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Annual General Meeting: FY2021 CEO's Review Speaking Notes

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Thank you, Mr Chairman.

Good afternoon, everybody. My name is Robbie Blau, CEO of SG Fleet. Thank you for taking the time to participate in our 2021 Annual General Meeting.

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I will start with an overview of our performance during the 2021 financial year and will then go into more detail on our various businesses. I will also briefly talk to you about our performance since the end of the reported period, how the operating environment has evolved, and how we are going with the integration of LeasePlan, the acquisition of which we completed just over 7 weeks ago.

Whilst COVID-19 was still a feature in the second half of the 2021 financial year, the effects were certainly not as pronounced as in the early months of the reported period. We delivered a full year underlying profit of $51.6 million, up close to 42% on the 2020 financial year. This allowed the Board to declare a final dividend of 5.393 cents per share, bringing the total for the year to 12.585 cents per share, an increase of about 26% on last year. In fact, we increased the payout ratio to offset the impact of the LeasePlan acquisition-related rights issue.

The Corporate businesses in Australia, New Zealand and the UK continued their strong performance. In addition to that, the value of used vehicles remained at exceptional levels in all the countries in which we operate, boosting our end of lease income. In the Novated channel, as well as the UK employee benefits business, orders continued to recover in line with improving consumer sentiment. By the end of the year, they returned to above pre-COVID levels, which bodes well for the future. In Australia, this recovery occurred despite COVID still impacting employment in some industries.

Across the Group, we again did an exceptional job retaining our existing customers and we added a significant number of additional accounts by winning the majority of tenders we pursued. At the same time, we were able to upsell our products and services further to create growth on both fronts. Throughout the year, delivering the growing number of orders we won was a challenge as we continued to face supply constraints. We do not expect this to normalise any time soon.

As a consequence of the delivery challenges, the order pipeline at year-end almost doubled on the previous year, which meant a significant number of orders spilled into the current financial year.

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The Australian Corporate channel saw a continuation of its strong performance throughout the reported period. The competitive landscape was largely rational, and the opportunities pipeline grew steadily as the year went on. We did very well in this environment and we again saw a number of uncontested contract renewals and some good successes in the pursuit of new business.

We also saw increasing interest in our growing range of products and services. There was particularly strong demand for solutions that allow our customers to ensure they use their fleet as efficiently and safely as possible. Customers were also looking for flexible arrangements, such as subscription services and shorter-term leases, and this had a positive impact on demand for Carly's offering. As was the case over the past few periods, we witnessed a steady surge in interest in low or zero-emissions vehicles, both passenger and commercial.

In the context of the demand growth we saw in the corporate channel, delivering orders remained our biggest challenge as vehicle supply did not show any signs of recovery. Related to that was of course the state of the used car market, with used vehicle values remaining at exceptional levels.

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Sentiment affecting the Novated channel was very mixed in the early part of the reported period, with the first quarter still very much dominated by the COVID-19 impact. However, we saw a strong overall improvement during the second half.

Our team made a massive effort to maximise the benefits of improving consumer sentiment by fundamentally revitalising the marketing approach in this channel. We digitised processes across the full spectrum of customer interaction, moving that interaction online and in the process, redesigning the shape and focus of our content. These efforts ensured retention of existing accounts was very strong. In addition, we won several new large accounts, albeit some on panels.

The outcome of all of this was that we achieved a sustained recovery in demand for our product, resulting in strong growth in new orders. In addition, we increased our share of wallet per lease by increasing the penetration of accessory products.

As was the case in the corporate channel, supply issues meant that many of those orders are only being delivered and accounted for in the current financial year.

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During the year, the New Zealand economy continued to recover from the effects of COVID-19. General business sentiment improved on the back of that and businesses were increasingly confident to invest and hire. Similar to the Australian situation, new vehicle supply issues persisted throughout the period. In line with that, used vehicle pricing remains at record levels. Tender activity was steady and competitive behaviour mostly rational.

One particular aspect of the tender requests and business opportunities we saw was the larger proportion of demand for our EV and mobility solutions. We were obviously delighted to see that trend accelerate as it plays into our well-recognised expertise in that market.

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Over the years, we built significant expertise working with companies in the energy sector, and this helped us record another good win in that sector. We also converted a number of accounts from managed-only to funded, including for one of our marquee customers. The challenge again was to clear the order pipeline, which remained at record levels.

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The situation in the UK evolved rapidly over the course of the year. Initially, the macro situation there was far more challenging than in Australia and New Zealand. But as the country continued to open up, the economy saw ongoing improvements. In line with that, the UK car market recovered strongly towards the end of the reported period.

The light commercial segment was particularly strong, with van registrations reaching their highest level in the last 10 years. We continue to operate in that segment with a well-targeted niche product, so we did very well out of that trend. Elsewhere, tax breaks on full electric and low CO_2 hybrids significantly boosted business and consumer interest in such vehicles. Again, we have carved out a strong reputation for ourselves in this space with our eStart solution and that was duly reflected in the percentage of lower emission vehicles in our UK fleet.

In terms of business development, we continued to register good wins across the corporate, SME and Employee Benefits channels, with the latter doing particularly well.

In line with the supply challenges everyone is facing, we continued to see extended lead times and a further lengthening of the order book. As was the case in Australia, used vehicle values remained at exceptional levels. Despite the improvement in the economic outlook, the funding environment was somewhat challenging.

In summary, our UK business proved extraordinarily resilient during the COVID period, performing strongly throughout.

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I am now turning to business activity since the start of the current financial year.

In the Novated business, the good momentum from the second half of the 2021 financial year has continued, and in some areas accelerated, albeit with a slight impact from the lockdowns. As was our experience previously, the lockdowns did not impact our Corporate business, on the contrary. Our new business teams remain very busy and we have continued to be very successful in our tender activity.

A highlight of the first quarter has been the renewal of some our largest contracts, including that for the NSW Government, where we will now be managing a larger proportion of the total fleet, and for an extended contract period. In a number of cases, these renewals have been for a wider scope of services. This again demonstrates the strength of our relationships with our customers and the appreciation they are showing for the value we add for them. It also is obviously strengthening what already was an exceptionally high calibre customer book. Good progress was also made in the commercial vehicle segment, helped by the reactivation of a large number of infrastructure projects.

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Overall, first quarter orders were up on the same quarter in 2019, in other words pre-COVID, demonstrating the strength of this business.

As mentioned, we have witnessed to some extent the inevitable impact of the lockdowns in Melbourne and Sydney on enquiry levels in Novated. This slowdown is a reflection of the practical difficulties associated with lockdowns and not of a lesser appetite for the product. The percentage of enquiries that is converted into an order is in fact higher than usual, indicating that once customers are able to start the decision process, this is more likely to result in a firm order.

We also continue to make progress with signing up new accounts, rolling over drivers into new leases and adding additional products to the lease contracts. Industries where employment was impacted by COVID-19, such as the airlines, are now starting to return to normal, so we are seeing enquiry levels in those industries increase again.

I will address vehicle supply challenges, used vehicle prices and disposal volumes across the group separately.

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New Zealand continued on its 2021 path and the order pipeline remains at record levels.

In the UK, the acceleration we saw in the second half of the previous year has continued unabated. Our key expertise areas of light commercial and low-emission vehicles remain in very high demand.

During the quarter, the business recorded its largest win to-date for a funded customer and funding has also been added to the services provided to a number of existing managed-only customers. Similarly, the business' Employee Benefits offering continues to attract strong interest and a number of sizeable wins added over 10,000 eligible employees to our overall target pool.

The tight funding environment we reported at the full year results has now started to improve.

Across the Group, our momentum continues to build. The individual businesses are performing well and we are also seeing good progress with the initiatives and partnerships we have launched in recent years. A case in point is the growth we are seeing in the Carly subscription services business and the DingGo repairer portal solution. The Carly solution is getting increased traction amongst corporate fleets and we will now of course also introduce Carly to the LeasePlan customer book.

Similarly, DingGo is going from strength to strength within our Corporate channel, and we have been getting really positive initial feedback from customers. Over the past three years, this business has expanded from Sydney to nationwide in Australia and New Zealand, and from Retail into both Retail and Corporate, the repairer network has grown seven-fold, and monthly repair submissions have gone from 180 to over 2,300.

These two businesses have also just banded together to offer Carly subscribers a DingGo-supported digital, contactless online insurance claims solution.

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In terms of the vehicle market environment in all three of our geographies, little has changed since the end of the 2021 financial year. Supply constraints continue, with lead times of up to 12 months for certain models and segments in Australia, New Zealand and the UK.

As we flagged at our full year results, the fulfilment of the strong 2021 order pipeline is spilling into this financial year and the order pipeline has continued to grow since our last update. As of last month, the combined Group pipeline of orders yet to be delivered stands at close to 12,000 units. In fact, most of our current deliveries are filling orders that were received in previous financial periods.

In line with the supply constraints, used vehicle values have remained at the same exceptional levels we reported at the full year. I recall saying over 12 months ago that the industry expected this to continue for several months but the predicted normalisation of this environment continues to be pushed out, with some observers now predicting current levels will be maintained at least until mid-next year. While it remains difficult to predict timing there is no doubt that any normalisation will be a very gradual process and we anticipate we will not return to pre-COVID used vehicle price levels.

Our unique vehicle disposal model and our strong dealer relationships have undoubtedly helped us take maximum advantage of this situation in terms of end-of-lease income. To manage supplies, we have encouraged many corporate customers and novated drivers to extend current leases and this has obviously meant less stock is going through our disposals, but what is made available continues to attract strong interest and exceptional pricing.

Obviously, the consequence of the supply issues and extensions is that the number of deliveries we have been able to make is lower than planned for and at the same time, the significant increase in extensions – which are up over 50% on pcp - also means significantly less vehicles are coming back for disposal. The latter has been more of a feature in the current period than it was in FY21. Effectively, revenue from both activities is pushed out and will only normalise in line with the supply environment. This strong order pipeline also means visibility on future period earnings improves for us.

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Finally, I would like to say a few words about the acquisition and the integration of LeasePlan, which started in earnest on the day of completion about 7 weeks ago.

It has been a very encouraging experience to see how quickly the two teams have come together. At the start of the process, we identified the strong cultural alignment between the two businesses as one of the many factors supporting the strategic rationale of this acquisition. I have been positively surprised by how quickly we were able to bring various teams together and, more importantly, align our approach and processes. Not a day has been lost since completion and it is hard to believe that less than two months ago, most of these team members were still strangers to each other. This rapid progress is also reflected in how we are managing the integration of customer accounts and the cross-selling of our respective products and services offering. In fact, we have been able to retain a number of accounts where we initially assumed they would be lost as a consequence of the acquisition.

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Our in-house Innovation Team has spent countless hours presenting our most recently launched products to the LeasePlan teams and the enthusiasm of the sales people to bring these solutions to LeasePlan customers is palpable. In fact, our core solutions, fleetintelligence and bookingintelligence, are already being trialled by a number of LeasePlan's larger customers. Similarly, some of LeasePlan's products, such as its safety solution, are being introduced to the SG Fleet customer base. That is of course a full net gain in terms of additional products and services revenue.

A lot of the initial focus has been on meeting and getting to know LeasePlan's key customers and I can say that process has again confirmed the strength of its customer relationships and the potential to widen the range of services we can provide to them. Our increased scale is being exploited to the fullest, with the sharing of available resources significantly improving the customer experience across the combined customer book. Scale efficiencies are also being generated across a number of support areas, including Credit, HR and IT, where teams have already been integrated.

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The experience of the last two months has shown us that the combined business is indeed very well positioned to grow. As we optimise the combined offering and introduce our new ventures, such as Carly and DingGo, to the wider customer book, our revenue profile will continue to strengthen. We have flagged for some time that we wanted a greater proportion of recurring revenue and as a result a more predictable growth path and it is very clear that improvement is now being accelerated by the LeasePlan integration.

The benefits we are generating from the more diversified funding structure are also being confirmed. With the new LeasePlan securitisation programme now active, the massive leap forward in expertise in terms of funding models and processes will yield clear benefits.

We have been planning the integration since the first announcement in March and we began executing it on Day 1 after completion. Of course, we are not new to this process as the strength of today's SG Fleet industry position is the result of multiple successful integrations. Over the past 15 years, we have added 6 businesses to the Group. All these businesses were integrated seamlessly and on or ahead of schedule, and all initial synergy estimates were achieved and in several cases exceeded, both in terms of scale and timing. As I mentioned, the professionalism of both teams and the enthusiasm and eagerness to take full advantage of our mutual strengths and establish ourselves as the true industry leaders has created a real buzz around our business.

The support we have received from LeasePlan Corporation, as a shareholder and via the presence of its CEO Tex Gunning on our Board, is a unique advantage in the Australian and New Zealand market and we have tapped into our alliance across a number of areas already. We are currently working on multiple referrals received via LeasePlan Corporation prior to completion and since then have received many additional referrals.

As to the performance of LeasePlan in the first month of SG Fleet Group ownership, that was ahead of our initial forecasts. Of course, LeasePlan benefited from the same positive operational environment as the SG Fleet business did.

When announcing this acquisition, we presented a strong strategic and financial rationale based on baseline assumptions. As the integration progresses, we believe there is scope to improve the Group outlook over time and we will keep our shareholders updated on a regular basis.

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In summary, the update for the first quarter of the current financial year is an encouraging one. The Corporate channels continue their good performance, with strong orders across various geographies and customer segments. We have renewed a number of key contracts for extended durations and for a wider scope of services. In the Novated channel, we have seen a strong appetite for the product and as lockdowns are lifted, drivers are acting on that in growing numbers.

The supply issues have meant that the delivery pipeline continues to lengthen and deliveries are being pushed out further. To manage this, we have moved many customers to extensions, which of course means fewer vehicles are coming back for disposal, as I explained earlier. That means secured revenue is pushed out, possibly into future periods. This of course gives us greater revenue certainty for those future periods as well.

And finally, the LeasePlan integration is in full swing and we are busy reaping its benefits in terms of expertise, products and services range and cross-sell, scale, and the many referrals coming through the LeasePlan Corporation alliance agreement.

Thank you for your attention.

I will hand back to the Chairman now.

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