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Half Year Report

30 June 2023

ABN 48 126 266 831

smart
group
corporation

Market Release

30 June 2023

24 August 2023

ASX Market Announcements Office
ASX Limited
20 Bridge Street
Sydney, NSW, Australia, 2000

Smartgroup Corporation Ltd - Results for announcement to the market

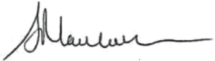
In accordance with the ASX Listing Rules, Smartgroup Corporation Ltd (**ASX: SIQ**) encloses for release to the market:

1. Appendix 4D,
2. Review of operations, and
3. Smartgroup Corporation Ltd Half Year Report for the period ended 30 June 2023.

Smartgroup Corporation Ltd will conduct a briefing on the results at 9:00 am (Sydney time) on 24 August 2023.



Anthony Dijanosic
Chief Financial Officer
1300 665 855



Sophie MacIntosh
Chief Legal and Sustainability Officer and Company Secretary
1300 665 855

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

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Table of Contents

	PAGE
APPENDIX 4D	1
DIRECTORS' REPORT	5
AUDITOR'S INDEPENDENCE DECLARATION	7
FINANCIAL STATEMENTS	
Consolidated Statement of Profit or Loss and Other Comprehensive Income	8
Consolidated Statement of Financial Position	9
Consolidated Statement of Changes in Equity	10
Consolidated Statement of Cash Flows	11
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	12
Basis of preparation	12
Dividends	13
Operating segments	13
Intangible assets	16
Trade and other receivables	17
Borrowings	18
Equity - issued capital	18
Equity - reserves	20
Earnings per share	20
Fair value of financial instruments	21
Cash held on behalf of customers and associated liabilities	21
Events occurring after the reporting period	22
DIRECTORS' DECLARATION	23
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SMARTGROUP CORPORATION LTD	24
CORPORATE DIRECTORY	26

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Appendix 4D

Statutory results for announcement to the market

		\$'000's		\$'000's
Revenue from ordinary activities	up	3,043	3% to	116,622
Profit from ordinary activities after tax attributable to the owners of Smartgroup Corporation Ltd	down	(1,971)	6% to	28,938
Net profit for the period attributable to the owners of Smartgroup Corporation Ltd	down	(1,971)	6% to	28,938

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
Final 2022 dividend per share (paid 23 March 2023)	15.0	15.0	30%
Special 2022 dividend per share (paid 23 March 2023)	14.0	14.0	30%
Interim 2023 dividend per share (payable 22 September 2023)	15.5	15.5	30%

The record date for determining entitlement to the interim dividend is 8 September 2023 with an expected total distribution of \$20,700,000. There is no dividend reinvestment plan in place.

Net tangible liabilities	30 June 2023	31 Dec 2022
Net tangible liabilities per ordinary security, cents per share	(56.26)	(52.37)

Independent auditor's review

The financial report for the half year ended 30 June 2023 has been reviewed by PricewaterhouseCoopers and there are no disputes or qualifications.

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Review of Operations

30 June 2023

	30 June 2023 \$'000	30 June 2022 \$'000	Movement
Revenue	116,622	113,579	3%
Expenses			
Product costs	(4,133)	(3,783)	9%
Employee benefits expense	(49,880)	(42,587)	17%
Administration and corporate expenses	(13,288)	(16,034)	(17%)
Occupancy expenses	(734)	(761)	(4%)
Advertising and marketing expenses	(996)	(707)	41%
Other expenses	(581)	(316)	84%
Operating EBITDA ¹	47,010	49,391	(5%)
Share of profits from joint venture accounted for using the equity method	200	225	(11%)
Merger and acquisition transaction costs	(15)	(49)	(69%)
Restructuring and CEO transition costs	(587)	-	N/A
Segment EBITDA ²	46,608	49,567	(6%)
Finance costs	(1,261)	(799)	58%
Depreciation expense	(2,345)	(1,927)	22%
Amortisation of acquired intangible assets	(68)	(1,594)	(96%)
Amortisation of contract rights and internally developed intangibles	(1,290)	(575)	124%
Profit before income tax for the half year	41,644	44,672	(7%)
Income tax expense	(12,706)	(13,763)	(8%)
Net profit after income tax for the half year	28,938	30,909	(6%)
Add: Amortisation, tax effected	48	1,116	(96%)
Add: Acquisition transaction costs, tax effected	11	34	(68%)
Add: Restructuring and CEO transition costs, tax effected	411	-	N/A
Add: Cash tax benefit on deductible amortisation	26	298	(91%)
NPATA ³	29,434	32,357	(9%)
EBITDA margin	40%	43%	-3pts
NPATA margin	25%	28%	-3pts
Net operating cash inflow ⁴	29,758	43,493	(32%)
Net operating cash inflow as a percentage of NPATA	101%	134%	25%
	Cents	Cents	Movement
NPATA per share ⁵	22.2	24.2	(8%)
Dividends declared per share ⁵	15.5	17.0	(9%)

¹ Operating EBITDA is the earnings before interest, tax, depreciation and amortisation adjusted for significant non-operating items.

² Segment EBITDA is the earnings before interest, tax, depreciation and amortisation.

³ NPATA is the net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of acquired intangibles and significant non-operating items.

⁴ Net cash inflow from operating activities has been adjusted to exclude transaction costs relating to business acquisitions, and receipts and payments related to customer salary packaging bank accounts.

⁵ NPATA per share and dividends declared per share at 30 June 2023 are based on 132,734,222 shares (30 June 2022: 133,724,773 shares), which includes the 3,038,415 shares held by the Company under the Loan Funded Share Plan (LFSP) (30 June 2022: 4,117,238 shares).

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Review of Operations (continued)

30 June 2023

Financial performance

The 2023 Half Year Report for Smartgroup Corporation Ltd and its controlled entities ("Smartgroup" or "the Group") reflects positive developments regarding some of the external headwinds that the Group has been dealing with for some time - motor vehicle supply is stabilising, the tightness in the labour market is less of an issue and interest rate rises have slowed. These positive developments are now translating to revenue and earnings growth when compared to the second half of 2022.

Revenue at \$116,622,000 is 3% higher than the half year to 30 June 2022 and 5% higher than the six months to 31 December 2022, demonstrating good momentum. Smartgroup has been able to achieve a strong 40% Operating EBITDA¹ (Earnings Before Interest, Tax, Depreciation and Amortisation) margin for the six months to 30 June 2023. Operating EBITDA at \$47,010,000 is 5% lower than the half year to 30 June 2022, but represents a 7% increase on the six months to December 2022.

Interim 2023 statutory Net Profit After Tax (NPAT) of \$28,938,000 represents a decrease of 6% over the half year to 30 June 2022, largely resulting from increased employee benefits costs, though this NPAT figure represents a 4% increase from the second half of 2022. The increase in costs is driven by several factors: the legislated increase to statutory superannuation in mid-2022; wage inflation to meet market rates as Smartgroup acted to retain and attract talent; and an investment in increased capacity in the novated leasing area to meet higher demand, the revenue from which should largely flow through later in 2023 and into 2024.

The increased operating costs and a reduction in the 'Cash tax benefit on deductible amortisation' add-back to Net Profit After Tax and Amortisation (NPATA) for the half year to 30 June 2023, resulted in a 9% decrease in NPATA to \$29,434,000, however this represents a 2% increase from the second half of 2022.

For the half year to 30 June 2023, \$268,000 of IT development costs were capitalised (H1 2022: \$6,442,000).

Salary packaging

Salary packaging customers at c.385,000 are in line with June 2022, with the successful onboarding of a number of new clients and organic package growth from existing clients.

Novated leasing

Since late 2020, worldwide motor vehicle supply shortages have impacted novated lease settlement timeframes. The average timeframe between when an order is placed and when it is settled is now over eighty days, compared to historic timeframes of less than twenty days. Over the last twelve or so months, motor vehicle supply has begun stabilising, in terms of order to settlement timeframes not changing materially. While the average time from order to delivery is still well above historic levels, the relative stability of vehicle supply means that increased order levels are driving an increase in settlement volume. As a result, novated leasing settlement volumes for the half year were 9% higher than the half year to 30 June 2022.

Demand for electric vehicles ("EVs") is high, following the passing of the Federal Government Electric Car Discount Policy late last year, which enables customers to get into EVs in a cost-effective manner.

EVs made up over a quarter of all our lease quotes and orders for the half year to 30 June 2023. Demand for EVs is coming from all client segments, but particularly from the corporate and government segments. As more, lower-priced EVs come into the Australian market, we expect other client segments to be further activated. There is relatively good availability for the EVs that have been launched to the Australian market and we are seeing some promising results.

The ongoing delays from motor vehicle supply shortages led to a further c.\$1 million increase in future revenue for the half year. Smartgroup recognises revenue only when a settlement occurs, so this vehicle order pipeline growth represents deferred revenue that, in a pre-COVID environment, would normally have been recognised in this period.

Though vehicle supply shortages continue to impact the number of novated leases under management, the 7% reduction compared to June 2022 was primarily a result of the transition out of a large client in late 2022. Novated leases under management grew by c.600 for the half year to 30 June 2023, as a result of strong leasing demand and stabilising motor vehicle supply.

The proportion of customers taking out higher yielding new novated leases, as opposed to refinancing existing leases, has remained reasonably constant since the onset of vehicle supply issues, at 74%. This compares to historical levels of c.78-80%.

¹ Operating EBITDA excludes the share of profit from joint venture and merger and acquisition transaction costs.

Review of Operations (continued)

30 June 2023

Smartgroup launched a new Car Leasing Portal to a pilot group of c.100 clients in February 2023, then to a further c.100 clients in April and May. The portal allows customers to compare multiple vehicles and lease options, then generate a quote and complete a credit application digitally, at any time of day.

Fleet management

Fleet vehicles under management grew by 5% versus June 2022, but have been largely stable for the half year to 30 June 2023. Our funded lease pilot program has been expanded from 12 to 25 clients. This is an offering that is resonating, and strengthening our client relationships.

Cash flow and net debt

Cash flow from operations for the half year to 30 June 2023 was 101% of NPATA (H1 2022: 134%). In June 2022, the Group received an upfront payment from St George, representing \$11,574,000 of future performance fees. This payment was in respect of novated lease financing originated with St George, prior to the transition of the St George auto funding book to Angle Finance. Adjusting for this one-off upfront payment, H1 2022 cash flow from operations would have been 99% of NPATA, which is consistent with the half year to 30 June 2023.

The Group net debt position at 30 June 2023 is \$40,299,000 (31 December 2022: Net debt of \$27,193,000). Leverage, as measured by net debt / last twelve months EBITDA, is 0.44x (31 December 2022: 0.25x).

In June 2023, Smartgroup's banking facilities were refinanced, resulting in a \$20,000,000 increase of the revolving facility limit from \$65,000,000 to \$85,000,000, and a \$2,000,000 increase in the letter of credit facility from \$5,000,000 to \$7,000,000. The term of the banking facilities was also extended to 28 September 2026. Gross debt drawn at 30 June 2023 is \$65,000,000.

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Directors' Report

30 June 2023

The Directors present their report, together with the half year financial statements, on the consolidated entity (referred to hereafter as the Group) consisting of Smartgroup Corporation Ltd (referred to hereafter as the Company or parent entity) and the entities it controlled at the end of, or during, the half year ended 30 June 2023.

Directors

The following people were Directors of the Company during the whole of the reporting period and up to the date of this report, unless otherwise stated:

Michael Carapiet
Timothy Looi (resigned 25 July 2023)
Scott Wharton (appointed 25 July 2023)
Gavin Bell
Carolyn Colley
Deborah Homewood
Anne McDonald
John Prendiville
Ian Watt

Principal activities

During the reporting period the principal continuing activities of the Group consisted of outsourced administration, fleet management, and software, distribution and group services. Outsourced administration comprises salary packaging, novated leasing and payroll administration.

Dividends

Dividends paid during the half year ended 30 June 2023 were as follows:

	30 June 2023 \$'000	30 June 2022 \$'000
Final dividend for the year ended 31 December 2022 of 15.0 cents (2021: 19.0 cents) per ordinary share	19,800	25,174
Final special dividend for the year ended 31 December 2022 of 14.0 cents (2021: 30.0 cents) per ordinary share	18,480	39,748

On 23 August 2023, the Directors declared a fully-franked dividend of 15.5 cents per ordinary share. The record date is 8 September 2023 and the dividend will be paid on 22 September 2023. This dividend has not been included as a liability in these half year financial statements. The total estimated dividend to be paid is \$20,700,000.

Review of operations

The profit after tax for the Group is \$28,938,000 (30 June 2022: \$30,909,000). Refer to the Review of Operations for further commentary on the results.

Environmental regulation

The Group is not affected by any significant environmental regulation under Australian Commonwealth or State law in respect of its operations.

Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

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Directors' Report (continued)

30 June 2023

Rounding of amounts

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, relating to the 'rounding off' of amounts in the Directors' Report. Amounts in this report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors.

On behalf of the Directors,



Michael Carapiet

23 August 2023
Sydney

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Auditor's Independence Declaration

As lead auditor for the review of Smartgroup Corporation Ltd for the half-year ended 30 June 2023, 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.

This declaration is in respect of Smartgroup Corporation Ltd and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'David R Cox', is written over a faint, light blue grid background.

David R Cox
Partner
PricewaterhouseCoopers

Sydney
23 August 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 30 June 2023

	30 June 2023 \$'000	30 June 2022 \$'000	
Revenue	116,622	113,579	
Share of profit from joint venture accounted for using the equity method	200	225	
Expenses			
Product costs	(4,133)	(3,783)	
Employee benefits expense	(50,265)	(42,587)	
Administration and corporate expenses	(13,490)	(16,034)	
Occupancy expenses	(734)	(761)	
Advertising and marketing expenses	(996)	(707)	
Depreciation expense	(2,345)	(1,927)	
Amortisation of acquired intangible assets	(68)	(1,594)	
Amortisation of contract rights and internally developed intangibles	(1,290)	(575)	
Other expenses	(581)	(316)	
Operating profit	42,920	45,520	
Finance costs	(1,261)	(799)	
Merger and acquisition transaction costs	(15)	(49)	
Profit before income tax expense	41,644	44,672	
Income tax expense	(12,706)	(13,763)	
Profit after income tax expense attributable to the ordinary equity holders	28,938	30,909	
Other comprehensive income			
Net change in fair value of cash flow hedges taken to equity, net of tax	(456)	285	
Total comprehensive income attributable to the ordinary equity holders	28,482	31,194	
Earnings per share			
	Note	Cents	Cents
Basic earnings per share (cents)	9	22.3	23.8
Diluted earnings per share (cents)	9	22.3	23.8

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Consolidated Statement of Financial Position

As at 30 June 2023

	Note	30 June 2023 \$'000	31 December 2022 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		24,701	26,707
Restricted cash and cash equivalents	11	33,811	36,020
Trade and other receivables	5	19,749	18,421
Other current assets		7,048	4,468
Total current assets		85,309	85,616
Non-current assets			
Investments accounted for using the equity method		574	374
Derivative financial instruments	10	572	1,062
Deferred tax assets		13,453	14,821
Right-of-use assets		5,548	6,592
Property and equipment		10,758	8,447
Intangible assets	4	287,840	288,930
Total non-current assets		318,745	320,226
Total assets		404,054	405,842
LIABILITIES			
Current liabilities			
Trade and other payables		35,573	31,908
Customer salary packaging liability	11	33,811	36,020
Provisions		14,398	13,907
Contract liabilities		9,104	9,421
Income tax payable		1,361	4,875
Lease liabilities		3,887	4,248
Other current liabilities		2,028	1,722
Total current liabilities		100,162	102,101
Non-current liabilities			
Provisions		1,411	1,321
Contract liabilities		2,302	3,663
Lease liabilities		3,463	4,631
Borrowings	6	64,691	53,784
Total non-current liabilities		71,867	63,399
Total liabilities		172,029	165,500
Net assets		232,025	240,342
EQUITY			
Share capital	7	263,418	263,418
Reserves	8	13,983	12,958
Accumulated losses		(45,376)	(36,034)
Equity attributable to the owners of Smartgroup Corporation Ltd		232,025	240,342
Total equity		232,025	240,342

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Consolidated Statement of Changes in Equity

For the half year ended 30 June 2023

	Note	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 January 2022		262,878	10,512	(7,160)	266,230
Profit for the period		-	-	30,909	30,909
Other comprehensive income		-	285	-	285
Total comprehensive income for the period		-	285	30,909	31,194
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	7	(61)	-	-	(61)
Share-based payments		-	3,033	-	3,033
Dividends provided for or paid	2	-	-	(64,922)	(64,922)
Balance at 30 June 2022		262,817	13,830	(41,173)	235,474
Balance at 1 January 2023		263,418	12,958	(36,034)	240,342
Profit for the period		-	-	28,938	28,938
Other comprehensive income		-	(456)	-	(456)
Total comprehensive income for the period		-	(456)	28,938	28,482
Transactions with owners in their capacity as owners:					
Share-based payments		-	1,481	-	1,481
Dividends provided for or paid	2	-	-	(38,280)	(38,280)
Balance at 30 June 2023		263,418	13,983	(45,376)	232,025

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Consolidated Statement of Cash Flows

For the half year ended 30 June 2023

	Note	30 June 2023 \$'000	30 June 2022 \$'000
Cash flows from operating activities			
Receipts from customers		133,974	144,589
Payments to suppliers and employees		(90,224)	(86,131)
Transaction costs relating to mergers and acquisitions		(15)	(49)
Interest received from cash held on behalf of customers		2,720	112
Interest and transaction costs paid on borrowings		(1,677)	(418)
Interest paid on lease liabilities		(379)	(321)
Income taxes paid		(14,656)	(14,338)
Net cash from operating activities excluding salary packaging receipts and payments		29,743	43,444
Receipts in restricted cash		1,346,487	1,193,905
Payments of customer salary packaging liability		(1,348,696)	(1,196,814)
Net cash inflow from operating activities		27,534	40,535
Cash flows from investing activities			
Payments for intangibles		(268)	(6,442)
Payments for property, plant and equipment		(3,447)	(2,167)
Interest received		334	18
Net cash outflow from investing activities		(3,381)	(8,591)
Cash flows from financing activities			
Proceeds from borrowings		11,100	30,000
Proceeds from long term incentive plan		505	1,540
Dividends paid		(38,280)	(64,922)
Principal repayments on lease liabilities		(1,693)	(1,069)
Net cash outflow from financing activities		(28,368)	(34,451)
Net decrease in cash and cash equivalents		(4,215)	(2,507)
Cash and cash equivalents at the beginning of the period		26,707	32,453
Restricted cash and cash equivalents at the beginning of the period		36,020	41,196
Cash and cash equivalents at the end of the period		24,701	32,855
Restricted cash and cash equivalents at the end of the period		33,811	38,287
Total		58,512	71,142

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Notes to the Consolidated Financial Statements

30 June 2023

1 Basis of preparation

Smartgroup Corporation Ltd (the Company) is a company limited by shares, incorporated and domiciled in Australia. The financial statements cover the consolidated entity (referred to hereafter as the Group) consisting of the Company and the entities it controlled for the half year ended 30 June 2023.

The consolidated half year financial report is a general purpose financial report prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Smartgroup Corporation Ltd is a for-profit entity for the purpose of preparing the half year financial report.

This half year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the 2022 Annual Report and any public announcements made by the Company during the interim reporting period, in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The half year financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

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

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards, which is set out below.

Net current liability position

As at 30 June 2023, the Group had net current liabilities of \$14,853,000 primarily due to payment of special dividends totalling \$18,480,000 in March 2023.

The Group has prepared projected cash flows for the twelve months from the date of the Directors' Declaration, taking into consideration the continued business impact of delayed motor vehicle availability. These forecasts indicate that the Group is expected to generate sufficient levels of operating cash flows to enable it to pay its debts as and when they fall due.

Further, the Group currently has undrawn debt facilities of \$20,000,000 that may be drawn for operational liquidity purposes, with these facilities maturing on 28 September 2026. These factors support the Group's ability to continue as a going concern.

New or amended accounting standards and interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period:

- Amendments to AASB 101 Presentation of Financial Statements; and
- Amendments to AASB 112 Income Taxes.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group during the half year ended 30 June 2023 and are not expected to have any significant impact for the full financial year ending 31 December 2023.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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Notes to the Consolidated Financial Statements (continued) 30 June 2023

2 Dividends

On 23 August 2023, the Directors declared a fully-franked interim dividend of 15.5 cents per ordinary share. The record date is 8 September 2023 and the dividend will be paid on 22 September 2023. This dividend has not been included as a liability in these half year financial statements. The total estimated dividend to be paid is \$20,700,000.

Dividends are paid out from the parent entity which has retained earnings as at 30 June 2023 of \$47,292,000. As at 30 June 2023, the Group has accumulated retained losses of \$45,376,000. The difference in retained earnings and accumulated losses is primarily due to the amortisation of intangible assets recognised in the Group financial statements arising from historic business combinations.

3 Operating segments

Identification of reportable operating segments

The Group has identified its segments based on the internal reports that are reviewed and used by the Chief Executive Officer and Chief Financial Officer, who are identified as the Chief Operating Decision Makers (CODM), in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the half year financial statements.

Types of products and services

The principal products and services of each of these operating segments are as follows:

Outsourced administration (OA)	This part of the business provides outsourced salary packaging services, novated leasing and associated products, and outsourced payroll services.
Vehicle services (VS)	This part of the business provides end-to-end fleet management services.
Software, distribution and group services (SDGS)	This part of the business provides salary packaging software solutions, the marketing of salary packaging debit cards, distribution of vehicle insurances and workforce management software to the healthcare industry.

Inter-segment transactions

Inter-segment transactions were made at market rates. Inter-segment transactions are eliminated on consolidation.

Inter-segment receivables, payables and loans

Inter-segment loans are initially recognised at the consideration received. Inter-segment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Inter-segment loans are eliminated on consolidation.

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Notes to the Consolidated Financial Statements (continued)

30 June 2023

3 Operating segments (continued)

Half year ended 30 June 2023	OA	VS	SDGS	Intersegment eliminations / Corporate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
Products, services and commissions	68,455	-	-	-	68,455
Management and administrative fees	31,167	5,346	2,140	-	38,653
Performance fees and rebates	7,405	1,647	462	-	9,514
Inter-segment sales	141	1,706	16,340	(18,187)	-
Total revenue	107,168	8,699	18,942	(18,187)	116,622
Segment results (EBITDA)	53,314	5,871	6,986	(19,563)	46,608
<i>EBITDA margin</i>	50%	67%	37%		40%
Depreciation					(2,345)
Amortisation					(1,358)
Finance costs					(1,261)
Profit before income tax expense					41,644
Income tax expense					(12,706)
Profit after income tax expense					28,938
<i>NPAT margin</i>					25%
30 June 2023					
Assets					
Segment assets	93,529	24,359	18,020	268,146	404,054
Total assets					404,054
Liabilities					
Segment liabilities	66,073	8,301	12,534	85,121	172,029
Total liabilities					172,029

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Notes to the Consolidated Financial Statements (continued)

30 June 2023

3 Operating segments (continued)

Half year ended 30 June 2022	OA	VS	SDGS	Intersegment eliminations / Corporate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
Products, services and commissions	63,769	-	-	1,754	65,523
Management and administrative fees	30,594	3,817	2,451	-	36,862
Performance fees and rebates	9,220	1,533	441	-	11,194
Inter-segment sales	130	1,896	16,580	(18,606)	-
Total revenue	103,713	7,246	19,472	(16,852)	113,579
Segment results (EBITDA)	55,531	4,811	4,072	(14,847)	49,567
<i>EBITDA margin</i>	54%	66%	21%		44%
Depreciation					(1,927)
Amortisation					(2,169)
Finance costs					(799)
Profit before income tax expense					44,672
Income tax expense					(13,763)
Profit after income tax expense					30,909
<i>NPAT margin</i>					27%
31 December 2022					
Assets					
Segment assets	100,517	22,018	37,888	245,419	405,842
Total assets					405,842
Liabilities					
Segment liabilities	72,751	5,433	32,240	55,076	165,500
Total liabilities					165,500

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Notes to the Consolidated Financial Statements

(continued)

30 June 2023

4 Intangible assets

	30 June 2023 \$'000	31 December 2022 \$'000
Goodwill		
At cost	272,664	272,664
Total goodwill	272,664	272,664
Customer contracts		
At cost	63,609	63,609
Accumulated amortisation	(63,487)	(63,419)
Total customer contracts	122	190
Acquired software and websites		
At cost	77,915	77,915
Accumulated amortisation	(77,915)	(77,915)
Total acquired software and websites	-	-
Contract rights		
At cost	5,168	5,168
Accumulated amortisation	(4,067)	(3,550)
Total contract rights	1,101	1,618
Brand names and logos		
At cost	1,304	1,304
Total brand names and logos	1,304	1,304
Internally developed software and websites		
At cost	13,744	13,476
Accumulated amortisation	(1,095)	(322)
Total internally developed software and websites	12,649	13,154
Total intangible assets	287,840	288,930

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Notes to the Consolidated Financial Statements (continued)

30 June 2023

5 Trade and other receivables

	30 June 2023 \$'000	31 December 2022 \$'000
Trade receivables	8,443	8,532
Less: Allowance for expected credit losses	(356)	(555)
	8,087	7,977
Contract assets	7,701	6,040
Other receivables	3,961	4,404
	11,662	10,444
Total trade and other receivables	19,749	18,421

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement between 14 and 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. Contract assets predominantly consist of accrued revenues with funds held in restricted cash accounts, with a corresponding customer salary packaging liability balance. These are unbilled transactions for commission-based revenue, with no associated credit loss as funds have been collected and are held within the restricted cash accounts.

Expected credit loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors that may affect the ability of the customers to settle the receivables, such as GDP rates. They are also adjusted to reflect historical and current debtor-specific information impacting the probability that certain debtors will enter bankruptcy or financial reorganisation, or default on payments (more than 60 days overdue). The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of management's estimate of future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

30 June 2023	Gross carrying amount (\$'000)	Expected credit loss allowance (\$'000)	Specific loss allowance (\$'000)	Total loss allowance (\$'000)	Weighted-average loss rate
Grade 1 (Financiers and supply chain partners)	1,203	(2)	(104)	(106)	8.81%
Grade 2 (Employer/Corporate)	5,097	(3)	(115)	(118)	2.32%
Grade 3 (Dealers)	2,143	(1)	(131)	(132)	6.16%

As at 30 June 2023, the Group has \$419,000 provided in relation to counterparty arrangements with motor vehicle dealerships, given significant uncertainty of vehicle supply. This provision is reflected in Current Liabilities - Provisions within the Consolidated Statement of Financial Position.

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Notes to the Consolidated Financial Statements

(continued)

30 June 2023

6 Borrowings

As at 30 June 2023, the following bank facilities were available to the Group:

- A revolving facility of \$85,000,000;
- A letter of credit facility of \$7,000,000; and
- Ancillary facilities of \$1,000,000.

The banking facilities are guaranteed and secured by the Company and certain of the Company's subsidiaries. The facilities are subject to a variable interest rate, which is based on the 3-month BBSY (Bank Bill Swap Bid Rate) plus a margin. In March 2023, an additional \$11,100,000 was drawn down. The loan facility was refinanced in June 2023, resulting in a \$20,000,000 increase of the revolving facility limit from \$65,000,000 to \$85,000,000 and a \$2,000,000 increase in the letter of credit facility from \$5,000,000 to \$7,000,000. Gross debt drawn at 30 June 2023 is \$65,000,000, with an additional \$20,000,000 available to draw. The banking facilities mature on 28 September 2026.

The Group is subject to certain financing covenants and meeting these is given priority in all capital risk management decisions. These covenants include leverage and interest cover ratios with reference to recurring earnings before interest, tax, depreciation and amortisation, and with distribution restrictions on dividends. There have been no events of default on the financing arrangement during the year (2022: nil).

7 Equity - issued capital

	30 June 2023 Shares	31 December 2022 Shares	30 June 2023 \$'000	31 December 2022 \$'000
Ordinary Shares — fully paid	132,734,222	133,670,773	284,242	289,479
Less: Shares associated with the loan funded share plan (LFSP)	(3,038,415)	(3,974,966)	(20,824)	(26,061)
	129,695,807	129,695,807	263,418	263,418

(a) Movements in ordinary shares:

	Date	Number of shares	Total \$'000
Opening balance	1 January 2022	133,498,979	287,036
Shares issued for LFSP	8 March 2022	630,705	4,775
	11 May 2022	599,177	5,250
Buy-back of forfeited LFSP shares	2 March 2022	(655,666)	(4,905)
	2 March 2022	(348,422)	(2,223)
	31 October 2022	(54,000)	(333)
Deferred tax directly recognised in equity			(121)
Balance	31 December 2022	133,670,773	289,479
Shares issued for LFSP	10 March 2023	983,304	5,878
Buy-back of forfeited LFSP shares	6 March 2023	(1,664,826)	(9,382)
	12 May 2023	(255,029)	(1,733)
Balance	30 June 2023	132,734,222	284,242

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Notes to the Consolidated Financial Statements (continued)

30 June 2023

7 Equity - issued capital (continued)

(b) *Movements in loan funded share plan*

	Date	Number of shares	Total \$'000
Opening balance	1 January 2022	(3,906,746)	(24,158)
LFSP shares exercised	21 February 2022	103,574	662
Shares issued for LFSP	8 March 2022	(630,705)	(4,775)
	11 May 2022	(599,177)	(5,250)
Buy-back of forfeited shares	2 March 2022	655,666	4,904
	2 March 2022	348,422	2,223
	31 October 2022	54,000	333
Balance	31 December 2022	(3,974,966)	(26,061)
Shares issued for LFSP	10 March 2023	(983,304)	(5,878)
Buy-back of forfeited shares	6 March 2023	1,664,826	9,382
	12 May 2023	255,029	1,733
Balance	30 June 2023	(3,038,415)	(20,824)

Loan funded shares:

At the Annual General Meeting (AGM) on 10 May 2023, loan funded shares to the incoming CEO were approved by shareholders. On 8 March 2023, loan funded shares were granted to the remainder of the executive management team under the Loan Funded Share Plan (LFSP).

The issue price is calculated based on the 20-day volume weighted average price of shares trading on the ASX up to and including 8 March 2023 for the March grant. Shares vest over a 3-year period subject to 2 vesting conditions, the "EPS Performance Hurdle" and the "TSR Performance Hurdle".

The shares granted as part of the LFSP are eligible for dividends and are held by the participant until they vest or are forfeited. Should the Company pay dividends or make capital distributions in the future, any dividends paid, or distributions made to the participant will be applied to repay the loan and to meet the tax liability on those dividends or distributions. The vesting of the shares is subject to two performance hurdles, being an earnings growth hurdle and a total shareholder return hurdle, and a continuous employment condition. The shares can only be exercised once the participant has repaid the loan.

For the half-year ended 30 June 2023, 1,919,855 shares issued under the LFSP were bought back as vesting conditions on the shares had not been met and the shares were forfeited, resulting in a \$11,114,941 reduction in ordinary share capital.

The unvested shares issued under the LFSP at 30 June 2023 have been treated as contingently issuable, as the vesting conditions have not been satisfied at the balance date. Therefore, the shares issued under the LFSP are excluded from basic earnings per share.

Performance rights:

On 10 May 2023, performance rights to the incoming CEO were approved at the AGM, and performance rights granted to the CEO and management team on 25 May 2023. Performance rights have a nil exercise price and are valued based on the 10-day volume weighted average price of shares traded on the ASX up to, and including, 24 May 2023. Performance rights vest over a 1 year period. These rights granted do not include voting rights nor attract dividends, and are subject to vesting conditions being performance hurdles relating to the annual Key Performance Indicators (KPIs). Performance rights cannot be transferred and are not quoted on the ASX.

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Notes to the Consolidated Financial Statements (continued) 30 June 2023

8 Equity - reserves

	30 June 2023 \$'000	31 December 2022 \$'000
Cash flow hedge reserve	240	696
Share-based payments reserve	12,449	11,823
Other reserves	1,294	439
	13,983	12,958

Hedging reserve - cash flow hedges

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to executive and other senior management as part of their remuneration.

Other reserves

Other reserves are used to record increments and decrements to the valuation of non-current assets, and preserve current profits for the purpose of paying dividends in future years.

9 Earnings per share

	30 June 2023 \$'000	30 June 2022 \$'000
Consolidated profit after income tax expense for the period attributable to the owners of Smartgroup Corporation Ltd	28,938	30,909
	Number	Number
Weighted average ordinary shares used in calculating basic earnings per share	129,695,807	129,666,051
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	15,624	268,615
Weighted average number of ordinary shares used in calculating diluted earnings per share	129,711,431	129,934,666
	Cents	Cents
Basic earnings per share (cents)	22.3	23.8
Diluted earnings per share (cents)	22.3	23.8

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Notes to the Consolidated Financial Statements (continued)

30 June 2023

10 Fair value of financial instruments

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

At 30 June 2023	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Interest rate swap contracts - cash flow hedges	-	572	-	572
Total financial assets	-	572	-	572
At 31 December 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Interest rate swap contracts - cash flow hedges	-	1,062	-	1,062
Total financial assets	-	1,062	-	1,062

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values, due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Derivatives - interest rate swap contracts

The derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

11 Cash held on behalf of customers and associated liabilities

The Group administers funds on behalf of customers, and this can take one of two forms:

- Restricted cash and cash equivalents (pooled customer funds)
- Cash held on behalf of customers (segregated bank accounts in a customer's name)

Restricted cash and cash equivalents

	30 June 2023 \$'000	31 December 2022 \$'000
Restricted cash and cash equivalents	33,811	36,020
Customer salary packaging liability	(33,811)	(36,020)

The restricted cash and cash equivalents in the Consolidated Statement of Cash Flows represents funds held by the Group on behalf of certain customers. The use of these funds is restricted to the making of salary packaging payments on behalf of those customers only and therefore not available for general use. The Group recognises a liability for all restricted cash balances to reflect the amounts owing to its customers.

The restricted cash accounts are held with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. For the half year ended 30 June 2023, the Group has recognised finance revenue of \$577,000 (30 June 2022: \$33,000) from restricted cash.

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Notes to the Consolidated Financial Statements (continued) 30 June 2023

11 Cash held on behalf of customers and associated liabilities (continued)

Cash held on behalf of customers - not recognised in the Consolidated Statement of Financial Position

	30 June 2023 \$'000	31 December 2022 \$'000
Accounts established by the Group as cash held on behalf of customers	96,591	114,424
Accounts established by customers directly	58,952	76,898
	155,543	191,322

Cash held on behalf of salary packaging administration customers is deposited by customers into segregated bank accounts, to be used only to settle their employees' salary packaging obligations to suppliers. The Group cannot use these funds for any other purpose than as directed by its customers. Customers are liable to ensure adequate funds are kept in the segregated bank accounts for salary payments. The Group has assessed that these assets are held in a fiduciary capacity rather than being assets of the Group and as such, have excluded them from the Consolidated Statement of Financial Position.

The segregated bank accounts used for cash held on behalf of customers are with Australia's major financial institutions. Depending on commercial arrangements, the Group may earn interest income from these accounts. For the half year ended 30 June 2023, the Group has recognised interest revenue of \$1,331,000 (30 June 2022: \$47,000) from those accounts established by the Group as cash held on behalf of customers, and \$812,000 (30 June 2022: \$32,000) from those accounts established by the customers directly. These amounts are recognised within management and administration revenue.

12 Events occurring after the reporting period

No matter or circumstance has occurred after period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

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Directors' Declaration

30 June 2023

In the Directors' opinion:

- (a) the attached financial statements and notes set out on pages 8 to 22 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half-year ended on that date, and
- (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 directors.

On behalf of the directors,



Michael Carapiet
Chairman
Sydney
23 August 2023

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Independent auditor's review report to the members of Smartgroup Corporation Ltd

Report on the half-year financial report

Conclusion

We have reviewed the half-year financial report of Smartgroup Corporation Ltd (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, material accounting policy information and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of Smartgroup Corporation Ltd does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the half-year ended on that date
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the half-year financial report

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

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000, GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

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Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 30 June 2023 and of 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*.

A review of a 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.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers' in a cursive style.

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'David R Cox' in a cursive style.

David R Cox
Partner

Sydney
23 August 2023

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Corporate directory

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Directors

Michael Carapiet
Timothy Looi (resigned 25 July 2023)
Scott Wharton (appointed 25 July 2023)
Gavin Bell
Carolyn Colley
Deborah Homewood
Anne McDonald
John Prendiville
Ian Watt

Company secretaries

Sophie MacIntosh
Jonathan Swain

Principal registered office in Australia

Level 8, 133 Castlereagh Street
Sydney NSW 2000
Australia
1300 665 855

Share and debenture register

LINK Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
1300 554 474

Auditor

PricewaterhouseCoopers
One International Towers
Watermans Quay Barangaroo
Sydney NSW 2000

Solicitors

Minter Ellison Lawyers
Level 20, Collins Arch
447 Collins Street
Melbourne VIC 3000
02 9921 8888

Bankers

Westpac Group
275 Kent Street
Sydney NSW 2000

Australia and New Zealand Banking Group Limited
242 Pitt Street
Sydney NSW 2000

Stock exchange listing

Smartgroup Corporation Ltd shares are listed on the Australian Securities Exchange (ASX Code: SIQ)

Website

www.smartgroup.com.au

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