ASX Announcement

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Smartgroup delivers solid revenue and earnings growth

Smartgroup Corporation Ltd (ASX: SIQ) ("Smartgroup" or "the Company"), a leading specialist employee management services provider, today reported its half-year results for the 6 months ended 30 June 2024 (H1 2024).

H1 2024 Highlights

- Revenue of $148.5m, up 27% on prior corresponding period (pcp)
- Operating EBITDA of $56.2m, up 20% on pcp
- Excluding South Australia government contract implementation costs EBITDA margin was 40%, in the half year, a slight improvement half on half (Reported EBITDA Margin 38%)
- NPATA[1] of $34.1m, up 16% on pcp, statutory net profit of $34.3m, up 18% on pcp
- New lease vehicle order pipeline revenue of $14m (December 2023: $18m), remains above pre-COVID levels of c.$4m
- 27% increase in novated leasing settlements on pcp
- Electric Vehicles (EV) accounted for 42% of H1 2024 new car lease orders, including plug-in-hybrid EVs (PHEV) at 10%
- Strong operating cash flow at 108% of NPATA
- Capitalised IT development costs of $8.5m, related to Smartgroup's Strategic Priorities including enhanced car leasing portal and the South Australia contract implementation. CY24 capex to be $11-13m as communicated in CY23 results
- Strong and flexible balance sheet with low net debt position at 0.5x EBITDA[2]
- Interim dividend declared of 17.5 cents per share (cps), fully franked[3]

Commenting on Smartgroup's operational and financial performance over H1 2024, Managing Director and CEO, Scott Wharton, said: "Overall in the first half of 2024, Smartgroup delivered a solid financial and operational performance, and leasing demand remained robust.

"We've made steady progress against our Strategic Priorities, which were announced in February. We established a new operating model and executive team, delivered new digital assets, and divested two non-core businesses. These divestments will further improve our focus on salary packaging, novated leasing and fleet.

"Following our successful win of the South Australia Government contract, our services are now available to over 110,000 government employees in South Australia from 1 July 2024.

"Smartgroup delivered revenue growth of 27% to $148.5m and NPATA increased 16% to $34.1m."

[1] NPATA is net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of intangibles and significant non-operating items.
[2] EBITDA for the 12 months to 30 June 2024.
[3] Record date 9 September 2024 and payment date 23 September 2024.

Solid financial performance in H1 2024

Revenue for the half year was $148.5m, up 27% on pcp, underpinned by higher novated leasing volumes. This was driven by demand-generating activities and improving vehicle supply. Through strong customer experience, Smartgroup continues to retain clients and increasingly attract new ones. Smartgroup's service proposition has enabled the Company to renew a significant number of long-standing clients.

Although vehicle delivery timeframes have improved in the half year to June 2024, they remain above pre-COVID levels with Smartgroup's Vehicle Order pipeline at $14m.

Total expenses increased to $85.7m, driven by a considered strategy to meet the increase in leasing demand, further strengthen customer experience and provide internal resources to deliver Smartgroup's Strategic Priorities. Non-staff costs also increased driven by enhanced marketing and lead generation activities, software development costs and strategic project delivery.

As communicated at the AGM in May, the Group spent $3m on the South Australia Government implementation. Cost management remains a central focus for Smartgroup and while costs have been deliberately elevated to achieve a range of key objectives, management remains focussed on ensuring the Company operates efficiently while continuing to differentiate and improve its competitive position.

EBITDA of $56.2m was up 20% on pcp and EBITDA margin, excluding costs associated with the South Australia Government contract implementation, was 40% in the half year. This was a slight margin improvement half on half.

Profit after tax, as measured by NPATA, was $34.1m for H1 2024, up 16% on pcp.

Smartgroup has continued to generate a strong operating cash flow of $36.6m, representing 108% of NPATA[4], and maintains a flexible balance sheet with a modest net debt level of $55.7m being 0.5x EBITDA.

The solid cash flow conversion and low net debt position have enabled the Board of Directors to declare an interim fully franked dividend of 17.5 cps for the six months to 30 June 2024, representing a payout ratio of 69% of NPATA.

Smartgroup's investment proposition to shareholders is underpinned by our capital-light business model, which allows the Company to invest for growth while continuing to pay dividends to shareholders.

Growing salary packaging customer numbers with continued robust novated leasing demand

At 30 June 2024, Smartgroup had 402,000 active packaging customers, an increase of 17,000 year on year. In July, the Company transitioned in 36,500 packaging customers from the South Australia Government contract.

Strong leasing demand resulted in a 31% increase in new lease vehicle orders and a 27% increase in novated leasing settlements versus pcp. At the end of June, Smartgroup had 64,600 novated leases

[4] Excludes payments for M&A transaction costs (inclusive of GST) of $0.29m (2023: $0.01m). Net cash from operating activities excludes receipts and payments from customers' salary packaging accounts and significant non-operating items.

under management, and in July the Company transitioned in 5,600 leases from the South Australia Government contract.

Since the introduction of the Federal Government's Electric Car Discount Policy[5], demand for EVs has grown significantly. EVs accounted for 42% of all new car novated lease orders in the half year, including PHEVs at 10%.

Although the EV share of our novated lease portfolio is growing, internal combustion engine (ICE) vehicles remain an important part of our business, and in the first half of 2024, the number of ICE vehicles ordered increased compared to the second half of 2023.

Supply chain renegotiations, vehicle mix and an improved proportion of new car leases resulted in a 14% improvement in novated leasing yield in H1 2024 versus pcp. Smartgroup remains actively focused on managing yield.

Continued progress on Smartgroup's Strategic Priorities

For many Australians, cost of living pressures and the weakening economic environment continue to be front of mind. Smartgroup is well-positioned to help Australians maximise their take-home pay.

In February, Smartgroup announced its Strategic Priorities to position the Group strongly for the opportunities ahead.

Through these strategic priorities, the Group will further improve customer and client experience, and generate efficiencies from simplification.

In the first half of the financial year, the Group delivered:

- Growth in volume in Salary Packaging, Novated Leasing and Fleet
- Enhanced car leasing portal delivering improved customer experience
- New Smart brand to enable simplification - starting with the South Australian Government
- Improved employee benefits offerings through new partnerships
- Digitalisation of operational processes, including scaling of GenAI across contact centres
- Refreshed executive team bringing depth and skills
- Strengthened focus on core businesses of salary packaging, novated leasing and fleet - divesting the payroll business (in February) and Health-e Workforce Solutions (in July)
- Slight improvement in operating leverage half on half with EBITDA margin at 40% (excluding South Australia government implementation costs)

Outlook

Commenting on Smartgroup's outlook, Managing Director and CEO, Scott Wharton, said: "Demand for novated leasing remains robust. While macroeconomic pressures have not impacted demand, we continue to monitor customer sentiment and the broader economic environment. We remain focused on initiatives that enhance efficiency and strengthen Smartgroup's market position in all economic

[5] For EVs below the luxury car tax threshold of $91,387. Legislation also applies to plug-in hybrid vehicles until 31 March 2025.

conditions.

"In July we successfully onboarded the South Australia Government's salary packaging employees. While we do not expect a material profit contribution from this contract this year, it cements our position as a leading provider of salary packaging and novated leasing to both State and Federal governments.

"During the second half, we will be focussing on accelerating the delivery of our digital investments in our leasing and salary packaging products, to further improve customer experience and productivity. We remain focused on cost efficiency while delivering growth through exceptional service to our clients and customers."

H1 2024 investor briefing presentation

Smartgroup Managing Director and CEO, Scott Wharton and Chief Financial Officer, Jason King, will hold an audio briefing to discuss the results as follows:

Date: Wednesday 28 August 2024

Time: 9:00am AEST

URL: https://s1.c-conf.com/diamondpass/10039551-pa8ud6.html

The audio briefing will be streamed live at the above URL. The briefing will also be available on the Smartgroup website investor section: 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.

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