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Half Year Report

30 June 2022

ABN 48 126 266 831

smart
group
corporation

Market Release

30 June 2022

25 August 2022

ASX Market Announcements Office
ASX Limited
20 Bridge Street
Sydney, NSW, Australia, 2000

Smartgroup Corporation Ltd - Results for announcement to the market

In accordance with the ASX Listing Rules, Smartgroup Corporation Ltd (**ASX: SIQ**) encloses for release to the market:

1. Appendix 4D,
2. Review of operations, and
3. Smartgroup Corporation Ltd Half Year Report for the period ended 30 June 2022.

Smartgroup Corporation Ltd will conduct a briefing on the results at 9:00 am (Sydney time) on 26 August 2022.



Anthony Dijanosic
Chief Financial Officer
1300 665 855



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

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

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Appendix 4D

Statutory results for announcement to the market

		\$'000's		\$'000's
Revenue from ordinary activities	up	4,160	4% to	113,579
Profit from ordinary activities after tax attributable to the owners of Smartgroup Corporation Ltd	up	4,358	16% to	30,909
Net profit for the period attributable to the owners of Smartgroup Corporation Ltd	up	4,358	16% to	30,909

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
Final 2021 dividend per share (paid 23 March 2022)	19.0	19.0	30%
Special 2021 dividend per share (paid 23 March 2022)	30.0	30.0	30%
Interim 2022 dividend per share (payable 23 September 2022)	17.0	17.0	30%

The record date for determining entitlement to the interim dividend is 9 September 2022 with an expected total distribution of \$22,700,000. There is no dividend reinvestment plan in place.

Net tangible assets / (liabilities)	30 June 2022	31 Dec 2021
Net tangible assets / (liabilities) per ordinary security, cents per share	(56.47)	(26.78)

The information should be read in conjunction with the 2021 Annual Report.

Additional information supporting the Appendix 4D disclosure requirements can be found in the Directors' Report and the consolidated financial statements for the half year ended 30 June 2022.

Independent auditor's review

The financial report for the half year ended 30 June 2022 has been reviewed by PricewaterhouseCoopers and there is no review, dispute or qualification.

Review of Operations

30 June 2022

	30 June 2022 \$'000	30 June 2021 \$'000	Movement
Revenue	113,579	109,419	4%
Share of profit from joint venture accounted for using the equity method	225	149	51%
Expenses			
Product costs	(3,783)	(2,666)	42%
Employee benefits expense	(42,587)	(40,295)	6%
Administration and corporate expenses	(16,034)	(14,854)	8%
Occupancy expenses	(761)	(525)	45%
Advertising and marketing expenses	(707)	(760)	(7%)
Other expenses	(316)	(1,038)	(70%)
Merger and acquisition transaction costs	(49)	41	(220%)
Segment EBITDA ¹	49,567	49,471	0%
Finance costs	(799)	(1,068)	(25%)
Depreciation expense	(1,927)	(1,673)	15%
Amortisation of acquired intangible assets	(1,594)	(5,956)	(73%)
Amortisation of contract rights and internally developed intangibles	(575)	(517)	11%
Loss on revaluation of an asset held for sale	-	(1,434)	(100%)
Profit before income tax for the half year	44,672	38,823	15%
Income tax expense	(13,763)	(12,272)	12%
Net profit after income tax for the half year	30,909	26,551	16%
Add: Amortisation, tax effected	1,116	4,169	(73%)
Add: Acquisition transaction costs, tax effected	34	(29)	(217%)
Add: Loss on revaluation of an asset held for sale	-	1,434	(100%)
Add: Cash tax benefit on deductible amortisation	298	1,411	(79%)
NPATA ²	32,357	33,536	(4%)
Operating EBITDA margin ³	43%	45%	-2pts
NPATA margin	28%	31%	-3pts
Net operating cash inflow ⁴	43,493	35,979	21%
Net operating cash inflow as a percentage of NPATA	134%	107%	25%
	Cents	Cents	Movement
NPATA per share ⁵	24.2	25.1	(4%)
Dividends declared per share ⁵	17.0	17.5	(3%)

¹ Segment EBITDA is the earnings before interest, tax, depreciation and amortisation adjusted for significant non-operating items.

² NPATA is the net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of intangibles and significant non-operating items.

³ Operating EBITDA margin calculation excludes the share of profit from joint venture and merger and acquisition transaction costs.

⁴ Net cash inflow from operating activities has been adjusted to exclude transaction costs relating to business acquisitions, and receipts and payments related to customer salary packaging bank accounts.

⁵ NPATA per share and dividends declared per share at 30 June 2022 are based on 133,724,773 shares (30 June 2021: 133,541,979 shares), which includes the 4,117,238 shares held by the Company under the Loan Funded Share Plan (LFSP) (30 June 2021: 4,024,444 shares).

Review of Operations (continued)

30 June 2022

Financial performance

The 2022 Half Year Report for Smartgroup Corporation Ltd and its controlled entities (the Group) reflects continued solid financial performance, with a strong 43% operating EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) margin delivered.

Revenue at \$113,579,000 is 4% higher than the half year to 30 June 2021, and segment EBITDA at \$49,567,000 and operating EBITDA¹ at \$49,391,000 are in line with the half year to 30 June 2021.

In the half year to 30 June 2022, Smartgroup successfully completed the transition of novated lease funding from St George to alternative financiers. Revenue for the half year includes \$1,754,000 of one-off items related to the transition.

Interim 2022 statutory Net Profit After Tax (NPAT) of \$30,909,000 represents an increase of 16% over the half year to 30 June 2021, largely resulting from reduced amortisation expense as intangible assets from historic acquisitions became fully amortised in mid-2021.

The reduction in amortisation also reduced the 'Cash tax benefit on deductible amortisation' add-back to Net Profit After Tax and Amortisation (NPATA) for the half-year, resulting in a 4% decrease in NPATA to \$32,357,000.

Salary packages at 383,000 have increased by 2% from June 2021, following the successful onboarding of a number of new clients and organic package growth from existing clients.

Novated leasing settlement volumes for the half year were 1% higher than the half year to 30 June 2021, with motor vehicle supply shortages continuing to extend settlement timeframes. The supply shortages again saw new lease vehicle orders exceed settlement volumes, leading to a further c.\$2.7m increase in future revenue for the half year. Smartgroup books revenue only when a settlement occurs, so this deferred settlement pipeline has deferred revenue that, in a pre-COVID environment, would normally have been booked in this period.

The deferral of new lease settlements also impacts the number of novated leases under management, which has reduced by 4% compared to June 2021. Fleet vehicles under management at June 2022 are in line with June 2021.

The proportion of customers taking out higher yielding new novated leases, as opposed to refinancing existing leases, has remained consistent with the half year to 30 June 2021, at 74%. This compares to historical levels of c.78-80% and largely reflects motor vehicle supply shortages impacting the ability to have new vehicles available at the end of a customer's existing lease.

Smartgroup launched the Smart Future program in 2021, an investment focused on delivering great customer experience, enhanced digital assets and simplification. In the first half of 2022, we progressed the development of key digital assets, with the new Smartsalary website launching in July and a new vehicle sales portal to launch later in 2022. These digital assets will enhance the ability for customers to educate themselves on the significant benefits of salary packaging and more effectively engage with us digitally, at any time of day.

For the half year to 30 June 2022, \$6,442,000 of costs were capitalised in respect of the Smart Future program (H1 2021: nil) and \$122,000 of costs were expensed (H1 2021: \$573,000).

¹ Operating EBITDA excludes the share of profit from joint venture and merger and acquisition transaction costs.

Review of Operations (continued)

30 June 2022

Cash flow and net debt

Cash flow from operations for the half-year to 30 June 2022 was 134% of NPATA (H1 2021: 107%).

In June 2022, the Group received an upfront payment from St George, representing \$11,574,000 of future performance fees. This payment was in respect of novated lease financing originated with St George, prior to the transition of the St George auto funding book to Angle Finance. Under the terms of the agreement, Smartgroup is required to continue administering and remitting to St George novated lease financing payments, over the life of the novated leases to which the payment relates. As such, the upfront payment will be recognised as revenue progressively over the life of those leases.

The Group net debt position at 30 June 2022 is \$26,045,000 (31 December 2021: Net cash of \$3,553,000). Leverage, as measured by net debt / last twelve months EBITDA, is 0.25x (31 December 2021: n/a).

On 16 February 2022, Smartgroup's banking facilities were amended to increase the revolving debt facility by \$20,000,000 to \$65,000,000. Gross debt drawn at 30 June 2022 is \$58,900,000.

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Directors' Report

30 June 2022

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the Group) consisting of Smartgroup Corporation Ltd (referred to hereafter as the Company or parent entity) and the entities it controlled at the end of, or during, the half year ended 30 June 2022.

Directors

The following people were Directors of the Company during the whole of the reporting period and up to the date of this report, unless otherwise stated:

Michael Carapiet
Timothy Looi
Gavin Bell
Andrew Bolam
Carolyn Colley
Deborah Homewood
Anne McDonald
John Prendiville
Ian Watt

Principal activities

During the reporting period the principal continuing activities of the Group consisted of outsourced administration, fleet management, and software, distribution and group services. Outsourced administration comprises salary packaging, novated leasing and payroll administration.

Dividends

Dividends paid during the half year ended 30 June 2022 were as follows:

	30 June 2022 \$'000
Final dividend for the year ended 31 December 2021 of 19.0 cents per ordinary share	25,174
Final special dividend for the year ended 31 December 2021 of 30.0 cents per ordinary share	39,748

On 25 August 2022, the Directors declared a fully-franked dividend of 17.0 cents per ordinary share. The record date is 9 September 2022 and the dividend will be paid on 23 September 2022. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is \$22,700,000.

Review of operations

The profit after tax for the Group is \$30,909,000 (30 June 2021: \$26,551,000). Refer to the Review of Operations for further commentary on the results.

Environmental regulation

The Group is not affected by any significant environmental regulation under Australian Commonwealth or State law in respect of its operations.

Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

Directors' Report (continued)

30 June 2022

Rounding of amounts

The Company is of a kind referred to in *ASIC Legislative Instrument 2016/191*, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in this report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors.

On behalf of the Directors,



Michael Carapiet

25 August 2022
Sydney

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Auditor's Independence Declaration

As lead auditor for the review of Smartgroup Corporation Ltd for the half-year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Smartgroup Corporation Ltd and the entities it controlled during the period.

A handwritten signature in black ink that reads 'Joe Sheeran'.

Joe Sheeran
Partner
PricewaterhouseCoopers

Sydney
25 August 2022

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 30 June 2022

	30 June 2022 \$'000	30 June 2021 \$'000	
Revenue	113,579	109,419	
Share of profit from joint venture accounted for using the equity method	225	149	
Expenses			
Product costs	(3,783)	(2,666)	
Employee benefits expense	(42,587)	(40,295)	
Administration and corporate expenses	(16,034)	(14,854)	
Occupancy expenses	(761)	(525)	
Advertising and marketing expenses	(707)	(760)	
Depreciation expense	(1,927)	(1,673)	
Amortisation of acquired intangible assets	(1,594)	(5,956)	
Amortisation of contract rights and internally developed intangibles	(575)	(517)	
Other expenses	(316)	(1,038)	
Operating profit	45,520	41,284	
Loss on revaluation of an asset held for sale	-	(1,434)	
Finance costs	(799)	(1,068)	
Merger and acquisition transaction costs	(49)	41	
Profit before income tax expense	44,672	38,823	
Income tax expense	(13,763)	(12,272)	
Profit after income tax expense	30,909	26,551	
Other comprehensive income			
Net change in fair value of cash flow hedges taken to equity, net of tax	285	41	
Total comprehensive income for the period	31,194	26,592	
Earnings per share			
	Note	Cents	Cents
Basic earnings per share (cents)	9	23.8	20.5
Diluted earnings per share (cents)	9	23.8	20.5

Consolidated Statement of Financial Position

As at 30 June 2022

	Note	30 June 2022 \$'000	31 December 2021 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		32,855	32,453
Restricted cash and cash equivalents	11	38,287	41,196
Trade and other receivables	5	22,088	23,947
Other current assets		6,921	3,579
Total current assets		100,151	101,175
Non-current assets			
Investments accounted for using the equity method		800	575
Derivative financial instruments	10	635	153
Deferred tax assets		15,252	12,722
Right-of-use assets		7,794	5,592
Property and equipment		6,009	4,380
Intangible assets	4	287,939	283,666
Total non-current assets		318,429	307,088
Total assets		418,580	408,263
LIABILITIES			
Current liabilities			
Trade and other payables		34,997	38,203
Customer salary packaging liability	11	38,287	41,196
Income tax payable		6,717	4,540
Provisions		13,491	13,459
Lease liabilities		3,844	3,536
Leased vehicle borrowings		2,467	1,555
Contract liabilities		11,218	4,704
Total current liabilities		111,021	107,193
Non-current liabilities			
Provisions		1,518	1,838
Lease liabilities		6,342	4,322
Borrowings	6	58,718	28,680
Contract liabilities		5,507	-
Total non-current liabilities		72,085	34,840
Total liabilities		183,106	142,033
Net assets		235,474	266,230
EQUITY			
Share capital	7	262,915	262,976
Reserves	8	13,732	10,414
Accumulated losses		(41,173)	(7,160)
Equity attributable to the owners of Smartgroup Corporation Ltd		235,474	266,230
Total equity		235,474	266,230

Consolidated Statement of Changes in Equity

For the half year ended 30 June 2022

	Note	Share capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2021		262,522	8,776	(363)	270,935
Profit for the period		-	-	26,551	26,551
Other comprehensive income		-	41	-	41
Total comprehensive income for the period		-	41	26,551	26,592
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	7	(61)	-	-	(61)
Share-based payments		-	1,219	-	1,219
Dividends provided for or paid	2	-	-	(42,240)	(42,240)
Balance at 30 June 2021		262,461	10,036	(16,052)	256,445
Balance at 1 January 2022		262,976	10,414	(7,160)	266,230
Profit for the period		-	-	30,909	30,909
Other comprehensive income		-	285	-	285
Total comprehensive income for the period		-	285	30,909	31,194
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	7	(61)	-	-	(61)
Share-based payments		-	3,033	-	3,033
Dividends provided for or paid	2	-	-	(64,922)	(64,922)
Balance at 30 June 2022		262,915	13,732	(41,173)	235,474

Consolidated Statement of Cash Flows

For the half year ended 30 June 2022

	30 June 2022 \$'000	30 June 2021 \$'000
Cash flows from operating activities		
Receipts from customers	144,589	123,166
Payments to suppliers and employees	(86,131)	(76,239)
Transaction costs relating to mergers and acquisitions	(49)	(52)
Interest received from cash held on behalf of customers	112	14
Interest and transaction costs paid on borrowings	(418)	(405)
Interest paid on lease liabilities	(321)	(433)
Income taxes paid	(14,338)	(10,124)
Net cash from operating activities excluding salary packaging receipts and payments	43,444	35,927
Receipts in restricted cash	1,193,905	1,268,305
Payments of customer salary packaging liability	(1,196,814)	(1,259,272)
Net cash inflow from operating activities	40,535	44,960
Cash flows from investing activities		
Payments for intangibles	(6,442)	-
Payments for property, plant and equipment	(2,167)	(350)
Dividends received from joint venture	-	500
Interest received	18	3
Net cash (outflow) / inflow from investing activities	(8,591)	153
Cash flows from financing activities		
Repayment of borrowings	-	(10,000)
Proceeds from borrowings	30,000	11,000
Proceeds from long term incentive plan	1,540	678
Dividends paid	(64,922)	(42,240)
Principal repayments on lease liabilities	(1,069)	(1,459)
Net cash outflow from financing activities	(34,451)	(42,021)
Net (decrease) / increase in cash and cash equivalents	(2,507)	3,092
Cash and cash equivalents at the beginning of the year	32,453	27,368
Restricted cash and cash equivalents at the beginning of the year	41,196	48,111
Cash and cash equivalents at the end of the period	32,855	21,427
Restricted cash and cash equivalents at the end of the period	38,287	57,144
Total	71,142	78,571

Notes to the Consolidated Financial Statements

30 June 2022

1 Basis of preparation

Smartgroup Corporation Ltd (the Company) is a company limited by shares, incorporated and domiciled in Australia. The financial statements cover the consolidated entity (referred to hereafter as the Group) consisting of the Company and the entities it controlled for the half year ended 30 June 2022.

The consolidated half year financial report is a general purpose financial report prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Smartgroup Corporation Ltd is a for-profit entity for the purpose of preparing the financial report.

This half year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the 2021 Annual Report and any public announcements made by the Company during the interim reporting period, in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to 'rounding off'. Amounts in this report have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards, which is set out below.

Net current liability position

As at 30 June 2022, the Group had net current liabilities of \$10,871,000 primarily due to payment of special dividends totalling \$39,748,000 in March 2022.

The Group has prepared projected cash flows for the twelve months from the date of the Directors' Declaration, taking into consideration the continued business impact of delayed motor vehicle availability. These forecasts indicate that the Group is expected to generate sufficient levels of operating cash flows to enable it to pay its debts as and when they fall due.

Further, the Group currently has undrawn debt facilities of \$6,100,000 that may be drawn for operational liquidity purposes, with these facilities maturing on 1 July 2024. These factors support the Group's ability to continue as a going concern.

New or amended accounting standards and interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period:

- Amendments to AASB 3 Business Combinations;
- Amendments to AASB 116 Property, Plant and Equipment; and
- Amendments to AASB 137 Provisions, Contingent Liabilities and Contingent Assets.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the financial half year ended 30 June 2022 and are not expected to have any significant impact for the full financial year ending 31 December 2022.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Notes to the Consolidated Financial Statements (continued) 30 June 2022

2 Dividends

On 25 August 2022, the Directors declared a fully-franked interim dividend of 17.0 cents per ordinary share. The record date is 9 September 2022 and the dividend will be paid on 23 September 2022. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is \$22,700,000.

Dividends are paid out from the parent entity which has retained earnings as at 30 June 2022 of \$36,064,000. As at 30 June 2022, the Group has retained losses of \$41,173,000. The difference in retained earnings is primarily due to the amortisation of intangible assets recognised in the Group financial statements arising from historic business combinations.

3 Operating segments

Identification of reportable operating segments

The Group has identified its segments based on the internal reports that are reviewed and used by the Chief Executive Officer and Chief Financial Officer, who are identified as the Chief Operating Decision Makers (CODM), in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Outsourced administration (OA)	This part of the business provides outsourced salary packaging services, novated leasing and associated products, and outsourced payroll services.
Vehicle services (VS)	This part of the business provides end-to-end fleet management services.
Software, distribution and group services (SDGS)	This part of the business provides salary packaging software solutions, the marketing of salary packaging debit cards, distribution of vehicle insurances and workforce management software to the healthcare industry.

Inter-segment transactions

Inter-segment transactions were made at market rates. Inter-segment transactions are eliminated on consolidation.

Inter-segment receivables, payables and loans

Inter-segment loans are initially recognised at the consideration received. Inter-segment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Inter-segment loans are eliminated on consolidation.

Notes to the Consolidated Financial Statements (continued) 30 June 2022

3 Operating segments (continued)

Half-year ended 30 June 2022	OA	VS	SDGS	Intersegment eliminations / Corporate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
Products, services and commissions	63,769	-	-	1,754	65,523
Management and administrative fees	30,594	3,817	2,451	-	36,862
Performance fees and rebates	9,220	1,533	441	-	11,194
Inter-segment sales	130	1,896	16,580	(18,606)	-
Total revenue	103,713	7,246	19,472	(16,852)	113,579
Segment results (EBITDA)	55,531	4,811	4,072	(14,847)	49,567
<i>EBITDA margin</i>	54%	66%	21%		44%
Depreciation					(1,927)
Amortisation					(2,169)
Finance costs					(799)
Profit before income tax expense					44,672
Income tax expense					(13,763)
Profit after income tax expense					30,909
<i>NPAT margin</i>					27%
30 June 2022					
Assets					
Segment assets	109,249	21,522	20,275	267,534	418,580
Total assets					418,580
Liabilities					
Segment liabilities	74,196	12,160	16,047	80,703	183,106
Total liabilities					183,106

Notes to the Consolidated Financial Statements (continued)

30 June 2022

3 Operating segments (continued)

Half-year ended 30 June 2021	OA	VS	SDGS	Intersegment eliminations / Corporate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
Products, services and commissions	59,862	-	155	-	60,017
Management and administrative fees	31,295	4,145	2,754	-	38,194
Performance fees and rebates	8,899	1,922	387	-	11,208
Inter-segment sales	115	1,961	13,562	(15,638)	-
Total revenue	100,171	8,028	16,858	(15,638)	109,419
Segment results (EBITDA)	52,057	6,019	3,313	(11,918)	49,471
<i>EBITDA margin</i>	52%	75%	20%		45%
Depreciation					(1,673)
Amortisation					(6,473)
Finance costs					(1,068)
Loss on revaluation of an asset held for sale					(1,434)
Profit before income tax expense					38,823
Income tax expense					(12,272)
Profit after income tax expense					26,551
<i>NPAT margin</i>					24%
31 December 2021					
Assets					
Segment assets	110,291	24,413	32,609	240,950	408,263
Total assets					408,263
Liabilities					
Segment liabilities	63,654	13,325	26,458	38,596	142,033
Total liabilities					142,033

Notes to the Consolidated Financial Statements

(continued)

30 June 2022

4 Intangible assets

	30 June 2022 \$'000	31 December 2021 \$'000
Goodwill		
At cost	272,664	272,664
Total goodwill	272,664	272,664
Customer contracts		
At cost	63,609	63,609
Accumulated amortisation	(62,602)	(61,380)
Total customer contracts	1,007	2,229
Software		
At cost	77,915	77,915
Accumulated amortisation	(77,767)	(77,395)
Total software	148	520
Contract rights		
At cost	5,168	5,168
Accumulated amortisation	(3,033)	(2,516)
Total contract rights	2,135	2,652
Brand names and logo		
At cost	1,304	1,304
Total brand names and logo	1,304	1,304
Internally developed software and websites		
At cost	10,755	4,313
Accumulated amortisation	(74)	(16)
Total internally developed software and websites	10,681	4,297
Total intangible assets	287,939	283,666

Notes to the Consolidated Financial Statements (continued) 30 June 2022

5 Trade and other receivables

	30 June 2022 \$'000	31 December 2021 \$'000
Trade receivables	8,844	8,043
Less: Allowance for expected credit losses	(597)	(439)
	8,247	7,604
Contract assets	8,381	10,745
Other receivables	5,460	5,598
	13,841	16,343
Total trade and other receivables	22,088	23,947

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement between 14 and 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. Contract assets predominantly consist of accrued revenues with funds held in restricted cash accounts, with a corresponding customer salary packaging liability balance. These are unbilled transactions for commission-based revenue, with no associated credit loss as funds have been collected and are held within the restricted cash accounts.

Expected credit loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors that may affect the ability of the customers to settle the receivables, such as GDP rates. They are also adjusted to reflect historical and current debtor based information impacting the probability that certain debtors will enter bankruptcy or financial reorganisation, or default on payments. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of management's estimate of future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

30 June 2022	Gross carrying amount (\$'000)	Expected credit loss allowance (\$'000)	Specific loss allowance (\$'000)	Total loss allowance (\$'000)	Weighted-average loss rate
Grade 1 (Financiers and supply chain partners)	1,748	-	(180)	(180)	10.30%
Grade 2 (Employer/Corporate)	4,706	(5)	(209)	(214)	4.55%
Grade 3 (Dealers)	2,390	(2)	(201)	(203)	8.49%

As at 30 June 2022, the Group has \$313,000 provided in relation to counterparty arrangements with motor vehicle dealerships, given significant uncertainty of vehicle supply. This provision is reflected in Current Liabilities - Provisions within the Consolidated Statement of Financial Position.

Notes to the Consolidated Financial Statements (continued) 30 June 2022

6 Borrowings

As at 30 June 2022, the following bank facilities were available to the Group:

- A revolving facility of \$65,000,000;
- A two-year letter of credit facility of \$5,000,000; and
- Ancillary facilities: credit card and electronic pay away facility of \$12,500,000.

The banking facilities are guaranteed and secured by the Company and certain of the Company's subsidiaries. The facilities are subject to a variable interest rate, which is based on the 3-month BBSY (Bank Bill Swap Bid Rate) plus a margin. In March 2022, an additional \$30,000,000 was drawn down. Gross debt drawn at 30 June 2022 is \$58,900,000. The banking facilities mature on 1 July 2024.

The Group is subject to certain financing covenants and meeting these is given priority in all capital risk management decisions. These covenants include leverage and interest cover ratios with reference to recurring earnings before interest, tax, depreciation and amortisation, and with distribution restrictions on dividends. There have been no events of default on the financing arrangement during the year (2021: nil).

7 Equity - issued capital

	30 June 2022 Shares	31 December 2021 Shares	30 June 2022 \$'000	31 December 2021 \$'000
Ordinary Shares — fully paid	133,724,773	133,498,979	289,873	287,036
Less: Shares associated with the loan funded share plan (LFSP)	(4,117,238)	(3,891,444)	(26,958)	(24,060)
	129,607,535	129,607,535	262,915	262,976

(a) *Movements in ordinary shares:*

	Date	Number of shares	Total \$'000
Opening balance	1 January 2021	132,820,695	283,516
Shares issued for LFSP	12 March 2021	977,887	6,666
	19 May 2021	561,152	3,920
Buy-back of forfeited LFSP shares	10 March 2021	(817,755)	(6,658)
	22 November 2021	(43,000)	(287)
Deferred tax directly recognised in equity			(121)
Balance	31 December 2021	133,498,979	287,036

Shares issued for LFSP	10 March 2022	630,705	4,775
	13 May 2022	599,177	5,250
Buy-back of forfeited LFSP shares	2 March 2022	(655,666)	(4,904)
	2 March 2022	(348,422)	(2,223)
Deferred tax directly recognised in equity			(61)
Balance	30 June 2022	133,724,773	289,873

Notes to the Consolidated Financial Statements (continued) 30 June 2022

7 Equity - issued capital (continued)

(b) Movements in loan funded share plan

	Date	Number of shares	Total \$'000
Opening balance	1 January 2021	(3,303,160)	(20,994)
LFSP shares exercised	1 June 2021	23,333	149
	6 October 2021	66,667	426
Shares issued for LFSP	12 March 2021	(977,887)	(6,666)
	19 May 2021	(561,152)	(3,920)
Buy-back of forfeited shares	10 March 2021	817,755	6,658
	22 November 2021	43,000	287
Balance	31 December 2021	(3,891,444)	(24,060)
Shares issued for LFSP	10 March 2022	(630,705)	(4,775)
	13 May 2022	(599,177)	(5,250)
Buy-back of forfeited shares	2 March 2022	655,666	4,904
	2 March 2022	348,422	2,223
Balance	30 June 2022	(4,117,238)	(26,958)

Loan funded shares:

At the Annual General Meeting (AGM) on 11 May 2022, loan funded shares to the CEO were approved by shareholders. On 10 March 2022, loan funded shares were granted to the executive management team under the Loan Funded Share Plan (LFSP). Shares were subsequently issued to the CEO and new management team members after the AGM on 13 May 2022.

The issue price is calculated based on the 20-day volume weighted average price of shares trading on the ASX up to and including 8 March 2022 for the March grant and up to the day of the AGM for the May grant. Shares vest over a 3-year period subject to 2 vesting conditions, the "EPS Performance Hurdle" and the "TSR Performance Hurdle".

The shares granted as part of the LFSP are eligible for dividends and are held by the participant until they vest or are forfeited. Should the Company pay dividends or make capital distributions in the future, any dividends paid, or distributions made to the participant will be applied to repay the loan and to meet the tax liability on those dividends or distributions. The vesting of the shares is subject to two performance hurdles, being an earnings growth hurdle and a total shareholder return hurdle, and a continuous employment condition. The shares can only be exercised once the participant has repaid the loan.

For the half-year ended 30 June 2022, 1,004,088 shares issued under the LFSP were bought back as vesting conditions on the shares had not been met and the shares were forfeited, resulting in a \$7,126,931 reduction in ordinary share capital.

The unvested shares issued under the LFSP at 30 June 2022 have been treated as contingently issuable, as the vesting conditions have not been satisfied at the balance date. Therefore, the shares issued under the LFSP are excluded from basic earnings per share and included in diluted earnings per share.

Performance rights:

An updated Short Term Incentive Plan (STIP) was approved by the Board on 22 March 2022. On 11 May 2022, performance rights to the CEO were approved at the AGM, and performance rights granted to the CEO and management team on 26 May 2022. Performance rights have a nil exercise price and are valued based on the 10-day volume weighted average price of shares traded on the ASX up to, and including, 25 May 2022. Performance rights vest over a 1 year period. These rights granted do not include voting rights nor attract dividends, and are subject to vesting conditions being performance hurdles relating to the annual Key Performance Indicators (KPIs). Performance rights cannot be transferred and are not quoted on the ASX.

Notes to the Consolidated Financial Statements (continued)

30 June 2022

8 Equity - reserves

	30 June 2022 \$'000	31 December 2021 \$'000
Cash flow hedge reserve	404	119
Share-based payments reserve	12,889	9,856
Other reserves	439	439
	13,732	10,414

Heading reserve - cash flow hedges

The hedging reserve is used to record the effective portion of the gains or losses on derivatives which qualify as cash flow hedge instruments and are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to executive KMP and other senior management as part of their remuneration.

Other reserves

Other reserves are used to record increments and decrements to the valuation of non-current assets, and preserve current profits for the purpose of paying dividends in future years.

9 Earnings per share

	30 June 2022 \$'000	30 June 2021 \$'000
Consolidated profit after income tax expense for the period attributable to the owners of Smartgroup Corporation Ltd	30,909	26,551
	Number	Number
Weighted average ordinary shares used in calculating basic earnings per share	129,607,535	129,521,273
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	268,615	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	129,876,150	129,521,273
	Cents	Cents
Basic earnings per share (cents)	23.8	20.5
Diluted earnings per share (cents)	23.8	20.5

Notes to the Consolidated Financial Statements (continued) 30 June 2022

10 Fair value of financial instruments

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
At 30 June 2022				
Financial assets				
Interest rate swap contracts - cash flow hedges	-	635	-	635
Total financial assets	-	635	-	635
At 31 December 2021				
Financial assets				
Interest rate swap contracts - cash flow hedges	-	153	-	153
Total financial assets	-	153	-	153

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values, due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Derivatives - interest rate swap contracts

The derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

11 Cash held on behalf of customers and associated liabilities

The Group administers funds on behalf of customers, and this can take one of two forms:

- Restricted cash and cash equivalents (pooled customer funds)
- Cash held on behalf of customers (segregated bank accounts in a customer's name)

Restricted cash and cash equivalents

	30 June 2022 \$'000	31 December 2021 \$'000
Restricted cash and cash equivalents	38,287	41,196
Customer salary packaging liability	(38,287)	(41,196)

The restricted cash and cash equivalents in the Consolidated Statement of Cash Flows represents funds held by the Group on behalf of certain customers. The use of these funds is restricted to the making of salary packaging payments on behalf of those customers only and therefore not available for general use. The Group recognises a liability for all restricted cash balances to reflect the amounts owing to its customers.

The restricted cash accounts are held with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. For the half year ended 30 June 2022, the Group has recognised finance revenue of \$32,000 (30 June 2021: \$7,000) from restricted cash.

Notes to the Consolidated Financial Statements (continued) 30 June 2022

11 Cash held on behalf of customers and associated liabilities (continued)

Cash held on behalf of customers - not recognised in the Consolidated Statement of Financial Position

	30 June 2022 \$'000	31 December 2021 \$'000
Accounts established by the Group as cash held on behalf of customers	114,424	135,224
Accounts established by customers directly	76,898	82,658
	191,322	217,882

Cash held on behalf of salary packaging administration customers is deposited by customers into segregated bank accounts, to be used only to settle their employees' salary packaging obligations to suppliers. The Group cannot use these funds for any other purpose than as directed by its customers. Customers are liable to ensure adequate funds are kept in the segregated bank accounts for salary payments. The Group has assessed that these assets are held in a fiduciary capacity rather than being assets of the Group and as such, have excluded them from the Consolidated Statement of Financial Position.

The segregated bank accounts used for cash held on behalf of customers are with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. For the half year ended 30 June 2022, the Group has recognised interest revenue of \$47,000 (30 June 2021: \$3,000) from those accounts established by the Group as cash held on behalf of customers, and \$32,000 (30 June 2021: \$4,000) from those accounts established by the customers directly. These amounts are recognised within management and administration revenue.

12 Events occurring after the reporting period

No matter or circumstance has occurred after period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

Directors' Declaration

30 June 2022

In the Directors' opinion:

- (a) the attached financial statements and notes set out on pages 8 to 22 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors.

On behalf of the directors,



Michael Carapiet
Chairman
Sydney
25 August 2022



Independent auditor's review report to the members of Smartgroup Corporation Ltd

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Smartgroup Corporation Ltd (the Company) and the entities it controlled from time to time during the half-year (together the Group), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Smartgroup Corporation Ltd does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2022 and of its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

A stylized, handwritten signature of 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A handwritten signature of 'Joe Sheeran' in a cursive script.

Joe Sheeran
Partner

Sydney
25 August 2022

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Corporate directory

Directors

Michael Carapiet
Timothy Looi
Gavin Bell
Andrew Bolam
Carolyn Colley
Deborah Homewood
Anne McDonald
John Prendiville
Ian Watt

Company secretaries

Sophie MacIntosh
Jonathan Swain

Principal registered office in Australia

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Australia
1300 665 855

Share and debenture register

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1300 554 474

Auditor

PricewaterhouseCoopers
One International Towers
Watermans Quay Barangaroo
Sydney NSW 2000

Solicitors

Minter Ellison Lawyers
Level 20, Collins Arch
447 Collins Street
Melbourne VIC 3000
02 9921 8888

Bankers

Westpac Group
275 Kent Street
Sydney NSW 2000

Australia and New Zealand Banking Group Limited
242 Pitt Street
Sydney NSW 2000

Stock exchange listing

Smartgroup Corporation Ltd shares are listed on the Australian Securities Exchange (ASX Code: SIQ)

Website

www.smartgroup.com.au

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corporation