

MMS Group Macquarie 12th Annual Australia Conference Presentation

May 2011

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The McMillan Shakespeare Group of Companies

Macquarie 12th Annual Australia Conference Presentation

*A new, different and more capable organisation is emerging from the combination of the Group
Remuneration Services business with the Asset Management business.*

- Company overview and revenue model
- Financial highlights and history
- Group Remuneration Services – salary packaging and novated leasing
- Asset Management
- Strengths, service record and sensitivities
- Growth drivers
- Update and outlook

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Company Overview

- MMS is a unique provider of workplace benefits and vehicle solutions in Australia.
- Fleet management business of Interleasing Australia acquired in April 2010.
- The combined business provides salary packaging administration and integrated fleet management services and has unique competitive strengths.
- Group has two segments:
 - **Group Remuneration Services-** provides administrative services in respect of salary packaging and facilitates the settlement of motor vehicle novated leases for customers, but does not provide financing.
 - **Asset Management-** provides financing and ancillary management services associated with motor vehicles, commercial vehicles and equipment.
- Clients include a variety of state and federal government agencies, hospitals, charities and large private sector organisations.
- Employs around 600 staff, with offices in every state in Australia.
- Services delivered through “a house of brands”.

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Revenue Model

- Salary packaging administration fees:
 - annuity income stream; paid directly and regularly from employees' salary.
- Interest income.
- Facilitation and procurement fees for assisting with novated lease settlements.
- Net interest margin on financed vehicles.
- Fees for managing customer vehicles.
- Supplier rebates based on transaction volumes e.g. fuel, tyres, maintenance.

Financial highlights 1HFY11

- Consolidated NPAT of \$20.5m.
- NPAT and EPS growth of 83% on PCP.
- Group Remuneration Services NPAT of \$15.0m or 35% growth.
- Asset Management NPAT of \$6.6m.
- Interim dividend of 16 cents per share (10 cents PCP).
- Normalised⁽¹⁾ return on equity of 43%.

Note 1: Excludes the retained earnings impact of the profit recognised on acquisition as a result of the business combination of ILA.

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Financial History

	FY05	FY06	FY07	FY08	FY09	FY10
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total revenue	35,838	48,721	54,536	66,624	77,259	131,021
Normalised pre tax profit from continuing operations	7,915	15,013	19,079	24,919	28,912	39,904
Normalised NPAT	5,054	11,305	13,237	17,368	20,523	27,905
Normalised Basic EPS (cents)	8.0	17.1	19.8	25.8	30.4	41.2
Dividends declared per share (cents)	3.9	9.5	12.5	16.5	19.0	24.0
Amount franked	100%	100%	100%	100%	100%	100%
Normalised ROE (%)	24%	39%	36%	39%	39%	42%
5 year normalised EPS CAGR						39%

Normalised numbers exclude the \$17.1m acquisition profit recognised in FY10 as a result of the business combination of ILA.

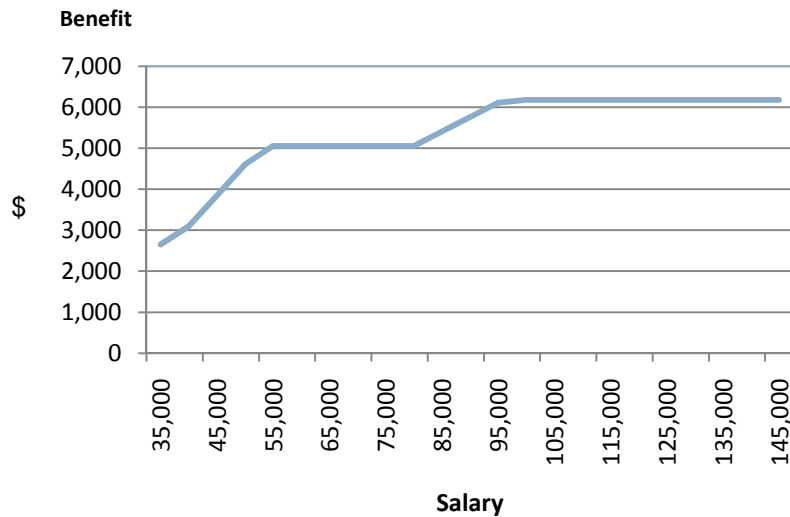
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What is salary packaging?

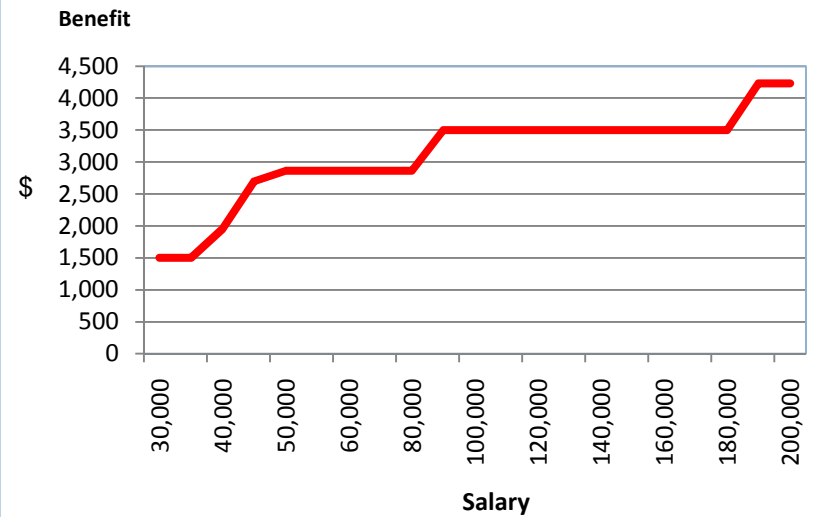
- Australia's taxation system allows tax concessions for certain employee benefits and for certain industry sectors which makes salary packaging attractive.
- Eligible employees increase their disposable income by using pre-tax salary to pay for goods or services.
- Employers use these benefits to attract and retain staff in a tight employment market.
- Payroll systems do not cope well with salary packaging i.e. a bespoke system is required.
- MMS with its knowledge, people and systems, administers budgets; deducts pre-tax salary; makes payments to service providers on behalf of an employee and accurately reports transactions for tax purposes.
- A high transaction load, a complex business process and potential tax liabilities and implications leads many employers to outsource this task.
- MMS has robust and reliable systems, proven DRP and BCP support and the balance sheet to support clients and their employees in times of distress.

Tax benefits from salary packaging

**Yearly benefit schedule
PBI \$16,050**



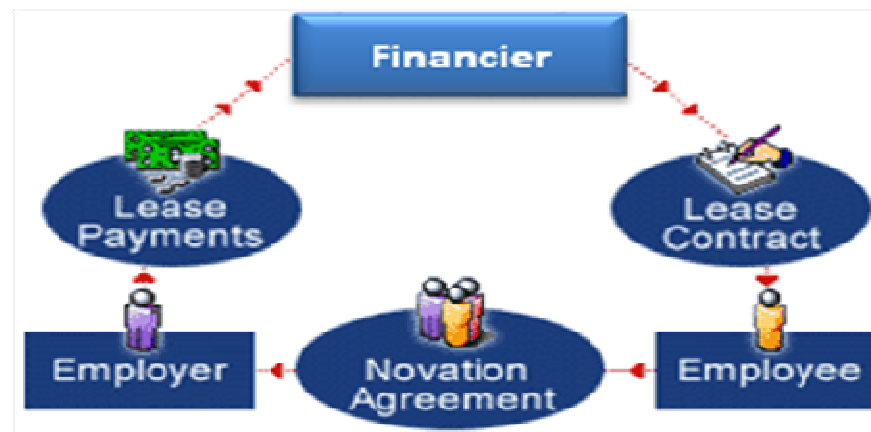
**Yearly benefit schedule
Health \$9,095**



For personal use only

What is a novated lease?

- Enables employees to finance and operate a personal vehicle using their pre-tax income.
- A three way agreement between financier, employee and employer.
- Employee enters into a lease directly with the financier then assigns the obligations of the lease to the employer through a Deed of Novation.
- Employer then pays for lease and operating expenses from employee's income.
- MMS acts as an agent and facilitator – no balance sheet risk / MMS does not own vehicle.



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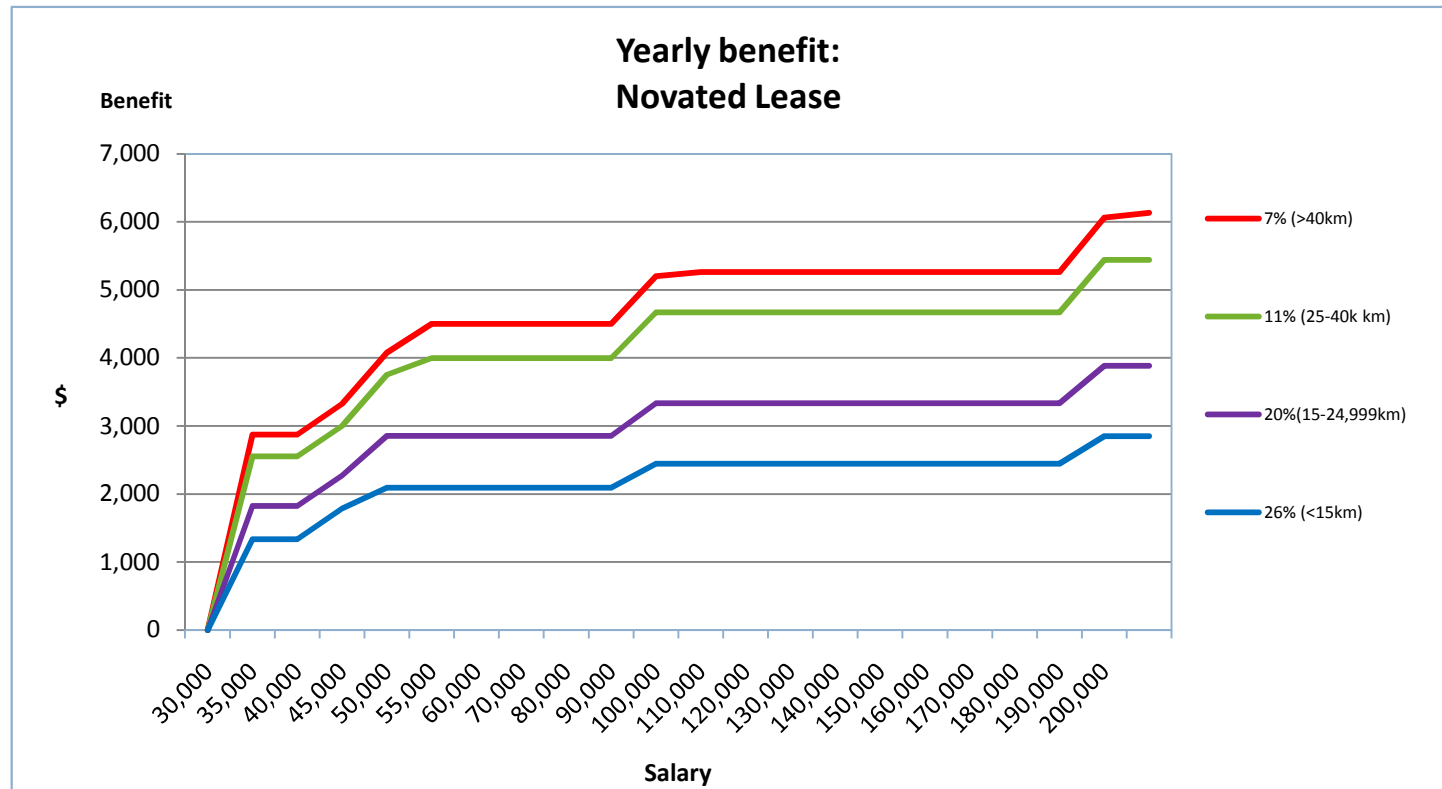
Why is the novated lease market growing?

- Relatively young <20 year old.
- In the majority of cases a novated lease provides a more cost effective outcome than using post tax income.
- Allows vehicle to be purchased without the payment of Goods And Services Tax (GST). Effectively discounts purchase price by 1/11th .
- GST credits on operating expenses are passed back to employees.
- Delivers discounts on purchase and operating expenses to individuals that are normally available to large fleets.
- Seen by Human Resource practitioners as a vital offering in their employee attraction and retention strategies.
- Complex and time consuming for employers to manage therefore generally outsourced to specialists.

Tax benefits from novated leasing

Assumptions

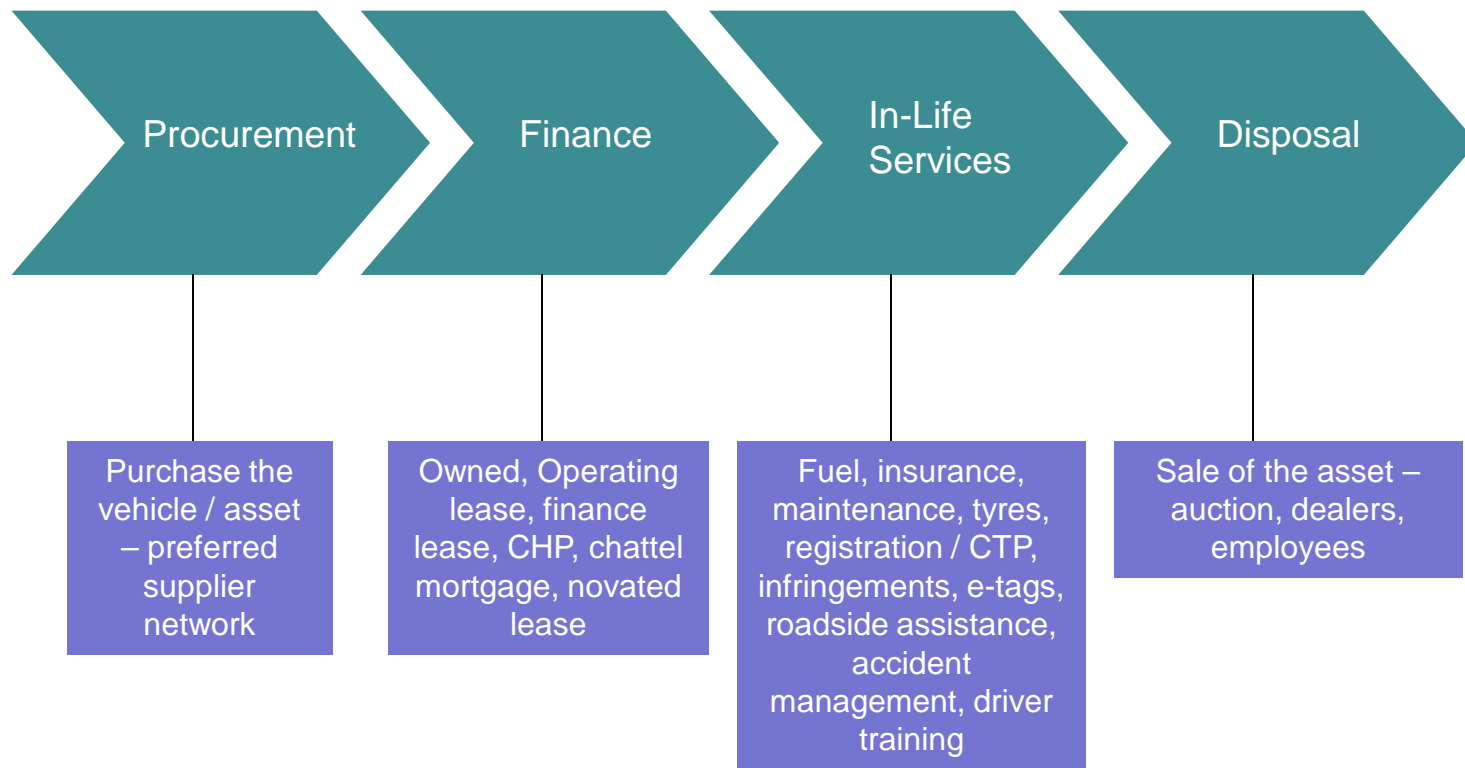
- MV cost \$34k
- Running costs \$14k
- ITCs refunded to 'ee
- ECM method
- No business use



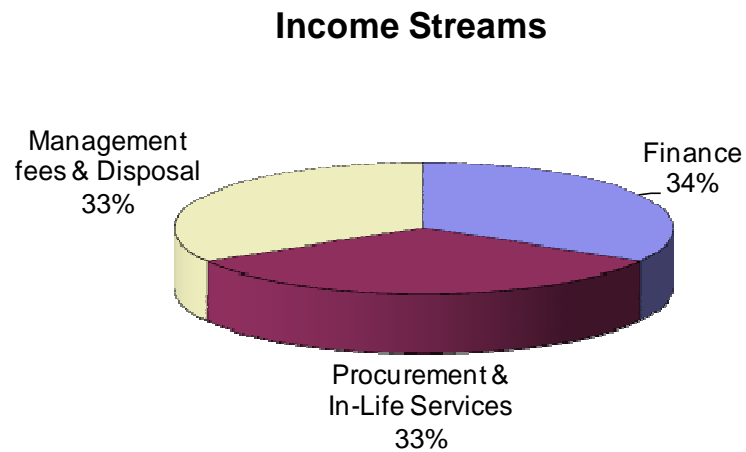
Asset Management

- Financing and management services associated with motor vehicles, commercial vehicles and equipment.
- A financier can provide funding but this ignores the management of the asset during its life.
- Fleet Management Organisations (FMOs) bring funding and management together; from purchasing an asset, managing it operationally and finally disposal.
- FMOs also deliver to the customer:
 - Knowledge via its experienced staff
 - Systems to manage and report
 - Buying power
- Many major corporates regard asset management as non-core business.

The Asset Life Cycle



Income Streams



Income streams – more than interest margin!

- Finance – brokerage / interest margin.
- Management fees and disposal income.
- Procurement and In-life services – commissions, rebates, maintenance and tyre margins.

Asset Management earns income across diverse areas, reducing reliance on one primary income source. Targeting a one-third split in each category group is a general aim of Asset Managers.

Managing Residual Value Risk

- Residual Values are set for term and kilometres by a Residual Value Committee.
- Proactive contract re-writes are undertaken to mark-to-market residual values where vehicle usage varies to that at inception e.g. kilometre driven; fair wear and tear.
- A portfolio revaluation is performed to assess the future value of operating leases in the light of macro / micro economic conditions – taxes, fuel, employment, GDP, new vehicle volumes, model changes.
- Where appropriate, provisions are taken up.

Strengths, Service Record and Sensitivities

What are MMS' comparative/competitive strengths?

- A unique market position: the only integrated provider of salary packaging and “one vehicle provider” solutions for both employers and employees.
- Industry leading service levels.
- Scale in BPO business/dominant player (MMS is over twice the size of its nearest remuneration services competitor - lower delivered cost).
- Proprietary, scalable salary packaging IT systems. Difficult and costly to replicate. Reliable DRP and BCP assets and strong balance sheet.
- Business model and cash flow dynamics attractive to financiers.

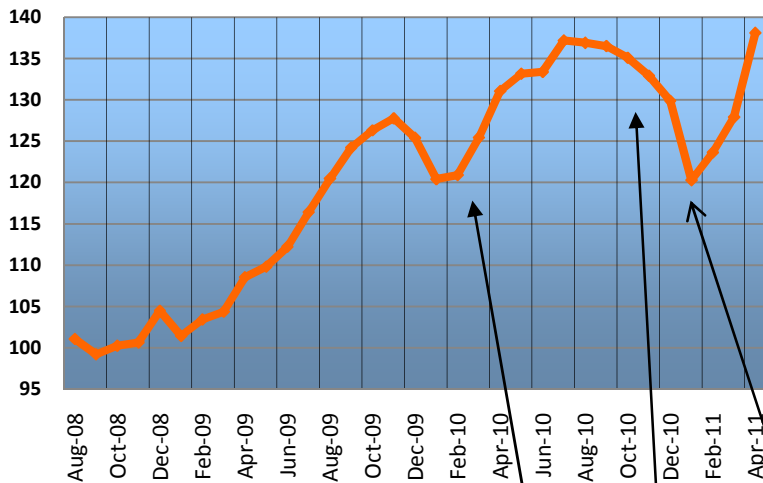
Our unique market position



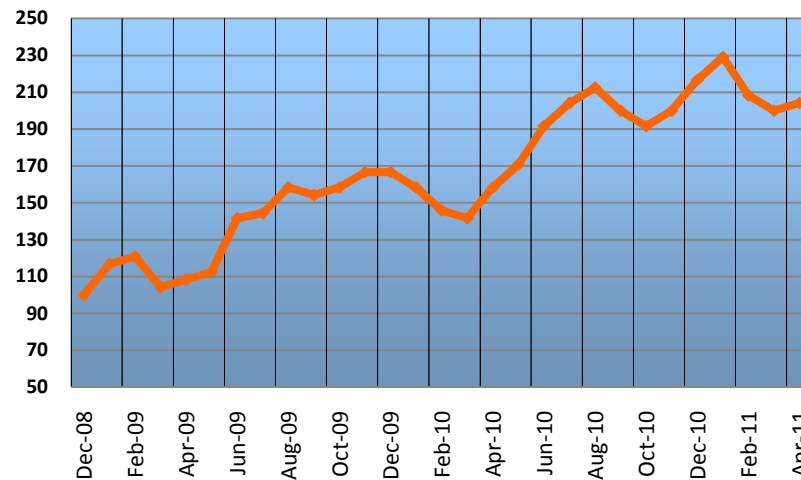
- Ability to offer clients a “one car” solution (operating, novated and managed leases and Fringe Benefits Tax management).
- Novated leases require salary packing AND operating lease skill sets because they involve the purchase and financing of motor vehicles AND Fringe Benefits Tax management and administration.
- Many customers prefer to deal with one supplier.
- Cross selling opportunities.

Productivity and customer satisfaction indices

Remuneration Services Productivity Index (7/08 = 100)
[Rolling 3 month Revenue (ex SP Interest) / FTE]



MSL Customer Satisfaction Index
December 2008 = 100



Queensland floods.

Increased head count to maintain client service levels during the end of FBT year process.

Sensitivities

- Queensland economy post floods/cyclone – impact confined to January (\$1 million pre-tax).
- New car sales.
- Second hand car values.
- Interest rates.
- Supply of motor vehicles post Japan's natural disaster.

Growth opportunities

Salary Packaging	Synergies	Asset Management
<ul style="list-style-type: none"> ▪ Increase salary packages through higher penetration rate and new client wins. 	<ul style="list-style-type: none"> ▪ Cross-sell salary packaging and novated leases to ILA client base. 	<ul style="list-style-type: none"> ▪ Grow the loan book over time with operating and managed leases.
<ul style="list-style-type: none"> ▪ Provide broader workplace benefits to clients' employees. 	<ul style="list-style-type: none"> ▪ Cross-sell operating and managed leases to salary packaging client base. 	<ul style="list-style-type: none"> ▪ Grow in-life car services, reduce maintenance costs and manage the vehicle value chain.
<ul style="list-style-type: none"> ▪ Increase procurement, supply and financing of cars under novated leases. 	<ul style="list-style-type: none"> ▪ Deployment of purchasing power to generate greater procurement discounts and distribution fees. 	<ul style="list-style-type: none"> ▪ Management of residual, credit and interest rate risk.

Business Update

- Key Queensland Government contract renewed from 1 April 2011 (3 years plus 2 year extension clause).
- No significant contract losses.
- ILA operating lease asset growth from \$202m (30 June 2010) to \$206m (31 March 2011) despite steep run off curve profile at 1 April 2010 acquisition.
- Cross sell opportunities between the two business segments continue to crystallize.

Outlook

- Continued, disciplined development of our core businesses. Industrial strength BPO.
- Ongoing growth through:
 - New business and cross-sell from our stronger post acquisition value proposition.
 - Increasing participation rates within existing customer portfolio.
 - Competitive cost of funds and flexible financing facilities.
- Maintain industry leading service levels.
- Look for continuing productivity improvement.
- Continue to invest ahead of the growth curve.

A new, different and more capable organisation is emerging from the combination of the Group Remuneration Services business with the Asset Management business.

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