MMS
McMillanShakespeareGroup

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23 August 2023

Manager Company Announcements
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

By E-lodgement

McMillan Shakespeare Limited 2023 ASX Media release

This release contains an announcement to the Australian Securities Exchange Limited (ASX) regarding the following:

1. Media release for the financial results for the year ended 30 June 2023.

Yours faithfully
McMillan Shakespeare Limited

Ashley Conn
Chief Financial Officer and Company Secretary

This document was authorised for release by the MMS Board.

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ASX & MEDIA RELEASE

23 August 2023

MMS FY23 Financial Results

McMillan Shakespeare Ltd **(ASX: MMS, the Company or the Group)** announces its financial results for the year ended 30 June 2023 (FY23).

Group FY23 Highlights:

- **Normalised Revenue of $625.6m (up 5.3% vs FY22)**
- **Normalised UNPATA of $86.2m (up 3% vs FY22)**
- **Normalised EPS of $119.6 cps (up 10.5% vs FY22)**
- **Statutory NPAT of $32.3m (down 54.1% vs FY22)**
- **Final fully franked dividend of $0.66c per share declared bringing the total FY23 declared dividend per share of $1.24 (up 14.8% vs FY22)**
- **Simplification of the portfolio with Aggregation divested and agreement signed to divest the UK businesses for net proceeds of approximately $20m.**
- **"Simply Stronger" program launched targeting delivery of superior digital experience and solutions for customers with technology-enabled productivity and growth**
- **Novated lease orders up 12.3% with EVs representing 21.4% of novated orders in June 2023**

Review of operations – Group

MMS delivered growth in normalised financial and operating performance in FY23 as the Group focussed on the customer, a set of clear strategic priorities announced during the period and simplifying its portfolio of businesses to reinvest capital for future growth.

The Group's clear strategy introduced during FY23, aims to deliver sustainable growth by focussing on three priorities:

1. **Excelling in customer experience:** Excel in digital and insights-led customer experience to enhance our market position;
2. **Driving technology-enabled productivity:** Drive simplicity and technology enablement and transformation to increase productivity; and
3. **Delivering competency-led solutions:** Leverage our culture and extend our competency-led solutions to enhance value.

The Group's continued focus on the customer and in particular the emerging uptake and interest in EV's, together with further NDIS participant growth and continued elevated remarketing yields saw MMS grow salary packages and novated leases under management, NDIS plans managed, and Asset Management's net amount financed. The Group's financial performance also benefited from rising interest rates on the Company's salary packaging float.

This performance was achieved in the context of ongoing wage inflation pressures, additional investment in people to support service delivery to an expanded client base, continued constrained vehicle supply and an economic environment resulting in increasing cost of living pressures for the Group's customers. Noting that during these times of heightened consumer cost pressures, our services take on increased relevance for our customers as they seek to maximise their after-tax income via our salary packaging services in particular.

In addition, FY23 was a material year for the growth of the Group's funding warehouse, Onboard Finance (Warehouse), which at 30 June 2023 had funded ~$100m of novated leases and achieved the target of financing 20% of monthly GRS novated lease volumes in June 2023.

The passage of the Treasury Laws Amendment (Electric Car Discount) Bill on 12 December 2022, which exempts certain non-luxury zero and low emissions vehicles from FBT, resulted in elevated inquiry and activity during FY23 from customers seeking an EV, with demand significantly increasing through the period.

We made progress simplifying the Asset Management Services (AMS) portfolio with the sale of the Aggregation on 31 July 2023 and also on 22 August 2023 signing an agreement with a consortium of funders predominantly associated with and including Praetura Group (UK) to divest the UK businesses with net proceeds of approximately $20m. The UK businesses sale is subject to limited conditions and expected to close in the first half of FY24. These businesses have been classified as discontinued operations relating to assets held for sale in our financial statements and are no longer part of the AMS Segment.

Consistent with the stated capital strategy, the Company also completed a 10% off market share buyback, which included a significant franked dividend component, in October 2022 at $11.66 per share for a total cost of $90m.

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FY23 Group Financial Performance Summary

	2023 $'000	2022[6] $'000	Change %
Continuing operations			
Statutory revenue	464,004	418,657	10.8%
Normalised Revenue[1,2] ($m)	471,375	418,814	12.5%
Normalised EBITDA[1,2,3] ($m)	**131,283**	**118,035**	**11.2%**
Normalised UNPATA [1,2,4] ($m)	**77,920**	**71,479**	**9.0%**
UNPATA[1,4] ($m)	66,413	69,785	(4.8%)
Statutory NPAT ($m)	**64,449**	**66,874**	**(3.6%)**
Discontinued operations relating to assets held for sale			
UNPATA[3] ($m)	8,327	12,288	(32.2%)
Statutory NPAT ($m)	(32,177)	3,475	<100%
Total operations			
Normalised Revenue[1] ($m)	**625,566**	**594,295**	5.3%
Normalised EBITDA[1,2,3] ($m)	**143,357**	**132,762**	8.0%
Normalised UNPATA [1,2,4] ($m)	**86,248**	**83,766**	3.0%
UNPATA[1,4] ($m)	74,741	82,072	(8.9%)
Statutory NPAT ($m)	**32,272**	**70,348**	(54.1%)
Normalised EPS[1,2] (cents)	119.6	108.3	10.5%
Total dividend per share (cents)	124.0	108.0	14.8%
Return on capital employed[5] (%)	40.0%	38.6%	1.4pts

1. Normalised Revenue, Normalised EBITDA, Normalised UNPATA, UNPATA and Normalised EPS are non-IFRS metrics used for management reporting. The Group believes Normalised UNPATA and UNPATA reflects what it considers to be the underlying performance of the business.
2. 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 current 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 FY23 and FY22 (for comparative purposes) and are currently expected to be stated up to and including FY25. Normalised impacts of FY23 Revenue $(7.4)m, EBITDA $(15.3)m, EBIT $(16.4)m and UNPATA of $(11.5)m and FY22 Revenue $(0.2)m, EBITDA $(2.2m), EBIT $(2.1)m and UNPATA of $(1.7)m.
3. Earnings before interest, tax, depreciation (excluding fleet and warehouse depreciation) and amortisation (EBITDA) excludes the pre-tax impact of acquisition and divestment related activities, and non-operational items otherwise excluded from UNPATA on a post-tax basis.
4. Underlying net profit after tax and acquisition amortisation (UNPATA), being net profit after tax but before the after-tax impact of acquisition and divestment related activities, accounting standard changes and non-operational items.
5. Return on capital employed (ROCE), is based on last 12 months' Normalised earnings before interest and tax (EBIT). Normalised EBIT is before the pre-tax impact of acquisition and divestment related activities, accounting standard changes, and non-operational items otherwise excluded from UNPATA on a post-tax basis. 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 FY23.
6. FY22 comparatives in continuing operations include discontinued operations relating to assets held for sale.
7. The information presented in this Review of Operations has not been audited in accordance with the Australian Auditing Standards.

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Segment Review

Group Remuneration Services (GRS)

	2023 $m	2022 $m	Change %
Revenue	225.5	206.5	9.2%
Normalised Revenue[1,2]	232.8	206.6	12.7%
Normalised EBITDA[1,2,3]	90.2	82.2	9.7%
Normalised UNPATA[1,2,4]	52.5	48.4	8.5%

Refer to notes on Group Financial Performance Summary table above.

GRS revenue growth was driven by a 13.3% increase in novated lease sales, which were at a record high over the period, an additional 23,300 salary packages and an uplift in interest received from funds administered of $10.2m. Novated lease sales momentum benefited from ongoing customer and client focus, with total novated lease units rising by 3.6% to a record 73,400. MMS is the market leader in both salary packaging and novated leasing as at the period end.

Whilst some stabilisation in vehicle supply occurred, ongoing constraints and elevated order levels resulted in a continued growth of novated lease orders carry over. Total carry over revenue to benefit future periods as at 30 June 2023 was $32.3m, up from $25.6m as at 30 June 2022.

With select zero and low emissions vehicles exempt from FBT whilst interest rates and cost of living pressures increased through the period, more Australians sought to capitalise on the value proposition of novated leasing an EV. During FY23 the number of novated lease orders for EVs increased substantially to 12.3% of total order, up from 1.7% in FY22. Inquiry for EVs increased markedly through FY23, with the highest number of orders in a month occurring in June 2023, representing 21.4% of all novated lease orders. The higher average cost of EVs over their internal combustion engine equivalent contributed to an increase in novated NAF and yields in FY23.

Uplift in salary packages was underpinned by the transitioning of new client wins achieved in FY22, including as the sole provider of salary packaging and novated leases to the Victorian Department of Education and Training, as well as through the increased penetration of existing clients.

Increased GRS revenues were offset by investment in personnel to support higher order levels, service levels and elevated carryover, and wage increases as well as costs associated with transitioning new clients which will benefit future periods.

Asset Management Services (AMS)

	2023 $m	2022 $m	Change %
Revenue	189.4	170.6	11.0%
EBITDA[3]	28.7	27.8	3.3%
UNPATA[4]	18.7	18.0	4.0%

Refer to notes on Group Financial Performance Summary table above. FY22 comparatives exclude discontinued operations relating to assets held for sale.

The AMS segment benefited from a 4.1% increase in NAF and sustained remarketing yields with revenues up 11% to $187.4m and UNPATA up 4% to $18.7m.

The Asset Written Down Value (WDV) of $320.8m (including fleet assets funded utilising principal and agency arrangements) was up 1% on FY22, reflecting the impact of ongoing vehicle supply constraints.

With more organisations and governments seeking to transition their fleets to EVs, the ANZ segment experienced increased rates of inquiry regarding EVs during FY23.

A focus for the period was on implementing digital tools to better manage customer interactions and ultimately provide straight through processing efficiencies. During FY23 over 260 individual processes were managed through the OneView platform, which facilitates the automation of management and operational tasks, an increase of 20% on FY22. The increased utilisation of Optical Character Recognition technology also drove productivity improvements.

Plan and Support Services (PSS)

	2023 $m	2022 $m	Change %
Revenue	48.6	41.3	17.7%
EBITDA[3] ($m)	12.3	10.1	21.3%
UNPATA[4] ($m)	8.0	6.6	21.3%

Refer to notes on Group Financial Performance Summary table above.

PSS achieved strong customer growth and margin expansion through the continued investment in building a scalable platform and digital tools to enhance the customer experience.

Growth in segment revenue for FY23 was attributable to a 22.8% increase in plan management and support coordination customers and a 21.5% increase in support coordination billable hours.

A focus for FY23 was on improving systems and applications functionality for both customers and suppliers to provide greater insights into customer spending and payment processing times. Enhancements were made to our customer and service provider dashboards, aiming to provide our customers with tools to help them better navigate the NDIS and improve their outcomes, and providing enhanced payments visibility and processing for providers in support of scheme efficacy.

The Plan Tracker business, acquired by MMS in FY22, was successfully migrated to a common technology platform during the period. This significant milestone enables the business to focus on delivering future efficiencies for the segment whilst driving growth opportunities as the National Disability Insurance Scheme's (NDIS) participants are projected grow to over a million by 2032.

During FY23 there were no structural adjustments via indexation made by the NDIS to the pricing arrangements for plan management supports to reflect the inflationary cost environment in which such services are being delivered in. The NDIS has also experienced a general shift towards participants receiving NDIS plan extensions rather than renewals as the Scheme focuses on longer plan durations.

The impact of PSS's ongoing focus on creating an accessible and customer-centric experience was reflected in the segment's strong NPS of 59.

Discontinued operations relating to assets held for sale

	2023 $m	2022 $m	Change %
Revenue	154.2	175.5	(12.1%)
EBITDA[3]	12.1	14.7	(17.9%)
UNPATA [4]	8.3	12.3	(32.2%)

Refer to notes on Group Financial Performance Summary table above.

The Aggregation and UK businesses are classified as discontinued operations relating to assets held for sale. The sale of the Aggregation business completed on 31 July 2023 and on 22 August 2023 an agreement was executed to divest the UK businesses.

Financial performance was impacted by the scheduled run down of the Maxxia UK lease portfolio and increased competition in the Australian Aggregation business' market, in part offset by growth in Anglo Scottish UK where NAF increased 14.6%.

Outlook

Many of the market conditions experienced in FY23, including potential further interest rate rises, inflationary pressures and vehicle supply constraints, are expected to carry into FY24. In this environment MMS, together with our streamlined portfolio of businesses, is well positioned to continue to execute its strategic priorities to deliver sustainable growth.

Within our GRS business we will continue our focus on key client renewals and tenders and to target 20% of novated leases funded through Onboard Finance with an estimated FY24 UNPATA normalisation adjustment of

~$12m[1]. The strategic and financial benefits of Onboard Finance include diversifying our funding sources, increased annuity based income, a new source of income and higher overall value (NPV) per transaction.

We also note the future expected benefit from our novated lease carry over revenue of $32.3m as at the end of June 2023, continuing increased demand for low and zero emissions vehicles, and further NDIS participant growth within our PSS business. We will also continue to consider inorganic opportunities within the plan management sector.

The NDIS Independent Review, which is assessing the design, operation and sustainability of the NDIS, is scheduled to be completed by October 2023. Importantly our Plan Management services are directly supporting the NDIS objectives of providing choice and control to participants and supporting the financial integrity and sustainability of the Scheme.

Group-wide, the priority focus for FY24 will be continuing to execute the Group's clear strategy and specifically, our "Simply Stronger" program. Over the course of the program (FY23-FY25) we expect to invest $35m in capital expenditure, with an expected commitment in FY24 of ~$23m in capital expenditure, that we expect to deliver returns beyond the program's completion.

As we enter FY24 we do so as a trusted partner with positions in large and growing markets and with businesses that are well positioned to meet the challenges and capture the opportunities that lie ahead.

[1]Key dependencies include: GRS novated unit volumes and yields and operating costs.