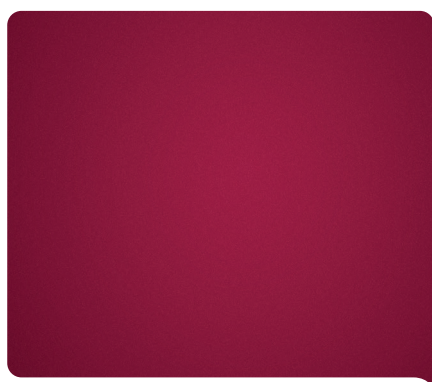
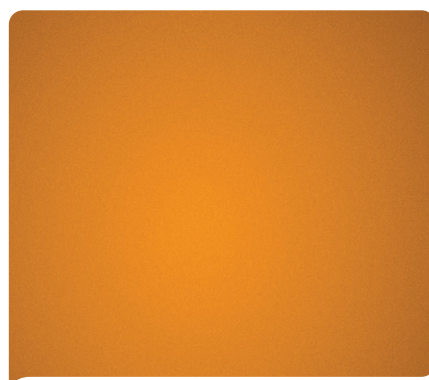


Half Year Report

30 June 2019

ABN 48 126 266 831



Market Release

30 June 2019

16 August 2019

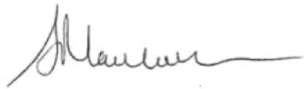
ASX Market Announcements Office
ASX Limited
20 Bridge Street
Sydney, NSW, Australia, 2000

Smartgroup Corporation Ltd – Results for announcement to the market

In accordance with the Listing Rules, Smartgroup Corporation Ltd encloses for immediate release the following information:

1. Appendix 4D,
2. Review of operations, and
3. Smartgroup Corporation Ltd half year report 2019.

Smartgroup Corporation Ltd will conduct a briefing on the results at 9:00 am (Sydney time) on 19 August 2019.



Sophie MacIntosh
Chief Legal Officer and Company Secretary

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Appendix 4D

Statutory results for announcement to the market

| | | \$'000's | | \$'000's |
|--|----|----------|-------|----------|
| Revenue from ordinary activities | up | 3,217 | 3% to | 125,979 |
| Profit from ordinary activities after tax attributable to the owners of Smartgroup Corporation Ltd | up | 1,808 | 6% to | 30,857 |
| Net profit for the period attributable to the owners of Smartgroup Corporation Ltd | up | 1,808 | 6% to | 30,857 |

| Dividend information | Amount per share (cents) | Franked amount per share (cents) | Tax rate for franking credit |
|--|--------------------------|----------------------------------|------------------------------|
| Final 2018 dividend per share (paid 15 March 2019) | 21.0 | 21.0 | 30% |
| Special 2019 dividend per share (paid 6 May 2019) | 20.0 | 20.0 | 30% |
| Interim 2019 dividend per share (to be paid 16 September 2019) | 21.5 | 21.5 | 30% |

The record date for determining entitlement to the interim dividend is 2 September 2019. There is no dividend reinvestment plan in place.

| Net tangible assets | 30 June 2019 | 31 Dec 2018 |
|--|--------------|-------------|
| Net tangible assets per ordinary security, cents per share | (39.06) | (26.01) |

Control gained or lost over entities

For the half year ended 30 June 2019, the following wholly owned entities within the group have been deregistered:

- Radiant Capital Pty Ltd (deregistered 22 January 2019)
- Selectus Financial Services Pty Ltd (deregistered 18 June 2019)

On 1 June 2019, Smartgroup Benefits Pty Ltd, a wholly owned group entity, acquired 100% of the ordinary shares of Pay-Plan Pty Ltd and Set Leasing Pty Ltd (collectively, PayPlan).

Refer to note 6 for details on the acquisitions.

| Details of Joint Venture Entities | Reporting entity's percentage holding | | Contribution to profit | |
|--------------------------------------|---------------------------------------|----------------|------------------------|---------------------|
| | 30 June 2019 % | 30 June 2018 % | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
| Health-e Workforce Solutions Pty Ltd | 50% | 50% | 136 | 235 |

Independent auditor's review

The financial report for the half year ended 30 June 2019 has been reviewed by PricewaterhouseCoopers and there is no review dispute or qualification.

Review of Operations

30 June 2019

| | 30 June 2019 \$'000 | * Restated 30 June 2018 \$'000 | Movement |
|--|------------------------|--------------------------------------|-----------------|
| Revenue | 125,979 | 122,762 | 3% |
| Share of profit from joint venture accounted for using the equity method | 136 | 235 | (42%) |
| Expenses | | | |
| Product costs | (3,976) | (3,454) | 15% |
| Employee benefits expense | (45,468) | (45,226) | 1% |
| Administration and corporate expenses | (13,927) | (13,831) | 1% |
| Occupancy expenses | (814) | (812) | 0% |
| Advertising and marketing expenses | (1,835) | (1,606) | 14% |
| Other expenses | (851) | (1,004) | (15%) |
| Acquisition transaction costs | (362) | (341) | 6% |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | 58,882 | 56,723 | 4% |
| Onerous lease costs | (433) | - | (100%) |
| Depreciation expense | (1,989) | (2,118) | (6%) |
| Amortisation expense of acquired intangible assets [^] | (10,407) | (10,534) | (1%) |
| Finance costs | (1,871) | (2,945) | (36%) |
| Profit before income tax for the half-year | 44,182 | 41,126 | 7% |
| Income tax expense [^] | (13,325) | (12,077) | 10% |
| Net profit after income tax for the half-year | 30,857 | 29,049 | 6% |
| Add: Amortisation, tax effected | 7,385 | 7,474 | (1%) |
| Add: Acquisition transaction and onerous lease costs, tax effected | 556 | 239 | 133% |
| Add: Cash tax benefit on deductible amortisation [^] | 1,682 | 1,658 | 1% |
| NPATA ^{** ^} | 40,480 | 38,420 | 5% |
| EBITDA margin | 47% | 46% | 1% |
| NPATA margin | 32% | 31% | 1% |
| Net operating cash inflow ^{***} | 41,728 | 39,031 | 7% |
| Net operating cash inflow as a percentage of NPATA ^{***} | 103% | 102% | 1% |
| | Cents | Cents | Movement |
| NPATA per share ^{****} | 30.7 | 29.3 | 5% |
| Dividends declared per share ^{****} | 21.5 | 20.5 | 5% |

[^] 2018 depreciation expense, finance costs, onerous lease costs, amortisation expense, income tax expense, cash tax benefit on deductible amortisation and NPATA have been restated following final acquisition accounting for Salary Solutions Australia Pty Ltd (Salary Solutions) and Fleet West Pty Ltd (Fleet West), and adoption of AASB 16 Leases.

^{*} See note 2 for detailed information on Restatement of comparatives.

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

^{***} 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.

^{****} NPATA per share and dividends declared per share at 30 June 2019 are based on 131,894,818 shares (30 June 2018: 130,974,190 shares), which includes the 2,926,721 shares held by the Company under the Loan Funded Share Plan (LFSP) (30 June 2018: 2,595,724 shares).

Review of Operations (continued)

30 June 2019

Financial performance

The half year 2019 financial results for Smartgroup Corporation Ltd and its controlled entities (the Group) show steady growth in revenue and earnings. The revenue of \$125,979,000 represents 3% growth over half year 2018 while Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) grew 4% to \$58,882,000.

The half year 2019 Net Profit After Tax and Amortisation (NPATA) of \$40,480,000 represents growth of 5% over half year 2018.

Revenue has increased, primarily from a net c.5,000¹ growth in salary packages as well as a c.1,000² growth in the Novated Leasing (NL) carpark. NL settlements were relatively flat compared to prior year, despite a 9% year on year fall in new domestic private vehicle sales. NL yields fell by c.2% from the prior year due to a skew towards lower-priced vehicles for settlements and the full impact of vehicle manufacturers extending mechanical warranties.

Smartgroup has progressed in the integration of acquired businesses, with c.38,000 packages from the Salary Solutions acquisition transitioned onto other group systems. This will streamline salary packaging operations and enable us to better service our customers.

The number of Full Time Employees (FTE) is 703 as at 30 June 2019. This compares to an FTE count of 712 for the half year 2018. The Group has a package to FTE count of 495 compared to 469 for the half year 2018, an efficiency improvement of 5%.

Acquisitions of Mylease and PayPlan

On 1 April 2019, the Group acquired the novated leasing assets of Mylease from iNovation Pty Ltd for \$6,900,000 in cash, including \$1,000,000 retained in escrow. Mylease, based in Melbourne, administers c.1,000 novated leases across c.500 employer clients.

On 1 June 2019, the Group acquired Pay-Plan Pty Ltd and Set Leasing Pty Ltd (collectively, PayPlan) for \$2,200,000 in cash, including \$700,000 retained in escrow. PayPlan, based in Perth, administers c.1,500 packages and c.500 novated leases across c.30 employer clients.

Both acquisitions extend Smartgroup's salary packaging and novated leasing presence in the corporate and PBI sectors.

Cross selling of products

The Group has continued to see some success in cross selling additional products and services, primarily to salary packaging PBI customers. At 30 June 2019, there were 180 clients using two or more Group service offerings. This is an increase from December, where the Group had 164. Together with the acquired businesses of Mylease and PayPlan, the Group has in excess of 4,000 clients.

Cashflow, net debt and special dividend

On 6 May 2019, the Group paid a special dividend of 20.0 cents per ordinary share. The dividend was fully franked and was funded from existing cash balances. The Group net debt position at 30 June 2019 is \$32,500,000 (\$14,562,000 as at 31 December 2018). This net debt position measured on net debt / last twelve months EBITDA is 0.27x (0.13x as at 31 December 2018).

¹ c.14,700 organic salary packaging growth plus c.2,500 package growth from acquisitions was partially offset by c.12,200 package reduction from two Victorian Health contracts which were not renewed.

² c.1,750 organic novated lease growth plus c.1,500 lease growth from acquisition was partially offset by c.2,250 lease reduction from two Victorian Health contracts which were not renewed.

Directors' Report

30 June 2019

The Directors present their report, together with the 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 2019.

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 (Chairman)
Gavin Bell
Deven Billimoria
Andrew Bolam
Carolyn Colley (commenced 15 March 2019)
Deborah Homewood
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 of salary packaging, novated leasing and payroll administration.

Dividends

Dividends paid during the half year ended 30 June 2019 were as follows:

| | 30 June 2019 \$'000 |
|---|------------------------|
| Final dividend for the year ended 31 December 2018 of 21.0 cents per ordinary share | 27,446 |
| Special dividend for the year ended 31 December 2019 of 20.0 cents per ordinary share | 26,300 |

On 16 August 2019, the Directors declared a fully-franked dividend of 21.5 cents per ordinary share. The record date is 2 September 2019 and the dividend will be paid on 16 September 2019. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is \$28,400,000.

Review of operations

The profit after tax for the Group is \$30,857,000 (Restated 30 June 2018: \$29,049,000). 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 6.

Directors' Report (continued)

30 June 2019

Rounding of amounts

The Company is of a kind referred to in *ASIC Legislative 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

16 August 2019
Sydney



Auditor's Independence Declaration

As lead auditor for the review of Smartgroup Corporation Ltd for the half-year ended 30 June 2019, 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 black ink, appearing to read 'Joe Sheeran'.

Joe Sheeran
Partner
PricewaterhouseCoopers

Sydney
16 August 2019

PricewaterhouseCoopers, ABN 52 780 433 757

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Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 30 June 2019

| | 30 June 2019 \$'000 | * Restated 30 June 2018 \$'000 |
|--|------------------------|--------------------------------------|
| Revenue | 125,979 | 122,762 |
| Share of profit from joint venture accounted for using the equity method | 136 | 235 |
| Expenses | | |
| Product costs | (3,976) | (3,454) |
| Employee benefits expense | (45,468) | (45,226) |
| Administration and corporate expenses | (13,927) | (13,831) |
| Occupancy expenses | (814) | (812) |
| Advertising and marketing expenses | (1,835) | (1,606) |
| Depreciation expense | (1,989) | (2,118) |
| Amortisation of acquired intangible assets | (10,407) | (10,534) |
| Other expenses | (851) | (1,004) |
| Operating profit | 46,848 | 44,412 |
| Onerous lease costs | (433) | - |
| Acquisition transaction costs | (362) | (341) |
| Finance costs | (1,871) | (2,945) |
| Profit before income tax expense | 44,182 | 41,126 |
| Income tax expense | (13,325) | (12,077) |
| Profit after income tax expense | 30,857 | 29,049 |
| Other comprehensive income | | |
| Net change in fair value of cash flow hedges taken to equity, net of tax | (59) | 52 |
| Total comprehensive income for the period | 30,798 | 29,101 |
| Earnings per share | Cents | Cents |
| Basic earnings per share (cents) | 23.9 | 23.1 |
| Diluted earnings per share (cents) | 23.9 | 23.0 |

* See note 2 for detailed information on the Restatement of comparatives.

Consolidated Statement of Financial Position

As at 30 June 2019

| | Note | 30 June 2019 \$'000 | 31 December 2018 \$'000 |
|--|------|------------------------|----------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 28,148 | 39,186 |
| Restricted cash and cash equivalents | 12 | 51,544 | 42,291 |
| Trade and other receivables | | 24,099 | 24,354 |
| Derivative financial instruments | | 127 | 199 |
| Other current assets | | 8,253 | 11,236 |
| Total current assets | | 112,171 | 117,266 |
| Non-current assets | | | |
| Investments accounted for using the equity method | | 6,528 | 6,392 |
| Deferred tax assets | | 7,097 | 8,051 |
| Right-of-use assets | | 13,353 | 11,543 |
| Property and equipment | | 1,469 | 1,911 |
| Intangible assets | 5 | 317,121 | 318,305 |
| Other non-current assets | | 528 | 524 |
| Total non-current assets | | 346,096 | 346,726 |
| Total assets | | 458,267 | 463,992 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 32,292 | 29,240 |
| Customer salary packaging liability | 12 | 51,544 | 42,291 |
| Income tax payable | | 405 | 5,541 |
| Provisions | | 11,142 | 11,046 |
| Other current liabilities | | 10,655 | 13,663 |
| Total current liabilities | | 106,038 | 101,781 |
| Non-current liabilities | | | |
| Provisions | | 1,953 | 1,310 |
| Lease liabilities | | 17,234 | 15,582 |
| Borrowings | 7 | 60,343 | 53,011 |
| Total non-current liabilities | | 79,530 | 69,903 |
| Total liabilities | | 185,568 | 171,684 |
| Net assets | | 272,699 | 292,308 |
| EQUITY | | | |
| Share capital | 8 | 259,183 | 256,687 |
| Reserves | 9 | 6,640 | 5,856 |
| Retained earnings | | 6,876 | 29,765 |
| Equity attributable to the owners of Smartgroup Corporation Ltd | | 272,699 | 292,308 |
| Total equity | | 272,699 | 292,308 |

Consolidated Statement of Changes in Equity

For the half year ended 30 June 2019

| | Note | Share capital \$'000 | Reserves \$'000 | Retained profits \$'000 | Non-controlling interests \$'000 | Total equity \$'000 |
|--|------|-------------------------|--------------------|----------------------------|-------------------------------------|------------------------|
| Balance at 1 January 2018 | | 176,883 | 4,570 | 23,269 | 30 | 204,752 |
| Adoption of new accounting standards | | - | - | (1,811) | - | (1,811) |
| Adjusted balance at 1 January 2018 (restated) | | 176,883 | 4,570 | 21,458 | 30 | 202,941 |
| Profit for the period (restated) | | - | - | 29,049 | - | 29,049 |
| Other comprehensive income | | - | 52 | - | - | 52 |
| Total comprehensive income for the period | | - | 52 | 29,049 | - | 29,101 |

Transactions with owners in their capacity as owners:

| | | | | | | |
|--|---|----------------|--------------|---------------|----------|----------------|
| Contributions of equity, net of transaction costs and tax | 8 | 78,804 | - | - | - | 78,804 |
| Issue of ordinary shares as consideration for a business combination, net of transaction costs | | 1,000 | - | - | - | 1,000 |
| Share-based payments | | - | 62 | - | - | 62 |
| Non-controlling interests on acquisition of subsidiary | | - | - | 30 | (30) | - |
| Dividends paid | | - | - | (24,154) | - | (24,154) |
| Balance at 30 June 2018 | | 256,687 | 4,684 | 26,383 | - | 287,754 |

| | | | | | | |
|--|--|----------------|--------------|---------------|----------|----------------|
| Balance at 1 January 2019 | | 256,687 | 5,856 | 29,765 | - | 292,308 |
| Profit for the period | | - | - | 30,857 | - | 30,857 |
| Other comprehensive income | | - | (59) | - | - | (59) |
| Total comprehensive income for the period | | - | (59) | 30,857 | - | 30,798 |

Transactions with owners in their capacity as owners:

| | | | | | | |
|---|---|----------------|--------------|--------------|----------|----------------|
| Contributions of equity, net of transaction costs and tax | 8 | 2,496 | - | - | - | 2,496 |
| Share-based payments | | - | 843 | - | - | 843 |
| Dividends provided for or paid | | - | - | (53,746) | - | (53,746) |
| Balance at 30 June 2019 | | 259,183 | 6,640 | 6,876 | - | 272,699 |

Consolidated Statement of Cash Flows

For the half year ended 30 June 2019

| | Note | 30 June 2019 \$'000 | * Restated 30 June 2018 \$'000 |
|--|------|------------------------|--------------------------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 142,352 | 135,048 |
| Payments to suppliers and employees | | (83,108) | (77,243) |
| Transaction costs relating to business acquisitions | | (184) | (763) |
| Interest received from cash held on behalf of customers | | 1,405 | 1,311 |
| Interest paid on borrowings | | (847) | (2,169) |
| Interest paid on lease liabilities | | (456) | (461) |
| Income taxes paid | | (17,618) | (17,455) |
| Net cash from operating activities excluding salary packaging receipts and payments | | 41,544 | 38,268 |
| Receipts in restricted cash | | 1,160,394 | 1,114,073 |
| Payments of customer salary packaging liability | | (1,158,844) | (1,134,185) |
| Net cash inflow from operating activities | | 43,094 | 18,156 |
| Cash flows from investing activities | | | |
| Payments for business acquisitions (net of cash acquired) | 6 | 851 | (6,725) |
| Payments for property, plant and equipment | | (657) | (81) |
| Interest received | | 151 | 218 |
| Other dividends paid in relation to the Fleet West acquisition | | - | (1,000) |
| Net cash inflow/(outflow) from investing activities | | 345 | (7,588) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | - | (69,322) |
| Proceeds from long term incentive plan | | 3,036 | 1,629 |
| Dividends paid | | (53,746) | (24,154) |
| Proceeds from issuance of shares (net of transaction costs) | | - | 76,381 |
| Proceeds from borrowings (net of borrowing costs) | | 6,900 | - |
| Payment of lease liabilities | | (1,414) | (1,263) |
| Net cash outflow from financing activities | | (45,224) | (16,729) |
| Net decrease in cash and cash equivalents | | (1,785) | (6,161) |
| Cash and cash equivalents at the beginning of the year | | 39,186 | 30,860 |
| Restricted cash and cash equivalents at the beginning of the year | | 42,291 | 67,644 |
| Cash and cash equivalents at end of period | | 28,148 | 44,811 |
| Restricted cash and cash equivalents at end of period | | 51,544 | 47,532 |
| Total | | 79,692 | 92,343 |

* See note 2 for detailed information on the Restatement of comparatives.

Notes to the Consolidated Financial Statements

30 June 2019

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 2019.

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 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 annual report for the year ended 31 December 2018 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 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.

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.

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

Except for the early adoption of AASB 16 *Leases*, the adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group. Details of the change in accounting policy are disclosed within the 2018 Annual Report.

Comparatives for the half year ending 30 June 2018 have been restated and are set out in note 2.

2 Restatement of comparatives

(a) Change in basis of recognition for property leases

The Group has applied AASB 16 *Leases* from 1 January 2018 with the associated right-of-use assets and lease liabilities for property and IT equipment leases measured on a modified retrospective basis. The right-of-use asset and lease liability are treated consistent to the disclosure in the 2018 Annual Report.

As a result, depreciation and interest for the half year ended 30 June 2018 have increased by \$1,768,000, while occupancy expenses have decreased by \$1,658,000, with the recognition of an associated income tax benefit of \$33,000. The change in recognition of leases had no impact on the comparative Consolidated Statement of Financial Position.

In the Consolidated Statement of Cash Flows, the payments to suppliers and employees have decreased by \$1,724,000, interest paid on lease liabilities has increased by \$461,000, while payment of lease liabilities has increased by \$1,263,000.

Basic earnings per share has decreased from 23.2 cents to 23.1 cents, while diluted earnings per share decreased from 23.1 cents to 23.0 cents as a result of the adoption of AASB 16.

Notes to the Consolidated Financial Statements (continued)

30 June 2019

2 Restatement of comparatives (continued)

(b) Finalisation of provisional accounting for acquisitions

On 20 October 2017, the Group acquired certain assets of RACV Salary Solutions (Salary Solutions) for a total consideration of \$34,468,000, and on 4 January 2018, the Group acquired 100% interest in Fleet West Pty Ltd (Fleet West), for a total consideration of \$9,013,000. At 30 June 2018, the acquisition accounting for Salary Solutions and Fleet West were provisionally determined.

At 31 December 2018, the provisional accounting for Salary Solutions and Fleet West were finalised, resulting in a reclassification from goodwill to intangible assets of \$600,000 for the fair value of acquired software and customer contracts. As a result, the comparative profit and loss has been restated to recognise amortisation on software and customer contracts, and associated income tax of \$64,000 for Salary Solutions and \$37,000 for Fleet West, for the interim period to 30 June 2018.

Details of all adjustments relating to the finalisation of Salary Solutions and Fleet West acquisition accounting are disclosed in the 2018 Annual Report.

3 Dividends

On 15 April 2019, the Directors declared a fully-franked special dividend of 20.0 cents per ordinary share and the dividend was paid on 6 May 2019.

On 16 August 2019, the Directors declared a fully-franked interim dividend of 21.5 cents per ordinary share. The record date is 2 September 2019 and the dividend will be paid on 16 September 2019. This dividend has not been included as a liability in these financial statements. The total estimated dividend to be paid is \$28,400,000.

4 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 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, share plan administration 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. |

Intersegment transactions

Intersegment transactions were made at market rates. Intersegment transactions are eliminated on consolidation.

Notes to the Consolidated Financial Statements (continued)

30 June 2019

4 Operating segments (continued)

Intersegment receivables, payables and loans

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

| Half-year ended 30 June 2019 | OA | VS | SDGS | Intersegment eliminations /Corporate | Total |
|---|----------------|--------------|---------------|--|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue | | | | | |
| Products, services and commissions | 67,780 | - | 9,139 | - | 76,919 |
| Management and administrative fees | 33,963 | 3,130 | 303 | - | 37,396 |
| Performance fees and rebates | 9,021 | 1,730 | 762 | - | 11,513 |
| Other revenue | - | - | - | 151 | 151 |
| Inter-segment sales | 89 | 1,769 | 9,996 | (11,854) | - |
| Total revenue | 110,853 | 6,629 | 20,200 | (11,703) | 125,979 |
| Segment results (EBITDA) | 49,661 | 3,887 | 9,957 | (5,056) | 58,449 |
| Depreciation | | | | | (1,989) |
| Amortisation | | | | | (10,407) |
| Finance costs | | | | | (1,871) |
| Profit before income tax expense | | | | | 44,182 |
| Income tax expense | | | | | (13,325) |
| Profit after income tax expense | | | | | 30,857 |
| 30 June 2019 | | | | | |
| Assets | | | | | |
| Segment assets | 155,564 | 27,174 | 16,039 | 259,490 | 458,267 |
| Total assets | | | | | 458,267 |
| Liabilities | | | | | |
| Segment liabilities | 83,340 | 13,631 | 5,844 | 82,753 | 185,568 |
| Total liabilities | | | | | 185,568 |

Notes to the Consolidated Financial Statements (continued)

30 June 2019

4 Operating segments (continued)

| Half-year ended 30 June 2018 (restated) | OA | VS | SDGS | Intersegment eliminations /Corporate | Total |
|---|----------------|--------------|---------------|--|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue | | | | | |
| Products, services and commissions | 67,420 | - | 9,181 | - | 76,601 |
| Management and administrative fees | 33,053 | 3,192 | 228 | - | 36,473 |
| Performance fees and rebates | 7,063 | 1,630 | 748 | - | 9,441 |
| Other revenue | - | - | - | 247 | 247 |
| Inter-segment sales | - | 1,359 | 8,849 | (10,208) | - |
| Total revenue | 107,536 | 6,181 | 19,006 | (9,961) | 122,762 |
| Segment results (EBITDA) | 46,555 | 2,955 | 8,892 | (1,679) | 56,723 |
| Depreciation | | | | | (2,118) |
| Amortisation | | | | | (10,534) |
| Finance costs | | | | | (2,945) |
| Profit before income tax expense | | | | | 41,126 |
| Income tax expense | | | | | (12,077) |
| Profit after income tax expense | | | | | 29,049 |
| 31 December 2018 | | | | | |
| Assets | | | | | |
| Segment assets | 143,741 | 33,146 | 20,513 | 266,592 | 463,992 |
| Total assets | | | | | 463,992 |
| Liabilities | | | | | |
| Segment liabilities | 72,955 | 18,062 | 10,136 | 70,531 | 171,684 |
| Total liabilities | | | | | 171,684 |

Notes to the Consolidated Financial Statements (continued)

30 June 2019

5 Intangible assets

| | 30 June 2019 \$'000 | 31 December 2018 \$'000 |
|-----------------------------------|------------------------|----------------------------|
| Goodwill | | |
| At cost | 273,403 | 266,588 |
| Total goodwill | 273,403 | 266,588 |
| Customer contracts | | |
| At cost | 64,741 | 64,429 |
| Accumulated amortisation | (45,674) | (41,319) |
| Total customer contracts | 19,067 | 23,110 |
| Software | | |
| At cost | 77,775 | 75,680 |
| Accumulated amortisation | (54,428) | (48,377) |
| Total software | 23,347 | 27,303 |
| Brand names and logo | | |
| At cost | 1,304 | 1,304 |
| Total brand names and logo | 1,304 | 1,304 |
| Total intangible assets | 317,121 | 318,305 |

6 Business combinations

Current period acquisitions

On 1 April 2019, the Group acquired the novated leasing assets of Mylease from iNovation Pty Ltd for a total cash consideration of \$6,900,000, with \$2,116,000 payable in August 2019. Mylease, based in Melbourne, administers c.1,000 novated leases across c.500 employer clients.

On 1 June 2019, the Group acquired 100% of the shares in Pay-Plan Pty Ltd and Set Leasing Pty Ltd (collectively, PayPlan) for a total cash consideration of \$2,200,000. PayPlan, based in Perth, administers c.1,500 packages and c.500 novated leases across c.30 employer clients.

Both acquisitions extend Smartgroup's salary packaging and novated leasing presence in the corporate and PBI sectors.

The goodwill total of \$6,814,000 reflects the synergies expected to be obtained by the Group from these acquisitions.

Excluding integration costs, Mylease contributed revenues of \$573,000 and net profit after tax of \$159,000 to the Group for the period from 1 April 2019 to 30 June 2019. If the acquisitions had occurred on 1 January 2019, the full half year contribution would have been revenue of \$1,128,000 and profit after tax of \$413,000 subject to adjustments arising as a result of purchase price allocation.

Excluding integration costs, PayPlan contributed revenues of \$320,000 and net profit after tax of \$68,000 to the Group for the period from 1 June 2019 to 30 June 2019. If the acquisitions had occurred on 1 January 2019, the full half year contributions would have been revenue of \$940,000 and profit after tax of \$241,000 subject to adjustments arising as a result of purchase price allocation.

The values identified for the below acquisitions are provisional as at 30 June 2019.

Notes to the Consolidated Financial Statements (continued)

30 June 2019

6 Business combinations (continued)

Current period acquisitions (continued)

Details of the acquisitions are summarised as follows:

| | Mylease Fair Value \$'000 | PayPlan Fair Value \$'000 | Total Fair Value \$'000 |
|---|---------------------------------|---------------------------------|-------------------------------|
| Cash and cash equivalents | - | 132 | 132 |
| Restricted cash and cash equivalents | 3,800 | 3,903 | 7,703 |
| Trade receivables | - | 22 | 22 |
| Other current assets | - | 35 | 35 |
| Other intangibles | 1,907 | 500 | 2,407 |
| Net deferred tax assets | 19 | 37 | 56 |
| Trade and other payables | - | (175) | (175) |
| Customer salary packaging liability | (3,800) | (3,903) | (7,703) |
| Provision for income tax | - | 20 | 20 |
| Employee provisions | (63) | (98) | (161) |
| Other provisions | - | (50) | (50) |
| Net assets acquired | 1,863 | 423 | 2,286 |
| Goodwill | 5,037 | 1,777 | 6,814 |
| Acquisition date fair value of consideration transferred | 6,900 | 2,200 | 9,100 |
| Representing: | | | |
| Cash paid or payable to vendor | 6,900 | 2,200 | 9,100 |
| Acquisition costs | 173 | 100 | 273 |
| Cash used to acquire business, net of cash acquired: | | | |
| Cash paid or payable to vendor | 6,900 | 2,200 | 9,100 |
| Less: Cash and cash equivalents | - | (132) | (132) |
| Less: Restricted cash and cash equivalents | (3,800) | (3,903) | (7,703) |
| Net cash used | 3,100 | (1,835) | 1,265 |

7 Borrowings

As at 30 June 2019, the following bank facilities were available to the Group:

- A three-year facility of \$99 million;
- A three-year letter of credit facility of \$4 million; and
- Ancillary facilities: credit card and electronic pay away facility of \$12.5 million.

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 BBSY plus a margin. The banking facilities mature on 20 December 2021.

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 half year ended 30 June 2019.

Notes to the Consolidated Financial Statements (continued)

30 June 2019

8 Equity – issued capital

| | 30 June 2019 Shares | 31 December 2018 Shares | 30 June 2019 \$'000 | 31 December 2018 \$'000 |
|--|------------------------|----------------------------|------------------------|----------------------------|
| Ordinary Shares – fully paid | 131,894,818 | 130,891,931 | 280,049 | 272,114 |
| Less: Shares associated with the loan funded share plan (LFSP) | (2,926,721) | (2,513,465) | (20,866) | (15,427) |
| | 128,968,097 | 128,378,466 | 259,183 | 256,687 |

(a) Movements in ordinary shares:

| | Date | Number of shares | Total \$'000 |
|--|-------------------------|--------------------|-----------------|
| Balance | 1 January 2018 | 123,213,010 | 189,224 |
| Shares issued for LFSP | 28 March 2018 | 529,582 | 5,767 |
| | 4 May 2018 | 465,243 | 5,043 |
| Buy-back of forfeited LFSP shares | 20 June 2018 | (436,241) | (4,921) |
| | 8 October 2018 | (82,259) | (988) |
| Shares issued | 4 January 2018 | 99,236 | 1,000 |
| | 27 February 2018 | 6,787,331 | 75,000 |
| | 6 April 2018 | 316,029 | 3,434 |
| Share issue transaction costs, net of tax | | | (1,445) |
| Balance | 31 December 2018 | 130,891,931 | 272,114 |
| Shares issued for LFSP | 20 March 2019 | 830,191 | 7,023 |
| | 13 May 2019 | 383,648 | 3,146 |
| Buy-back of forfeited LFSP shares | 4 February 2019 | (210,952) | (2,004) |
| Deferred tax directly recognised in equity | | | (230) |
| Balance | 30 June 2019 | 131,894,818 | 280,049 |

Notes to the Consolidated Financial Statements (continued)

30 June 2019

8 Equity – issued capital (continued)

(b) *Movements in loan funded share plan*

| | Date | Number of shares | Total \$'000 |
|-----------------------------------|-------------------------|--------------------|-----------------|
| Balance | 1 January 2018 | (3,155,626) | (12,341) |
| LFSP shares exercised | 15 February 2018 | 1,118,486 | 1,815 |
| Shares issued for LFSP | 28 March 2018 | (529,582) | (5,767) |
| | 4 May 2018 | (465,243) | (5,043) |
| Buy-back of forfeited LFSP shares | 20 June 2018 | 436,241 | 4,921 |
| | 8 October 2018 | 82,259 | 988 |
| Balance | 31 December 2018 | (2,513,465) | (15,427) |
| LFSP shares exercised | 8 February 2019 | 589,631 | 2,726 |
| Shares issued for LFSP | 20 March 2019 | (830,191) | (7,023) |
| | 13 May 2019 | (383,648) | (3,146) |
| Buy-back of forfeited LFSP shares | 4 February 2019 | 210,952 | 2,004 |
| Balance | 30 June 2019 | (2,926,721) | (20,866) |

On 20 March 2019, loan funded shares were granted to the management team under the LFSP based on the 20-day volume-weighted average price (VWAP) up to and including 18 March 2019, and at the Annual General Meeting on 9 May 2019, the 2019 LFSP grant to the Chief Executive Officer was approved, with shares being granted based on the 20-day VWAP up to and including 9 May 2019. The shares vest on 31 December 2021.

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 2019, the Group recorded \$2,004,044 to buy back shares issued under the LFSP, because the vesting conditions on the shares had not been met and the shares were forfeited. 210,952 shares were bought back and cancelled, resulting in a reduction of the ordinary shares on issue.

Shares issued under the LFSP are accounted for as options. As a consequence of this classification, the unvested shares issued under the LFSP at 30 June 2019 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 and included in diluted earnings per share.

Notes to the Consolidated Financial Statements (continued)

30 June 2019

9 Equity – reserves

| | 30 June 2019 \$'000 | 31 December 2018 \$'000 |
|------------------------------|------------------------|----------------------------|
| Cash flow hedge reserve | 80 | 139 |
| Share-based payments reserve | 6,560 | 5,717 |
| | 6,640 | 5,856 |

Heading reserve – cash flow hedges

The hedging reserve is used to record the effective portion of the gains or losses on derivatives which qualify as cash flow hedge instruments and are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

Share-based payments reserve

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

10 Earnings per share

| | 30 June 2019 \$'000 | * Restated 30 June 2018 \$'000 |
|--|------------------------|--------------------------------------|
| Consolidated profit after income tax expense for the period attributable to the owners of Smartgroup Corporation Ltd | 30,857 | 29,049 |
| | Number | Number |
| Weighted average ordinary shares used in calculating basic earnings per share | 129,410,633 | 125,749,454 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options over ordinary shares | 219,444 | 665,303 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 129,630,077 | 126,414,757 |
| | Cents | Cents |
| Basic earnings per share (cents) | 23.9 | 23.1 |
| Diluted earnings per share (cents) | 23.9 | 23.0 |

* See note 2 for detailed information on the Restatement of comparatives.

Notes to the Consolidated Financial Statements (continued)

30 June 2019

11 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 2019 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--|-------------------|-------------------|-------------------|-----------------|
| Financial assets | | | | |
| Interest rate and FX swap contracts – cash flow hedges | - | 127 | - | 127 |
| Total financial assets | - | 127 | - | 127 |

| At 31 December 2018 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--|-------------------|-------------------|-------------------|-----------------|
| Financial assets | | | | |
| Interest rate and FX swap contracts – cash flow hedges | - | 199 | - | 199 |
| Total financial assets | - | 199 | - | 199 |

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.

Interest rate and FX swap contracts – cash flow hedges

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.

Notes to the Consolidated Financial Statements (continued)

30 June 2019

12 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 2019 \$'000 | 31 December 2018 \$'000 |
|--------------------------------------|------------------------|----------------------------|
| Restricted cash and cash equivalents | 51,544 | 42,291 |
| Customer salary packaging liability | (51,544) | (42,291) |

The restricted cash and cash equivalents and 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 2019, the Group has recognised finance revenue of \$119,000 (30 June 2018: \$359,000) from restricted cash.

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

| | 30 June 2019 \$'000 | 31 December 2018 \$'000 |
|---|------------------------|----------------------------|
| Accounts established by the Group as cash held on behalf of customers | 93,956 | 98,941 |
| Accounts established by customers directly | 71,335 | 77,843 |
| | 165,291 | 176,784 |

Cash held on behalf of salary packaging and share plan administration customers is deposited by customers into segregated bank accounts, to be used only to settle their employees' salary packaging obligations to suppliers or for contributions into share plans. 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 packaging and share plan 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 2019, the Group has recognised interest revenue of \$1,236,000 (30 June 2018: \$1,119,000) from those accounts established by the Group as cash held on behalf of customers, and \$13,000 (30 June 2018: \$8,000) from those accounts established by the customers directly. These amounts are recognised within management and administration revenue.

13 Events occurring after the reporting period

No matter or circumstance has occurred subsequent to 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.

Directors' Declaration

30 June 2019

In the Directors' opinion:

- (a) the attached financial statements and notes set out on pages 7 to 21 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 2019 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
16 August 2019



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Smartgroup Corporation Ltd (the Company), which comprises the consolidated statement of financial position as at 30 June 2019, 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, selected other explanatory notes and the directors' declaration for Smartgroup (the Group). The Group comprises the Company and the entities it controlled from time to time during the half-year.

Directors' responsibility 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 is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, 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 2019 and 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*. As the auditor of Smartgroup Corporation Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Liability limited by a scheme approved under Professional Standards Legislation.



1. giving a true and fair view of the Group's financial position as at 30 June 2019 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*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Joe Sheeran

Joe Sheeran
Partner

Sydney
16 August 2019

Corporate Directory

Directors

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Gavin Bell
Deven Billimoria
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Carolyn Colley
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Secretary

Sophie MacIntosh

Bankers

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Stock exchange listing

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

Share and debenture register

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