

McMillan Shakespeare delivers strong financial performance and capital returns

29 August 2022

McMillan Shakespeare Ltd (**ASX: MMS, the Company**) announces its financial results for the year ended 30 June 2022 (FY22).

MMS delivered a strong financial performance during FY22 with its customer focus driving business momentum amid a complex operating environment, including ongoing disruptions to the automotive supply chain.

Group FY22 Performance Highlights:

- **Statutory NPAT of \$70.3m (up 15.2% vs FY21)**
- **Normalised Revenue of \$594.3m (up 9.2% vs FY21)**
- **Normalised UNPATA (excluding transitional impact of the warehouse) of \$83.8m (up 16.5%)**
- **Further portfolio simplification completed**
- **Final fully franked dividend of \$0.74 cps (up 145.0%) declared**
- **New dividend payout ratio policy of 70%-100% of UNPATA**
- **Up to 10% off market share buyback announced**

	FY22 ¹	FY21 ²	Variance
Normalised Revenue (\$m)	594.3	544.5m	+9.2%
Normalised EBITDA (\$m)	132.7	123.9	+7.2%
Normalised UNPATA (\$m)	83.8	71.9	+16.5%
UNPATA	82.1	79.2	+3.6%
Statutory NPAT (\$m)	70.3	61.1	+15.2%
Normalised EPS	108.3	92.9	+16.5%
Final Dividend per Share(c)	74.0	30.2	+145.0%
Total FY22 Dividend per Share	108.0	61.3	+76.2%
Payout Ratio	100%	66%	
Return on Equity (%) ³	29.4%	28.7%	
Return on Capital Employed (%)	38.6%	30.5%	

The financial information is unaudited and remains subject to change

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 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 FY22 and FY21 (for comparative purposes) and are currently expected to be stated up to and including FY25. For FY21 normalisations only include an adjustment to remove the impact of JobKeeper.

² All variances exclude JobKeeper in FY21 (Group impact of \$7.3m post tax)

³ Return on equity and return on capital employed based on LTM normalised UNPATA and normalised earnings before interest and tax (EBIT). Normalised EBIT is before the pre-tax impact of acquisition related and non-business operational items and also adjusted for the Warehouse in FY22 and JobKeeper in FY21. Equity and 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 in FY22 and JobKeeper in FY21.

Segment Performance

Group Remuneration Services (GRS)

- Normalised revenue growth of 2.0% to \$206.6m.
- Organic growth of 13,500 salary packages, underpinned by ongoing investment in digital enhancements and customer experience.
- New client wins including the Victorian Department of Education and Training.
- Novated lease orders up 3.0%, however, due to ongoing vehicle supply shortages, MMS's novated lease sales were down 4.0% but outperformed the new car sales market.
- This lack of available new car stock has meant that expenses have been incurred in FY22 to originate orders that were not able to be fulfilled in year. This has resulted in a significant volume of orders carried over into future periods where the revenue is expected to be recognised. Total carry over as at 30 June 2022 was \$26m.
- Normalised UNPATA of \$48.4m down 2.1%.
- Established the funding warehouse, Onboard Finance.

Plan and Support Services (PSS)

- Revenue of \$41.2 million, up 57.2% on FY21.
- UNPATA of \$6.6 million, up 21.4% on FY21.
- 64% rise in customers.
- 20% increase in the number of hours of support coordination.
- Completed acquisition of the Plan Tracker business.
- Launched new digital tools to improve the customer experience.

Asset Management Services (AMS)

- Revenue of \$170.6 million (ANZ) and \$131.9 million (UK), up 11.1% and 28.4% on FY21 respectively.
- The Asset Management ANZ business recorded UNPATA of \$18.0 million, up 19.6% on FY21 benefiting from strong remarketing profits, while the UK business saw UNPATA rise by \$7.1m to \$8.5 million.
- Performance of the businesses underpinned by the ongoing strength of used vehicle prices generating significant increase in remarketing profits.
- The Aggregation business saw the net amount financed (NAF) increased by 15.9% on FY21 to \$1.168 billion and UNPATA of \$4.0m, up 10%.

MMS CEO, Robert De Luca, said: *"While we have continued to operate in an environment impacted by new vehicle supply constraints, our ongoing customer focus has helped underpin business momentum benefiting FY22 and future periods."*

Business Simplification

During the year MMS aligned into new segments (GRS, PSS and AMS) divested the Davantage Warranty and CLM Fleet Management (UK) businesses. In FY23 MMS will consider exit options for its UK businesses.

Capital Management Focused on Improving Shareholder Returns

MMS has implemented a capital allocation strategy which aims to prioritise surplus cash flow to: invest in the business for sustainable growth, fund strategic acquisitions, deleverage where required, return to shareholders primarily as fully franked dividends and then where surplus capital remains to consider share repurchases.

MMS has a revised dividend policy which aims to return between 70% to 100% of UNPATA⁴ to shareholders via dividends. Accordingly, a fully franked dividend of 108 cents per share was delivered for the year inclusive of the final dividend of 74 cents per share payable on 10 November 2022. This represents 100% of FY22 Normalised UNPATA.

MMS separately announced an off-market share buy-back for up to 10% of its shares (including a significant franking component) which is expected to be completed in H1FY23.

Working Towards a Sustainable and Inclusive Future

MMS has made significant progress in implementing its Groupwide Sustainability strategy.

Key initiatives introduced during the year included offsetting a quarter of the Group's energy usage through transitioning to renewable energy, incorporating Green Vehicle Guide Ratings into quotations, transitioning 18% of MMS's Australian Fleet to Electric Vehicles (EVs), and the launch of both an Accessibility Inclusion Plan and a Reflect Reconciliation Action Plan.

Outlook

It is expected that many of the market conditions experienced in FY22 will continue into FY23, particularly global motor vehicle supply constraints, which will present both challenges and opportunities. Novated lease yields and end of lease income yields are anticipated to remain at current levels.

GRS will focus on on-boarding client wins from FY22, winning and renewing contracts and investing in enhancing the customer experience through digital and data analytics for future productivity benefits. The result of the 20% volume transition from P&A funding to the Warehouse is expected to have an ~(\$11m) UNPATA impact in FY23.

AMS will continue to focus on customer needs, including working with clients on reducing their carbon footprint as they plan to transition their fleets to EVs and explore exit options for the UK business.

In relation to EVs, the Federal Government is finalising legislation to exempt non-luxury zero and low emissions vehicles from Fringe Benefits Tax. As Australia's largest novated lease provider, together with our Asset Management (ANZ) business, MMS is well positioned to assist our customers to utilise this proposed legislation in their transition to EVs.

In PSS the focus is to support the ongoing growth of participants in the NDIS, to fully integrate the Plan Tracker business and continue to develop a scalable platform to grow the business whilst actively pursuing further acquisition opportunities.

⁴ During the Warehouse transition period (currently expected to be for FY22 to FY25) the UNPATA used for the dividend policy will exclude the impact of the Warehouse (i.e. Normalised UNPATA)

MMS will complete the announced up to 10% off-market share buyback in 1HFY23 and apply our new dividend policy of a payout ratio of 70%-100% of normalised UNPATA.

MMS CEO, Robert De Luca, said: *“Through FY23 we will continue to simplify our business, invest in digital and data analytics to enhance the customer experience, supporting business growth and future productivity benefits.”*

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FY22 Investor Briefing Presentation

The MMS FY22 Results will be presented by Mr Robert De Luca (CEO) and Mr Ashley Conn (CFO) in a live webcast on Monday 29 August 2022 at 9:00am (AEST).

The FY22 Results Presentation can be accessed at <https://webcast.openbriefing.com/8806/>

An archive of the event will be available via the above link or on the McMillan Shakespeare website (www.mmsg.com.au) on the afternoon of Monday 29 August.

This document was authorised for release by the MMS Board.