

ASX Announcement

Release date: 21 February 2024

Smartgroup delivers revenue, earnings and dividend growth

Smartgroup Corporation Ltd (ASX: SIQ) (“Smartgroup” or “the Company”), a leading specialist employee management services provider, today reported its full-year results for the 12 months ended 31 December 2023 (CY 2023).

CY 2023 Highlights

- Revenue of \$251.6m, up 12% on prior corresponding period (pcp)
- Operating EBITDA of \$100.3m, up 7% on pcp
- NPATA¹ of \$63.2m, up 3% on pcp
- New lease vehicle order pipeline revenue of c.\$18m v c.\$19m at December 2022
- 26% increase in novated leasing settlements v pcp²
- Electric Vehicles accounted for 41% of H2 2023 new car lease orders
- Growth in quotes and orders for clients through new Car Leasing Portal
- Strong operating cash flow at 103% of NPATA
- Final ordinary dividend declared of 16.0 cents per share (cps) and special dividend declared of 16.0 cps, both fully franked³; total dividends declared represent 100% of CY 2023 NPATA
- Strong and flexible balance sheet with low net debt position at 0.3x EBITDA

Commenting on Smartgroup’s operational and financial performance over CY 2023, Managing Director and CEO, Scott Wharton, said: “2023 was a good year for Smartgroup. Through our salary packaging offering, we provide employers with solutions that enable Australians to maximise their take-home pay, manage cost of living pressures and gain access to other benefits. This helps our clients attract and retain talent.

“We delivered revenue and earnings growth, increased novated leasing and salary packaging customer numbers, and secured significant new clients and renewed many existing ones in a competitive environment. As the year progressed, we delivered ongoing improvements in operational performance.

“Stabilising vehicle supply and increasing novated leasing demand, in particular for electric vehicles (‘EVs’), were favourable for Smartgroup.”

¹ NPATA is net profit after tax, adjusted to exclude the non-cash tax-effected amortisation of intangibles and significant non-operating items.

² Comparison to pcp excludes a large client that transitioned out in October 2022. If included, CY 2023 settlements were +20% versus pcp.

³ Record date 7 March 2024 and payment date 21 March 2024. Special dividend is an interim dividend in respect of the 2024 financial year.

Solid financial performance in CY2023

Revenue for the full year was \$251.6m, up 12% on pcp, driven by higher novated leasing volumes including from strong EV demand.

EBITDA of \$100.3m, was up 7% on pcp and EBITDA margin for the full year was 40%. The increase in costs was driven by wage inflation and investments in capacity to support the high level of leasing demand. Resourcing was increased throughout the year, to support revenue generation into 2024. The Company will continue to adjust resourcing levels according to demand.

Profit after tax, as measured by NPATA, was \$63.2m for CY 2023, up 3% on pcp.

Whilst new vehicle delivery timeframes have stabilised, these delivery times remain at a historically high level. Smartgroup's Vehicle Order pipeline continues to be above historical levels at \$18m. Once new car supply normalises, this delayed revenue should be released, thereby boosting Company earnings.

Smartgroup has continued to generate a strong operating cash flow of \$65.2m, representing 103% of NPATA, and maintains a flexible balance sheet with a modest net debt level of \$32.2m being 0.3x EBITDA.

The strong cash flow conversion and low net debt position have enabled the Board of Directors to declare a final ordinary fully franked dividend of 16.0 cps and a special dividend of 16.0 cps fully franked, which brings total dividends to 47.5 cps, representing 100% of CY 2023 NPATA.

Smartgroup is positioned to invest for growth while continuing to pay dividends to shareholders, given the Company's excellent cash generation and low leverage.

Strong leasing demand and growing salary packaging numbers

In December 2023 Smartgroup had 396,000 active packaging customers, a 17,000 increase on December 2022. However, many of our customers maximise their various Fringe Benefits Tax (FBT) caps before December each year, then restart packaging in April at the start of the next FBT year. Taking this into account, Smartgroup provided salary packaging services to around 493,000 customers in CY 2023, an increase of 4% on CY 2022.

Strong leasing demand resulted in a 21% increase in new lease vehicle orders and a 26% increase in novated leasing settlements v pcp⁴.

Following the introduction of the Federal Government's Electric Car Discount Policy⁵ in November 2022, demand for EVs expanded significantly and EVs accounted for 36% of all new car novated lease orders in CY 2023, with particularly strong H2 2023 orders at 41% of all new car novated leases. Smartgroup continues to invest in key areas to meet this increased demand, including digital, sales and technology.

While the EV share of our novated lease portfolio is growing strongly, internal combustion engine (ICE) vehicles remain an important part of our business, and in the second half of 2023, the number

⁴ Comparison to pcp excludes a large client that transitioned out in October 2022. If included, CY 2023 new lease vehicle orders and settlements were +15% and +20% versus pcp respectively.

⁵ For EVs below the luxury car tax threshold of \$89,332. Legislation also applies to plug-in hybrid vehicles until 31 March 2025.

of ICE vehicles ordered was similar to the first half of the year. To help our customers make more sustainable choices, we provide them with vehicle-specific environmental and safety ratings on our lease quotes, and we have also developed educational content on how our customers can use their vehicles in more environmentally sustainable ways.

Smartgroup's Car Leasing Portal, launched in February 2023 to a pilot group of clients, is available to 1,366 clients at the end of 2023. The Company has seen quote and order uplift from the clients that have gone live on the portal.

Supply chain renegotiations, increasing EV volume and an improved proportion of new car leases resulted in a 9% improvement in novated leasing yield in CY 2023 versus pcp.

Strategic priorities

For many Australian households, cost of living pressures have become top of mind and recent government changes make the transition to EVs more attractive than ever. For employers, managing rising costs, genuinely contributing to Australia's transition to a sustainable future and attracting and retaining talent are top priorities. Smartgroup is well positioned to assist employers address these challenges by helping employers and employees to make the most of their salary packaging benefits.

Smartgroup will continue to invest in simplifying and consolidating core technologies and processes, including moving to a single brand, **Smart**. These investments should enable more rapid digitisation and scaling of operations, that will improve employer and employee experience.

As employer and employee needs evolve, we will innovate and expand our salary packaging, employee benefits and novated lease offerings to unlock even more value for our customers. We will make ongoing investments in our fleet capabilities. Our balance sheet funding pilot for fleet vehicles continues to deliver promising results.

These investments will position Smartgroup strongly for the opportunities ahead.

Outlook

Commenting on Smartgroup's outlook, Managing Director and CEO, Scott Wharton, said: "We are pleased with trading so far in 2024. Novated leasing demand remains robust. We will invest in resourcing and our core technology to both meet the demand we are seeing and to make it easier for our customers to work with us. In parallel, we remain focussed on margins, including through implementing productivity initiatives."

CY 2023 investor briefing presentation

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

Date: Wednesday 21 February 2024

Time: 10:00 am AEDT

URL: <https://webcast.openbriefing.com/siq-fyr-2024/>

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.

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