

24 February 2021

Manager, Company Announcements
ASX Limited

Via E-lodgement

Dear Sir/Madam

**McMillan Shakespeare Limited
Interim Results**

Please find attached the Appendix 4D Half-year Report, Directors' Report, Financial Report and Auditor's Independent Review Report for the half-year ended 31 December 2020.

This information should be read in conjunction with McMillan Shakespeare Limited's 2020 Annual Report.

This announcement comprises the information required by ASX Listing Rule 4.2A and the statement required by Rule 4.2C.2.

Yours faithfully
McMillan Shakespeare Limited



Ashley Conn
Chief Financial Officer and Company Secretary

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McMillan
Shakespeare
Limited

**Interim Financial
Statements and
Appendix 4D**

Half-year ended
31 December 2020

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MMS

Appendix 4D – Half-year Report

1. Details of the reporting period and the previous corresponding period

Current period: 1 July 2020 to 31 December 2020

Previous corresponding period: 1 July 2019 to 31 December 2019

2. Results for announcement to the market

	Key information	Percentage change	Half-year ended 31 Dec 2020 \$'000
2.1	Revenues from ordinary activities	Down 8.4%	247,644
2.2	Profit from ordinary activities after tax attributable to members	Down 25.0%	25,482
2.3	Net profit after tax attributable to members	Down 25.0%	25,482
2.3.1	Underlying net profit after tax and acquisition amortisation (UNPATA) attributable to members	Up 13.1%	42,739

	Dividends	Amount per share	Franked amount per share
2.4	Interim dividend	\$0.302	\$0.302
2.5	Ex-dividend date		11 March 2021
	Record date for determining entitlements to the dividend		12 March 2021
	Dividend payment date		26 March 2021

2.6 Commentary on results for the period

Underlying net profit after tax and acquisition amortisation (UNPATA), being net profit after tax but before the after-tax impact of acquisition related and non-business operational items (as outlined in the following table), has been used to measure the financial performance of the Group. The Group believes this measure of performance best represents the underlying operating results of the Group. For the half-year ended 31 December 2020, Group UNPATA of \$42.7m (1HFY20: \$37.8m) was 13.1% higher than the previous corresponding period (pcp).

	Half-year 31 Dec 2020 \$'000	Half-year 31 Dec 2019 \$'000
Net profit after income tax attributable to members of the parent entity (item 2.3)	25,482	33,954
Amortisation of intangible assets from acquisitions	839	1,719
UK restructuring expenses – cash	1,805	-
UK restructuring expenses – non-cash ³	12,651	-
Impairment of CLM goodwill	1,962	-
Class action dispute expenses ¹	-	3,148
Share buyback expenses	-	330
Investment related expenses	-	74
Contingent consideration fair valuation ²	-	(1,432)
Consolidated UNPATA	42,739	37,793

1 Class action dispute expenses relate to the class action proceedings brought against Davantage Group Pty Ltd.

2 Non-cash fair valuation of deferred consideration relates to the business combination of Asset Management segment's businesses in the UK (refer note 5 to the financial report).

3 Includes the impairment of Maxxia Limited, impairment of the JV subordinated loan and impairment of deferred tax asset.

Group UNPATA for the half-year was higher than pcp.

	Half-year 31 Dec 2020 \$'000	Half-year 31 Dec 2019 \$'000	Half-year 31 Dec 2020 \$'000	Half-year 31 Dec 2019 \$'000
	Revenue		UNPATA	
Group Remuneration Services	111,779	108,779	33,455	31,114
Asset Management	105,897	123,141	8,005	5,135
Retail Financial Services	29,898	38,250	1,995	2,198
Total segment operations	247,574	270,170	43,455	38,447
Unallocated public company costs and net interest			(716)	(654)
Consolidated UNPATA			42,739	37,793

Basic earnings per share as shown in the financial statements, using statutory NPAT, was 32.9 cents per share (1HFY20: 42.1 cents per share) and on a diluted basis was 32.8 cents per share (1HFY20: 41.6 cents per share). Basic UNPATA per share is 55.2 cents (1HFY20: 46.8 cents per share).

Refer to the December 2020 Half-year Results presentation announced to the Australian Securities Exchange ("ASX") on 24 February 2021.

3. Net tangible assets per share

	31 Dec 2020	30 June 2020
Ordinary shares	\$1.55	\$1.14

4. Control gained or lost over entities during the period

Name of entities where control was gained during the period	Date control acquired
Maxxia Limited	31 December 2020

Name of entities where control was lost during the period	Date control lost
None	N/A

5. Dividend

Dividends	Amount per share Cents	Franked amount per share Cents
Final dividend in respect of the financial year ended 30 June 2020 per share	-	-
Interim dividend in respect of the financial half-year ended 31 December 2020 per share	30.2	30.2

The record date for determining entitlement to the interim dividend is 12 March 2021.

The interim dividend is payable on 26 March 2021.

6. Dividend reinvestment plan

None.

7. Investment in associates and joint ventures

The Group's 50% joint venture interest in Maxxia Limited ("ML"), a company operating in the UK, reported a loss after tax for the period of \$1,304,000 (1HFY20: \$965,000) and has not been equity accounted as it exceeded the carrying amount of the Group's net investment in the joint venture ("JV"). The Group obtained control of Maxxia Limited on 31 December 2020 through the acquisition of the remaining 50% equity interest in Maxxia Limited. The acquisition cost of \$1,805,000 was based on an historical incentive arrangement to retain prior management.

8. Foreign entities reporting in Australia

Not applicable.

9. Review

This report contains an unqualified review conclusion from an independent auditor.

McMillan Shakespeare Limited (ASX: MMS) has released its results for the half-year ended 31 December 2020, with a reported after tax profit of \$25.5m (attributable to the owners of the Company).

Highlights of the operating results were:

\$m	1H21	1H20	Variance
Revenue	247.6	270.4	(8.4%)
EBITDA	68.1	57.2	19.1%
<i>EBITDA margin (%)</i>	<i>27.5%</i>	<i>21.2%</i>	
NPBT	46.3	47.4	(2.3%)
NPAT ⁴	25.5	34.0	(25.0%)
UNPATA	42.7	37.8	13.1%
Basic earnings per share (cents)	32.9	42.1	(21.9%)
Underlying earnings per share (cents)	55.2	46.8	17.9%
Interim dividend per share (cents)	30.2	34.0	(11.2%)
Payout ratio (%) ¹	66.0%	69.7%	(5.3%)
Free cash flow²	42.2	34.2	23.4%
Return on equity (%) ³	24.1%	24.3%	
Return on capital employed (%) ³	22.8%	19.5%	

1 Dividend payout ratio is calculated as total dividend for the financial period divided by UNPATA for the financial period. 1H21 payout ratio is calculated on UNPATA excl. JobKeeper of \$7.3m (net of tax).

2 Free operating cash flow before investing, financing activities and fleet increases.

3 Return on equity (ROE) and return on capital employed (ROCE), which are based on last 12 months' UNPATA and underlying earnings before interest and tax (EBIT). Underlying EBIT is before the pre-tax impact of acquisition related and non-business operational items (as defined per section 2.6). 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.

4 NPAT in 1H20 is after Outside Equity Interest adjustment for 25% share of Plan Partners.

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Review of operations

MMS Group

- Group revenue of \$247.6m was down 8.4% while UNPATA increased by 13.1% to \$42.7m, compared with pcp. Following the extremely challenging trading conditions in Q4 of the 2020 financial year, during this half the Group continued to be impacted by COVID-19. This included lockdown restrictions in various Group jurisdictions in Australia, New Zealand and the UK that negatively impacted sales levels and activity. The Group was supported by the Australian Federal Government's JobKeeper program (\$7.3 million after tax) which helped to retain our employees despite the challenges of COVID-19 and the negative impacts on our financial performance. Towards the end of the half, GRS and Asset Management in ANZ experienced a faster than anticipated recovery in novated lease sales and strong returns in remarketing values of used vehicles. In the UK, CLM continues to be negatively impacted by the lockdowns with reduced activity within the fleet control and rental businesses. However, the UK asset finance businesses were able to increase net amounts financed (NAF) through the origination of the UK Government CBILS (Coronavirus Business Interruption Loan Scheme) loans.
- Cash at bank at 31 December 2020 was \$117.1m. Excluding fleet funded net debt, the Group has net cash of \$95.0m.
- Return on equity was 24.1% and return on capital employed was 22.8%.
- Underlying and basic earnings per share was 55.2 cents and 32.9 cents respectively.
- The Company declared an interim fully franked dividend of 30.2 cents per share. The record date is 12 March 2021 and it will be paid on 26 March 2021.

Group Remuneration Services¹ (GRS)

- The GRS segment maintained activity levels and increased novated leases against a backdrop of a declining Australian new car sales market, with revenue and UNPATA up by 2.7% and 7.5% respectively compared to pcp. Solid operational performance across the half contributed to further growth of the customer base in GRS, with a 1.7% increase in salary packages and a 1.0% increase in novated fleet units. GRS benefited from constrained vehicle supply across the broader motor industry.
- Plan Partners continued to grow its market share and its customer base with client funds under administration of \$909m at 31 December 2020, up from \$417m at 31 December 2019. Ongoing investment in technology continues to deliver productivity and efficiency gains.

Asset Management (AM)

- The AM segment in ANZ, despite challenging market conditions, benefited from favourable residual values to deliver a 22.1% increase in UNPATA compared with pcp. Asset WDV reduced by 15.4% to \$319m, the result of an increase in customer extensions increasing the average fleet duration and age of fleet in addition to reductions in customers' overall fleet size.
- In the UK, the business experienced a challenging first half due in part to economic conditions and uncertainty associated with the COVID-19 lockdowns. The UK delivered an UNPATA of \$0.8m for the period. The Group completed the restructure of the UK business, this included acquiring the remaining 50% equity interest in the Maxxia Limited joint venture on 31 December 2020. The acquisition cost of \$1.805m was based on an historical incentive arrangement to retain prior management. As a result of the joint venture acquisition and associated consolidation, several items within the Consolidated Statement of Financial Position have changed including the Group's inventory held which has increased by \$10.278m.

Retail Financial Services (RFS)

- The RFS segment recorded a 9.1% decrease in UNPATA compared to pcp. The Aggregation business experienced a decline in NAF of 11.8% to \$453.7m, the result of COVID-19 lockdowns and a supply constrained Australian vehicle market. The Retail business has sector leading dealer warranty products and continues to monitor and assess the evolving regulatory landscape. Davantage Group Pty Ltd's class action settlement was approved by the Federal Court of Australia on 5 February 2021.

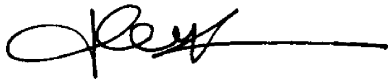
¹ GRS includes revenue and costs associated with Plan Partners (PP).

Outlook

The unusual trading conditions in the broader motor industry in the first half are expected to normalise during Q4 of the 2021 financial year and as such operating performance in the second half is expected to be similar to the first half excluding the JobKeeper contribution.

COVID-19 continues to impact our operations, business and consumer activity – and there remains the potential for further disruption.

Yours faithfully,
McMILLAN SHAKESPEARE LIMITED



Helen Kurincic
Chair



Mike Salisbury
Managing Director

24 February 2021
Melbourne, Australia

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For more information, please contact:

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Directors' Report

Directors

The Directors of McMillan Shakespeare Limited (the Company) present their report on the consolidated entity consisting of the Company and the entities it controlled at the end of, or during, the half-year ended 31 December 2020 (the Group or Consolidated Group).

The names of the Directors of the Company during the whole of the reporting period and up to the date of this report are as follows:

Ms H. Kurincic
Mr J. Bennetts
Mr R. Chessari
Mr I. Elliot
Ms K. Parsons
Mr T. Poole
Mr M. Salisbury

Review of operations

A review of the operations of the Consolidated Group during the half-year ended 31 December 2020 and the results of these operations are set out in the attached results announcement.

Results

The consolidated net profit for the half-year ended 31 December 2020 attributable to the members of the Company after providing for income tax was \$25,482,000 (1HFY20: \$33,954,000).

Dividend

On 24 February 2021, the Board of Directors declared a fully franked dividend of 30.2 cents per ordinary share. The record date is 12 March 2021 and the dividend will be paid on 26 March 2021.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Corporations Instrument.

Subsequent events

At the date of this report, significant uncertainties remain in the economic environment and the impact of COVID-19 on the business sectors affecting the Group's businesses. Travel restrictions are still extensively administered and a lockdown is currently in place within the UK. Any further incidences of COVID-19 in Australia or New Zealand may cause the re-imposition of a lockdown. Accordingly, there is significant uncertainty to the condition of markets that the Group operates in that may affect the recoverable value of assets, adequacy of provisions and the financial cash flow assumptions used to assess the carrying value of non-current assets.

Subsequent to reporting date, the Federal Court of Australia approved the Davantage Group Pty Ltd class action settlement as outlined within note 12 on 5 February 2021.

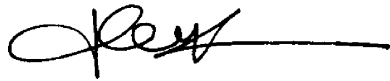
Other than the above and the matters disclosed in this report, there were no material events subsequent to the reporting date.

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* is included on page 10 of the half-year financial report.

Signed in accordance with a resolution of the Directors made pursuant to section 306(3) of the *Corporations Act 2001*.

Yours faithfully,
McMILLAN SHAKESPEARE LIMITED



Helen Kurincic
Chair



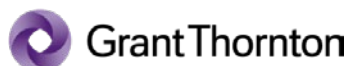
Mike Salisbury
Managing Director

24 February 2021
Melbourne, Australia

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Auditor's Independence Declaration



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Auditor's Independence Declaration

To the Directors of McMillan Shakespeare Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of McMillan Shakespeare Limited for the half-year ended 31 December 2020, 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.

A handwritten signature in cursive script that reads "Grant Thornton".

Grant Thornton Audit Pty Ltd
Chartered Accountants

A handwritten signature in cursive script that reads "Darren Scammell".

Darren Scammell
Partner – Audit & Assurance

Melbourne, 24 February 2021

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Independent Auditor's Review Report



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Independent Auditor's Report

To the Members of McMillan Shakespeare Limited

Report on the review of the financial report

Conclusion

We have reviewed the accompanying half-year financial report of McMillan Shakespeare Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of McMillan Shakespeare Limited does not give a true and fair view of the financial position of the Group as at 31 December 2020, and of its financial performance and its cash flows for the half-year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Responsibilities of the Directors for the half-year financial report

The Directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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 31 December 2020 and 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*. As the auditor of McMillan Shakespeare Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of the 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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Darren Scammell

Darren Scammell
Partner – Audit & Assurance

Melbourne, 24 February 2021

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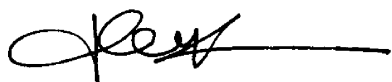
Directors' Declaration

Directors' Declaration

- a) The financial statements and notes of McMillan Shakespeare Limited for the half-year ended 31 December 2020 are in accordance with the *Corporations Act 2001*, including;
 - i. giving a true and fair view of its financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
 - ii. complying with Accounting Standards and the Corporations Regulations 2001.
- 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 the Directors of McMillan Shakespeare Limited.

Yours faithfully,
McMILLAN SHAKESPEARE LIMITED



Helen Kurincic
Chair



Mike Salisbury
Managing Director

24 February 2021
Melbourne, Australia



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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2020

	Notes	Half-year ended 31 Dec 2020 \$'000	Half-year ended 31 Dec 2019 \$'000
Revenue from contracts with customers		247,415	269,845
Interest income		229	545
Revenue from continuing operations		247,644	270,390
Gain on previously held equity interest	13	1,805	-
Expenses			
Employee benefit expense	5	(58,636)	(72,577)
Leasing and vehicle management expenses		(48,444)	(55,468)
Brokerage commissions and incentives		(13,288)	(17,842)
Depreciation and amortisation		(33,838)	(41,058)
Net claims incurred		(5,863)	(6,870)
Other operating expenses		(22,934)	(24,585)
Impairment expense	5	(16,338)	(2,091)
Contingent consideration fair valuation	5	-	1,462
Finance costs		(3,832)	(4,008)
Total expenses		(203,173)	(223,037)
Profit before income tax expense		46,276	47,353
Income tax expense		(20,794)	(13,058)
Net profit for the period		25,482	34,295
<i>Profit is attributable to:</i>			
Owners of the Company		25,482	33,954
Non-controlling interests		-	341
		25,482	34,295
Other comprehensive income			
<i>Items that may be re-classified subsequently to profit or loss:</i>			
Changes in fair value of cash flow hedges		813	318
Exchange differences on translating foreign operations		(582)	3,750
Income tax		(188)	(52)
Other comprehensive income, net of tax		43	4,016
Total comprehensive income for the half-year		25,525	38,311
<i>Total comprehensive income for the half-year is attributable to:</i>			
Owners of the Company		25,525	37,970
Non-controlling interests		-	341
		25,525	38,311
Basic earnings per share (cents)		32.9	42.1
Diluted earnings per share (cents)		32.8	41.6

Notes to the financial statements are annexed.

Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	31 Dec 2020 \$'000	30 June 2020 \$'000
Current assets			
Cash and cash equivalents	8	117,070	91,408
Trade and other receivables		40,639	69,384
Finance lease receivables		22,692	43,936
Deferred acquisition costs		5,012	5,206
Inventory		18,760	7,715
Prepayments		7,361	3,299
Assets under operating lease		61,019	62,272
Total current assets		272,553	283,220
Non-current assets			
Assets under operating lease		149,475	153,670
Property, plant and equipment		4,399	5,269
Right-of-use asset		13,410	15,953
Finance lease receivables		40,764	69,150
Intangible assets	7	135,177	140,413
Deferred acquisition costs		6,348	6,641
Deferred tax assets		11,412	10,122
Total non-current assets		360,985	401,218
Total assets		633,538	684,438
Current liabilities			
Trade and other payables		102,349	94,462
Other liabilities		2,968	2,341
Contract liabilities		7,021	8,098
Provisions		11,627	13,800
Unearned premium liability		17,883	18,083
Current tax liability		795	5,274
Borrowings	9	28,355	11,706
Lease liabilities		4,391	6,523
Derivative financial instruments		921	1,678
Total current liabilities		176,310	161,965
Non-current liabilities			
Borrowings	9	151,447	251,914
Lease liabilities		16,045	17,913
Provisions		2,009	1,608
Unearned premium liability		20,390	20,483
Deferred tax liabilities		12,356	1,669
Total non-current liabilities		202,247	293,587
Total liabilities		378,557	455,552
Net assets		254,981	228,886
Equity			
Issued capital	10	76,257	76,419
Reserves		(11,303)	(12,078)
Retained earnings		190,027	164,545
Total equity		254,981	228,886

Notes to the financial statements are annexed.

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Consolidated Statement of Cash Flows

For the half-year ended 31 December 2020

Notes	Half-year ended 31 Dec 2020 \$'000	Half-year ended 31 Dec 2019 \$'000
Cash flows from operating activities		
Cash receipts from customers	234,201	277,088
Cash payments to suppliers and employees	(161,125)	(153,227)
Proceeds from sale of assets under lease	47,477	51,341
Proceeds from sale of lease portfolio	32,520	55,118
Payments for lease assets	(31,134)	(175,174)
Proceeds from government subsidies	14,685	-
Interest received	229	545
Interest paid	(4,295)	(5,550)
Income taxes paid	(16,397)	(11,577)
Net cash from operating activities	116,161	38,564
Cash flows from investing activities		
Payments for plant and equipment	(782)	(494)
Payments for software	(3,417)	(8,870)
Cash acquired from business combination, net of cash consideration paid	13 5,963	-
Payments for joint venture subordinated loan	(3,520)	(2,091)
Net cash used in investing activities	(1,756)	(11,455)
Cash flows from financing activities		
Proceeds from borrowings	-	62,172
Repayments of borrowings	(84,471)	(64,979)
Payments of lease liabilities	(4,001)	(3,555)
Payments for share buyback	-	(80,016)
Payments for share buyback expenses	-	(472)
Payments for treasury shares	(162)	-
Proceeds from exercise of employee options	-	5,478
Dividends paid	-	(33,282)
Net cash used in financing activities	(88,634)	(114,654)
Effects of foreign currency translation	(109)	651
Net (decrease) / increase in cash and cash equivalents	25,662	(86,894)
Cash and cash equivalents at the beginning of the half-year	91,408	137,762
Cash and cash equivalents at the end of the half-year	8 117,070	50,868

Notes to the financial statements are annexed.

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Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2020

	Issued capital \$'000	Retained earnings \$'000	Option reserve \$'000	Cash flow hedge reserve \$'000	Foreign currency translation reserve \$'000	Acquisition reserve \$'000	Total \$'000
Half-year ended 31 December 2020							
Equity as at the beginning of period	76,419	164,545	360	(1,288)	(4,018)	(7,132)	228,886
Profit attributable to members of the parent entity	-	25,482	-	-	-	-	25,482
Other comprehensive income / (loss) after tax	-	-	-	625	(582)	-	43
Total comprehensive income / (loss) for the period	-	25,482	-	625	(582)	-	25,525
<i>Transactions with owners in their capacity as owners:</i>							
Treasury shares	(162)	-	-	-	-	-	(162)
Employee share schemes – value of employee services	-	-	732	-	-	-	732
Equity as at 31 December 2020	76,257	190,027	1,092	(663)	(4,600)	(7,132)	254,981

	Issued capital \$'000	Retained earnings \$'000	Option reserve \$'000	Cash flow hedge reserve \$'000	Foreign currency translation reserve \$'000	Outside equity interest \$'000	Total \$'000
Half-year ended 31 December 2019							
Equity as at beginning of period as originally reported	135,868	240,263	872	(878)	(4,560)	(194)	371,371
Change in accounting policy	-	(2,336)	-	-	-	-	(2,336)
Restated equity as at the beginning of period	135,868	237,927	872	(878)	(4,560)	(194)	369,035
Profit attributable to members of the parent entity	-	33,954	-	-	-	341	34,295
Other comprehensive income after tax	-	-	-	266	3,750	-	4,016
Total comprehensive income for the period	-	33,954	-	266	3,750	341	38,311
<i>Transactions with owners in their capacity as owners:</i>							
Share buyback	(10,366)	(69,650)	-	-	-	-	(80,016)
Exercise of employee options	5,478	-	-	-	-	-	5,478
Employee share schemes – value of employee services	-	-	(388)	-	-	-	(388)
Dividends paid	-	(33,282)	-	-	-	-	(33,282)
Equity as at 31 December 2019	130,980	168,949	484	(612)	(810)	147	299,138

Notes to the financial statements are annexed.

Notes to the Financial Statements

For the half-year ended 31 December 2020

1. Corporate information

McMillan Shakespeare Limited (the Company) is a company limited by shares, incorporated and domiciled in Australia.

2. Basis of preparation

The consolidated half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*.

This half-year financial report does not include notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by the Company during the half-year period in accordance with the continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the *Corporations Act 2001*. The Company is a for-profit entity for financial reporting purposes under the Australian Accounting Standards.

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

The consolidated half-year financial report was approved by the Board of Directors on 24 February 2021.

3. Significant accounting policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the Group's last annual financial report for the year ended 30 June 2020. There were no new or amended Accounting Standards that are effective for the current period which have a material impact upon the Group.

4. Segment reporting

Group Remuneration Services – This segment provides administrative services in respect of salary packaging and facilitates the settlement of motor vehicle novated leases for customers, but does not provide financing. The segment also provides ancillary services associated with motor vehicle novated lease products. The provision of administrative services include plan management and support coordination services to participants in the National Disability Insurance Scheme (NDIS).

Asset Management – This segment provides financing and ancillary management services associated with motor vehicles, commercial vehicles and equipment.

Retail Financial Services – This segment provides retail brokerage services, aggregation of finance originations and extended warranty cover, but does not provide financing.

Half-year ended 31 December 2020	Group Remuneration Services \$'000	Asset Management \$'000	Retail Financial Services \$'000	Unallocated \$'000	Consolidated \$'000
Revenue from contracts with customers	111,779	105,738	29,898	-	247,415
Interest revenue	-	159	-	70	229
Segment revenue	111,779	105,897	29,898	70	247,644
Timing of revenue recognition:					
At a point in time	62,056	63,828	16,646	-	142,530
Over time	49,723	41,910	13,252	-	104,885
Segment revenue from contracts with customers	111,779	105,738	29,898	-	247,415
Underlying net profit/(loss) after tax and acquisition amortisation (UNPATA)	33,455	8,005	1,995	(716)	42,739
Reconciliation to statutory net profit/(loss) after tax attributable to members of the parent entity					
Amortisation of intangible assets acquired on business combination	-	(713)	(375)	-	(1,088)
UK restructuring expenses – cash	-	(1,805)	-	-	(1,805)
UK restructuring expenses – non-cash	-	(12,651)	-	-	(12,651)
Impairment of CLM goodwill	-	(1,962)	-	-	(1,962)
Income tax	-	136	113	-	249
UNPATA adjustments after-tax	-	(16,995)	(262)	-	(17,257)
Statutory net profit/(loss) after-tax attributable to members of the parent entity	33,455	(8,990)	1,733	(716)	25,482

Half-year ended 31 December 2019	Group Remuneration Services \$'000	Asset Management \$'000	Retail Financial Services \$'000	Unallocated \$'000	Consolidated \$'000
Revenue from contracts with customers	108,779	122,816	38,250	-	269,845
Interest revenue	-	325	-	220	545
Segment revenue	108,779	123,141	38,250	220	270,390
Timing of revenue recognition:					
At a point in time	64,734	72,422	22,458	-	159,614
Over time	44,045	50,394	15,792	-	110,231
Segment revenue from contracts with customers	108,779	122,816	38,250	-	269,845
Underlying net profit/(loss) after tax and acquisition amortisation (UNPATA)	31,114	5,135	2,198	(654)	37,793
Reconciliation to statutory net profit/(loss) after tax attributable to members of the parent entity					
Amortisation of intangible assets acquired on business combination	-	(855)	(1,333)	-	(2,188)
Fair valuation of contingent consideration	-	1,442	-	-	1,442
Investment related expenses	-	(74)	-	-	(74)
Class action dispute expenses (refer note 5)	-	-	(4,497)	-	(4,497)
Share buyback expenses	-	-	-	(472)	(472)
Income tax	-	59	1,749	142	1,950
UNPATA adjustments after-tax	-	572	(4,081)	(330)	(3,839)
Statutory net profit/(loss) after-tax attributable to members of the parent entity	31,114	5,707	(1,883)	(984)	33,954

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5. Material Profit or Loss items**Significant items****(a) UK Impairment and restructuring**

	Half-year ended 31 Dec 2020 \$'000	Half-year ended 31 Dec 2019 \$'000
Subordinated loan loss allowance ¹	3,520	2,091
Impairment of goodwill and other restructuring expenses ²	12,818	-
	16,338	2,091

¹ The subordinated loan loss allowance expense brings to account the loss allowance for the receivable due from Maxxia Ltd.

² Includes the impairment of CLM and Maxxia Ltd goodwill. Impairment of goodwill includes the \$1,805,000 cost for the acquisition of the remaining JV interest which was based on an historic incentive arrangement to retain prior management.

(b) Contingent consideration fair valuation

Fair value adjustment	-	(1,462)
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Fair value adjustment for the half-year ended 31 December 2019 brings to account the carrying value of contingent consideration at the estimated fair value at reporting date in relation to Anglo Scottish Finance plc that was acquired in FY2016.

(c) Class action dispute expenses

Legal and other consulting expenses	-	4,497
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Expenses incurred in relation to the class action brought against Davantage Group Pty Ltd (refer note 12).

(d) Government subsidies

JobKeeper Payment	10,450	-
Coronavirus Job Retention Scheme	567	-
	11,017	-

The Group received the Federal Government economic response subsidy, JobKeeper Payment, for the period from April to September 2020. The UK entities received the Coronavirus Job Retention Scheme, a temporary relief to provide financial support to assist in the retention of employees who may otherwise be laid off during the COVID-19 pandemic. The JobKeeper subsidy assisted the Company to retain its employees and reduce stand downs. In the UK, the subsidy was a pass through for those employees that were furloughed.

The subsidies have been accounted for as a reduction to employee benefit expense in the Consolidated Statement of Profit or Loss.

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6. Dividends

On 24 February 2021, the Board of Directors declared a fully franked dividend of 30.2 cents per ordinary share. The record date is 12 March 2021 and the dividend will be paid on 26 March 2021.

	Half-year ended 31 Dec 2020		Half-year ended 31 Dec 2019	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Recognised amounts				
Fully paid ordinary shares – Final dividend	-	-	40.0	33,282
Unrecognised amounts				
Fully paid ordinary shares – Interim dividend	30.2	23,369	34.0	26,310

7. Goodwill and other intangible assets

Half-year ended 31 Dec 2020	Goodwill \$'000	Brands \$'000	Dealer relationships \$'000	Customer contracts & relationships \$'000	Software development costs \$'000	Contract rights \$'000	Total \$'000
Net book amount							
Balance beginning of period	89,326	9,272	7,348	1,573	32,894	-	140,413
Additions	-	-	-	-	3,304	-	3,304
Additions from business combinations (refer note 13)	10,575	-	-	-	-	-	10,575
Impairment expense	(12,537)	-	-	-	(225)	-	(12,762)
Amortisation	-	-	(664)	(363)	(4,923)	-	(5,950)
Changes in foreign currency	(331)	-	(12)	(30)	(30)	-	(403)
Closing balance at 31 December 2020	87,033	9,272	6,672	1,180	31,020	-	135,177

(a) Impairment test of goodwill

At each reporting date, the Group reviews the carrying amount of its intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the affected assets are evaluated. An impairment loss is recognised in profit or loss for the amount that the asset's carrying value exceeds the recoverable amount. The recoverable amount of an asset is determined as the higher of the asset's fair value less costs to sell and its value-in-use. For the purpose of assessing fair value, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of cash inflows from other assets (cash-generating units). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The carrying amount of goodwill is allocated to the Group's cash-generating units (CGUs) below based on the organisation and management of its businesses.

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	31 Dec 2020 \$'000	30 June 2020 \$'000
Maxxia Pty Limited (Maxxia)	24,190	24,190
Remuneration Services (Qld) Pty Limited (RemServ)	9,102	9,102
CLM Fleet Management plc (CLM)	5,741	7,799
Anglo Scottish Finance Limited (ASF)	12,991	13,139
Retail Financial Services segment aggregation business (RFS Aggregation)	31,894	31,894
Capex Asset Finance Limited (CAPEX)	3,115	3,202
	87,033	89,326

(b) **Key assumptions used for CLM value-in-use calculation**

Cash flow projections

The cash flow projections are based on the current calendar year ("CY") 2021 forecast results. The growth assumptions used for subsequent years reflect strategic business plans and forecast growth rates. Financial projections also take into account any risk exposures in changes to the trading, market and regulatory environments.

The impact of COVID-19 has resulted in significant uncertainty in the economic environment affecting the CLM business. As CLM's business is driven by transactional activities related to the delivery, service, maintenance, repair and disposal of motor vehicles, the COVID-19 lockdown periods have had a greater than anticipated impact on these sectors causing a substantial loss to CLM's maintenance management and outsourced fleet management services. A recovery is anticipated on the back of pent-up demand for required services but inherent uncertainty remains affecting the level and pace of recovery.

The scale of the restrictions, changing economic and social environment and pace of recovery has created inherent uncertainty to the projection of cash flows assumed in the financial model. The value-in-use assessment model has adopted a probability weighted outcome of various scenarios in the cash flow projections.

The after-tax discounted cash flow models were based on after-tax cash flows discounted by an after-tax discount rate. The equivalent pre-tax discount rates are provided below.

Cash flows beyond the five year period are extrapolated using terminal growth rates of 2.0% (in-line with long term CPI) as well as using 1.0% in forming the probability weighted assessment.

CLM Revenue growth rate assumptions	CY2021	CY2022	CY2023	CY2024 – CY2025	
Base scenario	(3.7%)	9.4%	15.1%	2.0%	The easing of lockdown restrictions allows a gradual recovery in CLM's business activities during CY2021 to CY2023 as withheld required services are re-instated. Beyond CY2023, growth is in-line with estimated CPI.
At-risk scenario #1	(44.0%)	63.7%	15.1%	2.0%	As CLM's business is heavily impacted by COVID-19, CY2021 includes the risk of additional lockdowns that will probably have a severe impact to its business in CY2021. An upturn in business is assumed in the subsequent period for the pent-up demand for required motor vehicle services. A projection risk for under-performing planned targets based on prior year experience is also factored in.
At-risk scenario #2	(44.0%)	55.0%	15.1%	2.0%	

Probability weighting assumptions were applied with an equal probability applied to each of the scenarios. If the probability weightings for the at-risk scenarios were increased by 20% (collectively), the impact to the assessed carrying value of CLM is \$100,000.

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From other sensitivity tests applied, a 0.25% change to the discount rate indicated an impact of \$100,000 and a 5% change to revenue indicated an impact of \$400,000.

An impairment of \$1,962,000 has been estimated from the weighted probability of the cash flow scenarios modelled for CLM. The equivalent pre-tax discount rate of 11.7% (2020: 12.0%) was applied in the value-in-use calculation.

(c) **Impairment test for Maxxia Limited business combination**

The Maxxia Limited joint venture was acquired on 31 December 2020 as outlined within note 13 as a result of a contractual arrangement to acquire the remaining 50% equity interest. The acquisition cost of \$1,805,000 for the remaining JV interest was based on an historic incentive arrangement to retain prior management. Maxxia Limited has reported historical accumulated losses and the estimated recoverable amount based on future earnings did not support the carrying amount of the goodwill and therefore this was impaired to zero. The goodwill impairment charge for the period of \$10,575,000 relates to the Maxxia Limited business in the UK of the Asset Management segment and has been recognised in the Consolidated Statement of Profit or Loss. The impairment charge resulted from the assessment of the carrying amount that exceeded the estimated recoverable amount.

8. Cash and cash equivalents

	31 Dec 2020 \$'000	30 June 2020 \$'000
Cash on hand	3	5
Bank balances	114,990	90,178
Short term deposits	2,077	1,225
	117,070	91,408

Cash and cash equivalents held in trust and not recognised in the Consolidated Statement of Financial Position

Pursuant to contractual arrangements with clients, the Group Remuneration Services segment administers the cash flows on behalf of clients as part of the remuneration benefits administration service. Cash held in trust for clients are therefore, not available for use in the Group's operations. For some clients, cash is held in bank accounts specified in their name and other client monies are held in bank accounts specially designated as monies in trust for clients. All client monies are segregated from the Group's own cash and not included in the Consolidated Statement of Financial Position. At reporting date, the balance of monies held in bank accounts in trust for clients representing all client contributions to operate their accounts were as follows.

	31 December 2020		30 June 2020	
	Average interest rate	\$'000	Average interest rate	\$'000
Client monies in trust - interest accruing to the Group	0.63%	436,583	1.46%	408,676
Client monies in trust - interest accruing to clients	0.60%	27,976	1.29%	23,092
		464,559		431,768

Pursuant to contractual agreement with clients, the Company received interest of \$1,401,000 at an average interest rate of 0.62% (half-year ended 31 December 2019: \$3,586,000 at an average interest rate of 1.52%) for managing client monies and as part substitute for administration fees.

9. Borrowings

	31 Dec 2020 \$'000	30 June 2020 \$'000
Current		
Bank borrowings	28,355	11,706
Non-current		
Bank borrowings	151,447	251,914
Total borrowings	179,802	263,620

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(a) Bank borrowings

Details of the Group's facilities and amounts drawn are as follows.

Borrowing	Maturity dates	Facility in local currency '000	Facility \$'000	Used ¹ \$'000	Unused \$'000
Revolving	31/03/2022	AUD 130,670	130,670	65,600	65,070
Revolving	31/03/2023	AUD 45,000	45,000	8,500	36,500
Revolving	31/03/2024	AUD 20,000	20,000	-	20,000
Amortising	29/09/2022	AUD 5,619	5,619	5,619	-
Amortising	31/12/2022	AUD 7,010	7,010	7,010	-
Revolving	31/03/2023	GBP 15,000	26,585	9,748	16,837
Amortising	31/01/2021	GBP 1,540	2,729	2,729	-
Amortising	31/03/2022	GBP 3,776	6,692	6,692	-
Amortising	31/03/2023	GBP 25,000	44,308	44,308	-
Revolving	31/03/2022	NZD 30,000	28,157	24,027	4,130
Revolving	31/03/2023	NZD 15,000	14,078	5,913	8,165
			330,848	180,146	150,702

¹ Drawn amounts are before borrowing costs.

10. Share capital**(a) Movement in ordinary shares during the period**

	Half-year ended 31 December 2020	
	Number of shares	\$'000
Shares issued brought forward at the beginning of the half-year	77,381,107	76,419
Treasury shares acquired on-market	(16,899)	(162)
	77,364,208	76,257
Treasury shares distributed to employees on the exercise of employee options	16,899	-
Shares held by external shareholders at 31 December 2020	77,381,107	76,257

Treasury shares are shares in McMillan Shakespeare Limited that are held by the McMillan Shakespeare Limited Share Plan Trust (EST) for the purpose of issuing shares under the McMillan Shakespeare Limited Long Term Incentive Plan (LTIP). During the period, the EST distributed 16,899 shares to an executive upon the exercise of options under the LTIP. Treasury shares are deducted from issued shares to show the number of issued shares held by external shareholders.

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(b) Options and rights

Employee performance options and rights granted under the Company's LTIP at 31 December 2020 are as follows.

	Number	Exercise price	Expiry date
Employee Performance Options	509,625	\$16.64	30 September 2022
Employee Voluntary Options	12,500	\$13.45	30 September 2021
Employee Performance Rights	91,663	-	30 September 2022
Employee Performance Rights	314,996	-	30 September 2023
Employee Performance Rights ¹	533,396	-	30 September 2024
	1,462,180		

1 Performance rights granted during the period under the Company's Long Term Incentive Plan.

11. Financial instruments

Information on the Group's financial assets and financial liabilities measured at fair value are provided below.

Fair value of financial assets and financial liabilities measured on a recurring basis

Financial asset/ (financial liability)	Fair value at 31 Dec 2020 \$'000	Fair value at 30 June 2020 \$'000	Valuation technique and key input
Interest rate swaps	(921)	(1,678)	Discounted cash flow using estimated future cash flows based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted to reflect the credit risk of various counterparties.

12. Contingent liabilities

On 14 August 2018, a class action proceeding was commenced in the Federal Court against Davantage Group Pty Ltd (trading as "National Warranty Company"), a subsidiary of the Company, in relation to certain warranty products. Davantage Group Pty Ltd was acquired by the Company in February 2015 and the claim relates to certain warranties entered into between 1 July 2013 and 28 May 2015. A significant portion of the relevant period to which the claim relates is in respect of a time when the "National Warranty Company" was not owned by the MMS Group.

The parties reached agreement to settle the matter with funds of \$2 million paid by the Group and held in trust pending settlement approval as at 31 December 2020. This was fully provided for as at 30 June 2020. The settlement is without any admission of liability and was approved by the Federal Court of Australia on 5 February 2021.

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13. Business combination**(a) Subsidiary acquired**

The Group acquired the remaining 50% equity interest of Maxxia Limited on 31 December 2020, a company incorporated in the UK providing asset funding solutions, vehicle fleet leasing and asset management. These products and services are delivered through a variety of channels, both direct to market through a diverse customer base containing a number of publicly quoted and private companies, government bodies including those in the education sector and public authorities. The acquisition cost of \$1,805,000 for the remaining JV interest was based on an historic incentive arrangement to retain prior management. ML was previously a joint venture of the Group through the Group's 50% equity interest and the acquisition represents the acquisition of the remaining equity in ML.

(b) Consideration transferred

Consideration transferred for the acquisition is summarised as follows.

	\$'000
Cash	1,805
Gain on previously held equity interest	1,805
Total consideration transferred	3,610

(c) Reconciliation of consideration to cash flow

	\$'000
Purchase consideration – cash inflow for ML acquisition	
Cash consideration	1,805
Cash acquired	(7,768)
Net cash inflow in period	(5,963)

(d) Assets acquired and liabilities assumed at the date of acquisition

	\$'000
Fair value at acquisition date	
Cash and cash equivalents	7,768
Trade and other receivables, and prepayments	1,836
Inventory	10,278
Property, plant and equipment	47
Assets acquired	19,929
Trade payables and accrued expenses	15,778
Income tax provision	337
Other liabilities	530
Provisions	2,178
Related party payables	8,071
Liabilities assumed	26,894
Identifiable net liabilities acquired	(6,965)
Goodwill	10,575
Consideration transferred	3,610

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The assets and liabilities acquired have been stated in accordance with AASB 3 *Business Combinations*. They have been translated at acquisition date foreign exchange rates resulting in goodwill calculated of \$10,575,000. Acquisition-related expenses of \$100,000 have been incurred and expensed on consolidation and included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the period within 'Other operating expenses'.

Trade receivables of ML at acquisition resulted from trade sales with customers and have been fair valued at \$1,000,000. Their collection and conversion to cash are expected in full pursuant to customer terms.

Goodwill has been calculated and has arisen from the contractual arrangements held with the other parties to the Maxxia Limited joint venture arrangement. None of the goodwill is expected to be tax deductible. Refer to note 7 which considers the carrying value of the goodwill recognised.

(e) Impact of acquisition on the results of the Group

The Consolidated Statement of Profit or Loss for the period includes sales revenue of \$Nil and net profit after tax of \$Nil attributed to Maxxia Limited. Had the acquisition occurred effective 1 July 2020, revenue of ML to the Group would have been \$22,765,000 and the net loss after tax adjusted for differences in the accounting policies between the Group and ML would have been \$1,304,000.

14. Events subsequent to reporting date

At the date of this report, significant uncertainties remain in the economic environment and the impact of COVID-19 on the business sectors affecting the Group's businesses. Travel restrictions are still extensively administered and a lockdown is currently in place within the UK. Any further incidences of COVID-19 in Australia or New Zealand may cause the re-imposition of a lockdown. Accordingly, there is significant uncertainty to the condition of markets that the Group operates in that may affect the recoverable value of assets, adequacy of provisions and the financial cash flow assumptions used to assess the carrying value of non-current assets.

Subsequent to reporting date, the Federal Court of Australia approved the Davantage Group Pty Ltd class action settlement as outlined within note 12 on 5 February 2021.

Other than the above and the matters disclosed in this report, there were no material events subsequent to the reporting date.

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