ASX & MEDIA RELEASE

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MMS clear strategy to deliver sustainable growth

McMillan Shakespeare Ltd **(ASX: MMS, the Company)** announces its financial results for the half year ended 31 December 2022 (1HFY23).

Group 1HFY23 Highlights:

- **Normalised[1] EBITDA of $67.2m, up 5.7% vs 1HFY22**
- **Normalised[1] UNPATA of $40.4m, up 0.3% vs 1HFY22**
  - **Excluding the UK, where exit options are being considered, Normalised UNPATA increased 8.5%**
- **Growth in key operating metrics including novated lease orders and sales, salary packages under management, net amount financed, and Plan and Support Services customer numbers**
- **Electric Vehicle (EV) Fringe Benefits Tax exemption driving strong uplift in EV demand**
- **Interim fully franked dividend of 58.0 cps (1HFY22 Interim Dividend 34.0cps) representing 100% payout ratio of Normalised UNPATA. 10% off-market share buy-back completed**
- **Clear strategic priorities to deliver sustainable growth**

Group Performance

	1HFY23	%	
Normalised EBITDA [1,2] ($m)	67.2	5.7%	↑
Normalised UNPATA [1,3] ($m)	40.4	0.3%	↑
Statutory NPAT ($m)	35.5	18.1%	↑
Normalised EPS (c)	54.2	4.1%	↑
Interim dividend per share (c)	58.0	70.5%	↑
Return on capital employed (%) [4]	38.7%	4.5%pts	↑

1. Normalised refers to adjustments made for the negative earnings transitional period for the implementation of the funding warehouse, OnBoard Finance ("Warehouse"). It normalises for the Warehouse's in year operating and establishment expenses and for an adjustment for current commissions that would have otherwise been received in period had the sales been financed via a principal and agency funder rather than through the Warehouse. Normalised financials are stated for 1HFY23 and 1HFY22 (for comparative purposes) and are currently expected to be stated up to and including FY25. Normalised impacts of 1HFY23 Revenue $(1.8m), EBITDA $(4.2m), EBIT $(4.7m) and UNPATA of $(3.3m) and 1HFY22 EBITDA $(0.4m), EBIT $(0.4m) and UNPATA of $(0.3m).
2. Earnings before interest, tax, depreciation (excluding fleet and warehouse assets) and amortisation (EBITDA) excludes the pre-tax impact of acquisition and divestment related activities, accounting standard changes and non-operational items otherwise excluded from UNPATA on a post-tax basis.
3. Underlying net profit after tax and acquisition amortisation (UNPATA), being net profit after tax but before the after-tax impact of acquisition and divestment related activities, accounting standard changes and non operational items.
4. Return on capital employed (ROCE), is based on last 12 months' Normalised earnings before interest and tax (EBIT). Normalised EBIT is before the pre-tax impact of acquisition and divestment related activities, accounting standard changes and non operational items otherwise excluded from UNPATA on a post-tax basis. Capital employed (excluding lease liabilities) used in the calculations includes the add back of impairment of acquired intangible asset charges incurred in the respective financial period and also includes add back for the Warehouse.

MMS

Group Performance Commentary

Financial and Operating Performance

- Group Normalised revenue of $314.8m increased 1.0%, Normalised EBITDA of $67.2m increased 5.7% and Normalised UNPATA of $40.4m increased 0.3% with improvements in the Group Remuneration Services (GRS), Plan and Support Services (PSS) and Asset Management (AMS) ANZ businesses moderated by performance of the AM UK businesses.
- Continued focus on the customer across MMS led to growth in key operating metrics. These metrics include novated lease orders and sales, salary packages under management, net amount financed (NAF) and Plan and Support Services customer numbers and support hours.
- In addition, the Group progressed onboarding recent client wins, furthered its digital and data and analytics capabilities to enhance the customer experience and enable future growth, whilst increasing the volume of novated leases financed through the Group's funding warehouse, Onboard Finance.
- The Group also continued to navigate complex market conditions, including rising interest rates and inflation, the ongoing constrained supply of new motor vehicles, and softer economic conditions, most notably in the UK.

Electric Vehicles

- During the period the Commonwealth Government legislated an exemption from Fringe Benefits Tax for eligible low and zero emissions vehicles. The new law helps to address the higher cost of electric vehicles ("EV") and fuel-efficient cars which has acted as one of the key barriers for Australians when considering making the switch to an EV or fuel-efficient car.
- Whilst the EV legislation only became law on 12 December 2022 and is retrospectively applied from 1 July 2022, the Group saw strong uplift in EV activity with a 331% increase in the number of EV orders as a percentage of total novated lease orders in the six months to 31 December 2022 compared with the prior corresponding period.
- MMS is well positioned to capitalise on these changes to assist customers transition into low and zero emissions vehicles.

Sustainability

- The Group continued to progress key sustainability initiatives, including development of a Climate Change Action Plan, becoming a member of Supply Nation to help increase procurement through Indigenous businesses, and reinforcing our efforts on gender diversity leadership by joining the HESTA 40:40:20 Initiative.
- MMS also achieved an uplift in its Morgan Stanley Capital International Environment, Social and Governance (ESG) Rating, from BBB to an A.

Capital Management

- Capital management initiatives undertaken included the completion of a 10% off-market share buyback, which incorporated a significant franked component, and the establishment of a new $60m debt facility to support working capital needs.
- Interim dividend declared of 58.0 cps representing 100% payout of Normalised UNPATA.

Group Strategy

- Clear Group strategy announced, aimed at delivering sustainable growth across MMS' three segments, namely GRS, AMS and PSS.
- The strategy leverages MMS' position as a trusted partner in helping its customers to make their complex matters simple through the products and solutions the Group provides. To enable this intent MMS has aligned and simplified its strategic key priorities across the Group, namely:
  1. Excelling in customer experience;
  2. Driving technology-enabled productivity; and
  3. Delivering competency-led solutions.

Segment Performance

Group Remuneration Services (GRS)

	1HFY23	1HFY22	Change %
Revenue ($m)	108.6	100.5	8.1%
Normalised Revenue[1] ($m)	110.4	100.5	9.9%
Normalised EBITDA[1,2] ($m)	40.4	37.7	7.2%
Normalised UNPATA[1,3] ($m)	23.1	20.9	10.4%

Refer notes above from previous table

- GRS revenue growth was driven by an 11% increase in novated lease sales, an additional 22,149 salary packages by period end and an uplift in interest received from funds administered. Novated lease sales momentum benefited from ongoing customer and client focus, with total novated lease units rising by 3.3% to a record 74,090.
- Whilst some stabilisation in vehicle supply occurred, ongoing constraints resulted in a continued growth of novated lease orders carried over beyond 1HFY23. Total carryover revenue to benefit future periods as at 31 December 2022 was $27.4m, up from $25.6m as at 30 June 2022.
- Uplift in salary packages was underpinned by the transitioning of recent new client wins achieved in FY22 and growth through increased penetration of existing clients.
- Increased GRS revenues were offset by continued investment to support higher order levels and elevated carryover, whilst the Group progressed ongoing investments in digital and data analytics to enhance the customer experience and support future productivity gains.
- The Group's new warehouse facility, OnBoard Finance, increased the number of leases written, ultimately targeting 20% of GRS new novated leases by the end of FY23. The warehouse secures and diversifies the Group's funding sources, while delivering higher overall value per transaction for the business and an increase in annuity-based income. During the warehouse transition period, currently expected to be up to and including FY25, the Group will report normalised UNPATA, which excludes the negative earnings impact of the transition to the warehouse. In 1HFY23 the impact was $(3.3m) which has been excluded from normalised UNPATA, whilst for FY23 the total impact is now estimated at (~$10m).

Asset Management Services (AMS)

	1HFY23	1HFY22	Change %
Revenue ($m)	179.7	191.4	(6.2%)
EBITDA[2] ($m)	22.1	22.3	(1.1%)
UNPATA[3] ($m)	14.8	17.1	(13.7%)

Refer notes above from previous table

- The AMS Australia and New Zealand (ANZ) segment benefited from elevated used vehicle pricing with revenues up 16.3% to $107.5m and Normalised UNPATA up 5.6% to $10.3m. In the UK, challenging conditions impacted activity and overall segment performance.
- AMS ANZ benefited from the expiration of larger customer contracts whilst experiencing stabilising remarketing yields.
- Asset Written Down Value (WDV) of the AMS ANZ segment at $310m (including fleet assets funded utilising principal and agency arrangements) was in line with the previous corresponding period, reflecting automotive supply challenges and their constraint on client vehicle fleet renewal.
- In the UK NAF grew against an environment of rising interest rates and challenging economic conditions affecting business confidence. Remarketing yields remained at elevated levels while the continuing run-off of the Maxxia portfolio and associated on-balance sheet assets resulted in reduced sales opportunities.
- These factors, together with the previous corresponding period having the benefit of a $2.4m non-recurring taxation credit, saw a decline in the segment's UK revenue and operating profit, with revenues down 28.7% to $52.8m and UNPATA down 52.7% to $2.5m.
- In RFS, the Aggregation business benefited from an expanded lending panel and achieved increased commercial volumes driving a 11% increase in NAF to $654m at period end, with total revenues down 4.1% to $19.4m (excluding the sale of Davantage Group Pty Ltd and Presidian Management Services Pty Ltd). Aggregation, whilst adapting well to changes in consumer lending activity, experienced continued competitive pricing and increased labour costs, attributable in part to the re-commencement of on-the-ground client engagement and marketing activity.

Plan and Support Services (PSS)

	1HFY23	1HFY22	Change %
Revenue ($m)	23.4	19.5	19.9%
EBITDA[2] ($m)	4.9	4.5	9.1%
UNPATA[3] ($m)	3.2	2.9	8.6%

Refer notes above from previous table

- PSS continued to focus on investing in the delivery of a scalable platform for future growth, whilst being well placed to assist the Commonwealth Government optimise outcomes for both individuals living with disability, and the broader National Disability Insurance Scheme (NDIS).
- Off the back of strong customer growth, segment revenue increased due to a 27.6% uplift in plan management and support co-ordination customers, and a 45.1% increase in support coordination billable hours.
- Profit margins in the segment were impacted by changes to NDIS client renewal policies and support pricing, which saw no annual fee increases, together with ongoing investment by PSS in technology and digital tools to enhance the customer experience and deliver growth.

- Migration to a common technology platform across the Plan Tracker business was successfully completed, assisting with the focus of the business on the delivery of future efficiencies for the segment.

Outlook

MMS expects many of the trading environment experiences of the first half of FY23 to remain similar for the remainder of FY23.

The focus of the Group for the remainder of FY23 will be on executing MMS's three key strategic priorities to drive sustainable growth, together with:

- supporting customer demand and the increasing opportunity for transition to EVs,
- upcoming client renewals and new tenders,
- further investments to enhance the customer experience and generate productivity improvements,
- continued implementation of the Group's funding warehouse,
- continuing to drive organic growth and consider non-organic growth opportunities within the PSS segment, and
- the exploration of exit options for the UK operations.

MMS CEO, Robert De Luca, said: *"The customer momentum we achieved in the first half led to growth in our key operating metrics and our financial performance, with our interim dividend of 58.0 cents per share being a 100% payout of Normalised UNPATA.*

"Across both our GRS and AMS segments we saw a marked uplift in customer activity around EVs in large part due to the new Commonwealth Government EV Bill. As Australia's largest novated lease provider, we will continue to focus on the increasing opportunity and customer demand for low and zero emissions vehicles as part of our commitment to a low carbon future.

"The underlying performance of the business across the first half reinforces the strong positions we hold in a number of key markets. We look forward to building on our unique position and role as a trusted partner as we execute on our clear strategy to deliver sustainable growth".

1HFY23 Investor Briefing Presentation

The MMS 1HFY23 Results will be presented by Mr Robert De Luca (CEO) and Mr Ashley Conn (CFO) in a live webcast on **Wednesday 22 February 2023 at 9:00am (AEST).**

The Results Presentation can be accessed at https://webcast.openbriefing.com/mms-hyr-220223/

An archive of the event will be available via the above link or on the McMillan Shakespeare website (www.mmsg.com.au) after its conclusion.

This document was authorised for release by the MMS Board.