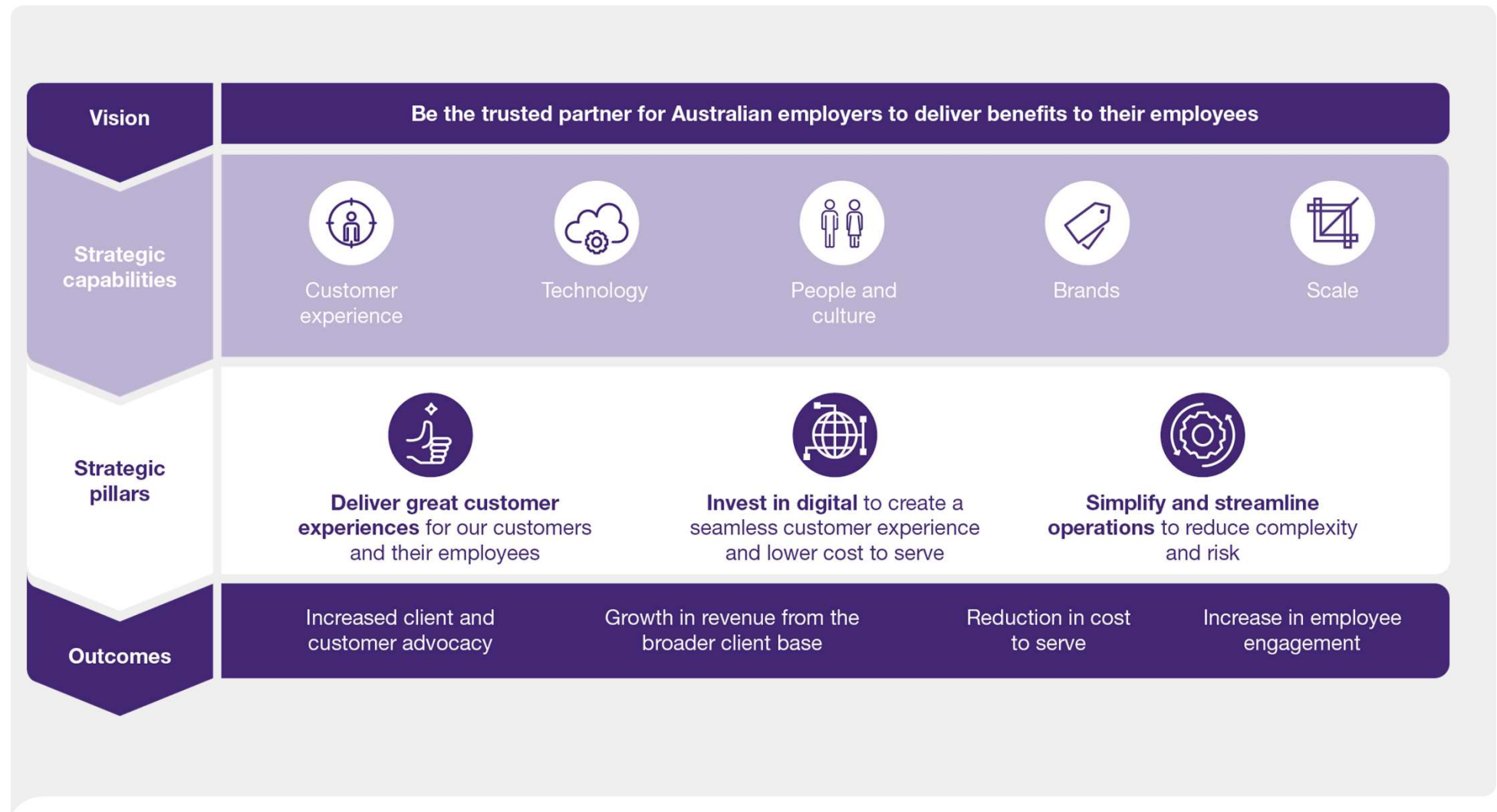
 Equals 60,000 cars (potential
Smartgroup novated vehicles)

 Smartgroup novated vehicles

1. Number of employees within existing client base is a Smartgroup management estimate based on publicly available data and data provided by current clients
2. Number of cars owned by those employees is a Smartgroup management estimate derived within input from ABS 3101.0 National, state and territory population Sept 2020, ABS Motor Vehicle Census Australia 2020, and VFACTS private vehicle sales data

The Smart Future program

Driving dividend and earnings growth



The Smart Future will deliver great digital experience to our customers

New digital capabilities will drive simplification, growth and efficiency

Customer experience



Re-design client and customer portals and apps



Re-design websites and calculators



Leverage common CRM across group

Streamline operations



Streamline reporting and dashboards across brands



Align processes across brands and core systems



Invest further in business automation

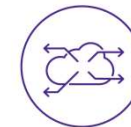
Technology foundations



Continue migration to cloud-based software



Implement new digital experience platform



Enhance API capabilities

We are making good progress on the foundations of the program

Brand consolidation and operational simplification well advanced, paving the way for digital investment

Strategic pillars



Customer experience

Customer journey mapping

Experience training across front lines

Rollout of NPS across the group



Digital investment

Consolidation of back end and digital IT platforms

Insource intelligent automation capability



Streamline operations

Simplified organisational structure

Rollout of group wide values

Aligned incentive structures across all brands

The Smart Future program: Targeting EBITDA uplift of \$15-20 million

- ✓ The full implementation of the program is expected to result in significant operational and financial benefits
- ✓ Targeting \$15-20 million annualised EBITDA uplift from those strategic initiatives, in addition to system growth
 - 2/3 from revenue expansion
 - 1/3 from sales and service efficiencies
- ✓ Sustainable EBITDA uplift expected to commence in H2 2022, building to targeted \$15-20m in 2024
- ✓ Estimated \$5-6m p.a. of digital investment over the next 3 years, funded from operational cash flows, of which c.\$4m p.a. is expected to be capex (amortised over 3-5 years)
- ✓ Partially offsetting this investment is a c.\$2m p.a. reduction in operating expenses, once brand consolidation program is completed at the end of 2021

The Smart Future outcomes

Increased client and customer focus

Growth in revenue from the broader client base

Reduction in cost to serve

Increase in employee engagement

In conclusion

2021 off to a good start

- We are pleased with the start to 2021. In the four months to 30 April 2021 Smartgroup has performed in line with our expectations, with client renewals and wins, and an increase in on-site client activities
- Vehicle supply expected to remain tight for the remainder of the year
- Remainder of 2021 will see us focus on the transition of Advantage clients to the Smartsalary and AccessPay brands, and delivering the foundations for The Smart Future investment program
 - Progress transition of Advantage clients
 - Deliver technology foundations
 - Launch new novated lease calculators
 - Re-design websites
- Focus on organic growth to drive dividends and earnings for shareholders

Questions?

Important notice and disclaimer

Disclaimer

This presentation has been prepared by Smartgroup Corporation Ltd (ACN 126 266 831) (“Smartgroup”) and is general background information about Smartgroup’s activities current as at the date of this presentation. The information is given in summary form and does not purport to be complete.

To the extent that certain statements contained in this presentation may constitute “forward-looking statements” or statements about “future matters”, the information reflects Smartgroup’s intent, belief or expectations at the date of this presentation. Smartgroup gives no undertaking to update this information over time (subject to legal or regulatory requirements). Any forward-looking statements, including projections, guidance on future revenues, earnings and estimates, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Smartgroup’s actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Any forward-looking statements, opinions and estimates in this presentation are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions. Neither Smartgroup, nor any other person, gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this presentation will actually occur. Past performance is no guarantee of future performance.

No representation or warranty, express or implied, is made as to the accuracy, adequacy or reliability of any statements, estimates or opinions or other information contained in this presentation. To the maximum extent permitted by law, Smartgroup, its subsidiaries and their respective directors, officers, employees and agents disclaim all liability and responsibility for any direct or indirect loss or damage which may be suffered by any recipient through use of or reliance on anything contained in or omitted from this presentation. No recommendation is made as to how investors should make an investment decision. Investors must rely on their own examination of Smartgroup, including the merits and risks involved. Investors should consult with their own professional advisors in connection with any acquisition of securities.

Non-International Financial Reporting Standards (Non-IFRS) information

This presentation presents financial information on both a statutory basis (prepared in accordance with Australian accounting standards which comply with International Financial Reporting Standards (IFRS) and non-IFRS basis.