SG Fleet Group
Integrated Mobility

ASX Announcement

27 October 2020

2020 Annual General Meeting

CEO’s Speaking Notes

In accordance with ASX Listing Rule 3.13.3, attached is a copy of the CEO's speaking notes to be delivered alongside his presentation at SG Fleet Group Limited’s Annual General Meeting, which will be held today at SCG Meeting Room, SG Fleet Group Limited, Level 2, Building 3, 20 Bridge Street, Pymble, NSW commencing at 3.00 pm AEDT.

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SG Fleet Group
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Annual General Meeting: FY2020 CEO's Review Speaking Notes

Cover slide

Thank you, Mr Chairman,

Good afternoon everybody. My name is Robbie Blau, CEO of SG Fleet. Thank you for taking the time to attend our 2020 Annual General Meeting.

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I will start with an overview of our performance during the 2020 financial year and will then go into more detail on our various businesses. I will also talk to you about our performance since the end of the reported period, what the current environment means for SG Fleet over the longer term and how we are placed to make further progress in this environment.

This has obviously been a unique reporting period. During March, COVID-19 changed everything for the world and for us as a business, and as a result our performance from that point onwards differed substantially from that during the first nine months or so.

What I will say emphatically is that this has been a period where service and value-add have come to the fore more than ever. As we did during the GFC, we pulled out all the stops to be there for our customers and this is the sort of commitment that builds long-term loyalty.

I can honestly say we hardly missed a beat when all this started happening, continuing to support our customers, and our staff, from Day 1. We didn't scale down operationally and we didn't go into hibernation as a result of COVID-19, quite the opposite. Our customers responded very positively to our commitment to service continuity and I think it's fair to say we have strengthened our position and our longer-term outlook in the process.

This environment again confirmed the benefit of being a leader in both corporate tool-of-trade and novated. The good showing of our Tool-of-trade business stabilised our overall performance and kept us on a strong footing throughout the events of this year. It is strong evidence of the resilience of the company and its business model.

The Tool-of-trade performance also once again confirmed the structural trend towards outsourcing, something we believe will accelerate as businesses will look for efficiencies more than ever. And as a result of COVID-19, we have seen the mobility landscape evolve more quickly than before. Not surprisingly, this is happening in tandem with increased digitisation and every process that can now be completed without physical interaction is moving online.

Many of the products that we have brought to market previously, such as Bookingintelligence and Inspect365, and more recently the contactless DingGo repair process, play into that trend. We reported in August that Bookingintelligence usage growth started to accelerate in the final quarter of the 2020 financial year and this has continued at pace since.

At the headline results level, we reported underlying NPAT of 36.8 million, compared to the 48 to 51 million guidance we provided in February, before the impact of COVID-19. In fact, we were well on track to deliver that guidance until the pandemic hit. Our fleet balance grew 2.4% year on year and, in the context of COVID-19, by 1.5% from the first to the second half.

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Before I run through the full 12 months of the reported period by each of our geographies, I would like to briefly jump ahead to the final quarter and talk about our response to COVID-19. This will give you a better idea of how we are currently positioned in this unusual environment.

When the crisis erupted, our immediate focus was on ensuring the wellbeing of our employees and our customers. We immediately activated our business continuity plan and rolled out a number of additional initiatives to minimise any disruption to our operations and service delivery. As I said earlier, we truly didn’t stutter for a moment and we were able to maintain service levels throughout.

We were there for our customers and everyone worked together to address their most immediate needs. This cooperation extended to our panel of funders, who remained very much open for business and mindful of our customers’ needs.

While we took all necessary precautions and adopted a very careful approach to costs, sourcing, expenditure and workload management, we did not face a cashflow crisis at any stage. Obviously, the fact that the majority of our net revenue is earned over the life of the asset contributed greatly to that. We also voluntarily reduced remuneration across the organisation, including at Board level.

I have to say I was positively surprised by how quickly our workforce adapted to the work from home environment. The other positive was how equally quickly our team's thinking and approach adjusted to the COVID-19 environment, both in terms of processes but also in terms of a profound understanding of the changing needs of our customers.

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First, a snapshot of the Australian business during the year, starting with the pre-COVID-19 period.

For the Tool-of-trade business, the start of the second half was very much a continuation of the first half: healthy opportunities pipeline, some good wins and generally positive activity levels across the board. This was undoubtedly helped by a continued shift towards technology-driven solutions and applications. Competition was largely rational, but decision processes continued to be lengthy.

In the Consumer business, weakness in private new car sales continued and this inevitably impacted novated new business deals. We were also still in the midst of the revamp of our insurance product portfolio.

During the period, we increasingly used online applications and technologies to educate eligible employees on the merits of novating and the response to this was encouraging. The signing up of customers was a clear positive during the entire reported period, with a significant number of very sizeable wins in the private sector, where we dominate, but also increasingly in government. Overall, the novated space continued to be quite competitive from a rate perspective.

Turning now to the final quarter, when COVID-19 had its main impact.

The fourth quarter was a real revelation for our Tool-of-trade business in terms of the appreciation shown by our customers for the value we add for them.

While the world was in turmoil, activity in this business was largely maintained, helped by our exposure to sectors that continued to operate as normal, such as government, utilities and transport. In fact, a number of our customers saw their own activity levels increasing during COVID-19 and that also drove up their need for vehicles. The opportunities pipeline remained very healthy and we again won more than our fair share of new business.

We also started our 'We are here to help' campaign, which sought to address the most pressing needs of organisations during the COVID-19 period, particularly in terms of cashflow management. We offered re-financing, sale and leasebacks, shorter term leases, fleet optimisation tools and of course, for those who had not outsourced before, the option to outsource the management of their vehicles to us.

Not surprisingly, the experience in our novated business was different altogether.

Enquiry levels started to decline mid-March and this decline accelerated once the country went into lockdown at the end of that month. Signs of recovery were seen during May, when enquiry numbers doubled on the previous month, albeit off a low base. Throughout the period, new private car sales declined sharply, with April down almost 50%.

Numbers bounced back markedly in June, but consumer confidence remained patchy depending on which sector people were employed in, with some unfortunately losing their employment. We were impacted primarily via our exposure to the airline industry and the requirement for some employers to stand down a large part of their workforce or place them on leave without pay. Our immediate focus in March was to support those customers in hardship and we worked with our funding partners to arrange alternatives or payment holidays where possible. Other than this specific industry, we did not experience a large volume of customers finding themselves unable to continue with their novated lease commitments.

While driver interest was impacted by the COVID-19 environment, it is interesting to note that companies continued to tender their business. As with Tool-of-trade, the new business pipeline was healthy, and our win rate was very strong.

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In the UK, overall confidence improved following a period of uncertainty after Brexit and the elections late last year.

A significant level of new opportunities emerged throughout the reported period, and we saw an improvement in the second-hand market after a lacklustre first half. We again had a number of good wins and, in recognition of our product and service quality, we were successful in moving some panel business to sole supply.

We created a new marketing channel aimed specifically at the local SME segment and quickly signed up about a dozen customers, who will be generating vehicle orders on a regular basis. Another focal point has been the public sector, where we are aiming to become a key supplier.

In terms of penetration within existing customers, cross-selling of Motrak – our UK telematics solution – was very strong, and we also saw an improvement in our short-term hire solution in the third quarter.

The trend in the UK during the peak COVID-19 period in the fourth quarter was not dissimilar to our experience In Australia, although of course the UK had to introduce far more stringent response measures.

The COVID-19 effect started to manifest itself by mid-March and a lockdown was announced that month. Private vehicle and fleet registrations immediately dropped as a consequence. By April, second hand vehicle sales had come to a standstill. Some signs of a return to business as usual were seen in late May and then in June, some restrictions were lifted. Volume and prices started improving and by the end of June, we were seeing a particularly strong used vehicle market across both cars and vans.

Throughout the period, the business continued to deliver vehicles to essential user customers, take orders and implement new contracts. New opportunities continued to materialise in March and April, and we took full advantage, effectively winning our largest ever fleet management contract in the UK during this lockdown period. We also received a large vehicle order from a leading European parcel carrier – reflecting the surge in online shopping - and this order will transition into a wide-scope sole supply agreement for this customer.

Effectively, the business closed the half year period with its strongest order bank since January 2019.

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In New Zealand, activity levels remained high in the first three quarters.

We won the marquee Northpower contract in the first half, and this contract went live without any issues in the third quarter. This was followed by another good win in the utility space.

Second hand vehicle values and volumes were strong until late March, and then came to an abrupt halt. The lockdown in New Zealand came in the last week of March and new registrations virtually came to a stop by mid-April. Our business continuity plan was activated, and we temporarily halted disposals. By June, signs of a recovery in residual values emerged.

Despite all the turmoil, our activity levels remained very stable, helped by our strong presence in the public sector, which was less affected by the lockdown. Sale and leasebacks in particular proved popular and we had a few good wins with that process. Tender activity remained strong and we were actually seeing the highest level of tendering for quite a few years in New Zealand.

That concludes my overview of the 2020 financial year.

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At the time of our 2020 results announcement, I provided an update on how we were traveling in the current period. Now, two months later, we can report that the trends we were seeing then have very much continued. From a BAU perspective, the early period wins have continued, with some significant new contracts signed across a number of industries. The pipeline in our businesses continues to be strong and more opportunities arise each week.

As I pointed out in August, there is no doubt COVID-19 is making a lot of organisations think about their mobility management approach and some feel the time has come for them to hand over that management to a specialist, outsourced provider to be able to extract greater efficiencies.

Since August, this shift has very much been confirmed by the demand trends we are now seeing. As I mentioned before, digitisation and automation are seen as key drivers of efficiency improvement, which is more front-of-mind that ever before.

Interestingly, we are now also seeing organisations taking a longer-term approach to this. For example, demand amongst our customers for hybrid and electric vehicles is increasing rapidly, particularly in hybrid, and we estimate that their combined growth rate in our fleet is about double that of the broader market. Previously, the perception of higher upfront costs for these vehicles held some back from making the initial investment, but the focus has now shifted to the whole-of-life and longer term benefits of alternative power sources and our eStart offering is seeing growth in line with this.

In the Consumer business, retail consumer confidence has continued to run in a two-track environment, given the Victorian situation, but we are seeing some improvement in that State, and at a national level, consumer confidence is around levels not seen for two years. This has undoubtedly been helped by the Budget announcement. In line with that, leads and order numbers are tracking ahead of our initial expectations for this period, but they will remain vulnerable to any developments around COVID-19 and resulting volatility in sentiment, such as we have seen in Victoria.

Obviously, because of our exposure to the private sector, the consumer confidence slump on the back of COVID-19 had a significant effect on our deliveries in the fourth quarter of the 2020 financial year. With the improvement in consumer confidence, we are beginning to see a correspondingly strong uptick in orders.

Despite the set-back in the UK, the factors that supported our performance there in the final quarter of 2020 are still very much in place. The focus there is still on fulfilling deliveries for past wins and responding to what remains a very full pipeline of opportunities.

As I mentioned in August, the number of opportunities in the New Zealand is unusually high. Companies are conducting business reviews and assessing where and how greater efficiencies can be achieved. As we have a demonstrable and quantifiable track record in improving the efficiency of large fleets in particular - an area that is likely to be one of the main targets of these reviews - tender requests continue to come in in large numbers.

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Across all of our geographies, towards the end of the fourth quarter, a number of factors were driving a rebound in the second-hand vehicle market.

From a demand point of view, people preferring not to use shared or public transport were looking for second-hand vehicles, and, from a supply point of view, continued lower new car sales meant less trade-ins of second-hand vehicles. This resulted in a strong improvement in disposal returns, with some segments in fact performing better than they did pre-COVID. Four months later, this is very much still the case.

Offsetting this to some extent is the disruption we still face in terms of the supply of new cars as well as parts and accessories. For the many orders we won during the second half of 2020, this is stretching out deliveries over the current period and possibly into the second half.

Finally, I can also let you know that our securitisation programme, which will help us diversify our funding methods, is on schedule to go live next month.

To recap, we continue to experience a supportive RV environment, the wins have continued and the pipeline of further opportunities continues to be strong, helped by an acceleration of structural trends. Clearly, the outlook for the year ahead has improved further but we continue to operate in a very dynamic environment and the COVID-19 situation can still impact our fortunes.

In that context, while we are clearly more positive, it is very hard to provide an outlook beyond the next few months with any degree of certainty and as such, the second half continues to be hard to predict. Given the many unknowns, including when and how the residual value environment will start to normalise, it is also unlikely that we will see the same first half to second half split that we have experienced historically.

However, based on our performance so far in the current period, and assuming no dramatic change in the Australian environment for the remainder of the current half, we anticipate a first half net profit after tax in the range of $22 to $24 million. At the midpoint, this would be just 6% short of the first half of 2020, when COVID-19 obviously was not a factor at all, and close to double the profit reported for the second half of 2020.

This would be a very strong outcome given that we are still in a COVID-19 environment, and again confirmation that the services we provide are increasingly essential in the new mobility world.

Thank you for your attention. I will hand back to the Chairman now.

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