INVESTOR PRESENTATION

Half year 2021 results

20 August 2021

Tim Looi – Managing Director and CEO
Anthony Dijanosic – Chief Financial Officer

smartgroup corporation

H1 2021 OVERVIEW

Tim Looi
Managing Director and CEO

H1 2021 performance demonstrates good momentum

✓ **Financial results continue to improve**

- Revenue of $109.4m up 4% vs H2 2020, and down just under 2% vs pcp[1]
- NPATA[2] of $33.5m up 1% vs H2 2020, and up 5% vs H1 2020

✓ **Successful renewal outcomes and operating performance**

- Renewal or extension of all top 20 client contracts falling due in CY 2021 (8 in total)
- Largest client, Department of Defence, successfully renewed for 5 years, inclusive of extension options
- Total package growth of 13,000 from December 2020
- Novated leasing orders increased to pre-COVID levels
- Leasing settlement volumes were up 2% on pcp and up 4% on H2 2020
- Novated leasing order growth and ongoing vehicle supply constraints have substantially increased the pipeline of future settlements

✓ **Ongoing simplification and investment in customer experience**

- Client transitions to continuing brands progressing well
- Commencement of investment in the Smart Future program

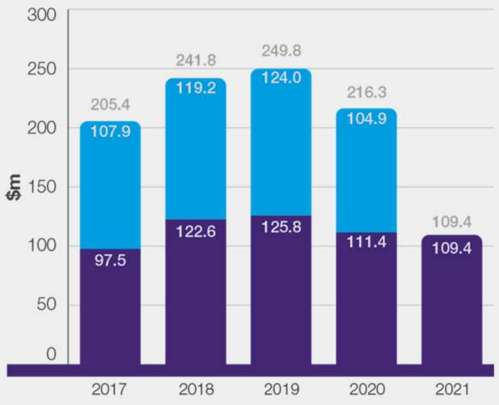
✓ **Strong cashflow generation and small net debt position**

- Adjusted after-tax operating cashflows at 107% of NPATA[2] and net debt at $4.5m
- Fully franked interim ordinary dividend of 17.5cps[3]

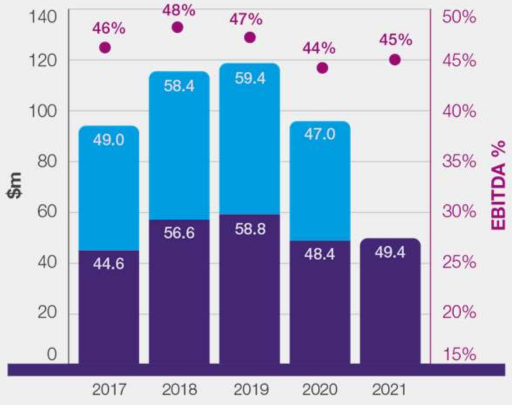
1. c.1% up vs pcp when normalised for insurance partner repricing effective 1 July 2020
2. NPATA is net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of intangibles and significant non-operating items. Refer to Appendix for the reconciliation.
3. Record date of interim ordinary dividend is 2 September 2021 and payment date is 16 September 2021

EBITDA margin remains strong at 45%

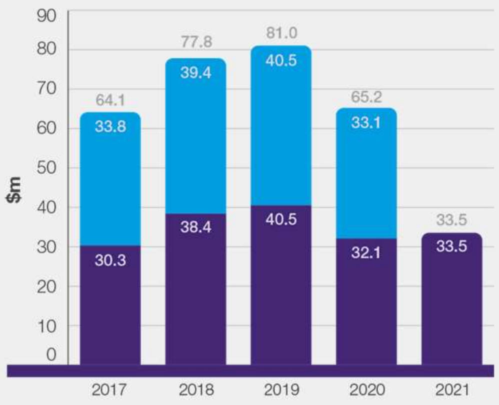
Revenue



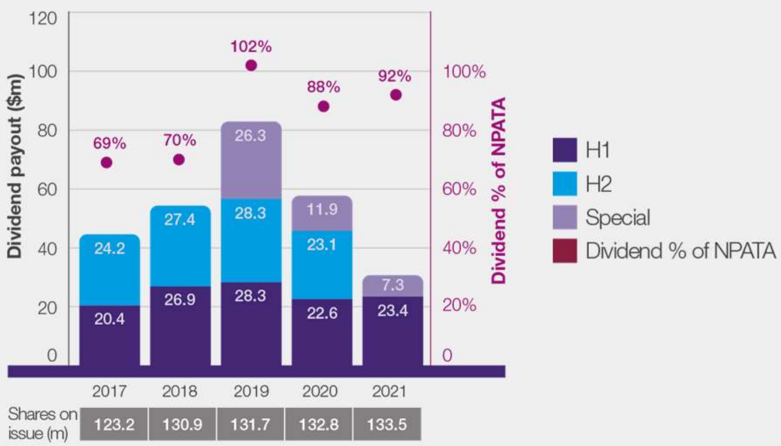
EBITDA[1]



NPATA[1]

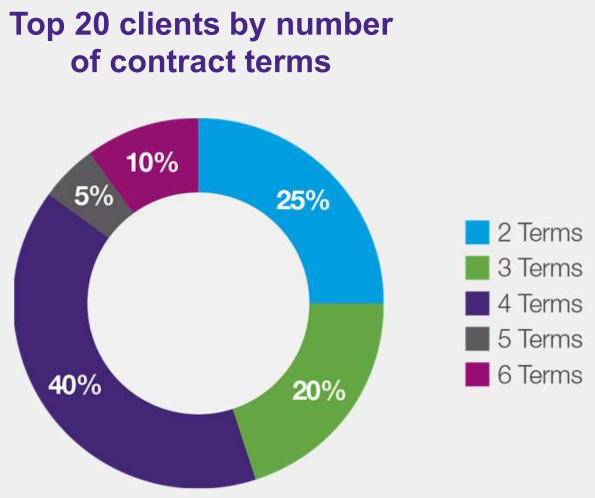


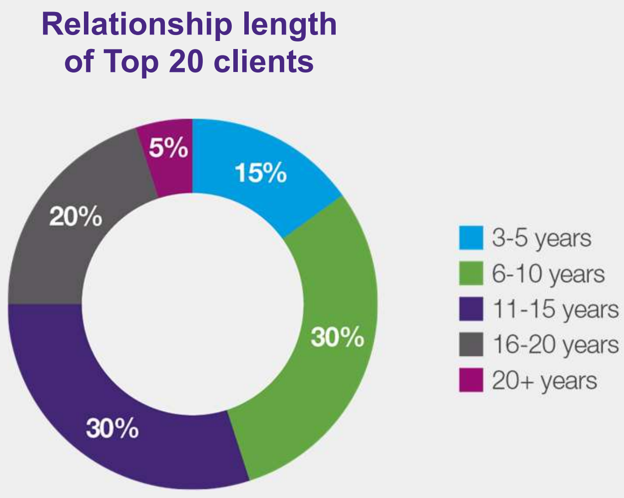
Dividend (fully franked)[2]



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. In addition to the $11.9m 2020 special dividend, a $7.3m 2021 special dividend was declared in February 2021 in relation to profits earned by group companies in 2020. This $7.3m is classified as an interim special dividend within the 2021 Half Year Report.

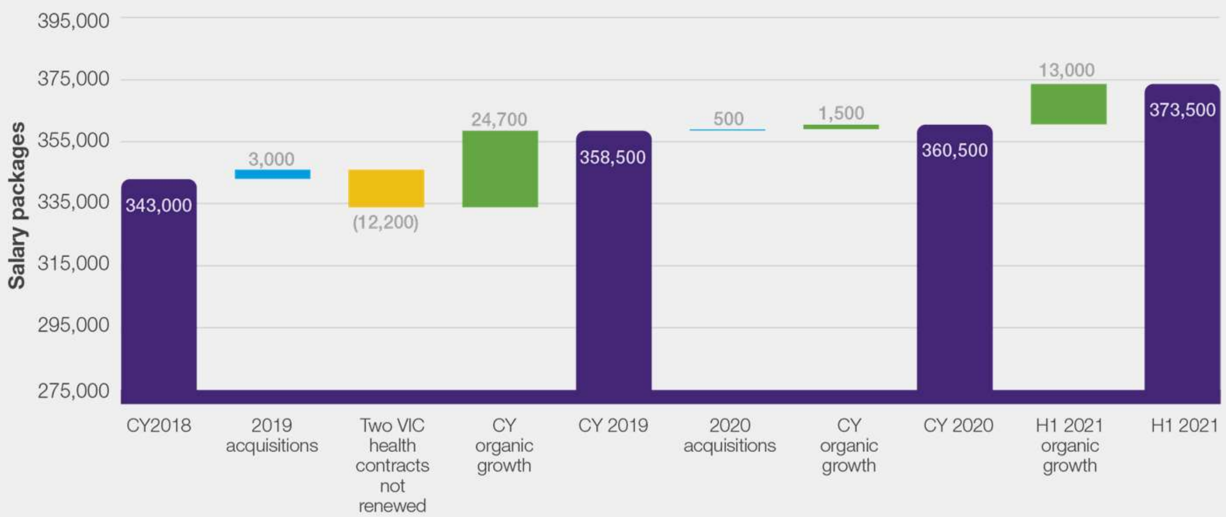
Smartgroup has renewed or extended all key client contracts for 2021





Renewed or extended all top 20 contracts falling due in CY 2021 (8 in total)

Renewed Department of Defence for a term of 5 years inclusive of extensions, through a tender process. Smartgroup remains the exclusive provider of salary packaging to Defence

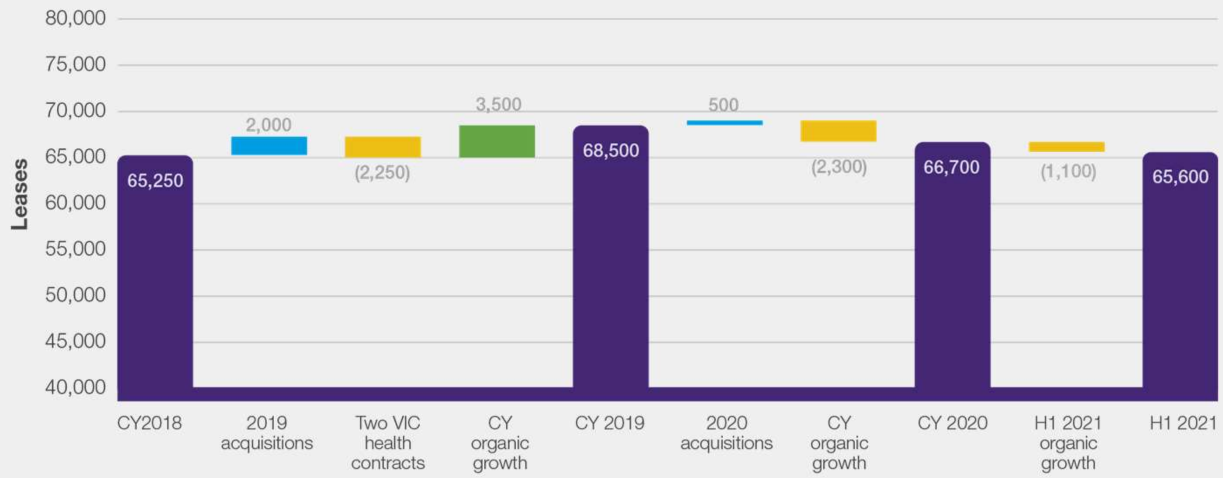


Net organic growth of 13,000 versus December 2020

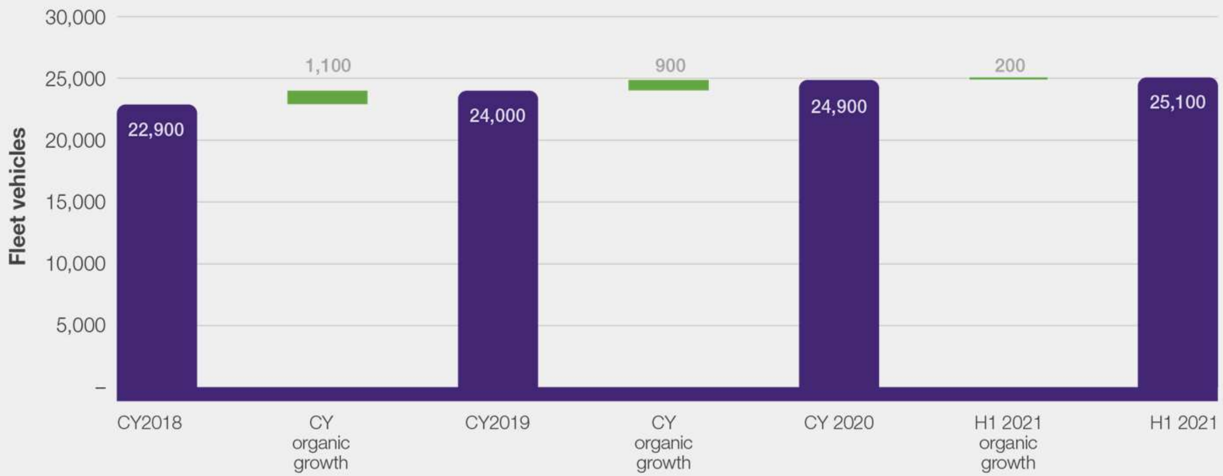
Onboarded new health client in April 2021 with c.8,500 packages

Novated leases and fleet vehicles under management remained stable

Novated leases under management



Fleet vehicles under management



Vehicle supply constraints saw a small reduction in novated leases under management, due to delays in new lease order settlements

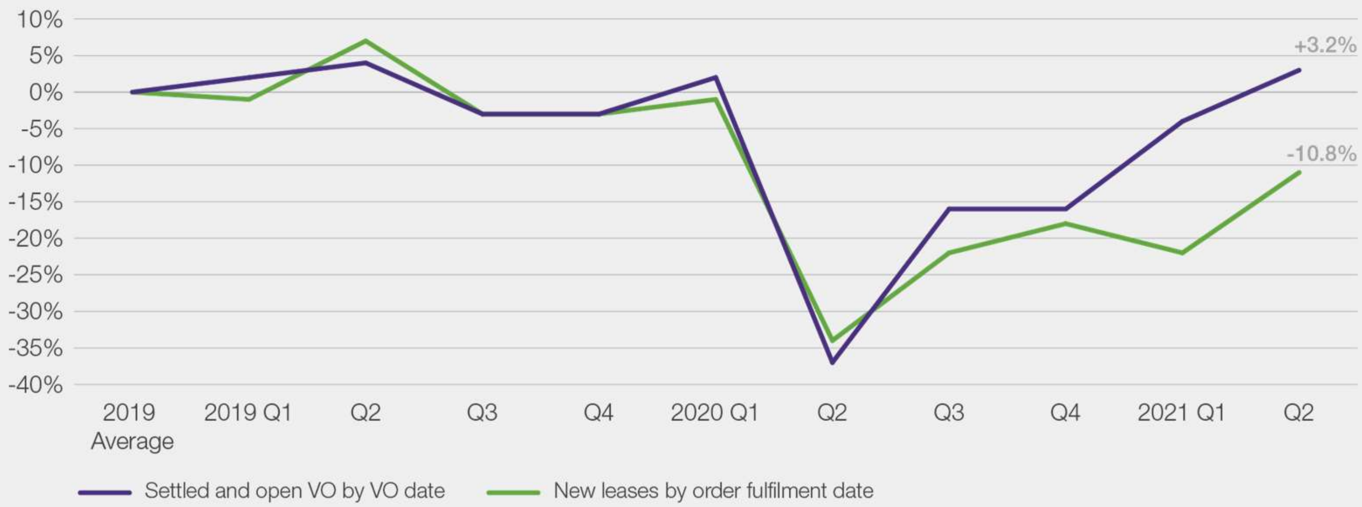
New lease vehicle order volumes have increased to pre-COVID levels

Continued settlement growth and good rebound in vehicle orders (via digital channels)

H1 2021	v H1 2020	v H2 2020
Settlement volume	+2%	+4%
New lease digital leads	+18%	+27%
New lease vehicle orders	+21%	+19%

- New novated lease orders increased to pre-COVID levels. Settlement volume is impacted by vehicle supply shortages, leading to a pipeline of future settlements
- Lower-cost digital lead volumes have grown beyond pre-COVID levels. Digital leads now account for almost 60% of all new lease leads (compared to c.40% pre-COVID)
- New novated leases for H1 2021 made up 74% of novated volumes (H1 2020: 74%), remaining lower than historical levels of c.78-80%
- Yields down 3% versus H2 2020 from lower product attachment rates

New lease vehicle orders have increased to pre-COVID levels, with order to settlement conversion > 99%



- Vehicle orders at pre-COVID levels in Q2 2021. Vehicle order to settlement conversion is >99%
- Vehicle supply constraints are expected to continue for the remainder of 2021

FINANCIAL PERFORMANCE HALF YEAR CY2021

Anthony Dijanosic
Chief Financial Officer

Good underlying operational momentum underpinning revenue and EBITDA growth

	H1 2021 adjusted[1]	H1 2020 adjusted	Change %	H2 2020 adjusted	Change %
Revenue	109.4	111.4	(2%)	104.9	4%
Product costs	(2.7)	(3.2)	(17%)	(2.8)	(4%)
Staff costs[2]	(40.3)	(42.4)	(5%)	(37.5)	7%
Other overhead	(17.0)	(17.4)	(2%)	(17.6)	(3%)
Operating EBITDA	49.4	48.4	2%	47.0	5%
EBITDA margin	*45%*	*43%*		*45%*	
Net finance costs	(1.1)	(2.7)	(60%)	(0.4)	175%
Depreciation	(1.7)	(1.5)	8%	(1.7)	0%
Amortisation	(6.5)	(11.0)	(41%)	(11.1)	(41%)
Joint venture contribution	0.1	(0.2)	196%	0.2	(50%)
PBT	40.2	33.0	22%	34.0	18%
Tax expense	(12.3)	(10.1)	21%	(10.1)	22%
NPAT	27.9	22.9	22%	23.9	17%
Tax-effected amort. of acquired intangibles and cash tax benefit	5.6	9.2	(39%)	9.2	(39%)
NPATA[3]	33.5	32.1	5%	33.1	1%

Revenue growth being driven by increasing novated settlement volumes and higher recurring revenues

Margins at 45% remaining strong

Reduction in amortisation as acquired software becomes fully amortised. H2 2021 amortisation is $2.9m

H2 2021 acquired amortisation and cash tax benefit add-backs are $1.6m and $0.5m respectively ($2.2m in total)

Adjusted results exclude $1.4m non-cash Smartequity goodwill revaluation. Smartequity contributed $0.2m to H1 2021 EBITDA

1. A reconciliation of the statutory accounts to adjusted earnings is attached in the Appendix.
2. H1 2020 excludes $0.4m of accelerated share-based payments expense.
3. NPATA is the net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of intangibles and significant non-operating items.

Cash flow generation remained strong at 107% of NPATA

$m	H1 2021[1] adjusted	H1 2020[1] adjusted
Receipts from customers (inclusive of GST)	123.1	136.8
Payments to suppliers and employees (inclusive of GST)	(76.2)	(86.9)
Interest received from operations	-	0.6
Interest paid	(0.4)	(0.9)
Interest paid on lease liabilities	(0.4)	(0.5)
Income taxes paid	(10.1)	(13.3)
Net cash from operating activities	**36.0**	**35.8**
As a % of NPATA	107%	112%
Capital expenditure	(0.4)	(0.2)

Strong operating cash flow conversion at 107% of NPATA underpins 70% interim ordinary dividend payout ratio

Smart Future program has been fully expensed

1. Excludes payments for M&A transaction costs (inclusive of GST) of $0.1m (CY2019: $0.5m). Net cash from operating activities excludes receipts and payments from customers' salary packaging accounts and significant non-operating items.

Small net debt position following payment of special dividend in March

$m	30 Jun 2021 statutory	31 Dec 2020 statutory
Cash	*21.4*	*27.4*
Other current assets	*82.1*	*66.6*
Current assets	103.5	94.0
Non-current assets	303.8	314.4
Total assets	**407.3**	**408.4**
Current liabilities	115.6	101.5
Borrowings	*25.7*	*24.7*
Other non-current liabilities	*9.6*	*11.3*
Non-current liabilities	35.3	36.0
Total liabilities	**150.9**	**137.5**
Net assets	**256.4**	**270.9**
Net corporate cash (debt)[1]	**(4.5)**	**2.5**
Net corporate debt / LTM EBITDA	**(0.1)**	**N/A**

Cash reduction due to payment of $19.2m special dividends in March, in addition to $23.1m ordinary dividend

Other current asset and liability movements primarily reflect an increase in funds held on behalf of customers (and an equivalent liability)

Non-current assets reduced with the amortisation of acquired software and customer contracts

1. Excludes capitalised borrowing costs of $0.2m (2020 $0.2m) and vehicle borrowings of $0.3m (2020 nil).

KEY PRIORITIES AND OUTLOOK

Tim Looi
Managing Director and CEO

Smart Future program
Driving earnings and dividend growth

Vision

Be the trusted partner for Australian employers to deliver benefits to their employees

Strategic capabilities

- Customer experience
- Technology
- People and culture
- Brands
- Scale

Strategic pillars

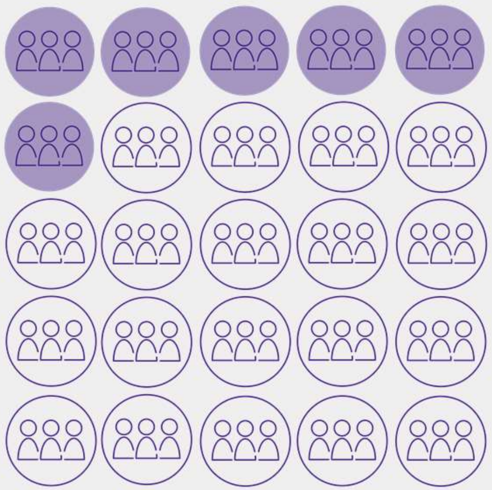
- **Deliver great customer experiences** for both our clients and their employees
- **Invest in digital** to create a seamless customer experience and lower cost to serve
- **Simplify and streamline operations** to reduce complexity and risk

Outcomes

- Increased client and customer advocacy
- Growth in revenue from the broader client base
- Reduction in cost to serve
- Increase in employee engagement

Client base has a large number of employees
Significant organic growth opportunities from existing clients

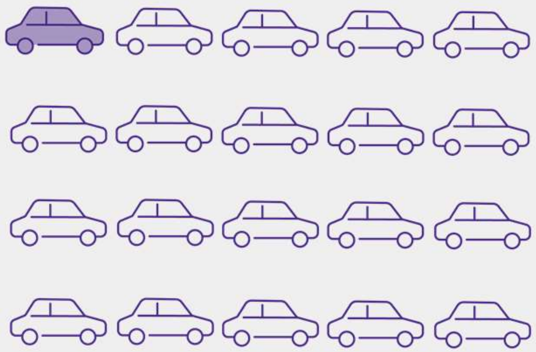
Addressable market
c.1.2-1.5m[1] employees within existing client base



Equals 60,000 employees (potential customers)

Smartgroup customers

Addressable market
c.0.9-1.2m[2] 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 with input from ABS 3101.0 National, state and territory population Sept 2020, ABS Motor Vehicle Census Australia 2020, and VFACTS private vehicle sales data

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 in 2022

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

smart group corporation

Significant progress has been made in building the technology foundations of the business

Re-design websites and calculators	Released new leasing calculator	c.20% increase in calculator traffic and leads
Invest further in business automation	In-sourced robotics capability	Supporting c.60 robotic processes and 50+ 'Digital' FTEs
Continue migration to cloud-based software	Migrated to cloud-based telephony, file storage, project management and end-point management systems	Implementation of technology foundations will increase organisational resilience and enable future projects to deliver: • Rapid deployment of changes to websites, portals and apps; and • Increased use of APIs and automation
Implement new digital experience platform	Completed foundational DXP implementation	
Enhance API capabilities	API platform implemented New financier API developed	

Streamlined operations: client and customer transitions progressing well

	Transitioned to-date	To be transitioned	% completion
Businesses transitioned	7	1	88%
Employer clients	c.1,800	c.500	78%
Employee customers	c.90,000	c.31,500	74%
Salary packaging cards	c.149,000	-	100%
Systems	8	3	73%

- The business has been focused on the transition of Advantage clients to Smartsalary and AccessPay, with transition completion due in 2022
- This represents a major milestone after many years of streamlining operations, following successful business acquisitions
- Salary packaging cards number includes transitions between card providers

Summary of results and outlook

Results

✓ Success in client wins and renewals

- New health sector client onboarded in April 2021 with c.8,500 packages
- Renewed or extended 100% of expiring key client contracts falling due in CY 2021

✓ H1 2021 operational performance continued to improve

- H1 2021 novated leasing continues to show good signs of recovery
  - Settlement volume 4% higher than H2 2020 and
  - Volume of digital leads now exceeds pre-COVID levels
  - New novated lease orders returned to pre-COVID levels for Q2

✓ Strong cash flow generation and an interim dividend declared of 17.5 cents per share, fully franked

Outlook

✓ July new novated lease orders and packaging numbers strong

- July new novated lease orders at pre-COVID levels and packaging numbers were strong; vehicle supply remains tight (likely remainder of 2021) however strong order to settlement conversion
- Recent lockdowns will have an impact on lead volumes and orders in H2, with the impact difficult to estimate given uncertain durations and severity across various regions of Australia

✓ Continuing to simplify and foundation build in 2021

- Focus on remaining client transitions and building momentum of the Smart Future program

QUESTIONS?

Reconciliation of earnings to statutory financial statements

$m	H1 2021 statutory results	Non-IFRS measure	Add back: Smartequity revaluation	H1 2021 adjusted
Revenue	109.4	-	-	109.4
Operating EBITDA	**49.4**	-	-	**49.4**
Joint venture contribution	0.1	-	-	0.1
Segment note EBITDA	**49.5**	-	-	**49.5**
Depreciation expense	(1.7)	-	-	(1.7)
Amortisation expense	(6.5)	-	-	(6.5)
Loss on revaluation of asset held for sale	(1.4)	-	**1.4**	-
Net finance costs	(1.1)	-	-	(1.1)
PBT	**38.8**	-	**1.4**	**40.2**
Income tax expense	(12.3)	-	-	(12.3)
NPAT	**26.5**	-	**1.4**	**27.9**
Add back: Amortisation of acquired intangibles	-	**4.2**	-	4.2
Cash tax benefit	-	**1.4**	-	1.4
NPATA	**26.5**	**5.6**	**1.4**	**33.5**
Shares on issue (millions)				133.5
NPATA per share (cps)				25.1

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