

Presentation by  
McMillan Shakespeare Limited

# Merrill Lynch Presentation

September 2010

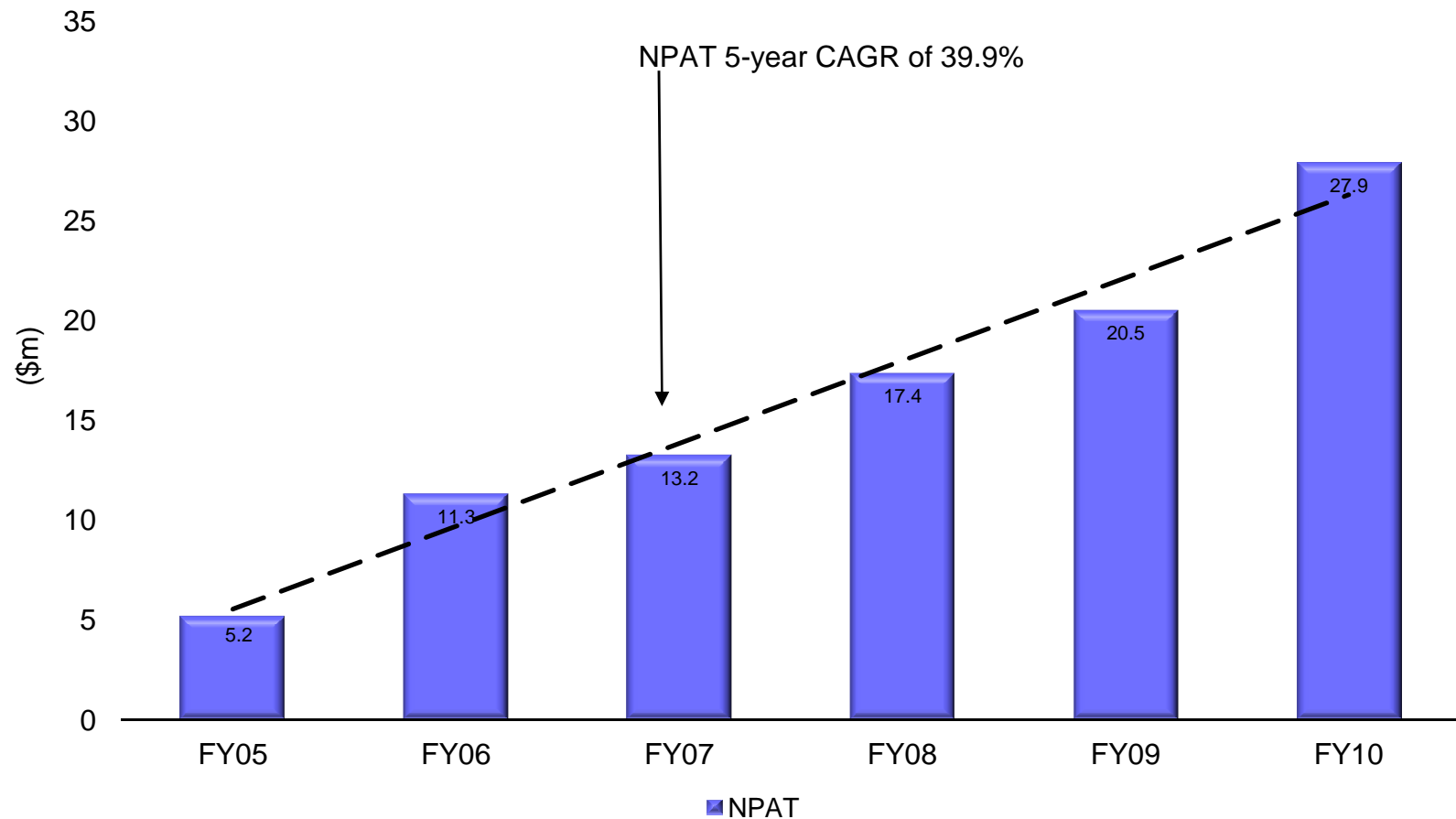


# Background

- Australia's largest provider of salary packaging and novated lease facilitation.
- Following recent acquisition of Interleasing/Holden Leasing, now Australia's only provider of total corporate vehicle services i.e.:
  - fleet management;
  - operating, finance and novated leases;
  - full FBT management, administration and reporting.



# Historical normalised NPAT<sup>(1)</sup>

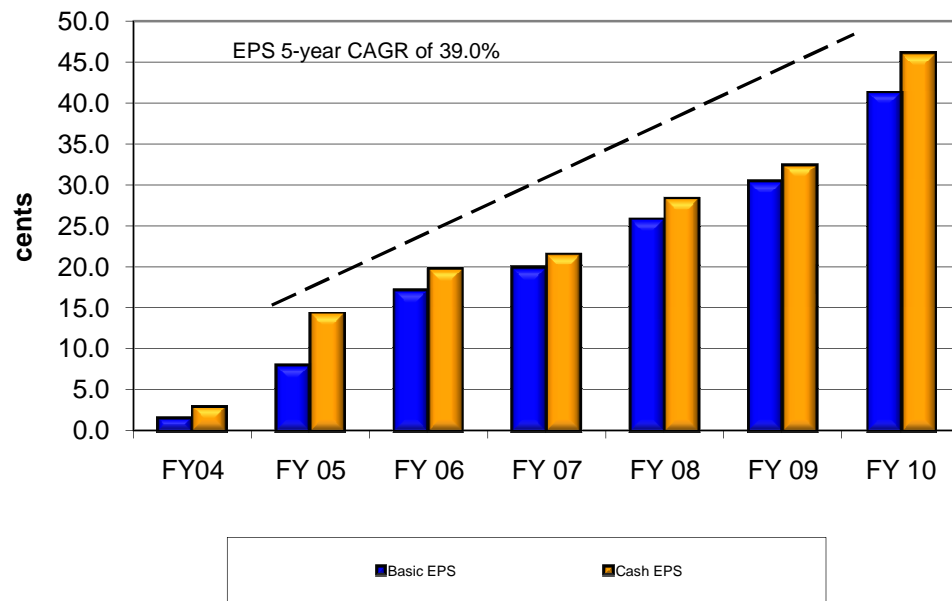


Note 1: Normalised NPAT excludes the profit recognised on acquisition as a result of the business combination of ILA.

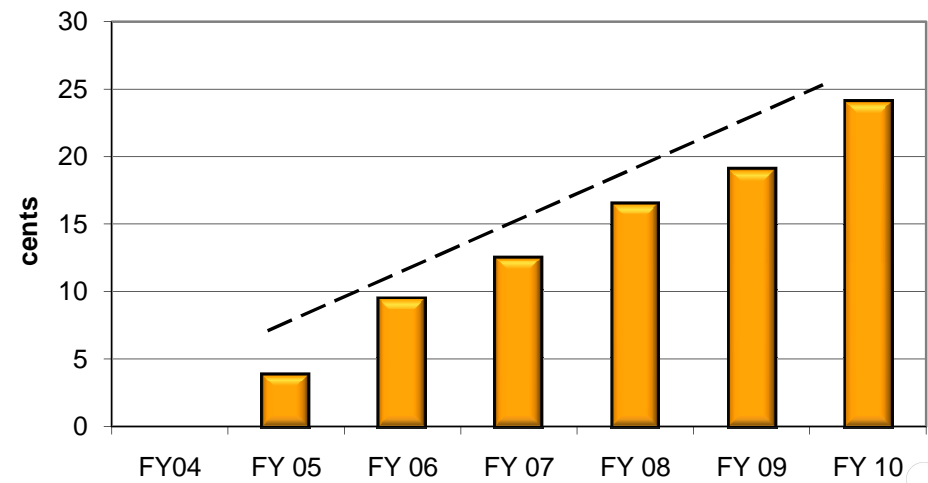


# Earnings and dividends per share

Normalised earnings per share (EPS) (1)



Total dividends per share



# Strategic rationale for Interleasing acquisition

- Acquiring the Interleasing business at a discount to net assets provides MMS a low risk opportunity to transform its business:
  - Creates a unique value proposition of high value to customers underpinned by a unique grouping of skills – no other market participant offers comprehensive salary packaging, novated lease and operating lease services.
  - Provides a desirable diversification from FBT risk.
  - Increased scale creates increased buying power with key suppliers e.g. financiers, fuel providers, insurers etc.

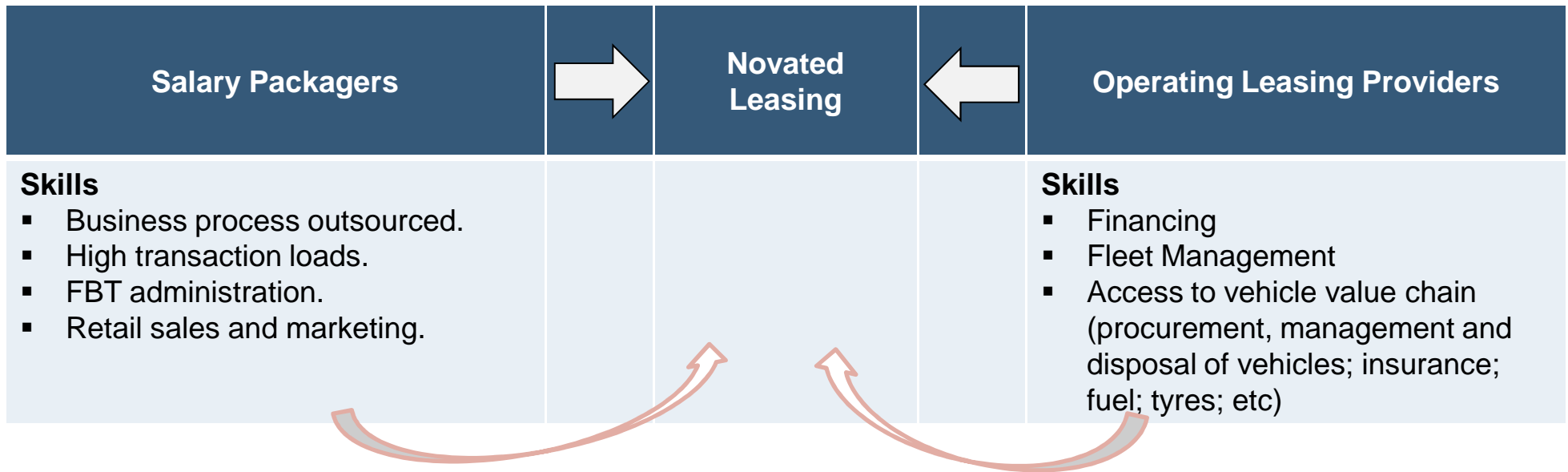


# Strategic rationale for Interleasing acquisition(cont'd)

- Interleasing has strong NSW presence which complements MMS major sites in Vic and QLD and adds scale in SA, WA and Tas.
- Immediate cross-sell opportunities (Interleasing has mostly private sector customers, has very low novated lease penetration and provides no salary packaging services to its customers; MMS has mostly public sector customers and provides no operating lease services).
- The opportunity to collaborate with Holden, one of Australia's most loved and trusted brands provides immediate growth opportunities.
- Operating lease funding capability provides platform for future provision of additional financial services to MMS' rich customer base.



# A Converging Market



- Novated leasing commenced in the 1990's. It requires competencies that reside in salary packaging companies **AND** operating lease companies.
- Currently the outsourced novated market is split largely between salary packagers and operating lease companies.
- Many customers prefer to deal with one supplier.

# Service driven solutions

## Client Challenges

- Employers face a series of complex issues outside of their core business activities when dealing with FBT and salary packaging

- Organisations face a series of issues when owning and managing a vehicle fleet



Drivers of demand

## MMS Solutions

### Relationships, experience & expertise layer

- Dedicated specialists in FBT, exemptions and managing the vehicle value chain
- Supplier relationships to procure vehicles and after market services
- Dedicated personnel assist with employee's questions and claims

### Capital, systems & risk management layer

- Ability to finance vehicle purchases and arrange lease finance.
- Single supplier
- Regular reporting
- FBT liability indemnity
- Robust systems with backup to administer employee business, pre-tax payments and FBT reporting.





# Definition of segments

- **Remuneration Services segment definition:**

The segment provides administrative services in respect of salary packaging and facilitates the settlement of motor vehicle novated leases for customers, but does not provide financing. The segment also provides ancillary services associated with motor vehicle novated lease products.

- **Asset Management segment definition:**

The segment provides financing and ancillary management services associated with motor vehicles, commercial vehicles and equipment.



# Sources of revenue

Salary Packaging (including motor vehicles)	Novated Lease Management	Novated Lease Distribution Fees	Operating Leases	Management Services
<ul style="list-style-type: none"> <li>Portion of employee's pre-tax salary is transferred to MMS, usually on a fortnightly basis</li> </ul>	<ul style="list-style-type: none"> <li>Recurring Income</li> </ul>	<ul style="list-style-type: none"> <li>MMS can procure and supply car &amp; after market parts and arrange finance for the employee</li> </ul>	<ul style="list-style-type: none"> <li>ILA rents passenger &amp; commercial vehicle fleets typically to corporate customers</li> </ul>	<ul style="list-style-type: none"> <li>ILA receives administration fees for managing client owned car fleets i.e. corporates</li> </ul>
<ul style="list-style-type: none"> <li>Disbursements made on behalf of employees from funds held in trust account</li> </ul>	<ul style="list-style-type: none"> <li>Lessee pays for lease administration</li> </ul>	<ul style="list-style-type: none"> <li>Tripartite lease arrangement between financier, employee and employer</li> </ul>	<ul style="list-style-type: none"> <li>Typically a 4 year lease term</li> </ul>	<ul style="list-style-type: none"> <li>Services include arranging toll fees, repairs, fuel, insurance and scheduled maintenance</li> </ul>
<ul style="list-style-type: none"> <li>MMS earns an annual management fee paid typically in fortnightly instalments</li> </ul>	<ul style="list-style-type: none"> <li>Typically a three year lease period</li> </ul>	<ul style="list-style-type: none"> <li>Success based distribution fees are paid by the financier and/or suppliers</li> </ul>	<ul style="list-style-type: none"> <li>ILA retains ownership of the vehicles (appears on the ILA Balance Sheet as a fixed asset)</li> </ul>	<ul style="list-style-type: none"> <li>Agency business with low levels of Capital Employed</li> </ul>
<ul style="list-style-type: none"> <li>MMS typically has a 5 year contract with the employer on a 3+1+1 basis</li> </ul>	<ul style="list-style-type: none"> <li>Employee is the beneficial owner of the car</li> </ul>		<ul style="list-style-type: none"> <li>Recurring rental income covers interest costs, depreciation/ principal repayments, in-life car services e.g. Fuel, tolls, tyres, green slips, infringements and management fees</li> </ul>	
<ul style="list-style-type: none"> <li>Customer base includes over 800 charities, NFP's, public health, government departments and corporates</li> </ul>			<ul style="list-style-type: none"> <li>Cars sold at lease expiry using retail &amp; wholesale channels</li> </ul>	



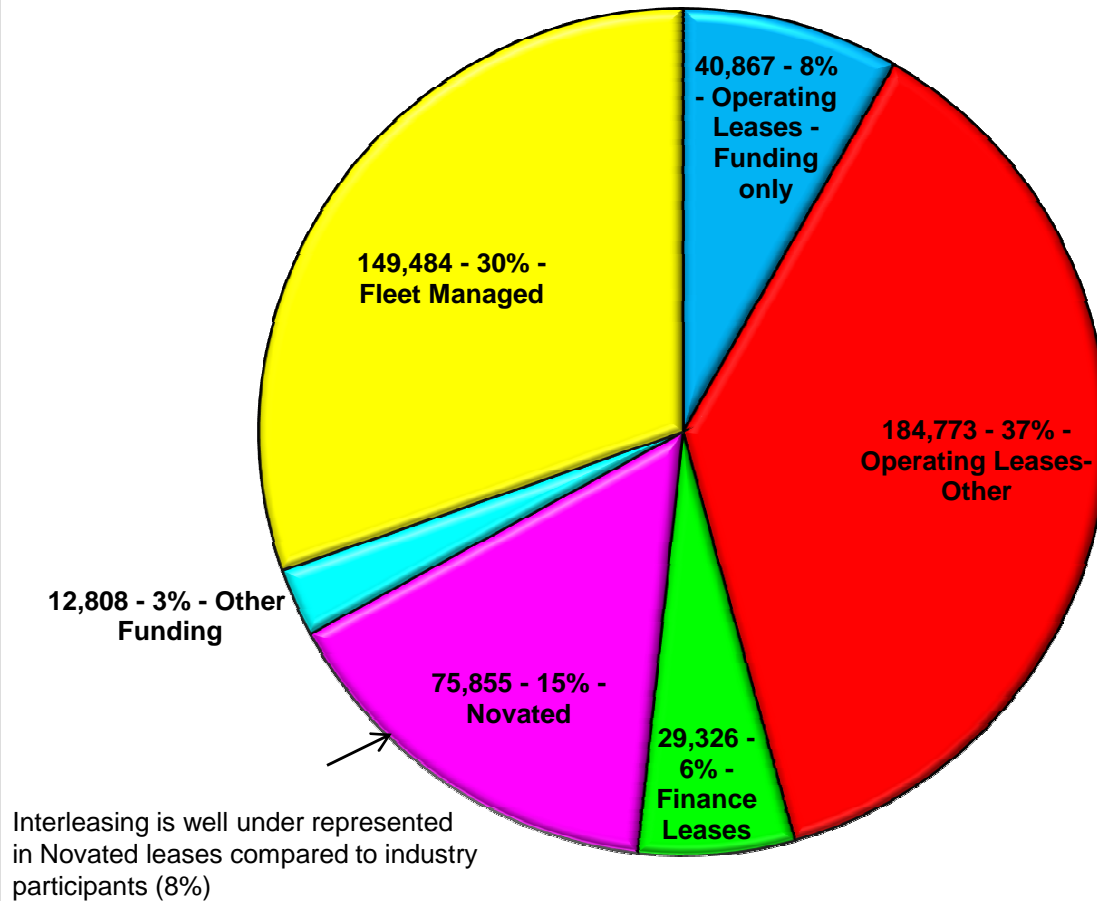
# Market opportunity

	Full FBT	Rebatable FBT	\$17,000 Exempt	\$30,000 Exempt
<b>Types of Employers</b>	Government departments Private companies Public companies	Independent schools Sporting clubs Religious institutions Trade unions	Public hospitals Private not-for-profit hospitals	Public benevolent institutions Charities
<b>FBT Treatment</b>	FBT rate 46.5% on taxable value of benefits	Rebatable FBT on first \$30,000 of grossed-up taxable value of benefits (46.5% rebate)  Equates to \$16,050 of benefits  Full FBT on excess over \$30,000	FBT exempt on first \$17,000 of grossed up taxable value of benefits  Equates to \$9,095 of benefits  Full FBT on excess over \$17,000	FBT exempt on first \$30,000 of grossed-up taxable value of benefits  Equates to \$16,050 of benefits  Full FBT on excess over \$30,000
<b>Common Fringe Benefits</b>	Novated leases Associate leases Additional superannuation Professional association membership fees LAFA Remote area	Novated leases Additional superannuation Mortgage/rent In-house school fees	Additional superannuation Mortgage/rent Meal entertainment and venue hire Personal loans Living expenses Novated leases (not part of cap)	Additional superannuation Mortgage/rent Meal entertainment and venue hire Personal loans Living expenses Novated leases (not part of cap)
<b>Total workforce</b>	10.7m			
<b>By sector</b>	9.5m		1.2m	
<b>MMS target market</b>	2.5m		1.0m	
<b>Typical participation</b>	0-20%		59-90%	
<b>Target participation</b>	5-25%		80-90%	
<b>Estimated outsourced participants</b>	0.45m			
<b>Conclusion</b>	Large untapped market to exploit			



# Market opportunity (cont'd)

Australian Fleet Lessors Association (AFLA) - Total Portfolio at July 2010  
By Type of Facility (units/%)



- ILA is a tier 2 industry player.
- ILA share of novated leases as % of total fleet significantly less than AFLA average.
- MMS's expertise in novated lease allows MMS to target even greater % novated lease share.
- Access to capital and significant flexibility in pursuing optimum funding structure.
- CAGR for 2001-2009 was 8% (AFLA). Expect 5-8% over next 5 years.

# Asset management commercial opportunities

- Replenished sales force with key appointments across Australia.
- Individual and team targets established; compensation scheme directed to drive appropriate behaviour.
- Prospecting Maxxia customer base for operating lease opportunities – success experienced – strong customer empathy to Maxxia given high quality service.
- Working with Holden dealer channel on new products for the SME market.
- Cross sell – novated lease opportunities in the ILA/HL customer base – under penetrated compared to peers.
- 5 new business contracts won and 4 new cross-sell arrangements with existing customers.
- Customer set spread across many industries.



# Credit Risk

**The risk that customers can not pay their lease installments or do not pay on time, resulting in losses on collecting monies owed**

- All new business proposals reviewed prior to credit advanced, using robust rules.
- Annual reviews of all credit line facilities undertaken and more often if required.
- Credit default experience minimal over past 4 years.
- Appropriate securities such as guarantees, security deposits obtained where required.
- Direct debit is used to a high degree, increasing surety of payment.
- Credit Committee monitors risk and reports to Board monthly in accordance with Board approved policy.
- Defaults mitigated by fact that assets can be sold in liquid resale markets.

# Interest Rate Risk

**The risk that as interest rates move up or down, the net profit of the business moves likewise**

- Leases are for fixed terms at fixed interest rates.
- Revenue side locked in.
- McMillan matches to the profile of how leases amortise, the funding term of what we borrow.
- Derivatives can be used for this (ie: Interest Rate Swaps; Forward Rate Agreements) or funds can be borrowed for varying terms direct from lenders (ie: bullet terms to 5 years at a fixed rate).

## ACCORDINGLY:

- Negligible interest rate risk results.
- Board policy in place – monitored monthly.

# Residual Value Risk

**The risk that the estimated future value used to calculate the monthly rentals higher than the actual sales proceeds received on disposal of the asset**

- Approach used – highly professional and disciplined approach to pricing.
- People assessing and monitoring are car people with car knowledge.
- Monitoring of resale prices on a month to month basis.
- Reviewing future values of current leases on a quarterly basis.
- Monthly rental can be re-priced during term via reviewing actual versus estimated usage of the asset, as determined at inception.



# Regulatory themes post Henry

- Government has ruled out changes to FBT exemptions for NFP's "at any time".
- Henry has recommended flat rate (20%) for FBT on motor vehicles. No government response, however, no material impact envisaged.
- Henry recommended government consider taxing fringe benefits via employees' income tax return rather the employers' FBT return. No government response. MMS service still required under either scenario; salary packaged superannuation already taxed via employee.