McMillanShakespeareGroup

McMillan Shakespeare Limited
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19 February 2020

Manager, Company Announcements
ASX Limited

Via E-lodgement

Dear Sir/Madam

McMillan Shakespeare Limited
Interim Results

Please find attached the Appendix 4D Half Year Report, Directors' Report, the Financial Report and Auditor's Independent Review Report for the half-year ended 31 December 2019.

This information should be read in conjunction with McMillan Shakespeare Limited's 2019 Annual Report.

This announcement comprises the information required by ASX Listing Rule 4.2A and the statement required by Rule 4.2C.2.

Yours faithfully
McMillan Shakespeare Limited

Mark Blackburn
Chief Financial Officer and Company Secretary

McMillan Shakespeare Limited

Interim Financial Statements and Appendix 4D

Half-year ended
31 December 2019

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Appendix 4D – Half-year Report

1. Details of the reporting period and the previous corresponding period

Current period: 1 July 2019 to 31 December 2019
Previous corresponding period: 1 July 2018 to 31 December 2018

2. Results for announcement to the market

	Key information	Percentage change	Half-Year ended 31 December 2019 $'000
2.1	Revenue from ordinary activities	(1.0%)	270,390
2.2	Profit from ordinary activities after tax attributable to members	(0.3%)	33,954
2.3	Net profit after tax attributable to members	(0.3%)	33,954
2.3.1	Underlying Net Profit After Tax and Acquisition Amortisation (UNPATA) attributable to members	(10.3%)	37,793

	Dividends	Amount per share	Franked amount per share
2.4	Interim dividend	$0.34	$0.34
2.5	Ex-dividend date	5 March 2020	
	Record date for determining entitlements to the dividend	6 March 2020	
	Dividend payment date	20 March 2020	

2.6 Commentary on results for the period

Underlying Net Profit After Tax and Acquisition Amortisation (UNPATA), being net profit after tax but before the after-tax impact of acquisition-related and non-business operational items as itemised below, has been used to measure financial performance of the Group. The Company believes this measure of performance best represents the underlying operating results of the Group. For the half-year ended 31 December 2019 Group UNPATA of $37.8m (1HFY19: $42.1m) was 10.3% lower than the previous corresponding period (pcp).

	Half-year 31 Dec 2019 $'000	Half-year 31 Dec 2018 $'000
Net profit after income tax attributable to members of the parent entity (item 2.3)	33,954	34,063
Amortisation of intangible assets from acquisitions after-tax	1,719	1,776
Class action dispute expenses after-tax[1]	3,148	-
Share buy-back expenses after-tax	330	-
Investment related expenses after-tax	74	-
Contingent consideration fair valuation after-tax[2]	(1,432)	2,725
Acquisition transaction costs after-tax[3]	-	3,565
Consolidated UNPATA	37,793	42,129

1 Class action dispute expenses relate to the class action proceedings brought against Davantage Group Pty Ltd which may be subject to recoverability from the insurer and other parties. Any recovered amounts will be excluded from future UNPATA.

2 Non-cash fair valuation of deferred consideration relates to the business combination of Asset Management segment's businesses in the UK (refer note 6 to the financial report).

3 Acquisition transaction costs are predominantly for expenses incurred to 31 December 2018 in relation to the proposed merger with Eclipx Group Limited.

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Appendix 4D – Half-year Report

Group UNPATA for the half was lower than pcp.

	Half-year 31 Dec 2019	Half-year 31 Dec 2018	Half-year 31 Dec 2019	Half-year 31 Dec 2018
	Revenue	Revenue	UNPATA	UNPATA
	$'000	$'000	$'000	$'000
Group Remuneration Services	108,779	106,009	31,114	29,746
Asset Management[1]	123,141	124,175	5,135	9,012
Retail Financial Services	38,250	42,256	2,198	3,846
Total segment operations	270,170	272,440	38,447	42,604
Unallocated public company costs and net interest			(654)	(475)
Consolidated UNPATA			37,793	42,129

1 The Group and Asset Management UNPATA of the previous corresponding period have been re-stated to reverse the Group's equity accounted share of the JV loss of $0.7m and to recognise an impairment for the loan to the JV of $1.1m. These adjustments resulted on the transition to the new accounting standard AASB 9: Financial Instruments as disclosed in the notes to the financial statements for the year ended 30 June 2019 (refer note 4 to the financial statements).

Basic earnings per share as shown in the financial statements, using statutory NPAT, was 42.1 cents per share (1HFY19: 41.2 cents per share) and on a diluted basis was 41.6 cents per share (1HFY19: 40.8 cents per share). Basic UNPATA per share is 46.8 cents (1H19: 51.0 cents per share).

Refer to the December 2019 Half-Year Results presentation announced to the ASX on 19 February 2020.

3. Net tangible assets per share

	31 Dec 2019	30 Jun 2019
Ordinary shares	$1.11	$2.18

4. Control gained or lost over entities during the period

Name of entities where control was gained during the period	Date control acquired
None	N/A

Name of entities where control was lost during the period	Date control lost
None	N/A

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Appendix 4D – Half-year Report

5. Dividend

Dividends	Amount per share	Franked amount per share
	Cents	Cents
Final dividend in respect of the financial year ended 30 June 2019 per share	40.0	40.0
Interim dividend	34.0	34.0

The record date for determining entitlement to the interim dividend is 6 March 2020.

The interim dividend is payable on 20 March 2020.

6. Dividend reinvestment plan

None.

7. Investment in associates and joint ventures

The Group's 50% joint venture interest in Maxxia Limited, a company operating in the UK, reported a loss after tax for the period of $965,000 (1HFY19: $667,000) and has not been equity accounted as it exceeds the carrying amount of the Group's net investment in the JV.

8. Foreign entities reporting in Australia

Not applicable.

9. Review

This report contains an unqualified review opinion from an independent auditor.

Half-year Results Announcement

McMillan Shakespeare Limited

McMillan Shakespeare Limited (ASX: MMS) today released its results for the half-year ended 31 December 2019, with a reported after tax profit of $33.9m (attributable to owners of the Company).

Highlights of the operating results were:

$m	1H20	1H19[3]	Variance
Revenue	270.4	273.1	*(1.0%)*
EBITDA	**57.2**	**64.9**	***(11.8%)***
EBITDA margin (%)	*21.2%*	*23.8%*	
NPBT	47.4	50.3	*(5.8%)*
NPAT (after minority interest)	33.9	34.0	*(0.5%)*
UNPATA	**37.8**	**42.1**	***(10.3%)***
Basic earnings per share (cents)	42.1	41.2	*2.0%*
Underlying earnings per share (cents)	46.8	51.0	*(8.2%)*
Interim dividend per share (cents)	34.0	34.0	*(0.0%)*
Payout ratio (%)[1]	*69.7%*	*66.7%*	*4.5%*
Free cash flow[2]	**34.2**	**27.2**	***25.6%***
Return on equity (%)[4]	*22.5%*	*22.7%*	
Return on capital employed (%)[4]	*18.6%*	*19.4%*	

1 For the purpose of calculating the payout ratio, total dividend per share (cents) is divided by underlying earnings per share (cents) that uses final shares on issue at the end of December 2019 of 77,381,107.

2 Free operating cash flow before investing, financing activities and fleet increases.

3 1H19 has been re-stated to reverse the Group's equity accounted share of the JV loss of $0.7m and to recognise an impairment for the loan to the JV of $1.1m. These adjustments resulted from the transition to the new accounting standard AASB 9: Financial Instruments as disclosed in the notes to the financial statements for the year ended 30 June 2019.

4 Return on equity (ROE) and return on capital employed (ROCE), which are based on first half UNPATA and underlying EBIT respectively, are annualised returns which exclude one-off acquisition related expenses, the amortisation of acquisition intangibles, class action dispute expenses, contingent consideration fair valuation and share buy-back expenses. Equity and capital employed (excluding lease liabilities) used in the calculations includes the add-back of impairment of acquired intangible asset charges incurred in the respective financial period.

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Appendix 4D – Half-year Report

Review of operations

The Group recorded a financial result for the half reflective of challenging market conditions.

- Group revenue of $270.4m was down 1.0% and UNPATA declined by 10.3% to $37.8m, compared with pcp.
- The GRS segment[1] continued to increase the number of novated leases against a backdrop of a weak Australian new car sales market, with revenue and UNPATA up by 2.6% and 4.7% respectively compared to pcp. Solid operational performance across the half contributed to further growth of the customer base in GRS, with a 5.6% increase in salary packages and a 9.7% increase in novated fleet units. Moderating sales of insurance products and risk appetite of financiers post the Hayne Royal Commission have impacted novated lease margins. Plan Partners continued to grow its customer base, generating a positive profit contribution in line with expectations. The Group's investment in Beyond 2020 remains on track, assisting to generate EBITDA margin improvement for the half compared with pcp.
- The AM segment in Australia and New Zealand recorded a disappointing 21.7% decline in UNPATA to $5.9m compared with pcp, in a highly contested and flat market. Asset WDV remained stable at $377m. In the United Kingdom (UK), the business experienced a challenging first half due in part to constrained economic conditions and uncertainty associated with the UK general election and Brexit. Together with lower interest rates and margins, the UK business experienced an UNPATA loss of $0.7m for the period. We have progressed a strategic review of our UK operations, including the assessment of political and economic factors.
- The RFS segment recorded UNPATA of $2.2m, down from $3.8m in pcp. The Aggregation business achieved a comparable NAF via new broker relationships despite a softening Australian vehicle market, whilst pricing pressure impacted Aggregation revenue and UNPATA performance. The Retail business progressed its implementation of re-designed, sector leading dealer warranty products, whilst continuing to monitor and assess the evolving regulatory landscape. Legal fees associated with the Retail business's class action claim up to 31 December 2019 were fully expensed.
- As the National Disability Insurance Scheme (NDIS) progressed its national rollout, Plan Partners achieved customer growth in the half through improved business development activities. The business increased client funds under administration to $417m as at 31 December 2019, up from $178m as at 31 December 2018.
- In October 2019, the Company completed an off market share buy-back of approximately 7% of its issued shares for $80m. There was strong demand for the buy-back resulting in the balance of tendered shares being scaled back by 40.89%.
- Cash at bank at 31 December 2019 was $50.9m. Excluding fleet funded net debt, the Group has net cash of $24.6m.
- Return on equity[2] was 22.5% and return on capital employed[2] was 18.6%.
- Underlying and basic earnings per share was 46.8 cents and 42.1 cents respectively.
- The Company declared an interim fully franked dividend of 34.0 cents per share. The record date is 6 March 2020 and it will be paid on 20 March 2020.

1 GRS includes revenue and costs associated with Plan Partners (PP).

2 Return on equity (ROE) and return on capital employed (ROCE), which are based on first half UNPATA and underlying EBIT respectively, are annualised returns which exclude one-off acquisition related expenses, the amortisation of acquisition intangibles, class action dispute expenses, contingent consideration fair valuation and share buy-back expenses. Equity and capital employed (excluding lease liabilities) used in the calculations includes the add-back of impairment of acquired intangible asset charges incurred in the respective financial period.

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Appendix 4D – Half-year Report

Outlook

The Company reconfirms its guidance provided on 9 December 2019 of UNPATA in the range of $83m to $87m for FY20 but risks remain particularly with the lending appetite of new financiers and the level of new car sales.

Yours faithfully,
McMILLAN SHAKESPEARE LIMITED

Tim Poole
Chairman

Mike Salisbury
Managing Director

19 February 2020
Melbourne, Australia

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Appendix 4D – Half-year Report

For more information, please contact:

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Directors' Report

Directors

The Directors of McMillan Shakespeare Limited (the Company) present their report on the consolidated entity consisting of the Company and the entities it controlled at the end of, or during the half-year ended 31 December 2019 (the Group or Consolidated Group).

The names of the Directors of the Company during the whole of the reporting period and up to the date of this report are as follows:

Mr T. Poole

Mr M. Salisbury

Mr J. Bennetts

Mr R. Chessari

Mr I. Elliot

Ms H. Kurincic

Review of Operations

A review of the operations of the consolidated entity during the half-year ended 31 December 2019 and the results of these operations are set out in the attached results announcement.

Results

The consolidated net profit for the half-year ended 31 December 2019 attributable to the members of the Company after providing for income tax was $33.9m.

Dividend

On 19 February 2020, the Board of Directors declared a fully franked dividend of 34.0 cents per ordinary share. The record date is 6 March 2020 and the dividend will be paid on 20 March 2020.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Corporations Instrument.

Subsequent events

Other than matters disclosed in this report and the accompanying financial statements and Appendix 4D, there were no material events subsequent to the reporting date.

Directors' Report

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001* is included on page 10 of the half-year financial report.

Signed in accordance with a resolution of the Directors made pursuant to section 306(3) of the *Corporations Act 2001*.

Tim Poole
Chairman

Mike Salisbury
Managing Director

19 February 2020
Melbourne, Australia

Auditor's Independence Declaration

Grant Thornton

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Auditor's Independence Declaration

To the Directors of McMillan Shakespeare Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of McMillan Shakespeare Limited for the half-year ended 31 December 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.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Darren Scammell

Darren Scammell
Partner – Audit & Assurance

Melbourne, 19 February 2020

Independent Auditor's Review Report

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Independent Auditor's Report

To the Members of McMillan Shakespeare Limited

Report on the review of the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of McMillan Shakespeare Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of McMillan Shakespeare Limited does not give a true and fair view of the financial position of the Group as at 31 December 2019, and of its financial performance and its cash flows for the half-year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

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 gives a true and fair view and 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 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 31 December 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 McMillan Shakespeare Limited, 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.

Independent Auditor's Review Report

Grant Thornton

Independence

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Darren Scammell

Darren Scammell
Partner – Audit & Assurance

Melbourne, 19 February 2020

Directors' Declaration

Directors' Declaration

a) The financial statements and notes of McMillan Shakespeare Limited for the half-year ended 31 December 2019 are in accordance with the *Corporations Act 2001*, including;

   i. giving a true and fair view of its financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and

   ii. complying with Accounting Standards and the Corporations Regulations 2001.

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.

Tim Poole
Chairman

Mike Salisbury
Managing Director

19 February 2020
Melbourne, Australia

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half-year ended 31 December 2019

	Notes	Half-year ended 31 Dec 2019 $'000	Half-year ended 31 Dec 2018 $'000
Revenue from contract with customers		269,845	272,208
Interest revenue		545	851
Revenue from continuing operations		**270,390**	**273,059**
Expenses			
Employee benefit expense		(72,577)	(68,567)
Leasing and vehicle management expenses		(55,468)	(49,895)
Brokerage commissions and incentives		(17,842)	(19,201)
Depreciation and amortisation		(41,058)	(41,539)
Net claims incurred		(6,870)	(6,284)
Other operating expenses		(24,585)	(23,448)
Impairment	6	(2,091)	(1,134)
Contingent consideration fair valuation	6	1,462	(2,584)
Acquisition expenses		-	(4,925)
Finance costs		(4,008)	(5,183)
Total expenses		**(223,037)**	**(222,760)**
Profit before income tax expense		**47,353**	**50,299**
Income tax expense		(13,058)	(16,326)
Net profit for the period		**34,295**	**33,973**
Profit is attributable to:			
Owners of the Company		33,954	34,063
Non-controlling interests		341	(90)
		34,295	**33,973**
Other comprehensive income			
Items that may be re-classified subsequently to profit or loss:			
Changes in fair value of cash flow hedges		318	(187)
Exchange differences on translating foreign operations		3,750	1,469
Income tax		(52)	36
Other comprehensive income, net of tax		4,016	1,318
Total comprehensive income for the period		**38,311**	**35,291**
Total comprehensive income for the period is attributable to:			
Owners of the Company		37,970	35,381
Non-controlling interests		341	(90)
		38,311	**35,291**
Basic earnings per share (cents)		**42.1**	41.2
Diluted earnings per share (cents)		**41.6**	40.8

Notes to the financial statements are annexed.

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	31 Dec 2019 $'000	30 Jun 2019 $'000
Current assets			
Cash and cash equivalents	8	50,868	137,762
Trade and other receivables		55,424	61,028
Finance lease receivables		58,587	57,412
Deferred acquisition costs		2,796	2,859
Inventory		11,579	12,310
Prepayments		8,668	6,076
Assets under operating lease		81,119	74,030
Total current assets		269,041	351,477
Non-current assets			
Assets under operating lease		190,178	206,675
Property, plant and equipment		6,151	7,427
Right-of-use asset	3 a)	16,687	-
Finance lease receivables		99,237	80,654
Intangible assets		196,381	191,328
Deferred acquisition costs		2,858	2,929
Deferred tax assets		13,271	13,008
Total non-current assets		524,763	502,021
Total assets		793,804	853,498
Current liabilities			
Trade and other payables		88,211	94,588
Other liabilities		3,613	8,847
Contract liabilities		6,512	6,051
Provisions		10,788	11,088
Unearned premium liability		9,388	9,075
Current tax liability		245	2,490
Borrowings	9	8,923	8,779
Lease Liabilities	3 a)	7,212	-
Derivative financial instruments		839	1,157
Total current liabilities		135,731	142,075

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	31 Dec 2019 $'000	30 Jun 2019 $'000
Non-current liabilities			
Borrowings	9	321,998	319,520
Lease Liabilities	3 a)	19,396	-
Provisions		1,412	1,365
Contingent consideration		-	1,374
Unearned premium liability		8,100	8,116
Deferred tax liabilities		8,029	9,677
Total non-current liabilities		**358,935**	**340,052**
Total liabilities		**494,666**	**482,127**
Net assets		**299,138**	**371,371**
Equity			
Issued capital	10	130,980	135,868
Reserves		(791)	(4,760)
Retained earnings		168,949	240,263
Total equity		**299,138**	**371,371**

Notes to the financial statements are annexed.

Consolidated Statement of Cash Flow

For the half-year ended 31 December 2019

	Half-year ended 31 Dec 2019 $'000	Half-year ended 31 Dec 2018 $'000
Cash flows from operating activities		
Cash receipts from customers	277,088	300,621
Cash payments to suppliers and employees	(153,227)	(160,549)
Proceeds from sale of assets under lease	51,341	44,948
Proceeds from sale of lease portfolio	55,118	55,172
Payments for lease assets	(175,174)	(185,341)
Interest received	545	851
Interest paid	(5,550)	(4,879)
Income taxes paid	(11,577)	(21,215)
Acquisition related expenses	-	(2,657)
Net cash from operating activities	**38,564**	**26,951**
Cash flows from investing activities		
Payments for plant and equipment	(494)	(824)
Payments for software	(8,870)	(8,353)
Payments for joint venture subordinated loan	(2,091)	(1,134)
Net cash used in investing activities	**(11,455)**	**(10,311)**
Cash flows from financing activities		
Proceeds from borrowings	62,172	111,856
Repayment of borrowings	(64,979)	(82,267)
Payments of lease liabilities	(3,555)	-
Payments for share buyback	(80,016)	-
Payments for share buyback expenses	(472)	-
Proceeds from exercise of employee options	5,478	-
Dividends paid	(33,282)	(33,067)
Net cash used in financing activities	**(114,654)**	**(3,478)**
Effects of foreign currency translation	651	123
Net (decrease) / increase in cash and cash equivalents	(87,545)	13,162
Cash and cash equivalents at the beginning of the half year	137,762	99,667
Cash and cash equivalents at the end of the half-year	**50,868**	**112,952**

Notes to the financial statements are annexed.

Consolidated Statement of Changes in Equity

For the half-year ended 31 December 2019

Half-year ended 31 December 2019	Issued capital $'000	Retained Earnings $'000	Option Reserve $'000	Cash flow Hedge Reserve $'000	Foreign Currency Translation Reserve $'000	Outside Equity Interest $'000	Total $'000
Equity as at beginning of period as originally reported	135,868	240,263	872	(878)	(4,560)	(194)	371,371
Change in accounting policy (note 3)	-	(2,336)	-	-	-	-	(2,336)
Re-stated equity as at the beginning of period	135,868	237,927	872	(878)	(4,560)	(194)	369,035
Profit attributable to members of the parent entity	-	33,954	-	-	-	341	34,295
Other comprehensive income after tax	-	-	-	266	3,750	-	4,016
Total comprehensive income for the period	-	33,954	-	266	3,750	341	38,311
Transactions with owners in their capacity as owners:							
Share buyback	(10,366)	(69,650)	-	-	-	-	(80,016)
Equity contribution	5,478	-	-	-	-	-	5,478
Employee share schemes – value of employee services	-	-	(388)	-	-	-	(388)
Dividends paid	-	(33,282)	-	-	-	-	(33,282)
Equity as at 31 December 2019	130,980	168,949	484	(612)	(810)	147	299,138

Half-year ended 31 December 2018	Issued capital $'000	Retained Earnings $'000	Option Reserve $'000	Cash flow Hedge Reserve $'000	Foreign Currency Translation Reserve $'000	Outside Equity Interest $'000	Total $'000
Equity as at the beginning of period	135,868	228,964	11,591	37	(5,596)	(464)	370,400
Profit attributable to members of the parent entity (restated – refer to note 4)	-	34,063	-	-	-	(90)	33,973
Other comprehensive income/(loss) after tax	-	-	-	(151)	1,469	-	1,318
Total comprehensive income for the period	-	34,063	-	(151)	1,469	(90)	35,291
Transactions with owners in their capacity as owners:							
Equity contribution	-	-	-	-	-	125	125
Employee share schemes – value of employee services	-	-	(615)	-	-	-	(615)
Dividends paid	-	(33,067)	-	-	-	-	(33,067)
Equity as at 31 December 2018	135,868	229,960	10,976	(114)	(4,127)	(429)	372,134

Notes to the financial statements are annexed.

Notes to the Financial Statements

For the half-year ended 31 December 2019

1. Corporate information

McMillan Shakespeare Limited (the Company) is a company limited by shares, incorporated and domiciled in Australia.

2. Basis of preparation

The consolidated half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*.

This half-year financial report does not include 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 30 June 2019 and any public announcements made by the Company during the half-year period in accordance with the continuous disclosure requirements arising under the Australian Stock Exchange Listing Rules and the *Corporations Act 2001*. The Company is a for-profit entity for financial reporting purposes under the Australian Accounting Standards.

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

The consolidated half-year financial report was approved by the Board of Directors on 19 February 2020.

3. Significant accounting policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the Group's last annual financial report for the year ended 30 June 2019 with the following updates.

a) New accounting policies and financial statements from adoption of AASB 16: *Leases*

The Group has adopted the new accounting standard AASB 16: Leases from 1 July 2019.

The new Standard introduces a single comprehensive on-balance sheet accounting model for lease arrangements that apply to lessors and lessees. The new Standard has no impact on the Group's accounting for leases as lessor. Where the Group previously accounted for its operating lease arrangements as a lessee and disclosed in off-balance sheet commitments, these have now been recognised on the balance sheet from 1 July 2019. This has resulted in the recognition of a right-of-use asset (ROU) being the asset that is leased and a corresponding amount in liabilities that is used to finance the leased asset. Committed payments that were previously recognised as rental expense have been replaced by the depreciation of the ROU and finance expense for the interest incurred on the lease liability.

On transition, operating leases with a remaining term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognise the right-of-use assets but to account for the lease expense on a straight-line basis over the remaining term of the lease.

The following is a reconciliation of total operating lease commitments at 30 June 2019 to the lease liabilities recognised on 1 July 2019.

	$'000
Total operating lease commitment disclosed at 30 June 2019 (note 28 to the Financial Statements for the year ended 30 June 2019)	56,927
Change in estimate at 30 June 2019 which included the option to extend existing lease terms but has since been contracted with different lease arrangements	(23,986)
Recognition exemption for leases with remaining term of less than 12 months	(502)
Other minor lease arrangements not included in commitment disclosures	1,311
Operating lease liabilities before discounting	**33,750**
Effect of discounting at the 1 July 2019 incremental borrowing rate	(3,586)
Total lease liabilities recognised under AASB 16 at 1 July 2019	**30,164**

Notes to the Financial Statements

For the half-year ended 31 December 2019

The new Standard has been applied using the modified retrospective approach, with the cumulative effect on transition being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior period comparative information has not been restated. Under the modified retrospective approach, an incremental borrowing rate of 3.6% has been applied at the date of transition as a practical expedient. The Group has benefitted from the use of hindsight for determining lease term and when considering options to extend and terminate leases.

The following is a summary of the amounts recognised in the financial statements on transition at 1 July 2019.

	$'000
Assets	
Right-of-use asset	19,257
Liabilities	
Lease Liabilities	30,164
Unearned property incentive liabilities reduced	(8,571)
Retained earnings	(2,336)

4. Re-statement of comparative information

As disclosed in note 2 e)i) in the annual financial report for the year ended 30 June 2019, the Group's loan receivable from its joint venture (JV) in the UK was considered to be fully impaired when applying the expected credit loss model on transition to AASB 9: Financial Instruments from 1 July 2018. As the loan receivable forms part of the net investment in the JV, the Group's share of the JV's loss is no longer equity-accounted. Accordingly, the Group's equity accounted loss of the JV of $667,000 in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 31 December 2018 is reversed and the impairment in the loan receivable of $1,134,000 has been recognised. Net profit for the period has been re-stated to $33,973,000 from $34,440,000 and profit attributable to owners of the Company re-stated to $34,063,000 from $34,530,000. On the basis of the profit re-statement basic EPS has been re-stated to 41.2 cents from 41.8 cents and on a diluted basis 40.8 cents from 41.5 cents.

The restatement reduced equity from $372,601,000 to $372,134,000 at 31 December 2018.

On a segment basis, UNPATA of Asset Management was restated to $9,012,000 from $9,479,000.

5. Segment reporting

Group Remuneration Services – This 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. The provision of administrative services include plan management and support coordination services to participants in the National Disability Insurance Scheme (NDIS).

Asset Management – This segment provides financing and ancillary management services associated with motor vehicles, commercial vehicles and equipment.

Retail Financial Services – This segment provides retail brokerage services, aggregation of finance originations and extended warranty cover, but does not provide financing.

Notes to the Financial Statements

For the half-year ended 31 December 2019

Half-year ended 31 December 2019	Group Remuneration Services $'000	Asset Management $'000	Retail Financial Services $'000	Unallocated $'000	Total $'000
Revenue from contracts with customers	108,779	122,816	38,250	-	269,845
Interest revenue	-	325	-	220	545
Segment revenue	**108,779**	**123,141**	**38,250**	**220**	**270,390**
Timing of revenue recognition:					
At a point in time	64,734	72,422	22,458	-	159,614
Over time	44,045	50,394	15,792	-	110,231
Segment revenue from contracts with customers	**108,779**	**122,816**	**38,250**	**-**	**269,845**
Underlying net profit after tax and amortisation (UNPATA)	31,114	5,135	2,198	(654)	37,793
Reconciliation to statutory net profit after tax attributable to members of the parent entity					
Amortisation of intangible assets acquired on business combination	-	(855)	(1,333)	-	(2,188)
Fair valuation of contingent consideration	-	1,442	-	-	1,442
Investment related expenses	-	(74)	-	-	(74)
Class action dispute expenses (refer note 6)	-	-	(4,497)	-	(4,497)
Share buy-back expenses	-	-	-	(472)	(472)
Total UNPATA adjustments	-	513	(5,830)	(472)	(5,789)
Income tax	-	59	1,749	142	1,950
UNPATA adjustments after-tax	-	572	(4,081)	(330)	(3,839)
Statutory net profit after-tax attributable to members of the parent entity	**31,114**	**5,707**	**(1,883)**	**(984)**	**33,954**

Notes to the Financial Statements

For the half-year ended 31 December 2019

Half-year ended 31 December 2018	Group Remuneration Services[i] $'000	Asset Management $'000	Retail Financial Services $'000	Unallocated $'000	Total $'000
Revenue from contracts with customers	106,009	123,943	42,256		272,208
Interest revenue	-	232	-	619	851
Segment revenue	106,009	124,175	42,256	619	273,059
Timing of revenue recognition:					
At a point in time	64,817	68,912	26,810	-	160,539
Over time	41,192	55,031	15,446	-	111,669
Segment revenue from contracts with customers	106,009	123,943	42,256	-	272,208
Underlying net profit after tax and amortisation (UNPATA)	29,746	9,012	3,846	(475)	42,129
Reconciliation to statutory net profit after tax attributable to members of the parent entity					
Amortisation of intangible assets acquired on business combination	-	(833)	(1,573)	-	(2,406)
Fair valuation of contingent consideration	-	(2,759)	-	-	(2,759)
Acquisition related costs	-	(903)	-	(4,022)	(4,925)
Total UNPATA adjustments	-	(4,495)	(1,573)	(4,022)	(10,090)
Income tax	-	347	471	1,206	2,024
UNPATA adjustments after-tax	-	(4,148)	(1,102)	(2,816)	(8,066)
Statutory net profit after-tax attributable to members of the parent entity	29,746	4,864	2,744	(3,291)	34,063

(i) Revenue from contracts with customers at a point in time of the GRS segment that was previously disclosed as $106,009,000 has been re-stated to $64,817,000 and revenue from contracts with customers over time of $41,192,000. The re-statement follows from the adoption of AASB 15: *Revenue from Contracts with Customers*.

Notes to the Financial Statements

For the half-year ended 31 December 2019

6. Material Profit and Loss items

Significant items	Half-year ended 31 Dec 2019 $'000	Half-year ended 31 Dec 2018 $'000
a) Impairment		
Subordinated loan loss allowance	2,091	1,134

The impairment charge brings to account the loss allowance for the receivable from Maxxia Ltd (JV).

b) Contingent consideration fair valuation		
Fair value adjustment	(1,462)	2,584

Fair value adjustment brings to account the carrying value of contingent consideration at their estimated fair value at reporting date in relation to Anglo Scottish Finance plc that was acquired in FY2016.

c) Class action dispute expenses		
Legal and other consulting expenses	4,497	-

Expenses incurred in relation to the class action brought against Davantage Group Pty Ltd (refer note 12). These expenses may be subject to recoverability from the insurer and other parties.

7. Dividends

On 19 February 2020, the Board of Directors declared a fully franked dividend of 34.0 cents per ordinary share. The record date is 6 March 2020 and the dividend will be paid on 20 March 2020.

	Half-year ended 31 December 2019		Half-year ended 31 December 2018	
	Cents per share	Total $'000	Cents per share	Total $'000
Recognised amounts				
Fully paid ordinary shares				
- Final dividend	40.0	33,282	40.0	33,067
Unrecognised amounts				
Fully paid ordinary shares				
- Interim dividend	34.0	26,310	34.0	28,107

Notes to the Financial Statements

For the half-year ended 31 December 2019

8. Cash and cash equivalents

	31 December 2019	30 June 2019
	$'000	$'000
Cash on hand	8	9
Bank balances	49,336	103,377
Short term deposits	1,524	34,376
	50,868	137,762

Cash and cash equivalents held in trust and not recognised in the statement of financial position

Pursuant to contractual arrangements with clients, the GRS segment administers the cash flows on behalf of clients as part of the remuneration benefits administration service. Cash held in trust for clients are therefore, not available for use in the Group's operations. For some clients, cash is held in bank accounts specified in their name and other client monies are held in bank accounts specially designated as monies in trust for clients. All client monies are segregated from the Group's own cash and not included in the Consolidated Statement of Financial Position. At reporting date, the balance of monies held in bank accounts in trust for clients representing all client contributions to operate their accounts were as follows.

	31 December 2019		30 June 2019	
	Average interest rate	$'000	Average interest rate	$'000
Client monies in trust interest accruing to the Group	1.51%	421,190	2.50%	380,123
Client monies in trust interest accruing to clients	1.53%	25,467	2.36%	32,518
		446,657		412,641

Pursuant to contractual agreement with clients, the Company received interest of $3,586,000 at an average interest rate of 1.52% (half-year ended 31 December 2018: $4,798,000 at an average interest rate of 2.54%) for managing client monies and as part substitute for administration fees.

Notes to the Financial Statements

For the half-year ended 31 December 2019

9. Borrowings

	31 December 2019 $'000	30 June 2019 $'000
Current		
Bank borrowings	8,923	8,779
Non-current		
Bank borrowings	321,998	319,520
Total borrowings	330,921	328,299

a) Bank borrowings

Details of the Group's facilities and amounts drawn to are as follows.

Borrowing	Maturity dates	Facility Local Currency '000	Facility $'000	Used[4] $'000	Unused $'000
Revolving	31/03/2021	AUD 35,000	35,000	26,000	9,000
Revolving	31/03/2021	AUD 90,000	90,000	72,800	17,200
Revolving	31/03/2021	AUD 85,000	85,000	65,000	20,000
Amortising[1]	29/09/2022	AUD 8,829	8,829	8,829	-
Amortising[1]	31/12/2022	AUD 7,652	7,652	7,652	-
Revolving	31/01/2021	GBP 35,000	65,648	51,393	14,255
Revolving	31/03/2021	GBP 22,000	41,264	24,384	16,880
Revolving	31/03/2021	GBP 22,000	41,264	31,136	10,128
Amortising[2]	31/01/2021	GBP 2,030	3,808	3,808	-
Amortising[3]	31/03/2022	GBP 3,953	7,414	7,414	-
Revolving	31/03/2021	NZD 15,000	14,416	14,128	288
Revolving	31/03/2021	NZD 20,000	19,222	18,549	673
			419,517	331,093	88,424

1 This facility has been used for the acquisition of the Presidian Group.
2 This facility has been used to finance the acquisition of EVC and CAPEX in the UK
3 This facility has been used to finance the acquisition of CLM.
4 Drawn amounts are before borrowing costs.

Notes to the Financial Statements

For the half-year ended 31 December 2019

10. Share capital

a) Movement in ordinary shares during the period.

	Half-year ended 31 December 2019		
	Number of shares		$000
Shares issued brought forward at the beginning of the year	83,204,720		135,868
Treasury shares	(538,129)		-
Shares held be external shareholders at the beginning of the period	82,666,591		135,868
Share buy-back	(5,823,613)	$1.78	(10,366)
Treasury shares distributed in the period on the exercise of employee options	538,129	$10.18	5,478
Shares held by external shareholders at 31 December 2019	**77,381,107**		**130,980**

Treasury shares are shares in McMillan Shakespeare Limited that are held by the McMillan Shakespeare Limited Share Plan Trust (EST) for the purpose of issuing shares under the McMillan Shakespeare Limited Long Term Incentive Plan (LTIP). During the period, the EST distributed 538,129 shares to executives upon the exercise of options under the LTIP. Treasury shares are deducted from issued shares to show the number of issued shares held by external shareholders.

b) Share buy-back

The Company completed the Off-Market Buy-Back of its shares on 11 October 2019 at a Buy-Back price of $13.74 per share for a total value of $80,016,443. The number of shares bought back was 5,823,613 valued at $1.78 for $10,366,031 and the distribution of a fully franked dividend of $11.96 per share for $69,650,412.

c) Options and Rights

Employee performance options and rights granted under the Company's LTIP at 31 December 2019 are as follows.

	Number	Exercise price	Expiry date
Employee Performance options	398,598	$13.45	30 September 2020
Employee Performance options	17,340	$14.97	30 September 2020
Employee Performance options	369,946	$13.45	30 September 2021
Employee Performance options	15,920	$14.97	30 September 2021
Employee Performance options[2]	666,352	$16.64	30 September 2022
Employee Voluntary options	8,979	$13.45	30 September 2020
Employee Voluntary options	12,500	$13.45	30 September 2021
Employee Performance Rights	109,994	-	30 September 2020
Employee Performance Rights	119,856	-	30 September 2021
Employee Performance Rights[1]	403,515	-	30 September 2022
Employee Performance Rights[1]	16,899	-	31 October 2020
	2,139,899		

1 Performance options and rights granted during the period under the company's Long Term Incentive Plan

Notes to the Financial Statements

For the half-year ended 31 December 2019

11. Financial instruments

Information on the Group's financial assets and financial liabilities measured at fair value are provided below.

Fair value of financial assets and financial liabilities measured on a recurring basis

Financial asset / (financial liability)	Fair value at 31 Dec 2019 $'000	Fair value at 30 June 2019 $'000	Valuation technique and key input
Interest rate swaps	(839)	(1,157)	Based on estimated cash flows discounted using forward rates observable from yield curves at the end of the reporting period.
Contingent consideration	-	(1,374)	Based on the probability weighted cash flow projections discounted at the incremental borrowing rate.

1 A 5% change in the probability-adjusted revenues and profits while holding all other variables constant, is not expected to have a significant change to the carrying amount of the contingent consideration.

12. Contingent liabilities

The Company is in dispute relating to a class action for a claim relating to a warranty product business operated by Davantage Group Pty Ltd (trading as "National Warranty Company" (NWC)) which is and was at all relevant times a subsidiary of Presidian Holdings Pty Ltd which the Company acquired in February 2015. The claim is made on behalf of all persons who entered an NWC warranty between 1 July 2013 and 28 May 2015 (provided it was acquired for domestic/personal use and they received an NWC PDS). A significant portion of the relevant period to which the claim relates is in respect of a time when the "National Warranty Company" was not owned by the MMS Group. The class action seeks orders that the NWC warranties are void, and seeks either the restitution or a refund of the premium paid and interest on that amount, regardless of whether claims were in fact met and the contracts performed. The Company continues to vigorously defend the proceedings. At the date of this report the Company is not in a position to estimate the impact, if any, of this claim.

13. Events subsequent to reporting date

Other than matters disclosed in this report, there were no material events subsequent to the reporting date.