ASX Announcement

Release date: 24 February 2021

Smartgroup delivers NPATA in line with guidance, declares fully franked final dividend of 17.5 cents per share and a fully franked special dividend of 14.5 cents per share

Smartgroup Corporation Ltd (ASX: SIQ) ("Smartgroup" or "the Company"), a specialist employee management services provider, today reported its full year results for the year ended 31 December 2020 (CY2020).

Profit after tax, as measured by NPATA[1], was $65.2 million for the full year to 31 December 2020, in line with guidance provided on 23 December 2020, which is 20% down on the previous year. Revenue for the year was $216.3 million, down 13% on CY2019 due primarily to the impact of the challenging economic environment brought on by the COVID-19 pandemic.

Smartgroup's business has proven its ability to withstand the challenging economic conditions presented in 2020. As a result, Smartgroup has maintained a strong EBITDA margin of 44% and generated operating cash flows of $74.8 million, representing 115% of NPATA.

The Board of Directors has declared a final fully franked ordinary dividend of 17.5 cents per share and has also declared a fully franked total special dividend of 14.5 cents per share[2]. The dividends are payable on 23 March 2021, with a record date of 9 March 2021.

Good performance in a challenging environment

Smartgroup CEO Tim Looi said "As the pandemic took effect, we moved quickly to focus on providing high quality service to our customers remotely and implementing cost containment measures. This, combined with our simplification program, resulted in a good operational and financial performance for the year."

The Company now manages a total of 360,500 packages, with organic growth of approximately 1,500 packages during CY2020. Smartgroup had a 100% success rate renewing or extending all of its top 20 contracts that were up for renewal during the year. A similar number of contracts are up for renewal this calendar year with client discussions in progress.

[1] NPATA is Net Profit After Tax, adjusted to exclude the non-cash tax effected Amortisation of intangibles and significant non-operating items
[2] Comprised of a special dividend of 9.0 cents per share in respect of the year ended 31 December 2020, and an interim special dividend of 5.5 cents per share in respect of the current year

The number of novated leases and fleet vehicles under management remained broadly stable. Novated leases under management at 66,700 decreased 3% on the prior year while the number of fleet vehicles under management at 24,900 increased 4% on the prior year.

A 14% reduction in novated lease volumes was the key driver of lower revenue this year. In addition, yields for CY2020 decreased 6%, resulting from both a shift towards customers refinancing their existing vehicles, rather than leasing new vehicles, and the previously announced insurance partner re-pricing effective 1 July 2020.

We have continued to focus on ensuring strong governance as the increased expectations on the financial services industry continue to flow from the Banking Royal Commission. For Smartgroup, this includes the roll out of further enhancements to our sales and product disclosure practices, and preparing for compliance with the newly legislated deferred sales model for the sale of add on insurance products.

Chairman, Michael Carapiet said “The Board is proud of the business resilience that our company has shown and the commitment, flexibility and individual resilience of our people, who have continued to provide high quality service to our clients and their employees. In a challenging year, Smartgroup has been able to stand strong and deliver good performance.”

Outlook

In January 2021, novated leasing leads were 15% higher than the H2 2020 average, and new novated leases at 76% of total novated leases were favourable to the H2 2020 average of 74%. However, the supply of new vehicles is expected to remain tight for at least the first half of 2021.

Smartgroup CEO, Tim Looi said “We are off to a good start for 2021. We are scheduled to onboard another health client with approximately 8,000 packages in Q2 2021. Further, novated leasing leads and the mix of new leases versus refinanced leases are both improving. Smartgroup operated much of 2020 with reduced client on-site activities, traditionally a strong channel that generates interest and demand for our services. We are cautiously optimistic that client on-site activities will increase through 2021.

For the next 12 months, we will be focused on enhancing customer experience to build loyalty, as well as improving our digital capabilities to reduce our cost to serve. Our simplification program continues to remove complexity across our business. Our customer focused culture and longstanding relationships underpin our high client retention rate and position us well for future success.”

CY20 Investor Briefing Presentation

Chief Executive Officer Tim Looi and Interim Chief Financial Officer Anthony Dijanosic will hold a briefing tomorrow morning to discuss the results. The details are as follows:

Time: 9:00 am (Sydney time)

Date: Thursday 25 February 2021

The audio briefing will be streamed live at this time and can be accessed via the Smartgroup company page on the Open Briefing website: http://www.openbriefing.com/OB/4024.aspx

This can also be accessed from the Investors section of the Smartgroup website: http://ir.smartgroup.com.au/investors/

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

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