

ASX Announcement

Release date: 20 August 2021

Smartgroup returns to revenue growth and increases NPATA, building foundations to deliver solid growth into the future

Smartgroup Corporation Ltd (ASX: SIQ) (“Smartgroup” or “the Company”), a leading specialist employee management services provider, today reported its half year results for the period ended 30 June 2021 (H1 2021).

- Revenue of \$109.4m up 4% vs H2 2020, and down just under 2% vs pcp¹
- NPATA² of \$33.5m up 1% vs H2 2020, and up 5% vs H1 2020
- Adjusted after-tax operating cashflows at 107% of NPATA² and net debt at \$4.5m
- Fully franked interim ordinary dividend of 17.5cps³

Disciplined cost management has led to a strong EBITDA margin of 45% for the half year.

Sound operating performance

Smartgroup CEO Tim Looi said: “We have seen good momentum from improved business conditions, including success in winning new clients and renewing existing key client contracts. In particular, our strong renewal rate is a testament to the hard work of our team, the service we offer our clients and the loyal relationships we foster.”

The Company recorded strong organic growth of approximately 13,000 additional salary packaging customers during H1 2021 and now manages a total 373,500 packages. This was achieved despite client on-site sales activities being restricted due to COVID-19 outbreaks. Approximately 8,500 of these packages were introduced from a new health sector client onboarded in April this year. Pleasingly, Smartgroup had a 100% success rate renewing or extending all of the top 20 contracts falling due this calendar year. Importantly our largest client, Department of Defence, which has been with Smartgroup since 1999, renewed for five years, inclusive of extensions.

New lease vehicle orders increased to pre-COVID levels in Q2 this year. However, vehicle supply disruptions have resulted in longer lead times, building a pipeline of future settlements. Despite supply constraints, leasing settlement volumes were up 2% on pcp and 4% on H2 2020. As a result of these supply issues, novated leases under management were down slightly to 65,600 and managed fleet vehicles grew modestly to 25,100.

¹ c.1% up vs pcp when normalised for insurance partner repricing effective 1 July 2020

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

³ Record date 2 September 2021 and payment date 16 September 2021

Smart Future

As outlined in our business update in May, Smartgroup is driving future earnings growth and delivering a Smart Future for its employees, clients and customers, underpinning solid growth in returns for its shareholders. Smartgroup is targeting a sustainable additional annualised EBITDA uplift (above system growth) of \$15-20 million in 2024.

The three key strategic priorities of the Smart Future program are optimising customer experience, enhancing digital platforms and streamlining operations. This includes, amongst other projects, redesigning client and customer portals, migrating to cloud infrastructure and software, investing in business automation and enhancing data analytics capability. The program will take three years to deliver, with an estimated spend of \$5-\$6 million per annum, which will be funded from the Company's balance sheet facilities.

The client transition program that commenced more than 2 years ago is progressing well, with c.1,800 employer clients and c.90,000 employee customers moving from legacy brands and platforms. The transition of Advantage clients to the Smartsalary and AccessPay brands is expected to complete next year and will result in an estimated \$2 million per annum reduction in operating expenses, to partially offset the Smart Future investment.

Outlook

Smartgroup CEO Tim Looi said "I am pleased with how we performed in the first half of the year and also positive about the future growth of Smartgroup, underpinned by the Smart Future.

"While the current economic disruption brought on by the COVID-19 pandemic is likely to negatively impact vehicle orders, Smartgroup's business is in good shape operationally and we are well positioned for recovery and continued growth in orders when lockdowns ease."

Smartgroup continues to generate high quality earnings from a diversified and loyal client base operating in defensive sectors. The Company's customer focused culture underpins a high client retention rate and Net Promotor Score and our continued focus on client service and our investment in people, processes and technology are delivering positive results.

H1 2021 Investor Briefing Presentation

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

Time: 9:00 am AEST

Date: Friday 20 August 2021

URL: <http://www.openbriefing.com/OB/4327.aspx>

The audio briefing will be streamed live at the above URL. The briefing will also be made available on the investor section of the Smartgroup website: <https://ir.smartgroup.com.au/Investors/> under the Financial Reports and Presentations tab.

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

For further information:

Website: www.smartgroup.com.au

Email: Investor Relations: ir@smartgroup.com.au

Anthony Dijanosic
Chief Financial Officer
1300 665 855