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ASX Release

Market Announcements Office
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

ECLIPX GROUP REPORTS FY22 HALF YEAR RESULTS

Eclipx Group Limited (ASX: ECX, "Group") today releases its results for the half year ended 31 March 2022.

Highlights for the half-year ended 31 March 2022 ("1H22")

- Net Profit After Tax & Amortisation ("NPATA") of $62.1 million, a 58% increase compared to prior comparative period, 1H21 ("pcp"), driven by outperformance on all line items
- New Business Writings ("NBW") grew 19% compared to pcp, despite supply constraints and other COVID-19 led disruption
- Net operating income ("NOI") of $133.6 million, up 26% compared to pcp
- Earnings before Interest, Tax, Depreciation & Amortisation ("EBITDA") of $95.0 million, representing a like for like growth rate of 43% compared to pcp
- Assets under Management or Financed ("AUMOF") was $1.95 billion, reflecting NBW outperformance in the period
- Margin expansion has more than offset a flat asset profile in the period, with NOI pre-End of Lease income ("EOL") and provisions up 9% on pcp
- Cash conversion of 110% reflecting strong organic capital generation
- Net corporate cash of $6.8 million, a significant milestone and providing maximum balance sheet flexibility to pursue opportunities

Capital management – 1H22 share buy-back capital pay-out ratio of 65% NPATA (up to $40 million)

- Up to $40 million on-market share buy-back declared representing 65% of 1H22 NPATA, the top end of the Group's targeted capital pay-out range
- Buy-back considered the most efficient capital distribution to shareholders, in the absence of franking credits

Strategic Pathways

- Significant progress made in the first 18 months of Strategic Pathways, a strategy designed to expand into new and existing target markets of Corporate, Small Fleets (formerly called SME) and Novated
- Foundations developed, with focus now being on full activation and enhancements of digital origination platforms
- Early indications of positive implementation seen in both Fleet Australia and Fleet NZ (including Small Fleets), with NBW growing 37% and 33% respectively compared to pcp
- 1H22 Small Fleet NBW grew to $13m (85% growth compared to pcp) in AU and accounted for 41% of NBW in NZ
- Positioned for further solid growth as vehicle supply constraints ease, although supply is unlikely to fully normalise prior to the end of calendar year 2022
- Strong recent ESG developments with Group receiving Employer of Choice for Gender Equality citation by the Workplace Gender Equality Agency (WGEA) in March 2022. The Group also retains its Climate Active status, and was ranked equal #1 in the ASX300 for female Board representation by the AICD

Group performance

The Group has outperformed across all material metrics during 1H22. NPATA was $62.1 million in the half year, up 58% compared to the prior comparative period, 1H21 (“pcp”), driven by outperformance on all line items.

The Group demonstrated good operating leverage in 1H22 delivering positive jaws once again. Net Operating Income (NOI) pre-End of Lease income (EOL) and provisions grew by 9% (a pleasing result against a flat AUMOF profile in the half) while there was a concurrent 2% reduction in operating expenses compared to pcp.

EOL outperformed in 1H22, increasing by 60% compared to pcp. Average unit profitability increased by 48% from $5,944 in 1H21 to $8,813 in 1H22. This was driven by ongoing positive trends in the used vehicle markets in both Australia and New Zealand. The used vehicle market continues to benefit from the global supply chain disruption for new vehicles.

The Group delivered 19% NBW (vehicle deliveries), a very strong result in the context of ongoing vehicle supply chain disruption. The Group’s two most profitable businesses, AU and NZ Corporate, incorporating Small Fleets, grew NBW by 37% and 33% respectively compared to pcp. The order pipeline was 2.2x and 4.9x pre-COVID levels[1] at the end of March 2022 for AU & NZ Corporate, respectively. Conversely, Novated NBW, which is more sentiment driven, was impacted by vehicle supply delays and further compounded by the Omicron case surge in Australia during 1H22. Notwithstanding this, the change in vehicles under management in Novated outperformed the wider Novated market by 0.5% in the 12 months to December 2021[2], while order levels in Novated have seen improvement since late January 2022.

Overall Net Operating Income after EOL and provisions was up 26% to $133.6 million compared to pcp. Operating expenses were $38.6 million, slightly below expectations with the full year expected to come in around $80 million per initial expectations. As a result, EBITDA was $95.0 million in 1H22, up 43% compared to pcp.

Balance sheet & capital management

This underlying performance translated to strong cash conversion (110%). As of 31 March 2022, the Group had a net cash position of $6.8 million—the Group has reduced net debt by $263 million since March 2019.

This ongoing de-leveraging profile enabled the Group to commence its inaugural on-market share buy-back program during FY21. In total, the Group returned $56 million (65% of the FY21 NPATA) to shareholders and cancelled 24.8 million shares (7.6% of share capital).

Given the Group continues to be a beneficiary of the Australian Federal Budget’s instant asset write-off policy, it does not have distributable franking credits, and is not expected to accrue franking credits until late FY24 at the earliest. Therefore, the Board believes a return of capital to shareholders is best achieved through an on-market share buy-back. Due to the strong performance of the Group in the half, the Board has declared an on-market share buy-back program of up to $40 million, reflecting a capital pay-out ratio of 65% of 1H22 NPATA ($62.1 million).

Notes
1. FY19 represents the last full financial year prior to the emergence of the COVID pandemic
2. Data sourced from AFIA based on 12-month Novated market movements to December 2021

Strategic Pathways

The Group has made good progress during its first 18 months of Strategic Pathways, a strategy designed to expand into new and existing target markets of Corporate, Small Fleets and Novated. These target markets represent under-penetrated growth opportunities, and the Group is focused on developing its sales and digital distribution capabilities in order to drive penetration into these markets.

The foundations of the Group's digital origination platforms have been developed over the past 18 months. Through the course of calendar year 2022, the Group is seeking a full activation of these digital origination platforms in our target markets.

There has been some early evidence of positive strategic momentum, with Australia and NZ Corporate, incorporating Small Fleets, growing their NBW at 37% and 33% respectively compared to pcp. As the Group continues to implement the Strategic Pathways plan, it expects a return to solid asset growth in line with the normalisation of vehicle supply, and reflective of the combined strength of the current order pipeline, recent tender wins, and new and current client activity.

ESG and sustainability are central to the Group's strategy and values. During 1H22, the Group proudly became one of 12 new organisations in Australia to receive a citation by the Workplace Gender Equality Agency (WGEA) as an Employer of Choice for Gender Equality. The Group also retains its Climate Active status, and was ranked equal #1 in the ASX300 for female Board representation by the AICD.

Outlook

Above all, the Group is now in a very strong position from a financial and strategic perspective, reinforced by the strength of the 1H22 result. The Group has never been in a better financial position with no net debt, providing maximum balance sheet flexibility for future opportunities as they emerge. Over the last twelve months, $96 million in capital returns have been announced in the form of on-market share buy-backs.

Despite unprecedented supply chain issues, the Group has delivered NOI pre-EOL and provisions growth of 9%, while managing operating expenses. NBW in the Group's most profitable segments have grown at more than 30%, adding growth in our assets under management for the first time in three years. This is expected to support revenue growth in future periods, and the Group believes that it is well positioned for further growth through Strategic Pathways as the supply chain normalises.

In the meantime, while the supply chain for new vehicles remains constrained, the Group expects a continued elevation in used car market prices relative to pre-COVID levels, which will be beneficial in the near term for EOL income. Order books will likely remain elevated, but these are expected to gradually convert into NBW, and therefore recurring NOI in due course.

Further details about the Group result can be found in the Financial Report and Investor Presentation.

Investor call and webcast

Julian Russell (CEO) and Damien Berrell (CFO) will hold an investor call and webcast today at 10am to discuss the results.

Dial in Details

Please pre-register for the call at the link below.

Pre-Registration Link: https://s1.c-conf.com/diamondpass/10021387-4hln3d.html

Open Briefing Live

http://www.openbriefing.com/OB/4669.aspx

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Authorised by the Board of Eclipx Group Limited

Investor enquiries	**Media enquiries**
Damien Berrell Eclipx Group Chief Financial Officer Damien.berrell@eclipx.com +61 4 5735 7041	John Frey GRACosway jfrey@gracosway.com.au +61 4 1136 1361